

JMP Group Inc.  
Form 424B4  
May 11, 2007  
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Filed Pursuant to Rule 424(b)(4)  
File No. 333-140689

## 7,999,098 Shares

### Common Stock

This is an initial public offering of common stock of JMP Group Inc. We are selling 6,000,000 shares of our common stock, and the selling stockholders named in this prospectus are selling an additional 1,999,098 shares. Prior to this offering, there has been no public market for our shares. Our shares of common stock have been authorized for listing on the New York Stock Exchange under the symbol JMP.

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Investing in our common stock involves risks.

Please read the Risk Factors section beginning on page 15.

	Per Share	Total
Public Offering Price	\$ 11.00	\$ 87,990,078
Underwriting Discounts and Commissions	\$ 0.77	\$ 6,159,305
Proceeds, Before Expenses, to Us	\$ 10.23	\$ 61,380,000
Proceeds, Before Expenses, to the Selling Stockholders	\$ 10.23	\$ 20,450,773

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

We have granted the underwriters a 30-day option to purchase up to an additional 1,199,864 shares of our common stock to cover overallocments, if any, at the public offering price per share, less underwriting discounts and commissions.

The underwriters expect to deliver the shares of our common stock to purchasers on or about May 16, 2007.

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**JMP Securities**

**Merrill Lynch & Co.**

**Keefe, Bruyette & Woods**

**Fox-Pitt, Kelton**

**Sandler O'Neill + Partners, L.P.**  
The date of this prospectus is May 10, 2007.

**Signal Hill**

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You should rely only on the information contained in this prospectus or contained in any free writing prospectus filed with the Securities and Exchange Commission. We have not authorized anyone to provide you with different information from that contained in this prospectus or in any free writing prospectus filed with the Securities and Exchange Commission. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers or sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of common stock.

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JMP Securities and JMP Asset Management are our registered trademarks. Additionally, we have filed an application to register JMP as a trademark. Tradenames, trademarks and service marks of other companies appearing in this prospectus are the property of their respective holders.

## **INDUSTRY AND MARKET DATA**

In this prospectus, we rely on and refer to information and statistics regarding the investment banking industry, the asset management industry and the financial services industry. We obtained this data from independent providers or publicly available resources. Forecasts and other forward-looking statements made by these sources are subject to the same qualifications and uncertainties as the other forward-looking statements in this prospectus. Unless otherwise stated, information regarding our employees is as of December 31, 2006.

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**PROSPECTUS SUMMARY**

*You should read the following summary together with the more detailed information in this prospectus, including the Risk Factors, our consolidated financial statements and the accompanying notes contained at the end of this prospectus. Unless otherwise mentioned or unless the context otherwise indicates, all references in this prospectus to we, us, our, our firm, JMP Group, or similar references mean JMP Group Inc. and its subsidiaries.*

*Prior to the completion of this offering, we will complete a corporate reorganization so that JMP Group Inc. succeeds to the business historically operated by JMP Group LLC. Accordingly, unless otherwise specified, we describe the business in this prospectus as if it were our business, giving effect to the corporate reorganization as if it had been completed prior to this offering.*

**JMP Group Inc.**

We are a full-service investment banking and asset management firm headquartered in San Francisco. We have a diversified business model with a focus on small and middle-market companies and provide:

investment banking services, 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 related to our six target industries; and

asset management products and services to institutional investors, high net-worth individuals and for our own account.

We were founded in 1999 by senior professionals from Montgomery Securities, a leading investment bank serving growth companies during the 1980s and 1990s, which now operates as Banc of America Securities. We were formed to take advantage of a void in the marketplace created by the acquisition of established independent research boutiques by large commercial banks during the mid- and late-1990s. Like our research-driven predecessors, as a growth-oriented, entrepreneurial firm, we are dedicated to serving the needs of small and middle-market companies and the institutions that invest in them. We have attracted experienced, revenue-producing professionals who are knowledgeable about their industries and have longstanding relationships with successful companies in their sectors. As of December 31, 2006, we had 64 managing directors and 27 non-member directors who together represented nearly 50% of our total employees.

We focus our efforts on clients in six growth industries: business services, consumer, financial services, healthcare, real estate, and technology. Our specialization in these industries has enabled us to develop recognized expertise and to cultivate extensive industry relationships. As a result, we have established our firm as a key advisor for our corporate clients, a trusted resource for institutional investors, and an effective investment manager for our asset management clients.

We approach our work with the idea that expertise, intellectual capital and relationships cannot be commoditized. In our view, producing attractive returns for our investors and maintaining a strong balance sheet are essential in building a successful enterprise over the long term. As a result, we have sought to balance rapid growth with acceptable levels of profitability. We believe that we have constructed a successful operating model for serving growth industries, which will help us continue to grow our firm.

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Since inception through December 31, 2006, we have:

lead managed and co-managed 133 public securities offerings, including initial public, follow-on and preferred equity offerings, and 59 private securities offerings, including private investments in public equities, or PIPEs, Rule 144A private offerings, and trust preferred securities offerings, representing more than \$21.5 billion of total gross proceeds;

advised companies on 62 mergers and acquisitions, or M&A, transactions and other strategic advisory assignments representing approximately \$5.3 billion of total transaction value;

increased our daily trading volume of publicly traded equity securities to an average of 5.5 million shares for the year ended December 31, 2006, compared to 3.2 million shares for the year ended December 31, 2005 and 2.6 million shares for the year ended December 31, 2004;

established a highly experienced equity research team, including 20 senior research analysts who publish independent fundamental research on 279 companies; and

formed a family of five proprietary hedge funds, two funds of hedge funds, and an externally advised real estate investment trust, or REIT.

We have achieved strong financial results since our inception, generating growth in revenues and earnings as well as diversifying our revenues by industry and product. This diversification has allowed us to be consistently profitable in a variety of economic and capital markets environments, including the three-year industry downturn following the bursting of the Internet and technology bubble. In our investment banking and brokerage businesses, we earn transaction fees for providing capital raising and financial advisory services to corporate clients and commissions for executing equity trades for institutional investors. In our asset management business, we earn management fees from the funds we manage and the REIT we advise based on the net assets under management, and we earn incentive fees if our investment returns exceed certain benchmarks. During the five years ended December 31, 2006, we increased annual revenues from \$19.7 million to \$86.8 million.

## **Principal Business Lines**

We operate our business through two subsidiaries, JMP Securities LLC, a registered broker-dealer and JMP Asset Management LLC, a registered investment adviser. Through JMP Securities, we conduct our investment banking, sales and trading, and equity research businesses. Through JMP Asset Management, we manage hedge funds and other investment vehicles.

*Investment Banking.* Our investment banking professionals provide capital raising, merger and acquisition and other strategic advisory services to corporate clients. Dedicated industry coverage groups serve each of our six targeted sectors, enabling our investment bankers to develop expertise in specific markets and to form close relationships with corporate executives, private equity investors, venture capitalists and other key industry participants.

*Sales and Trading.* Our sales and trading professionals distribute our equity research products and communicate our proprietary investment recommendations to our client base of institutional investors. In addition, our sales and trading staff executes equity trades on behalf of our clients and sells the securities of companies for which we act as an underwriter.

*Equity Research.* We believe that objective, fundamental analysis forms the basis for value-added equity research and we view our equity research as the foundation of our firm. Our research department consists of 20 senior research analysts, including 11 managing directors with an average



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of 13 years of industry experience, and a total of 37 research professionals who publish investment recommendations on 279 primarily small and mid-sized public companies. Our research analysts develop proprietary investment themes and produce timely, action-oriented recommendations to assist our clients with their investment decisions.

*Asset Management.* Our asset management group actively manages several funds for institutional and high-net-worth investors seeking alternative investment opportunities, in addition to committing our own capital to principal investments. The objective of our multiple fund strategies is to diversify both revenue and risk while maintaining the attractive business economics of the hedge fund model. To the extent that we invest for our own account, we commit a portion of our capital to a portfolio of equity securities managed by JMP Asset Management and also contribute capital as the general partner of the funds JMP Asset Management manages. In some cases, we co-invest alongside our institutional clients in private transactions originated by our investment banking business. We may also invest in private equity funds or other alternative investment vehicles managed by third parties, although we have done so infrequently in the past.

### **Market Opportunity**

Since the mid-1990s, there have been more than 40 acquisitions of U.S. investment banking firms that we would have considered our direct peers or competitors. Most of these firms were acquired by larger financial institutions, including U.S. and international depository institutions, insurance companies and investment banking firms. This continued industry consolidation has led to:

the tendency of major financial institutions and the firms acquired by them to focus on more mature industry segments, companies with larger market capitalizations, and larger transactions;

the reduction of equity research coverage, specifically of small and middle-market growth companies; and

restructuring and downsizing within the remaining consolidated investment banks, resulting in a further reduction of investment banking and brokerage resources allocated to small and middle-market companies and their investors.

We believe that small and middle-market companies now receive less consistent attention from consolidated investment banking firms, which now pursue clients and transactions with larger market values. Due to our focus on small and middle-market companies within our six target industries, we believe that our extensive relationships and expertise in serving these companies provide us with a distinct competitive advantage.

### **Competitive Strengths**

We believe that the following factors define our business model, establish our competitive position and distinguish us from other companies that participate in our businesses and markets:

*Experienced and Focused Owner-Managers.* We are led by a highly skilled and experienced team of industry professionals. Before founding or joining our firm, many of our senior professionals held positions at leading investment banking and investment management firms. Our 64 managing directors average 16 years of industry experience and have each made a substantial financial commitment to our firm. Collectively, our managing directors owned approximately 76.7% of our equity prior to this offering and will own approximately 46.4% of our equity immediately after this offering.

*Diversified Business Model.* The selection of our six target industries, the development of multiple products and the establishment of our three revenue-producing business lines—investment banking, sales and trading, and asset management—have created a diversified business model, especially when

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compared to that of our more specialized competitors. Historically, our six target industries have performed, in certain respects, counter-cyclically to one another and have yielded a large number of clients and business opportunities.

*Small Company and Middle-Market Specialization.* We believe that we have established our firm as a leading advisor to small and middle-market companies within our six target industries. We view the experience and far-reaching relationships of our senior professionals, coupled with our proven ability to meet the special transactional and strategic needs of our clients, as significant competitive strengths for our firm. Our specialized client focus has enabled us to generate significant repeat business and typically has enabled us to earn more prominent roles in subsequent transactions.

*Independence.* We are an independent firm owned by our employees and by outside investors. We are not a part of a larger, diversified financial institution with multiple business objectives. As a result, we are not subject to the same conflicts of interest that may challenge major financial services firms with goals that are at times contrary to those of their clients.

*Highly Regarded Equity Research Product.* We believe that delivering differentiated, fundamental research to institutional investors that can impact their portfolio returns is one of the primary ways that we can distinguish ourselves in the marketplace. We are experts on the industries we cover and provide informed opinions and actionable investment ideas to our institutional brokerage clients about small and mid-sized public companies.

*Highly Scalable Asset Management Business.* We believe that several of the funds we manage have produced historical returns that are attractive to investors. Our goal is to substantially increase client assets under management and to provide investors with favorable absolute returns. We currently have the capacity to manage additional assets without a substantial incremental investment in infrastructure.

*Strong Corporate Culture.* Our corporate culture is characterized by an entrepreneurial spirit and a desire to build a firm that is widely recognized for its excellence. Our managing directors are directly and extensively involved in our daily operations. Our firm's culture has helped us attract seasoned professionals from other respected financial services firms and to maintain a low rate of attrition.

## **Growth Strategy**

Our growth strategy is to stay focused on our core activities of investment banking, sales and trading, equity research and asset management while continuing to attract experienced revenue-producing professionals to our firm. We may also make investments in businesses or products that are complementary to our core businesses and may selectively pursue strategic acquisitions. We intend to continue to grow by:

recruiting experienced professionals with established industry and client relationships, typically from well-known investment banking firms;

increasing the frequency and extent of our participation in public and private securities offerings, in particular increasing our number of lead managed mandates as well as receiving larger economic roles as a co-manager in offerings in our targeted industries;

increasing our participation as a financial advisor in mergers and acquisitions and other strategic corporate transactions;

expanding the group of institutional investors to which we market our equity research and sales and trading products and services, and by increasing the frequency with which we do business with these investors;

increasing the number and volume of securities in which we trade;



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increasing the number of companies under coverage by our equity research analysts;

increasing assets under management and developing new asset management products; and

building upon our investment banking experience to generate principal investment opportunities.

Notwithstanding our competitive strengths and growth strategy, we face a number of risks. We focus our resources on a limited number of industries and depend on them to generate a significant portion of our revenues. If we are unable to originate or execute a sufficient number of transactions in these key industries, our revenues and net income will suffer. In addition, the timing of our investment banking transactions can be unpredictable, as are the related revenues. Consequently, our financial results may fluctuate substantially from quarter to quarter. With regard to our asset management business, our assets under management may decline during periods in which our hedge funds and other investment products generate unsatisfactory investment returns. Any principal investments or acquisitions we pursue may result in additional risks and uncertainties in our business, including the risk of capital loss. We face strong competition from larger firms, some of which have greater resources and name recognition and which offer a broader range of products and services. Additionally, we compete to attract qualified professionals with numerous firms in our businesses and other related businesses, such as hedge fund management, venture capital and private equity. A failure to hire highly skilled employees and to retain our existing employees could materially impede our growth and success.

## **Why We Are Going Public**

We believe that this offering will allow us to better execute our growth strategy. We believe that as a public company we will have greater visibility with prospective clients and industry peers, increased access to capital, and additional currency with which to explore strategic opportunities as they arise. Finally, we expect that operating as a public company will provide us with increased brand recognition and will enhance our ability to attract and retain top professionals by enabling us to offer equity-based incentives linked directly to the long-term success of our business.

## **General Information**

As of December 31, 2006, we had 187 employees, including 91 senior professionals, which are our managing directors and directors.

Our headquarters is located at 600 Montgomery Street, Suite 1100, San Francisco, California 94111. We have additional offices in New York, New York; Boston, Massachusetts; and Chicago, Illinois. Our main office telephone number is (415) 835-8900. We maintain an Internet website at <http://www.jmpg.com>. The information on our website is not part of this prospectus.

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### **Our Reorganization**

We have historically conducted our business through a limited liability company, JMP Group LLC, and its consolidated subsidiaries. Prior to the completion of this offering, we will complete a corporate reorganization in order to have JMP Group Inc. succeed to the business of JMP Group LLC and its consolidated subsidiaries and to have the members of JMP Group LLC become stockholders of JMP Group Inc. In the corporate reorganization, we will exchange all of the outstanding membership interests of JMP Group LLC for shares of common stock of JMP Group Inc. at an exchange ratio of one-for-one. In addition, outstanding options to purchase Class B common interests of JMP Group LLC will be converted into options to purchase shares of common stock of JMP Group Inc. As a result of the exchange, JMP Group Inc. will be a holding company and JMP Group LLC will become a wholly-owned subsidiary of JMP Group Inc., as illustrated by the organization chart below. For further details on these transactions, see **Certain Relationships and Related Transactions** **Reorganization Transactions and Corporate Structure** in this prospectus. This prospectus assumes that the corporate reorganization has taken effect prior to this offering, unless otherwise indicated.

Upon the completion of this offering, we anticipate that our annual total compensation and benefits, including amounts payable to our named executive officers, but excluding equity awards granted prior to and in connection with this offering, will equal approximately 60% of revenues each year, although we may change this rate at any time.

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- (1) Based on 20,800,039 shares of common stock outstanding as of the completion of our offering. Does not include (i) an aggregate of 2,674,940 shares issuable upon the exercise of outstanding options to purchase shares of our common stock as of December 31, 2006, or (ii) the 1,931,060 shares of our common stock underlying restricted stock units that we intend to grant to certain of our employees effective as of the completion of this offering.

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In connection with this offering, we will grant an aggregate of 1,931,060 restricted stock units to our employees, of which our named executive officers and key employees identified in this prospectus under the caption **Management Board of Directors, Executive Officers and Key Employees** will receive an aggregate of 235,000 and 140,000 restricted stock units, respectively. Each restricted stock unit represents the holder's right to receive one share of our common stock following the applicable vesting date.

In connection with our corporate reorganization, we will make distributions to the members of JMP Group LLC, which will include (i) distributions of all 2007 earnings generated prior to the completion of the corporate reorganization, (ii) distributions of \$10.0 million related to earnings previously allocated to the members for periods prior to December 31, 2006 that have not yet been distributed, and (iii) distributions for estimated income tax obligations of the members attributable primarily to performance bonus accruals that will be allocated as taxable income to the members upon the corporate reorganization. Our named executive officers will receive approximately 32.1% of the amount we will distribute prior to this offering. Profit distributions in 2006 and in the first quarter of 2007 to managing directors paid in connection with their ownership of Redeemable Class A member interests totaled an aggregate of \$11.4 million and \$3.1 million, respectively. Of these amounts, we distributed to our named executive officers an aggregate of \$5.0 million and \$1.3 million, respectively, and to our key employees an aggregate of \$1.7 million and \$0.5 million, respectively.

Specific grants of restricted stock units and distributions we made, or expect to make, to our directors, executive officers and key employees are as follows:

(Dollars as shown)

	<b># of RSUs Granted in Connection</b>	<b>Profit Distributions in 2006</b>	<b>Profit Distributions in 2007(1)</b>	<b>Other Distributions in Connection With This Offering (2)</b>
<b>Directors</b>				
Peter T. Paul	18,000	\$ 292,820(3)	\$ 59,911(3)	\$ 252,196(3)
Edward J. Sebastian	21,600	297,375(3)	62,311(3)	244,805(3)
	39,600	\$ 590,195	\$ 122,222	\$ 497,001
<b>Executive Officers</b>				
Joseph A. Jolson	42,500	\$ 2,595,072	\$ 602,203	\$ 2,173,224
Craig R. Johnson	42,500	703,571	229,926	755,786
Carter D. Mack	50,000	1,084,181	295,695	960,137
Mark L. Lehmann	50,000	491,829	148,184	498,544
Thomas B. Kilian	50,000	129,154	31,634	158,889
	235,000	\$ 5,003,807	\$ 1,307,642	\$ 4,546,580
<b>Key Employees</b>				
Key employees as a group	140,000	\$ 1,697,445	\$ 458,432	\$ 1,573,547

(1) Based on profit distributions paid through the quarter ended March 31, 2007.

(2) Includes pro rata share of (i) distributions of \$10.0 million undistributed earnings for periods prior to 2006 and (ii) \$4.4 million for estimated income tax obligations.

(3) Related to membership interests owned by our directors.

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### **The Offering**

Common stock offered by JMP Group Inc.	6,000,000 shares
Common stock offered by the selling stockholders	1,999,098 shares
Shares of common stock to be outstanding after this offering	20,800,039 shares
Overallotment option	1,199,864 shares to be sold by JMP Group Inc.
Use of proceeds	We estimate that our net proceeds from this offering will be approximately \$58.9 million, after deducting the estimated underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds from this offering for general corporate purposes, including expansion of our existing business activities, and to fund principal investments and strategic investments as such opportunities may arise in the future. We will not receive any of the net proceeds from the sale of shares of common stock by the selling stockholders.
Dividend policy	<p>Following this offering and subject to legally available funds, we currently intend to declare a quarterly cash dividend on all outstanding shares of common stock. The first quarterly dividend will be for the second quarter of 2007 and will be prorated for the portion of that period subsequent to the completion of this offering. Our dividend policy permits the board of directors to exercise its discretion in determining the appropriate level and timing of dividend payments. We intend to pay dividends out of a portion of our current earnings for each quarter and do not intend to borrow funds in order to pay dividends. The amount of such dividends will be determined by our board of directors, who will take into account various factors, including, among others, our financial performance, earnings, liquidity and the operating performance of our segments as assessed by management. We do not intend to pay out all excess cash and we do not plan to pay dividends on unvested shares of restricted stock units or equity-based awards that we will issue prior to and in connection with this offering. However, no assurance can be given that any dividends, whether quarterly or otherwise, will or can be paid.</p> <p>JMP Group Inc. will be a holding company and our ability to pay dividends to our stockholders will be subject to the ability of JMP Group LLC to provide cash to us. Any distribution to us made by JMP Group LLC will be at the discretion of our board of directors and will depend on contractual, legal and regulatory restrictions on the payment of distributions by JMP Group LLC. In particular, JMP Group LLC's credit facility prohibits us from making any cash distributions if an event of default has occurred and is</p>

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continuing or would result from the cash distribution. Additionally, SEC regulations also provide that JMP Securities may not pay cash dividends to us if certain minimum net capital requirements are not met.

Risk factors

See Risk Factors for a discussion of risks you should carefully consider before deciding to invest in shares of our common stock.

New York Stock Exchange

symbol

JMP

Unless we specifically state otherwise, the information in this prospectus gives effect to the corporate reorganization that we will complete prior to this offering, but does not reflect (i) the sale of up to 1,199,864 shares of common stock that the underwriters have the option to purchase from JMP Group Inc. to cover overallocments, (ii) the 1,931,060 shares of our common stock underlying restricted stock units that we intend to grant to certain of our employees in connection with this offering, (iii) an aggregate of 2,674,940 shares issuable upon the exercise of outstanding options to purchase shares of our common stock as of December 31, 2006, or (iv) 2,500,000 shares reserved for issuance under the 2007 Equity Incentive Plan.

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### **Summary Historical Consolidated Financial and Other Data**

The following table shows summary consolidated financial and other data for the periods ended and as of the dates indicated. The summary consolidated statements of financial condition data as of December 31, 2005 and 2006 and the summary consolidated statements of income data for each of the three years in the period ended December 31, 2006 have been derived from our audited consolidated financial statements and accompanying notes included elsewhere in this prospectus and should be read together with those consolidated financial statements and accompanying notes.

The summary consolidated statements of financial condition data as of December 31, 2002, 2003 and 2004 and the summary consolidated statements of income data for the years ended December 31, 2002 and 2003 have been derived from audited consolidated financial statements not included in this prospectus. The summary consolidated financial and other data should be read together with the sections entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and accompanying notes included elsewhere in this prospectus.

The summary historical consolidated financial data as of and for the years ended December 31, 2002, 2003, 2004 and 2005 have been restated for the matters discussed in Note 3 to the accompanying consolidated financial statements included herein.

The unaudited pro forma data for the year ended December 31, 2006 have been derived from the pro forma data provided in "Unaudited Pro Forma Condensed Consolidated Financial Information" included elsewhere in this prospectus. The unaudited pro forma information for the years ended December 31, 2002 to 2005 have been calculated based on assumptions consistent with those used for the 2006 unaudited pro forma consolidated financial information.

The pro forma statement of income and pro forma statement of financial condition adjustments principally give effect to the corporate reorganization as described in "Certain Relationships, Reorganization Transactions and Corporate Structure," including:

the exchange of Class A common interests and Class B common interests held by our non-employee members into shares of our common stock in connection with the corporate reorganization;

the exchange of our Redeemable Class A member interests held by our employee members into shares of our common stock in connection with the corporate reorganization, and as a result (i) the capital related to the Redeemable Class A member interests will be reclassified as equity, (ii) we will no longer allocate income and pay pro rata profit distributions to the holders of the Redeemable Class A member interests and (iii) we will no longer make interest payments to the holders of the Redeemable Class A member interests; and

a provision for corporate income taxes as a corporation at an assumed combined federal, state and local income tax rate of 42% of our pre-tax net income.

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(in thousands, except per share data and selected data and operating metrics)

	2002	As of or for the Year Ended December 31,			
	2003	2004	2005	2006	
	(restated)	(restated)	(restated)	(restated)	
<b>Statement of Income Data</b>					
<i>Revenues</i>					
Investment banking	\$ 5,878	\$ 25,267	\$ 37,413	\$ 62,880	\$ 44,060
Brokerage revenues	8,981	15,883	22,579	23,536	30,185
Asset management fees	876	7,670	12,505	8,538	4,531
Principal transactions	1,147	8,558	1,775	(2,006)	4,288
Interest, dividends and other	2,858	1,393	545	1,713	3,742
Total revenues	19,740	58,771	74,817	94,661	86,806
<i>Expenses</i>					
Compensation and benefits	11,682	32,522	46,969	60,145	50,136
Income allocation and accretion/(dilution) Redeemable Class A member interests (1)	(1,151)	13,093	9,755	12,983	10,664
Administration	751	1,778	2,640	3,362	3,977
Brokerage, clearing and exchange fees	1,769	1,484	2,848	3,170	4,133
Interest and dividend expense	358	654	1,009	933	1,686
Other expenses	4,119	6,041	8,098	10,146	12,395
Total expenses	17,528	55,572	71,319	90,739	82,991
Minority interest (2)					428
Net income (3)	2,212	3,199	3,498	3,922	3,387
Increase in redemption value of Series B preferred units	(3,493)	(2,151)	(513)		
Distributions to Series A convertible preferred units	(1,061)	(704)	(469)		
Net income attributable to Class A and Class B common interests (3)	\$ (2,342)	\$ 344	\$ 2,516	\$ 3,922	\$ 3,387
Net income per unit Class A common interests (3)(4)					
Basic	\$ (14.52)	\$ 2.45	\$ 2.12	\$ 1.04	\$ 0.91
Diluted	\$ (14.52)	\$ 0.65	\$ 1.92	\$ 1.04	\$ 0.89
Weighted average units outstanding Class A common interests (4)					
Basic	161	141	1,185	1,474	1,435
Diluted	1,633	1,613	1,553	1,474	1,468
Net income per unit Class B common interests (3)(4)					
Basic			\$ 0.73	\$ 1.04	\$ 0.91
Diluted			\$ 0.73	\$ 1.04	\$ 0.89
Weighted average units outstanding Class B common interests (4)					
Basic			958	2,300	2,300
Diluted			958	2,300	2,353

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(in thousands, except per share data and selected data and operating metrics)

	As of or for the Year Ended December 31,				
	2002	2003	2004	2005	2006
	(restated)	(restated)	(restated)	(restated)	
<b>Pro Forma Statement of Income Data C-Corp (Unaudited) (5)</b>					
Total revenues					\$86,806
Total expenses					82,991
Addback: Income allocation and accretion/(dilution) Redeemable Class A member interests (1) (6)					(10,664)
Addback: Interest expense Redeemable Class A member interests (7)					(1,536)
Compensation and Benefits related to RSU grants in connection with IPO					6,264
Pro forma total expenses					77,055
Minority interest (2)					428
Pro forma income before taxes					9,323
Pro forma tax expense (42.0% assumed tax rate) (8)					3,916
Pro forma net income					\$5,407
Net income per share of common stock Pro forma:					
Basic					\$0.37
Diluted (9)					\$0.35
Weighted average number of common shares outstanding Pro forma:					
Basic					14,800
Diluted (9)					15,283
Net income per share of common stock Pro forma as adjusted:					
Basic					\$0.32
Diluted (10)					\$0.31
Weighted average number of common shares outstanding Pro forma as adjusted:					
Basic					17,123
Diluted (10)					17,606
<b>Statement of Financial Condition Data</b>					
Total assets	\$25,579	\$58,146	\$85,993	\$91,923	\$103,699
Notes payable			2,500		
Redeemable Class A member interests	1,755	11,542	5,897	11,517	12,914
Total liabilities	9,210	39,281	40,573	45,275	51,208
Total equity	12,533	12,877	45,419	46,648	46,752
<b>Pro forma Statement of Financial Condition Data C-Corp (Unaudited) (5)</b>					
Pro forma total liabilities (11)					\$55,828
Pro forma total equity (11) (12)					42,132
<b>Selected Data and Operating Metrics (Unaudited)</b>					
Number of employees end of period	77	111	141	169	187
Number of employees average	63	96	127	162	181
Revenues per average employee	\$313	\$612	\$589	\$584	\$480
Compensation and benefits as a % of revenues (13)	59.2%	55.3%	62.8%	63.5%	57.8%
Companies covered by our research analysts	93	155	198	294	279
Number of completed investment banking transactions	11	25	55	75	75





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- (1) Prior to this offering we were organized as a limited liability company and issued to employee members, who are our managing directors, Redeemable Class A member interests, that were entitled to their pro rata share of our income. Our Third Amended and Restated Limited Liability Company Agreement, as amended, provides that each employee member may elect to redeem their Redeemable Class A member interests upon resignation from us. Because of this repurchase feature, the Redeemable Class A member interests are classified as a liability in our statement of financial condition. As a result of the liability classification, the pro rata share of income allocated to the Redeemable Class A member interests based on ownership percentages and any changes in the redemption amount of the Redeemable Class A member interests were recorded as expense in our statement of income.
- (2) Minority interest relates to the interest of third parties in JMP Realty Trust and in two asset management funds, Harvest Consumer Partners and Harvest Technology Partners.
- (3) Prior to this offering we were a limited liability company and our earnings did not reflect the income taxes we will pay as a corporation.
- (4) We issued 2,300,000 units of Class B common interests in a private offering in August 2004, which represented 15.5% of our outstanding membership interests. Because there is a direct relationship between the number of Class B common interests outstanding and the ownership percentage in our equity, we were able to determine the number of units associated with the Class A common interests outstanding. As a result, we were able to determine earnings per share, based on an implied number of Class A common interests and an existing number of Class B common interests outstanding. We have reflected this implied number of units for purposes of determining earnings per share in all periods presented.
- (5) The amounts for all periods presented reflect pro forma results of operations as if the corporate reorganization had occurred on January 1, 2002.
- (6) As a limited liability company, we allocated income and paid profit distributions to the holders of our Redeemable Class A member interests based on their pro rata ownership. These profit distributions were in addition to performance-based bonus compensation paid to our employee members. As a corporation, our Redeemable Class A member interests will be exchanged into shares of our common stock and we will no longer pay pro rata profit distributions to the holders of the Redeemable Class A member interests.
- (7) As a limited liability company, we made interest payments based on contributed capital to the holders of the Redeemable Class A member interests. As a corporation, our Redeemable Class A member interests will be exchanged into shares of our common stock and we will no longer make interest payments to the holders of the Redeemable Class A member interests.
- (8) As a limited liability company, we were not subject to income taxes. The pro forma tax expense for all periods presented includes adjustments for assumed federal, state and local income taxes as if we were organized as a corporation for each period from January 1, 2002 at an assumed combined federal, state and local income tax rate of 42% of our income before taxes.
- (9) The pro forma diluted number of shares outstanding includes the dilutive impact of (i) 2,674,940 outstanding options converted at a one-for-one ratio for options to purchase shares of our common stock and (ii) 1,931,060 restricted stock units granted in connection with this offering by application of the Treasury Stock method in accordance with SFAS 128, *Earnings per Share*, based on the initial offering price of \$11.00 per share.
- (10) The pro forma as adjusted number of common shares outstanding includes 2,322,547 additional shares that represent, in accordance with Staff Accounting Bulletin Topic 1:B.3, the number of shares sold in our initial public offering, the proceeds of which are assumed for the purpose of this calculation to have been used to pay the amount of the distributions in 2006 and 2007 that are in excess of net income for the year ended December 31, 2006, based on the initial offering price of \$11.00 per share.



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- (11) Reflects the exchange of our Redeemable Class A member interests into shares of common stock.
  
- (12) Reflects distributions payable after December 31, 2006 and prior to this offering comprised of (i) distribution of \$10.0 million related to earnings previously allocated to our members for periods prior to 2006 that have not yet been distributed, (ii) distribution of \$4.4 million for estimated income tax obligations of members attributable primarily to the performance bonus accruals that will be allocated as taxable income to the members upon the corporate reorganization and (iii) \$3.1 million of profit distributions paid to managing directors in the quarter ended March 31, 2007.
  
- (13) Compensation and benefits include salaries and performance-based bonus payments to our managing directors and other employees. Following this offering, we expect that our annual total compensation and benefits, including that payable to our managing directors, but excluding equity awards granted prior to and in connection with this offering, will be approximately 60% of revenues each year; however, we retain the discretion to change this percentage in the future.

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### **RISK FACTORS**

*An investment in our shares of common stock involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in this prospectus, before deciding to buy our common stock. If any of the events or developments described below actually occur, our business, results of operations and financial condition would likely suffer. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment in our common stock.*

#### **Risks Related to Our Business**

*We focus principally on specific sectors of the economy, and deterioration in the business environment in these sectors or a decline in the market for securities of companies within these sectors could harm our business.*

We focus principally on six target industries: business services, consumer, financial services, healthcare, real estate, and technology. Volatility in the business environment in these industries or in the market for securities of companies within these industries could adversely affect our financial results and the market value of our common stock. The business environment for companies in these industries has been subject to substantial volatility over time, and our financial results have consequently been subject to significant variations from year to year. The market for securities in each of our target industries may also be subject to industry-specific risks.

As an investment bank focused principally on specific growth sectors of the economy, we also depend significantly on private company transactions for sources of revenues and potential business opportunities. Most of these private company clients are initially funded and controlled by venture capital funds and private equity firms. To the extent that the pace of these private company transactions slows or the average transaction size declines due to a decrease in venture capital and private equity financings, difficult market conditions in our target industries or other factors, our business and results of operations may be harmed.

Underwriting and other corporate finance transactions, strategic advisory engagements and related sales and trading activities in our target industries represent a significant portion of our business. This concentration of activity in our target industries exposes us to the risk of declines in revenues in the event of downturns in these industries.

*Our financial results from investment banking activities may fluctuate substantially from period to period, which may impair our stock price.*

We have experienced, and expect to experience in the future, significant variations from period to period in our revenues and results of operations from investment banking activities. For example, our annual investment banking revenues decreased from \$62.9 million for the year ended December 31, 2005 to \$44.1 million for the year ended December 31, 2006 due to the fact that we generated fewer mergers and acquisitions and underwriting transactions in our homebuilding and financial services groups during the year ended December 31, 2006. As a percentage of total investment banking revenues, investment banking revenues from the homebuilding sector fell from 31.2% for the year ended December 31, 2005 to 15.0% for the year ended December 31, 2006, and investment banking revenues from the financial services sector fell from 31.1% for the year ended December 31, 2005 to 21.4% for the year ended December 31, 2006. Future variations in investment banking revenues may be attributable in part to the fact that our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the business of a client or a counterparty. If the parties fail to complete a transaction on which we are advising or an offering in which we are participating,

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we will earn little or no revenue from the contemplated transaction. In addition, we pay significant expenses related to a contemplated transaction regardless of whether or not the contemplated transaction generates revenues. This risk may be intensified by our focus on growth companies in the business services, consumer, financial services, healthcare, real estate and technology industries, as the market for securities of these companies has experienced significant variations in the number and size of equity offerings. Recently, more companies initiating the process of an initial public offering are simultaneously exploring merger and acquisition opportunities. Our investment banking revenues would be adversely affected in the event that a company conducting an initial public offering for which we are acting as an underwriter were to be preempted by the sale of that company, if we are not also engaged as a strategic advisor. As a result, we may not achieve steady and predictable earnings on a quarterly basis, which could in turn adversely affect our stock price.

***Our ability to retain our senior professionals and recruit additional professionals is critical to the success of our business, and our failure to do so may adversely affect our reputation, business, results of operations and financial condition.***

Our people are our most valuable resource. Our ability to obtain and successfully execute the transactions that generate a significant portion of our revenues depends upon the reputation, judgment, business generation capabilities and project execution skills of our senior professionals, particularly the members of our executive committee. The reputations and relationships of our senior professionals with our clients are a critical element in obtaining and executing client engagements. Turnover in the investment banking industry is high and we encounter intense competition for qualified employees from other companies in the investment banking industry as well as from businesses outside the investment banking business, such as hedge funds and private equity funds. In addition, following this offering, we intend to limit total annual compensation and benefits, excluding expenses relating to equity-based awards made prior and in connection with this offering, to approximately 60% of revenues each year, although we may change this rate at any time. As a result, our senior professionals may receive less compensation than they otherwise would have received prior to this offering and may receive less compensation than they otherwise would receive at other firms. Such a reduction in compensation (or the belief that a reduction may occur) could make it more difficult to retain our senior professionals. If we were to lose the services of any of our investment bankers, senior equity research, sales and trading professionals, asset managers, or executive officers to a new or existing competitor or otherwise, we may not be able to retain valuable relationships and some of our clients could choose to use the services of a competitor instead of our services. For example, Gerald L. Tuttle, Jr., our co-founder and co-director of investment banking, recently passed away due to a sudden illness. If we are unable to retain our senior professionals or recruit additional professionals, our reputation, business, results of operations and financial condition will be adversely affected.

***We face strong competition from larger firms, some of which have greater resources and name recognition than we do, which may impede our ability to grow our business.***

The investment banking industry is intensely competitive, and we expect it to remain so. We compete on the basis of a number of factors, including client relationships, reputation, the abilities of our professionals, market focus and the relative quality and price of our services and products. We have experienced intense price competition in our various businesses. Pricing and other competitive pressures in investment banking, including the trends toward multiple book runners, co-managers and multiple financial advisors handling transactions, could adversely affect our revenues, even as the size and number of our investment banking transactions may increase.

We are a relatively small investment bank with 187 employees as of December 31, 2006, and revenues of \$86.8 million for the year ended December 31, 2006. Many of our competitors have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more senior professionals to serve their clients' needs, greater global reach and more established relationships with clients than we have. These larger and better capitalized competitors may be better able to respond to changes in the investment banking industry, compete for skilled professionals, finance acquisitions, fund internal growth and

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compete for market share generally. These firms have the ability to support investment banking with commercial banking, insurance and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in our businesses. In particular, the ability to provide financing has become an important advantage for some of our larger competitors and, because we do not provide such financing, we may be unable to compete as effectively for clients in a significant part of the investment banking industry. If we are unable to compete effectively with our competitors, our business, results of operations and financial condition will be adversely affected.

### ***Pricing and other competitive pressures may impair the revenues of our sales and trading business.***

We derive a significant portion of our revenues from our sales and trading business, which accounted for 35% of our revenues for the year ended December 31, 2006, and 25% of our revenues for the year ended December 31, 2005. Along with other investment banking firms, we have experienced intense price competition in this business in recent years. In particular, the ability to execute trades electronically and through alternative trading systems has increased the downward pressure on trading commissions and spreads. We expect this trend toward alternative trading systems and downward pricing pressure in the business to continue. We believe we may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price or by using their own capital to facilitate client trading activities. In addition, we face pressure from our larger competitors, which may be better able to offer a broader range of complementary products and services to clients in order to win their trading business. As we are committed to maintaining and improving our comprehensive research coverage in our target sectors to support our sales and trading business, we may be required to make substantial investments in our research capabilities to remain competitive. If we are unable to compete effectively in these areas, the revenues of our sales and trading business may decline, and our business, results of operations and financial condition may be harmed.

Some of our large institutional sales and trading clients in terms of brokerage revenues have entered into arrangements with us and other investment banking firms under which they separate payments for research products or services from trading commissions for sales and trading services, and pay for research directly in cash, instead of compensating the research providers through trading commissions (referred to as "soft dollar" practices). In addition, we have entered into certain commission sharing arrangements in which institutional clients execute trades with a limited number of brokers and instruct those brokers to allocate a portion of the commission directly to us or other broker-dealers for research or to an independent research provider. If more of such arrangements are reached between our clients and us, or if similar practices are adopted by more firms in the investment banking industry, it may further increase the competitive pressures on trading commissions and spreads and reduce the value our clients place on high quality research. Conversely, if we are unable to make similar arrangements with other investment managers that insist on separating trading commissions from research products, volumes and trading commissions in our sales and trading business also would likely decrease.

### ***We face strong competition from middle-market investment banks.***

We compete with specialized investment banks to provide financial and investment banking services to small and middle-market companies. Middle-market investment banks, including, without limitation, CIBC World Markets Corp., Cowen and Company, LLC, Friedman, Billings, Ramsey & Co., Inc., Jefferies & Company, Inc., Piper Jaffray & Co., Raymond James & Associates, Inc., RBC Capital Markets Corporation, Robert W. Baird & Co., Inc., Thomas Weisel Partners LLC and William Blair & Company, provide access to capital and strategic advice to small and middle-market companies in our target industries. We compete with those investment banks on the basis of a number of factors, including client relationships, reputation, the abilities of our professionals, market focus and the relative quality of our products and services. Competition in the middle-market may further intensify if larger Wall Street investment banks expand their focus to this sector of the market. Increased competition could reduce our market share from investment banking services and our ability to generate fees at historical levels.

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***Our corporate finance and strategic advisory engagements are singular in nature and do not generally provide for subsequent engagements.***

Our investment banking clients generally retain us on a short-term, engagement-by-engagement basis in connection with specific corporate finance, merger and acquisition transactions and other strategic advisory services, rather than on a recurring basis under long-term contracts. As these transactions are typically singular in nature and our engagements with these clients may not recur, we must seek new engagements when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements that generate fees from new or existing clients, our business, results of operations and financial condition could be adversely affected.

***Larger and more frequent capital commitments in our trading and underwriting businesses increase the potential for significant losses.***

There is a trend toward larger and more frequent commitments of capital by financial services firms in many of their activities. For example, in order to win business, investment banks are increasingly committing to purchase large blocks of stock from publicly traded issuers or significant stockholders, instead of the more traditional marketed underwriting process in which marketing is typically completed before an investment bank commits to purchase securities for resale. We may participate in this trend and, as a result, we may be subject to increased risk. Furthermore, we may suffer losses as a result of the positions taken in these transactions even when economic and market conditions are generally favorable for others in the industry.

We may increasingly commit our own capital as part of our trading business to facilitate client sales and trading activities. The number and size of these transactions may adversely affect our results of operations in a given period. We may also incur significant losses from our sales and trading activities due to market fluctuations and volatility in our results of operations. To the extent that we own assets, i.e., have long positions, in any of those markets, a downturn in the value of those assets or in those markets could result in losses. Conversely, to the extent that we have sold assets we do not own, i.e., have short positions, in any of those markets, an upturn in those markets could expose us to potentially large losses as we attempt to cover our short positions by acquiring assets in a rising market.

***The asset management business is intensely competitive.***

Over the past several years, the size and number of asset management funds, including hedge funds and private equity funds, has continued to increase. If this trend continues, it is possible that it will become increasingly difficult for our funds to raise capital. More significantly, the allocation of increasing amounts of capital to alternative investment strategies by institutional and individual investors leads to a reduction in the size and duration of pricing inefficiencies. Many alternative investment strategies seek to exploit these inefficiencies and, in certain industries, this drives prices for investments higher, in either case increasing the difficulty of achieving targeted returns. In addition, if interest rates were to rise or there were to be a prolonged bull market in equities, the attractiveness of our funds relative to investments in other investment products could decrease. Competition is based on a variety of factors, including:

investment performance;

investor perception of the drive, focus and alignment of interest of an investment manager;

quality of service provided to and duration of relationship with investors;

business reputation; and

level of fees and expenses charged for services.



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We compete in the asset management business with a large number of investment management firms, private equity fund sponsors, hedge fund sponsors and other financial institutions. A number of factors serve to increase our competitive risks, as follows:

investors may develop concerns that we will allow a business to grow to the detriment of its performance;

some of our competitors have greater capital, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;

some of our competitors may perceive risk differently than we do which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;

there are relatively few barriers to entry impeding new asset management firms, and the successful efforts of new entrants into our various lines of business, including former star portfolio managers at large diversified financial institutions as well as such institutions themselves, will continue to result in increased competition; and

other industry participants in the asset management business continuously seek to recruit our best and brightest investment professionals away from us.

These and other factors could reduce our earnings and revenues and adversely affect our business. In addition, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current base management and incentive fee structures. We have historically competed primarily on the performance of our funds, and not on the level of our fees relative to those of our competitors. However, there is a risk that fees in the alternative investment management industry will decline, without regard to the historical performance of a manager, including our managers. Fee reductions on our existing or future funds, without corresponding decreases in our cost structure, would adversely effect our revenues and distributable earnings.

### ***Poor investment performance may decrease assets under management and reduce revenues from and the profitability of our asset management business.***

Revenues from our asset management business are primarily derived from asset management fees. Asset management fees are comprised of base management and incentive fees. Management fees are typically based on assets under management, and incentive fees are earned on a quarterly or annual basis only if the return on our managed accounts exceeds a certain threshold return, or highwater mark, for each investor. We will not earn incentive fee income during a particular period, even when a fund had positive returns in that period, if we do not generate cumulative performance that surpasses a highwater mark. If a fund experiences losses, we will not earn incentive fees with regard to investors in that fund until its returns exceed the relevant highwater mark.

In addition, investment performance is one of the most important factors in retaining existing investors and competing for new asset management business. Investment performance may be poor as a result of difficult market or economic conditions, including changes in interest rates or inflation, terrorism or political uncertainty, our investment style, the particular investments that we make, and other factors. Poor investment performance may result in a decline in our revenues and income by causing (i) the net asset value of the assets under our management to decrease, which would result in lower management fees to us, (ii) lower investment returns, resulting in a reduction of incentive fee income to us, and (iii) investor redemptions, which would result in lower fees to us because we would have fewer assets under management.

To the extent our future investment performance is perceived to be poor in either relative or absolute terms, the revenues and profitability of our asset management business will likely be reduced and our ability to grow existing funds and raise new funds in the future will likely be impaired.

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### ***The historical returns of our funds may not be indicative of the future results of our funds.***

The historical returns of our funds should not be considered indicative of the future results that should be expected from such funds or from any future funds we may raise. Our rates of returns reflect unrealized gains, as of the applicable measurement date, which may never be realized due to changes in market and other conditions not in our control that may adversely affect the ultimate value realized from the investments in a fund. The returns of our funds may have also benefited from investment opportunities and general market conditions that may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of profitable investment opportunities. Furthermore, the historical and potential future returns of the funds we manage also may not necessarily bear any relationship to potential returns on our common stock.

### ***Our asset management clients may redeem their investments, which could reduce our asset management fee revenues.***

Our asset management account agreements generally permit investors to redeem their investments with us after an initial lockup period during which redemptions are restricted or penalized. However, any such restrictions may be waived by us. Thereafter, redemptions are permitted at quarterly or annual intervals. If the return on the assets under our management does not meet investors' expectations, investors may elect to redeem their investments and invest their assets elsewhere, including with our competitors. For example, due to the unsatisfactory performance of some of our funds, the assets which we had under management declined from \$596.8 million at December 31, 2004 to \$208.2 million at December 31, 2006. We believe that the decline was due to the fact that the returns generated by some of our funds did not match those produced in prior periods or did not reach established benchmarks for those funds. Our management fee revenues correlate directly to the amount of assets under our management; therefore, redemptions have caused our fee revenues to decrease. To the extent that investors in our funds redeem additional investments in the future, our asset management fees will decrease. Investors may decide to reallocate their capital away from us and to other asset managers for a number of reasons, including poor relative investment performance, changes in prevailing interest rates which make other investments more attractive, changes in investor perception regarding our focus or alignment of interest, dissatisfaction with changes in or a broadening of a fund's investment strategy, changes in our reputation, and departures or changes in responsibilities of key investment professionals. For these and other reasons, the pace of redemptions and corresponding reduction in our assets under management could accelerate. In the future, redemptions could require us to liquidate assets under unfavorable circumstances, which would further harm our reputation and results of operations.

### ***We invest our own principal capital in equities that expose us to a significant risk of capital loss.***

We use a portion of our own capital in a variety of principal investment activities, each of which involves risks of illiquidity, loss of principal and revaluation of assets. At December 31, 2006, our principal investments represented \$14.8 million invested in non-marketable securities and other investments, \$12.4 million invested in marketable securities in long positions and \$7.5 million invested through short positions on marketable securities. The companies in which we invest may rely on new or developing technologies or novel business models, or concentrate on markets which have not yet developed and which may never develop sufficiently to support successful operations. As a result, we may suffer losses from our principal investment activities.

### ***We may make principal investments that have limited liquidity, which may reduce the return on those investments to our stockholders.***

We may purchase equity securities and, to a lesser extent, debt securities, in venture capital and other high risk financings of early-stage, pre-public or mezzanine stage and turnaround companies. We risk the loss of capital we have invested as a principal in these activities.

We may use a portion of the net proceeds that we receive from this offering toward principal investments in privately held securities that may be illiquid and volatile. The equity securities of a privately-held entity in which

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we make a principal investment are likely to be restricted as to resale and may otherwise be highly illiquid. We expect that there will be restrictions on our ability to resell the securities of any private company that we acquire for a period of at least one year after we acquire those securities. Thereafter, a public market sale may be subject to volume limitations or dependent upon securing a registration statement for a secondary offering of the securities. We may make principal investments that are significant relative to the overall capitalization of the investee company and resales of significant amounts of these securities might adversely affect the market and the sales price for the securities in which we invest.

Even if we make an appropriate investment decision based on the intrinsic value of an enterprise, we cannot assure you that general market conditions will not cause the market value of our investments to decline. For example, an increase in interest rates, a general decline in the stock markets, or other market conditions adverse to companies of the type in which we invest and intend to invest could result in a decline in the value of our investments or a total loss of our investment.

### ***Limitations on our access to capital could impair our liquidity and our ability to conduct our businesses.***

Liquidity, or ready access to funds, is essential to financial services firms, including ours. Failures of financial institutions have often been attributable in large part to insufficient liquidity. Liquidity is of particular importance to our sales and trading business, and perceived liquidity issues may affect the willingness of our clients and counterparties to engage in sales and trading transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects our sales and trading clients, third parties or us. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

JMP Securities LLC, our broker-dealer subsidiary, is subject to the net capital requirements of the SEC, the NASD and various self-regulatory organizations of which it is a member. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Any failure to comply with these net capital requirements could impair our ability to conduct our business. Furthermore, JMP Securities LLC is subject to laws that authorize regulatory bodies to block or reduce the flow of funds from it to JMP Group Inc. As a holding company, JMP Group Inc. depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. As a result, regulatory actions could impede access to funds that JMP Group Inc. needs to make payments on obligations, including debt obligations, or dividend payments. In addition, because JMP Group Inc. holds equity interests in the firm's subsidiaries, its rights as an equity holder to the assets of these subsidiaries may not materialize, if at all, until the claims of the creditors of these subsidiaries are first satisfied.

### ***There are contractual, legal and other restrictions that may prevent us from paying cash dividends on our common stock and, as a result, you may not receive any return on investment unless you sell your common stock for a price greater than the price for which you paid.***

Although we currently intend to declare and pay dividends on our common stock, there can be no assurance that sufficient cash will be available to pay such dividend and our board of directors may at any time modify or revoke our current dividend policy. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. We do not intend to borrow funds in order to pay dividends. In addition, we are a holding company that does not conduct any business operations of our own, and therefore, we are dependent upon cash dividends and other transfers from our subsidiaries to make dividend payments on our common stock. The amounts available to us to pay cash dividends are restricted by our subsidiaries' existing credit agreement under certain circumstances and may be restricted by our or our subsidiaries' future debt agreements. In general, under the credit agreement governing our revolving line of credit with City National Bank, which expires on June 30, 2008, JMP Group LLC is restricted under certain circumstances from paying dividends or making other distributions to us if an event

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of default has occurred under that agreement. SEC regulations also provide that JMP Securities may not pay cash dividends to us if certain minimum net capital requirements are not met. In addition, Delaware law permits the declaration of dividends only to the extent of our surplus (which is defined as total assets at fair market value minus total liabilities, minus statutory capital), or if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal years. In the event we do not pay cash dividends on our common stock in the amount currently intended as a result of these restrictions, you may not receive any return on an investment in our common stock unless you sell your common stock for a price greater than the price for which you paid.

### ***Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risks.***

Our risk management strategies and techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure, breach of contract or other reasons. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. As an introducing broker, we could be held responsible for the defaults or misconduct of our customers. Although we regularly review credit exposures to specific clients and counterparties and to specific industries and regions that we believe may present credit concerns, default risks may arise from events or circumstances that are difficult to detect, foresee or reasonably guard against. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. If any of the variety of instruments, processes and strategies we utilize to manage our exposure to various types of risk are not effective, we may incur losses.

### ***Our operations and infrastructure and those of the service providers upon which we rely may malfunction or fail.***

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across diverse markets, and the transactions we process have become increasingly complex. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. If any of these systems do not operate properly or are disabled, or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer impairments, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

We have outsourced certain aspects of our technology infrastructure, including data centers, disaster recovery systems, and wide area networks, as well as some trading applications. We are dependent on our technology providers to manage and monitor those functions. A disruption of any of the outsourced services would be out of our control and could negatively impact our business. We have experienced disruptions on occasion, none of which has been material to our operations and results. However, there can be no guarantee that future disruptions with these providers will not occur.

We also face the risk of operational failure or termination of relations with any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and to manage our exposure to risk.

In addition, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may affect, among other things, our financial, accounting or other data processing systems. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business, whether due to fire, earthquakes or other natural disasters, power or communications failure, act of terrorism or war or otherwise. Nearly all of our employees in our primary locations in San Francisco, New York City, Boston and Chicago work in close proximity to each other. Although we have a formal disaster recovery plan in place, if

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a disruption occurs in one location and our employees in that location are unable to communicate with or travel to other locations, our ability to service and interact with our clients may suffer, and we may not be able to implement successfully contingency plans that depend on communication or travel.

Our operations also rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications, and we may be subject to litigation and financial losses that are either not insured or not fully covered through any insurance maintained by us.

### ***We are subject to risks in using prime brokers and custodians.***

Our asset management subsidiary and its managed funds depend on the services of prime brokers and custodians to implement certain securities transactions. In the event of the insolvency of a prime broker or custodian, our funds might not be able to recover equivalent assets in whole or in part as they will rank among the prime broker's and the custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, cash held by our funds with the prime broker or custodian will not be segregated from the prime broker's or custodian's own cash, and the funds will therefore rank as unsecured creditors in relation thereto.

### ***Strategic investments or acquisitions and joint ventures, or our entry into new business areas, may result in additional risks and uncertainties in our business.***

We intend to grow our core businesses both through internal expansion and through strategic investments, acquisitions or joint ventures. When we make strategic investments, acquisitions or enter into joint ventures, we expect to face numerous risks and uncertainties in combining or integrating the relevant businesses and systems. In addition, conflicts or disagreements between us and the other members of a venture may negatively impact our businesses. In addition, future acquisitions or joint ventures may involve the issuance of additional shares of our common stock, which may dilute your ownership in our firm. Furthermore, any future acquisitions of businesses or facilities by us could entail a number of risks, including:

problems with the effective integration of operations;

the inability to maintain key pre-acquisition business relationships and integrate new relationships;

increased operating costs;

exposure to unanticipated liabilities;

risks of misconduct by employees not subject to our control;

difficulties in realizing projected efficiencies, synergies and cost savings; and

exposure to new or unknown liabilities.

Any future growth of our business, such as our further expansion of our asset management or principal investment activities, may require significant resources and/or result in significant unanticipated losses, costs or liabilities. In addition, expansions, acquisitions or joint ventures

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may require significant managerial attention, which may be diverted from our other operations. These capital, equity and managerial commitments may impair the operation of our businesses.

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***We have identified material weaknesses in our internal control over financial reporting for periods prior to January 1, 2006 that caused us to restate our historical consolidated financial statements. If in the future we fail to maintain effective internal control over financial reporting, we could fail to prevent or detect material misstatements in our annual or interim consolidated financial statements in the future which could harm our ability to timely and accurately report our financial results and adversely affect our stock price.***

Our consolidated financial statements for the years ended December 31, 2003, 2004 and 2005 have been restated to record our Redeemable Class A member interests as stock-based compensation in accordance with SFAS 123, *Accounting for Stock-Based Compensation*. In addition, we corrected a computational error in the determination of investing and operating cash flows for the years ended December 31, 2004 and 2005. These restatements are further discussed in Note 3 to our audited consolidated financial statements included elsewhere in this prospectus. Our independent registered public accounting firm notified our executive committee of the board of directors that these errors in our consolidated financial statements, and the resulting restatements, were a result of material weaknesses in our internal control over financial reporting. See

Management's Discussion and Analysis of Financial Condition and Results of Operation Material Weaknesses in Internal Control Over Financial Reporting. A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 31, 2006, we believe we have remediated the identified material weaknesses by improving our processes for selecting and implementing complex accounting policies applicable to stock-based compensation, and have improved our preparation and review processes in connection with our consolidated statements of cash flow. In addition, we have hired and expect to hire additional finance and accounting personnel to assist us in addressing the requirements of a public company.

In addition, Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm addressing these assessments. We will be required to comply for the first time with Section 404 in connection with our annual report on Form 10-K for the year ending December 31, 2008. We are currently in the process of further documenting our system of internal control over financial reporting and we will add additional controls and procedures as needed in order to satisfy the requirements of Section 404. During the course of our testing, we may in the future identify deficiencies which we may not be able to remediate in time to comply with Section 404.

If we fail to maintain the adequacy of our internal controls, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Failure to achieve and maintain an effective internal control system could give rise to misstatements in our financial statements and cause us to fail to meet our reporting obligations, which may cause investors to lose confidence in our reported financial information and cause an adverse impact on the value of our stock.

***The demands of running a public company could result in additional costs and require our senior management to devote more time to regulatory and other requirements.***

Following our initial public offering, we will be subject to significant additional regulatory and reporting requirements, including under the Securities Exchange Act of 1934, as amended, the Sarbanes-Oxley Act and the NYSE listed company rules. We will incur additional costs on an ongoing basis in order to comply with these additional requirements. These costs include those related to expanding our internal control and compliance functions, and recruiting and retaining additional staff. The historical consolidated financial information in this prospectus does not reflect the added costs that we expect to incur as a public company or the resulting changes that will have occurred in our capital structure and operations. For more information, see our historical consolidated financial statements and accompanying notes included elsewhere in this prospectus.

In addition, our senior management may be required to devote more of their time to meeting these additional requirements. Since inception, our senior management has been actively involved in the revenue generating activities of our operations. For example, Joseph Jolson, our chief executive officer, continues to

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manage Harvest Opportunity Partners II, L.P. and its related funds, which are our largest investment funds. In the future, the demands of managing a public company may require Mr. Jolson to be less actively involved in portfolio management responsibilities and to rely on others to a greater extent for these responsibilities. If our senior management is required to devote more time to the additional requirements of managing a public company, and we are unable to successfully transition some or all of the direct revenue generating responsibilities of our senior management to other suitable professionals, our reputation, business, results of operations and financial condition may be harmed.

### ***Evaluation of our prospects may be more difficult in light of our limited operating history.***

We were founded in 1999, and we have a limited operating history upon which to evaluate our business and prospects. As a relatively young enterprise, we are subject to the risks and uncertainties that face a company during its formative development. Some of these risks and uncertainties relate to our ability to attract and retain clients on a cost-effective basis, expand and enhance our service offerings, raise additional capital and respond to competitive market conditions. We may not be able to address these risks adequately, and our failure to do so may harm our business and the value of your investment in our common stock.

### **Risks Related to Our Industry**

#### ***Difficult market conditions could adversely affect our business in many ways.***

Difficult market and economic conditions, the level and volatility of interest rates, investor sentiment and political events have in the past adversely affected and may in the future adversely affect our business and profitability in many ways. Weakness in equity markets and diminished trading volume of securities could adversely impact our sales and trading business. Industry-wide declines in the size and number of underwritings and mergers and acquisitions transactions also would likely have an adverse effect on our revenues. In addition, reductions in the trading prices for equity securities also tend to reduce the transaction value of investment banking transactions, such as underwriting and mergers and acquisitions transactions, which in turn may reduce the fees we earn from these transactions. As we may be unable to reduce expenses correspondingly, our net income and net income margins may decline.

#### ***Significantly expanded corporate governance and public disclosure requirements may result in fewer initial public offerings and discourage companies from engaging in capital market transactions, which may reduce the number of investment banking opportunities available to pursue.***

Highly-publicized financial scandals in recent years have led to investor concerns over the integrity of the U.S. financial markets, and have prompted the U.S. Congress, the SEC, the NYSE and Nasdaq to significantly expand corporate governance and public disclosure requirements. To the extent that private companies, in order to avoid becoming subject to these new requirements, decide to forgo initial public offerings, our equity underwriting business may be adversely affected. In addition, provisions of the Sarbanes-Oxley Act and the corporate governance rules imposed by self-regulatory organizations have diverted the attention of many companies away from capital market transactions, including securities offerings and acquisition and disposition transactions. In particular, companies that either are or are planning to become public companies are incurring significant expenses in complying with the SEC and reporting requirements relating to internal control over financial reporting, and companies that disclose material weaknesses in such controls under the new standards may have greater difficulty accessing the capital markets. These factors, in addition to adopted or proposed accounting and disclosure changes, may have an adverse effect on our business.

#### ***Financial services firms have been subject to increased scrutiny over the last several years, increasing the risk of financial liability and reputational harm resulting from adverse regulatory actions.***

Firms in the financial services industry have been operating in a difficult regulatory environment. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, the NYSE, the



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NASD and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. This regulatory and enforcement environment has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms and that were generally believed to be permissible and appropriate. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of financial services, including, but not limited to, the authority to fine us and to grant, cancel, restrict or otherwise impose conditions on the right to carry on particular businesses. For example, a failure to comply with the obligations imposed by the Securities Exchange Act of 1934, as amended, on broker-dealers and the Investment Advisers Act on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act of 1940, could result in investigations, sanctions and reputational damage. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other United States or foreign governmental regulatory authorities or the NASD or other self-regulatory organizations that supervise the financial markets. Substantial legal liability or significant regulatory action against us could have adverse financial effects on us or cause reputational harm to us, which could harm our business prospects.

In addition, financial services firms are subject to numerous conflicts of interests or perceived conflicts. The SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. We have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly review and update our policies, controls and procedures. However, appropriately addressing conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to appropriately address conflicts of interest. Our policies and procedures to address or limit actual or perceived conflicts may also result in increased costs and additional operational personnel. Failure to adhere to these policies and procedures may result in regulatory sanctions or litigation against us. For example, the research operations of investment banks have been and remain the subject of heightened regulatory scrutiny which has led to increased restrictions on the interaction between equity research analysts and investment banking professionals at securities firms. Several securities firms in the United States reached a global settlement in 2003 and 2004 with certain federal and state securities regulators and self-regulatory organizations to resolve investigations into the alleged conflicts of interest of research analysts, which resulted in rules that have imposed additional costs and limitations on the conduct of our business.

Asset management businesses have experienced a number of highly publicized regulatory inquiries concerning market timing, late trading and other activities that focus on the mutual fund industry. These inquiries have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisers and broker-dealers. Although we do not act as an investment adviser to mutual funds, we are registered as an investment advisor with the SEC and the regulatory scrutiny and rulemaking initiatives may result in an increase in operational and compliance costs or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. In addition, the SEC staff has conducted studies with respect to soft dollar practices in the brokerage and asset management industries. In October 2005, the SEC proposed interpretive guidance regarding the scope of permitted brokerage and research services in connection with soft dollar practices. The SEC staff has indicated that it is considering additional rulemaking in this area, and we cannot predict the effect that additional rulemaking may have on our asset management or brokerage business or whether it will be adverse to us.

***Our exposure to legal liability is significant, and damages and other costs that we may be required to pay in connection with litigation and regulatory inquiries, and the reputational harm that could result from legal action against us, could adversely affect our businesses.***

We face significant legal risks in our businesses and, in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions have been increasing. These risks include potential liability under securities or other laws for materially false or misleading statements made

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in connection with securities offerings and other transactions, employment claims, potential liability for fairness opinions and other advice we provide to participants in strategic transactions and disputes over the terms and conditions of complex trading arrangements. Generally, pursuant to applicable agreements, investors in our funds do not have legal recourse against us or JMP Asset Management for underperformance or errors of judgment in connection with the funds, nor will any act or omission be a breach of duty to the fund or limited partner unless it constituted gross negligence or willful violation of law.

As an investment banking and asset management firm, we depend to a large extent on our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, it may be more damaging to our business than to other businesses. Moreover, our role as advisor to our clients on important underwriting or mergers and acquisitions transactions involves complex analysis and the exercise of professional judgment, including rendering fairness opinions in connection with mergers and acquisitions and other transactions. Therefore, our activities may subject us to the risk of significant legal liabilities to our clients and aggrieved third parties, including stockholders of our clients who could bring securities class actions against us. Our investment banking engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, however, there can be no assurance that these provisions will protect us or be enforceable in all cases. As a result, we may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and adverse judgments. We have in the past been, currently are and may in the future be subject to such securities litigation. Substantial legal liability or significant regulatory action against us could harm our results of operations or cause reputational harm to us, which could adversely affect our business and prospects.

### ***Misconduct by our employees or by the employees of our business partners could harm us and is difficult to detect and prevent.***

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur at our firm. For example, misconduct could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter misconduct and the precautions we take to detect and prevent this activity may not be effective in all cases. Our ability to detect and prevent misconduct by entities with whom we do business may be even more limited. We may suffer reputational harm for any misconduct by our employees or those entities with whom we do business.

### ***We may be required to make payments under certain indemnification agreements.***

Prior to this offering and the corporate reorganization, we will enter into agreements that provide for the indemnification of our members, managing directors, executive officers and certain other persons authorized to act on our behalf against certain losses that may arise out of this offering or the corporate reorganization, certain liabilities of our managing directors relating to the time they were members of JMP Group LLC, and certain tax liabilities of our members that may arise in respect of periods prior to this offering when we operated as a limited liability company. We may be required to make payments under these indemnification agreements, which could adversely affect our financial condition.

### ***If we were deemed an investment company under the Investment Company Act of 1940, applicable restrictions could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business.***

We are not an investment company under the Investment Company Act of 1940. However, if we were to cease operating and controlling the business and affairs of JMP Securities LLC and JMP Asset Management LLC or if either of these subsidiaries were deemed to be an investment company, our interest in those entities could be deemed an investment security for purposes of the Investment Company Act of 1940. We intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an

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investment company, restrictions imposed by the Investment Company Act of 1940, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and would harm our business and the price of our common stock.

### **Risks Related to this Offering and Our Shares**

*Because there has not been any public market for our common stock, the market price and trading volume of our common stock may be volatile.*

Prior to this offering, there has been no public market for our common stock. Although our shares of common stock have been authorized for listing on the NYSE, an active public market for our common stock may not develop. The market price of our common stock could be subject to significant fluctuations due to factors such as:

actual or anticipated fluctuations in our financial condition or results of operations;

the success or failure of our operating strategies and our perceived prospects and those of the financial services industry in general;

realization of any of the risks described in this section;

failure to be covered by securities analysts or failure to meet the expectations of securities analysts;

a decline in the stock prices of peer companies; and

a discount in the trading multiple of our common stock relative to that of common stock of certain of our peer companies due to perceived risks associated with our smaller size.

As a result, shares of our common stock may trade at prices significantly below the public offering price of our common stock. Furthermore, declines in the price of our common stock may adversely affect our ability to conduct future offerings or to recruit and retain key employees, including our managing directors and other key professional employees.

*Your interest in our firm may be diluted if we issue additional shares of common stock.*

In general, selling stockholders and potential investors do not have preemptive rights to any common stock issued by us in the future. Therefore, investors purchasing our common stock in this offering may experience dilution of their equity investment if we issue additional shares of common stock in the future, including shares issuable under our 2007 Equity Incentive Plan, or if we issue securities that are convertible into shares of our common stock.

*Provisions of our organizational documents may discourage an acquisition of us.*

Our organizational documents will contain provisions that will impede the removal of directors and may discourage a third party from making a proposal to acquire us. Our board will have the ability to take defensive measures that could impede or thwart a takeover such as, under certain circumstances, adopting a poison pill, or causing us to issue preferred stock that has greater voting rights than our common stock. If a change of control or change in management that our stockholders might otherwise consider to be favorable is prevented or delayed, the market price of our common stock could decline.

*Our managing directors, executive officers and other employees will be able to determine matters requiring stockholder approval, which could delay or prevent a change of control or which otherwise may not be in the best interest of our stockholders.*

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Immediately following this offering, our managing directors, executive officers and other employees will own approximately 46.4% of our common stock. In addition, we intend to use our equity as a component of our

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compensation program once we are a public company, which will result in our employees owning a greater percentage of our outstanding common stock. Consequently, our managing directors, directors, executive officers and other employees collectively may be able to determine matters submitted for stockholder action, including the election of our board of directors and approval of significant corporate transactions, including business combinations, consolidations and mergers and the determination of our day-to-day corporate and management policies. This concentration of ownership of our common stock could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our common stock that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our common stock. In addition, these stockholders could exercise their influence in a manner that is not in the best interest of our other stockholders.

### ***Future sales of our common stock could cause our stock price to decline.***

Sales of substantial amounts of our common stock by our employees and other stockholders, or the possibility of such sales, may adversely affect the price of our common stock and impede our ability to raise capital through the issuance of equity securities. See [Shares Eligible for Future Sale](#) for a discussion of possible future sales of common stock.

Immediately after this offering, there will be 20,800,039 shares of our common stock outstanding. Of these shares, the 7,999,098 shares of our common stock sold in this offering (or 9,198,962 shares if the underwriters' option to purchase additional shares of our common stock is exercised in full) will be freely transferable without restriction or further registration under the Securities Act. Subject to certain exceptions, the remaining shares of our common stock will be available for future sale upon the expiration or the waiver of transfer restrictions or in accordance with registration rights. See [Shares Eligible for Future Sale](#) for a discussion of the shares of our common stock that may be sold into the public market in the future.

### ***Our common stock may trade at prices below the initial public offering price.***

The price of our common stock after this offering may fluctuate greatly, depending upon many factors, including our perceived prospects and those of the financial services industry in general, differences between our actual financial and operating results and those expected by investors, changes in general economic or market conditions, broad market fluctuations and failure to be covered by securities analysts. Our common stock may trade at prices significantly below our initial public offering price. Declines in the price of our common stock may adversely affect our ability to recruit and retain key employees, including our managing directors, which could harm our results of operation.

### ***Our historical and unaudited pro forma financial information may not permit you to predict our costs of operations.***

The historical consolidated financial information in this prospectus does not reflect the added costs that we expect to incur as a public company or the resulting changes that have occurred in our capital structure and operations. Because we historically operated through partnerships and limited liability companies prior to our transition to corporate form prior to this offering, we paid little or no taxes on profits and paid relatively modest salaries to our managing directors. In preparing our unaudited pro forma condensed consolidated financial information, we deducted and charged to earnings estimated statutory income taxes based on an estimated blended tax rate, which may be different from our actual tax rate in the future. The estimates we used in our unaudited pro forma consolidated financial information may not be similar to our actual experience as a public company. For more information on our historical financial statements and unaudited pro forma condensed consolidated financial information, see [Unaudited Pro Forma Condensed Consolidated Financial Information](#) and our historical consolidated financial statements and accompanying notes included elsewhere in this prospectus.

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***You will experience immediate and substantial dilution in the book value of your common stock.***

The initial public offering price of our common stock will be substantially higher than the pro forma net tangible book value per share of our common stock. Pro forma net tangible book value represents the amount of our tangible assets on a pro forma basis, less our pro forma total liabilities. As a result, we currently expect that you will incur immediate dilution of \$6.14 per share based upon the initial public offering price for this offering of \$11.00 per share and after deducting estimated underwriting discounts and commissions and estimated offering proceeds payable by us. For more information, see Dilution.

***We will have broad discretion over the use of the net proceeds to us from this offering.***

We will have broad discretion to use the net proceeds to us from this offering, and you will be relying on the judgment of our board of directors and our management regarding the application of the net proceeds from this offering. Although we expect to use the net proceeds from this offering for general corporate purposes, including support and expansion of our underwriting, sales and trading, asset management businesses, strategic acquisitions and principal investment opportunities, we have not allocated these net proceeds for specific purposes. In addition, we may not be successful in investing the net proceeds from this offering to yield a favorable return. For more information, see Use of Proceeds.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. They also include statements concerning anticipated revenues, income or loss, capital expenditures, dividends, capital structure or other financial terms. The statements we make regarding the following subject matters are forward-looking by their nature:

the opportunity to grow our investment banking and sales and trading businesses because of the prevalent demand for our services in our six target industries;

the possibility to generate stable investment banking revenues due to our ability to engage in multiple types of transactions;

our ability to increase our roles as a co-manager or a lead manager in capital markets transactions;

the growth of our mergers and acquisitions and other strategic advisory business derived from our positions as a lead manager or senior co-manager of public and private securities offerings;

the characteristics of the asset management business, including its comparatively high margins, the recurring nature of its fee-based revenues, and its dependence on intellectual capital;

the past performance of our funds are not indicative of our future performance;

the ongoing emergence of small asset managers and institutional investment managers that rely on outside sources to provide equity research;

a heightened demand for alternative asset management products and services;

our plans to sponsor additional hedge funds and other alternative asset management products;

our plans to generate principal investing opportunities from our investment banking and asset management relationships;

our ability to attract and retain top professionals;

projections of our annual total compensation and benefits as a percentage of revenues;

our plans to launch additional hedge fund products, alternative and other asset management collective investment vehicles and structured finance products;

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our plans to hire additional senior research professionals;

our intention to declare dividends and our expected dividend rate;

estimates of distributions to be made to the members of JMP Group LLC in connection with our corporate reorganization;

our ability to increase the number of companies under coverage by our equity research analysts;

our plans to expand the group of institutional investors to which we market our equity research and sales and trading products and services by increasing the frequency with which we do business with these investors; and

our ability to increase assets under management and develop new asset management products.

The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These forward-looking statements, 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 upon our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or



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implied by the forward-looking statements. In particular, you should consider the numerous risks provided under "Risk Factors" in this prospectus.

These risks are not exhaustive. Other sections of this prospectus may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all risk factors, nor can we assess the impact of all factors or the effect which any factor, or combination of factors, may have on our business. Actual results may differ materially from those contained in any forward-looking statements.

When we use the words "will likely result," "may," "shall," "will," "believe," "expect," "anticipate," "project," "intend," "estimate," "goal," "objective," or similar expressions, we intend to identify forward-looking statements. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We undertake no duty to update any of these forward-looking statements after the date of this prospectus to conform prior statements to actual results or revised expectations unless otherwise required by law.

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### **DIVIDEND POLICY**

Following this offering and subject to legally available funds, we currently intend to declare a quarterly cash dividend on all outstanding shares of common stock. The first quarterly dividend will be for the second quarter of 2007 and will be prorated for the portion of that period subsequent to this offering. However, our dividend policy permits the board of directors to exercise its discretion in determining the appropriate level and timing of dividend payments. We intend to pay dividends out of a portion of our current earnings for each quarter and do not intend to borrow funds in order to pay dividends. The amount of such dividends will be determined by our board of directors, who will take into account various factors, including, among others, our financial performance, earnings, liquidity and the operating performance of our segments as assessed by management. We do not intend to pay out all excess cash and we do not plan to pay dividends on unvested restricted stock units or equity-based awards that we will issue prior to and in connection with this offering. However, no assurance can be given that any dividends, whether quarterly or otherwise, will or can be paid.

Because we are a holding company, the funding of dividends, if declared by the board of directors, will occur as follows: (i) as the sole manager of JMP Group LLC, our board of directors will cause JMP Group LLC to make distributions to us out of legally available funds, and (ii) we will distribute the proceeds to our common stockholders on a pro rata basis, subject to any preferences that may be applicable to any holders of our outstanding preferred stock.

#### ***Restrictions on Dividend Payments***

As a holding company our ability to pay dividends to our stockholders will be subject to the ability of JMP Group LLC to provide cash to us. Any distribution to us made by JMP Group LLC will be at the discretion of our board of directors and will depend on contractual, legal and regulatory restrictions on the payment of distributions by JMP Group LLC, and such other factors as our board of directors considers to be relevant. In particular, under Delaware law, JMP Group LLC is prohibited from making a distribution to the extent that its liabilities, after such distribution, exceed the fair value of its assets. After giving effect to the corporate reorganization, JMP Group LLC's operating agreement does not contain any restrictions on its ability to make cash distributions, except that no distributions shall be made in violation of Delaware law. In addition, under JMP Group LLC's credit agreement with City National Bank, it is prohibited from making any cash distributions if (a) an event of default (as defined in the credit agreement) has occurred and is continuing, (b) no event, act or occurrence has occurred and is continuing which, with the giving of notice or the passage of time, would become an event of default, or (c) an event of default would result from the cash distribution. The events of default under the credit agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants, cross-defaults to material indebtedness, bankruptcy and insolvency, and change of control. The City National Bank revolving credit facility has no balance outstanding as of December 31, 2006 and the credit facility expires on June 30, 2008. In addition, SEC regulations provide that JMP Securities may not pay cash dividends to us if certain minimum net capital requirements are not met.

Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay dividends according to our dividend policy, we may not consistently apply our policy or pay dividends at all if, among other things, we do not have the necessary cash. By paying cash dividends rather than investing that cash in our future growth, we also risk slowing the pace of our growth or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should the need arise.

#### ***Historical Distributions***

Historically, we have made quarterly profit distributions to members of JMP Group LLC with respect to their member interests. Profit distributions in 2006 to members of JMP Group LLC with respect to their Redeemable Class A member interests, Class A common interests and Class B common interests totaled \$11.4 million, \$1.5 million and \$1.9 million, respectively. Profit distributions in 2005 to members of JMP Group

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LLC with respect to their Redeemable Class A member interests, Class A common interests and Class B common interests totaled \$7.6 million, \$1.3 million and \$1.4 million, respectively.

The following table sets forth the cash dividends declared by JMP Group Inc. for the periods indicated:

	<b>Common Dividends Declared</b>	
	<b>Per Share</b>	<b>Dividend Type</b>
<b>2004</b>		
Third quarter	\$ 0.02	Regular dividend
Fourth quarter	\$ 0.07	Regular dividend
<b>2005</b>		
First quarter	\$ 0.08	Regular dividend
Second quarter	\$ 0.08	Regular dividend
Third quarter	\$ 0.08	Regular dividend
Fourth quarter	\$ 0.08	Regular dividend
	\$ 0.18	Special dividend
<b>2006</b>		
First quarter	\$ 0.08	Regular dividend
Second quarter	\$ 0.08	Regular dividend
Third quarter	\$ 0.08	Regular dividend
Fourth quarter	\$ 0.08	Regular dividend

**Table of Contents****DILUTION**

If you invest in our common stock in this offering, upon the completion of this offering, your interest will be diluted to the extent of the difference between the initial public offering price per share and the pro forma net tangible book value per share of our common stock.

Our pro forma net tangible book value as of December 31, 2006, was \$42.1 million, or \$2.85 per share of common stock. Pro forma net tangible book value per share is determined by dividing our tangible net worth, total tangible assets less total liabilities, by the aggregate number of shares of common stock outstanding on a pro forma basis after giving effect to the pro forma adjustments described under Unaudited Pro Forma Condensed Consolidated Financial Information. After giving effect to the sale by us of the shares of common stock in this offering, at the initial offering price of \$11.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses and the receipt and application of the net proceeds, our pro forma net tangible book value as of December 31, 2006, would have been \$101.1 million, or \$4.86 per share. This represents an immediate increase in pro forma net tangible book value to existing stockholders of \$2.01 per share and an immediate dilution to new investors of \$6.14 per share.

Dilution is determined by subtracting pro forma net tangible book value per share after this offering from the initial public offering price per share.

The following table illustrates this per share dilution:

Initial public offering price per share	\$ 11.00
Pro forma net tangible book value per share as of December 31, 2006	\$ 2.85
Pro forma increase in net tangible book value per share attributable to new investors	2.01
Pro forma net tangible book value per share after offering	4.86
Pro forma dilution per share to new investors	\$ 6.14

The table above does not reflect the impact of an aggregate of 2,674,940 shares issuable upon the exercise of outstanding options to purchase shares of our common stock as of December 31, 2006, or the 1,931,060 shares of our common stock underlying restricted stock units that we intend to grant to certain of our employees in connection with this offering. Assuming these options and restricted stock units fully vest and all the options are exercised, the effect would be a decrease of our pro forma net tangible book value per share after this offering by \$0.14 per share, and the dilution to new investors in this offering would increase by \$0.14 per share, assuming the underwriters do not exercise their option to purchase additional shares.

The following table summarizes, as of December 31, 2006, on a pro forma basis the total number of shares of common stock purchased from us, the total consideration paid to us (before deducting the estimated underwriting discount and commissions and offering expenses payable by us in connection with this offering) and the average price per share paid by existing stockholders and by new investors purchasing shares of our common stock in this offering:

	Shares Purchased Number	Percent	Total Consideration Amount	Percent	Average Price Per Share
Existing stockholders	14,800,039	71.2%	\$ 42,131,685(1)	39.0%	\$ 2.85
New investors	6,000,000	28.8%	66,000,000	61.0%	11.00
Total	20,800,039	100.0%	\$ 108,131,685	100.0%	

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- (1) Represents the book value of the contribution of members' equity interests in JMP Group LLC contributed in exchange for shares of our common stock in the reorganization transactions described under the caption Certain Relationships and Related Transactions Reorganization Transactions and Corporate Structure.

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**USE OF PROCEEDS**

We will receive net proceeds from our sale of shares of common stock in this offering of approximately \$58.9 million (\$71.2 million if the underwriters' overallotment option is exercised in full), based on the public offering price of \$11.00 per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses. The above amounts do not include underwriting discounts and commissions that will be received by JMP Securities LLC, our broker-dealer subsidiary, as an underwriter in this offering. We will not receive any of the net proceeds from the sale of shares of our common stock by the selling stockholders.

We intend to use the net proceeds from this offering for general corporate purposes, including support of and expansion of our existing business lines. Although we have not designated funds for any specific purpose, we may use the net proceeds from this offering to take advantage of principal investment opportunities, to expand our asset management business, including incubating additional asset management products and funds, to grow our investment banking business, to implement other new business activities or investment banking products or services, or to fund strategic investments as they may arise in the future.

Until we use the net proceeds of this offering, we intend to invest the funds in short-term, investment grade, interest-bearing securities, U.S. government securities and other marketable securities. We cannot predict whether the net proceeds invested will yield a favorable return.

**Table of Contents****CAPITALIZATION**

The following table shows our capitalization as of December 31, 2006:

on a historical basis;

on a pro forma basis to reflect the corporate reorganization and related transactions pursuant to which JMP Group Inc. will succeed to the business of JMP Group LLC prior to this offering, as more fully described under Unaudited Pro Forma Condensed Consolidated Financial Information; and

on a pro forma as adjusted basis to reflect the sale by us of 6,000,000 shares of our common stock pursuant to this offering, based on the initial public offering price of \$11.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses.

The following table should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations, Unaudited Pro Forma Condensed Consolidated Financial Information and the consolidated financial statements and accompanying notes appearing elsewhere in this prospectus.

**As of December 31, 2006**

(in thousands, except share and per share data)

	<b>Historical</b>	<b>Pro Forma, as Adjusted for the Reorganization</b>	<b>Pro Forma, as Adjusted for This Offering</b>
Redeemable Class A member interests	\$ 12,914	\$ (1)	\$
Minority interest	5,739	5,739	5,739
Members' equity and stockholders' equity:			
Class A common interests	11,862	(2)	
Class B common interests	31,650	(3)	
Common stock, \$0.001 par value per share; 30,000,000 shares authorized; 14,800,039 shares issued and outstanding on a pro forma basis, and 20,800,039 shares issued and outstanding on a pro forma basis adjusted for this offering		15(1)(2)(3)	21
Additional paid-in capital	269	42,117(1)(2)(3)(4)(5)	101,041
Retained earnings	2,971	(5)	
Total members' equity and stockholders' equity	46,752	42,132	101,062
Total capitalization	\$ 65,405	\$ 47,871	\$ 106,801

- (1) Reflects the issuance of shares of common stock to our members in exchange for our Redeemable Class A member interests. As of December 31, 2006, the Redeemable Class A member interests represented 74.8% of our membership interests and were exchangeable into 11,065,306 shares of common stock on a pro forma basis.

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- (2) Reflects the issuance of shares of common stock to our members in exchange for our Class A common interests. As of December 31, 2006, Class A common interests represented 9.7% of our membership interests and were exchangeable into 1,434,733 shares of common stock on a pro forma basis.
- (3) Reflects the issuance of shares of common stock to our members in exchange for our Class B common interests. As of December 31, 2006, Class B common interests represented 15.5% of our membership interests and were exchangeable into 2,300,000 shares of common stock on a pro forma basis.
- (4) Reflects distributions payable after December 31, 2006 and prior to this offering comprised of (i) distribution of \$10.0 million related to earnings previously allocated to our members for periods prior to 2006 that have not yet been distributed, (ii) distribution of \$4.4 million for estimated income tax obligations of members attributable primarily to the performance bonus accruals that will be allocated as taxable income to the members upon the corporate reorganization and (iii) \$3.1 million of profit distributions paid to managing directors in the quarter ended March 31, 2007.
- (5) Retained earnings are reclassified to paid-in capital assuming a constructive distribution to the members, followed by a contribution of the capital to us.



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### **UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The following unaudited pro forma condensed consolidated financial information is based upon the historical consolidated financial statements of JMP Group LLC. The unaudited pro forma condensed consolidated statement of income information was prepared as if the reorganization transactions described under **Certain Relationships and Related Transactions** Reorganization Transactions and Corporate Structure had taken place on January 1, 2006. The unaudited pro forma condensed consolidated statement of financial condition information as of December 31, 2006 was prepared as if those reorganization transactions had taken place on December 31, 2006. As permitted by the rules and regulations of the SEC, the Unaudited Pro Forma Condensed Consolidated Financial Information is presented on a condensed basis.

Prior to this offering we were organized as a limited liability company. We issued to employee members, who are our managing directors, Redeemable Class A member interests that were entitled to their pro rata share of our income. Our Third Amended and Restated Limited Liability Company Agreement, as amended, provides that each employee member may elect to redeem their Redeemable Class A member interests upon resignation from us. Because of this repurchase feature, the Redeemable Class A member interests were classified as a liability in our statement of financial condition. As a result of the liability classification, the pro rata share of income allocated to the Redeemable Class A member interests based on ownership percentages and any changes in the redemption amount of the Redeemable Class A member interests were recorded as expense in our statement of income.

Likewise, as a limited liability company prior to this offering, we were not subject to U.S. federal or state income taxes and our earnings did not reflect the taxes we will pay as a corporation.

In order to reflect our operating expenses as well as tax and capital structure if we were organized as a corporation, the unaudited pro forma condensed consolidated financial information gives effect to the reorganization transactions and the related transactions as described in **Certain Relationships and Related Transactions** Reorganization Transactions and Corporate Structure, including:

the exchange of Class A common interests and Class B common interests held by our non-employee members into shares of our common stock in connection with the corporate reorganization;

the exchange of our Redeemable Class A member interests held by our employee members into shares of our common stock in connection with the corporate reorganization, and as a result (i) the capital related to the Redeemable Class A member interests will be reclassified as equity, (ii) we will no longer allocate income and pay pro rata profit distributions to the holders of the Redeemable Class A member interests and (iii) we will no longer make interest payments to the holders of the Redeemable Class A member interests; and

a provision for corporate income taxes as a corporation at an assumed combined federal, state and local income tax rate of 42% of our pre-tax net income.

As part of our corporate reorganization, we will effect an exchange of all the outstanding membership interest of JMP Group LLC for shares of our common stock. We will exchange the portion of the 2,300,000 outstanding units of Class B common interests not currently held by us at a one-for-one exchange ratio into shares of common stock. Class A common interests and Redeemable Class A member interests will be exchanged into 12,500,039 shares of common stock by applying a one-for-one exchange ratio to their respective implied number of membership units. The implied number of membership units for Class A common interests and Redeemable Class A member interests is determined by calculating their respective membership percentages in JMP Group LLC relative to the membership percentage represented by the Class B common interests. In addition, 2,674,940 outstanding options to purchase Class B common interests will be converted at a one-for-one ratio into options to purchase shares of our common stock.

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We expect to grant 1,931,060 restricted stock units to a broad group of employees in connection with this offering. We expect to recognize \$18.3 million in compensation expense related to the grant of these restricted stock units over the four year vesting period. The compensation expense based on the initial public offering price of \$11.00 per share. The pro forma statement of income reflects the compensation expense expected to be recognized during the first twelve months after the grant date, assuming that the restricted stock units were granted on January 1, 2006.

The pro forma adjustments above are based upon available information and certain assumptions that management believes are reasonable and factually supportable. The unaudited pro forma condensed consolidated financial information and accompanying notes should be read together with the consolidated financial statements and related notes.

In connection with this offering, the vesting of 1,405,000 options that we granted in December 2006 will accelerate and we will recognize \$3.1 million in compensation expense related to the immediate vesting. Because the expenses associated with this transaction are non-recurring, the unaudited pro forma condensed consolidated financial information does not include adjustments for this transaction.

**The Unaudited Pro Forma Condensed Consolidated Financial Information presented is not necessarily indicative of the results of operations or financial position that might have occurred had the above pro forma adjustments actually taken place as of the dates specified, or that may be expected to occur in the future.**

**Table of Contents****Unaudited Pro Forma Condensed Consolidated****Statement of Income Information****For the Year Ended December 31, 2006**

(in thousands, except per share data)

	Historical	Pro Forma Adjustments For the Reorganization	Pro Forma as Adjusted For the Reorganization	Pro Forma Adjustments For RSU Grants	Pro Forma, as Adjusted Total
Total revenues	\$ 86,806	\$	\$86,806	\$	\$86,806
<i>Expenses</i>					
Compensation and benefits	50,136		50,136	6,264(7)	56,400
Income allocation and accretion Redeemable Class A member interests	10,664	(10,664)(1)			
Administration	3,977		3,977		3,977
Brokerage, clearing and exchange fees	4,133		4,133		4,133
Interest and dividend expense	1,686	(1,536)(2)	150		150
Other expenses	12,395		12,395		12,395
Total expenses	82,991	(12,200)	70,791	6,264	77,055
Minority interest	428		428		428
Income before taxes	3,387	12,200	15,587	(6,264)	9,323
(Provision for) benefit from income taxes		(6,547)(3)	(6,547)	2,631	(3,916)
Net income	\$ 3,387	\$ 5,653	\$ 9,040	\$(3,633)	\$5,407
Net income per unit Class A common interests					
Basic	\$0.91				
Diluted	\$0.89				
Weighted average units outstanding Class A common interests					
Basic	1,435				
Diluted	1,468				
Net income per unit Class B common interests					
Basic	\$0.91				
Diluted	\$0.89				
Weighted average units outstanding Class B common interests					
Basic	2,300				
Diluted	2,353				
Net income per share of common stock					
Basic pro forma			\$0.61		\$0.37
Diluted pro forma			\$0.61		\$0.35
Weighted average shares of common stock outstanding					
Basic pro forma			14,800(4)		14,800
Diluted pro forma			14,886(5)		15,283(5)(8)
Net income per share of common stock					
Basic pro forma as adjusted			\$0.53		\$0.32
Diluted pro forma as adjusted			\$0.53		\$0.31

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Weighted average shares of common stock  
outstanding

Basic pro forma as adjusted	17,123(6)	17,123(6)
Diluted pro forma as adjusted	17,209(6)	17,606(6)(8)

**The accompanying notes are an integral part of the Unaudited Pro Forma Condensed Consolidated Statement of Income Information.**

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**Notes to Unaudited Pro Forma Condensed Consolidated Statement  
of Income Information**

- (1) As a limited liability company, we allocated income and paid profit distributions based on the pro rata ownership percentage to the holders of our Redeemable Class A member interests. These income allocations and profit distributions were in addition to performance-based bonus compensation paid to our employee members. As a corporation, our Redeemable Class A member interests will be exchanged into shares of our common stock and classified as equity. Therefore income allocation and accretion expense will not be recorded as an expense. In addition, we will no longer pay pro rata profit distributions to the holders of our membership interests, but instead will pay dividends, if any, to all our stockholders as described in *Dividend Policy*.

Following this offering, we expect that our annual total compensation and benefits, including that payable to our managing directors, but excluding equity awards made prior to and in connection with this offering, will be approximately 60% of revenues each year; however, we retain the discretion to change this percentage in the future.

- (2) As a limited liability company, we made interest payments based on contributed capital to the holders of the Redeemable Class A member interests. As a corporation, our Redeemable Class A member interests will be exchanged into shares of our common stock and we will no longer make interest payments to the holders of the Redeemable Class A member interests.
- (3) As a limited liability company, we were not subject to income taxes. An adjustment has been made to include assumed income taxes at an effective tax rate of 42%, reflecting assumed federal, state and local income taxes. The Unaudited Pro Forma Condensed Consolidated Financial Information does not include the effect, if any, of the tax indemnification described in *Certain Relationships and Related Transactions Tax Indemnification Agreement and Related Matters*.
- (4) Reflects an adjustment for the issuance of shares of our common stock to our members in exchange for their respective interests in JMP Group LLC in the corporate reorganization prior to this offering. It does not reflect the planned grant of restricted stock units to a broad group of our employees in connection with this offering, with respect to which up to an aggregate of 1,931,060 shares of our common stock will be deliverable.
- (5) Diluted shares of common stock includes the dilutive impact of 2,674,940 options to acquire Class B common interests converted at a one-for-one ratio for options to acquire shares of our common stock by application of the Treasury Stock method in accordance with SFAS 128, *Earnings per Share*.
- (6) The pro forma as adjusted number of common shares outstanding includes 2,322,547 additional shares that represent, in accordance with Staff Accounting Bulletin Topic 1:B.3, the number of shares sold in our initial public offering, the proceeds of which are assumed for the purpose of this calculation to have been used to pay the amount of the distributions in 2006 and 2007 that are in excess of net income for the year ended December 31, 2006, based on the initial offering price of \$11.00 per share.

The distributions in excess of net income for the year ended December 31, 2006 are comprised of the following components:

	(\$ in thousands)
Distribution of earnings allocated to members in periods prior to 2006	\$ 10,000
Distributions for estimated tax obligations	4,400
Profit distributions to Redeemable Class A member interests paid in 2006	11,402
Profit distributions to Redeemable Class A member interests paid in the first quarter of 2007	3,134

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Capital distributions to the date of this offering	\$	28,936
Net income for the year ended December 31, 2006		3,388
Distributions in excess of net income	\$	25,548

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- (7) Reflects the compensation expense related to 1,931,060 restricted stock units granted in connection with this offering and recognized in accordance with FAS 123(R). The compensation expense equals the amount expected to be recognized during the first twelve months after the grant date, assuming that the restricted stock units were granted on January 1, 2006.
  
- (8) Diluted shares of common stock includes the dilutive impact of 1,931,060 restricted stock units granted in connection with this offering by application of the Treasury Stock method in accordance with SFAS 128, *Earnings per Share*, based on the initial offering price of \$11.00 per share.

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**Unaudited Pro Forma Condensed Consolidated Statement  
of Financial Condition Information**

**As of December 31, 2006**

(in thousands, except per share data)

		<b>Pro Forma Adjustments</b>	<b>Pro Forma, as Adjusted</b>
	<b>Historical</b>	<b>For the Reorganization</b>	<b>For the Reorganization</b>
Total assets	\$ 103,699	\$	\$ 103,699
Redeemable Class A member interests	\$ 12,914	\$ (12,914)(1)	\$
Distribution payable		17,534(2)	17,534
Other liabilities	38,294		38,294
Total liabilities	51,208	4,620	55,828
Minority interest	5,739		5,739
Members' equity and stockholders' equity:			
Class A common interests	11,862	(11,862)(3)	
Class B common interests	31,650	(31,650)(4)	
Common stock, par value \$0.001 per share		15(1)(3)(4)	15
Additional paid-in capital	269	41,848(1)(2)(3)(4)(5)	42,117
Retained earnings	2,971	(2,971)(5)	
Total members' equity and stockholders' equity	46,752	(4,620)	42,132
Total liabilities, minority interest, members' equity and stockholders' equity	\$ 103,699	\$	\$103,699
Pro forma shares outstanding			14,800(6)
Pro forma book value per share			\$2.85

**The accompanying notes are an integral part of the Unaudited Pro Forma Condensed Consolidated Statement of Financial Condition Information.**



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**Notes to Unaudited Pro Forma Condensed Consolidated Statement  
of Financial Condition Information**

- (1) Reflects the issuance of shares of common stock to our members in exchange for our Redeemable Class A member interests. As of December 31, 2006, the Redeemable Class A member interests represented 74.8% of our membership interests and were exchangeable into 11,065,306 shares of common stock on a pro forma basis. Because of a repurchase feature, the Redeemable Class A member interests are currently classified as a liability and carried at the redemption value which is equal to the member capital accounts as maintained by us. Upon our corporate conversion, the Redeemable Class A member interests will be exchanged into shares of our common stock and an amount equal to the redemption value of \$12.9 million as of December 31, 2006 will be classified as equity.
- (2) Reflects distributions payable after December 31, 2006 and prior to this offering comprised of (i) distribution of \$10.0 million related to earnings previously allocated to our members for periods prior to 2006 that have not yet been distributed, (ii) distribution of \$4.4 million for estimated income tax obligations of members attributable primarily to the performance bonus accruals that will be allocated as taxable income to the members upon the corporate reorganization and (iii) profit distributions of \$3.1 million paid to managing directors in the quarter ended March 31, 2007.
- (3) Reflects the issuance of shares of common stock to our members in exchange for our Class A common interests. As of December 31, 2006, Class A common interests represented 9.7% of our membership interests and were exchangeable into 1,434,733 shares of common stock on a pro forma basis.
- (4) Reflects the issuance of shares of common stock to our members in exchange for our Class B common interests. As of December 31, 2006, Class B common interests represented 15.5% of our membership interests and were exchangeable into 2,300,000 shares of common stock on a pro forma basis.
- (5) Retained earnings are reclassified to paid-in capital assuming a constructive distribution to the members, followed by a contribution of the capital to the corporation.
- (6) On a pro forma basis, the shares outstanding reflect the issuance of shares of our common stock to our members in exchange for their respective interests in JMP Group LLC in the corporate reorganization prior to this offering. See "Certain Relationships and Related Transactions" for additional information. It does not reflect the planned grant of restricted stock units to a broad group of our employees in connection with this offering, with respect to which up to an aggregate of 1,931,060 shares of our common stock will be deliverable.

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**SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial and other data of JMP Group LLC should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations, Unaudited Pro Forma Condensed Consolidated Financial Information and the consolidated financial statements and accompanying notes included elsewhere in this prospectus.

The selected consolidated statements of financial condition data as of December 31, 2005 and 2006 and the selected consolidated statements of income data for each of the three years in the period ended December 31, 2006 have been derived from our audited consolidated financial statements and accompanying notes included elsewhere in this prospectus and should be read together with those consolidated financial statements and accompanying notes.

The selected consolidated statements of financial condition data as of December 31, 2002, 2003 and 2004 and the selected consolidated statements of income data for the years ended December 31, 2002 and 2003 have been derived from audited consolidated financial statements not included in this prospectus. The selected consolidated financial and other data should be read together with the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and with our consolidated financial statements and accompanying notes included elsewhere in this prospectus.

The selected historical consolidated financial data as of and for the years ended December 31, 2002, 2003, 2004 and 2005 have been restated for the matters discussed in Note 3 to the accompanying consolidated financial statements.

The unaudited pro forma data for the year ended December 31, 2006 have been derived from the pro forma data provided in Unaudited Pro Forma Condensed Consolidated Financial Information included elsewhere in this prospectus. The unaudited pro forma information for the years ended December 31, 2002 to 2005 have been calculated based on assumptions consistent with those used for the 2006 unaudited pro forma consolidated financial information included herein.

The pro forma statement of income and pro forma statement of financial condition adjustments principally give effect to the following matters:

the corporate reorganization as described in Certain Relationships Reorganization Transactions and Corporate Structure;

reclassification of profit distributions to certain Class A members that are currently accounted for as stock-based compensation under SFAS 123 until December 31, 2005 and SFAS 123R since January 1, 2006. Prior to the corporate reorganization we were a limited liability company that issued Redeemable Class A member interests to employee members who are entitled to their pro rata share of our operating profits. As a corporation, our Redeemable Class A member interests will convert into permanent equity and we will no longer distribute pro rata profit allocations to the holders of the Redeemable Class A member interests. All payments for services rendered by our managing directors will be included in our compensation and benefits;

the exchange of our Redeemable Class A member interests held by our employee members into shares of our common stock in connection with the corporate reorganization and, as a result, we will no longer make interest payments to the holders of the Redeemable Class A member interests; and

a provision for income taxes as a corporation at an assumed combined federal, state and local income tax rate of 42%.

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(in thousands, except per share data and selected data and operating metrics)

	2002	As of or for the Year Ended December 31,			
	2003	2004	2005	2006	
	(restated)	(restated)	(restated)	(restated)	
<b>Statement of Income Data</b>					
<i>Revenues</i>					
Investment banking	\$ 5,878	\$ 25,267	\$ 37,413	\$ 62,880	\$ 44,060
Brokerage revenues	8,981	15,883	22,579	23,536	30,185
Asset management fees	876	7,670	12,505	8,538	4,531
Principal transactions	1,147	8,558	1,775	(2,006)	4,288
Interest, dividends and other	2,858	1,393	545	1,713	3,742
Total revenues	19,740	58,771	74,817	94,661	86,806
<i>Expenses</i>					
Compensation and benefits	11,682	32,522	46,969	60,145	50,136
Income allocation and accretion/(dilution) Redeemable Class A member interests (1)	(1,151)	13,093	9,755	12,983	10,664
Administration	751	1,778	2,640	3,362	3,977
Brokerage, clearing and exchange fees	1,769	1,484	2,848	3,170	4,133
Interest and dividend expense	358	654	1,009	933	1,686
Other expenses	4,119	6,041	8,098	10,146	12,395
Total expenses	17,528	55,572	71,319	90,739	82,991
Minority interest (2)					428
Net income (3)	2,212	3,199	3,498	3,922	3,387
Increase in redemption value of Series B preferred units	(3,493)	(2,151)	(513)		
Distributions to Series A convertible preferred units	(1,061)	(704)	(469)		
Net income attributable to Class A and Class B common interests (3)	\$ (2,342)	\$ 344	\$ 2,516	\$ 3,922	\$ 3,387
<i>Net income per unit Class A common interests (3)(4)</i>					
Basic	\$ (14.52)	\$ 2.45	\$ 2.12	\$ 1.04	\$ 0.91
Diluted	\$ (14.52)	\$ 0.65	\$ 1.92	\$ 1.04	\$ 0.89
<i>Weighted average units outstanding Class A common interests (4)</i>					
Basic	161	141	1,185	1,474	1,435
Diluted	1,633	1,613	1,553	1,474	1,468
<i>Net income per unit Class B common interest (3)(4)</i>					
Basic			\$ 0.73	\$ 1.04	\$ 0.91
Diluted			\$ 0.73	\$ 1.04	\$ 0.89
<i>Weighted average units outstanding Class B common interests (4)</i>					
Basic			958	2,300	2,300
Diluted			958	2,300	2,353

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(in thousands, except per share data and selected data and operating metrics)

	As of or for the Year Ended December 31,				
	2002	2003	2004	2005	2006
	(restated)	(restated)	(restated)	(restated)	
<b>Pro Forma Statement of Income Data C-Corp (Unaudited) (5)</b>					
Total revenues					\$86,806
Total expenses					82,991
Addback: Income allocation and accretion/(dilution) Redeemable Class A member interests (1) (6)					(10,664)
Addback: Interest expense Redeemable Class A member interests (7)					(1,536)
Compensation and Benefits related to RSU grants in connection with IPO					6,264
Pro forma total expenses					77,055
Minority interest (2)					428
Pro forma income before taxes					9,323
Pro forma tax expense (42.0% assumed tax rate) (8)					3,916
Pro forma net income					\$ 5,407
Net income per share of common stock Pro forma:					
Basic					\$0.37
Diluted (9)					\$0.35
Weighted average number of common shares outstanding Pro forma:					
Basic					14,800
Diluted (9)					15,283
Net income per share of common stock Pro forma as adjusted:					
Basic					\$0.32
Diluted (10)					\$0.31
Weighted average number of common shares outstanding Pro forma as adjusted:					
Basic					17,123
Diluted (10)					17,606
<b>Statement of Financial Condition Data</b>					
Total assets	\$ 25,579	\$ 58,146	\$ 85,993	\$ 91,923	\$ 103,699
Notes payable			2,500		
Redeemable Class A member interests	1,755	11,542	5,897	11,517	12,914
Total liabilities	9,210	39,281	40,573	45,275	51,208
Total equity	12,533	12,877	45,419	46,648	46,752
<b>Pro forma Statement of Financial Condition Data C-Corp (Unaudited) (5)</b>					
Pro forma total liabilities (11)					\$55,828
Pro forma total equity (11) (12)					42,132
<b>Selected Data and Operating Metrics (Unaudited)</b>					
Number of employees end of period	77	111	141	169	187
Number of employees average	63	96	127	162	181
Revenues per average employee	\$313	\$612	\$589	\$584	\$480
Compensation and benefits as a % of revenues (13)	59.2%	55.3%	62.8%	63.5%	57.8%
Companies covered by our research analysts	93	155	198	294	279
Number of completed investment banking transactions	11	25	55	75	75



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- (1) Prior to this offering we were organized as a limited liability company and issued to employee members, who are our managing directors, Redeemable Class A member interests, that were entitled to their pro rata share of our income. Our Third Amended and Restated Limited Liability Company Agreement, as amended, provides that each employee member may elect to redeem their Redeemable Class A member interests upon resignation from us. Because of this repurchase feature, the Redeemable Class A member interests are classified as a liability in our statement of financial condition. As a result of the liability classification, the pro rata share of income allocated to the Redeemable Class A member interests based on ownership percentages and any changes in the redemption amount of the Redeemable Class A member interests were recorded as expense in our statement of income.
- (2) Minority interest relates to the interest of third parties in JMP Realty Trust and in two asset management funds, Harvest Consumer Partners and Harvest Technology Partners.
- (3) Prior to this offering we were a limited liability company and our earnings did not reflect the income taxes we will pay as a corporation.
- (4) We issued 2,300,000 units of Class B common interests in a private offering in August 2004, which represented 15.5% of our outstanding membership interests. Because there is a direct relationship between the number of Class B common interests outstanding and the ownership percentage in our equity, we were able to determine the number of units associated with the Class A common interests outstanding. As a result, we were able to determine earnings per share, based on an implied number of Class A common interests and an existing number of Class B common interests outstanding. We have reflected this implied number of units for purposes of determining earnings per share in all periods presented.
- (5) The amounts for all periods presented reflect pro forma results of operations as if the corporate reorganization had occurred on January 1, 2002.
- (6) As a limited liability company, we allocated income and paid profit distributions to the holders of our Redeemable Class A member interests based on their pro rata ownership. These profit distributions were in addition to performance-based bonus compensation paid to our employee members. As a corporation, our Redeemable Class A member interests will be exchanged into shares of our common stock and we will no longer pay pro rata profit distributions to the holders of the Redeemable Class A member interests.
- (7) As a limited liability company, we made interest payments based on contributed capital to the holders of the Redeemable Class A member interests. As a corporation, our Redeemable Class A member interests will be exchanged into shares of our common stock and we will no longer make interest payments to the holders of the Redeemable Class A member interests.
- (8) As a limited liability company, we were not subject to income taxes. The pro forma tax expense for all periods presented includes adjustments for assumed federal, state and local income taxes as if we were organized as a corporation for each period from January 1, 2002 at an assumed combined federal, state and local income tax rate of 42% of our income before taxes.
- (9) The pro forma diluted number of shares outstanding includes the dilutive impact of (i) 2,674,940 outstanding options converted at a one-for-one ratio for options to purchase shares of our common stock and (ii) 1,931,060 restricted stock units granted in connection with this offering by application of the Treasury Stock method in accordance with SFAS 128, *Earnings per Share*, and based on the initial offering price of \$11.00 per share.
- (10) The pro forma as adjusted number of common shares outstanding includes 2,322,547 additional shares that represent, in accordance with Staff Accounting Bulletin Topic 1:B.3, the number of shares sold in our initial public offering whose proceeds are assumed for the purpose of this calculation to have been used to pay the amount of the distributions in 2006 and 2007 that are in excess of net income for the year ended December 31, 2006, based on the initial offering price of \$11.00 per share.

(11) Reflects the exchange of our Redeemable Class A member interests into shares of common stock.

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- (12) Reflects distributions payable after December 31, 2006 and prior to this offering comprised of (i) distribution of \$10.0 million related to earnings previously allocated to our members for periods prior to 2006 that have not yet been distributed, (ii) distribution of \$4.4 million for estimated income tax obligations of members attributable primarily to the performance bonus accruals that will be allocated as taxable income to the members upon the corporate reorganization and (iii) \$3.1 million of profit distributions to managing directors paid in the quarter ended March 31, 2007.
- (13) Compensation and benefits include salaries and performance-based bonus payments to our managing directors and other employees. Following this offering, we expect that our annual total compensation and benefits, including that payable to our managing directors, but excluding equity awards granted prior to and in connection with this offering, will be approximately 60% of revenues each year; however, we retain the discretion to change this percentage in the future.



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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read together with our consolidated financial statements and the accompanying notes contained elsewhere in this prospectus. In addition to historical information, the following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those discussed in the Risk Factors and elsewhere in this prospectus.*

*As discussed in Note 3 to the consolidated financial statements, our consolidated financial statements have been restated. The following discussion and analysis gives effect to that restatement.*

#### **Overview**

We are a full-service investment banking and asset management firm headquartered in San Francisco. 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 six target industries; and

asset management products and services to institutional investors, high net-worth individuals and for our own account.

For segment reporting, we divide our business into two segments, as follows: (i) Broker-Dealer; and (ii) Asset Management. These two segments are operated through our two wholly-owned subsidiaries, JMP Securities and JMP Asset Management, respectively. JMP Securities is a registered securities broker-dealer and a member of the NASD and provides investment banking, sales and trading, and equity research services. For the years ended December 31, 2004, 2005 and 2006, the Broker-Dealer segment contributed to our total revenues \$61.1 million, \$86.5 million, and \$79.0 million, respectively. JMP Asset Management is an investment adviser registered with the SEC and manages a family of five hedge funds, two funds of hedge funds, and, through an affiliate, an externally advised REIT. For the years ended December 31, 2004, 2005 and 2006, the Asset Management segment contributed to our total revenues \$13.8 million, \$8.1 million, and \$7.8 million, respectively.

#### **Business Environment**

Many external factors affect our revenues and profitability, including economic and market conditions, the level and volatility of interest rates, inflation, political events, investor sentiment, legislative and regulatory developments and competition. These factors influence levels of equity securities issuance, and mergers and acquisitions activity generally, which affect our investment banking business. The same factors also affect trading volumes and valuations in secondary financial markets, which affect our sales and trading and asset management businesses. Commission rates, market volatility and other factors also affect our sales and trading revenues and may cause our sales and trading revenues to vary from period to period. Because these business environment issues are unpredictable and beyond our control, our earnings may fluctuate significantly from year to year and quarter to quarter. We are also subject to various legal and regulatory actions that impact our business and financial results.

As measured by gross domestic product, or GDP, the U.S. economy experienced real growth of 2.5% in 2003, 3.9% in 2004, 3.2% in 2005 and 3.3% in 2006. Beginning in 2003, U.S. corporate earnings performance improved, along with investor confidence, leading to more favorable equity market conditions, increased capital



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market issuances and higher levels of merger and acquisition activity. The S&P 500 Index, a broad market measure of U.S. equity markets, increased from 909.03 on January 1, 2003 to 1,418.30 on December 29, 2006, or 56.0%. The Russell 2000 Index, a broader equity market measure that captures the performance of small and middle-market U.S. companies, increased 100.6% during the same period. Aggregate proceeds raised in U.S. initial public offerings and follow-on public equity offerings increased from \$83.6 billion in 2003 to \$169.2 billion in 2006, or 102.4%. During this period, the U.S. equity markets have continued to display strong momentum in terms of both price appreciation and trading volumes, two important catalysts for our investment banking and sales and trading businesses. For the year ended December 31, 2006, the S&P 500 increased 11.8%, the Russell 2000 Index 15.1% and the Dow Jones Industrial Average, or DJIA, increased 14.9%. The strong trends in the U.S. equity markets have continued, as have the strong trends in both U.S. and global mergers and acquisition activity, which tend to be highly correlated with equity market performance. Aggregate proceeds from all public U.S. equity offerings for the year ended December 31, 2006 were \$169.2 billion, an increase of 30.8% from the aggregate proceeds for the year ended December 31, 2005. U.S. merger and acquisition activity achieved record levels in 2006. For the year ended December 31, 2006, there were 11,341 announced U.S. merger and acquisition transactions representing \$1,252.1 billion in announced transaction value, an increase of 23.7% compared to the year ended December 31, 2005. During the period of robust equity market growth and merger and acquisition activity, the alternative asset management sector of the global financial services industry has continued to expand. According to data from Hedge Fund Research, the total number of hedge funds globally has increased from approximately 6,300 as of December 31, 2003 to approximately 9,460 as of December 31, 2006. Aggregate assets under management by all hedge funds increased from approximately \$820 billion as of December 31, 2003 to approximately \$1.4 trillion as of December 31, 2006 according to Hedge Fund Research.

### **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, and asset management fees in our asset management business. 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 placements 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 and selling concessions. 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 and valuation opinions. We record strategic advisory revenues when the transactions or the services (or, if applicable, separate components thereof) to be performed are substantially complete, the fees are determinable and collection is reasonably assured.

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*Private Placement Revenues*

We earn agency placement fees in non-underwritten transactions such as private placements of equity securities, private investments in public equity, or PIPEs, Rule 144A private offerings and trust preferred securities offerings. We record private placement revenues on the closing date of the transaction.

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 listed and over-the-counter, or OTC, equity securities. Commissions are recognized on a trade date basis. Brokerage revenues also include net trading gains and losses which 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, these 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 include management fees and incentive fees earned from managing investment partnerships sponsored by us and investment accounts owned by clients. Management fees earned by us are generally based on the fair value of assets under management and the fee schedule for each fund and account. We also earn incentive fees that are based upon the performance of investment funds and accounts. Such fees are based on a percentage of the excess of an investment return over a specified highwater mark or hurdle rate over a defined performance period.

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 affect 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.

In addition, employees typically pay one-half the amount of fees charged to outside limited partners and portfolio managers do not pay any fees with regard to their investments in the funds they manage.

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### ***Principal Transactions***

Principal transactions revenues includes realized and unrealized net gains and losses resulting from our principal investments, which includes investments in equity 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. We leverage our asset management expertise by investing a portion of our capital in a portfolio of equity securities managed by JMP Asset Management 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.

### ***Interest, Dividends and Other***

Interest, dividends and other includes interest and dividend income generated by our liquid assets and principal investments. Other income also includes fees earned to raise capital for third-party investment partnerships, or funds.

### ***Components of Expenses***

We classify our expenses as compensation and benefits, income allocation and accretion/(dilution) Redeemable Class A member interests, administration expense, brokerage, clearing and exchange fees, interest and dividend expense and other expenses. A significant portion of our expense base is variable, including compensation and benefits, brokerage and clearance, communication and data processing, and travel and entertainment expenses.

### ***Compensation and Benefits***

Compensation and benefits is the largest component of our expenses and includes employee and managing director base pay, performance bonuses, sales commissions, related payroll taxes, medical and benefits expenses, as well as expenses for contractors and temporary employees. While members of a limited liability company are typically compensated through pro rata profit distributions, our employee members receive the majority 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. Compensation is accrued based on a ratio of total compensation and benefits to total revenues. We accrue for the estimated amount of these bonus payments ratably over the applicable service period. 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 income. Following this offering, we expect that our compensation and benefits expense, excluding equity-based awards made prior to and in connection with this offering, will be approximately 60% of revenues each year, although we may change this rate at any time.

### ***Income Allocation and Accretion/(Dilution) Redeemable Class A Member Interests***

Redeemable Class A member interests are issued to our employee members and are entitled to share in our income. Each holder of the Redeemable Class A member interests is a party to our Third Amended and Restated Limited Liability Company Agreement, as amended, which provides that an employee member may elect to redeem his or her Redeemable Class A member interests without our consent in connection with such person's resignation from us. Because of this repurchase feature the Redeemable Class A member interests are classified as a liability and measured at each balance sheet date based on the redemption amounts for the Redeemable Class A member interests. The redemption amount for an employee member is the amount we are required to pay to an employee member upon resignation to redeem all of his or her Redeemable Class A member interests and is equal to the capital account of such employee member as maintained by us.

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Redeemable Class A member interests are accounted for as stock-based compensation and classified as a liability. As a result, the share of our income allocated to Redeemable Class A member interests, based on the membership percentage owned, and any additional changes in the redemption amount of Redeemable Class A member interests are recorded as Income allocation and accretion/(dilution) Redeemable Class A member interests in our consolidated statements of income.

Upon the completion of the corporate reorganization, our Redeemable Class A member interests will be exchanged into shares of our common stock and classified as equity. Therefore, income allocation and accretion/(dilution) Redeemable Class A member interests will no longer be recorded as an expense after this offering.

### ***Administration***

Administration expense primarily includes the cost of hosted conferences, non-capitalized systems and software expenditures, insurance, office supplies, recruiting, and regulatory fees.

### ***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 currently clear our securities transactions through Automatic Data Processing, Inc. Changes in brokerage, clearing and exchange fees fluctuate largely in line with the volume of sales and trading activity.

### ***Interest and Dividend Expense***

Interest and dividend expense consists primarily of interest paid on net capital contributed by our employee members, who receive interest payments at an annual rate equal to the Prime rate plus 100 basis points. To a lesser extent it results from short-term borrowings and dividend paying short positions in our principal investment portfolio. Upon completion of our corporate reorganization in connection with this offering, our Redeemable Class A member interests will be exchanged into shares of our common stock and we will no longer make interest payments to holders of the Redeemable Class A member interests.

### ***Other Expenses***

Other operating expenses primarily include travel and business development, market data, occupancy, legal and accounting professional fees and depreciation.

As a result of this offering, we will no longer be a private company and our costs for such items as insurance, accounting and legal advice will increase. We will also incur costs which we have not previously incurred for directors fees, investor relations expenses, expenses for compliance with the Sarbanes-Oxley Act and rules implemented by the SEC and the NYSE, and various other costs of being a public company.

### ***Minority Interest***

Minority interest relates to the interest of third parties in JMP Realty Trust and in the two asset management funds Harvest Consumer Partners and Harvest Technology Partners. JMP Realty Trust is a real estate investment trust that was formed in June 2006. As of December 31, 2006, we owned 50.6% of JMP Realty Trust and certain employee members owned 24.7%. JMP Realty Trust is managed by JMP Realty Advisors, an affiliate of JMP Asset Management. Because of the current ownership and external management position, we consolidate JMP Realty Trust and record a minority interest. We have committed \$10.3 million in capital to JMP Realty Trust, of which, as of December 31, 2006, a total of \$2.1 million had been drawn. JMP Asset Management is also the general partner of Harvest Consumer Partners and Harvest Technology Partners, and as of December 31, 2006, JMP Asset Management, as general partner, and its affiliates, officers and immediate

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family members provided 94.6% and 95.3%, respectively, of the invested capital in these funds. Due to the ownership and resulting control of JMP Asset Management and related parties, management believes that limited partners currently do not have substantive rights to remove the general partner and therefore these two funds are consolidated in the financial statements.

### ***Pro Forma Net Income***

Pro forma net income relates to our estimated net income upon our corporate reorganization prior to this offering and is used by our management to analyze and manage the overall performance of our business.

### **Material Weaknesses in Internal Control Over Financial Reporting**

In connection with the restatement of our consolidated financial statements for the years ended December 31, 2004 and 2005, our independent registered public accounting firm identified material weaknesses in our internal control over financial reporting. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Our independent registered public accounting firm communicated to our management and executive committee of the board of directors the following deficiencies in our internal control over financial reporting, which constitute material weaknesses:

we did not have effective controls in place over the selection and application of generally accepted accounting principles to account for our Redeemable Class A member interests in accordance with SFAS 123, *Accounting for Stock-Based Compensation*, until December 31, 2005; and

we did not have effective controls in place over the preparation and review of our statements of cash flows that caused us not to detect certain computational errors in our investing and operating cash flows.

These material weaknesses existed as of December 31, 2005 and resulted in a misstatement of significant accounts that would result in a material misstatement to our interim or annual consolidated financial statements that was not prevented or detected at the time our consolidated financial statements were issued. As of December 31, 2006, we believe we have remediated the identified material weaknesses by taking the following measures:

we improved our processes for selecting and implementing complex accounting policies, such as SFAS 123 and SFAS 123R, in order to properly record our Redeemable Class A member interests; and

we improved our preparation and review processes in connection with our consolidated statements of cash flow.

In addition, we have hired and expect to hire additional finance and accounting personnel to assist in the proper preparation of our consolidated financial statements and compliance with Section 404 of the Sarbanes-Oxley Act, and to assist us in addressing the requirements of being a new public company.

### **Results of Operations**

#### ***Year Ended December 31, 2006, Compared to Year Ended December 31, 2005***

##### *Overview*

Total revenues decreased \$7.9 million, or 8.3%, from \$94.7 million for the year ended December 31, 2005 to \$86.8 million for the year ended December 31, 2006. This decrease was primarily due to decreases in investment banking revenues of \$18.8 million and asset management fees of \$4.0 million, but was partially offset by increases of \$6.6 million in brokerage revenues and \$6.3 million in principal transaction revenues.

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Total expenses decreased \$7.7 million, or 8.5%, from \$90.7 million for the year ended December 31, 2005 to \$83.0 million for the year ended December 31, 2006, primarily due to a decrease in compensation and benefits



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due to lower managing director compensation and benefits. The decrease was partly offset by higher brokerage, clearing and exchange expenses resulting from the increase in brokerage revenues, higher interest expense due to the interest payments for additional capital contributions combined with an increase in the average Prime rate, and higher occupancy and related office expenses associated with the opening of our offices in New York and Boston.

Net income decreased \$0.5 million, or 13.6%, from \$3.9 million for the year ended December 31, 2005, compared with \$3.4 million for the year ended December 31, 2006.

### *Revenues*

*Investment Banking.* Investment banking revenues decreased \$18.8 million, or 30.0%, from \$62.9 million for the year ended December 31, 2005 to \$44.1 million for the same period in 2006, and decreased as a percentage of total revenues from 66.4% to 50.8%, respectively. The decrease in revenues was primarily due to lower levels of activity in our underwriting and strategic advisory businesses. In particular, we executed fewer mergers and acquisitions and underwriting transactions in our homebuilding and financial services industry groups during the year ended December 31, 2006 than for the year ended December 31, 2005 as a result of macroeconomic trends, such as rising interest rates and a slowdown in the housing market. As a percentage of investment banking revenues, homebuilding and financial services revenue fell from 31.2% and 31.1% for the year ended December 31, 2005, to 15.0% and 21.4% for the year ended December 31, 2006. The decrease in the homebuilding and financial services activity was partially offset by an increase in underwriting and strategic advisory assignments in some of our other industry groups. During the year ended December 31, 2005, we participated in seven public equity underwritings in which we acted as a lead manager, for which generally higher fees are earned, raising total gross proceeds of \$899.1 million. During the year ended December 31, 2006, we participated in five public equity underwritings in which we were a lead manager, raising total gross proceeds of \$312.2 million. The decrease in the number of lead managed transactions along with the decrease in total gross proceeds raised directly affects underwriting fees earned. Investment banking revenues were also impacted by a decrease in our average mergers and acquisitions transaction size, which directly affect the size of fees paid to us, as fees are generally paid as a percentage of gross transaction size. This decrease was in part due to several large mergers and acquisitions transactions in the homebuilding industry during the year ended December 31, 2005, which resulted in larger than average advisory fees for that time period compared to the year ended December 31, 2006. During the year ended December 31, 2006, we expensed deferred expenses of \$1.0 million for investment banking transactions that were not completed. We expensed no deferred expenses for investment banking transactions that were not completed for the year ended December 31, 2005.

*Brokerage Revenues.* Brokerage revenues increased by \$6.6 million, or 28.3%, from \$23.5 million for the year ended December 31, 2005 to \$30.2 million for the year ended December 31, 2006. This increase was a result of an increase in commissions of \$9.0 million, from \$24.7 million for the year ended December 31, 2005 to \$33.7 million for the year ended December 31, 2006, but was partially offset by an increase in net trading losses of \$2.4 million, from \$1.1 million for the year ended December 31, 2005 compared to \$3.5 million for the year ended December 31, 2006. The increase in net trading losses was primarily due to the fact that our trading desk took more frequent positions in greater amounts to facilitate customer trades. In order to facilitate a commission-generating customer order, our trading desk may take a position by acting as a principal to either purchase the customer's securities or selling securities to the customer that we do not yet own. Subsequently, the trading desk typically closes its daily positions by either reselling the purchased securities into the market, or purchasing securities to cover its short positions. The closing of these positions generally results in net trading losses. The net trading losses represent the differences in the value of the inventory position we take to facilitate customer trades and the value we realize when unwinding the inventory position. The increase in commissions was due to an increase in the volume of shares traded for customers, which increased 40.1% compared to the year ended December 31, 2005, as we experienced increased trading activity with existing and new institutional clients. In the year ended December 31, 2006, trading activity benefited from favorable market conditions in our target sectors and the equity markets generally, as the S&P 500 increased 11.8%, the Russell 2000 Index 15.1% and the

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Dow Jones Industrial Average, or DJIA, increased 14.9%. The number of companies under research coverage declined from 294 at December 31, 2005 to 279 at December 31, 2006, as several of our research analysts realigned their coverage areas during 2006. There is no direct correlation between the number of companies under research coverage and brokerage revenues. However, any indirect impact on brokerage revenues was offset by increased overall trading activity of equity securities, whether under our research coverage or not. Brokerage revenues increased as a percentage of total revenues, from 24.9% for the year ended December 31, 2005, to 34.8% for the year ended December 31, 2006.

*Asset Management Fees.* Asset management fees decreased \$4.0 million, or 46.9%, from \$8.5 million for the year ended December 31, 2005 to \$4.5 million for the year ended December 31, 2006. This decrease was primarily due to lower management fees, which are earned as a percentage of assets under management, resulting from a decline in assets under management as well as lower incentive fees earned. Assets under management decreased from \$340.2 million at December 31, 2005, to \$208.2 million at December 31, 2006. We believe that the decline was due to the fact that the returns generated by certain of our funds did not match those produced in prior periods and equaled neither our funds established benchmarks nor those of the broader market during 2005. In particular, the lower performance of Harvest Opportunity Partners II, our largest fund, resulted in redemptions of client assets. The lower performance of our funds in 2005 negatively impacted our incentive fees earned in the year ended December 31, 2006. We typically receive such fees as a percentage of an investment return in excess of a specified highwater mark. During 2006, the net assets and gains in several funds had to reach investors' highwater marks in order for us to earn incentive fees on the performance of the funds. For the three months ended of December 31, 2006, most of our investors were at or above their respective highwater mark. As a percentage of total revenues, asset management fees decreased from 9.0% for the year ended December 31, 2005 to 5.2% for the same period in 2006.

*Principal Transactions.* Principal transaction revenues increased \$6.3 million from a loss of \$2.0 million for the year ended December 31, 2005 to a gain of \$4.3 million for the year ended December 31, 2006. This increase was in part due to an increase in gains on equity investments in publicly-held securities of \$1.7 million, from \$0.1 million for the year ended December 31, 2005 to \$1.8 million for the year ended December 31, 2006. The increase was also attributable to an increase in gains on investment partnerships of \$3.2 million from a loss of \$0.6 million for the year ended December 31, 2005 to a gain of \$2.6 million for the year ended December 31, 2006. These gains were partially offset by unrealized losses in 2005 and 2006 of \$1.5 million and \$0.1 million, respectively, on warrant positions we had received from clients in certain investment banking assignments.

*Interest, Dividends and Other.* Interest, dividends and other increased \$2.0 million, or 118.4%, from \$1.7 million for the year ended December 31, 2005 to \$3.7 million for the same period in 2006. The increase was attributable to increased interest rates and more actively managed cash, which returned higher yields.

### *Expenses*

*Compensation and Benefits.* Compensation and benefits, which includes salaries and performance bonus compensation to our employees and managing directors, decreased \$10.0 million, or 16.6%, from \$60.1 million for the year ended December 31, 2005 to \$50.1 million for the year ended December 31, 2006. This decrease reflects a decrease in the amount of employee and managing director bonuses mainly as a result of a decrease in investment banking revenues and asset management fees. The decrease was partially offset by an increase in salaries due to additional headcount, which increased from 169 employees at December 31, 2005 to 187 at December 31, 2006. As a percentage of revenues, compensation and benefits decreased from 63.5% of total revenues for the year ended December 31, 2005 to 57.8% for the same period in 2006.

*Income Allocation and Accretion/(Dilution).* Income allocation and accretion/(dilution) decreased \$2.3 million, or 17.9%, from \$13.0 million for the year ended December 31, 2005 to \$10.7 million for the year ended December 31, 2006. This increase is primarily due to lower income allocated to the Redeemable Class A member interests. Income allocation and accretion/(dilution) increased from 13.7% of total revenues for the year ended December 31, 2005 to 12.3% for the same period in 2006.

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*Administration.* Administration expenses increased \$0.6 million, or 18.3%, from \$3.4 million for the year ended December 31, 2005 to \$4.0 million for the year ended December 31, 2006. This increase was due primarily to additional hosted conference expenses associated with the addition of two new conferences in 2006 and an increase in the length of our annual research conference from two days in 2005 to three days in 2006. Administration expense increased from 3.6% of total revenues for the year ended December 31, 2005 to 4.6% for the same period in 2006.

*Brokerage, Clearing and Exchange Fees.* Brokerage, clearing and exchange fees increased \$1.0 million, or 30.4%, from \$3.2 million for the year ended December 31, 2005 to \$4.1 million for the year ended December 31, 2006. This increase was primarily due to an increase in trading activity in our sales and trading business as shares traded for customer accounts increased from 585.0 million shares for the year ended December 31, 2005 to 819.8 million shares for the year ended December 31, 2006. As a percentage of total revenues, our brokerage, clearing and exchange fees increased from 3.3% for the year ended December 31, 2005 to 4.8% for the same period in 2006.

*Interest and Dividend Expense.* Interest and dividend expense increased \$0.8 million, or 80.7%, from \$0.9 million for the year ended December 31, 2005 to \$1.7 million for the year ended December 31, 2006. The increase was primarily due to an increase in net contributed capital of Redeemable Class A member interests entitled to interest payments, primarily as a result of contributions by new members, as well as an increase in the average Prime rate used to determine the interest payments. As a percentage of total revenues, interest and dividend expense increased from 1.0% for the year ended December 31, 2005 to 1.9% for the same period in 2006.

*Other Expenses.* Other expenses increased \$2.2 million, or 22.2%, from \$10.1 million for the year ended December 31, 2005 to \$12.4 million for the year ended December 31, 2006. The increase in other expenses was due to increased travel and business development expenses related to increased headcount, especially in the travel intensive investment banking, sales and research departments. In addition, occupancy and related office expenses increased in 2006 due to the opening of new offices in New York and Boston. As a percentage of total revenues, our other expenses increased from 10.7% for the year ended December 31, 2005 to 14.3% for the same period in 2006.

*Minority Interest.* There was no minority interest for the year ended December 31, 2005 compared to a \$0.4 million minority interest for the year ended December 31, 2006. This relates to the inception of JMP Realty Trust, which was incorporated in Delaware in May 2006 and initially funded in June 2006, and to the consolidation of the two funds, Harvest Consumer Partners and Harvest Technology Partners.

### ***Year Ended December 31, 2005, Compared to Year Ended December 31, 2004***

#### ***Overview***

Total revenues increased \$19.8 million, or 26.5%, from \$74.8 million for the year ended December 31, 2004 to \$94.7 million for the year ended December 31, 2005. This increase was primarily due to an increase in investment banking revenues of \$25.5 million, but was partially offset by a decrease in asset management fees of \$4.0 million and principal transaction revenues of \$3.8 million.

Total expenses increased \$19.4 million, or 27.2%, from \$71.3 million for the year ended December 31, 2004 to \$90.7 million for the year ended December 31, 2005, primarily due to an increase in compensation and benefits, income allocation and accretion/(dilution) and administration expense resulting from the increase in revenues and headcount. Our headcount increased from 141 at December 31, 2004 to 169 at December 31, 2005.

Net income increased \$0.4 million, or 12.1%, from \$3.5 million for the year ended December 31, 2004 to \$3.9 million for the year ended December 31, 2005.

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### *Revenues*

*Investment Banking.* Investment banking revenues increased \$25.5 million, or 68.1%, from \$37.4 million for the year ended December 31, 2004 to \$62.9 million for the year ended December 31, 2005, and increased as a percentage of total revenues from 50.0% to 66.4%, respectively. The increase in revenues was primarily due to a significant increase in our strategic advisory activity and additional private placement activity resulting from the origination of trust preferred securities transactions. For the year ended December 31, 2005, we participated in 18 strategic advisory transactions and 29 private placements. This compares to nine strategic advisory transactions and five private placements for the year ended December 31, 2004. We also advised on two large mergers and acquisitions transactions in the homebuilding industry during 2005 that resulted in larger than average advisory fees for that year. In addition, we increased the number and size of transactions in which we were a lead manager, for which higher fees are generally earned, from six transactions raising total gross proceeds of \$288.4 million in 2004 to seven transactions raising total gross proceeds of \$899.1 million in 2005. For the year ended December 31, 2005, we expensed no deferred expenses for investment banking transactions that were not completed. We expensed deferred expenses of \$0.4 million for investment banking transactions that were not completed for the year ended December 31, 2004.

*Brokerage Revenues.* Brokerage revenues increased \$1.0 million, or 4.2%, from \$22.6 million for the year ended December 31, 2004 to \$23.5 million for the year ended December 31, 2005. This increase was a result of an increase in commissions of \$1.8 million, from \$22.9 million for the year ended December 31, 2004 to \$24.7 million for the year ended December 31, 2005, partially offset by an increase in net trading losses of \$0.8 million, from \$0.3 million for the year ended December 31, 2004 compared to \$1.1 million for the year ended December 31, 2005. The increase in commissions was due to the expansion of our research coverage universe, with companies under research coverage increasing from 198 at December 31, 2004 to 294 at December 31, 2005. This increase in companies under research coverage was mainly a result of an increase of senior research analysts from 14 analysts at December 31, 2004 to 20 analysts at December 31, 2005. We increased our sales and trading and research staff to 82 professionals in 2005, an increase from 74 professionals for the year ended December 31, 2004. We increased our companies under coverage and our sales and trading and research staff in order to better serve our institutional investor clients and to increase our trading activity with them. Commissions also benefited from favorable market conditions in our target sectors and the equity markets generally, as the S&P 500 increased 3.8%, the Russell 2000 Index 5.1% and the Dow Jones Industrial Average, or DJIA, decreased slightly by 0.1%. The volume of shares traded for customers increased 10.4% for the year ended December 31, 2005. Brokerage revenues as a percent of total revenues decreased from 30.2% for the year ended December 31, 2004 to 24.9% for the year ended December 31, 2005.

*Asset Management Fees.* Asset management fees decreased \$4.0 million, or 31.7%, from \$12.5 million for the year ended December 31, 2004 to \$8.5 million for the year ended December 31, 2005. This decrease was primarily due to lower management fees, which are earned as a percentage of assets under management, resulting from a decline in assets under management of the funds we manage as well as lower incentive fees earned. Assets under management declined from \$596.8 million at December 31, 2004 to \$340.2 million at December 31, 2005. We believe that the decline was due to the fact that the returns generated by certain of our funds did not match those produced in prior periods or did not reach the established benchmarks for those funds during 2005. The lower performance of certain of our funds resulted in redemptions of client assets in the funds. The lower performance of our funds in the year ended December 31, 2005 as compared to the year ended December 31, 2004 also negatively impacted our incentive fees earned for the year ended December 31, 2005. Asset management fees decreased as a percentage of total revenues from 16.7% for the year ended December 31, 2004 to 9.0% for the same period in 2005.

*Principal Transactions.* Principal transactions revenues decreased \$3.8 million, from a gain of \$1.8 million for the year ended December 31, 2004 to a loss of \$2.0 million for the year ended December 31, 2005. This decrease is mainly attributable to unrealized losses related to the value of warrant positions we had received from clients in certain investment banking assignments of \$1.5 million for the year ended December 31, 2005. The decrease was also attributable to a loss of \$0.6 million on investment partnerships, the majority of which were

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investments in partnerships managed by our asset management segment. These losses were partially offset by a gain of \$0.1 million on equity investments in publicly-held securities.

*Interest, Dividends and Other.* Interest, dividends and other increased \$1.2 million, or 214.3%, from \$0.5 million for the year ended December 31, 2004 to \$1.7 million for the year ended December 31, 2005. This increase was primarily attributable to a general increase in short-term interest rates and more actively managed cash, which returned higher yields during the year ended December 31, 2005.

*Expenses*

*Compensation and Benefits.* Compensation and benefits increased \$13.2 million, or 28.1%, fro