JMP Group Inc.
Form 10-Q
November 08, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number: 001-33448

JMP Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-1450327**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

600 Montgomery Street, Suite 1100, San Francisco, California 94111

(Address of principal executive offices)

Registrant s telephone number: (415) 835-8900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of the Registrant s common stock, par value $0.001 per share, outstanding as of October 31, 2007 was 21,961,116.

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AVAILABLE INFORMATION

JMP Group Inc. is required to file current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the Exchange Act), with the Securities and Exchange Commission (SEC). You may read and copy any document JMP Group Inc. files with the SEC at the SEC s Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet website at http://www.sec.gov, from which interested persons can electronically access JMP Group Inc. s SEC filings.

JMP Group Inc. will make available free of charge through its internet site http://www.jmpg.com, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Forms 3, 4 and 5 filed by or on behalf of directors, executive officers and certain large stockholders, and any amendments to those documents filed or furnished pursuant to the Exchange Act. These filings will become available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

JMP Group Inc. also makes available, in the Investor Relations section of its website, (i) its corporate governance guidelines, (ii) its code of business conduct and ethics, and (iii) the charters of the audit, compensation, and corporate governance and nominating committees of its board of directors. These documents, as well as the information on the website of JMP Group Inc., are not a part of this quarterly report.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

JMP Group Inc.

Consolidated Statements of Financial Condition

September 30, 2007 and December 31, 2006

(Unaudited)

	September 30, 2007 Successor	December 31, 2006 Predecessor
Assets		
Cash and cash equivalents	$ 95,418,092	$ 52,328,804
Restricted cash and deposits (includes cash on deposit with clearing broker of $255,336 at September 30, 2007 and December 31, 2006)	10,634,059	8,894,303
Receivable from clearing broker	2,084,956	1,519,623
Investment banking fees receivable, net of allowance for doubtful accounts of $65,542 at September 30, 2007 and $294,905 at December 31, 2006	5,260,921	7,962,260
Marketable securities owned, at market value	23,862,441	11,949,187
Other investments	29,149,613	15,244,523
Loan receivable	2,375,000	
Fixed assets, net	1,997,802	2,625,402
Deferred tax assets	4,422,044	
Other assets	4,834,593	3,174,901
Total assets	$ 180,039,521	$ 103,699,003
Liabilities and Shareholders and Members Equity		
Liabilities		
Marketable securities sold, but not yet purchased, at market value	$ 9,315,040	$ 7,480,889
Securities sold under agreements to repurchase	9,379,000	
Accrued compensation	16,602,545	26,446,917
Other liabilities	7,706,446	4,366,157
Redeemable Class A member interests		12,913,769
Total liabilities	43,003,031	51,207,732
Minority interest	13,622,402	5,739,459
Commitments and contingencies		
Shareholders and Members Equity		
Class A common interests		11,861,848
Class B common interests		31,650,177
Common stock, $0.001 par value, 100,000,000 shares authorized and 22,044,541 outstanding at September 30, 2007	22,045	
Additional paid-in capital	119,481,111	268,635
Retained earnings	3,910,932	2,971,152
Total shareholders and members equity	123,414,088	46,751,812

Total liabilities and shareholders and members equity	$	180,039,521	$	103,699,003

See accompanying notes to consolidated financial statements.

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JMP Group Inc.

Consolidated Statements of Net Income (Loss)

For the Three and Nine Months Ended

September 30, 2007 and 2006

(Unaudited)

	Three Months Ended September 30, 2007 Successor	Three Months Ended September 30, 2006 Predecessor	Nine Months Ended September 30, 2007: January 1, 2007 through May 15, 2007 Predecessor	Nine Months Ended September 30, 2007: May 16, 2007 through September 30, 2007 Successor	Nine Months Ended September 30, 2006 Predecessor
Revenues					
Investment banking	$ 9,400,830	$ 8,805,628	$ 16,054,815	$ 16,862,878	$ 33,543,294
Brokerage	8,173,592	8,406,327	12,986,710	12,243,487	22,771,641
Asset management fees	941,800	874,659	1,218,467	1,502,018	2,475,485
Principal transactions	854,574	1,256,526	541,251	684,980	2,368,879
Interest and dividends	1,529,623	950,489	1,244,663	2,222,794	2,187,712
Other income	107,457	162,070	326,105	147,456	324,083
Total revenues	21,007,876	20,455,699	32,372,011	33,663,613	63,671,094
Expenses					
Compensation and benefits	13,027,380	11,662,500	18,393,339	24,772,727	37,627,203
Income allocation and accretion Redeemable Class A member interests		2,503,956	117,418,274		7,505,245
Administration	1,248,940	953,437	1,770,553	2,128,853	3,187,297
Brokerage, clearing and exchange fees	1,289,525	1,064,536	1,689,174	1,896,307	2,993,328
Travel and business development	621,822	967,318	1,197,440	1,016,178	2,760,946
Communications and technology	970,488	838,693	1,389,647	1,458,413	2,451,691
Occupancy	472,758	467,645	699,774	706,035	1,381,244
Professional fees	551,897	340,031	375,969	1,173,906	891,001
Depreciation	268,640	260,285	525,734	421,805	1,111,248
Interest and dividend expense	110,850	436,596	683,114	170,156	1,168,912
Other		9,163	(241,082)	120,904	99,761
Total expenses	18,562,300	19,504,160	143,901,936	33,865,284	61,177,876
Income (loss) before income tax expense (benefit) and minority interest	2,445,576	951,539	(111,529,925)	(201,671)	2,493,218
Income tax expense (benefit)	1,006,408			(4,332,431)	
Minority interest	303,721	93,317	167,388	229,258	96,249
Net income (loss)	$ 1,135,447	$ 858,222	$ (111,697,313)	$ 3,901,502	$ 2,396,969
Net income per common share:					
Basic	$ 0.05			$ 0.18	
Diluted	$ 0.05			$ 0.18	
Dividends declared and paid per common share	$ 0.025			$ 0.025	
Weighted average common shares outstanding:					

Basic	22,029,098			22,027,845	
Diluted	22,029,098			22,084,839	
Net income (loss) per unit - Class A common interests:					
Basic		$ 0.23	$ (23.84)		$ 0.64
Diluted		$ 0.22	$ (23.84)		$ 0.63
Weighted average units outstanding - Class A common interests:					
Basic		1,435,820	2,384,881		1,433,444
Diluted		1,491,585	2,384,881		1,452,013
Net income (loss) per unit - Class B common interests:					
Basic		$ 0.23	$ (23.84)		$ 0.64
Diluted		$ 0.22	$ (23.84)		$ 0.63
Weighted average units outstanding - Class B common interests:					
Basic		2,300,000	2,300,000		2,300,000
Diluted		2,389,328	2,300,000		2,329,795

Pro Forma Statement of Income Information - C-Corp. (Unaudited) (See Note 21)

	January 1, 2007 through May 15, 2007 Predecessor
Total revenues	$ 32,372,011
Pro forma total expenses	25,939,081
Pro forma income before income tax and minority interest	6,432,930
Pro forma taxes (42% assumed tax rate)	2,701,831
Minority interest	167,388
Pro forma net income	$ 3,563,711
Pro forma net income per common share:	
Basic	$ 0.24
Diluted	$ 0.24
Pro forma weighted shares of common stock outstanding:	
Basic	14,800,035
Diluted	14,905,435

See accompanying notes to consolidated financial statements.

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JMP GROUP INC.

Consolidated Statements of Changes in

Shareholders and Members Equity

For the Nine Months Ended

September 30, 2007

(Unaudited)

	Class A Common Interests	Class B Common Interests	Members Equity Additional Paid-In Capital	Retained Earnings/ (Accumulated Deficit)	Total Equity
Predecessor:					
Balance, December 31, 2006	$ 11,861,848	$ 31,650,177	$ 268,635	$ 2,971,152	$ 46,751,812
Predecessor activity from January 1, 2007 through May 15, 2007:					
Net loss				(111,697,313)	(111,697,313)
Additional paid-in capital - stock-based compensation			816,248		816,248
Contributions of Class A common members	401,172				401,172
Redeemable Class A member interests - liability to equity exchange	111,209,527				111,209,527
Distributions paid to Class A and Class B common interests				(6,679,874)	(6,679,874)
Balance, May 15, 2007 (Predecessor)	$ 123,472,547	$ 31,650,177	$ 1,084,883	$ (115,406,035)	$ 40,801,572

	Common Stock		Shareholders Equity Additional Paid-In		Total
	Shares	Amount	Capital	Retained Earnings	Equity
Successor:					
Balance, May 16, 2007	1,012,999	$ 1,013	$ 14,227,555	$ 560,064	$ 14,788,632
Successor activity from May 16, 2007 through September 30, 2007:					
Net income				3,901,502	3,901,502
Additional paid-in capital - stock-based compensation	44,642	45	5,912,608		5,912,653
Issuance of common stock for membership interests	13,787,036	13,787	26,225,681		26,239,468
Net proceeds from issuance of common stock in initial public offering	7,199,864	7,200	73,115,267		73,122,467
Cash dividends paid to shareholders				(550,634)	(550,634)
Balance, September 30, 2007 (Successor)	22,044,541	$ 22,045	$ 119,481,111	$ 3,910,932	$ 123,414,088

See accompanying notes to consolidated financial statements.

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JMP Group Inc.

Consolidated Statements of Cash Flows

For the Nine Months Ended

September 30, 2007 and 2006

(Unaudited)

	Nine Months Ended September 30, 2007		
	January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through September 30, 2007 Successor	Nine Months Ended September 30, 2006 Predecessor
Cash flows from operating activities:			
Net (loss) income	$ (111,697,313)	$ 3,901,502	$ 2,396,969
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Change in provision for doubtful accounts	(241,079)	20,906	99,761
Change in fair value of other investments	(657,130)	(681,924)	(2,043,634)
Depreciation and amortization of fixed assets	525,734	421,805	1,111,248
Write-off of fixed assets			132,359
Minority interest	167,388	229,258	96,249
Dividends declared to minority interest shareholders in the form of participation interest		(1,197,238)	
Stock-based compensation expense	816,249	5,912,653	74,605
Deferred tax assets		(4,179,112)	
Net change in operating assets and liabilities:			
Decrease (increase) in receivables	1,421,098	1,780,465	(43,985)
Increase in marketable securities	(3,953,001)	(7,960,252)	(5,111,792)
Decrease in restricted cash, deposits and other assets	(1,271,797)	(3,086,775)	(2,888,411)
Increase in marketable securities sold, but not yet purchased	1,561,160	272,991	5,497,501
Increase in securities sold under agreements to repurchase		9,379,000	
(Decrease) increase in accrued compensation and other liabilities	(15,189,481)	8,742,204	(8,072,199)
Increase (decrease) in Redeemable Class A member interests	98,696,930		(1,580,030)
Net cash (used in) provided by operating activities	(29,821,242)	13,555,483	(10,331,359)
Cash flows from investing activities:			
Purchases of fixed assets	(60,416)	(259,521)	(223,555)
Purchases of other investments	(700,000)	(12,288,858)	(1,290,558)
Sales of other investments	251,696	171,120	4,167,583
Funding of loan receivable		(3,000,000)	(3,000,000)
Repayment of loan receivable		625,000	3,000,000
Net cash (used in) provided by investing activities	(508,720)	(14,752,259)	2,653,470
Cash flows from financing activities:			
Increase (decrease) in notes payable	14,500,000	(14,500,000)	
Proceeds from initial public offering, net of expenses		73,122,467	
Distributions paid to Class A and Class B common interests	(6,679,874)		(3,058,995)
Capital contributions of minority interest shareholders	200,000	8,488,014	2,002,000
Cash dividends paid to shareholders		(550,634)	
Dividends paid to minority interest shareholders		(25,280)	
Net cash provided by (used in) financing activities	8,020,126	66,534,567	(1,056,995)
Net (decrease) increase in cash and cash equivalents	(22,309,836)	65,337,791	(8,734,884)

Cash and cash equivalents, beginning of period	52,328,804	30,080,301	61,724,672
Cash and cash equivalents, end of period	$ 30,018,968	$ 95,418,092	$ 52,989,788
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	$ 1,033,937	$ 53,126	$ 1,355,722
Cash paid during the period for taxes	$	$ 234,337	$
Non-cash financing activities:			
Issuance of Class A common interests	$ 401,172	$	$
Issuance of JMPRT common stock	$ 20,800	$	$

See accompanying notes to consolidated financial statements

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JMP GROUP INC.

Notes to Consolidated Financial Statements

September 30, 2007

(Unaudited)

1. Organization and Description of Business

JMP Group Inc., together with its subsidiaries (collectively, the Company or Successor), is an independent investment banking and asset management firm headquartered in San Francisco. The Company conducts its brokerage business through its wholly-owned subsidiary, JMP Securities LLC (JMP Securities), and its asset management business through its wholly-owned subsidiary, JMP Asset Management LLC (JMPAM). JMP Securities is a U.S. registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority. JMP Securities operates as an introducing broker and does not hold funds or securities for, or owe any money or securities to, customers and does not carry accounts for customers. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. JMPAM is a registered investment advisor under the Investment Advisers Act of 1940 and provides investment management services for sophisticated investors in investment partnerships managed by JMPAM.

Prior to May 16, 2007 the Company had conducted its business through a multi-member Delaware limited liability company, JMP Group LLC (the Predecessor), pursuant to its Third Amended and Restated Limited Liability Company Operating Agreement dated as of August 18, 2004, as amended (the Operating Agreement). One of JMP Group LLC s members, JMP Holdings Inc. (JMP Holdings), was established in August 2004 to enable investors to invest through a corporate entity in the membership interests of JMP Group LLC. Shares of common stock of JMP Holdings were issued in a private offering in August 2004. JMP Holdings only significant asset until May 16, 2007 was its investment in JMP Group LLC, comprised of the member interests of JMP Group LLC, which had been purchased with the net proceeds received from issuance of JMP Holdings common stock.

In connection with its initial public offering, JMP Holdings changed its name to JMP Group Inc., and effective May 16, 2007 (the Reorganization Date), members of JMP Group LLC exchanged the outstanding membership interests of JMP Group LLC for shares of common stock of JMP Group Inc. As a result of the exchange, JMP Group LLC became JMP Group Inc. s wholly-owned subsidiary, and JMP Group Inc. completed its initial public offering on May 16, 2007. This reorganization (the Reorganization) is described in greater detail in the Registration Statement on Form S-1 (File No. 333-140689) (the Registration Statement) filed with the Securities and Exchange Commission (SEC) in connection with the initial public offering.

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements and related notes are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10 Q and Article 10 of Regulation S X. These consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto for the year ended December 31, 2006 included in its Registration Statement on Form S-1 filed with the SEC (File No. 333-140689). These consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for the fair statement of the results for the interim periods. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

These financial statements and accompanying notes present the consolidated financial condition of the Successor as of September 30, 2007, and of the Predecessor as of December 31, 2006. Consolidated results of operations and cash flows are presented for the Predecessor for the three and nine months ended September 30, 2006 and the period from January 1, 2007 through May 15, 2007 (pre-Reorganization), and for the Successor for the three months ended September 30, 2007 and for the period from May 16, 2007 through September 30, 2007 (post-Reorganization). The Reorganization resulted in a business combination of the Predecessor (JMP Group LLC) and JMP Holdings (now JMP Group Inc.), whose financial statements had not been combined with those of the

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Predecessor prior to May 16, 2007 for reporting purposes. Therefore, the Successor s consolidated financial statements as of May 16, 2007 include the accounts of both JMP Group LLC and JMP Group Inc. The consolidated accounts of the Successor and the Predecessor both include the wholly-owned subsidiaries, JMP Securities and JMPAM, and the partially-owned subsidiaries, JMP Realty Trust (JMPRT), Harvest Consumer Partners (HCP) and Harvest Technology Partners (HTP). All material intercompany accounts and transactions have been eliminated in consolidation.

Minority interest relates to the interest of third parties in JMPRT and in the two asset management funds HCP and HTP.

JMPRT is a real estate investment trust that was formed in June 2006. As of September 30, 2007, the Company owned 49.6% of JMPRT and certain employees owned 20.1%. JMPRT is managed by JMPAM. Because of the current ownership and management position, the Company consolidates JMPRT and records minority interest.

JMPAM is the general partner of HTP and HCP, each of which commenced operations during 2006. As of September 30, 2007, the Company and its affiliates, officers, and immediate family members provided 96.8% and 95.0%, respectively, of the invested capital in these funds. Due to this ownership and resulting control by the Company and related parties, the Company consolidates the two funds in the Company s financial statements and records minority interest. HTP and HCP account for their investments at fair value, which is consistent with the Company s accounting policies for Marketable securities owned, at market value and Marketable securities sold, but not yet purchased, at market value. The base management fees and incentive fees earned by HTP and HCP are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect both the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition

Investment banking revenues

Investment banking revenues consist of underwriting revenues, strategic advisory revenues and private placement fees, and are recorded when the underlying transaction is completed under the terms of the relevant agreement. Underwriting revenues arise from securities offerings in which the Company acts as an underwriter and include management fees, selling concessions and underwriting fees, net of related syndicate expenses. Management fees and selling concessions are recorded on the trade date, which is typically the day of pricing an offering (or the following day) and underwriting fees, net of related syndicate expenses, at the time the underwriting is completed and the related income is reasonably determinable. For these transactions, management estimates the Company s share of the transaction-related expenses incurred by the syndicate, and recognizes revenues net of such expense. On final settlement, typically 90 days from the trade date of the transaction, these amounts are adjusted to reflect the actual transaction-related expenses and the resulting underwriting fee. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. If management determines that a transaction is likely not to be completed, deferred expenses related to that transaction are expensed at that time. Strategic advisory revenues primarily include success fees on closed merger and acquisition transactions, as well as retainer fees, earned in connection with advising on both buyers and sellers transactions. Fees are also earned for related advisory work and other services such as providing fairness opinions and valuation analyses. Strategic advisory revenues are recorded when the transactions or the services (or, if applicable, separate components thereof) to be performed are substantially complete, the fees are determinable and collection is reasonably assured. Private placement fees are recorded on the closing date of the transaction. Unreimbursed expenses associated with strategic advisory and private placement transactions, net of client reimbursements, are recorded as non-compensation expense.

Brokerage revenues

Brokerage revenues consist of (i) commissions resulting from equity securities transactions executed as agent or principal and are recorded on a trade date basis, (ii) related net trading gains and losses from market making activities and from the commitment of capital to facilitate customer orders and (iii) fees paid for equity research. The Company currently generates revenues from research activities through three types of arrangements. First, through what is commonly known as a soft dollar practice, a portion of a client s commissions may be compensation for the value of access to our research. Those

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commissions are recognized on a trade date basis, as the Company has no further obligation. Second, a client may issue a cash payment directly to the Company for access to research. Third, the Company has entered into certain commission-sharing or tri-party arrangements in which institutional clients execute trades with a limited number of brokers and instruct those brokers to allocate a portion of the commission to the Company or to issue a cash payment to the Company. In these commission-sharing or tri-party arrangements, the amount of the fee is determined by the client on a case-by-case basis and agreed to by the Company. An invoice is then sent to the payor. For the second and third types of arrangements, revenue is recognized and an invoice is sent once an arrangement exists, access to research has been provided, a specific amount is fixed or determinable, and collectibility is reasonably assured. None of these arrangements obligate clients to a fixed amount of fees for research, either through trading commissions or direct or indirect cash payments, nor do they obligate the Company to provide a fixed quantity of research or execute a fixed number of trades. Furthermore, the Company is not obligated under any arrangement to make commission payments to third parties on behalf of clients.

Principal transactions revenues

Principal transactions revenues include realized and unrealized net gains and losses resulting from our principal investments in equity securities for the Company s account and in equity-linked warrants received from certain investment banking assignments. Principal transactions revenue also includes earnings (or losses) attributable to investment partnership interests held by our asset management subsidiary, JMPAM, which are accounted for using the equity method of accounting.

The Company s principal transactions revenue for these categories for the three and nine month periods ended September 30, 2007 and 2006 are as follows:

			Nine Months Ended September 30, 2007		
	Three Months Ended September 30, 2007 Successor	Three Months Ended September 30, 2006 Predecessor	January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through September 30, 2007 Successor	Nine Months Ended September 30, 2006 Predecessor
Equity and other securities	$ 303,873	$ 817,817	$ (135,301)	$ 8,310	$ 1,236,090
Warrants	119,035	(84,231)	11,904	78,769	(237,969)
Investment partnerships	431,666	522,940	664,648	597,901	1,370,758
Total principal transactions revenues	$ 854,574	$ 1,256,526	$ 541,251	$ 684,980	$ 2,368,879

Asset management fees

Asset management fees consist of base management fees and incentive fees. The Company recognizes base management fees on a monthly basis over the period in which the investment services are performed. Base management fees earned by the Company are generally based on the fair value of assets under management and the fee schedule for each fund and account. Base management fees are calculated at the investor level using their quarter-beginning capital balance adjusted for any contributions or withdrawals. Since base management fees are based on assets under management, significant changes in the fair value of these assets will have an impact on the fees earned by the Company in future periods. The Company also earns incentive fees that are based upon the performance of investment funds and accounts. Such fees are either a specified percentage of the total investment return of a fund or account or a percentage of the excess of an investment return over a specified highwater mark or hurdle rate over a defined performance period. For most funds, the highwater mark is calculated using the greatest value of a partner s capital account as of the end of any performance period, adjusted for contributions and withdrawals. Incentive fees are recognized as revenue at the end of the specified performance period. The performance period used to determine the incentive fee is quarterly for the five hedge funds and annually for the two funds of hedge funds managed by JMPAM. The incentive fees are not subject to any contingent repayments to investors or any other clawback arrangements.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities or remaining maturities upon purchase of three months or less to be cash equivalents.

Restricted Cash and Deposits

Restricted cash consists of proceeds from short sales deposited with brokers that cannot be removed unless the securities are delivered. Deposits consist of cash on deposit for operating leases as well as cash on deposit with JMP Securities clearing broker.

Receivable from Clearing Broker

The Company clears customer transactions through another broker-dealer on a fully disclosed basis. At September 30, 2007 and December 31, 2006, the receivable from clearing broker consisted solely of commissions related to securities transactions.

Investment Banking Fees Receivable

Investment banking fees receivable include receivables relating to the Company s investment banking or advisory engagements. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements are accounted for as collateralized financing transactions. The liabilities that result from these agreements are recorded in the consolidated statements of financial condition at the amounts at which the securities were sold. The Company pledged owned quasi-government agency securities as collateral, which is valued daily, and the Company may be required to deposit additional collateral. Interest expense is recorded on an accrual basis and is recorded in the Consolidated Statements of Net Income (Loss).

Securities and Other Investments

Marketable securities owned and securities sold, but not yet purchased, consist of equity securities and quasi-government agency securities. These securities are carried at market value, which is based on quoted market prices, with unrealized gains and losses included in revenues as principal transactions. Such amounts are determined on a trade date basis.

Other investments consist principally of investments in private investment funds managed by the Company or its affiliates, as well as cash paid for a subscription in a private investment fund. Such investments held by non-broker-dealer entities are accounted for under the equity method based on the Company s share of the earnings (or losses) of the investee. The financial position and operating results of the private investment funds are generally determined on an estimated fair value basis as set forth in the AICPA Audit and Accounting Guide*: Investment Companies*. Generally, securities are valued (i) at their last published sale price if they are listed on an established exchange or (ii) if last sales prices are not published, at the highest closing bid price (for securities held long) and the lowest closing asked price (for short positions) as recorded by the composite tape system or such principal exchange, as the case may be. Where the general partner determines that market prices or quotations do not fairly represent the value of a security in the investment fund s portfolio (for example, if a security is a restricted security of a class that is publicly traded) the general partner may assign a different value. The general partner will determine the estimated fair value of any assets that are not publicly traded.

Also included in other investments are warrants on public common stock that are generally received as a result of investment banking transactions and are valued at estimated fair value as determined by management. Warrants owned are valued at the date of issuance and marked-to-market as unrealized gains and losses until realized. Estimated fair value is determined using the Black-Scholes Option Valuation methodology adjusted for active market and other considerations on a case-by-case basis. Initial value and gains and losses on these investments are included in revenues as principal transactions. Because of the inherent uncertainty of valuations of warrants, estimated fair values may differ significantly from the value that would have been used had a ready market for the investments existed, and these differences could be material.

Fair Value of Financial Instruments

Substantially all of the Company s financial instruments are recorded at fair value or contractual amounts that approximate fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidating sale. Securities owned, other investments and securities sold, not yet purchased, are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in the accompanying Consolidated Statements of Net Income (Loss).

Management believes that the net fair value of the receivable from clearing broker, investment banking fees receivable, and accrued compensation recognized on the Consolidated Statements of Financial Condition approximate their carrying value, because such instruments are short-term in nature, bear interest at current market rates, or are subject to frequent repricing. The fair value of the Redeemable Class A member interests recognized on the Predecessor s Consolidated Statements of Financial Condition was based on the amounts that the Predecessor expected to be required to pay to an employee member upon resignation to redeem its Redeemable Class A member interests and was equal to the capital account of such employee member as maintained by the Predecessor.

Fair value of the Company s financial instruments is generally obtained from quoted market prices, broker or dealer price quotations, or alternative pricing methodologies that the Company believes offer reasonable levels of price transparency.

To the extent that certain financial instruments trade infrequently or are non-marketable securities and, therefore, do not have readily determinable fair values, the Company estimates the fair value of these instruments using various pricing models and the information available to the Company that it deems most relevant. Among the factors considered by the Company in determining the fair value of financial instruments are discounted anticipated cash flows, the cost, terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, the Black-Scholes Option Valuation methodology adjusted for active market and other considerations on a case-by-case basis and other factors generally pertinent to the valuation of financial instruments.

Loan Receivable

Loan receivable consists of a loan made by JMPRT to a client as part of its normal business operations. The loan is collateralized by real estate related assets, and bears interest at the rate of 20% per annum, payable monthly in arrears. The principal of the loan is due and payable on December 1, 2007, but can be extended for six months at the borrower s option for an additional fee. On September 25, 2007, the board of directors of JMPRT declared a distribution payable to its shareholders in the form of participation interests in the fair market value of the loan receivable. The distribution was made in October 2007.

Fixed Assets

Fixed assets represent furniture and fixtures, computer and office equipment, certain software costs and leasehold improvements, which are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the respective assets, ranging from three to five years.

Leasehold improvements are capitalized and amortized over the shorter of the respective lease terms or the estimated useful lives of the improvements.

The Company capitalizes certain costs of computer software developed or obtained for internal use and amortizes the amount over the estimated useful life of the software, generally not exceeding three years.

Income Taxes

The Successor, JMP Group Inc., accounts for income taxes in accordance with Statement of Financial Standards No. 109, *Accounting for Income Taxes*, (SFAS 109). SFAS 109 requires the recognition of deferred tax assets and liabilities based upon temporary differences between the financial reporting and tax bases of its assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets when it is more likely than not that a portion or all of the deferred tax assets will not be realized. The Predecessor, JMP Group LLC, was a limited liability company and was treated as a partnership for federal and state income tax purposes. Therefore, the Predecessor was not subject to federal and state income taxes, and accordingly, did not provide for the federal and state income taxes in the financial statements, but it was liable for state and local unincorporated business tax or franchise tax.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R) (SFAS 123R), *Share-Based Payment*, using the modified prospective method. Under that method of adoption, the provisions of SFAS 123R are generally only applied to share-based awards granted subsequent to adoption. Prior to January 1, 2006, the Company accounted for stock-based compensation under SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123R requires measurement of compensation cost for stock-based awards classified as equity at their fair value on the date of grant and the recognition of compensation expense over the service period for awards expected to vest. Such grants are recognized as expense over the service period, net of estimated forfeitures.

Stock-based compensation includes restricted stock units and stock options granted under the Company s 2007 Equity Incentive Plan, stock options granted under the Company s 2004 Equity Incentive Plan, as well as changes in Redeemable Class A member interests, which were membership interests issued to the Predecessor s employee members and recorded as a liability prior to May 16, 2007. On May 16, 2007, in connection with the Reorganization, the Redeemable Class A member interests were exchanged for shares of the Company s common stock and reclassified as equity.

In accordance with generally accepted valuation practices for stock-based awards issued as compensation, the Company uses the Black-Scholes option-pricing model to calculate the fair value of all stock-based awards, although such models were originally developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company s stock options and restricted stock units. The Black-Scholes model requires subjective assumptions regarding variables such as future stock price volatility, dividend yield and expected time to exercise, which greatly affect the calculated values.

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Reclassification

Certain balances from prior years have been reclassified in order to conform to the current year presentation. The reclassifications had no impact on the Company s financial position, net income (loss) or cash flows.

3. Recent Accounting Pronouncements

SFAS No. 157, *Fair Value Measurements* (SFAS 157) In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, which will become effective for the Company on January 1, 2008. This standard establishes a consistent framework for measuring fair value in accordance with generally accepted accounting principles (GAAP) and expands disclosures with respect to fair value measurements. The Company is assessing SFAS 157 to determine the financial impact, if any, on the Company s consolidated financial statements.

Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48) In June 2006, the FASB issued FIN 48, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken on a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 on May 16, 2007, the date the Company became subject to federal and state income taxes. Its adoption did not have a material impact on the Company s financial condition or results of operations.

SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159) In February 2007, the FASB issued SFAS 159, which provides companies with an option to report selected financial assets and liabilities at fair value. It requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. In addition, unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. The Company is currently evaluating SFAS 159 and has not yet determined the financial assets and liabilities, if any, for which the fair value option would be elected or the potential impact on the results of operations or financial condition if such election were made.

4. Securities and Other Investments

Marketable securities owned consist primarily of U.S. listed and over-the-counter equities and quasi-government agency securities, all of which are carried at market value. Marketable securities sold, but not yet purchased, represent obligations of the Company to deliver a specific security at a contracted price and thereby create a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions involve, to varying degrees, elements of market risk, as the Company s ultimate obligation to satisfy the sale of securities sold, but not yet purchased, may exceed the amount currently recognized in the Consolidated Statements of Financial Condition.

The cost and market values of marketable securities owned and proceeds of securities sold, but not yet purchased are as follows at September 30, 2007 and December 31, 2006:

	September 30, 2007				December 31, 2006			
	Cost		Market		Cost		Market	
	Owned	Sold, But Not Yet Purchased	Owned	Sold, But Not Yet Purchased	Owned	Sold, But Not Yet Purchased	Owned	Sold, But Not Yet Purchased
Equity securities	$ 13,079,892	$ 10,123,142	$ 14,189,769	$ 9,315,040	$ 11,592,593	$ 7,193,997	$ 11,949,187	$ 7,480,889
Quasi-government agency securities	9,672,672		9,672,672					
Total securities owned and securities sold, but not yet purchased	$ 22,752,564	$ 10,123,142	$ 23,862,441	$ 9,315,040	$ 11,592,593	$ 7,193,997	$ 11,949,187	$ 7,480,889

Included in other investments are investments in partnerships in which one of the Company s subsidiaries is the investment manager and general partner. The Company accounts for these investments using the equity method as described in Note 2. The Company s proportionate share of those investments is included in the table below. In addition, other investments include warrants, and two investments in funds managed by third parties.

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The carrying values of other investments are as follows at September 30, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006
General Partner in Hedge Funds	$ 22,181,774	$ 11,785,581
General Partner in Fund of Funds	4,250,483	583,143
Total of General Partner in Funds	26,432,257	12,368,724
Limited Partner in Private Equity Fund	2,338,157	2,384,074
Warrants	379,199	491,725
Total	$ 29,149,613	$ 15,244,523

5. Fixed Assets

At September 30, 2007 and December 31, 2006, fixed assets consisted of the following:

	September 30, 2007 Successor	December 31, 2006 Predecessor
Furniture and fixtures	$ 1,302,611	$ 1,247,728
Computer and office equipment	2,939,931	2,664,425
Leasehold improvements	2,288,090	2,268,978
Software	451,590	438,931
Less: accumulated depreciation	(4,984,420)	(3,994,660)
Total fixed assets, net	$ 1,997,802	$ 2,625,402

Depreciation expense for the quarter ended September 30, 2007 was $268,640 and $260,285 for the quarter ended September 30, 2006. Depreciation expense for the nine months ended September 30, 2007 was $525,734 for the period of January 1, 2007 through May 15, 2007, $421,805 for the period of May 16, 2007 through September 30, 2007, and $1,111,248 for the nine months ended September 30, 2006.

6. Note Payable

On August 3, 2006, the Predecessor entered into a revolving note with City National Bank for up to $30.0 million, replacing a prior $10.0 million annual revolving note. Each draw bears interest at the prime rate less 1.25% annually or at LIBOR plus 1.25% annually, at the election of the Company, and the note expires on June 30, 2008. The Company paid a closing fee of $75,000 and pays an annual unused commitment fee of 0.25% payable quarterly in arrears. The Company has the option to extend the term of the revolving note by one year or to convert the outstanding balance to a three-year term loan. There are no periodic principal payments required for this facility until maturity. This facility is collateralized by a pledge of the Company s assets, including its interests in each of JMP Securities and JMPAM. There was no outstanding note balance at September 30, 2007.

7. Redeemable Class A Member Interests

Redeemable Class A member interests were issued to employees of the Predecessor or its subsidiaries, and were entitled to share in the operating profits of the Predecessor. Redeemable Class A member interests were identical in nature to Class A common interests issued to non-employee Class A common members, except that Class A common members were not subject to insider rules, as defined in the Operating Agreement. These insider rules provided, among other items, that the Predecessor could redeem the employee member s interest in the Predecessor at any time, in whole or in part. In addition, the employee member could redeem his or her Redeemable Class A member interests in whole upon his or her resignation from providing services to the Predecessor. In either such case (and excluding terminations for cause or upon events of default), the redemption price would be either of the following at the Predecessor s election: (i) the capital account balance of the employee member or (ii) the percent of liquidation value represented by such interest based on a valuation formula. Redeemable Class A member interests and

Class A common interests combined represented a fixed percentage equal to 84.5% of the Predecessor s membership interests. Increases and decreases in Redeemable Class A member interests resulted in offsetting decreases and increases in Class A common interests. As a result, Redeemable Class A member interests represented a variable percentage of the Predecessor s total membership interests. Redeemable Class A member interests represented 68.3% and 74.8% of the Predecessor s membership interests as of May 15, 2007 and December 31, 2006, respectively.

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Redeemable Class A member interests were accounted for as stock-based compensation under SFAS 123 until December 31, 2005 and under SFAS 123R thereafter. Each holder of Redeemable Class A member interests was a party to the Operating Agreement, which provided that an employee member could elect to redeem all, but not less than all, of their Redeemable Class A member interests without the Predecessor s consent in connection with such person s resignation from the Predecessor. Because the redemption feature permitted the employee to avoid bearing the risks and rewards normally associated with equity share ownership for a reasonable period of time and gave the Predecessor no discretion to avoid transferring its cash or assets to the employee if the employee elected redemption, the Redeemable Class A member interests were classified as a liability by the Predecessor. The liability amount for the Redeemable Class A member interests was measured at each balance sheet date based on the redemption amounts for the Class A member interests. The redemption amount for an employee member was the amount the Predecessor was required to pay to an employee member upon resignation to redeem all his Redeemable Class A member interests as provided by the Operating Agreement. Management determined that member interests would be redeemed at an amount equal to the capital account of such employee member as maintained by the Predecessor. The pro rata share of the Predecessor s income allocated to Redeemable Class A member interests and any additional changes in the redemption amount of Redeemable Class A member interests were recorded as Income allocation and accretion Redeemable Class A member interests in the Predecessor s Consolidated Statements of Net Income (Loss).

The following table summarizes the activity for the Redeemable Class A member interests for the period from January 1, through May 15, 2007 and for the year ended December 31, 2006:

Balance, December 31, 2005	$ 11,516,753
Contributions	4,643,527
Redemptions	(2,508,681)
Income allocation and accretion	10,663,934
Distributions	(11,401,764)
Balance, December 31, 2006	12,913,769
Contributions	2,375,442
Redemptions	(3,479,800)
Income allocation and accretion	117,418,274
Distributions	(18,018,158)
Liability to equity exchange	(111,209,527)
Balance, May 15, 2007	$

In connection with the Reorganization, the Redeemable Class A member interests were exchanged for shares of the Company s common stock and reclassified from liability to equity. The liability-to-equity exchange of the Redeemable Class A member interests required the Predecessor to mark the liability for the Redeemable Class A member interests to its fair market value and to record a non-cash expense related to the change in value. The Predecessor accounted for the exchange in its consolidated financial statements as follows:

The Predecessor recorded a one-time non-cash expense as a component of Income allocation and accretion Redeemable Class A member interests equal to $112.9 million, which represented the difference between (a) the equity amount recorded for the shares of common stock issued in exchange for the Redeemable Class A member interests and (b) the carrying amount of the Redeemable Class A member interests prior to the Reorganization; and then

The Predecessor recorded additional equity equal to $111.2 million for the 10,109,957 shares of common stock exchanged for the Redeemable Class A member interests based on the initial public offering price of $11.00 per share.

8. Shareholders and Members Equity

Membership Classes and Capital Accounts Prior to the Reorganization

A capital account was maintained for each member of JMP Group LLC until the Reorganization on May 16, 2007. The account was increased by capital contributions, allocable share of net profit and any items of income or gain and decreased by distributions, allocable share of net loss and any items of expense or loss.

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Class A Common Interests

Class A common interests were issued to non-employee members, some of whom converted their Series A Convertible Preferred Units into Class A common interests in April 2004, and were entitled to share in the operating profits of the Predecessor. Class A common interests and Redeemable Class A member interests combined represented a fixed percentage equal to 84.5% of the Predecessor s membership interests. Increases and decreases in Class A common interests resulted in offsetting decreases and increases in Redeemable Class A member interests. As a result, Class A common interests represented a variable percentage of the Predecessor s total membership interests. Class A common interests represented 16.2% and 9.7% of the Predecessor s membership interests as of May 15, 2007 and December 31, 2006, respectively.

Class B Common Interests

On August 18, 2004, the Predecessor issued Class B common interests in a private offering to qualified institutional buyers and accredited investors. The Class B common interests outstanding were equal to 15.5% of the total outstanding membership interests of the Predecessor at the closing of the private offering. Class B common interests were identical in nature to Class A common interests, except for: (i) the anti-dilution provision, which provided that the Class B membership interests would not be reduced by additional issuances of Class A common interests or Redeemable Class A member interests, and (ii) demand registration rights which gave the holders of Class B common interests an annual vote to cause a corporate conversion of the Predecessor, which would have resulted in registration of the converted common interests with the SEC with subsequent listing on a national exchange or the over-the-counter market. Class B common interests represented 15.5% of the Predecessor s membership interests as of May 15, 2007 and December 31, 2006.

Common Stock

Shares of JMP Holdings Inc. common stock were originally sold in a private offering in August 2004 to enable certain non-employee investors to invest through a corporate entity in the membership interests of JMP Group LLC. JMP Holdings in turn owned, as a member of JMP Group LLC, Class B common interests on a one-for-one basis for each share of common stock. The number of common shares of JMP Holdings issued and outstanding was 1,012,999 as of May 15, 2007 and December 31, 2006. Effective May 16, 2007, in connection with the Company s initial public offering, the members of JMP Group LLC exchanged the outstanding membership interests of JMP Group LLC for shares of common stock of JMP Holdings, and JMP Holdings changed its name to JMP Group Inc. In the initial public offering, the Company sold and issued 7,199,864 shares of its common stock, raising $73.1 million of proceeds, net of the Company s direct offering costs.

The Company intends to declare quarterly cash dividends on all outstanding shares of common stock. We do not plan to pay dividends on unvested shares of restricted stock.

On August 7, 2007, the Company s board of directors declared a cash dividend of $0.025 per share of common stock for the second quarter of 2007 which was paid on August 30, 2007 to common shareholders of record on August 23, 2007. This amount represents a prorated quarterly dividend for the period from the Company s initial public offering on May 16, 2007 through June 30, 2007, based upon a quarterly dividend rate of $0.05 per share.

Stock Repurchase Program

On August 7, 2007, the Company s board of directors authorized the repurchase of up to one million shares of the Company s outstanding common stock during the next twelve months. The approval of this program authorizes, but does not commit, the Company to repurchase shares of its common stock. Repurchases may be made in open market or private transactions. The repurchase program is, among other things, intended to reduce the dilutive effect of the Company s equity compensation programs.

The timing and amount of any repurchases will be determined by JMP management based on its evaluation of market conditions, the relative attractiveness of other capital deployment activities, regulatory considerations and other factors. Any open market stock repurchase activities will be conducted in compliance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act of 1934, as amended, or in privately negotiated transactions. Repurchases of common stock may also be made under a Rule 10b5-1 plan which the Company entered into in September 2007 and which would permit common stock to be repurchased pursuant to a predetermined formula when the Company may otherwise be prohibited from doing so under insider trading laws. This repurchase program may be suspended or discontinued at any time.

During the three months ended September 30, 2007, the Company did not repurchase any shares of the Company s common stock.

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9. Stock-Based Compensation

On March 26, 2007, the board of directors adopted the JMP Group Inc. 2007 Equity Incentive Plan (JMP Group 2007 Plan), which was approved by the stockholders on April 12, 2007. JMP Group Inc. authorized the issuance of 4,000,000 shares of its common stock under this Plan. This amount may be increased by any shares JMP Group Inc. purchases on the open market, or through any share repurchase or share exchange program as well as any shares that may be returned to the JMP Group LLC 2004 Equity Incentive Plan (JMP Group 2004 Plan) as a result of forfeiture, termination or expiration of awards; not to exceed a maximum aggregate number of shares of 2,960,000 shares under the JMP Group 2004 Plan.

Stock Options

On July 18, 2006, a total of 50,000 options to purchase Class B common interests were granted to two employees who were not members of the Predecessor. The options have an exercise price of $12.50 per share, an exercise period of seven years and will vest and become exercisable 25% at each of the four subsequent anniversaries of the grant date. The fair value of the employee option grants has been estimated on the date of grant using the Black-Scholes Option Valuation methodology with the following assumptions: expected life of options of 4.70 years, risk-free interest rate of 5.10%, dividend yield of 4.4% and volatility of 28.0%. The dividend estimate was based on the recurring base dividend and special dividend estimated for 2006 and deemed to be representative for future periods. The Predecessor used the volatility of comparable public companies to estimate the volatility. The fair value of the options granted in July 2006 is $2.03 for each option or $101,500 for all options granted.

On December 19, 2006, a total of 1,370,000 options to purchase Class B common interests were granted to a number of employee members and non-members of the Predecessor. The options have an exercise price of $12.50 per share, and an exercise period of seven years. These options became vested and immediately exercisable on an accelerated basis in connection with the Reorganization. The fair value of each employee option grant was estimated on the grant date as $3.01 by using the Black-Scholes Option Valuation methodology with the following assumptions: expected life of options of 4.75 years, risk-free interest rate of 4.67%, dividend yield of 4.0% and volatility of 31.2%. The dividend estimate was based on the recurring base dividend and special dividend estimated for 2006 and deemed to be representative for future periods. The Predecessor used the volatility of comparable public companies to estimate the volatility.

On January 5, 2007, a total of 50,000 options to purchase Class B common interests were granted to several members and non-member employees of the Predecessor. The options have an exercise price of $12.50 per share, and an exercise period of seven years. These options became vested and immediately exercisable on an accelerated basis in connection with the Reorganization. The fair value of each employee option was estimated on the grant date as $3.01 by using the Black-Scholes Option Valuation methodology with the following assumptions: expected life of options of 4.75 years, risk-free interest rate of 4.67%, expected dividend yield of 4.0% and volatility of 31.2%.

On January 31, 2007, a total of 25,000 options to purchase Class B common interests were granted to a member employee of the Predecessor. The options have an exercise price of $12.50 per share and an exercise period of seven years. These options became vested and immediately exercisable on an accelerated basis in connection with the Reorganization. The fair value of each employee option was estimated on the grant date as $3.01 by using the Black-Scholes Option Valuation methodology with the following assumptions: expected life of options of 4.75 years, risk-free interest rate of 4.67%, expected dividend yield of 4.0% and volatility of 31.2%.

In connection with the Reorganization, all outstanding options to purchase Class B common interests were exchanged into options of the Successor s common stock and the Company accelerated the vesting of 1,335,000 stock options granted in December 2006 and January 2007.

The following table summarizes the stock option activity for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30, 2007		2006	
	Shares Subject to Option	Weighted Average Exercise Price	Shares Subject to Option	Weighted Average Exercise Price
Balance, beginning of period	2,639,940	$ 11.44	1,242,140	$ 10.16
Granted	75,000	$ 12.50	50,000	$ 12.50
Exercised		$		$

Forfeited	(233,488)	$ 11.18	(22,200)	$ 10.00
Expired	(39,162)	$ 12.23		$
Balance, end of period	2,442,290	$ 11.48	1,269,940	$ 10.30
Options exercisable at end of period	1,645,272	$ 12.15	50,000	$ 15.00

As of September 30, 2007

	Options Outstanding				Options Vested and Exercisable			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Average Intrinsic Value
$10.00 -$15.00	2,442,290	6.99	$ 11.48	$	1,645,272	6.44	$ 12.15	$

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In accordance with the requirements of SFAS 123R and FIN 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*, the Successor and the Predecessor recognize stock-based compensation expense for stock options over the graded vesting period of the options using the accelerated attribution method, resulting in compensation expense as follows:

		Nine Months Ended September 30, 2007		
Three Months Ended September 30, 2007 Successor	Three Months Ended September 30, 2006 Predecessor	January 1, 2007 through May 15, 2007 Predecessor	May 16, 2007 through September 30, 2007 Successor	Nine Months Ended September 30, 2006 Predecessor
$14,839	$ 32,431	$ 740,120	$ 3,234,351	$ 74,605

Included in compensation expense in the table above is stock-based compensation expense of $3,211,835 that the Successor recognized in connection with the initial public offering in May 2007, resulting from the acceleration of the vesting of 1,335,000 stock options.

As of September 30, 2007, there was $152,350 of unrecognized compensation expense related to stock options expected to be recognized over a weighted average period of 2.25 years.

Restricted Stock Units

The Company granted restricted stock units (RSUs) in connection with the initial public offering, and intends to do so as part of the Company s annual bonus compensation process. RSUs are subject to a vesting schedule, and such vesting is subject to the employees continued employment with the Company. In the event of a change in control or corporate transaction, the RSUs will vest immediately prior to the effective date of such an event. Upon termination of service for any reason, all unvested RSUs will be forfeited.

On May 15, 2007, upon pricing of its initial public offering, the Company granted RSUs to a broad group of its employees and each of its two independent directors with respect to which an aggregate of 1,931,060 shares of the Company s common stock are deliverable. Awards granted under the JMP Group 2004 Plan totaled 431,060 units and awards granted under the JMP Group 2007 Plan totaled 1,500,000 units. At the time of the initial public offering, 38,642 RSUs vested immediately, with the remaining 1,892,418 RSUs vesting over four years. The RSUs granted to employees will vest 25%, 35% and 40% on the second, third and fourth anniversary of the initial public offering, respectively. The RSUs granted to the independent directors vested 33% on date of the initial public offering, and will vest 33% on each of the subsequent two anniversaries of the date of the initial public offering. The fair value of RSUs was based on the initial public offering price of $11.00 and discounted for future dividends expected not to be received by unvested RSUs over the vesting period.

On August 7, 2007, 18,000 RSUs were granted to an independent director. Of these units, 33% vested immediately on grant date, with the balance vesting 33% on each of the two subsequent anniversaries. On September 5, 2007, additional RSUs were granted to a new hire employee, 50% of these units will vest on January 31, 2009 with the balance vesting on January 31, 2010. The fair values of these units were based on the market values of the underlying stock on the respective grant dates.

The Predecessor recorded $0 and $76,129, respectively, in non-cash compensation expense for the three and nine month periods ended September 30, 2007 in connection with the vesting of the award of RSUs granted on the initial public offering date. The Successor recorded $1,409,218 and $2,577,699, respectively, in non-cash compensation expense for the three and nine months ended September 30, 2007, in connection with the vesting of the award of RSUs granted on the initial public offering date. In addition, the Successor recorded $100,601 in non-cash compensation expense for the three and nine months ended September 30, 2007 for RSUs granted post-initial public offering.

As of September 30, 2007, there was $18,178,579 of unrecognized compensation expense related to RSUs expected to be recognized over a weighted average period of 3.49 years.

The following table summarizes the restricted stock unit activity for the nine months ended September 30, 2007:

	Nine Months Ended September 30, 2007	Weighted Average Grant Date Fair Value

Balance, beginning of period		$	
Granted	2,096,438	$	10.30
Vested	(44,642)	$	10.00
Forfeited	(65,210)	$	10.43
Balance, end of period	1,986,586	$	10.30

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As a result of the vesting of 44,642 RSUs for the nine months ended September 30, 2007, the Company recognized current tax benefits of $190,896.

10. Net Income per Share of Common Stock and Net Income (Loss) per Unit Attributable to Class A and Class B Common Interests
The Company calculates its net income per share, and the Predecessor calculated its net income (loss) per unit attributable to Class A and Class B common interests, in accordance with SFAS 128, *Earnings per Share*.

Basic net income per share for the Company is calculated by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted net income per share is calculated by adjusting the weighted average number of outstanding shares to reflect the potential dilutive impact as if all potentially dilutive stock options or restricted stock units were exercised or converted.

Basic net income (loss) per unit for the Predecessor is calculated by dividing net income (loss) attributable to Class A and Class B common interests by the weighted average number of units of Class A and Class B common interests outstanding for the reporting period. Diluted net income (loss) per unit is computed similarly, except that it reflects the potential dilutive impact that would occur if potentially dilutive securities were exercised or converted into membership interests. To determine an average market price for applying the treasury stock method, the Predecessor estimated the fair market value of the Predecessor s Class B common interests based on trades of Class B common interests between third parties and earnings multiples of publicly traded comparables.

In August 2004, the Predecessor issued 2,300,000 units of Class B common interests in a private offering, which represented 15.5% of the Predecessor s membership interests. Because there is a direct relationship between the number of Class B common interests outstanding and the ownership percentage in the Predecessor s equity, it was possible to determine the number of units associated with the Class A common interests outstanding. As a result, the Predecessor was able to determine net income (loss) per unit, based on an implied number of Class A common interests and an existing number of Class B common interests outstanding. Pursuant to SFAS 128, *Earnings per Share*, paragraph 133 and SEC Staff Accounting Bulletin Topic 4-C, the Predecessor has reflected this capital structure for purposes of determining net income (loss) per unit in all periods presented.

The computations of basic and diluted net income per share and basic and diluted net income per unit for the three months ended September 30, 2007 and 2006 are shown in the table below:

	Three Months Ended September 30, 2007 Successor	Three Months Ended September 30, 2006 Predecessor	
		Class A Common	Class B Common
Numerator:			
Net income	$ 1,135,447	$ 329,848	$ 528,374
Denominator:			
Basic weighted average Class A and Class B common units Outstanding		1,435,820	2,300,000
Basic weighted average shares outstanding	22,029,098		
Effect of potential dilutive securities:			
Options to purchase Class B common interests		55,765	89,328
Options to purchase common shares			
Restricted stock units			
Diluted weighted average Class A and Class B common units Outstanding		1,491,585	2,389,328

Diluted weighted average shares outstanding	22,029,098		
Net income per unit attributable to Class A and Class B common Interests			
Basic		$ 0.23	$ 0.23
Diluted		$ 0.22	$ 0.22
Net income per share			
Basic	$ 0.05		
Diluted	$ 0.05		

Stock options to purchase 2,478,180 shares of common stock and 860,810 Class B common interests for the three months ended September 30, 2007 and September 30, 2006 respectively, were anti-dilutive. RSU options to purchase 1,906,635 shares of common stock and no Class B interests for the three months ended September 30, 2007 and September 30, 2006, respectively, were anti-dilutive. As such, these were not included in the computation of diluted common shares or diluted common units outstanding.

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The computations of basic and diluted net income per share and basic and diluted net (loss) income per unit for the nine months ended September 30, 2007 and 2006 are shown in the table below:

	Nine Months Ended September 30, 2007					
	January 1, 2007 through May 15, 2007 Predecessor		May 16, 2007 through September 30, 2007 Successor		Nine Months Ended September 30, 2006 Predecessor	
	Class A Common	Class B Common			Class A Common	Class B Common
Numerator:						
Net (loss) income	$ (56,860,528)	$ (54,836,785)	$	3,901,502	$ 920,308	$ 1,476,661
Denominator:						
Basic weighted average Class A and Class B common units						
Outstanding	2,384,881	2,300,000			1,433,444	2,300,000
Basic weighted average shares outstanding				22,027,845		
Effect of potential dilutive securities:						
Options to purchase Class B common interests					18,569	29,795
Options to purchase common shares						
Restricted stock units				56,994		
Diluted weighted average Class A and Class B common units Outstanding	2,384,881	2,300,000			1,452,013	2,329,795