

JMP Group Inc.  
Form 10-Q  
May 05, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2011

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)

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**Delaware**  
(State or Other Jurisdiction of

**20-1450327**  
(I.R.S. Employer

**Incorporation or Organization)**

**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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the Registrant's common stock, par value \$0.001 per share, outstanding as of April 30, 2011 was 22,083,967.

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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, with the Securities and Exchange Commission. 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 and will provide print copies to stockholders upon request, (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 intended to be part of this quarterly report.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****JMP Group Inc.****Consolidated Statements of Financial Condition****(Unaudited)****(Dollars in thousands, except per share data)**

	March 31, 2011	December 31, 2010
<b>Assets</b>		
Cash and cash equivalents	\$ 54,885	\$ 71,114
Restricted cash and deposits (includes cash on deposit with clearing broker of \$255 at March 31, 2011 and December 31, 2010)	32,262	47,718
Receivable from clearing broker	1,645	1,331
Investment banking fees receivable, net of allowance for doubtful accounts of \$0 at March 31, 2011 and December 31, 2010	14,044	9,764
Marketable securities owned, at fair value	23,571	23,748
Incentive fee receivable	740	763
Other investments (of which \$44,618 and \$38,672 at fair value at March 31, 2011 and December 31, 2010, respectively)	44,648	38,702
Loans held for investment, net of allowance for loan losses	663	813
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	416,905	400,763
Interest receivable	1,162	1,163
Fixed assets, net	1,877	1,481
Deferred tax assets	29,205	32,507
Other assets	4,547	7,998
<b>Total assets</b>	<b>\$ 626,154</b>	<b>\$ 637,865</b>
<b>Liabilities and Equity</b>		
<b>Liabilities:</b>		
Marketable securities sold, but not yet purchased, at fair value	\$ 10,714	\$ 10,669
Accrued compensation	17,033	37,424
Asset-backed securities issued	358,621	351,322
Interest payable	525	570
Note payable	25,774	26,209
Deferred tax liability	33,180	36,176
Other liabilities	32,573	33,443
<b>Total liabilities</b>	<b>478,420</b>	<b>495,813</b>
<b>Commitments and Contingencies</b>		
<b>JMP Group Inc. Stockholders' Equity</b>		
Common stock, \$0.001 par value, 100,000,000 shares authorized; 22,083,967 and 22,069,741 shares issued at March 31, 2011 and December 31, 2010, respectively; 22,083,967 and 21,737,367 shares outstanding at March 31, 2011 and December 31, 2010, respectively	22	22
Additional paid-in capital	125,007	128,151
Treasury stock, at cost, 0 and 332,374 shares at March 31, 2011 and December 31, 2010, respectively		(2,210)

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Accumulated other comprehensive loss	(55)	(63)
Retained earnings	7,792	4,696
Total JMP Group Inc. stockholders' equity	132,766	130,596
Noncontrolling Interest	14,968	11,456
Total equity	147,734	142,052
Total liabilities and equity	\$ 626,154	\$ 637,865

See accompanying notes to consolidated financial statements.

**Table of Contents****JMP Group Inc.****Consolidated Statements of Financial Condition - (Continued)****(Unaudited)****(Dollars in thousands, except per share data)**

Assets and liabilities of consolidated VIE included in total assets and total liabilities above:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Restricted cash	\$ 18,868	\$ 23,821
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	416,905	400,763
Interest receivable	1,161	1,162
Deferred tax assets	12,741	15,685
Other assets	61	41
<b>Total assets of consolidated VIE</b>	<b>\$ 449,736</b>	<b>\$ 441,472</b>
Asset-backed securities issued	\$ 358,621	\$ 351,322
Interest payable	492	545
Deferred tax liability	31,136	34,110
Other liabilities	797	379
<b>Total liabilities of consolidated VIE</b>	<b>\$ 391,046</b>	<b>\$ 386,356</b>

The asset-backed securities issued by the VIE are limited recourse obligations payable solely from cash flows of the loans collateralizing them and related collection and payment accounts pledged as security. Accordingly, the assets of the VIE can only be used to settle the obligations of the VIE.

See accompanying notes to consolidated financial statements.

**Table of Contents****JMP Group Inc.****Consolidated Statements of Operations****(Unaudited)****(In thousands, except per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues</b>		
Investment banking	\$ 20,225	\$ 5,469
Brokerage	6,285	7,670
Asset management fees	3,153	2,891
Principal transactions	3,630	1,421
Gain on sale and payoff of loans	6,771	3,479
Net dividend income	250	616
Other income	828	498
<b>Non-interest revenues</b>	<b>41,142</b>	<b>22,044</b>
Interest income	10,620	11,578
Interest expense	(8,640)	(8,240)
Net interest income	1,980	3,338
Provision for loan losses	(220)	(164)
Total net revenues after provision for loan losses	42,902	25,218
<b>Non-interest Expenses</b>		
Compensation and benefits	28,231	15,521
Administration	1,070	1,022
Brokerage, clearing and exchange fees	1,098	1,352
Travel and business development	670	920
Communications and technology	921	1,073
Occupancy	665	651
Professional fees	708	975
Depreciation	158	168
Impairment loss on purchased management contract	700	
Other	104	128
Total non-interest expenses	34,325	21,810
Income before income tax expense	8,577	3,408
Income tax expense	2,483	1,388
Net income	6,094	2,020
Less: Net income attributable to noncontrolling interest	2,556	302
Net income attributable to JMP Group Inc.	\$ 3,538	\$ 1,718

Net income attributable to JMP Group Inc. per common share:



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Basic	\$	0.16	\$	0.08
Diluted	\$	0.15	\$	0.08
Dividends declared per common share	\$	0.02	\$	0.01
Weighted average common shares outstanding:				
Basic		21,843		21,612
Diluted		22,836		22,484

See accompanying notes to consolidated financial statements.

**Table of Contents****JMP Group Inc.****Consolidated Statement of Changes in Equity****(Unaudited)****(In thousands)**

	JMP Group Inc. Stockholders Equity				Retained Earnings	Comprehensive Loss	Noncontrolling Interest	Comprehensive Income	Total Equity
	Common Stock		Additional						
	Shares	Amount	Treasury Stock	Paid-In Capital					
<b>Balance, December 31, 2010</b>	22,070	\$ 22	\$ (2,210)	\$ 128,151	\$ 4,696	\$ (63)	\$ 11,456	\$ 33,206	\$ 142,052
Net income					3,538		2,556	6,094	6,094
Additional paid-in capital - stock-based compensation				(3,742)					(3,742)
Additional paid-in capital - excess tax benefit related to stock-based compensation				53					53
Cash dividends paid to shareholders					(442)				(442)
Purchases of shares of common stock for treasury			(1,821)						(1,821)
Reissuance of shares of common stock from treasury			4,031	431					4,462
Common stock issued	14			114					114
Distributions to noncontrolling interest holders							(685)		(685)
Unrealized gain on cash flow hedge, net of tax						8		8	8
Capital contributions from noncontrolling interest holders							1,641		1,641
<b>Balance, March 31, 2011</b>	22,084	\$ 22	\$	\$ 125,007	\$ 7,792	\$ (55)	\$ 14,968	\$ 39,308	\$ 147,734

See accompanying notes to consolidated financial statements.

**Table of Contents****JMP Group Inc.****Consolidated Statements of Cash Flows****(Unaudited)****(In thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,094	\$ 2,020
<b>Adjustments to reconcile net income to net cash (used in) provided by operating activities:</b>		
Provision for loan losses	220	164
Accretion of deferred loan fees	(428)	(388)
Amortization of liquidity discount, net	2,992	1,249
Gain on sale and payoff of loans	(6,771)	(3,479)
<b>Change in other investments:</b>		
Fair value	(3,418)	(674)
Incentive fees reinvested in general partnership interests	(137)	(300)
Impairment loss on purchased management contract	700	
Depreciation and amortization of fixed assets	158	168
Stock-based compensation expense	457	903
Deferred income taxes	306	1,343
<b>Net change in operating assets and liabilities:</b>		
Decrease in interest receivable	1	40
(Increase) decrease in receivables	(4,634)	2,349
Decrease (Increase) in marketable securities	177	(15,184)
Decrease (increase) in restricted cash (excluding restricted cash reserved for lending activities), deposits and other assets	11,865	(14,595)
Decrease in marketable securities sold, but not yet purchased	45	11,173
Decrease in interest payable	(45)	(36)
Decrease in accrued compensation and other liabilities	(20,883)	(36,679)
<b>Net cash used in operating activities</b>	<b>(13,301)</b>	<b>(51,926)</b>
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(554)	(236)
Purchases of other investments	(2,903)	(16,691)
Sales of other investments	2,171	21,280
Funding of loans collateralizing asset-backed securities issued	(90,524)	(67,540)
Sale and payoff of loans collateralizing asset-backed securities issued	78,846	34,186
Principal receipts on loans collateralizing asset-backed securities issued	6,821	26,858
Principal receipts on loans held for investment	150	75
Net change in restricted cash reserved for lending activities	4,842	10,597
<b>Net cash (used in) provided by investing activities</b>	<b>(1,151)</b>	<b>8,529</b>

**Table of Contents****JMP Group Inc.****Consolidated Statements of Cash Flows - (Continued)****(Unaudited)****(In thousands)**

Cash flows from financing activities:		
Repayment of note payable	(435)	
Repayment of asset-backed securities issued		(3,475)
Cash dividends paid to stockholders	(442)	(217)
Purchases of shares of common stock for treasury	(1,821)	(790)
Capital contributions of noncontrolling interest holders	1,553	
Distributions to noncontrolling interest shareholders	(685)	
Excess tax benefit related to stock-based compensation	53	(98)
Net cash used in financing activities	(1,777)	(4,580)
Net decrease in cash and cash equivalents	(16,229)	(47,977)
Cash and cash equivalents, beginning of period	71,114	75,680
Cash and cash equivalents, end of period	\$ 54,885	\$ 27,703
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 1,330	\$ 1,216
Cash paid during the period for taxes	\$ 1,653	\$ 650
Non-cash investing and financing activities:		
Reissuance of shares of common stock from treasury related to vesting of restricted stock units and exercises of stock options	\$ 4,031	\$ 1,168

See accompanying notes to consolidated financial statements.

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**JMP GROUP INC.**

**Notes to Consolidated Financial Statements**

**March 31, 2011**

**(Unaudited)**

**1. Organization and Description of Business**

JMP Group Inc., together with its subsidiaries (collectively, the Company), is an independent investment banking and asset management firm headquartered in San Francisco, California. JMP Group Inc. completed its initial public offering on May 16, 2007, and also completed a corporate reorganization (the Reorganization), which 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. The Company conducts its brokerage business through JMP Securities LLC (JMP Securities), its asset management business through Harvest Capital Strategies LLC (HCS), its corporate credit business through JMP Credit Corporation (JMP Credit) and JMP Credit Advisors LLC (JMPCA), and certain principal investments through JMP Capital LLC (JMP Capital). All of the above entities are wholly-owned subsidiaries. JMP Securities is a U.S. registered broker-dealer under the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority (FINRA). 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. HCS is a registered investment advisor under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors in investment partnerships and other entities managed by HCS. Effective April 7, 2009, through its majority-owned subsidiary JMP Credit, the Company completed the acquisition of 100% of the membership interests of Cratos Capital Partners, LLC (changed its name to JMP Credit Advisors LLC on July 12, 2010) and its subsidiaries, including Cratos Capital Management, LLC (which collectively, Cratos), a manager of collateralized loan obligations (CLO), together with certain securities of Cratos CLO I, Ltd. (Cratos CLO). See Note 2 for further details regarding the ownership of Cratos CLO.

**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 (GAAP) 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 included in its annual report on Form 10-K for the year ended December 31, 2010. 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.

The consolidated accounts of the Company include the wholly-owned subsidiaries, JMP Securities, HCS, JMP Capital, JMP Credit, JMPCA, and the partially-owned subsidiary Harvest Growth Capital LLC (HGC) (effective April 1, 2010). All material intercompany accounts and transactions have been eliminated in consolidation.

Harvest Mortgage Opportunities Partners (HMOP) had been consolidated from May 1, 2009 through December 31, 2010. On December 31, 2010, HMOP was liquidated, with all of its partners redeeming their interests as of that date. The assets of HMOP were distributed to its partners in January 2011.

The Company follows the authoritative accounting guidance for the consolidation of variable interest entities (VIEs). Such guidance applies to VIEs, which are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. When the Company enters into a transaction with a VIE, the Company determines if it is the primary beneficiary of the VIE by performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, related party relationships, the Company's fee arrangements and the design of the VIE. The Company performed this analysis for Cratos CLO and concluded that Cratos CLO is a VIE and that the Company, which manages the CLO and owns approximately 94% of the subordinated notes in the CLO, is deemed the primary beneficiary. As a result, the Company consolidates the assets and liabilities of the CLO securitization entity, and the underlying loans owned by the CLO entity are shown on our consolidated statements of financial condition under loans collateralizing asset-backed securities issued and the asset-backed securities (ABS) issued to third parties are shown under asset-backed securities issued. See Note 6 and Note 10 for the information

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pertaining to the loans owned and ABS issued by Cratos CLO, respectively.

HCS currently manages several asset management funds, which are structured as limited partnerships, and is the general partner of each. In assessing whether or not to consolidate these funds, the Company follows the accounting guidance on determining whether a general partner controls a limited partnership. Such guidance provides that the presumption that the general partner controls the limited partnership may be overcome if the limited partners have substantive kick-out rights. Except for HMOP and HGC, the partnership agreements for these funds provide for the right of the limited partners to remove the general partners by a simple majority vote of the non-affiliated limited partners. Because of these substantive kick-out rights, the Company, as the general partner, does not control these funds, and therefore does not

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consolidate them except for HGC and prior to December 31, 2010, HMOP. The Company accounts for its investments in these funds under the equity method of accounting. In December 2009, the accounting guidance on consolidation was amended to improve the financial reporting by entities involved in VIEs. In February 2010, the consolidation requirements under the amended accounting guidance were indefinitely deferred for a reporting entity's interest in entities that have the attributes of an investment company or for which it is industry practice to apply the specialized industry accounting guidance for investment companies. The Company's investments in the above asset management funds qualify for the deferral, and therefore the new consolidation requirements did not impact our accounting for these funds. If the deferral were to be removed, the Company would be required to evaluate these funds under the new accounting guidance, and based on such evaluation, some if not all of the funds may require consolidation.

Noncontrolling interest on the consolidated statements of financial condition at March 31, 2011 and December 31, 2010 relate to the interest of third parties in Cratos CLO and HGC, partially-owned subsidiaries consolidated in our financial statements. On August 6, 2010, the Company and individual employee security holders (the Unitholders) of JMP Credit entered into an Exchange Agreement providing for, among other things, an offer to buy the minority interest units and shares in JMP Credit held by the Unitholders in exchange for a combination of (i) restricted common stock of the Company par value \$.001 per share, (ii) cash and (iii) certain Cratos CLO subordinated notes. In connection with the Exchange Agreement, the Company issued an aggregate of 381,310 shares of restricted stock and transferred 109 subordinated notes to the Unitholders and the Company received all the remaining units and shares of JMP Credit that it did not previously own. The restricted stock and the Cratos CLO notes are subject to limitations on transfer and repurchase rights of the Company in the event of certain terminations of the Unitholder's employment with the Company or its affiliates through June 1, 2013. As a result of this transaction, the Company's ownership of JMP Credit increased from approximately 93% to 100% and the Company's ownership of Cratos CLO decreased from 100% to approximately 94% effective August 6, 2010.

JMP Realty Trust (JMPRT) was a real estate investment trust that was formed in June 2006. As of December 31, 2008, the Company owned 49.5% of JMPRT and certain employees owned 20.1%. Because of its ownership and management position, the Company consolidated JMPRT and recorded a noncontrolling interest through December 31, 2008. On January 2, 2009, all of the assets and liabilities within JMPRT were transferred to HMOP, a hedge fund managed by HCS. HMOP was a Delaware limited partnership organized for the purposes of investing in real estate-related assets which may include investments in residential or commercial mortgages or loans, real estate and other assets, loans and participation in loans of all types, other specialty mortgage products, and securities. HCS was the general partner of HMOP. Because of substantive kick-out rights, the Company, as the general partner, did not control HMOP and therefore did not consolidate HMOP from January 2, 2009 through April 30, 2009. During the quarter ended June 30, 2009, several non-affiliated limited partners redeemed their interest in HMOP, and the remaining limited partners were no longer deemed to have substantive kick-out rights. As a result, the Company consolidated HMOP in its consolidated financial statements effective May 1, 2009. HMOP was liquidated on December 31, 2010, with all of its partners redeeming their interests as of that date. The assets of HMOP were distributed to its partners in January 2011.

On July 31, 2009, JMP Capital received 100% of the membership interest in LSC III, LLC (LSC) in full satisfaction of a \$2.4 million non-revolving credit note. LSC is an investment partnership and owns shares of common and preferred stock of two privately-held companies. LSC subsequently changed its name to Harvest Growth Capital LLC (HGC) and amended its limited liability company agreement. Under the amended agreement, HGC appointed HCS as the manager, accepted new members and launched on April 1, 2010 as a new private equity fund. JMP Capital retained an interest in one privately-held company which was valued at \$0.6 million as of April 1, 2010. The members of HGC do not have substantive kick-out rights to remove HCS as manager and therefore HCS is deemed to control HGC. As a result, the Company consolidates HGC in its consolidated financial statements.

On January 18, 2008, JMP Group Inc. and certain unconsolidated affiliates made an investment in Series A Cumulative Redeemable Convertible preferred stock of New York Mortgage Trust, Inc. (NYMT), a publicly traded real estate investment trust engaged in the investment management of mortgage-backed securities and high credit quality residential adjustable rate mortgage loans. Such investment by JMP Group Inc. and affiliated entities was \$20.0 million in total, comprised of \$5.0 million by JMP Group Inc., \$5.0 million by certain funds managed by HCS, and \$10.0 million by JMPRT. JMPRT's investment in NYMT was transferred to HMOP on January 2, 2009. In addition, JMP Group Inc. invested \$4.5 million in the common stock of NYMT on February 14, 2008 via a private investment in public equity (PIPE) transaction. At December 31, 2010, JMP Group Inc. owned approximately 15.2% of NYMT's common stock. The Series A Preferred Stock was convertible into shares of NYMT's common stock based on a conversion price of \$8.00 per share of common stock, which represents a conversion rate of two and one-half (2 1/2) shares of common stock for each share of Series A Cumulative Redeemable Convertible preferred stock. The Series A Cumulative Redeemable Convertible preferred stock was scheduled to mature on December 31, 2010, at which time any outstanding shares must be redeemed by NYMT at the \$20.00 per share liquidation preference. We also entered into an advisory agreement between HCS and NYMT to manage certain non-agency assets. The advisory agreement was terminated effective July 26, 2010 upon execution of an amended and restated advisory agreement between HCS and NYMT. Under the amended advisory agreement, HCS manages certain assets of NYMT, which are subject to the base advisory fee and incentive fee calculations, and receives an annual consulting fee equal to \$1.0 million. On December 31, 2010, all of the 1.0 million shares of Series A Cumulative Redeemable Convertible preferred stock of NYMT owned by JMP Group Inc. and certain of its affiliates were redeemed at a price per share of \$20.00 for a total of \$20.0 million. Under the amended advisory agreement, in order to maintain certain rights under the agreement we have a minimum \$10.0 million of investment commitment in NYMT's common stock, subject

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to certain adjustments for variations in NYMT's stock price subsequent to the effective date of the agreement. At March 31, 2011, we had an investment in NYMT's common stock of \$10.1 million which represented 15.2% of NYMT's outstanding shares of common stock. Because of its current ownership and management position, the Company does not consolidate NYMT.



**Table of Contents***Revision to 2010 Consolidated Financial Statements*

In preparing the consolidated financial statements for the quarter ended March 31, 2011, the Company discovered an error that impacted the company's previously issued consolidated financial statements for the second quarter of 2010, the third quarter of 2010 and for the year ended December 31, 2010. The net after tax effect of this error together with errors previously identified, was an understatement of net income of \$0.7 million for the year ended December 31, 2010 (\$31,000 for the second quarter of 2010, \$384,000 for the third quarter of 2010 and \$327,000 for the fourth quarter of 2010). The adjustments were primarily related to the newly identified error, a difference in the determination of taxable income, causing a \$0.6 million impact to income tax expense for the year ended December 31, 2010 (\$31,000 for the second quarter of 2010, \$397,000 for the third quarter of 2010 and \$148,000 for the fourth quarter of 2010). The Company evaluated these errors and concluded that they did not, individually or in the aggregate, result in a material misstatement of the company's previously issued consolidated financial statements. However, the Company also concluded that the effect of correcting the errors in the first quarter of 2011 would have been misleading to the users of the financial statements for the quarter ended March 31, 2011 and expected results for the year ended December 31, 2011. Accordingly, the Company has determined to revise, in this report and future filings, its previously reported Consolidated Statements of Financial Condition as of June 30, 2010, September 30, 2010 and December 31, 2010 and its Consolidated Statements of Operations and Changes in Equity for the periods ended June 30, 2010, September 30, 2010 and December 31, 2010 to adjust for these errors. As the above mentioned errors did not impact the period ended March 31, 2010, there are no changes to the financial statements as of and for the period ended March 31, 2010, as originally filed. The effect of this revision had no impact on our Consolidated Statement of Cash Flows.

A summary of the revisions to the Consolidated Financial Statements as of June 30, 2010, September 30, 2010 and December 31, 2010 is as follows:

	As Previously Reported	Adjustment	As Revised
<i>(In thousands, except per common share data)</i>			
<b>Consolidated Statements of Operation</b>			
	<b>For the Three Months Ended June 30, 2010</b>		
Income tax expense	\$ 2,133	\$ (31)	\$ 2,102
Net income	2,983	31	3,014
Net income attributable to JMP Group Inc.	2,185	31	2,216
Net income attributable to JMP Group Inc. per common share:			
Basic	\$ 0.10		\$ 0.10
Diluted	\$ 0.10		\$ 0.10
	<b>For the Six Months Ended June 30, 2010</b>		
Income tax expense	\$ 3,522	\$ (31)	\$ 3,491
Net income	5,003	31	5,034
Net income attributable to JMP Group Inc.	3,903	31	3,934
Net income attributable to JMP Group Inc. per common share:			
Basic	\$ 0.18		\$ 0.18
Diluted	\$ 0.17	0.01	\$ 0.18
<b>Consolidated Statements of Financial Condition</b>			
	<b>As of June 30, 2010</b>		
Deferred tax assets	\$ 41,994	\$ 31	\$ 42,025
Total assets	580,836	31	580,867
Retained earnings			