JMP Group Inc.
Form 10-Q
May 06, 2013

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 March 31, 2013 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<br>(State or Other Jurisdiction of Incorporation or Organization) | 20-1450327<br>(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 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 x 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 | x |
| 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 x

The number of shares of the Registrant's common stock, par value $0.001 per share, outstanding as of April 30, 2013 was 22,536,109.

TABLE OF CONTENTS


| | | Page |
|---|---|---|
| PART I. | FINANCIAL INFORMATION | 4 |
| | | |
| Item 1. | Financial Statements - JMP Group Inc. | 4 |
| | Consolidated Statements of Financial Condition - March 31, 2013 and December 31, 2012 (Unaudited) | 5 |
| | Consolidated Statements of Operations - For the Three months Ended March 31, 2013 and 2012 (Unaudited) | 6 |
| | Consolidated Statements of Comprehensive Income - For the Three months Ended March 31, 2013 and 2012 (Unaudited) | 7 |
| | Consolidated Statement of Changes in Equity - For the Three months Ended March 31, 2013 (Unaudited) | 7 |
| | Consolidated Statements of Cash Flows - For the Three months Ended March 31, 2013 and 2012 (Unaudited) | 8 |
| | Notes to Consolidated Financial Statements (Unaudited) | 10 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 30 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 52 |
| Item 4. | Controls and Procedures | 53 |
| | | |
| PART II. | OTHER INFORMATION | 53 |
| | | |
| Item 1. | Legal Proceedings | 53 |
| Item 1A. | Risk Factors | 53 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 54 |
| Item 3. | Defaults Upon Senior Securities | 54 |
| Item 4. | Mine Safety Disclosures | 54 |
| Item 5. | Other Information | 54 |
| Item 6. | Exhibits | 54 |
| | | |
| SIGNATURES | | 55 |
| | | |
| EXHIBIT INDEX | | 56 |

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 (the "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. provides 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 free of charge on the Investor Relations section of its website located at http://www.jmpg.com. 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.

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, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | $ | 41,451 | $ | 67,075 |
| Restricted cash and deposits (includes cash on deposit with clearing broker of $150 at both March 31, 2013 and December 31, 2012) | | 69,125 | | 69,813 |
| Receivable from clearing broker | | 1,270 | | 1,117 |
| Investment banking fees receivable, net of allowance for doubtful accounts of zero at March 31, 2013 and December 31, 2012 | | 9,660 | | 5,148 |
| Marketable securities owned, at fair value | | 17,829 | | 14,347 |
| Incentive fee receivable | | 4,059 | | 2,945 |
| Other investments (of which $119,559 and $80,945 are recorded at fair value at March 31, 2013 and December 31, 2012, respectively) | | 119,858 | | 81,161 |
| Loans held for sale | | 2,528 | | 3,134 |
| Small business loans | | 40,375 | | 38,934 |
| Loans collateralizing asset-backed securities issued, net of allowance for loan losses | | 404,319 | | 401,003 |
| Interest receivable | | 1,387 | | 1,229 |
| Fixed assets, net | | 2,542 | | 2,663 |
| Deferred tax assets | | 12,200 | | 13,087 |
| Other assets | | 23,350 | | 8,206 |
| Total assets | $ | 749,953 | $ | 709,862 |
| | | | | |
| Liabilities and Equity | | | | |
| Liabilities: | | | | |
| Marketable securities sold, but not yet purchased, at fair value | $ | 12,289 | $ | 11,567 |
| Accrued compensation | | 9,234 | | 20,256 |
| Asset-backed securities issued | | 424,699 | | 415,456 |
| Interest payable | | 1,216 | | 588 |
| Note payable | | 6,552 | | 10,486 |
| Line of credit | | 22,227 | | 28,227 |
| Bond payable | | 46,000 | | - |
| Deferred tax liability | | 5,289 | | 9,775 |
| Other liabilities | | 30,494 | | 26,203 |
| Total liabilities | | 558,000 | | 522,558 |
| | | | | |
| Redeemable Non-controlling Interest | | 161 | | 161 |
| Commitments and Contingencies | | | | |
| JMP Group Inc. Stockholders' Equity | | | | |
| | | 23 | | 23 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Common stock, $0.001 par value, 100,000,000 shares authorized; 22,780,052 shares issued at both March 31, 2013 and December 31, 2012; 22,609,370 and 22,591,649 shares outstanding at March 31, 2013 and December 31, 2012 | | | | | | |
| Additional paid-in capital | | 129,118 | | | 128,318 | |
| Treasury stock, at cost, 170,682 and 188,403 shares at March 31, 2013 and December 31, 2012, respectively | | (926 | ) | | (1,007 | ) |
| Accumulated other comprehensive loss | | (41 | ) | | (55 | ) |
| Accumulated deficit | | (2,936 | ) | | (408 | ) |
| Total JMP Group Inc. stockholders' equity | | 125,238 | | | 126,871 | |
| Nonredeemable Non-controlling Interest | | 66,554 | | | 60,272 | |
| Total equity | | 191,792 | | | 187,143 | |
| Total liabilities and equity | $ | 749,953 | | $ | 709,862 | |

See accompanying notes to consolidated financial statements.

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

Assets and liabilities of consolidated variable interest entities ("VIE") included in total assets and total liabilities above:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Restricted cash | $ 55,329 | $ 56,968 |
| Loans held for sale | 2,528 | 3,134 |
| Loans collateralizing asset-backed securities issued, net of allowance for loan losses | 404,319 | 401,003 |
| Interest receivable | 1,021 | 1,062 |
| Deferred tax assets | 3,444 | 3,387 |
| Other assets | 19 | 32 |
| Total assets of consolidated VIE | $ 466,660 | $ 465,586 |
| | | |
| Asset-backed securities issued | 424,699 | 415,456 |
| Interest payable | 508 | 542 |
| Deferred tax liability | 5,021 | 8,437 |
| Other liabilities | 3,823 | 3,573 |
| Total liabilities of consolidated VIE | $ 434,051 | $ 428,008 |

The asset-backed securities issued (“ABS”) 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, only the assets of the VIE can be used to settle the obligations of the VIE.

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| Revenues | | |
| Investment banking | $12,107 | $16,659 |
| Brokerage | 5,194 | 5,492 |
| Asset management fees | 6,751 | 3,474 |
| Principal transactions | 1,917 | 6,484 |
| Gain on sale and payoff of loans and mark-to-market of loans | 1,089 | 1,047 |
| Net dividend expense | (8) | (14) |
| Other income | 288 | 736 |
| Non-interest revenues | 27,338 | 33,878 |
| | | |
| Interest income | 8,158 | 7,458 |
| Interest expense | (11,299) | (9,608) |
| Net interest expense | (3,141) | (2,150) |
| | | |
| Provision for loan losses | (949) | (93) |
| | | |
| Total net revenues after provision for loan losses | 23,248 | 31,635 |
| | | |
| Non-interest expenses | | |
| Compensation and benefits | 19,605 | 21,771 |
| Administration | 1,331 | 1,250 |
| Brokerage, clearing and exchange fees | 887 | 896 |
| Travel and business development | 958 | 702 |
| Communications and technology | 853 | 908 |
| Occupancy | 804 | 817 |
| Professional fees | 1,024 | 639 |
| Depreciation | 226 | 198 |
| Other | 83 | 265 |
| Total non-interest expenses | 25,771 | 27,446 |
| (Loss) income before income tax expense | (2,523) | 4,189 |
| Income tax (benefit) expense | (812) | 381 |
| Net (loss) income | (1,711) | 3,808 |
| Less: Net income attributable to nonredeemable non-controlling interest | 8 | 3,432 |
| Net (loss) income attributable to JMP Group Inc. | $(1,719) | $376 |
| | | |
| Net (loss) income attributable to JMP Group Inc. per common share: | | |
| Basic | $(0.08) | $0.02 |
| Diluted | $(0.08) | $0.02 |
| | | |
| Dividends declared per common share | $0.035 | $0.030 |

| | | |
|---|---|---|
| Weighted average common shares outstanding: | | |
| Basic | 22,607 | 22,180 |
| Diluted | 22,607 | 23,273 |

See accompanying notes to consolidated financial statements.

JMP Group Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands)

| | Three Months Ended March 31, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| Net (loss) income | $ (1,711 ) | $ 3,808 |
| Other comprehensive income (loss) | | |
| Unrealized gain on cash flow hedge, net of tax | 14 | 8 |
| Comprehensive (loss) income | (1,697 ) | 3,816 |
| Less: Comprehensive income attributable to non-controlling interest | 8 | 3,432 |
| Comprehensive (loss) income attributable to JMP Group Inc. | $ (1,705 ) | $ 384 |

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

| | JMP Group Inc. Stockholders' Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Treasury | Additional Paid-In | Accumulated | Accumulated Other Comprehensive | Nonredeemable Non-controlling | Total |
| | Shares | Amount | Stock | Capital | Deficit | Loss | Interest | Equity |
| Balance, December 31, 2012 | 22,780 | $ 23 | $ (1,007 ) | $ 128,318 | $ (408 ) | $ (55 ) | $ 60,272 | $ 187,143 |
| Net loss | - | - | - | - | (1,719 ) | - | 8 | (1,711 ) |
| Additonal paid-in capital - stock-based compensation | - | - | - | 726 | - | - | - | 726 |
| Dividends and dividend equivalents declared on common stock and restricted stock units | - | - | - | - | (809 ) | - | - | (809 ) |
| Purchases of shares of common stock for treasury | - | - | (82 ) | - | - | - | - | (82 ) |
| Reissuance of shares of common stock from treasury | - | - | 163 | 74 | - | - | - | 237 |
| Distributions to non-controlling interest holders | - | - | - | - | - | - | (1,780 ) | (1,780 ) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Unrealized gain on cash flow hedge, net of tax | - | - | - | - | - | 14 | - | 14 |
| Capital contributions from non-controlling interest holders (1) | - | - | - | - | - | - | 8,054 | 8,054 |
| Balance, March 31, 2013 | 22,780 | $ 23 | $ (926 ) | $ 129,118 | $ (2,936 ) | $ (41 ) | $ 66,554 | $ 191,792 |

(1) Excludes $160.7 thousand attributable to redeemable non-controlling interest.

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net (loss) income | $(1,711) | $3,808 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Provision for loan losses | 949 | 93 |
| Accretion of deferred loan fees | (701) | (386) |
| Amortization of liquidity discount, net | 8,740 | 7,176 |
| Amortization of debt issuance costs | 31 | - |
| Interest paid in kind | (351) | (64) |
| Gain on sale and payoff of loans | (999) | (990) |
| Change in other investments: | | |
| Fair value | (1,093) | (5,025) |
| Incentive fees reinvested in general partnership interests | (3,312) | (414) |
| Change in fair value of small business loans | (90) | (57) |
| Realized gain on other investments | (167) | (180) |
| Depreciation and amortization of fixed assets | 226 | 198 |
| Stock-based compensation expense | 964 | 180 |
| Deferred income taxes | (3,599) | 381 |
| Net change in operating assets and liabilities: | | |
| Increase in interest receivable | (158) | (1) |
| Increase in receivables | (4,813) | (5,600) |
| (Increase) decrease in marketable securities | (3,482) | 202 |
| Increase in restricted cash (excluding restricted cash reserved for lending activities), deposits and other assets | (14,248) | (4,091) |
| Increase in marketable securities sold, but not yet purchased | 722 | 8,967 |
| Increase (decrease) in interest payable | 628 | (10) |
| Decrease in accrued compensation and other liabilities | (6,733) | (24,335) |
| Net cash used in operating activities | (29,197) | (20,148) |
| | | |
| Cash flows from investing activities: | | |
| Purchases of fixed assets | (105) | (74) |
| Purchases of other investments | (41,952) | (11,487) |
| Sales of other investments | 7,612 | 4,219 |
| Funding of loans collateralizing asset-backed securities issued | (46,161) | (45,786) |
| Funding of small business loans | (1,000) | (6,335) |
| Sale and payoff of loans collateralizing asset-backed securities issued | 38,293 | 39,027 |
| Principal receipts on loans collateralizing asset-backed securities issued | 6,413 | 8,484 |
| Net change in restricted cash reserved for lending activities | 1,455 | (1,744) |
| Net cash used in investing activities | (35,445) | (13,696) |

See accompanying notes to consolidated financial statements.

- 8 -

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

| | | | | |
|---|---|---|---|---|
| Cash flows from financing activities: | | | | |
| Proceeds from bond issuance | 46,000 | | - | |
| Payments of debt issuance costs | (1,694 | ) | - | |
| Repayments of borrowing on line of credit | (6,000 | ) | 7,737 | |
| Repayment of note payable | (3,934 | ) | (2,184 | ) |
| Dividends and dividend equivalents declared on common stock and restricted stock units | (809 | ) | (684 | ) |
| Purchases of shares of common stock for treasury | (82 | ) | (4,227 | ) |
| Capital contributions of redeemable non-controlling interest holders | - | | 36 | |
| Capital contributions of nonredeemable non-controlling interest holders | 7,317 | | 12,146 | |
| Distributions to non-controlling interest shareholders | (1,780 | ) | (2,648 | ) |
| Net cash provided by financing activities | 39,018 | | 10,176 | |
| Net decrease in cash and cash equivalents | (25,624 | ) | (23,668 | ) |
| Cash and cash equivalents, beginning of period | 67,075 | | 70,363 | |
| Cash and cash equivalents, end of period | $41,451 | | $46,695 | |
| | | | | |
| Supplemental disclosures of cash flow information: | | | | |
| Cash paid during the period for interest | $1,436 | | $1,561 | |
| Cash paid during the period for taxes | $2,848 | | $671 | |
| | | | | |
| Non-cash investing and financing activities: | | | | |
| Issuance of shares of common stock from treasury related to vesting of restricted stock units and exercises of stock options | $163 | | $7,238 | |

See accompanying notes to consolidated financial statements.

JMP GROUP INC.
Notes to Consolidated Financial Statements
March 31, 2013
(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. 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”), JMP Credit Advisors LLC (“JMPCA”), Harvest Capital Credit LLC ("HCC"), and certain principal investments through JMP Capital LLC (“JMP Capital”). The above entities are wholly-owned subsidiaries, with the exception of HCC, which is a partly-owned subsidiary. 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 JMP Credit, the Company completed the acquisition of 100% of the membership interests of Cratos Capital Partners, LLC (which changed its name to JMP Credit Advisors LLC on July 12, 2010) and its subsidiaries, including Cratos Capital Management, LLC (collectively, “Cratos”), a manager of collateralized loan obligations (“CLO”), together with certain securities of Cratos CLO I, Ltd. (“Cratos CLO”). For further details regarding the ownership of Cratos CLO, see Note 2 - Summary of Significant Accounting Policies in the Company's annual report for year ended December 31, 2012 (the "2012 10-K"). On December 26, 2012, HCC filed a registration statement on Form N-2 with the SEC in connection with a proposed initial public offering as a Business Development Company ("BDC") under the Investment Company Act of 1940.

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 2012 10-K. 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 partly-owned subsidiaries Harvest Growth Capital LLC (“HGC”), Cratos CLO, HCC, and Harvest Growth Capital II LLC (“HGC II”) (effective October 1, 2012). All material intercompany accounts and transactions have been eliminated in consolidation. Non-controlling interest on the Consolidated Statements of Financial Condition at March 31, 2013 and December 31, 2012 relate to the interest of third parties in the partly-owned subsidiaries.

See Note 2 - Summary of Significant Accounting Policies in the Company's 2012 10-K for the Company's significant accounting policies.

3. Recent Accounting Pronouncements

Accounting Standards Update ("ASU") 2011-11: Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities requires disclosures about financial instruments and derivative instruments that are either offset or subject to an enforceable master netting arrangement or similar agreement to enable financial statement users to understand the effect of those arrangements on the entity’s financial position. ASU 2013-01: Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities limits the scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement or similar agreement. The adoption of ASU 2011-11 and ASC 2013-01 on January 1, 2013 did not have any impact on its financial statement disclosures.

ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, was issued to improve the reporting of reclassifications out of accumulated other comprehensive income of various components. The standard requires an entity to present either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income.The adoption of ASU 2013-02 on January 1, 2013 did not have a material impact on its financial statement disclosures.

4. Fair Value Measurements

The following tables provide fair value information related to the Company's financial instruments at March 31, 2013 and December 31, 2012:

| | At March 31, 2013 | | | | |
|---|---|---|---|---|---|
| (In thousands) | Carrying Value | Fair Value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Cash and cash equivalents | $41,451 | $41,451 | $ | $ | $41,451 |
| Restricted cash and deposits | 69,125 | 69,125 | | | 69,125 |
| Marketable securities owned | 17,829 | 17,829 | - | - | 17,829 |
| Other investments | 119,858 | 633 | 59,375 | 59,551 | 119,559 |
| Loans held for sale | 2,528 | - | 2,617 | - | 2,617 |
| Small business loans | 40,375 | - | 3,552 | 36,823 | 40,375 |
| Loans collateralizing asset-backed securities issued, net of allowance for loan losses | 404,319 | - | 411,688 | 4,836 | 416,524 |
| Long term receivable | 1,298 | - | - | 1,585 | 1,585 |
| Total assets: | $696,783 | $129,038 | $477,232 | $102,795 | $709,065 |
| | | | | | |
| Liabilities: | | | | | |
| Marketable securities sold, but not yet purchased | $12,289 | $12,289 | $- | $- | $12,289 |
| Asset-backed securities issued | 424,699 | - | 412,681 | - | 412,681 |
| Bond payable | 46,000 | | 46,000 | | 46,000 |
| Note payable | 6,552 | - | 6,552 | - | 6,552 |
| Line of credit | 22,227 | - | 22,227 | - | 22,227 |
| Total liabilities: | $511,767 | $12,289 | $487,460 | $- | $499,749 |

| | At December 31, 2012 | | | | |
|---|---|---|---|---|---|
| (In thousands) | Carrying Value | Fair Value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Cash and cash equivalents | $67,075 | $67,075 | $- | $- | $67,075 |
| Restricted cash and deposits | 69,813 | 69,813 | | | 69,813 |
| Marketable securities owned | 14,347 | 14,347 | - | - | 14,347 |
| Other investments | 81,161 | 865 | 28,137 | 51,943 | 80,945 |
| Loans held for sale | 3,134 | - | 3,134 | - | 3,134 |
| Small business loans | 38,934 | - | 3,487 | 35,447 | 38,934 |
| Loans collateralizing asset-backed securities issued, net of allowance for loan losses | 401,003 | - | 406,313 | 5,716 | 412,029 |
| Long term receivable | 1,342 | - | - | 1,647 | 1,647 |
| Total assets: | $676,809 | $152,100 | $441,071 | $94,753 | $687,924 |
| | | | | | |
| Liabilities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Marketable securities sold, but not yet purchased | $11,567 | $11,567 | $- | $- | $11,567 |
| Asset-backed securities issued | 415,456 | - | 404,341 | - | 404,341 |
| Note payable | 10,486 | - | 10,486 | - | 10,486 |
| Line of credit | 28,227 | - | 28,227 | - | 28,227 |
| Total liabilities: | $465,736 | $11,567 | $443,054 | $- | $454,621 |

Recurring Fair Value Measurement

The following tables provide information related to the Company's assets and liabilities carried at fair value on a recurring basis at March 31, 2013 and December 31, 2012:

| (In thousands) | March 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities owned | $17,829 | $- | $- | $17,829 |
| Small business loans | - | 3,552 | 36,823 | 40,375 |
| Other investments: | | | | |
| Investments in hedge funds managed by HCS | - | 59,375 | - | 59,375 |
| Investments in funds of funds managed by HCS | - | - | 117 | 117 |
| Total investment in funds managed by HCS | - | 59,375 | 117 | 59,492 |
| Limited partner investment in private equity fund | - | - | 2,558 | 2,558 |
| Warrants and other held at JMPS | - | - | 296 | 296 |
| Warrants and equity securities held at HCC | - | - | 3,102 | 3,102 |
| Equity securities in HGC, HGC II and JMP Capital | 633 | - | 48,478 | 49,111 |
| Forward purchase contract | - | - | 5,000 | 5,000 |
| Total other investments | 633 | 59,375 | 59,551 | 119,559 |
| Total assets: | $18,462 | $62,927 | $96,374 | $177,763 |
| | | | | |
| Marketable securities sold, but not yet purchased | 12,289 | - | - | 12,289 |
| | | | | |
| Total liabilities: | $12,289 | $- | $- | $12,289 |

| (In thousands) | December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities owned | $14,347 | $- | $- | $14,347 |
| Small business loans | - | 3,487 | 35,447 | 38,934 |
| Other investments: | | | | |
| Investments in hedge funds managed by HCS | - | 27,907 | - | 27,907 |
| Investments in funds of funds managed by HCS | - | - | 109 | 109 |
| Total investment in funds managed by HCS | - | 27,907 | 109 | 28,016 |
| Limited partner investment in private equity fund | - | - | 2,332 | 2,332 |
| Warrants and other held at JMPS | - | - | 413 | 413 |
| Warrants and equity securities held at HCC | - | - | 2,577 | 2,577 |
| Equity securities in HGC, HGC II and JMP Capital | 865 | 230 | 41,075 | 42,170 |
| Forward purchase contract | - | - | 5,437 | 5,437 |
| Total other investments | 865 | 28,137 | 51,943 | 80,945 |
| Total assets: | $15,212 | $31,624 | $87,390 | $134,226 |
| | | | | |
| | 11,567 | - | - | 11,567 |

| | | | | |
|---|---|---|---|---|
| Marketable securities sold, but not yet purchased | | | | |
| Total liabilities: | $11,567 | $- | $- | $11,567 |

The Company holds a limited partner investment in a private equity fund. This fund aims to achieve medium to long-term capital appreciation by investing in a diversified portfolio of technology companies that leverage the growth of Greater China.

The Company's Level 2 assets held in other investments consist of small business loans, investments in hedge funds managed by HCS, and equity securities in HGC, HGC II and JMP Capital. The fair value of the Level 2 small business loans are calculated using the average market bid and ask quotation obtained from a loan pricing service. The fair value of the investment in hedge funds is calculated using the net asset value. These assets are considered Level 2, as the underlying hedge funds are mainly invested in publicly traded stocks whose value is based on quoted market prices. The Level 2 equity securities in HGC, HGC II and JMP Capital reflect investments in public securities, where the Company is subject to a lockup period. The fair value of the Level 2 equity securities in HGC, HGC II and Capital is calculated by applying a discount rate to the quoted market price.

The tables below provide a reconciliation of the beginning and ending balances for the assets held at fair value using significant unobservable inputs (Level 3) for the three months ended March 31, 2013 and 2012.

| (In thousands) | Balance as of December 31, 2012 | Purchases | Sales | Total gains (losses) - realized and unrealized included in earnings (1) | Transfers out of Level 3 | Balance as of March 31, 2013 | Unrealized gains/(losses) included in earnings related to assets still held at reporting date |
|---|---|---|---|---|---|---|---|
| General partner investment in funds of funds | $ 109 | - | - | 8 | - | $ 117 | $ 8 |
| Limited partner investment in private equity fund | 2,332 | - | - | 226 | - | 2,558 | 226 |
| Warrants and other held at JMPS | 413 | - | - | (117 ) | - | 296 | (117 ) |
| Warrants and other held at HCC | 2,577 | 100 | - | 425 | - | 3,102 | 425 |
| Small business loans | 35,447 | 1,389 | (43 ) | 30 | - | 36,823 | 30 |
| Equity securities in HGC, HGC II and JMP Capital | 41,075 | 7,782 | - | (379 ) | - | 48,478 | (379 ) |
| Forward purchase contract | 5,437 | - | - | (437 ) | - | 5,000 | (437 ) |
| Total Level 3 assets | $ 87,390 | $ 9,271 | $ (43 ) | $ (244 ) | $ - | $ 96,374 | $ (244 ) |

(1) No Level 3 asset gains (losses) are included in other comprehensive income. All realized and unrealized gains (losses) related to Level 3 assets are included in earnings.

| (In thousands) | Balance as of December 31, 2011 | Purchases | Sales | Total gains (losses) - realized and unrealized included in earnings (1) | Transfers in/(out) of Level 3 | Balance as of March 31, 2012 | Unrealized gains/(losses) included in earnings related to assets still held at reporting date |
|---|---|---|---|---|---|---|---|
| General partner investment in funds of funds | $ 102 | $ - | $ - | $ 3 | $ - | $ 105 | $ 3 |
| Limited partner investment in private equity fund | 2,585 | - | - | 40 | - | 2,625 | 40 |
| Warrants and other held at JMPS | 617 | - | - | 188 | - | 805 | 188 |
| Small business loans | 3,902 | 4,450 | (109 ) | (44 ) | | 8,199 | (44 ) |
| Equity securities in HGC and JMP Capital | 20,707 | 4,402 | - | 2,767 | (913 ) | 26,963 | 2,767 |
| Forward purchase contract | - | 5,000 | - | - | - | 5,000 | - |
| Total Level 3 assets | $ 27,913 | $ 13,852 | $ (109 ) | $ 2,954 | $ (913 ) | $ 43,697 | $ 2,954 |

(1) No Level 3 asset gains (losses) are included in other comprehensive income. All realized and unrealized gains (losses) related to Level 3 assets are included in earnings.

Purchases and sales of Level 3 assets shown above were recorded at fair value at the date of the transaction.

Total gains and losses included in earnings represent the total gains and/or losses (realized and unrealized) recorded for the Level 3 assets and are reported in Principal Transactions in the accompanying Consolidated Statements of Operations.

Transfers between levels of the fair value hierarchy result from changes in the observability of fair value inputs used in determining fair values for different types of financial assets and are recognized at the beginning of the reporting period in which the event or change in circumstances that caused the transfer occurs.

There were no transfers in/out of Level 1 during the three months ended March 31, 2013 and 2012. There were transfers into Level 2 from Level 3 of $0.9 million for the three months ended March 31, 2012, as a result of the observability of fair value associated with the equity securities in HGC and JMP Capital. There were no other transfers in or out of Level 2 or Level 3 during the three months ended March 31, 2013 and 2012.

The amount of unrealized gains and losses included in earnings attributable to the change in unrealized gains and losses relating to Level 3 assets still held at the end of the period are reported in Principal Transactions in the accompanying Consolidated Statements of Operations.

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 - Summary of Significant Accounting Policies in the Company's 2012 annual report. The Company’s proportionate share of those investments is included in the tables above. In addition, other investments include warrants and investments in funds managed by third parties. The investments in private investment funds managed by third parties are generally not redeemable at the option of the Company. As of March 31, 2013, the Company had unfunded investment commitments of $0.1 million related to private investment funds managed by third parties.

The Company used the following valuation techniques with unobservable inputs when estimating the fair value of the Level 3 assets:

| Dollars in thousands | Fair Value at March 31, 2013 | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|
| Investments in Funds of Funds managed by HCS (1) | $ 117 | Net Asset Value | N/A | N/A |
| Limited Partner in Private Equity Fund (1) | $ 2,558 | Net Asset Value | N/A | N/A |
| Warrants and other held at JMPS | $ 296 | Black-Scholes Option Model | Annualized volatility of credit | 16.5% - 30.1% (17.0%) |
| | | | Risk adjusted discount factor | 0.0% - 75.0% (4.8%) |
| Warrants and equity held at HCC | $ 3,102 | Market comparable companies | EBITDA multiples | 1.2x - 9.6x (5.8x) |
| | | Income | Weighted average cost of capital | 8.0% - 20.0% (16.2%) |
| Small business loans | $ 36,823 | Bond yield | Risk adjusted discount factor | 8.5% - 19.2% (13.5%) |
| | | Market comparable companies | EBITDA multiples | 1.2x - 9.6x (5.8x) |
| | | Income | Weighted average cost of capital | 8.0% - 20.0% (16.2%) |
| | | | Expected principal recovery | 100% |
| Equity securities in HGC, HGC II and JMP Capital | $ 48,478 | Market comparable companies | Revenue multiples | 2.0x - 8.3x (4.5x) |
| | | | EBITDA multiples | 9.5x - 26.0x (17.9x) |
| | | | Discount for lack of marketability | 30% - 40% (33%) |
| | | Market transactions | Revenue multiples | 3.2x - 6.7x (4.8x) |
| | | | EBITDA multiples | 11.7x - 19.5x (15.9x) |
| | | | Control premium | 25% |
| Forward purchase contract | $ 5,000 | Market comparable companies | Revenue multiples | 7.2x - 8.8x (7.8x) |
| | | | Billing multiples | 6.4x - 7.8x (7.0x) |
| | | | Discount for lack of marketability | 30 % |
| | | Market transactions | Revenue multiples | 6.3x |
| | | | Control premium | 25% |

(1) The Company uses the reported net asset value per share as a practical expedient to estimate the fair value of the investments in funds of funds managed by HCS and limited partner investment in private equity funds.

| Dollars in thousands | Fair Value at December 31, 2012 | Valuation Technique | Unobservable Input | Range (Weighted Average) | | | |
|---|---|---|---|---|---|---|---|
| Investments in Funds of Funds managed by HCS (1) | $ 109 | Net Asset Value | N/A | N/A | | | |
| Limited Partner in Private Equity Fund (1) | $ 2,332 | Net Asset Value | N/A | N/A | | | |
| Warrants and Other held at JMPS | $ 413 | Black-Scholes Option Model | Annualized volatility of credit | 16.2% | - | 28.9% | (16.8%) |
| Warrants and equity held at HCC | $ 2,577 | Market comparable companies | EBITDA multiples | 3.8x | - | 9.3x | (8.5x) |
| | | Income | Weighted average cost of capital | 10.0% | - | 18.0% | (15.6%) |
| Small business loans | $ 35,447 | Bond yield | Risk adjusted discount factor | 8.5% | - | 16.2% | (13.2%) |
| | | Market comparable companies | EBITDA multiples | 3.8x | - | 9.3x | (8.5x) |
| | | Income | Weighted average cost of capital | 10.0% | - | 18.0% | (15.6%) |
| | | | Expected principal recovery | 0.0% | - | 100.0% | (100.0%) |
| Equity securities in HGC and JMP Capital | $ 41,075 | Market comparable companies | Revenue multiples | 2.1x | - | 7.3x | (3.5x) |
| | | | EBITDA multiples | 8.8x | - | 22.9x | (15.8x) |
| | | | Discount for lack of marketability | 30% | - | 40% | (34%) |
| | | Market transactions | Revenue multiples | 3.2x | - | 11.7x | (5.2x) |
| | | | EBITDA multiples | 11.7x | - | 19.8x | (15.4x) |
| | | | Control premium | 25% | | | |
| Forward purchase contract | $ 5,437 | Market comparable companies | Revenue multiples | 6.7x | - | 8.1x | (7.3x) |
| | | | Billing multiples | 6.0x | - | 7.2x | (6.5x) |
| | | | Discount for lack of marketability | 30% | | | |
| | | Market transactions | Revenue multiples | 6.3x | | | |
| | | | Control premium | 25% | | | |

(1) The Company uses the reported net asset value per share as a practical expedient to estimate the fair value of the investments in funds of funds managed by HCS and limited partner investment in private equity funds.

The significant unobservable input used in the fair value measurement of the warrants held at JMPS is the annualized volatility of credit. Significant increases in the rate would result in a significantly higher fair value measurement.

The significant unobservable input used in the fair value measurement of the warrants and equity held at HCC are EBITDA multiples and weighted average cost of capital. Significant increases in the multiples in isolation would result in a significantly higher fair value measurement. Increases in the discounts in isolation would result in decreases to the fair value measurement.

The significant unobservable input used in the fair value measurement of the small business loans held are risk adjusted discount factors, EBITDA multiples, weighted average cost of capital and expected principal recoveries. Significant increases in the multiples and expected principal recovery rates in isolation would result in a significantly higher fair value measurement. Increases in the discounts in isolation would result in decreases to the fair value measurement.

The significant unobservable inputs used in the fair value measurement of the equity securities in HGC, HGC II and JMP Capital and the forward purchase contract are Revenue, EBITDA and Billing multiples, discount for lack of marketability, and control premiums. Significant increases in the multiples in isolation would result in a significantly higher fair value measurement. Increases in the discounts and premium in isolation would result in decreases to the fair value measurement.

Non-recurring Fair Value Measurements

The Company's assets that are measured at fair value on a non-recurring basis result from the application of lower of cost or market accounting or write-downs of individual assets. The following tables provide information related to the Company’s assets carried at fair value on a non-recurring basis at March 31, 2013 and 2012:

| | Fair Value | | Gains (Losses) Three Months Ended | |
|---|---|---|---|---|
| (In thousands) | March 31, 2013 | December 31, 2012 | March 31, 2013 | March 31, 2012 |
| Assets: | | | | |
| Nonaccrual loans | $ 880 | $ 5,716 | $ (870) | $ - |
| Loans held for sale | 2,617 | 3,134 | 88 | (365) |
| Total assets: | $ 3,497 | $ 8,850 | $ (782) | $ (365) |

The fair value for the loan held for sale was calculated using the average market bid and ask quotation obtained from a loan pricing service. Such loans are identified as Level 2 assets. The nonaccrual loan is a Level 3 asset. The fair value of the nonaccrual loan was calculated using the expected recovery of the loan. The significant unobservable input used in its fair value measurement was the loss severity rate of 75%. Increases in this rate would result in decreases in the fair value measurement.

Small Business Loans

Small business loans represent the secured subordinated debt extended by HCC to small to mid-sized companies. At inception, the loans were carried at the principal amount outstanding net of deferred fees, deferred costs and the allowance for loan losses. Net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the loans using the interest method. Any discount from the principal amount of purchased loans was accreted into interest income as a yield adjustment over the contractual life of the loan using the interest method. An allowance for credit losses was established based on continuing review and the quarterly evaluation of the Company's loan portfolio.

HCC reports all investments, including debt investments, at market value or, in the absence of a readily available market value, at fair value, with unrealized gains and losses recorded in Gain on sale, payoff and mark-to-market on the Consolidated Statements of Operations. The Company recorded unrealized gains of $0.1 million relating to the fair value adjustment of small business loans in both the three months ended March 31, 2013 and 2012, respectively.

Investments at Cost

On February 11, 2010, the Company made a $1.5 million investment in Class D Preferred Units of Sanctuary. Sanctuary provides a turnkey platform that allows independent wealth advisors to establish an independent advisory business without the high startup costs and regulatory hurdles. The Class D Preferred Units entitle the Company to receive a preferred dividend with units that are convertible into equity of Sanctuary at the option of the Company prior to the maturity date, February 11, 2013. During the fourth quarter of 2010, the Company determined that its investment in Sanctuary was fully impaired and recorded an impairment loss of $1.5 million, which was included in Principal Transactions on the Consolidated Statements of Operations. On April 3, 2012, the Company purchased a $2.3 million receivable from Sanctuary for $1.4 million. The $1.4 million was composed of cash consideration of $0.5 million and $0.9 million applied to the redemption of 60 Class D Preferred Units owned by the Company. The Company recognized the $0.9 million as a gain in Principal Transactions, and the $2.3 million receivable in Other Assets. The carrying value of the Company’s investment in Sanctuary remained at zero at March 31, 2013. The carrying value of the long-term receivable was $1.3 million as of March 31, 2013. The Company determined the fair value of the long-term receivable to be $1.6 million as of March 31, 2013, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate. Significant increases in the market credit adjusted interest rate in isolation would result in decreases to the fair value measurement.

Derivative Financial Instruments

On May 29, 2010, the Company entered into an interest rate cap with City National Bank (the “Lender”) to effectively lock in or fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. The interest rate cap will allow the Company to receive payments from the Lender in the event that LIBOR plus 2.25% exceeds 3.75%, limiting the interest rate on the outstanding balance of the line of credit and term loan to such rate. On July 1, 2010, the Company designated the interest rate cap as a cash flow hedge of the interest rate risk of a total of $27.1 million of outstanding borrowings with the Lender as of that date. The notional principal amount of the cap was $6.6 million at March 31, 2013. See Note 6 for information pertaining to the Company's borrowing from the Lender.

The interest rate cap is recorded at fair value in other investments on the Consolidated Statements of Financial Condition, with unrealized gains and losses recorded as other comprehensive income. For the three months ended March 31, 2013, the Company recorded $8 of other comprehensive loss representing unrealized loss on the interest rate cap, respectively. In addition, for the three months ended March 31, 2013, $13,674 was reclassified from accumulated other comprehensive income into interest expense as amortization of the interest cap.

The Company entered into a forward purchase contract to secure the acquisition of shares of a privately-held company. The contract incorporates downside protection for up to two years, for a cost basis of $5.0 million. In January 2012, the Company exchanged $5.0 million for physical custody of the shares. For one year beginning December 1, 2012, the Company may, at its discretion, become the beneficial and record holder of the shares. If the Company has not yet exercised its option at December 1, 2013, the shares will be assigned automatically to the Company. This contract is recorded in Other Investments in the Consolidated Statements of Financial Condition at fair value. The Company records changes in the fair value of this forward contract as unrealized gain or loss in Principal Transactions. For the three months ended March 31, 2013, the Company recorded $0.4 million unrealized loss. Once the shares are in the Company's name, the shares will be accounted for as equity securities, remaining in Other Investments in the Consolidated Statements of Financial Condition.

5. Loans Collateralizing Asset-backed Securities Issued and Loans Held for Sale

Loans collateralizing asset-backed securities issued and loans held for sale are commercial loans securitized and owned by Cratos CLO. The loans consist of those loans within the CLO securitization structure at the acquisition date of Cratos and loans purchased by the CLO subsequent to the Cratos acquisition date. The following table presents the components of loans collateralizing asset-backed securities issued and loans held for sale at March 31, 2013 and December 31, 2012:

| (In thousands) | Loans Collateralizing Asset-backed Securities | | Loans Held for Sale | |
|---|---|---|---|---|
| | March 31, 2013 | December 31, 2012 | March 31, 2013 | December 31, 2012 |
| Loans | $417,199 | $414,000 | $3,686 | $4,686 |
| Allowance for loan losses | (4,076) | (3,127) | - | - |
| Liquidity discount | (2,505) | (3,052) | (1,006) | (1,279) |
| Deferred loan fees, net | (6,299) | (6,818) | (123) | (156) |
| Valuation allowance | N/A | N/A | (29) | (117) |
| Total loans, net | $404,319 | $401,003 | $2,528 | $3,134 |

Loans recorded upon the acquisition of Cratos at fair value reflect a liquidity discount and a credit discount. In addition, most loans purchased subsequent to the acquisition were purchased at a discount to their principal value, reflecting deferred loan fees. The tables below summarize the activity in the loan principal, allowance for loan losses, liquidity discount, credit discount, deferred loan fees and carrying values, net for the impaired loans and non-impaired loans as of and for the three months ended March 31, 2013:

| | Three Months Ended March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| (In thousands) | Principal | Allowance for Loan Losses | Liquidity Discount | Credit Discount | Deferred Loan Fees | Carrying Value, Net |
| Impaired Loans | | | | | | |
| Balance at beginning of period | $3,517 | $(1,022) | $(720) | $- | $(16) | $1,759 |
| Repayments | (11) | - | - | - | - | (11) |
| Accretion of discount | - | - | - | - | 2 | 2 |
| Provision for loan losses | - | (870) | - | - | - | (870) |
| Balance at end of period | $3,506 | $(1,892) | $(720) | $- | $(14) | $880 |
| | | | | | | |
| Non-impaired Loans | | | | | | |
| Balance at beginning of period | $410,483 | $(2,105) | $(2,332) | $- | $(6,802) | $399,244 |
| Purchases / funding | 46,968 | - | - | - | (807) | 46,161 |
| Repayments | (6,402) | - | - | - | - | (6,402) |
| Accretion of discount | - | - | 504 | - | 699 | 1,203 |
| Provision for loan losses | - | (79) | - | - | - | (79) |
| Sales and payoff | (37,356) | - | 43 | - | 625 | (36,688) |
| Balance at end of period | $413,693 | $(2,184) | $(1,785) | $- | $(6,285) | $403,439 |

The tables below summarize the activity in the loan principal, allowance for loan losses, liquidity discount, credit discount, deferred loan fees and carrying values, net for the impaired loans and non-impaired loans as of and for the three months ended March 31, 2012:

| | Three Months Ended March 31, 2012 |
|---|---|
| (In thousands) | Principal |

| | | Allowance for Loan Losses | Liquidity Discount | Credit Discount | Deferred Loan Fees | Carrying Value, Net |
|---|---|---|---|---|---|---|
| Impaired Loans | | | | | | |
| Balance at beginning of period | $ 10,538 | $ (2,277 ) | $ (5,924 ) | $ (1,335 ) | $ (54 ) | $ 948 |
| Purchases / funding | 5 | - | - | - | - | 5 |
| Repayments | (23 ) | - | - | - | - | (23 ) |
| Accretion of discount | - | - | 17 | - | - | 17 |
| Balance at end of period | $ 10,520 | $ (2,277 ) | $ (5,907 ) | $ (1,335 ) | $ (54 ) | $ 947 |
| | | | | | | |
| Non-impaired Loans | | | | | | |
| Balance at beginning of period | $ 426,416 | $ (1,922 ) | $ (8,535 ) | $ - | $ (6,137 ) | $ 409,822 |
| Purchases / funding | 47,496 | - | - | - | (1,715 ) | 45,781 |
| Repayments | (8,461 ) | - | - | - | - | (8,461 ) |
| Accretion of discount | - | - | 863 | - | 560 | 1,423 |
| Provision for loan losses | - | (93 ) | - | - | - | (93 ) |
| Sales and payoff | (39,063 ) | - | 963 | - | 421 | (37,679 ) |
| Balance at end of period | $ 426,388 | $ (2,015 ) | $ (6,709 ) | $ - | $ (6,871 ) | $ 410,793 |

Allowance for Loan Losses

The Company recorded reserves of $0.1 million during both quarters ended March 31, 2013 and 2012, on non-impaired loans.

A summary of the activity in the allowance for loan losses for loans collateralizing asset-backed securities for the three months ended March 31, 2013 and 2012 is as follows:

| (In thousands) | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| Balance at beginning of period | $(3,127) | $(4,199) |
| Provision for loan losses: | | |
| General reserve | (79) | (93) |
| Specific reserve | (870) | - |
| Balance at end of period | $(4,076) | $(4,292) |

Impaired Loans

A loan is considered to be impaired when, based on current information, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the original loan agreement, including scheduled principal and interest payments. As of both March 31, 2013 and December 31, 2012, $2.8 million of recorded investment amount of loans collateralizing asset-backed securities issued were individually evaluated for impairment. The remaining $405.6 million and $401.3 million of recorded investment amount of loans collateralizing asset-backed securities issued were collectively evaluated for impairment, as of March 31, 2013 and December 31, 2012 respectively.

The tables below present certain information pertaining to the impaired loans at March 31, 2013 and December 31, 2012:

| (In thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|---|---|---|
| March 31, 2013 | | | |
| Impaired loans with an allowance recorded | $2,772 | $3,517 | $1,893 |
| Impaired loans with no related allowance recorded | - | - | - |
| | $2,772 | $3,517 | $1,893 |
| December 31, 2012 | | | |
| Impaired loans with an allowance recorded | $2,781 | $3,517 | $1,022 |
| Impaired loans with no related allowance recorded | - | - | - |
| | $2,781 | $3,517 | $1,022 |

| (In thousands) | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| Average recorded investment | $2,773 | $3,223 |
| Interest income recognized | $- | $37 |

Non-Accrual, Past Due Loans and Restructured Loans

As of March 31, 2013 and December 31, 2012, the Company classified all its loans as Cash Flow loans, as their funding decisions were all driven by the revenues of the borrower. At both March 31, 2013 and December 31, 2012, one loan with an aggregate principal amount of $3.5 million and recorded investment amount of $2.7 million was on non-accrual status. The Company recorded no interest income, other than the accretion of liquidity discounts, for the impaired loans with a weighted average loan balance of $2.8 million that were on non-accrual status during the three months ended March 31, 2013. The Company recognized $36.9 thousand in interest income, other than the accretion of a liquidity discount, for the impaired loan with a weighted average loan balance of $3.2 million that was on non-accrual status during the three months ended March 31, 2012.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. At December 31, 2012, one non-accrual loan in the amount of $2.7 million was over 90 days past due. No loans were past due at March 31, 2013.

At December 31, 2012, the Company's impaired loans included two Cash Flow loans, with an aggregate recorded investment balance of $2.0 million, whose terms were modified in a troubled debt restructuring ("TDR"). Concessions for these TDRs included a below market interest rate and a reduction in the loan principal balance. Subsequently, one loan was paid off, and the other loan was sold. At March 31, 2013, the Company held no loans whose terms were modified in a TDR.

Credit Quality of Loans

The Company, at least on a quarterly basis, reviews each loan and evaluates the credit quality of the loan. The review primarily includes the following credit quality indicators with regard to each loan: 1) Moody's rating, 2) current internal rating and 3) performance. The tables below present, by credit quality indicator, the Company's recorded investment in loans collateralizing asset-backed securities issued at March 31, 2013 and December 31, 2012.

| (In thousands) | Loans Collateralizing Asset-Backed Securities Issued - Cash Flow | | Held for Sale - Cash Flow (CF) | |
|---|---|---|---|---|
| | March 31, 2013 | December 31, 2012 | March 31, 2013 | December 31, 2012 |
| Moody's rating: | | | | |
| Baa1 - Baa3 | $10,901 | $5,883 | $- | $- |
| Ba1 - Ba3 | 119,531 | 129,796 | - | - |
| B1 - B3 | 273,335 | 263,390 | - | - |
| Caa1 - Caa3 | 4,628 | 5,061 | - | 3,134 |
| Ca | - | - | 2,528 | - |
| Total: | $408,395 | $404,130 | $2,528 | $3,134 |
| | | | | |
| Internal rating: | | | | |
| 2 | $398,860 | $392,208 | $- | $- |
| 3 | 1,874 | 11,922 | - | - |
| 4 (1) | 4,889 | - | 2,528 | 3,134 |
| 5 (1) | 2,772 | - | - | - |
| Total: | $408,395 | $404,130 | $2,528 | $3,134 |
| | | | | |
| Performance: | | | | |
| Performing | $405,623 | $401,349 | $2,528 | $3,134 |
| Non-performing | 2,772 | 2,781 | - | - |
| Total: | $408,395 | $404,130 | $2,528 | $3,134 |

(1) Loans with an internal rating of 4 or below are reviewed individually to identify loans to be designated for non-accrual status.

The Company determined the fair value of loans collateralizing asset-backed securities to be $416.5 million and $412.0 million as of March 31, 2013 and December 31, 2012, respectively; primarily using the average market bid and ask quotation obtained from a loan pricing service. Such loans are identified as Level 2 assets. When average market bid and ask quotations were not available, the loans are identified as Level 3 assets. The fair value of these Level 3 loans are calculated internally based on their performance. This analysis incorporates comparable loans traded in the marketplace, the obligor's industry, future business prospects, capital structure, and expected credit losses. Significant declines in the performance of the loan would result in decreases to the fair value measurement.

The fair value of the loan held for sale was determined to be $2.6 million and $3.1 million as of March 31, 2013 and December 31, 2012, using similar methodology. Based on the fair value methodology, the Company has identified the loan held for sale as a Level 2 asset.

6. Debt

Bond Payable

In January 2013, the Company completed an underwritten public offering of $46.0 million aggregate principal amount of 8.00% senior notes ("Senior Notes"). The Senior Notes will mature January 15, 2023, and may be redeemed in

whole or in part at any time or from time to time at the Company's option on or after January 15, 2016, on not less than 30 nor more than 60 days' prior notice mailed to the holders of the Senior Notes. The Senior Notes will be redeemable at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest. The Senior Notes bear interest at a rate of 8.00% per year, payable quarterly on January 15, April 15, July 15 and October 15 of each year, beginning on April 15, 2013.

The Senior Notes were issued pursuant to an indenture with U.S. Bank National Association, as trustee. The indenture contains a minimum liquidity covenant that obligates the Company to maintain liquidity of at least an amount equal to the lesser of (i) the aggregate amount due on the next eight scheduled quarterly interest payments on the Senior Notes, or (ii) the aggregate amount due on all remaining scheduled quarterly interest payments on the Senior Notes until the maturity of the Senior Notes. The indenture also contains customary event of default and cure provisions. If an uncured default occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the Senior Notes may declare the Senior Notes immediately due and payable.

The Company incurred $1.7 million of debt issuance costs, which were capitalized and included in Other Assets. These issuance costs are amortized over the life of the bond. As of March 31, 2013, the Company held $1.7 million of unamortized debt issuance costs.

Note Payable

Note payable consists of term loans and revolving lines of credit related to the Company’s Credit Agreement with City National Bank (the “Lender”), as defined below.

On October 11, 2012, JMP Group LLC, a wholly-owned subsidiary of the Company, entered into the Amended and Restated Credit Agreement ("Amended and Restated Credit Agreement"), which amends certain provisions of the Credit Agreement, dated as of August 3, 2006, by and between JMP Group LLC and the Lender, as amended by Amendment Number One to Credit Agreement, dated as of December 17, 2007, Amendment Number Two to Credit Agreement, dated as of March 27, 2008, Amendment Number Three to Credit Agreement (the "Third Amendment"), dated as of December 31, 2008, Amendment Number Four to Credit Agreement and Waiver, dated as of January 28, 2010, Amendment Number Five to Credit Agreement (the "Fifth Amendment"), dated as of April 8, 2011, and Amendment Number Six to Credit Agreement (the "Sixth Amendment"), dated as of August 24, 2011 (collectively, the "Credit Agreement").

The Sixth Amendment provided a line of credit of up to $30.0 million to the extent the aggregate outstanding balance of all facilities do not exceed $55.0 million. The Amended and Restated Credit Agreement increased the allowable aggregate outstanding balance of all facilities from $55.0 million to $58.0 million. The unused portion of the line bears interest at the rate of 0.25% per annum, paid quarterly. The line of credit will remain available through August 24, 2013. On such date, any outstanding amounts convert to a term loan. The term loan will be repaid in quarterly installments of 3.75% of funded debt for the first two years, 5.00% of funded debt for the next two years, and the remainder due at maturity on August 24, 2017. The Sixth Amendment also permits additional investments. The Company anticipates that the proceeds will be used to fund certain commitments to HCC, to repurchase Company stock and other permitted investments, and for other general working capital purposes. The Company's outstanding balance on this line of credit was $22.2 million and $28.2 million as of March 31, 2013 and December 31, 2012, respectively.

Under the Fifth Amendment, JMP Securities entered into a $20.0 million revolving line of credit with the Lender to be used for regulatory capital purposes during its securities underwriting activities. The unused portion of the line bears interest at the rate of 0.25% per annum, paid monthly. Draws on the revolving line of credit bear interest at the rate of prime and were available through April 8, 2012 on which date, if there were an existing outstanding amount, it would convert to a loan maturing on April 8, 2013. On May 24, 2012, the line of credit conversion date was extended from April 8, 2012 to May 24, 2014. The Amended and Restated Credit Agreement reduced the revolving subordinated line of credit from $20.0 million to $10.0 million. There was no borrowing on this line of credit as of March 31, 2013 or December 31, 2012.

Pursuant to the Amended and Restated Credit Agreement, CNB also agreed to extend a $15.0 million term loan on or prior to March 31, 2013. This term loan would be repaid in quarterly installments of $1.2 million beginning March 31, 2014 and continuing through September 30, 2016, with a final payment of approximately $1.3 million on December 31, 2016.

The Third Amendment converted the Company’s outstanding revolving loans of $8.7 million into a single term loan as of December 31, 2008. The term loan is being repaid in equal quarterly payments of $0.4 million, which commenced on March 31, 2009 and continues through December 31, 2013 and bears interest at LIBOR plus 2.25%. The outstanding balance on this term loan was $1.3 million as of March 31, 2013.

The Third Amendment also provided that of the original $30.0 million revolving line of credit, $21.0 million remained available under the revolving portion of the Credit Agreement and the annual interest rate provisions of the Credit Agreement were increased from the prime rate minus 1.25% to the prime rate and from LIBOR plus 1.25% to LIBOR plus 2.25%. The Lender agreed to continue to provide revolving loans of up to $21.0 million through December 31, 2010, on which date the then existing revolving loans converted into term loans. On December 31, 2010, pursuant to the provisions of the Third Amendment, the outstanding revolving loan of $21.0 million was converted into a single term loan that will fully mature on January 1, 2014. As of December 31, 2010, the revolving line of credit was no longer available for future use. This term loan is being repaid in equal quarterly payments of $1.8 million, which commenced on April 1, 2011 and continue through December 31, 2013. The outstanding balance on this term loan was $5.3 million as of March 31, 2013.

The term loans had an aggregate outstanding principal amount of $6.6 million and $10.5 million at March 31, 2013 and December 31, 2012, respectively. The following table shows the repayment schedules for the principal portion of the term loans at March 31, 2013:

(In thousands)

| Year Ending December 31, | Contractual Payments Due |
|---|---|

| | | |
|---|---|---|
| 2013 | $ | 6,552 |
| | $ | 6,552 |

The Credit Agreement contains financial and other covenants, including, but not limited to, limitations on debt, liens and investments, as well as the maintenance of certain financial covenants. A violation of any one of these covenants could result in a default under the Credit Agreement, which would permit the bank to terminate our note and require the immediate repayment of any outstanding principal and interest. The Third Amendment modified the financial covenants in the Credit Agreement to remove both the minimum requirement of Net Income (as defined in the Credit Agreement) and the minimum requirement of EBITDA (as defined in the Credit Agreement). The Third Amendment also removed the Fixed Charge Coverage Ratio (as defined in the Credit Agreement) and added a new financial covenant regarding the Company’s liquidity. The Sixth Amendment added back the Fixed Charge Coverage Ratio requirement and introduced certain leverage ratio requirements. At March 31, 2013, the Company was in compliance with the loan covenants. The term loans are collateralized by a pledge of the Company’s assets, including its interests in each of JMP Securities and HCS.

On May 29, 2010 the Company entered into an interest rate cap with the Lender to effectively lock in or fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. The interest rate cap will allow the Company to receive payments from the counterparty in the event that LIBOR plus 2.25% exceeds 3.75%, limiting the interest rate on the outstanding balance of the term loan to such rate. The cap had an initial notional principal amount of $27.1 million, indexed to LIBOR and amortizes in accordance with the amortization of the revolving line of credit and term loan. The notional principal amount of the cap was $6.6 million at March 31, 2013. See Note 4 for additional information on the interest rate cap.

7. Asset-backed Securities Issued

On May 17, 2007, Cratos CLO completed a $500.0 million aggregate principal amount of notes (the "Notes") on-balance sheet debt securitization and obtained $455.0 million of third-party financing. The Notes will be repaid from the cash flows generated by the loan portfolio owned by the CLO. The Notes were issued in six separate classes as set forth in the table below. The Company owns approximately 94.0% of the unsecured subordinated notes and $13.8 million of Class C, D and E notes ($2.0 million of Class C, $4.1 million of Class D and $7.7 million of Class E notes). These unsecured subordinated notes and the Class C, D and E notes owned by the Company are eliminated upon consolidation of JMP Credit, and therefore, are not reflected on the Company's consolidated statement of financial condition at March 31, 2013 and December 31, 2012.

| (In millions) | As of March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Notes Originally Issued | Outstanding Principal Balance | Liquidity Discount | Net Outstanding Balance | Interest Rate Spread to LIBOR | Ratings (Moody's /S&P) (1) |
| Class A Senior Secured Floating Rate Revolving Notes due 2021 | $ 326.0 | $ 315.8 | $ (2.3 ) | $ 313.5 | 0.26% - 0.29 % | Aaa/AAA |
| Class B Senior Secured Floating Rate Notes due 2021 | 30.0 | 30.0 | (0.6 ) | 29.4 | 0.50% | Aaa/AAA |
| Class C Senior Secured Deferrable Floating Rate Notes due 2021 | 35.0 | 35.0 | (1.3 ) | 33.7 | 1.10% | Aaa/AA+ |
| Class D Secured Deferrable Floating Rate Notes due 2021 | 34.0 | 34.0 | (1.3 ) | 32.7 | 2.40% | A1/A- |
| Class E Secured Deferrable Floating Rate Notes due 2021 | 30.0 | 30.0 | (1.3 ) | 28.7 | 5.00% | Ba1/BB |
| Total secured notes sold to investors | $ 455.0 | $ 444.8 | $ (6.8 ) | $ 438.0 | | |
| Unsecured subordinated notes due 2021 | 45.0 | 45.0 | (39.9 ) | 5.1 | | |
| Total notes for the CLO I offering | $ 500.0 | $ 489.8 | $ (46.7 ) | $ 443.1 | | |
| Consolidation elimination | N/A | (58.8 ) | 40.4 | (18.4 ) | | |
| Total asset-backed securities issued | N/A | $ 431.0 | $ (6.3 ) | $ 424.7 | | |

(1) These ratings are unaudited and were the current ratings as of March 31, 2013 and are subject to change from time to time.

(In millions) As of December 31, 2012

| | Notes Originally Issued | Outstanding Principal Balance | Liquidity Discount | Net Outstanding Balance | Interest Rate Spread to LIBOR | Ratings (Moody's /S&P) (1) |
|---|---|---|---|---|---|---|
| Class A Senior Secured Floating Rate Revolving Notes due 2021 | $326.0 | $315.8 | $(5.5) | $310.3 | 0.26% - 0.29% | Aaa/AAA |
| Class B Senior Secured Floating Rate Notes due 2021 | 30.0 | 30.0 | (1.4) | 28.6 | 0.50% | Aaa/AAA |
| Class C Senior Secured Deferrable Floating Rate Notes due 2021 | 35.0 | 35.0 | (3.3) | 31.7 | 1.10% | Aa3/AA+ |
| Class D Secured Deferrable Floating Rate Notes due 2021 | 34.0 | 34.0 | (3.3) | 30.7 | 2.40% | A3/A- |
| Class E Secured Deferrable Floating Rate Notes due 2021 | 30.0 | 30.0 | (3.2) | 26.8 | 5.00% | Ba2/BB |
| Total secured notes sold to investors | $455.0 | $444.8 | $(16.7) | $428.1 | | |
| Unsecured subordinated notes due 2021 | 45.0 | 45.0 | (39.9) | 5.1 | | |
| Total notes for the CLO I offering | $500.0 | $489.8 | $(56.6) | $433.2 | | |
| Consolidation elimination | N/A | (58.8) | 41.1 | (17.7) | | |
| Total asset-backed securities issued | N/A | $431.0 | $(15.5) | $415.5 | | |

(1) These ratings are unaudited and were the current ratings as of December 31, 2012 and are subject to change from time to time.

The secured notes and subordinated notes are limited recourse obligations payable solely from cash flows of the CLO loan portfolio and related collection and payment accounts pledged as security. Payment on the Class A-1 notes rank equal, or pari-passu, in right of payment with payments on the Class A-2 notes and payment on the Class A-1 and Class A-2 notes rank senior in right of payment to the other secured notes and the subordinated notes. Payment on the Class B, Class C, Class D and Class E notes generally rank subordinate in right of payment to any other class of notes which has an earlier alphabetical designation. The subordinated notes are subordinated in right of payment to all other classes of notes and will not accrue interest. Interest on the secured notes is payable quarterly at a per annum rate equal to LIBOR plus the applicable spread set forth in the table above. Payment of interest on the Class C, Class D and Class E notes is payable only to the extent proceeds are available under the applicable payment priority provisions. To the extent proceeds are not so available, interest on the Class C, Class D and Class E notes will be deferred. As of March 31, 2013 and December 31, 2012, all interest on the secured notes was current. The CLO is also required to pay a commitment fee of 0.18% on the unused portion of the funding commitments of the Class A-1 notes. As of March 31, 2013 and December 31, 2012, all of the Class A-1 notes were drawn. The secured notes are secured by the CLO loan portfolio and the funds on deposit in various related collection and payment accounts. The terms of the debt securitization subject the loans included in the CLO loan portfolio to a number of collateral quality, portfolio profile, interest coverage and overcollateralization tests. Total interest expenses related to the asset-backed securities issued for the three months ended March 31, 2013 and 2012 were $10.3 million and $9.4 million, respectively, which comprised cash coupon of $1.1 million and $1.3 million and a liquidity discount amortization of $9.2 million and $8.1 million, respectively. As of both March 31, 2013 and December 31, 2012, accrued interest payable on the Notes was $0.5 million.

- 20 -

The Notes recorded upon the acquisition of Cratos in April 2009 at fair value reflect a liquidity discount. The activity in the note principal and liquidity discount for the three months ended March 31, 2013 comprised the following:

| (In thousands) | Three Months Ended March 31, 2013 | | |
|---|---|---|---|
| | Principal | Liquidity Discount | Net |
| Balance at beginning of period | $431,003 | $(15,548) | $415,455 |
| Amortization of discount | - | 9,244 | 9,244 |
| Balance at end of period | $431,003 | $(6,304) | $424,699 |

The activity in the note principal and liquidity discount for the three months ended March 31, 2012 comprised the following:

| (In thousands) | Three Months Ended March 31, 2012 | | |
|---|---|---|---|
| | Principal | Liquidity Discount | Net |
| Balance at beginning of period | $431,003 | $(49,447) | $381,556 |
| Amortization of discount | - | 8,056 | 8,056 |
| Balance at end of period | $431,003 | $(41,391) | $389,612 |

The Company determined the fair value of asset-backed securities issued to be $412.7 million and $404.3 million as of March 31, 2013 and December 31, 2012, respectively, based upon pricing from published market research for equivalent-rated CLO notes. Based on the fair value methodology, the Company has identified the asset-backed securities issued as Level 2 liabilities.

## 8. Stockholders' Equity

### Stock Repurchase Program

The Company's board of directors authorized the repurchase of 1.0 million shares during the eighteen months subsequent to November 1, 2011, and the repurchase of an additional 0.5 million shares during the fourteen months subsequent to October 30, 2012. On March 5, 2013, the Company's board of directors authorized the repurchase of an additional 1.3 million shares, and extended the authorization of all outstanding shares through December 31, 2014.

During the three months ended March 31, 2013 and 2012, the Company repurchased 12,790 and 597,143 shares, respectively, of the Company's common stock at an average price of $6.41 per share and $7.08 per share, respectively, for an aggregate purchase price of $0.1 million and $4.2 million, respectively. The Company repurchased 3,284 shares during the three months ended March 31, 2013 that were deemed to have been repurchased in connection with employee stock plans, whereby the Company's shares were issued on a net basis to employees for the payment of applicable statutory withholding taxes and therefore such withheld shares are deemed to be purchased by the Company. 581,228 shares repurchased during the three months ended March 31, 2012 were deemed to have been repurchased in connection with employee stock plans, whereby the Company's shares were issued on a net basis to employees for the payment of applicable statutory withholding taxes and therefore such withheld shares are deemed to be purchased by the Company. The remaining shares were repurchased in the open market.

The timing and amount of any future open market stock 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 Exchange Act, or in privately negotiated transactions. Repurchases of common stock may also be made under an effective Rule 10b5-1 plan which permits common stock to be repurchased 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.

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. The board reauthorized this plan and it was approved by our stockholders on June 6, 2011. JMP Group Inc. authorized the issuance of 4,000,000 shares of its common stock under this Plan. This amount is 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 2007 Plan or 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. The Company will issue shares upon exercises or vesting from authorized but unissued shares or from treasury stock.

Stock Options

The following table summarizes the stock option activity for the three months ended March 31, 2013:

| | Three Months Ended March 31, 2013 | |
|---|---|---|
| | Shares Subject to Option | Weighted Average Exercise Price |
| Balance, beginning of year | 1,608,890 | 11.12 |
| Granted | 1,600,000 | 6.24 |
| Cancelled | (64,800) | 11.93 |
| Balance, end of period | 3,144,090 | $ 8.62 |
| | | |
| Options exercisable at end of period | 1,544,090 | $ 11.09 |

The following table summarizes the stock options outstanding as well as stock options vested and exercisable as of March 31, 2013:

| | As of March 31, 2013 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 | Aggregate Intrinsic Value |
| $6.24 - $12.50 | 3,144,090 | 5.93 | $ 8.62 | 1,072,000 | 1,544,090 | 1.84 | $ 11.09 | - |

The Company recognizes stock-based compensation expense for stock options over the graded vesting period of the options using the accelerated attribution method. The Company recognized compensation expense related to stock options of zero for the three months ended March 31, 2013 and 2012.

As of March 31, 2013, there was $3.3 million unrecognized compensation expense related to stock options.

Restricted Stock Units and Restricted Shares

Under the JMP Group 2007 Plan, the Company has granted restricted stock units (“RSUs”) to employees and non-employee directors at no cost to the recipient. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse. These awards are generally subject to vesting schedules and continued employment with the Company. Some of these awards are also subject to post vesting lockup restrictions. In the event of a change in control or corporate transactions, or if the vesting of all or certain of the RSUs are otherwise accelerated, the RSUs will vest immediately prior to the effective date of such an event.

The following table summarizes the RSU activity for the three months ended March 31, 2013:

Three Months EndedMarch 31, 2013

| | Restricted StockUnits | | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Balance, beginning of year | 1,020,382 | | 7.27 |
| Granted (1) | 944,827 | | 6.19 |
| Vested | (30,511) | | 7.78 |
| Forfeited | (20,312) | | 8.26 |
| Balance, end of period | 1,914,386 | $ | 6.72 |

(1) Includes approximately 560,000 and 270,000 RSUs granted to certain employees for long term incentive purposes and as hiring bonuses, respectively. These units have employee service-based vesting conditions and will vest when such conditions are met.

The aggregate fair value of RSUs vested during the three months ended March 31, 2013 was $0.2 million. For the three months ended March 31, 2013, the income tax benefits realized from the vested RSUs was zero.

The Company recognizes compensation expense over a graded vesting period using the accelerated attribution method. For the three months ended March 31, 2013 and 2012, the Company recorded compensation expenses of $0.8 million and $0.2 million for RSUs granted after the IPO. For the three months ended March 31, 2013 and 2012, the Company recorded no compensation expense related to RSUs awarded in connection with the IPO.

For both the three months ended March 31, 2013 and 2012, the Company recognized income tax benefits of $1.0 million and $0.3 million, respectively, related to the compensation expense recognized for RSUs. As of March 31, 2013, there was $9.6 million of unrecognized compensation expense related to RSUs expected to be recognized over a weighted average period of 2.16 years.

The Company pays cash dividend equivalents on outstanding RSUs. Dividend equivalents paid on RSUs are generally charged to retained earnings. Dividend equivalents paid on RSUs expected to be forfeited are included in compensation expense. The Company accounts for the tax benefit related to dividend equivalents paid on RSUs as an increase on additional paid-in capital.

10. Net (Loss) Income per Share of Common Stock

Basic net income (loss) per share for the Company is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the reporting period. Diluted net income (loss) 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 RSUs were exercised or converted under the treasury stock method. However, for periods that the Company has a net loss the effect of outstanding stock options or RSUs is anti-dilutive and, accordingly, is excluded from the calculation of diluted loss per share.

The computations of basic and diluted net income per share for the three months ended March 31, 2013 and 2012 are shown in the tables below:

| (In thousands, except per share data) | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Numerator: | | |
| Net (loss) income | $(1,719) | $376 |
| | | |
| Denominator: | | |
| Basic weighted average shares outstanding | 22,607 | 22,180 |
| | | |
| Effect of potential dilutive securities: | | |
| Restricted stock units | - | 1,093 |
| Diluted weighted average shares outstanding | 22,607 | 23,273 |
| | | |
| Net (loss) income per share | | |
| Basic | $(0.08) | $0.02 |
| Diluted | $(0.08) | $0.02 |

Stock options to purchase 2,419,261 and 1,704,665 shares of common stock for the three months ended March 31, 2013 and 2012, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding. Restricted stock units for 1,454,841 and 24,676 shares of common stock for the three months ended March 31, 2013 and 2012, respectively, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding.

11. Employee Benefits

All salaried employees of the Company are eligible to participate in the JMP Group 401(k) Plan after three months of employment. Participants may contribute up to the limits set by the U.S. Internal Revenue Service. There were no contributions by the Company during the three months ended March 31, 2013 and 2012.

12. Income Taxes

A reconciliation of the statutory U.S. federal income tax rate to the Company’s effective tax rate for the three months ended March 31, 2013 and 2012 is as follows:

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| Tax at federal statutory tax rate | 34.00 | % | 35.00 | % |
| State income tax, net of federal tax benefit (1) | 0.82 | % | 4.91 | % |
| Change in New York valuation (1) | 2.53 | % | 0.84 | % |
| Adjustment for other permanent items (2) | (0.26 | )% | 0.65 | % |
| Adjustment for permanent items (HCC non-controlling interest) (2) | 14.19 | % | (1.87) | % |
| Adjustment for permanent items (HGC and HGC II non-controlling interest) (2) | (17.21 | )% | (29.72 | )% |
| Rate before one-time events | 34.07 | % | 9.81 | % |
| California state enterprise zone tax credit | 1.64 | % | (0.86 | )% |
| Deferred tax asset written off related to options and RSUs | (2.05 | )% | 0.00 | % |
| Effective tax rate | 33.66 | % | 8.95 | % |

(1) In 2012, the Company revised the tax rate used in the calculation of the current and deferred state taxes to reflect its current filing status with the State and City of New York.

(2) HGC, HGC II and HCC are consolidated for financial reporting purposes but not for tax purposes.

The 24.71% increase in the effective tax rate for the three months ended March 31, 2013 compared to the same period in 2012 was primarily attributable to income and losses associated with HGC, HCC, and HGC II (effective October 1, 2012), which is consolidated for financial reporting purposes but not for tax purposes. Income attributed to HGC, HCC, and HGC II non-controlling interest decreased from $3.3 million for the three months ended March 31, 2012 to a $0.2 million loss for the same period in 2013.

13. Commitments and Contingencies

The Company leases office space in California, Illinois, Georgia, Massachusetts, Minnesota, New York, and Pennsylvania under various operating leases. Rental expense for the three months ended March 31, 2013 and 2012 was $0.9 million and $0.8 million, respectively. The Company recorded sublease income of $39,015 and $64,399 for the three months ended March 31, 2013 and 2012.

The California, Illinois, Minnesota and New York leases included a period of free rent at the start of the lease. Rent expense is recognized over the entire lease period uniformly net of the free rent savings. The aggregate minimum future commitments of these leases are:

| (In thousands)<br>Year Ending December 31, | Minimum<br>Future Lease<br>Commitments |
|---|---|
| 2013 | $2,698 |
| 2014 | 3,391 |
| 2015 | 3,356 |
| 2016 | 3,307 |
| Thereafter | 6,197 |
| | $18,949 |

In the normal course of business, the Company enters into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at March 31, 2013 and December 31, 2012, had no material effect on the consolidated financial statements.

The marketable securities owned and the restricted cash, as well as the cash held by the clearing broker, may be used to maintain margin requirements. At both March 31, 2013 and December 31, 2012, the Company had $0.2 million of cash on deposit with JMP Securities' clearing broker. Furthermore, the marketable securities owned may be hypothecated or borrowed by the clearing broker.

Unfunded commitments are agreements to lend to a borrower, provided that all conditions have been met. As of March 31, 2013 and December 31, 2012, the Company had unfunded commitments of $16.5 million and $18.6 million, respectively, in the Corporate Credit segment.

14. Regulatory Requirements

JMP Securities is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital, as defined, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. JMP Securities had net capital of $26.3 million and $36.7 million, which were $25.3 million and $35.7 million in excess of the required net capital of $1.0 million at March 31, 2013 and December 31, 2012, respectively. JMP Securities' ratio of aggregate indebtedness to net capital was 0.37 to 1 and 0.17 to 1 at March 31, 2013 and December 31, 2012, respectively.

Since all customer transactions are cleared through another broker-dealer on a fully disclosed basis, JMP Securities is not required to maintain a separate bank account for the exclusive benefit of customers in accordance with Rule

15c3-3 under the Exchange Act.

15. Related Party Transactions

The Company earns base management fees and incentive fees from serving as investment advisor for various affiliated entities, including corporations, partnerships, limited liability companies, and offshore investment companies. The Company also owns an investment in most of such affiliated entities. As of March 31, 2013 and December 31, 2012, the aggregate fair value of the Company’s investments in the affiliated entities for which the Company serves as the investment advisor was $59.5 million and $28.0 million, respectively, which consisted of investments in hedge and other private funds of $59.4 million and $27.9 million, respectively, and investments in funds of funds of $0.1 million for both periods. Base management fees earned from these affiliated entities were $2.4 million for both quarters ended March 31, 2013 and 2012. Also, the Company earned incentive fees of $4.4 million and $1.0 million, from these affiliated entities for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013 and December 31, 2012, the Company had incentive fees receivable from these affiliated entities of $4.1 million and $2.9 million, respectively.

16. Guarantees

JMP Securities has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the accounts of customers introduced by JMP Securities. Should a customer not fulfill its obligation on a transaction, JMP Securities may be required to buy or sell securities at prevailing market prices in the future on behalf of its customer. JMP Securities’ obligation under the indemnification has no maximum amount. All unsettled trades at March 31, 2013 and December 31, 2012 have subsequently settled with no resulting material liability to the Company. For the three months ended March 31, 2013 and 2012, the Company had no material loss due to counterparty failure, and has no obligations outstanding under the indemnification arrangement as of March 31, 2013 and December 31, 2012.

The Company is engaged in various investment banking and brokerage activities whose counterparties primarily include broker-dealers, banks and brokerage or investment banking clients. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

17. Litigation

The Company is involved in a number of judicial, regulatory and arbitration matters arising in connection with our business. The outcome of matters the Company has been and currently is involved in cannot be determined at this time, and the results cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on our results of operations in any future period and a significant judgment could have a material adverse impact on our financial condition, results of operations and cash flows. The Company may in the future become involved in additional litigation in the ordinary course of our business, including litigation that could be material to our business.

The Company reviews the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability and the amount of loss, if any, can be reasonably estimated. Generally, given the inherent difficulty of predicting the outcome of matters the Company is involved in, particularly cases in which claimants seek substantial or indeterminate damages, it is not possible to determine whether a liability has been incurred or to reasonably estimate the ultimate or minimum amount of that liability until the case is close to resolution. For these matters, no reserve is established until such time, other than for reasonably estimable legal fees and expenses. Management, after consultation with legal counsel, believes that the currently known actions or threats will not result in any material adverse effect on the Company's financial condition, results of operations or cash flows.

18. Financial Instruments with Off-Balance Sheet Risk, Credit Risk or Market Risk

The majority of the Company's transactions, and consequently the concentration of its credit exposure, is with its clearing broker. The clearing broker is also a significant source of short-term financing for the Company, which is collateralized by cash and securities owned by the Company and held by the clearing broker. The Company's securities owned may be pledged by the clearing broker. The receivable from the clearing broker represents amounts receivable in connection with the trading of proprietary positions.

The Company is also exposed to credit risk from other brokers, dealers and other financial institutions with which it transacts business. In the event that counterparties do not fulfill their obligations, the Company may be exposed to credit risk.

The Company's trading activities include providing securities brokerage services to institutional clients. To facilitate these customer transactions, the Company purchases proprietary securities positions ("long positions") in equity securities. The Company also enters into transactions to sell securities not yet purchased ("short positions"), which are recorded as liabilities on the Consolidated Statements of Financial Condition. The Company is exposed to market risk on these long and short securities positions as a result of decreases in market value of long positions and increases in market value of short positions. Short positions create a liability to purchase the security in the market at prevailing prices. Such transactions result in off-balance sheet market risk as the Company's ultimate obligation to satisfy the sale of securities sold, but not yet purchased may exceed the amount recorded in the Consolidated Statements of Financial Condition. To mitigate the risk of losses, these securities positions are marked to market daily and are monitored by management to assure compliance with limits established by the Company.

In connection with Cratos CLO, the Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include unfunded

commitments to lend and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet of the Company.

Unfunded commitments are agreements to lend to a borrower, provided that all conditions have been met. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each borrower's creditworthiness on a case by case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a borrower to a third party. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to borrowers. In its Corporate Credit segment, the Company had unfunded commitments of $16.5 million and $18.6 million and standby letters of credit of $1.3 million and $1.0 million at March 31, 2013 and December 31, 2012, respectively.

19. Business Segments

The Company’s business results are categorized into the following four business segments: Broker-Dealer, Asset Management, Corporate Credit and Corporate. The Broker-Dealer segment includes a broad range of services, such as underwriting and acting as a placement agent for public and private capital markets raising transactions and financial advisory services in M&A, restructuring and other strategic transactions. The Broker-Dealer segment also includes institutional brokerage services and equity research services to our institutional investor clients. The Asset Management segment includes the management of a broad range of pooled investment vehicles, including the Company’s hedge funds, hedge funds of funds, as well as the Company’s principal investments in public and private securities. The Corporate Credit segment includes the management of collateralized loan obligations, small business loans and certain principal investments through JMP Capital and HCC. The Corporate segment includes revenues and expenses related to JMP Group Inc., the holding company, and JMP Group LLC, and is mainly comprised of corporate overhead expenses and interest expense related to the Company's credit facility with City National Bank.

The accounting policies of the segments are consistent with those described in the Significant Accounting Policies in Note 2 in the 2012 10-K.

Management uses Adjusted Operating Net Income as a metric when evaluating the performance of JMP Group's core business strategy and ongoing operations. This measure adjusts the Company's net income as follows: (i) reverses stock-based compensation expense related to equity awards granted both at the time of JMP Group's May 2007 initial public offering and thereafter, (ii) recognizes 100% of the cost of deferred compensation in the period for which such compensation was awarded, instead of recognizing such cost over the vesting period as required under GAAP, (iii) excludes the net amortization of liquidity discounts on loans held and asset-backed securities issued by JMP Credit Corporation, (iv) excludes amortization expense related to an intangible asset, (v) reverses net unrealized gains and losses on strategic equity investments and warrants, (vi) excludes unrealized mark-to-market gains or losses on the investment portfolio at HCC, (vii) excludes a bargain purchase gain resulting from the acquisition of Cratos Capital Partners by JMP Credit Corporation, and (viii) excludes gains or losses recognized by JMP Credit Corporation due to the sale or payoff of loans originally included in the portfolio acquired by JMP Group in April 2009. These charges may otherwise obscure the company's operating income and complicate an assessment of the company's core business activities. The operating pre-tax net income facilitates a meaningful comparison of the Company's results in a given period to those in prior and future periods. The revenues and expenses are presented on a basis that deconsolidates the investment funds Harvest manages.

The Company’s segment information for the three months ended March 31, 2013 and 2012, was prepared using the following methodology:

- Revenues and expenses directly associated with each segment are included in determining segment operating income.
- Revenues and expenses not directly associated with a specific segment are allocated based on the most relevant measures applicable, including revenues, headcount and other factors.
- Each segment’s operating expenses include: a) compensation and benefits expenses that are incurred directly in support of the segments and b) other operating expenses, which include expenses for premises and occupancy, professional fees, travel and entertainment, communications and information services, equipment and indirect support costs (including compensation and other operating expenses related thereto) for administrative services.

Segment Operating Results

Management believes that the following information provides a reasonable representation of each segment's contribution to revenues, income and assets:

| (In thousands) | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Broker-Dealer | | |
| Non-interest revenues | $17,635 | $22,406 |
| Net interest (expense) income | (17) | 48 |
| Total net revenues after provision for loan losses | $17,618 | $22,454 |
| Non-interest expenses | 15,915 | 18,995 |
| Segment income before income tax expense | $1,703 | $3,459 |
| Segment assets | $61,114 | $66,681 |
| Asset Management | | |
| Non-interest revenues | $8,913 | $6,220 |
| Net interest income | 1 | 4 |
| Total net revenues after provision for loan losses | $8,914 | $6,224 |
| Non-interest expenses | 7,539 | 4,767 |
| Segment income before income tax expense | $1,375 | $1,457 |
| Segment assets | $63,731 | $93,641 |
| Corporate Credit | | |
| Non-interest revenues | $893 | $487 |
| Net interest expense | 4,633 | 4,607 |
| Provision for loan losses | (68) | (93) |
| Total net revenues after provision for loan losses | $5,458 | $5,001 |
| Non-interest expenses | (968) | (537) |
| Non-controlling interest | 176 | 135 |
| Segment income before income tax expense | $6,250 | $5,403 |
| Segment assets | $518,347 | $494,559 |
| Corporate | | |
| Non-interest revenues | $1,329 | $914 |
| Net interest (expense) income | (329) | 11 |
| Total net revenues after provision for loan losses | $1,000 | $925 |
| Non-interest expenses | 3,989 | 3,864 |
| Segment loss before income tax expense | $(2,989) | $(2,939) |
| Segment assets | $240,430 | $136,224 |
| Eliminations | | |
| Non-interest revenues | $(248) | $(170) |
| Total net revenues after provision for loan losses | $(248) | $(170) |
| Non-interest expenses | (178) | (170) |
| Segment loss before income tax expense | $(70) | $- |
| Segment assets | $(133,669) | $(126,144) |
| Consolidated Entity | | |
| Non-interest revenues | $28,522 | $29,857 |
| Net interest expense | 4,288 | 4,670 |
| Provision for loan losses | (68) | (93) |
| Total net revenues after provision for loan losses | $32,742 | $34,434 |
| Non-interest expenses | 26,297 | 26,919 |

| | | |
|---|---|---|
| Non-controlling interest | 176 | 135 |
| Segment income before income tax expense | $6,269 | $7,380 |
| Total assets | $749,953 | $664,961 |

The following tables reconcile the total segments to consolidated net income before income tax expense and total assets as of and for the three months ended March 31, 2013 and 2012.

| (In thousands) | As of and Three Months Ended March 31, 2013 | | |
|---|---|---|---|
| | Total Segments | Consolidation Adjustments and Reconciling Items | JMP Consolidated |
| Non-interest revenues | $ 28,522 | $ (1,184 )(a) | $ 27,338 |
| Net Interest Income | 4,288 | (7,429 )(b) | (3,141 ) |
| Provision for loan losses | (68 ) | (881 ) | (949 ) |
| Total net revenues after provision for loan losses | $ 32,742 | $ (9,494 ) | $ 23,248 |
| Non-interest expenses | 26,297 | (526 )(c) | 25,771 |
| Noncontrolling interest | 176 | (168 ) | 8 |
| Operating pre-tax net income (loss) | $ 6,269 | $ (8,800 )(d) | $ (2,531 ) |
| Total assets | $ 749,953 | $ - | $ 749,953 |

| (In thousands) | As of and Three Months Ended March 31, 2012 | | | |
|---|---|---|---|---|
| | Total Segments | Consolidation Adjustments and Reconciling Items | | JMP Consolidated |
| Non-interest revenues | $29,857 | $4,021 | (a) | $33,878 |
| Net Interest Income | 4,670 | (6,820 | )(b) | (2,150 ) |
| Provision for loan losses | (93 ) | - | | (93 ) |
| Total net revenues after provision for loan losses | $34,434 | $(2,799 | ) | $31,635 |
| Non-interest expenses | 26,919 | 527 | (c) | 27,446 |
| Noncontrolling interest | 135 | 3,297 | | 3,432 |
| Operating pre-tax net income (loss) | $7,380 | $(6,623 | )(d) | $757 |
| Total assets | $664,961 | $- | | $664,961 |

(a) Non-interest revenue adjustments is comprised of loan sale gains, mark-to-market gains/losses, strategic equity investments and warrants, and fund-related revenues recognized upon consolidation of certain Harvest Funds.
(b) The Net Interest Income adjustment is comprised of the non-cash net amortization of liquidity discounts at JMP Credit, due to scheduled contractual repayments, and amortization expense related to an intangible asset.
(c) Non-interest expense adjustments relate to reversals of stock-based compensation and exclusion of fund-related expenses recognized upon consolidation of certain Harvest Funds.
(d) Reconciling operating pre-tax net income to Consolidated Net Income before income tax expense in the Consolidated Statements of Operations consists of the following:

| (In thousands) | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Adjusted operating net income | $3,888 | $4,280 |
| Addback of Income tax expense (assumed rate of 38% for 2013 and 42% for 2012) | 2,381 | 3,100 |
| Total Segments adjusted operating pre-tax net income | $6,269 | $7,380 |
| Adjustments: | | |
| Stock compensation expense | 137 | - |
| Compensation expense - post-IPO RSUs | 616 | 180 |
| Deferred compensation program accounting adjustment | (1,124 ) | - |
| Net unrealized loss (gain) on strategic equity investments and warrants | 157 | (321 ) |
| Net amortization of liquidity discounts on loans and asset-backed securities issued | 8,740 | 7,175 |

| | | |
|---|---|---|
| Unrealized HCC mark-to-market (gain) loss | (162) | 12 |
| Gain (loss) and specific provision on loan portfolio acquired | 436 | (423) |
| Total Consolidation Adjustments and Reconciling Items | 8,800 | 6,623 |
| Consolidated pre-tax net (loss) income attributable to JMP Group Inc. | $(2,531) | $757 |
| | | |
| Income tax (benefit) expense | (812) | 381 |
| Consolidated Net (Loss) Income attributable to JMP Group Inc. | $(1,719) | $376 |

When evaluating the performance of JMP Group's core business strategy and ongoing operations, management also reviews the Operating Net Income which includes the non-cash gains and losses recognized by JMP Credit Corp due to the sale or payoff of loans originally included in the portfolio acquired by JMP Group in April 2009, as well as the provision for loan losses related to this portfolio of loans. The reconciling items are included in the line item gain (loss) and specific provisions on loan portfolio acquired in the table above. The reconciling items include the non-cash gains and losses account for $0.2 million and $0.7 million, specific reserve on the loan from the portfolio of $0.9 million and zero, and the related compensation decreasing adjustment of $0.3 million and increasing adjustment of $0.3 million for the three months ended March 31, 2013 and 2012, respectively. Including these adjustments, the operating net income, after a 42% and 38% tax rate, is $4.5 million and $3.7 million for the three months ended March 31, 2012 and 2013, respectively.

20. Summarized Financial Information for Equity Method Investments

The tables below present summarized financial information of the hedge funds which the Company accounts for under the equity method. The financial information below represents 100% of the net assets, net realized and unrealized gains (losses) and net investment income (loss) of such hedge funds as of the dates and for the periods indicated.

| (In thousands) | March 31, 2013 Net Assets | December 31, 2012 Net Assets |
|---|---|---|
| Harvest Opportunity Partners II | $97,719 | $84,852 |
| Harvest Small Cap Partners | 303,129 | 288,391 |
| Harvest Franchise Fund | 97,632 | 84,192 |
| Harvest Agriculture Select | 35,802 | 18,162 |
| Harvest Technology Partners | 41,357 | 32,689 |
| Harvest Diversified Partners | 24,946 | 23,598 |

| (In thousands) | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Net Realized and Unrealized Gains (Losses) | Net Investment Loss | Net Realized and Unrealized Gains (Losses) | Net Investment Loss |
| Harvest Opportunity Partners II | $3,603 | $(349) | $3,939 | $(324) |
| Harvest Small Cap Partners | 24,551 | (4,631) | (4,548) | (4,448) |
| Harvest Franchise Fund | 7,354 | (370) | 3,875 | (879) |
| Harvest Agriculture Select | 1,717 | (102) | 1,307 | (80) |
| Harvest Technology Partners | (1,200) | (213) | 1,815 | (161) |
| Harvest Diversified Partners | 671 | (153) | 1,674 | (111) |

21. Subsequent Events

On April 3, 2013, entities sponsored by JMP Group Inc. priced a $343.8 million CLO. The senior notes offered in this proposed transaction (the “Secured Notes”) will be issued by JMP Credit Advisors CLO II Ltd., a newly formed special purpose Cayman vehicle (the “Issuer”), and co-issued in part by JMP Credit Advisors CLO II LLC, a newly formed special purpose Delaware vehicle (the “Co-Issuer”), and will be backed by a diversified portfolio of broadly syndicated leveraged loans. The Secured Notes are expected to be issued in multiple tranches and are expected to be rated by Standard & Poor's Ratings Services and, in respect of certain tranches, Moody's Investors Service, Inc. The Secured Notes were priced with a weighted average coupon of three-month LIBOR plus 1.86%. The Company, through a wholly-owned subsidiary, is expected to retain $17.3 million (representing 72.8% of the face amount to be issued) of the subordinated notes of the Issuer (the “Subordinated Notes”). The Subordinated Notes will not bear interest and will not be rated. The transaction closed on April 30, 2013. The Company expects that it will consolidate the operations of the Issuer and Co-Issuer into its financial statements as of the closing of the proposed transaction.

In connection with the above transaction, on March 6, 2013 the Company paid a $10.0 million refundable fee for the purchase of certain loans, which would be returned in full with interest contingent upon the CLO note pricing and the trade confirmation. As of March 31, 2013, the Company included the $10.0 million within Other Assets. The

conditions were met in April, and the $10.0 million was returned to JMP Credit Advisors with interest on April 5, 2013.

On April 8, 2013, JMP Group LLC entered into an amendment to the Amended and Restated Credit Agreement with CNB, which extended the allowable term loan closing date from March 31, 2013 to April 30, 2013, and replaced the final revolving commitment termination date from August 24, 2013 to April 30, 2013. On April 25, 2013, JMP Group drew $15.0 million on the term loan.

On May 2, 2013, the board declared a cash dividend of $0.035 per share of common stock for the first quarter of 2013 to be paid on May 31, 2013, to common stockholders of record on May 17, 2013.

On May 2, 2013, Harvest Capital Credit Corporation priced its initial public offering of 3.4 million shares of its common stock at a price of $15.00 per share, raising $51.0 million in gross proceeds. The underwriters of the offering have been granted a 30-day option to purchase up to an additional 433,333 shares of common stock from the company.

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the unaudited consolidated financial statements and the related notes included elsewhere in this report. For additional context with which to understand our financial condition and results of operations, see the MD&A for the fiscal year ended December 31, 2012 contained in our Annual Report on Form 10-K (the "2012 10-K") filed with the SEC on March 8, 2013, as well as the Consolidated Financial Statements and Notes contained therein.

### Cautionary Statement Regarding Forward Looking Statements

This MD&A and other sections of this report contain forward looking statements. We make forward-looking statements, as defined by the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, and in some cases, you can identify these statements by forward-looking words such as "if," "shall," "may," "might," "will likel result," "should," "expect," "plan," "anticipate," "believe," "estimate," "project," "intend," "goal," "objective," "predict," "pot the negative of these terms and other comparable terminology. These forward-looking statements, which are based on various underlying assumptions and expectations and are subject to risks, uncertainties and other unknown factors, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events that we believe to be reasonable. There are or may be important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the historical or future results, level of activity, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, those discussed under the caption "Risk Factors" in our 2012 10-K. In preparing this MD&A, we presume that readers have access to and have read the MD&A in our 2012 10-K, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K. We undertake no duty to update any of these forward-looking statements after the date of filing of this report to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

### Overview

JMP Group Inc., together with its subsidiaries (collectively, the "Company", "we" or "us"), is a full-service investment banking and asset management firm headquartered in San Francisco, California. We have a diversified business model with a focus on small and middle-market companies and provide:

- investment banking, including corporate finance, mergers and acquisitions and other strategic advisory services, to corporate clients;
- sales and trading, and related brokerage services to institutional investors;
- proprietary equity research in our four target industries;
- asset management products and services to institutional investors, high net-worth individuals and for our own account;
- management of collateralized loan obligations; and
- small business lending.

### Components of Revenues

We derive revenues primarily from fees earned from our investment banking business, net commissions on our trading activities in our sales and trading business, asset management fees and incentive fees in our asset management business, and interest income on collateralized loan obligations and small business loans we manage. We also generate revenues from principal transactions, interest, dividends, and other income.

Investment Banking

We earn investment banking revenues from underwriting securities offerings, arranging private capital market transactions and providing advisory services in mergers and acquisitions and other strategic advisory assignments.

Underwriting Revenues

We earn underwriting revenues from securities offerings in which we act as an underwriter, such as initial public offerings and follow-on equity offerings. Underwriting revenues include management fees, underwriting fees, selling concessions and realized and unrealized net gains and losses on equity positions held in inventory for a period of time to facilitate the completion of certain underwritten transactions. We record underwriting revenues, net of related syndicate expenses, at the time the underwriting is completed. In syndicated underwritten transactions, management estimates our share of transaction-related expenses incurred by the syndicate, and we recognize revenues net of such expense. On final settlement by the lead manager, typically 90 days from the trade date of the transaction, we adjust these amounts to reflect the actual transaction-related expenses and our resulting underwriting fee. We receive a higher proportion of total fees in underwritten transactions in which we act as a lead manager.

Strategic Advisory Revenues

Our strategic advisory revenues primarily include success fees on closed merger and acquisition transactions, as well as retainer fees, earned in connection with advising both buyers' and sellers' transactions. We also earn fees for related advisory work and other services such as providing fairness opinions and in valuation analyses. We record strategic advisory revenues when the transactions or the services (or, if applicable, separate components thereof) to be performed are substantially completed, the fees are determinable and collection is reasonably assured.

Private Capital Market and other Revenues

We earn agency capital market and other fees in non-underwritten transactions such as private placements of equity securities, private investments in public equity ("PIPE") transactions, Rule 144A private offerings and trust preferred securities offerings. We record private placement revenues on the closing date of these transactions.

Since our investment banking revenues are generally recognized at the time of completion of each transaction or the services to be performed, these revenues typically vary between periods and may be considerably affected by the timing of the closing of significant transactions.

Brokerage Revenues

Our brokerage revenues include commissions paid by customers from brokerage transactions in exchange-listed and over-the-counter ("OTC") equity securities. Commissions are recognized on a trade date basis. Brokerage revenues also include net trading gains and losses that result from market-making activities and from our commitment of capital to facilitate customer transactions. Our brokerage revenues may vary between periods, in part depending on commission rates, trading volumes and our ability to continue to deliver research and other value-added services to our clients. The ability to execute trades electronically, through the Internet and through other alternative trading systems has increased pressure on trading commissions and spreads. We expect this trend toward alternative trading systems and pricing pressures in our brokerage business to continue. We are, to some extent, compensated through brokerage commissions for the value of research and other value- added services we deliver to our clients. These "soft dollar" practices have been the subject of discussion among regulators, the investment banking community and our sales and trading clients. In particular, commission sharing arrangements have been adopted by some large institutional investors. In these arrangements, institutional investors concentrate their trading with fewer "execution" brokers and pay a fixed amount for execution with an additional amount set aside for payments to other firms for research or other brokerage services. Accordingly, we may experience reduced (or eliminated) trading volume with such investors but may be compensated for our research and sales efforts through allocations of the designated amounts. Depending on the extent to which we adopt this practice and depending on our ability to reach arrangements on terms acceptable to us, this trend would likely impair the revenues and profitability of our commission business by negatively affecting both volumes and trading commissions in our commission business.

Asset Management Fees

Asset management fees for hedge funds, hedge funds of funds, private equity funds and Harvest Capital Credit LLC ("HCC") include base management fees and incentive fees earned from managing investment partnerships sponsored by us. Earned base management fees are generally based on the fair value of assets under management or aggregate capital commitments and the fee schedule for each fund and account. We also earn incentive fees based upon the performance of investment funds and accounts. For most of the funds, such fees are based on a percentage of the excess of an investment return over a specified high-water mark or hurdle rate over a defined performance period. For private equity funds, incentive fees are based on a specified percentage of realized gains from the disposition of each portfolio investment in which each investor participates, and we earn after returning contributions by the investors for

that portfolio investment and for all other portfolio investments in which each such investor participates that have been disposed of at the time of distribution.

As of March 31, 2013, the contractual base management fees earned from each of these investment funds ranged between 1% and 2% of assets under management or were 2% of aggregate committed capital. The contractual incentive fees were generally (i) 20%, subject to high-water marks, for the hedge funds; (ii) 5% to 20%, subject to high-water marks or a performance hurdle rate, for the hedge funds of funds; (iii) 20%, subject to high-water marks, for Harvest Growth Capital LLC ("HGC") and Harvest Growth Capital II LLC ("HGC II"). Our asset management revenues are subject to fluctuations due to a variety of factors that are unpredictable, including the overall condition of the economy and the securities markets as a whole and our core sectors. These conditions can have a material effect on the inflows and outflows of assets under management, and the performance of our asset management funds. For example, a significant portion of the performance-based or incentive revenues that we recognize are based on the value of securities held in the funds we manage. The value of these securities includes unrealized gains or losses that may change from one period to another. As we consolidate HGC, HGC II and HCC, the management and incentive fees earned at HCS from HGC, HGC II and HCC are eliminated in consolidation.

Asset management fees for the collateralized loan obligations ("CLOs") we manage currently consist only of senior and subordinated base management fees. We recognize base management fees for the CLOs on a monthly basis over the period in which the collateral management services are performed. The base management fees for the CLOs are calculated as a percentage of the average aggregate collateral balances for a specified period. As we consolidate Cratos CLO, the management fees earned at JMP Credit Advisors LLC ("JMPCA") from Cratos CLO are eliminated on consolidation in accordance with accounting principles generally accepted in the United States ("GAAP"). At March 31, 2013, the contractual senior and subordinated base management fees earned from the CLO were 0.50% of the average aggregate collateral balance for a specified period.

The following tables present certain information with respect to the investment funds managed by HCS and CLOs managed by JMPCA:

| (In thousands) | Assets Under Management (1) at | | Company's Share of Assets Under Management at | |
|---|---|---|---|---|
| | March 31, 2013 | December 31, 2012 | March 31, 2013 | December 31, 2012 |
| Funds Managed by HCS: | | | | |
| Hedge Funds: | | | | |
| Harvest Opportunity Partners II (2) | $133,102 | $111,853 | $15,934 | $4,506 |
| Harvest Small Cap Partners | 303,129 | 288,391 | 1,101 | 4,621 |
| Harvest Franchise Fund | 97,632 | 84,192 | 2,823 | 2,000 |
| Harvest Agriculture Select (2) | 53,478 | 31,580 | 14,166 | 2,428 |
| Harvest Technology Partners (2) | 66,136 | 65,877 | 9,851 | 111 |
| Harvest Diversified Partners | 24,946 | 23,598 | 15,497 | 14,241 |
| Private Equity Funds: | | | | |
| Harvest Growth Capital LLC (3) | 38,665 | 39,694 | 1,718 | 1,798 |
| Harvest Growth Capital II LLC (3) | 14,686 | 7,660 | 357 | 268 |
| Funds of Funds: | | | | |
| JMP Masters Fund | 43,746 | 42,182 | 117 | 109 |
| REITs: | | | | |
| New York Mortgage Trust | 34,430 | 32,539 | N/A | N/A |
| Loans: | | | | |
| Harvest Capital Credit (3) | 42,004 | 47,986 | 13,189 | 15,005 |
| HCS Totals | $851,954 | $775,552 | $74,753 | $45,087 |
| | | | | |
| CLOs by JMPCA: | | | | |
| Cratos CLO (3) | 472,642 | 471,887 | N/A | N/A |
| JMPCA Totals | $472,642 | $471,887 | $N/A | $N/A |
| | | | | |
| JMP Group Inc. Totals | $1,324,596 | $1,247,439 | $74,753 | $45,087 |

(1) For hedge funds, private equity funds and funds of funds, assets under management represent the net assets of such funds. For NYMT, assets under management represent the portion of the net assets of NYMT that is subject to the incentive fee calculation. In connection with its investment in NYMT, in January 2008, we entered into an advisory agreement between HCS and NYMT. The advisory agreement was amended effective July 26, 2010. Under the amended advisory agreement, HCS managed certain assets of NYMT, which were subject to the base advisory fee and incentive fee calculations, and received an annual consulting fee equal to $1.0 million. On December 31, 2011, the amended advisory agreement was terminated, pending certain contingent advisory obligations. For CLOs, assets under management represent the sum of the aggregate collateral balance and restricted cash to be reinvested in collateral, upon which management fees are earned.

(2) Harvest Opportunity Partners II ("HOP II"), Harvest Agriculture Select ("HAS"), and Harvest Technology Partners ("HTP") include managed accounts in which the Company has neither equity investment nor control. These are included as they follow the respective funds' strategies and earn fees.

(3) HGC, HGC II, HCC and Cratos CLO were consolidated in the Company’s Statements of Financial Condition at March 31, 2013 and December 31, 2012.

| (In thousands) | Three Months Ended March 31, 2013 | | | Three Months Ended March 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Company's Share of Change in Fair Value | Management Fee | Incentive Fee | Company's Share of Change in Fair Value | Management Fee | Incentive Fee |
| Hedge Funds: | | | | | | |
| Harvest Opportunity Partners II (1) | $386 | 322 | 213 | $193 | $ 135 | $99 |
| Harvest Small Cap Partners | 227 | 1,350 | 3,641 | (112) | 1,511 | - |
| Harvest Franchise Fund | 176 | 236 | - | 148 | 136 | - |
| Harvest Agriculture Select (1) | 395 | 136 | 181 | 195 | 32 | 67 |
| Harvest Technology Partners (1) | (290) | 183 | - | 8 | 184 | 618 |
| Harvest Diversified Partners | 368 | 42 | 55 | 888 | 44 | 52 |
| Private Equity Funds: | | | | | | |
| Harvest Growth Capital LLC (2) | - | 106 | 30 | 197 | 161 | 77 |
| Harvest Growth Capital II LLC (2) | (20) | 274 | - | - | - | - |
| Funds of Funds: | | | | | | |
| JMP Masters Fund | 8 | 98 | - | 3 | 123 | - |
| REITs: | | | | | | |
| New York Mortgage Trust | - | - | 300 | 87 | 250 | 206 |
| Loans: | | | | | | |
| Harvest Capital Credit (2) | N/A | 77 | 320 | N/A | 25 | 54 |
| CLOs: | | | | | | |
| Cratos CLO (2) | N/A | 583 | - | N/A | 590 | - |
| Other (3) | N/A | - | - | N/A | 22 | - |
| Totals | $1,250 | $ 3,407 | $4,740 | $1,607 | $ 3,213 | $1,173 |

(1) HOP II, HAS and HTP include managed accounts in which the Company has neither equity investment nor control. These are included with the funds, as they follow the respective strategies and earn fees.

(2) Revenues earned from HGC, HGC II, HCC, and Cratos are consolidated and then eliminated in consolidation in the Company’s Statements of Operations, net of non-controlling interest.

(3) The CLO within Other initiated liquidation proceedings in December 2011. The remaining assets were distributed in 2012.

Principal Transactions

Principal transaction revenues includes realized and unrealized net gains and losses resulting from our principal investments, which include investments in equity and other securities for our own account and as the general partner of funds managed by us, warrants we may receive from certain investment banking assignments, as well as limited partner investments in private funds managed by third parties. In addition, we invest a portion of our capital in a portfolio of equity securities managed by HCS and in side-by-side investments in the funds managed by us. In certain cases, we also co-invest alongside our institutional clients in private transactions resulting from our investment banking business. Principal transaction revenues also include unrealized gains and losses on the private equity securities owned by HGC and HGC II, two private equity funds managed by HCS which are consolidated in our financial statements, as well as unrealized gains and losses on the investments in private companies sponsored by HCS and JMP Capital LLC ("JMP Capital"), and unrealized gains and losses on the warrants, options and equity

securities owned by HCC.

Gain on Sale, Payoff and Mark-to-market of Loans

Gain on sale, payoff and mark-to-market of loans consists of gains from the sale and payoff of loans collateralizing asset-backed securities at JMP Credit and small business loans at HCC. Gains are recorded when the proceeds exceed the carrying value of the loan. Gain on sale, payoff and mark-to-market of loans also consists of lower of cost or market adjustments arising from loans held for sale and fair value market adjustments of the small business loans. Losses are recorded for the loan held for sale when the carrying value exceeds fair value. Changes to the fair value of the small business loans are also recorded to this line item.

Net Dividend Income

Net dividend income comprises dividends from our investments offset by dividend expense for paying short positions in our principal investment portfolio.

Other Income

Other income includes loan restructuring fees at JMP Credit and revenues from fee-sharing arrangements with, and fees earned to raise capital for third-party investment partnerships, or funds. Other income also includes non-recurring revenues associated with the conclusion of HCS's advisory relationship with NYMT. Refer to Note 2 in the Company's 2012 10-K for additional information regarding the termination of the advisory agreement between HCS and NYMT.

Interest Income

Interest income primarily consists of interest income earned on loans collateralizing asset-backed securities issued, small business loans, and loans held for investment. Interest income on loans comprises the stated coupon as a percentage of the face amount receivable as well as accretion of accretable or purchase discounts and deferred fees. Interest income is recorded on the accrual basis in accordance with the terms of the respective loans unless such loans are placed on non-accrual status.

Interest Expense

Interest expense primarily consists of interest expense incurred on asset-backed securities issued and note payable. Interest expense on asset-backed securities is the stated coupon payable as a percentage of the principal amount as well as amortization of the liquidity discount which was recorded at the acquisition date of Cratos. Interest expense is recorded on the accrual basis in accordance with the terms of the respective asset-backed securities issued and note payable.

Provision for Loan Losses

Provision for loan losses includes provision for losses recognized on our loan notes and non-revolving credit agreements at JMP Capital (collectively loans held for investment), and on loans collateralizing asset-backed securities ("ABS") at JMP Credit to record them at their estimated net realizable value. A provision for loan losses is charged to expense to establish the allowance for loan losses. The allowance for loan losses is maintained at a level, in the opinion of management, sufficient to offset estimated losses inherent in the loan portfolio as of the date of the financial statements. The appropriateness of the allowance and the allowance components are reviewed quarterly. Our estimate of each allowance component is based on observable information and on market and third-party data that we believe are reflective of the underlying loan losses being estimated.

A specific reserve is provided for loans that are considered impaired. A loan is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price or the fair value of the collateral securing the loan if the loan is collateral dependent, depending on the circumstances and our collection strategy. For those loans held by Cratos at the date of acquisition by JMP Credit, and deemed impaired at that date or a subsequent date, allowance for loan losses is calculated considering two additional factors. For loans deemed impaired at the date of acquisition, if there is a further decline in expected future cash flows, this reduction is recognized as a specific reserve in accordance with the guidance above. For those loans deemed impaired subsequent to the acquisition date, if the net realizable value is lower than the current carrying value then the carrying value is reduced and the difference is booked as provision for loan losses. If the total discount from unpaid principal balance to carrying value is larger than the expected loss at the date of assessment, no provision for loan losses is recognized.

In addition, we provide an allowance on a loan-by-loan basis at JMP Credit for loans that were purchased after the Cratos acquisition. We employ internally developed and third-party estimation tools for measuring credit risk (loan ratings, probability of default, and exposure at default), which are used in developing an appropriate allowance for loan losses. We perform periodic detailed reviews of its loan portfolio to identify risks and to assess the overall collectability of loans.

Loans which are deemed to be uncollectible are charged off and the charged-off amount is deducted from the allowance.

Components of Expenses

We classify our expenses as compensation and benefits, administration, brokerage, clearing and exchange fees, travel and business development, communications and technology, professional fees, impairment loss on purchased management contract and other expenses. A significant portion of our expense base is variable, including compensation and benefits, brokerage clearing and exchange fees, travel and business development and communication and technology expenses.

Compensation and Benefits

Compensation and benefits is the largest component of our expenses and includes employees' base pay, performance bonuses, sales commissions, related payroll taxes, medical and benefits expenses, as well as expenses for contractors, temporary employees and equity-based compensation. Our employees receive a substantial portion of their compensation in the form of individual performance-based bonuses. As is the widespread practice in our industry, we pay bonuses on an annual basis, which for senior professionals typically make up a large portion of their total compensation. Bonus payments may have a greater impact on our cash position and liquidity in the periods in which they are paid than would otherwise be reflected in our Consolidated Statements of Operations. We accrue for the estimated amount of these bonus payments ratably over the applicable service period.

Compensation is accrued using specific ratios of total compensation and benefits to total revenues based on revenue categories, as adjusted if, in management's opinion, such adjustments are necessary and appropriate to maintain competitive compensation levels.

Administration

Administration expense primarily includes the cost of hosted conferences, non-capitalized systems and software expenditures, insurance, business tax (non-income), office supplies, recruiting, regulatory fees and amortization of bond issuance costs.

Brokerage, Clearing and Exchange Fees

Brokerage, clearing and exchange fees include the cost of floor and electronic brokerage and execution, securities clearance, and exchange fees. We clear our securities transactions through J.P. Morgan Clearing Corp. Changes in brokerage, clearing and exchange fees fluctuate largely in line with the volume of sales and trading activity.

Travel and Business Development

Travel and business development expense is net of expenses reimbursed by clients.

Communications and Technology

Communications and technology expense primarily relates to communication and information processing as well as the subscription of certain market data.

Professional Fees

Professional fees primarily relate to legal and accounting professional services.

Other Expenses

Other operating expenses primarily include occupancy, depreciation and CLO administration expense at JMP Credit.

Non-controlling Interest

Non-controlling interest for the three months ended March 31, 2012 includes the interest of third parties in Cratos CLO, HGC and HCC, partially-owned subsidiaries consolidated in our financial statements. Non-controlling interest for the three months ended March 31, 2013 also includes the interest of third parties in HGC II, a partially-owned subsidiary consolidated in our financial statements.

We follow the authoritative guidance under GAAP regarding the determination of whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. Such guidance applies when a general partner controls a limited partnership and is required to consolidate the limited partnership in its financial statements. Under the guidance, the general partner in a limited partnership is presumed to control the limited partnership regardless of the extent of the general partners' ownership interest in the limited partnership. If the limited partners have either (a) the substantive ability to liquidate the limited partnership or otherwise remove the general partner without cause or (b) substantive participating rights, the general partner does not control the limited partnership.

The limited liability company agreements of HGC do not provide for the right of the members to remove the manager by a simple majority vote of the non-affiliated members and therefore the manager (with a minority interest in the limited liability company) is deemed to control HGC. As a result, we consolidated HGC from its inception on April 1, 2010.

Similar to HGC, the limited liability company agreements of HGC II do not provide for the right of the members to remove the manager by a simple majority vote of the non-affiliated members and therefore the manager (with a minority interest in the limited liability company) is deemed to control HGC II. As a result, we consolidated HGC II from its inception in the fourth quarter of 2012.

On August 6, 2010, along with individual employee security holders (the "Unitholders") of JMP Credit, we 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, we issued an aggregate of 381,310 shares of restricted stock and transferred 109 subordinated notes to the Unitholders and we received all the remaining units and shares of JMP Credit that we did not previously own. The restricted stock and the Cratos CLO notes are subject to limitations on transfer and our repurchase rights 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 the aforementioned transaction, we own 100% of JMP Credit and approximately 94% of the subordinated notes of Cratos CLO.

On August 18, 2011, HCS entered into an investment management and advisory agreement with HCC. HCC makes direct investments in the form of subordinated debt and, to a lesser extent, senior debt and minority equity investments, in privately-held U.S. small to mid-size companies. HCC commenced operations in September 2011. HCS acts as its investment advisor, earning a base management fee equal to 2% annually of the gross assets acquired with equity. HCS does not charge a base management fee on assets funded through the Company's line of credit. JMP Credit Advisors provides HCC with its administrative services, and is reimbursed its expenses, including the allocable percentage of the compensation costs for the employees performing services under the agreement. The Company consolidates HCC into its consolidated financial statements.

Results of Operations

The following table sets forth our results of operations for the three months ended March 31, 2013 and 2012 and is not necessarily indicative of the results to be expected for any future period.

| (In thousands) | Three Months Ended March 31, 2013 | 2012 | Change from 2012 to 2013 $ | % |
|---|---|---|---|---|
| Revenues | | | | |
| Investment banking | $ 12,107 | $ 16,659 | $ (4,552) | -27.3 % |
| Brokerage | 5,194 | 5,492 | (298) | -5.4 % |
| Asset management fees | 6,751 | 3,474 | 3,277 | 94.3 % |
| Principal transactions | 1,917 | 6,484 | (4,567) | -70.4 % |
| Gain on sale and payoff of loans and mark-to-market of loans | 1,089 | 1,047 | 42 | 4.0 % |
| Net dividend expense | (8) | (14) | 6 | -42.9 % |
| Other income | 288 | 736 | (448) | -60.9 % |
| Non-interest revenues | 27,338 | 33,878 | (6,540) | -19.3 % |
| | | | | |
| Interest income | 8,158 | 7,458 | 700 | 9.4 % |
| Interest expense | (11,299) | (9,608) | (1,691) | 17.6 % |
| Net interest expense | (3,141) | (2,150) | (991) | 46.1 % |
| | | | | |
| Provision for loan losses | (949) | (93) | (856) | 920.4 % |
| | | | | |
| Total net revenues after provision for loan losses | 23,248 | 31,635 | (8,387) | -26.5 % |
| | | | | |
| Non-interest expenses | | | | |
| Compensation and benefits | 19,605 | 21,771 | (2,166) | -9.9 % |
| Administration | 1,331 | 1,250 | 81 | 6.5 % |
| Brokerage, clearing and exchange fees | 887 | 896 | (9) | -1.0 % |
| Travel and business development | 958 | 702 | 256 | 36.5 % |
| Communication and technology | 853 | 908 | (55) | -6.1 % |
| Professional fees | 1,024 | 639 | 385 | 60.3 % |
| Other | 1,113 | 1,280 | (167) | -13.0 % |
| Total non-interest expenses | 25,771 | 27,446 | (1,675) | -6.1 % |
| (Loss) income before income tax expense | (2,523) | 4,189 | (6,712) | -160.2 % |
| Income tax (benefit) expense | (812) | 381 | (1,193) | -313.1 % |
| Net (loss) income | (1,711) | 3,808 | (5,519) | -144.9 % |
| Less: Net income attributable to non-controlling interest | 8 | 3,432 | (3,424) | -99.8 % |
| Net (loss) income attributable to JMP Group Inc. | $ (1,719) | $ 376 | $ (2,095) | -557.2 % |

Three months ended March 31, 2013, Compared to Three months ended March 31, 2012

Overview

Total net revenues after provision for loan losses decreased $8.4 million, or 26.5%, from $31.6 million for the quarter ended March 31, 2012 to $23.2 million for the quarter ended March 31, 2013, driven by a decrease in non-interest revenues of $6.6 million.

Non-interest revenues decreased $6.6 million, or 19.3%, from $33.9 million for the quarter ended March 31, 2012 to $27.3 million in the same period in 2013. This decrease was primarily due to a $4.6 million decrease in principal transactions and a $4.6 million decrease in investment banking revenues, partially offset by a $3.3 million increase in asset management revenues.

Net interest expense increased $0.9 million, or 46.1%, from $2.2 million for the quarter ended March 31, 2012 to $3.1 million for the same period in 2013. The increase was primarily related to the net interest expense of JMP Credit, which increased from $2.6 million loss for the quarter ended March 31, 2012 to $4.1 million for the quarter ended March 31, 2013 as a result of increased net liquidity discount amortization. In addition, interest expense increased $0.7 million due to the bond issued in January 2013. This increase in net interest expense was partially offset by an increase of net interest income at HCC, which increased from $0.4 million for the quarter ended March 31, 2012 to $1.3 million for the quarter ended March 31, 2013.

Provision for loan losses increased $0.8 million from $0.1 million for the quarter ended March 31, 2012 to $0.9 million for the quarter ended March 31, 2013. The increase was driven by a specific reserve from one non-accrual loan held at JMP Credit.

Total non-interest expenses decreased $1.6 million, or 6.1%, from $27.4 million for the quarter ended March 31, 2012 to $25.8 million for the quarter ended March 31, 2013, primarily due to a decrease in compensation and benefits of $2.2 million, partially offset by an increase in professional fees of $0.4 million and travel and business development of $0.3 million.

Net income attributable to JMP Group Inc. decreased $2.1 million, or 557.2%, from $0.4 million after income tax expense of $0.4 million for the quarter ended March 31, 2012 to a $1.7 million loss after income tax benefit of $0.8 million for the quarter ended March 31, 2013.

Adjusted Operating Net Income (Non-GAAP Financial Measure)

Management uses Adjusted Operating Net Income as a non-GAAP metric when evaluating the performance of JMP Group's core business strategy and ongoing operations, as management believes that this metric appropriately illustrates the operating results of JMP Group’s core operations and business activities. Adjusted Operating Net Income is derived from our segment reported results and is the measure of segment profitability on an after-tax basis used by management to evaluate our performance. This non-GAAP measure is presented to enhance investors’ overall understanding of our current financial performance. Additionally, management believes that Adjusted Operating Net Income is a useful measure because it allows for a better evaluation of the performance of JMP Group’s ongoing business and facilitates a meaningful comparison of the company’s results in a given period to those in prior and future periods. Moreover, the company utilized Adjusted Operating Net Income as a threshold for the vesting of performance-related RSUs granted as a component of 2012 and 2013 employee bonus compensation.

Management also reviews the Operating Net Income which differs from the Adjusted Operating Net Income, as it includes the non-cash gains and losses recognized by JMP Credit Corp due to the sale or payoff of loans originally

included in the portfolio acquired by JMP Group in April 2009. As these items will be fully accounted for as of May 2013, Adjusted Operating Net Income will revert to Operating Net Income in future periods. Refer to p.41 for financial impact related to this adjustment.

Adjusted Operating Net Income should not be considered a substitute for results that are presented in a manner consistent with GAAP. A limitation of the non-GAAP financial measures presented is that, unless otherwise indicated, the adjustments concern gains, losses or expenses that JMP Group generally expects to continue to recognize, and the adjustment of these items should not be construed as an inference that these gains or expenses are unusual, infrequent or non-recurring. Therefore, management believes that both JMP Group’s GAAP measures of its financial performance and the respective non-GAAP measures should be considered together. Adjusted Operating Net Income may not be comparable to a similarly titled measure presented by other companies.

Adjusted Operating Net Income is a non-GAAP financial measure that adjusts the Company's GAAP net income as follows:

(i) reverses non-cash stock-based compensation expense recognized under GAAP related to historical equity awards granted in prior periods (both at the time of JMP Group's May 2007 initial public offering and thereafter), as management evaluates performance by considering the full expense of equity awards granted in the period in which such compensation was awarded, even if the expense of an award will be recognized in future periods under GAAP;

(ii) recognizes 100% of the cost of deferred compensation, including non-cash stock-based compensation expense, in the period for which such compensation was awarded, instead of recognizing such cost over the vesting period as required under GAAP, in order to match compensation expense with the actual period upon which the compensation was based;

(iii)excludes the non-cash net amortization of liquidity discounts on loans held and asset-backed securities issued by JMP Credit Corporation, due to scheduled contractual principal repayments, which is not representative of the Company's core operating results or core business activities;

(iv)excludes non-cash amortization expense related to an intangible asset;

(v)reverses net non-cash unrealized gains and losses on strategic equity investments and warrants;

(vi)excludes non-cash unrealized mark-to-market gains or losses on the investment portfolio at HCC, due to its adoption of investment company accounting in preparation for its pending initial public offering as a business development company;

(vii)excludes a non-recurring bargain purchase gain resulting from the acquisition of Cratos Capital Partners by JMP Credit Corporation;

(viii)excludes non-cash gains or losses recognized by JMP Credit Corporation due to the sale or payoff of loans originally included in the portfolio acquired by JMP Group in April 2009, as these gains and losses provide a relatively volatile revenue stream that management believes is not indicative of the Company's core businesses and ongoing operations;

(ix)presents revenues and expenses on a basis that deconsolidates HGC, HGC II and HCC, which are certain investment funds that HCS manages, as we own a relatively small percentage of these funds, even though it consolidates them under GAAP; and

(x)assumes a combined federal, state and local income tax rate of 38% for 2013 and 42% for 2012.

Discussed below is our adjusted operating net income by segment. This information is reflected in a manner utilized by management to assess the financial operations of the Company's various business lines.

Three Months Ended March 31, 2013

(In thousands)

| | Broker-Dealer | Asset Management | Corporate Credit | Corporate | Eliminations | Total Segments |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Investment banking | $12,178 | $ - | $- | $- | $ (70 ) | $12,108 |
| Brokerage | 5,194 | - | - | - | - | 5,194 |
| Asset management related fees | - | 8,033 | 50 | - | (184 ) | 7,899 |
| Principal transactions | 271 | 624 | - | 1,329 | 6 | 2,230 |
| Gain on sale, payoff and mark-to-market of loans | - | - | 843 | - | - | 843 |
| Net dividend income | (8 ) | 257 | - | - | - | 249 |
| Net interest (expense) income | (17 ) | 1 | 4,633 | (329 ) | - | 4,288 |
| Provision for loan losses | - | - | (68 ) | - | - | (68 ) |
| Adjusted net revenues | 17,618 | 8,915 | 5,458 | 1,000 | (248 ) | 32,743 |
| | | | | | | |
| Non-interest expenses | | | | | | |
| Non-interest expenses | 15,915 | 7,540 | (968 ) | 3,989 | (178 ) | 26,298 |
| Less: Non-controlling interest | - | - | 176 | - | - | 176 |
| Operating pre-tax net income | 1,703 | 1,375 | 6,250 | (2,989 ) | (70 ) | 6,269 |
| Income tax expense (assumed rate of 38%) | 647 | 522 | 2,375 | (1,136 ) | (27 ) | 2,381 |
| Adjusted operating net income | $1,056 | $ 853 | $3,875 | $(1,853 ) | $ (43 ) | $3,888 |

Three Months Ended March 31, 2012

(In thousands)

| | Broker-Dealer | Asset Management | Corporate Credit | Corporate | Eliminations | Total Segments |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Investment banking | $16,713 | $ - | $- | $- | $ - | $16,713 |
| Brokerage | 5,492 | - | - | - | - | 5,492 |
| Asset management related fees | - | 4,673 | 39 | - | (170 ) | 4,542 |
| Principal transactions | 215 | 1,470 | 164 | 914 | - | 2,763 |
| Gain on sale, payoff and mark-to-market of loans | - | - | 284 | - | - | 284 |
| Net dividend income | (14 ) | 77 | - | - | - | 63 |
| Net interest (expense) income | 48 | 4 | 4,607 | 11 | - | 4,670 |
| Provision for loan losses | - | - | (93 ) | - | - | (93 ) |
| Adjusted net revenues | 22,454 | 6,224 | 5,001 | 925 | (170 ) | 34,434 |
| | | | | | | |
| Non-interest expenses | | | | | | |
| Non-interest expenses | 18,995 | 4,767 | (537 ) | 3,864 | (170 ) | 26,919 |
| Less: Non-controlling interest | - | - | 135 | - | - | 135 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating pre-tax net income | 3,459 | 1,457 | 5,403 | (2,939 | ) | - | 7,380 |
| Income tax expense (assumed rate of 42%) | 1,453 | 612 | 2,269 | (1,234 | ) | - | 3,100 |
| Adjusted operating net income | $2,006 | $ 845 | $3,134 | $(1,705 | ) | $ - | $4,280 |

The following table reconciles the adjusted operating net income to Total Segments adjusted operating pre-tax net income, to consolidated pre-tax net income (loss) attributable to JMP Group, and to consolidated net income (loss) attributable to JMP Group, for the three months ended March 31, 2013 and 2012.

| (In thousands) | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Adjusted operating net income | $ 3,888 | $ 4,280 |
| Addback of Income tax expense (assumed rate of 38% for 2013 and 42% for 2012) | 2,381 | 3,100 |
| Total Segments adjusted operating pre-tax net income | $ 6,269 | $ 7,380 |
| Adjustments: | | |
| Stock compensation expense | 137 | - |
| Compensation expense - post-IPO RSUs | 616 | 180 |
| Deferred compensation program accounting adjustment | (1,124) | - |
| Net unrealized loss (gain) on strategic equity investments and warrants | 157 | (321) |
| Net amortization of liquidity discounts on loans and asset-backed securities issued | 8,740 | 7,175 |
| Unrealized HCC mark-to-market (gain) loss | (162) | 12 |
| Gain (loss) and specific provision on loan portfolio acquired | 436 | (423) |
| Total Consolidation Adjustments and Reconciling Items | 8,800 | 6,623 |
| Consolidated pre-tax net (loss) income attributable to JMP Group Inc. | $ (2,531) | $ 757 |
| | | |
| Income tax (benefit) expense | (812) | 381 |
| Consolidated Net (Loss) Income attributable to JMP Group Inc. | $ (1,719) | $ 376 |

When evaluating the performance of JMP Group's core business strategy and ongoing operations, management also reviews the operating net income which include the non-cash gains and losses recognized by JMP Credit Corp due to the sale or payoff of loans originally included in the portfolio acquired by JMP Group in April 2009, as well as the provision for loan losses related to this portfolio of loans. The reconciling items are included in the line item gain (loss) and specific provisions on loan portfolio acquired in the table above. The reconciling items include the non-cash gains and losses for $0.2 million and $0.7 million, specific reserve on the loan from the portfolio of $0.9 million and zero, and the related compensation decreasing adjustment of $0.3 million and increasing adjustment of $0.3 million for the three months ended March 31, 2013 and 2012, respectively. Including these adjustments, the operating net income, after a 42% and 38% tax rate, is $4.5 million and $3.7 million for the three months ended March 31, 2012 and 2013, respectively.

Revenues

Investment Banking

Investment banking revenues decreased $4.6 million, or 27.3%, from $16.7 million for the quarter ended March 31, 2012 to $12.1 million for the same period in 2013. As a percentage of total net revenues after provision for loan losses, investment banking revenues increased from 52.7% for the quarter ended March 31, 2012 to 52.1% for the quarter ended March 31, 2013.

Our segment reported investment banking revenues, earned in our Broker-Dealer segment, decreased $4.6 million, or 27.6%, from $16.7 million for the quarter ended March 31, 2012 to $12.1 million for the same period in 2013. Our

strategic advisory revenues decreased $2.6 million, or 64.8%, from $4.0 million for the quarter ended March 31, 2012 to $1.4 million for the quarter ended March 31, 2013. We executed one strategic advisory transaction in the quarter ended March 31, 2013 compared to five in the quarter ended March 31, 2012. Private capital markets and other transaction revenues decreased $2.1 million, or 93.4%, from $2.2 million for the quarter ended March 31, 2012 to $0.1 million for the same period in 2013. We executed no new transactions related to private capital markets and other transactions in the quarter ended March 31, 2013 compared to two in the same period in 2012. Public equity underwriting revenues decreased $0.1 million, or 1.2%, from $9.0 million for the quarter ended March 31, 2012 to $8.9 million for the quarter ended March 31, 2013. We executed 33 and 23 public equity underwriting transactions in the quarters ended March 31, 2013 and 2012, respectively. We acted as a lead manager on seven transactions in the quarter ended March 31, 2013 compared to three in the same period in 2012. Our debt and convertible revenues increased $0.1 million, or 12.9%, from $1.5 million for the quarter ended March 31, 2012 to $1.6 million for the quarter ended March 31, 2013. We executed 10 debt and convertible transactions in the quarter ended March 31, 2013 compared to five in the same period in 2012.

Brokerage Revenues

Brokerage revenues earned in our Broker-Dealer segment decreased $0.3 million, or 5.4%, from $5.5 million for the quarter ended March 31, 2012 to $5.2 million for the quarter ended March 31, 2013. The decrease was the result of reduced commissions per share. Brokerage revenues decreased as a percentage of total net revenues after provision for loan losses, from 17.4% for the quarter ended March 31, 2012 to 22.3% for the quarter ended March 31, 2013. On an adjusted basis, brokerage revenues were 15.9% for both the quarters ended March 31, 2012 and March 31, 2013 as a percentage of adjusted net revenue after provision for loan losses.

Asset Management Fees

| (In thousands) | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Base management fees: | | |
| Fees reported as asset management fees | $2,365 | $2,438 |
| Fees reported as other income | 262 | 709 |
| Fees earned at HGC, HGC II and HCC | 510 | 201 |
| Total base management fees | 3,137 | 3,348 |
| | | |
| Incentive fees: | | |
| Fees reported as asset management fees | $4,386 | $1,036 |
| Fees earned at HGC, HGC II and HCC | 350 | 131 |
| Total incentive fees | 4,736 | 1,167 |
| | | |
| Other fee income: | | |
| Fundraising fees | $26 | $27 |
| Total other fee income | 26 | 27 |
| | | |
| Asset management related fees: | | |
| Fees reported as asset management fees | $6,751 | $3,474 |
| Fees reported as other income | 288 | 736 |
| Fees earned at HGC, HGC II and HCC | 860 | 332 |
| Total Segment asset management related fee revenues | $7,899 | $4,542 |

Fees reported as asset management fees increased $3.3 million, or 94.3%, from $3.5 million for the quarter ended March 31, 2012 to $6.8 million for the quarter ended March 31, 2013. As a percentage of total net revenues after provision for loan losses, asset management revenues increased from 11.0% for the quarter ended March 31, 2012 to 29.0% for the quarter ended March 31, 2013. Fees reported as other income decreased $0.4 million, or 60.9% from $0.7 million for the quarter ended March 31, 2012 to $0.3 million for the quarter ended March 31, 2013. As a percentage of total net revenues after provision for loan losses, other income decreased from 2.3% for the quarter ended March 31, 2012 to 1.2% for the same period in 2013.

Total segment asset management related fees include base management fees and incentive fees for our funds and CLOs under management, as well as other income from fee-sharing arrangements with, and fees earned to raise capital for, third-party investment partnerships or funds. Adjusted asset management related fees are a non-GAAP financial measure that adjusts our total segment asset management related fees by reversing the elimination of those fees in the consolidation of HGC, HGC II and HCC. Adjusted asset management related fees are reconciled to the GAAP measure, total segment asset management fee revenues, in the table above. We believe that presenting adjusted asset management related fees is useful to investors as a means of assessing the performance of JMP Group's combined asset management activities, including its fundraising and other services for third parties. We believe that adjusted asset management-related fee revenues provide useful information by indicating the relative contributions of base management fees and performance-related incentive fees, thus facilitating a comparison of those fees in a given period to those in prior and future periods. We also believe that asset management-related fee revenue is a more meaningful measure than standalone asset management fees as reported, because asset management-related fee revenues represent the combined impact of JMP Group's various asset management activities on the Company's total net revenues.

Total segment asset management related fee revenue increased $3.4 million from $4.5 million for the quarter ended March 31, 2012 to $7.9 million for the quarter ended March 31, 2013. The increase was primarily attributed to incentive fees, partially offset by declines in base management fees. Total incentive fees increased $3.5 million from $1.2 million for the quarter ended March 31, 2012 to $4.7 million for the same period in 2013. The increase in incentive fees was driven by an increase of $3.6 million related to HSCP, partially offset by a decrease of incentive fees earned at HTP of $0.6 million. Base management fees were $3.3 million and $3.1 million for the quarters ended March 31, 2012 and 2013, respectively. On an adjusted basis, adjusted asset management related fees decreased from 13.2% for the quarter ended March 31, 2012 to 24.1% for the quarter ended March 31, 2013 as a percentage of adjusted net revenues after provision for loan losses.

Principal Transactions

Principal transaction revenues decreased $4.6 million from $6.5 million for the quarter ended March 31, 2012 to $1.9 million for the same period in 2013. As a percentage of total net revenues after provision for loan losses, principal transaction revenues decreased from 20.5% for the quarter ended March 31, 2012 to 8.3% for the quarter ended March 31, 2013.

Total segment principal transaction revenues decreased $0.6 million from $2.8 million for the quarter ended March 31, 2012 to $2.2 million for the same period in 2013. Total segment principal transaction revenues are a non-GAAP financial measure that aggregates our segment reported principal transaction revenues across each segment. We believe that presenting total segment principal transaction revenues is useful to investors as a means of assessing the performance of JMP Group’s combined investment activities. The principal transaction revenues for 2013 were primarily based in our Asset Management and Corporate segments, which collectively reflected $2.0 million of the $2.2 million principal transaction revenues. The principal transaction revenues for 2012 were primarily based in our Asset Management and Corporate segments, which collectively reflected $2.4 million of the $2.8 million principal transaction revenues. Total segment principal transaction revenues are reconciled to the GAAP measure, total principal transaction revenues, in the table below.

| (In thousands) | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| Equity and other securities excluding non-controlling interest | $640 | $1,379 |
| Warrants and other investments | 350 | (96) |
| Investment partnerships | 1,240 | 1,480 |
| Total Segment principal transaction revenues | 2,230 | 2,763 |
| Operating adjustment addbacks | 268 | 321 |
| Non-controlling interest in HGC, HGC II and HCC | (581) | 3,400 |
| Total principal transaction revenues | $1,917 | $6,484 |

The decrease primarily reflects reduced revenue from our equity investment and other securities and investment partnerships, partially offset by an increase in revenue from warrants and other investments. Revenues from equity and other securities decreased $0.8 million from $1.4 million for the quarter ended March 31, 2012 to $0.6 million for the same period in 2013, driven primarily by a $0.7 million decrease in unrealized gains in our principal investment portfolio. Revenues from our investment partnerships decreased $0.3 million from $1.5 million for the quarter ended March 31, 2012 to $1.2 million for the quarter ended March 31, 2013. Revenues from warrants and other investments increased by $0.5 million from a loss of $0.1 million for the quarter ended March 31, 2012 to revenues of $0.4 million for the quarter ended March 31, 2013. On an adjusted basis, as a percentage of total net revenues after provision for loan losses, principal transaction revenues increased from 8.0% for the quarter ended March 31, 2012 to 6.8% for the quarter ended March 31, 2013.

Gain on Sale and Payoff of Loans and Mark-to-Market of Loans

Gain on sale, payoff and mark-to-market of loans were $1.0 million and $1.1 million for the quarters ended March 31, 2012 and 2013, respectively. At JMP Credit, during the quarter ended March 31, 2013, 33 loans were sold or paid off, resulting in a total net gain of $0.9 million. Of the total net gain, $0.3 million was related to 22 loan payoffs, where the borrowers repaid the loans at a premium to our carrying value. The remaining $0.6 million related to 11 loans, one of which was sold at a discount to our carrying value, seven of which were sold at par, which was a premium to our carrying value, and three of which were unfunded revolver commitments that expired. While we expect further gains from loan payoffs in future periods, these revenues are highly unpredictable as we are not actively marketing the loans collateralized by asset-backed securities for sale. As a percentage of total net revenues after provision for loan losses, gain on sale, payoff and mark-to-market of loans increased from 3.3% for the quarter ended March 31, 2012 to 4.7% for the quarter ended March 31, 2013.

Gain on sale, payoff and mark-to-market of loans was earned in our Corporate Credit segment. On a segment reporting basis, the gain on sale, payoff and mark-to-market of loans in our Corporate Credit segment excludes the $0.2 million and $0.7 million financial impact of gains or losses due to the sale or payoff of loans originally included in the Cratos CLO portfolio acquired by JMP Group in April 2009 for the three months ended March 31, 2013 and 2012, respectively. The segment reported gain on sale, payoff and mark-to-market of loans also excludes unrealized mark-to-market gains or losses on the investment portfolio at HCC. Our segment reported gain on sale, payoff and mark-to-market of loans in the Corporate Credit segment increased $0.5 million, from $0.3 million for the quarter ended March 31, 2012 to $0.8 million for the quarter ended March 31, 2013. Gain on sale, payoff and mark-to-market of loans increased from 0.8% for the quarter ended March 31, 2012 to 2.6% for the quarter ended March 31, 2013 as a percentage of total segment adjusted net revenues.

Net Dividend Loss

Net dividend loss was $8 thousand and $14 thousand for the quarters ended March 31, 2013 and 2012, respectively.

Net Interest Expense

| (In thousands) | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Cratos CLO loan contractual interest income | $4,940 | $5,344 |
| Cratos CLO ABS issued contractual interest expense | (1,121) | (1,334) |
| Net Cratos CLO contractual interest | 3,819 | 4,010 |
| | | |
| Bond Payable interest expense | (629) | - |
| | | |
| Other interest income | 1,098 | 660 |
| Total Segment net interest income | $4,288 | $4,670 |
| | | |
| Cratos CLO loan liquidity discount accretion | 504 | 881 |
| Cratos CLO ABS liquidity discount amortization | (9,243) | (8,056) |
| Net Cratos CLO liquidity discount amortization | (8,739) | (7,175) |
| | | |
| HCC interest income | 1,786 | 527 |
| HCC interest expense | (476) | (172) |
| Net HCC interest income | 1,310 | 355 |
| | | |
| Total net interest expense | $(3,141) | $(2,150) |

Net interest expense increased $0.9 million, or 46.1% from $2.2 million for the quarter ended March 31, 2012 to $3.1 million for the quarter ended March 31, 2013. Net interest expense included liquidity discount amortization of $7.2 million and $8.7 million for the quarters ended March 31, 2012 and 2013, respectively. Net interest expense also included bond payable interest expense of $0.6 million for the quarter ended March 31, 2013. As a percentage of total net revenues after provision for loan losses, net interest expense increased from 6.8% for the quarter ended March 31, 2012 to 13.5% for the quarter ended March 31, 2013.

Total segment net interest income decreased from $4.7 million for the quarter ended March 31, 2012 to $4.3 million for the quarter ended March 31, 2013. Our total segment net interest income excludes net amortization of liquidity discounts on loans and asset-backed securities issued and interest earned at HCC. Net interest income is earned primarily in our Corporate Credit segment, and largely reflects net Cratos CLO contractual interest. Total segment net interest income is a non-GAAP financial measure that aggregates our segment reported net interest income (expense) across each segment. We believe that presenting total segment net interest income is useful to investors as a means of assessing the performance of JMP Group's combined credit activities. Total segment net interest income is reconciled to the GAAP measure, total net interest expense, in the table above. As a percentage of total segment adjusted net revenues, net interest income decreased from 13.6% for the quarter ended March 31, 2012 to 13.1% for the quarter ended March 31, 2013.

The following table sets forth contractual interest income and expense related to Cratos CLO loans and ABS issued and their weighted average contractual interest rates:

| (In thousands) | Three Months Ended March 2013 | | | | |
|---|---|---|---|---|---|
| | Interest Income (Expense) | Average CLO Loan (CLO ABS Issued) | Weighted Average Contractual Interest | Weighted Average LIBOR | Spread to Weighted Average LIBOR |

| | | Balance | Rate | | |
|---|---|---|---|---|---|
| Cratos CLO loan contractual interest income | $4,940 | $416,494 | 4.75 % | 0.30 % | 4.45 % |
| Cratos CLO ABS issued contractual interest expense | (1,121 ) | 431,003 | 1.04 % | 0.30 % | 0.74 % |
| Net Cratos CLO contractual interest | $3,819 | $N/A | N/A | N/A | N/A |

| (In thousands) | Three Months Ended March 2012 | | | | |
|---|---|---|---|---|---|
| | Interest Income (Expense) | Average CLO Loan (CLO ABS Issued) Balance | Weighted Average Contractual Interest Rate | Weighted Average LIBOR | Spread to Weighted Average LIBOR |
| Cratos CLO loan contractual interest income | $ 5,344 | $ 430,849 | 4.91 % | 0.48 % | 4.43 % |
| Cratos CLO ABS issued contractual interest expense | (1,334 ) | (431,003 ) | 1.22 % | 0.48 % | 0.74 % |
| Net Cratos CLO contractual interest | $ 4,010 | $ N/A | N/A | N/A | N/A |

Contractual interest of $4.9 million was earned on the performing loans held by our Cratos CLO for the quarter ended March 31, 2013. The annualized weighted average contractual interest rate on the performing loans was 4.75% with a spread to weighted average LIBOR of 4.45% for the quarter ended March 31, 2013. Interest expense related to ABS issued was $1.1 million for the quarter ended March 31, 2013. The annualized weighted average contractual interest rate on the ABS issued during the quarter was 1.04% with a spread to weighted average LIBOR of 0.74%.

Contractual interest of $5.3 million was earned on the performing loans held by our Cratos CLO for the quarter ended March 31, 2012. The annualized weighted average contractual interest rate on the performing loans was 4.91% with a spread to weighted average LIBOR of 4.43% for the quarter ended March 31, 2012. Interest expense related to ABS issued was $1.3 million for the quarter ended March 31, 2012. The annualized weighted average contractual interest rate on the ABS issued during the quarter was 1.22% with a spread to weighted average LIBOR of 0.74%.

Provision for Loan Losses

Provision for loan losses increased $0.8 million, or 920.4%, from $0.1 million for the quarter ended March 31, 2012 to $0.9 million for the same period in 2013. The increase was primarily attributed to a $0.8 million specific reserve recorded in 2013. As a percent of net revenues after provision for loan losses, provision for loan losses increased from 0.3% for the quarter ended March 31, 2012 to 4.1% for the quarter ended March 31, 2013.

Total segment provision for loan losses increased from $93 thousand for the quarter ended March 31, 2012 to $68 thousand for the quarter ended March 31, 2013. Total segment provision for loan losses is a non-GAAP financial measure that aggregates our segment reported provision for loan losses across each segment. Our segment provision excludes $0.9 million specific reserve in connection with an impaired loan acquired in April 2009. Our total segment provision for loan losses in 2013 and 2012 was solely recognized in our Corporate Credit segment. As a percent of total segment adjusted net revenues, segment provision for loan losses decreased from 0.3% for the quarter ended March 31, 2012 to 0.2% for the same period in 2013.

Expenses

Non-Interest Expenses

Compensation and Benefits

Compensation and benefits, which includes employee payroll, taxes and benefits, performance-based cash bonus and commissions, as well as equity-based compensation to our employees and managing directors, decreased $2.2 million, or 9.9%, from $21.8 million for the quarter ended March 31, 2012 to $19.6 million for the quarter ended March 31, 2013.

Employee payroll, taxes and benefits, and consultant fees increased $0.6 million, from $9.0 million for the quarter ended March 31, 2012 to $9.6 million for the quarter ended March 31, 2013.

Performance-based bonus and commission decreased $3.6 million, or 28.3%, from $12.6 million for the quarter ended March 31, 2012 to $9.0 million for the quarter ended March 31, 2013. The decrease was primarily due to the decrease in total net revenues after provision for loan losses from $31.6 million for the quarter ended March 31, 2012 to $23.2 million for the same period in 2013.

Equity-based compensation was $0.2 million and $1.0 million for the quarters ended March 31, 2012 and 2013, respectively. The total equity-based compensation expense for the quarter ended March 31, 2012 and 2013 included $0.2 million and $0.8 million, respectively, recognized for RSUs granted after the IPO.

Compensation and benefits as a percentage of revenues increased from 68.8% of total net revenues after provision for loan losses for the quarter ended March 31, 2012 to 84.3% for the same period in 2013. Approximately $3.3 million of unrealized gain on HGC and HCC for the quarter ended March 31, 2012 and $0.2 million of the unrealized loss on HGC and HCC for the quarter ended March 31, 2013, was attributable to non-controlling interest holders and therefore, did not have associated performance-based bonus expense, resulting in the higher percentages for these

periods.

Administration

Administration expense was $1.3 million for both quarters ended March 31, 2012 and 2013. As a percentage of total net revenues after provision for loan losses, administration expense increased from 4.0% for the quarter ended March 31, 2012 to 5.7% for the same period in 2013.

Brokerage, Clearing and Exchange Fees

Brokerage, clearing and exchange fees were $0.9 million for both the quarters ended March 31, 2012 and March 31, 2013. As a percentage of total net revenues after provision for loan losses, our brokerage, clearing and exchange fees decreased from 2.8% for the quarter ended March 31, 2012 to 3.8% for the same period in 2013.

Travel and Business Development

Travel and business development expense increased $0.3 million from $0.7 million for the quarter ended March 31, 2012 to $1.0 million for the quarter ended March 31, 2013. As a percentage of total net revenues after provision for loan losses, travel and business development expense increased from 2.2% for the quarter ended March 31, 2012 to 4.1% for the same period in 2013.

Communications and Technology

Communications and technology expenses were $0.9 million for the quarters ended March 31, 2012 and 2013. As a percentage of total net revenues after provision for loan losses, communications and technology expense increased from 2.9% for the quarter ended March 31, 2012 to 3.7% for the same period in 2013.

Professional Fees

Professional fees were $0.6 million and $1.0 million for the quarters ended March 31, 2012 and March 31, 2013, respectively. As a percentage of total net revenues after provision for loan losses, professional fees increased from 2.0% for the quarter ended March 31, 2012 to 4.4% for the same period in 2013.

Other Expenses

Other expenses were $1.3 million and $1.1 million for the quarters ended March 31, 2012 and 2013, respectively. As a percentage of total net revenues after provision for loan losses, other expenses were 4.0% and 4.8% for the quarters ended March 31, 2012 and 2013, respectively.

Net Income Attributable to Non-controlling Interest

Net income attributable to non-controlling interest decreased from $3.4 million for the quarter ended March 31, 2012 to $8 thousand for the quarter ended March 31, 2013. Non-controlling interest for the quarters ended March 31, 2013 includes the interest of third parties in Cratos CLO, HCC, HGC and HGC II, partially-owned subsidiaries consolidated in our financial statements. Non-controlling interest for the quarters ended March 31, 2012 includes the interest of third parties in Cratos CLO, HCC, and HGC, partially-owned subsidiaries consolidated in our financial statements.

Provision for Income Taxes

For the quarters ended March 31, 2012 and 2013, we recorded income tax benefits of $0.8 million and income tax expense of $0.4 million, respectively. The effective tax rates for the quarters ended March 31, 2012 and 2013 were 8.95% and 33.66%, respectively. The 24.71% change in the effective tax rate for the quarter ended March 31, 2013 compared to same period in 2012 was primarily attributable to the income associated with HGC, HGC II and HCC which are consolidated for financial reporting purposes but not for tax purposes.

Our adjusted operating net income assumes a combined federal, state and local income tax rate of 42% and 38% for the quarters ended March 31, 2012 and 2013, respectively. Segment income tax expense decreased $0.7 million from $3.1 million for the quarter ended March 31, 2012 to $2.4 million for the quarter ended March 31, 2013.

Financial Condition, Liquidity and Capital Resources

In the section that follows, we discuss the significant changes in the components of our balance sheet, cash flows and capital resources and liquidity for the three months ended March 31, 2013 to demonstrate where our capital is invested and the financial condition of the Company.

Overview

As of March 31, 2013, we had net liquid assets of $82.2 million, consisting of cash and cash equivalents, proceeds from short sales on deposit, receivable from clearing broker, marketable securities owned, and general partner investments in hedge funds managed by HCS, net of marketable securities sold but not yet purchased, accrued compensation, note payable and non-controlling interest. We have satisfied our capital and liquidity requirements primarily through the net proceeds from the initial public offering, the January 2013 issuance of the Senior Notes, and internally generated cash from operations. Most of our financial instruments, other than loans collateralizing asset-backed securities issued, loans held for investment and asset-backed securities issued, are recorded at fair value or amounts that approximate fair value. At March 31, 2013 and December 31, 2012, the Company carried Level 3 assets (financial instruments whose fair value was determined using significant unobservable inputs that are not

corroborated by market data) of $96.4 million and $87.4 million, respectively, at fair value, which represented 12.9% and 12.3% of total assets, respectively. Level 3 assets increased $9.0 million, due to the purchased new assets (primarily private equity securities) of $9.3 million, partially offset by the unrealized loss of $0.2 million.

Liquidity Considerations Related to Cratos CLO

On April 7, 2009, we invested $4.0 million of cash and granted $3.0 million original par amount, with a $2.3 million estimated fair value, of contingent consideration (a zero coupon note) to acquire 100% of the membership interests and net assets of $7.5 million of Cratos. In December 2009, we repurchased the contingent consideration for $1.8 million. The Company's ownership of Cratos CLO subordinated securities decreased from 100% to approximately 94% effective August 6, 2010. As we own approximately 94% of the subordinated securities of the CLO, in accordance with the authoritative guidance under GAAP on accounting for consolidation of variable interest entities, we are the primary beneficiary and are required to consolidate all of the assets and liabilities of the CLO securitization structure even though it is a bankruptcy remote entity with no recourse to us.

Our maximum exposure to loss of capital on the Cratos acquisition is the original April 7, 2009 investment of $4.0 million plus the $1.8 million paid to repurchase the contingent consideration, plus any undistributed CLO earnings related to JMP Credit since the acquisition date. However, for U.S. federal tax purposes, Cratos CLO is treated as a disregarded entity such that the taxable income earned in the CLO is taxable to us. If the CLO is in violation of certain coverage tests, mainly any of its overcollateralization ratios, residual cash flows otherwise payable to us as owners of the subordinated notes would be required to be used to buy additional collateral or repay indebtedness senior to us in the securitization. This could require us to pay income tax on earnings prior to the residual cash flow distributions to us.

Cratos CLO must comply with certain asset coverage tests, such as tests that restrict the amount of discounted obligations and obligations rated "CCC" or lower it can hold. During any time the CLO exceeds such a limit, our ability, as the manager of Cratos CLO, to sell assets and reinvest available principal proceeds into substitute assets is restricted. In addition, defaulted obligations, discounted assets (those purchased below 85% of their par value) and assets rated "CCC" or lower in excess of applicable limits in the CLO's investment criteria are not given full par credit for purposes of calculation of the CLO overcollateralization ("OC") tests. Even though we were in compliance with all OC tests on the seven most recent quarterly determination dates, on the quarterly determination dates in February 2010, August and November 2009, Cratos CLO was in violation of its Class E OC test. In order to remedy the deficiency, we were required to use $10.2 million of the CLO's residual cash flows to pay down Class A note holders, rather than distribute the funds to us as owners of the CLO's subordinated notes. If Cratos CLO were to violate the Class E test, or any more senior tests, we would be required to pay down the most senior notes with the residual cash flows until the violation was cured. In the most extreme case, if the CLO were in violation of the most senior OC test, the Class A note holders would have the ability to declare an event of default and cause an acceleration of all principal and interest outstanding on the notes.

For financial reporting purposes, the loans and asset-backed securities of Cratos CLO are consolidated on our balance sheet. The loans are reported at their cost adjusted for amortization of liquidity discount and credit reserves, both of which were recorded at the Cratos acquisition date, purchase discounts and allowance for loan losses. The asset-backed securities are recorded net of liquidity discount only. At March 31, 2013, we had $404.3 million of loans collateralizing asset-backed securities, net, $2.5 million of loans held for sale, $55.3 million of restricted cash and $1.0 million of interest receivable funded by $424.7 million of asset-backed securities issued, net, and interest payable of $0.5 million. These assets and liabilities represented 61.8% of total assets and 76.1% of total liabilities respectively, reported on our consolidated statement of financial condition at March 31, 2013.

The tables below summarize the loans held by Cratos CLO grouped by range of outstanding balance, industry and Moody's Investors Services, Inc. rating category as of March 31, 2013.

(Dollars in thousands)

| Range of Outstanding Balance | | | As of March 31, 2013 | | | |
|---|---|---|---|---|---|---|
| | | | Number of Loans | Maturity Date | | Total Principal |
| $0 | - | $500 | 25 | 8/2015 - | 8/2019 | 9,467 |
| $500 | - | $2,000 | 131 | 12/2013 - | 3/2020 | 168,965 |
| $2,000 | - | $5,000 | 73 | 4/2013 - | 2/2020 | 211,286 |
| $5,000 | - | $10,000 | 5 | 3/2014 - | 5/2018 | 31,178 |
| | Total | | 234 | | | $ 420,896 |

| (Dollars in thousands)<br>Industry | As of March 31, 2013 | | | |
|---|---|---|---|---|
| | Number of Loans | Outstanding Balance | % of Outstanding Balance | |
| Healthcare, Education & Childcare | 23 | 49,587 | 11.8 | % |
| Diversified/Conglomerate Service | 21 | 36,824 | 8.8 | % |
| Retail Store | 19 | 35,541 | 8.5 | % |
| Chemicals, Plastics and Rubber | 15 | 27,187 | 6.5 | % |
| Beverage, Food & Tobacco | 11 | 21,577 | 5.1 | % |
| Personal &Non-Durable Consumer Products | 10 | 21,320 | 5.1 | % |
| Hotels, Motels, Inns and Gaming | 7 | 20,958 | 5.0 | % |
| Electronics | 13 | 20,897 | 5.0 | % |
| Leisure , Amusement, Motion Pictures & Entertainment | 9 | 18,743 | 4.5 | % |
| Aerospace & Defense | 11 | 18,165 | 4.3 | % |
| Personal, Food & Misc Services | 13 | 17,957 | 4.3 | % |
| Utilities | 8 | 17,037 | 4.0 | % |
| Telecommunications | 8 | 15,725 | 3.7 | % |
| Automobile | 5 | 9,352 | 2.2 | % |
| Printing & Publishing | 4 | 9,023 | 2.2 | % |
| Containers, Packaging and Glass | 5 | 8,719 | 2.1 | % |
| Banking | 6 | 7,784 | 1.8 | % |
| Broadcasting & Entertainmt. | 5 | 7,634 | 1.8 | % |
| Finance | 6 | 7,050 | 1.7 | % |
| Ecological | 6 | 6,889 | 1.6 | % |
| Insurance | 3 | 6,697 | 1.6 | % |
| Diversified/Conglomerate Mfg | 7 | 5,687 | 1.4 | % |
| Oil & Gas | 2 | 4,471 | 1.1 | % |
| Grocery | 2 | 3,958 | 0.9 | % |
| Textiles & Leather | 2 | 3,916 | 0.9 | % |
| Farming & Agriculture | 2 | 3,142 | 0.7 | % |
| Personal Transportation | 2 | 3,010 | 0.7 | % |
| Home and Office Furnishings, Housewares and Durable Consumer Products | 2 | 2,942 | 0.7 | % |
| Buildings and Real Estate | 1 | 2,221 | 0.5 | % |
| Machinery (Non-Agriculture,Non-Construction & Non-Electronic) | 2 | 1,832 | 0.4 | % |
| Diversified Natural Resources, Precious Metals and Minerals | 1 | 1,785 | 0.4 | % |
| Cargo Transport | 1 | 1,723 | 0.4 | % |
| Mining, Steel, Iron and Non-Precious Metals | 1 | 1,049 | 0.2 | % |
| Personal and Non-Durable Consumer Products (mfg only) | 1 | 494 | 0.1 | % |
| Total | 234 | $420,896 | 100.0 | % |

| (Dollars in thousands)<br>Moody's Rating Category | As of March 31, 2013 | | | |
|---|---|---|---|---|
| | Number of Loans | Outstanding Balance | % of Outstanding Balance | |
| Baa3 | 2 | 11,023 | 2.6 | % |

| | | | | |
|---|---|---|---|---|
| Ba1 | 6 | 14,074 | 3.3 | % |
| Ba2 | 12 | 29,487 | 7.0 | % |
| Ba3 | 40 | 78,980 | 18.8 | % |
| B1 | 63 | 100,469 | 23.9 | % |
| B2 | 95 | 155,557 | 37.0 | % |
| B3 | 11 | 22,874 | 5.4 | % |
| Caa1 | 3 | 4,352 | 1.0 | % |
| Caa3 | 1 | 394 | 0.1 | % |
| Ca | 1 | 3,686 | 0.9 | % |
| Total | 234 | $420,896 | 100.0 | % |

Other Liquidity Considerations

Note payable consists of term loans and revolving lines of credit related to JMP Group LLC's, our wholly-owned subsidiary ("JMPG LLC"), Credit Agreement with City National Bank ("CNB"), as defined below, and entered into on August 3, 2006 by and between, as amended and restated as of October 11, 2012 (as so amended and restated, the "Credit Agreement").

As of March 31, 2013 (after taking into account any payments under the Credit Agreement that day), JMPG LLC's total consolidated indebtedness under the Credit Agreement was $28.8 million, comprised of $6.6 million of a term loan of JMPG LLC (the "Initial Term Loan"), and $22.2 million of outstanding indebtedness under JMPG LLC's revolving line of credit described below (the "Revolving Line of Credit").

As of March 31, 2013 (after taking into account any payments under the Credit Agreement that day), the aggregate outstanding principal balance of the Initial Term Loan was approximately $6.6 million. The Initial Term Loan is being repaid in equal quarterly payments of approximately $2.2 million, with the final payment date on December 31, 2013.

The Revolving Line of Credit has a maximum principal balance of the lesser of (i) $30.0 million, and (ii) $58.5 million minus (a) the principal amount of the Initial Term Loan then outstanding, (b) the principal amount of the Term Loan B (as defined below), and (c) the principal amount of the Broker/Dealer Line of Credit (as defined below) then outstanding. Under the Credit Agreement, CNB has agreed to issue certain letters of credit in an amount not exceeding $2.5 million, the stated amounts of which will be a reduction to the availability of the Revolving Line of Credit and drawings thereunder may be converted into drawings under the Revolving Line of Credit. The Revolving Line of Credit will remain available through August 24, 2013. On such date, any outstanding amount converts into a term loan (the "Converted Term Loan"). The Converted Term Loan will be repaid in quarterly installments of 3.75% of such term loan for the first two years, 5.00% of such term loan for the next two years, and the remainder due at maturity on August 24, 2017.

In addition, under the Credit Agreement and subject to the terms and conditions therein, CNB also has agreed to extend a $15.0 million term loan (the "Term Loan B" and, together with the Initial Term Loan, the Revolving Line of Credit and the Converted Term Loan, the "CNB Loans") to JMPG LLC on or prior to March 31, 2013, subject to certain terms and conditions contained in the Credit Agreement. The Term Loan B would be repaid in quarterly installments of approximately $1.2 million beginning March 31, 2014 and continuing through September 30, 2016, with a final payment of approximately $1.3 million on December 31, 2016.

Both term loans bear interest at LIBOR plus 2.25%. On May 29, 2010 the Company entered into an interest rate cap with the lender to effectively lock in or fix the interest rate on its revolving line of credit and term loan from July 1, 2010 through maturity. The interest rate cap will allow the Company to receive payments from the counterparty in the event that LIBOR plus 2.25% exceeds 3.75%, limiting the interest rate on the outstanding balance of the line of credit and term loan to such rate. The cap had an initial notional principal amount of $27.1 million (as the remaining balance available under the revolving line of credit was drawn down on July 1, 2010), indexed to LIBOR and amortizes in accordance with the amortization of the revolving line of credit and term loan. The notional principal amount of the cap was $6.6 million at March 31, 2013, with a recorded fair value of $2. Changes in the fair value are recorded in other comprehensive income.

The Credit Agreement provides that the proceeds of the CNB Loans are subject to the following restrictions: (i) the Initial Term Loan and up to $5.0 million of the Revolving Line of Credit Loans may not be used for any purpose other than to fund Permitted Investments (as defined therein), to fund Permitted Acquisitions (as defined therein) and to fund JMPG LLC's working capital needs in the ordinary course of its business; (ii) all other proceeds of the Revolving Line of Credit may not be used for any purpose other than to make investments in HCS and by HCS to make investments in loans that are made to persons that are not affiliates of borrower; and (iii) the Term Loan B may not be used for any purpose other than to make equity investments in Cratos CLO and by Cratos CLO to make Permitted Investments in collateralized loan obligations.

The Credit Agreement includes a mandatory prepayment of the Loans in an amount equal to the amount by which the proceeds of an additional credit facility incurred by Harvest Capital Credit LLC after October 11, 2012 exceeds $75.0 million.

The Credit Agreement includes minimum fixed charge and interest charge coverage ratios applicable to us and our subsidiaries, a minimum net worth covenant applicable to us and our subsidiaries and a minimum liquidity covenant applicable to JMPG LLC and its subsidiaries. Based on preliminary results from the quarter ended March 31, 2013, we expect JMPG LLC to be in compliance with all of these financial covenants. The Credit Agreement also includes an event of default for a "change of control" that tests, in part, the composition of our ownership and an event of default if two or more of Joseph A. Jolson, Carter Mack, Craig Johnson and Mark Lehmann fail to be involved actively on an ongoing basis in the management of JMPG LLC or any of its subsidiaries.

The CNB Loans are guaranteed by HCS and secured by a lien on substantially all assets of JMPG LLC and HCS.

Separately, under a Revolving Note and Cash Subordination Agreement, dated as of April 8, 2011, by and between CNB and JMP Securities, as amended, JMP Securities has a subordinated revolving line of credit with CNB (the "Broker/Deal Line of Credit"). Draws on the Broker/Deal Line of Credit bear interest at the rate of prime. The maximum principal amount of the Broker/Deal Line of Credit is $10.0 million at any one time on or prior to March 31, 2013 and $15.0 million at any one time thereafter and before October 11, 2013. The Broker/Deal Line of Credit matures on October 11, 2014. There were no borrowings on this line of credit as of March 31, 2013. JMPG LLC has guaranteed the obligations under the Broker/Deal Line of Credit pursuant to a General Continuing Guaranty dated as of April 8, 2011. Furthermore, if any of the Broker/Deal Line of Credit remains outstanding for more than 30 days, an event of default will occur under the Credit Agreement.

In January 2013, the Company raised approximately $46.0 million from the sale of 8.00% Senior Notes. The notes will mature on January 15, 2023, and may be redeemed in whole or in part at any time or from time to time at the company's option on or after January 15, 2016, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest. The notes will bear interest at a rate of 8.00% per year, payable quarterly on January 15, April 15, July 15 and October 15 of each year, beginning on April 15, 2013.

The timing of bonus compensation payments to our employees may significantly affect our cash position and liquidity from period to period. While our employees and managing directors are generally paid semi-monthly during the year, bonus compensation, which makes up a larger portion of total compensation, is generally paid once a year during the first two months of the following year. In the first two months of 2013, we paid out $19.2 million of cash bonuses for 2012, excluding employer payroll tax expense.

The Company currently intends to declare quarterly cash dividends on all outstanding shares of common stock. The Company currently does not plan to pay dividends on unvested shares of restricted stock. In March 2013, the Company's board of directors declared and paid a quarterly cash dividend of $0.035 per share, for the fourth quarter of 2012.

During the three months ended March 31, 2013, the Company repurchased 12,790 shares of the Company's common stock at an average price of $6.41 per share for an aggregate purchase price of $0.1 million. 3,284 shares repurchased during the three months ended March 31, 2013, respectively, were deemed to have been repurchased in connection with employee stock plans, whereby the Company's shares were issued on a net basis to employees for the payment of applicable statutory withholding taxes and therefore such withheld shares are deemed to be purchased by the Company. The remaining shares repurchased in the three months ended March 31, 2013 were repurchased in the open market.

We had total restricted cash of $69.1 million comprised primarily of $55.5 million of restricted cash at JMP Credit on March 31, 2013. This balance was comprised of $3.8 million in interest received from loans in the CLO and $51.7 million in principal cash. The interest and fees will be restricted until the next payment date to note holders of the CLO. The principal restricted cash will be used to buy additional loans.

Because of the nature of our investment banking and sales and trading businesses, liquidity is important to us. Accordingly, we regularly monitor our liquidity position, including our cash and net capital positions. We believe that our available liquidity and current level of equity capital, combined with the net proceeds to us from the IPO and funds anticipated to be provided by our operating activities, will be adequate to meet our liquidity and regulatory capital requirements for at least the next twelve months. If circumstances required it, we could improve our liquidity position by discontinuing repurchases of the Company's common stock, halting cash dividends on our common stock and reducing cash bonus compensation paid.

JMP Securities is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital, as defined, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. JMP Securities had net capital of $26.3 million and $36.7 million, which were $25.3 million and $35.7 million in excess of the required net capital of $1.0 million at March 31, 2013 and December 31, 2012, respectively. JMP Securities' ratio of aggregate indebtedness to net capital was 0.37 to 1 and 0.17 to 1 at March 31, 2013 and December 31, 2012, respectively.

A condensed table of cash flows for the three months ended March 31, 2013 and 2012 is presented below.

| (Dollars in thousands) | Three Months Ended March 31, | | Change from 2012 to 2013 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ | % |
| Cash flows provided by operating activities | $(29,197) | $(20,148) | $(9,049) | -44.9% |
| Cash flows used in investing activities | (35,445) | (13,696) | (21,749) | -158.8% |
| Cash flows provided by financing activities | 39,018 | 10,176 | 28,842 | 283.4% |
| Total cash flows | $(25,624) | $(23,668) | $(1,956) | -8.3% |

Cash Flows for the Three months ended March 31, 2013

Cash decreased by $25.6 million during the three months ended March 31, 2013, as a result of cash used in operating activities and in investing activities, partially offset by cash provided by financing activities.

Our operating activities used $29.2 million of cash from the net loss of $1.7 million, adjusted for the cash used in operating assets and liabilities of $28.1 million and provided by non-cash revenue and expense items of $0.6 million. The cash used by the change in operating assets and liabilities included an increase in other assets of $14.2 million, a decrease in accrued compensation and other liabilities of $6.7 million, an increase in receivables of $4.8 million, and an increase in marketable securities sold, but not yet purchased of $3.5 million.

Our investing activities used $35.4 million of cash primarily due to funding of loans collateralizing ABS of $46.2 million, purchases of other investments of $42.0 million, partially offset by cash provided by sales and payoff of loans collateralizing ABS of $38.3 million, and sales of loans collateralizing ABS of $7.6 million.

Our financing activities provided $39.0 million of cash primarily due to the $46.0 million proceeds from the bond issuance and contributions of non-controlling interest holders of $7.3 million, partially offset by the repayment on line of credit of $6.0 million and the repayment of notes payable of $3.9 million.

Cash Flows for the Three months ended March 31, 2012

Cash decreased by $23.7 million during the three months ended March 31, 2012, as a result of cash used in operating activities and in investing activities, offset by cash provided by financing activities.

Our operating activities used $20.1 million of cash from the net income of $3.8 million, adjusted for the cash used in operating assets and liabilities of $24.9 million and provided by non-cash revenue and expense items of $0.9 million. The cash used by the change in operating assets and liabilities included a decrease in accrued compensation and other liabilities of $24.3 million, offset by an increase in marketable securities sold, but not yet purchased of $9.0 million.

Our investing activities used $13.7 million of cash primarily due to funding of loans collateralizing ABS of $45.8 million, purchases of other investments of $11.5 million, partially offset by cash provided by sales and payoff of loans collateralizing ABS of $39.0 million, and repayments on loans collateralizing ABS of $8.5 million.

Our financing activities provided $10.2 million of cash primarily due to the contributions of non-controlling interest holders of $12.1 million and a $7.7 million draw on a line of credit, partially offset by the repurchase of our common stock for treasury of $4.2 million, distributions to non-controlling interest of $2.6 million and the repayment of notes payable of $2.2 million.

Contractual Obligations

As of March 31, 2013, our aggregate minimum future commitment on our leases was $18.9 million. See Note 13 of the Notes to the consolidated financial statements for more information. In January 2013, the Company issued a $46.0 million bond, payable in 2023, with annual interest payments of $2.7 million in 2013, and subsequent annual interest payments of $3.7 million, from 2014 through 2023. Our remaining contractual obligations have not materially changed from those reported in our 2012 10-K.

Off-Balance Sheet Arrangements

In connection with Cratos CLO, the Company had unfunded commitments to lend of $16.5 million and standby letters of credit of $1.3 million as of March 31, 2013. The funds for the unfunded commitments to lend and the cash collateral supporting these standby letters of credit are included in restricted cash on the Consolidated Statement of Financial Position as of March 31, 2013. These commitments do not extend to JMP Group Inc. See Note 18 of the Notes to the consolidated financial statements for more information on the financial instruments with off-balance sheet risk in connection with Cratos CLO.

Unfunded commitments are agreements to lend to a borrower, provided that all conditions have been met. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each borrower’s creditworthiness on a case by case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a borrower to a third party. The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to borrowers.

We had no other material off-balance sheet arrangements as of March 31, 2013. However, as described below under “Item 3. Quantitative and Qualitative Disclosures About Market Risk,” through indemnification provisions in our clearing agreements with our clearing broker, customer activities may expose us to off-balance sheet credit risk, which we seek to mitigate through customer screening and collateral requirements.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reporting periods. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. The use of different estimates and assumptions could produce materially different results. For

example, if factors such as those incorporated by reference to Part II, Item 1A "Risk Factors" cause actual events to differ from the assumptions we used in applying the accounting policies, our results of operations, financial condition and liquidity could be adversely affected.

On an ongoing basis, we evaluate our estimates and assumptions, particularly as they relate to accounting policies that we believe are most important to the presentation of our financial condition and results of operations. We regard an accounting estimate or assumption to be most important to the presentation of our financial condition and results of operations where:

- the nature of the estimates or assumptions is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

- the impact of the estimates or assumptions on our financial condition or operating performance is material.

Using the foregoing criteria, we consider the following to be our critical accounting policies:

- Valuation of Financial Instruments

- Asset Management Investment Partnerships

- Loans Collateralizing Asset-backed Securities Issued
- Allowance for Loan Losses
- Asset-backed Securities Issued
- Legal and Other Contingent Liabilities
- Income Taxes

Our significant accounting policies are described further in the "Critical Accounting Policies and Estimates" section and Note 2 - Summary of Significant Accounting Policies to our consolidated financial statements in our 2012 10-K.

## ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

### Market Risk

Market risk represents the risk of loss that may result from the change in value of a financial instrument due to fluctuations in its market price. Market risk may be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Our exposure to market risk is directly related to our role as a financial intermediary in customer trading and to our market making and investment activities. Market risk is inherent in financial instruments.

Even though we trade in equity securities as an active participant in both listed and OTC markets and we make markets in over two hundred stocks, we typically maintain very few securities in inventory overnight to minimize market risk. In addition, we act as agent rather than principal whenever we can and may use a variety of risk management techniques and hedging strategies in the ordinary course of our trading business to manage our exposures. Historically, in connection with our principal investments in publicly-traded equity securities, we have engaged in short sales of equity securities to offset the risk of purchasing other equity securities. In 2012, we engaged in a forward contract derivative to secure the acquisition of certain private equity securities. In the future, we may utilize other hedging strategies such as equity derivative trades.

In connection with our sales and trading business, management evaluates the amount of risk in specific trading activities and determines our tolerance for such activities. Management monitors risks in its trading activities by establishing limits for the trading desk and reviewing daily trading results, inventory aging, and securities concentrations. Typically, market conditions are evaluated and transaction details and securities positions are reviewed. These activities seek to ensure that trading strategies are within acceptable risk tolerance parameters. Activities include price verification procedures, position reconciliations and reviews of transaction bookings. We believe these procedures, which stress timely communications between traders, trading management and senior management, are important elements of the risk management process.

### Equity Price and Liquidity Risk

Equity price and liquidity risk represents the potential loss in value due to adverse changes in the level of market activity and volatility of equity prices. We are exposed to equity price and liquidity risk through our trading activities in both listed and OTC equity markets and security positions in our principal investment portfolio. We attempt to reduce the risk of loss inherent in our inventory of equity securities by establishing position limits, monitoring inventory turnover and entering into hedging transactions designed to mitigate our market risk profile.

Our marketable securities owned include long positions in equity securities that were recorded at a fair value of $17.8 million as of March 31, 2013. Our marketable securities sold but not yet purchased consist of short positions in equity securities and were recorded at a fair value of $12.3 million as of March 31, 2013. The net potential loss in fair value for our marketable equity securities portfolio as of March 31, 2013, using a hypothetical 10% decline in prices, is estimated to be approximately $0.6 million. In addition, as of March 31, 2013, we have invested $59.5 million of our own capital in our funds, which are invested primarily in publicly traded equity securities. The net potential loss in fair value for our investments at March 31, 2013, using a hypothetical 10% decline in the funds' investment portfolios, is estimated to be approximately $6.0 million.

Interest Rate Risk

Interest rate risk represents the potential loss from adverse changes in market interest rates. As we may hold U.S. Treasury securities and other fixed income securities and may incur interest-sensitive liabilities from time to time, we are exposed to interest rate risk arising from changes in the level and volatility of interest rates and in the shape of the yield curve. We believe we have mitigated our interest rate risk on our interest-sensitive liabilities, except liabilities of Cratos CLO, by entering into an interest rate cap through the maturity of these liabilities.

Credit Risk

Our broker-dealer subsidiary places and executes customer orders. The orders are then settled by an unrelated clearing organization that maintains custody of customers' securities and provides financing to customers.

Through indemnification provisions in our agreement with our clearing organization, customer activities may expose us to off-balance-sheet credit risk. We may be required to purchase or sell financial instruments at prevailing market prices in the event a customer fails to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer obligations. We seek to control the risks associated with brokerage services for our customers through customer screening and selection procedures as well as through requirements that customers maintain margin collateral in compliance with governmental and self-regulatory organization regulations and clearing organization policies.

Credit risk also includes the risk that we will not fully collect the principal we have invested in loans held for investment and loans collateralizing asset-backed securities issued due to borrower defaults. While we feel that our origination and underwriting of these loans will help to mitigate the risk of significant borrower defaults on these loans, we cannot assure you that all borrowers will continue to satisfy their payment obligations under these loans, thereby avoiding default.

Inflation Risk

Because our assets are generally liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects such expenses as employee compensation and communications charges, which may not be readily recoverable in the prices of services we offer. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our combined financial condition and results of operations in certain businesses.

## ITEM 4. Controls and Procedures

Our management, with the participation of the Chairman and Chief Executive Officer (the principal executive officer) and the Chief Financial Officer (the principal financial officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chairman and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective. There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

# PART II—OTHER INFORMATION

## ITEM 1. Legal Proceedings

We are involved in a number of judicial, regulatory and arbitration matters arising in connection with our business. The outcome of matters we have been and currently are involved in cannot be determined at this time, and the results cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on our results of operations in any future period and a significant judgment could have a material adverse impact on our financial condition, results of operations and cash flows. We may in the future become involved in additional litigation in the ordinary course of our business, including litigation that could be material to our business. Management, after consultation with legal counsel, believes that the currently known actions or threats against us will not result in any material adverse effect on our financial condition, results of operations or cash flows.

## ITEM 1A. Risk Factors

The risk factors included in our 2012 10-K continue to apply to us, and describe risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. There have not been any material changes from the risk factors previously described in our 2012 10-K.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth the information with respect to purchases made by or on behalf of JMP Group Inc. or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act), of our common stock during the quarter ended March 31, 2013.

| Period | | | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|---|---|
| January 1, 2013 | to | January 31, 2013 | - | $ - | - | 750,901 |
| February 1, 2013 | to | February 28, 2013 | 3,284 | $ 6.57 | 3,284 | 747,617 |
| March 1, 2013 | to | March 31, 2013 | 9,506 | $ 6.36 | 9,506 | 1,990,494 |
| Total | | | 12,790 | | 12,790 | |

(1) The Company's board of directors authorized the repurchase of 1.0 million shares during the eighteen months subsequent to November 1, 2011 and the repurchase of an additional 0.5 million shares during the fourteen months subsequent to October 30, 2012. On March 5, 2013, the Company's board of directors authorized the repurchase of an additional 1.3 million shares, and extended the authorization of all outstanding shares through December 31, 2014.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 6, 2013

JMP Group Inc.

| | |
|---|---|
| By: | /s/ JOSEPH A. JOLSON |
| Name: | Joseph A. Jolson |
| Title: | Chairman and Chief Executive Officer |
| | |
| By: | /s/ RAYMOND S. JACKSON |
| Name: | Raymond S. Jackson |
| Title: | Chief Financial Officer |

EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 10.20.6 | Amendment Number One to Amended and Restated Credit Agreement, dated April 8, 2013 (furnished herewith). |
| 101 | The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes (furnished herewith). |