

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019 OR

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

For the transition period from to

Commission File Number: 001-36802

**JMP Group LLC**

(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

47-1632931  
(I.R.S. Employer  
Identification No.)

600 Montgomery Street, Suite 1100, San Francisco, California 94111  
(Address of principal executive offices)

Registrant's telephone number: (415) 835-8900

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Shares representing limited liability company interests in JMP Group LLC	JMP	New York Stock Exchange
JMP Group LLC 6.875% Senior Notes due 2029	JMPE	New York Stock Exchange
JMP Group Inc. 7.25% Senior Notes due 2027	JMPD	New York Stock Exchange

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

JMP Group LLC shares representing limited liability company interests outstanding as of November 12, 2019: 19,346,376.



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## AVAILABLE INFORMATION

JMP Group LLC is required to file current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the Securities and Exchange Commission (the "SEC"). The SEC maintains an internet website at <http://www.sec.gov>, from which interested persons can electronically access JMP Group LLC's SEC filings.

JMP Group LLC provides its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Forms 3, 4 and 5 filed by or on behalf of directors, executive officers and certain large shareholders, and any amendments to those documents filed or furnished pursuant to the Exchange Act free of charge on the Investor Relations section of its website located at <http://www.jmpg.com>. These filings will become available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. From time to time JMP Group LLC may use its website as a channel of distribution of material company information.

JMP Group LLC also makes available, in the Investor Relations section of its website and will provide print copies to shareholders upon request, (i) its corporate governance guidelines, (ii) its code of business conduct and ethics, and (iii) the charters of the audit, compensation, and corporate governance and nominating committees of its board of directors. These documents, as well as the information on the website, are not intended to be part of this quarterly report on Form 10-Q (the "Quarterly Report") and inclusions of the internet address in this Quarterly Report. JMP Group LLC also uses the Investor Relations section of its website as a means of complying with its disclosure obligations under Regulation FD. Accordingly, you should monitor the Investor Relations section of JMP Group LLC's website in addition to following JMP Group LLC's SEC filings, press releases and investor presentation materials.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**JMP Group LLC**  
**Consolidated Statements of Financial Condition**  
**(Unaudited)**  
**(Dollars in thousands, except per share data)**

	<u>September 30,</u> <u>2019</u>	<u>December 31, 2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 48,020	\$ 70,927
Restricted cash	1,221	61,881
Investment banking fees receivable	7,392	6,647
Marketable securities owned (includes \$70,739 and \$18,874 at fair value at September 30, 2019 and December 31, 2018, respectively)	83,555	18,874
Other investments (includes \$14,392 and \$9,913 at fair value at September 30, 2019 and December 31, 2018, respectively)	34,841	16,124
Loans held for investment, net of allowance for loan losses	4,777	29,608
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	-	1,161,463
Interest receivable	372	3,004
Fixed assets, net	2,649	2,351
Operating lease right-of-use asset	20,293	-
Other assets	30,171	20,363
Total assets	<u>\$ 233,291</u>	<u>\$ 1,391,242</u>
<b>Liabilities and Equity</b>		
<b>Liabilities:</b>		
Marketable securities sold, but not yet purchased, at fair value	\$ 2,837	\$ 4,626
Accrued compensation	17,867	41,609
Asset-backed securities issued (net of debt issuance costs of \$8,979 at December 31, 2018)	-	1,112,342
Interest payable	549	11,210
Note payable	15,812	829
CLO warehouse credit facilities	-	22,500
Bond payable (net of debt issuance costs of \$3,521 and \$2,428 at September 30, 2019 and December 31, 2018, respectively)	82,427	83,497
Operating lease liability	26,145	-
Other liabilities	16,141	17,423
Total liabilities	<u>161,778</u>	<u>1,294,036</u>
<b>Commitments and Contingencies (Note 17)</b>		
<b>JMP Group LLC Shareholders' Equity</b>		
Common shares, \$0.001 par value, 100,000,000 shares authorized; 22,797,092 and 22,780,052 shares issued at September 30, 2019 and December 31, 2018, respectively; 19,324,427 and 21,319,720 shares outstanding at September 30, 2019 and December 31, 2018, respectively	23	23
Additional paid-in capital	134,858	134,129
Treasury shares at cost, 3,472,665 and 1,460,332 shares at September 30, 2019 and December 31, 2018, respectively	(15,869)	(7,932)
Accumulated other comprehensive loss	(1,860)	-
Accumulated deficit	(45,303)	(42,513)
Total JMP Group LLC shareholders' equity	<u>71,849</u>	<u>83,707</u>
Nonredeemable Non-controlling Interest	(336)	13,499
Total equity	<u>71,513</u>	<u>97,206</u>
Total liabilities and equity	<u>\$ 233,291</u>	<u>\$ 1,391,242</u>

See accompanying notes to consolidated financial statements.

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

Assets and liabilities of consolidated variable interest entities (“VIEs”) included in total assets and total liabilities above:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Restricted cash	\$ -	\$ 50,456
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	-	1,161,463
Interest receivable	-	2,711
Other investments	-	821
Other assets	-	67
Total assets of consolidated VIEs	<u>\$ -</u>	<u>\$ 1,215,518</u>
Asset-backed securities issued, net of debt issuance costs	-	1,122,187(1)
Interest payable	-	10,132
Other liabilities	-	1,877
Total liabilities of consolidated VIEs	<u>\$ -</u>	<u>\$ 1,134,196</u>

(1) Includes \$9.8 million of debt held by the Company which is eliminated on the Consolidated Statements of Financial Condition.

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

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September		Nine Months Ended September	
	30,	30,	30,	30,
	2019	2018	2019	2018
<b>Revenues</b>				
Investment banking	\$ 15,228	\$ 21,095	\$ 44,843	\$ 70,319
Brokerage	3,968	4,676	13,160	14,787
Asset management fees	1,628	3,702	5,685	15,505
Principal transactions	(340)	469	6,371	(1,467)
Loss on sale, payoff and mark-to-market of loans	-	(556)	(38)	(888)
Net dividend income	279	320	868	935
Other income	759	306	1,517	666
Non-interest revenues	<u>21,522</u>	<u>30,012</u>	<u>72,406</u>	<u>99,857</u>
Interest income	2,328	18,652	19,391	47,031
Interest expense	(1,930)	(13,789)	(14,642)	(35,125)
Net interest income	<u>398</u>	<u>4,863</u>	<u>4,749</u>	<u>11,906</u>
Loss on repurchase, reissuance or early retirement of debt	(458)	(170)	(458)	(2,838)
Provision for loan losses	(438)	(1,454)	(438)	(4,199)
Total net revenues after provision for loan losses	<u>21,024</u>	<u>33,251</u>	<u>76,259</u>	<u>104,726</u>
<b>Non-interest expenses</b>				
Compensation and benefits	17,506	22,671	54,673	76,070
Administration	2,301	2,302	6,978	7,246
Brokerage, clearing and exchange fees	617	808	2,051	2,373
Travel and business development	1,263	1,080	3,631	3,236
Managed deal expenses	685	614	2,552	4,528
Communications and technology	1,061	1,040	3,241	3,149
Occupancy	1,196	1,172	4,028	3,432
Professional fees	1,236	1,272	3,513	4,315
Depreciation	307	285	915	836
Other	200	369	700	1,532
Total non-interest expenses	<u>26,372</u>	<u>31,613</u>	<u>82,282</u>	<u>106,717</u>
Net income (loss) before income tax expense	(5,348)	1,638	(6,023)	(1,991)
Income tax expense (benefit)	(1,220)	527	(5,839)	(146)
Net income (loss)	(4,128)	1,111	(184)	(1,845)
Less: Net income (loss) attributable to nonredeemable non-controlling interest	(67)	823	(80)	138
Net income (loss) attributable to JMP Group LLC	<u>\$ (4,061)</u>	<u>\$ 288</u>	<u>\$ (104)</u>	<u>\$ (1,983)</u>
<b>Net income (loss) attributable to JMP Group LLC per common share:</b>				
Basic	\$ (0.21)	\$ 0.01	\$ (0.01)	\$ (0.09)
Diluted	\$ (0.21)	\$ 0.01	\$ (0.01)	\$ (0.09)
<b>Weighted average common shares outstanding:</b>				
Basic	19,324	21,435	20,454	21,545
Diluted	19,324	21,737	20,454	21,545

See accompanying notes to consolidated financial statements.

**JMP Group LLC**  
**Consolidated Statements of Comprehensive Income**  
(Unaudited)  
(In thousands, except per share data)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2019	2018	2019	2018
Net income (loss)	\$ (4,128)	\$ 1,111	\$ (184)	\$ (1,845)
Other comprehensive gain (loss):				
Unrealized gain (loss) on available-for-sale securities, net of tax	709	-	(1,860)	-
Comprehensive income (loss) attributable to JMP Group LLC	(3,419)	1,111	(2,044)	(1,845)
Less: Comprehensive income (loss) attributable to non-controlling interest	(67)	823	(80)	138
Comprehensive income (loss) attributable to JMP Group LLC	<u>\$ (3,352)</u>	<u>\$ 288</u>	<u>\$ (1,964)</u>	<u>\$ (1,983)</u>

See accompanying notes to consolidated financial statements.



**JMP Group LLC**  
**Consolidated Statements of Changes in Equity**  
**(Unaudited)**  
**(In thousands)**

	JMP Group LLC's Equity							
	Common Shares		Treasury	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Nonredeemable Non-controlling Interest	Total Equity
	Shares	Amount						
<b>Balance, December 31, 2018</b>	22,780	\$ 23	\$ (7,932)	\$ 134,129	\$ (42,513)	\$ -	\$ 13,499	\$ 97,206
Net loss	-	-	-	-	(104)	-	(80)	(184)
Additional paid-in capital - share-based compensation	-	-	-	765	-	-	-	765
Distributions and distribution equivalents declared on common shares and restricted share units	-	-	-	-	(2,686)	-	-	(2,686)
Purchases of shares of common shares for treasury	-	-	(8,763)	-	-	-	-	(8,763)
Reissuance of shares of common shares from treasury	-	-	826	(129)	-	-	-	697
Common shares issued	17	-	-	93	-	-	-	93
Distributions to non-controlling interest holders	-	-	-	-	-	-	(913)	(913)
Derecognition of non-controlling interest due to deconsolidation	-	-	-	-	-	-	(12,842)	(12,842)
Unrealized loss on available-for-sale securities, net of tax	-	-	-	-	-	(1,860)	-	(1,860)
<b>Balance, September 30, 2019</b>	22,797	\$ 23	\$ (15,869)	\$ 134,858	\$ (45,303)	\$ (1,860)	\$ (336)	\$ 71,513

	JMP Group LLC's Equity							
	Common Shares		Treasury	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Nonredeemable Non-controlling Interest	Total Equity
	Shares	Amount						
<b>Balance, December 31, 2017</b>	22,780	\$ 23	\$ (5,955)	\$ 134,719	\$ (32,452)	\$ -	\$ 13,844	\$ 110,179
Net income (loss)	-	-	-	-	(1,983)	-	138	(1,845)
Additional paid-in capital - share-based compensation	-	-	-	857	-	-	-	857
Distributions and distribution equivalents declared on common shares and restricted share units	-	-	-	-	(5,906)	-	-	(5,906)
Purchases of shares of common shares for treasury	-	-	(2,340)	-	-	-	-	(2,340)
Reissuance of shares of common shares from treasury	-	-	387	40	-	-	-	427
Purchase of subsidiary shares from non-controlling interest holders	-	-	-	(656)	-	-	656	-
Distributions to non-controlling interest holders	-	-	-	-	-	-	(1,527)	(1,527)
Capital contributions from non-controlling interest holders	-	-	-	-	-	-	449	449
<b>Balance, September 30, 2018</b>	22,780	\$ 23	\$ (7,908)	\$ 134,960	\$ (40,341)	\$ -	\$ 13,560	\$ 100,294

See accompanying notes to consolidated financial statements.

**JMP Group LLC**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**(In thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (184)	\$ (1,845)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Provision for loan losses	438	4,199
Loss on sale and payoff of loans and mark-to-market of loans	38	888
Loss on repurchase, reissuance or early retirement of debt	458	2,838
<b>Change in other investments:</b>		
(Income) loss from investments in equity method investees	(1,305)	273
Unrealized gain on other equity investments	(156)	(179)
Unrealized (gain) loss on other investments	(1,098)	205
Depreciation and amortization	1,316	1,067
Share-based compensation expense	1,590	1,135
Gain on deconsolidation	(3,520)	-
Distributions of investment income from equity method investees	492	-
Other, net	293	296
<b>Net change in operating assets and liabilities:</b>		
Increase in interest receivable	(4,899)	(787)
Increase in receivables	(950)	(1,454)
Decrease in marketable securities	9,643	631
Decrease (increase) in other assets	(10,181)	6,937
Decrease in marketable securities sold, but not yet purchased	(1,789)	(2,315)
(Decrease) increase in interest payable	(4,034)	3,859
Decrease in accrued compensation	(23,475)	(9,760)
Increase in other liabilities	6,895	1,967
Net cash provided by (used in) operating activities	<u>(30,428)</u>	<u>7,955</u>
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(1,341)	(877)
Purchases of other investments	(12,538)	(1,525)
Sales or distributions from other investments	10,655	13,949
Funding of loans collateralizing asset-backed securities issued	(35,153)	(307,808)
Funding of loans held for investment	(25,679)	(312,089)
Sale, payoff and principal receipts of loans collateralizing asset-backed securities issued	23,806	268,239
Sale, payoff and principal receipts on loans held for investment	7,211	26,726
Net decrease in cash and restricted cash due to deconsolidation of subsidiaries	<u>(27,771)</u>	<u>-</u>
Net cash used in investing activities	<u>(60,810)</u>	<u>(313,385)</u>

See accompanying notes to consolidated financial statements.

**JMP Group LLC**  
**Consolidated Statements of Cash Flows - (Continued)**  
(Unaudited)  
(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of repurchase agreement	-	3,878
Repayment of repurchase agreement	-	(3,878)
Proceeds from drawdowns on line of credit	16,583	-
Proceeds from drawdowns on CLO warehouse facilities	7,750	263,750
Proceeds from sale of note payable to affiliate	-	829
Proceeds from bond issuance	36,000	-
Payment of debt issuance costs	(1,887)	(1,897)
Repayment of line of credit	(1,600)	-
Repayment of asset-backed securities issued	(801)	(332,100)
Repayments on CLO warehouse facilities	-	(325,000)
Repayment on bonds payable	(35,977)	(9,980)
Proceeds of issuance from asset-backed securities issued	-	699,107
Reissuance of asset-back securities	-	4,453
Distributions and distribution equivalents paid on common shares and RSUs	(2,686)	(5,906)
Capital contributions of nonredeemable non-controlling interest holders	-	449
Purchase of common shares for treasury	(8,614)	(2,309)
Distributions to non-controlling interest shareholders	(913)	(1,527)
Employee taxes paid on shares withheld for tax-withholding purposes	(184)	(31)
Net cash provided by financing activities	<u>7,671</u>	<u>289,838</u>
Net decrease in cash, cash equivalents, and restricted cash	<u>(83,567)</u>	<u>(15,592)</u>
Cash, cash equivalents and restricted cash, beginning of period	132,808	137,321
Cash, cash equivalents and restricted cash, end of period	<u>\$ 49,241</u>	<u>\$ 121,729</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	\$ 18,676	\$ 31,266
Cash paid during the period for taxes	\$ 2,060	\$ 2,173
<b>Non-cash investing and financing activities:</b>		
Reissuance of common shares from treasury and issuance of common shares related to vesting of restricted share units	\$ 954	\$ 387
Distributions declared but not yet paid	\$ -	\$ 643
Acquisition of equity securities in restructuring of loans	\$ 259	\$ 809
Transfer of loans held for investment to loans collateralizing asset-backed securities issued upon securitization of CLO V	\$ -	\$ 362,213
Initial recognition of operating lease right-of-use assets	\$ 23,604	\$ -
Initial recognition of operating lease right-of-use liabilities	\$ 29,278	\$ -
Carrying value of noncash assets derecognized on deconsolidation of subsidiaries	\$ 1,226,848	\$ -
Carrying value of noncash liabilities derecognized on deconsolidation of subsidiaries	\$ 1,161,933	\$ -
Carrying value of non-controlling interest derecognized on deconsolidation of subsidiaries	\$ 12,842	\$ -
Fair value of marketable securities recognized on deconsolidation of subsidiaries	\$ 76,879	\$ -
Fair value of other investments recognized on deconsolidation of subsidiaries	\$ 7,516	\$ -

See accompanying notes to consolidated financial statements.

**JMP Group LLC**  
**Notes to Consolidated Financial Statements**  
**September 30, 2019**  
**(Unaudited)**

**1. Organization and Description of Business**

JMP Group LLC, together with its subsidiaries (collectively, the “Company”), is a diversified capital markets firm headquartered in San Francisco, California. The Company conducts its investment banking and institutional brokerage business through JMP Securities LLC (“JMP Securities”) and its asset management business through Harvest Capital Strategies LLC (“HCS”), HCAP Advisors LLC (“HCAP Advisors”), JMP Asset Management LLC (“JMPAM”), and JMP Credit Advisors LLC (“JMPCA”) (through March 19, 2019). The Company conducts certain principal investment transactions through JMP Investment Holdings LLC (“JMP Investment Holdings”) and other subsidiaries. The above entities, other than HCAP Advisors, are wholly-owned subsidiaries. JMP Securities is a U.S. registered broker-dealer under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and is a member of the Financial Industry Regulatory Authority (“FINRA”). JMP Securities operates as an introducing broker and does not hold funds or securities for, or owe any money or securities to, customers and does not carry accounts for customers. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. HCS is a registered investment advisor under the Investment Advisers Act of 1940, as amended, and provides investment management services for sophisticated investors in investment partnerships and other entities managed by HCS. HCAP Advisors provides investment advisory services to Harvest Capital Credit Corporation (“HCC”). JMPAM currently manages two fund strategies: one that invests in real estate and real estate-related enterprises and another that provides credit to small and mid-sized private companies. JMPCA is an asset management platform that underwrites and manages investments in senior secured debt. The Company completed a Reorganization Transaction in January 2015 pursuant to which JMP Group Inc. became a wholly-owned subsidiary of JMP Group LLC (the “Reorganization Transaction”). The Company entered into a Contribution Agreement in November 2017 pursuant to which JMP Group Inc. became a wholly-owned subsidiary of JMP Investment Holdings, which is a wholly-owned subsidiary of JMP Group LLC.

*Recent Transactions*

On January 17, 2019, the non-call period of JMP Credit Advisors CLO III(R) Ltd. (“CLO III”) expired, which resulted in a change in the entity with the control over the most significant activities of the variable interest entity (“VIE”). During the non-call period the Company concluded that it was the primary beneficiary of CLO III through its combination of control over the manager and its economic interest in CLO III. When the non-call period expired, holders of a majority of the subordinated notes could refinance or liquidate the CLO and the Company determined this to be the most significant activity. The expiration of the non-call period resulted in the Company losing control over the most significant activity of CLO III as it cannot unilaterally direct this activity. The Company deconsolidated CLO III as of January 17, 2019. The Company continues to hold approximately 47% of the outstanding subordinated notes of CLO III and accounts for its ownership of the CLO III subordinated notes as an investment in a debt security. The Company has classified the subordinated notes as held-to-maturity. The Company recognized a gain of \$1.6 million as revenue from principal transactions on the deconsolidation of CLO III in March 2019.

On March 19, 2019, the Company sold a 50.1% equity interest in JMPCA to Medalist Partners LP (“Medalist”), an alternative asset management firm specializing in structured credit and asset-backed lending, and a 4.9% interest to management employees of JMPCA. The Company retained 45.0% of the equity interest in JMPCA. The sale of JMPCA was considered a reconsideration event as defined in Accounting Standard Codification (“ASC”) 810, *Consolidation*, which requires a new consolidation analysis due to subsequent change in JMPCA ownership structure, and the Company determined that JMPCA is a VIE after the transaction date. The Company determined that it was not the primary beneficiary of JMPCA as the Company is not the party with the power to direct the most significant activities of JMPCA. As the Company determined that it is not the primary beneficiary, the Company deconsolidated JMPCA as of the date of sale. As the Company retained 45.0% of the equity interest of JMPCA and has significant influence, the Company has determined that it is required to account for its retained interest as an equity method investment, however the Company has made the election to apply the fair value option to this investment. The Company received a cash payment of \$0.3 million in consideration for the limited liability company interest sold and recorded a gain of \$3.4 million on deconsolidation as revenue from principal transactions. The Company will receive a portion of the subordinated management fees from the CLOs JMPCA managed as of the date of the sale and from CLO VI, once it securitizes. After the sale, JMPCA was renamed Medalist Partners Corporate Finance LLC.

The sale of JMPCA also required Medalist to provide additional capital to purchase an equity interest in JMP Credit Advisors Long-Term Warehouse Ltd (“CLO VI”) to finance the acquisition of broadly syndicated corporate loans. On March 19, 2019, Medalist related entities purchased 66% of the outstanding equity interest of CLO VI for \$7.6 million. There was no gain or loss recognized on the sale of the equity interest.

After the sale of JMPCA, the Company lost the ability to direct the most significant activities of the following VIEs: JMP Credit Advisors CLO IV Ltd (“CLO IV”), JMP Credit Advisors CLO V Ltd (“CLO V”), and CLO VI (collectively with CLO III, the “CLOs”) and as a result, deconsolidated the aforementioned CLOs as of March 19, 2019 (except CLO III which was deconsolidated on January 17, 2019). Previously the Company concluded that it was the primary beneficiary of CLO IV, CLO V, and CLO VI through its control over JMPCA and its ownership of 100% of the equity interests of these CLOs. The Company continues to hold 100% of the junior subordinated notes of CLO IV and CLO V and approximately 33% of the equity interests of CLO VI as of September 30, 2019. The Company owned 100% and 25% of the senior subordinated notes of CLO IV and CLO V, respectively, as of the date of deconsolidation. The Company sold all of its senior subordinated notes in CLO IV and CLO V in May 2019. The Company accounts for its ownership of the subordinated notes as an investment in a debt security and accounts for its ownership of the CLO VI equity interest as an equity investment. The Company classifies the junior subordinated notes of CLO IV and CLO V as available-for-sale securities and classified the senior subordinated notes as trading securities. Collectively, the Company recognized a loss on the deconsolidation of CLO IV, CLO V, and CLO VI of \$1.8 million in revenues from principal transactions. The Company recorded a loss of \$0.1 million on the sale of the senior subordinated notes of CLO IV and CLO V in May 2019 in revenues from principal transactions.

The deconsolidation of the CLOs and JMPCA was accounted for based on the guidance in ASC 810, *Consolidation*. According to that guidance, the gain or loss on deconsolidation is calculated as the difference between (i) the aggregate of the fair value of the retained interest in the former subsidiaries, the fair value of any consideration received, and the carrying value of the non-controlling interest in the former subsidiaries; and (ii) the carrying value of the assets and liabilities of the former subsidiaries. The gain recognized by the Company is primarily the result of the remeasurement of the retained interest in the CLOs and JMPCA. The difference between these was recorded as a gain on deconsolidation in the Consolidated Statements of Operations under principal transactions revenue. The following table represents the consideration received, the fair value of the retained interest, and the resulting gain on deconsolidation of the CLOs and JMPCA:

Cash received:	\$	7,942
Retained interest, at fair value <sup>(1)</sup>		74,989
Non-controlling interest, at carrying value		12,842
Total of consideration received, retained interest, and non-controlling interest	\$	<u>95,773</u>
Less:		
Net assets of deconsolidated subsidiaries, at carrying value <sup>(2)</sup>		92,581
Gain on deconsolidation		3,192
Gain on remeasurement of CLO IV and CLO V senior subordinated notes		328
Total gain on deconsolidation	\$	<u><u>3,520</u></u>

- (1) The fair value of the Company's retained interest in CLO III, CLO IV, CLO V, CLO VI, and JMPCA as of the deconsolidation date was \$13.3 million, \$27.8 million, \$26.5 million, \$3.8 million, and \$3.6 million, respectively
- (2) The book value of the net assets of CLO III, CLO IV, CLO V, CLO VI, and JMPCA as of the deconsolidation date was \$24.5 million, \$30.2 million, \$25.8 million, \$11.6 million, and \$0.5 million, respectively

On August 8, 2019, Medalist closed a refinancing of the asset-backed securities issued by CLO IV, which lowered the weighted average cost of funds. The refinancing of CLO IV had no impact on the Company's accounting for the investment in the CLO IV debt securities including the decision to deconsolidate CLO IV.

On September 26, 2019, the Company issued \$36.0 million of 6.875% senior notes (the "2019 Senior Notes"). The 2019 Senior Notes will mature on September 30, 2029, may be redeemable in whole or in part at any time or from time to time at JMP Group LLC's option on or after September 30, 2021, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest. The notes bear interest at a rate of 6.875% per year, payable quarterly on March 30, June 30, September 30, and December 30 of each year, and commencing on December 30, 2019.

On September 27, 2019 the Company announced JMP Group Inc.'s intention to redeem the JMP Group Inc. outstanding 8.00% senior notes (the "2013 Senior Notes") on October 28, 2019. The Company opted to pay the principal and contractually owed interest to the trustee, U.S. Bank National Association, in order to satisfy and discharge the debt as of September 27, 2019. On September 27, 2019 the Company deposited sufficient funds with the trustee to satisfy and discharge the 2013 Senior Notes and the trustee acknowledged such satisfaction and discharge. In connection with the redemption, the Company recorded losses on early retirement of debt related to unamortized bond issuance costs of \$0.5 million and recognized an additional \$0.2 million of interest expense on the accelerated repayment during the quarter ended September 30, 2019.

## 2. Summary of Significant Accounting Policies

### *Basis of Presentation*

These consolidated financial statements and related notes are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2018 (the "Annual Report"). The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year. In the opinion of management, all normal, recurring adjustments have been included for a fair statement of this interim financial information.

The consolidated accounts of the Company include the wholly-owned subsidiaries and the partially-owned subsidiaries of which we are the majority owner or the primary beneficiary. All material intercompany accounts and transactions have been eliminated in consolidation. Non-controlling interests on the Consolidated Statements of Financial Condition at September 30, 2019 and December 31, 2018 relate to the interest of third parties in the partially-owned subsidiaries. Certain prior year amounts have been reclassified to conform to current year presentation.

See Note 2 - Summary of Significant Accounting Policies in the Company's Annual Report for the Company's significant accounting policies.

For the nine months ended September 30, 2019, there were no significant changes made to the Company's significant accounting policies other than those described below and the accounting policy changes are attributable to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842). The Company adopted this standard on January 1, 2019 using a modified retrospective approach. Accordingly, the new leasing standard was applied prospectively in the Company's financial statements from January 1, 2019 forward and reported financial information for historical comparable periods was not revised and will continue to be reported under the accounting standards in effect during those historical periods.

Refer to Note 3 - Recent Accounting Pronouncements, for additional information.

### *CLO Debt Securities*

Investments in CLO debt securities are accounted for according to their purpose and holding period. CLO debt security investments that are classified as trading securities are those that are bought and held principally for the purpose of selling them in the near term. The Company had zero CLO debt securities classified as trading securities as of September 30, 2019 and December 31, 2018. The Company previously classified its senior subordinated notes in CLO IV and CLO V as trading securities, but sold these notes in May 2019 and recognized a loss of \$0.1 million for the nine months ended September 30, 2019. The Company's investments in debt securities classified as available-for-sale are comprised of junior subordinated notes in CLO IV and CLO V and are those that may be sold before maturity and are reported at fair value with unrealized gains and losses, net of taxes, reported as a component of other comprehensive income ("OCI"). The Company had \$53.2 million and zero CLO debt securities classified as available-for-sale securities as of September 30, 2019 and December 31, 2018, respectively. The Company's investment in CLO debt securities classified as held-to-maturity are comprised of CLO III junior subordinated notes and are those that management has the positive intent and ability to hold to maturity and are reported at amortized cost. The Company had \$12.8 million and zero CLO debt securities classified as held-to-maturity securities as of September 30, 2019 and December 31, 2018, respectively. Interest on CLO debt securities are recognized in interest income on an accrual basis using the effective yield method. Realized gains and losses on the sale of debt securities are determined using the specific identification method and recognized in current period earnings in revenues from principal transactions.

The Company evaluates the available-for-sale and held-to-maturity investments in debt securities for impairment quarterly. As part of the evaluation, the Company obtains the new cash flow projections for the CLO debt securities at period end and determines, based on those cash flows and other current information, if there has been a favorable or adverse change in the cash flows expected to be collected as compared to the projected cash flows from the prior period. An adverse change in cash flows is determined in the context of both the timing and the amount of the cash flows. An impairment would be recorded if the net present value of the cash flows of the investment is below the amortized cost basis of the investment and the Company does not expect to recover the amortized cost basis before the security is expected to be sold or the security matures, whichever comes first. Should the Company determine that there is an impairment, the amount of the impairment is bifurcated between losses related to credit losses, which is recognized in revenues from principal transactions, and all other factors, which is recognized in OCI. The Company recorded no impairment on CLO debt securities for either of the three or nine months ended September 30, 2019 and 2018.

## 3. Recent Accounting Pronouncements

### *Accounting Standards to be adopted in Future Periods*

ASU 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*, was issued in June 2016, with subsequent amendments, to replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance will be effective for public business entities that meet the definition of a smaller reporting company for fiscal years and all interim periods within those fiscal years, beginning after December 15, 2022. The Company is evaluating the impact of the adoption of this standard.

ASU 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Sub-topic 310-20): Premium Amortization on Purchased Callable Debt Securities*, was issued in March 2017 to shorten the amortization period for certain purchased callable debt securities held at a premium. It requires the premium to be amortized over the period until the earliest call date. The amendment does not make any changes for securities held at a discount. The new guidance will be effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact of the adoption of this standard.

ASU 2018-13, *Fair Value Measurement (Topic 820)*, was issued in August 2018 as part of the disclosure framework project to improve the effectiveness of the disclosures in the notes to the financial statements. The amendments in this update modify the disclosure requirements on fair value measurements in

Topic 820, Fair Value Measurement. The new guidance will be effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is evaluating the impact of the adoption of this standard.

*Recently Adopted Accounting Guidance*

ASU 2016-02, *Leases (Topic 842)*, was issued in February 2016, with subsequent amendments, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing information about leasing arrangements. The standard requires lessees to recognize the assets and liabilities arising from operational leases on the balance sheet. The Company adopted this standard on January 1, 2019 using a modified retrospective approach and recognized its lease agreements as a right-of-use asset with a corresponding lease liability to reflect the present value of the future lease payments. Accordingly, the new leasing standard was applied prospectively in the Company's financial statements from January 1, 2019 forward and reported financial information for historical comparable periods was not revised and will continue to be reported under the accounting standards in effect during those historical periods. Additionally upon adoption the Company elected the package of practical expedients for leases that commenced before the date of adoption in which the Company was not required to reassess (i) whether any existing or expired contracts contain leases, (ii) the lease classification of existing or expired leases, and (iii) initial direct costs of existing or expired leases. On January 1, 2019, the Company recognized \$23.6 million as an operating lease right-of-use asset and \$29.3 million as an operating lease liability on the Consolidated Statements of Financial Condition related to its leasing obligations. As of September 30, 2019, the Company carried a \$20.3 million operating lease right-of-use asset and a \$26.1 million operating lease liability on the Consolidated Statements of Financial Condition related to its leasing obligations.

#### 4. Fair Value Measurements

The following tables provide fair value information related to the Company's financial instruments at September 30, 2019 and December 31, 2018:

<i>(In thousands)</i>	<b>September 30, 2019</b>				
	<b>Carrying Value</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets:</b>					
Cash and cash equivalents	\$ 48,020	\$ 48,020	\$ -	\$ -	\$ 48,020
Restricted cash and deposits	1,221	1,221	-	-	1,221
Marketable securities owned	83,555	17,578	-	65,277	82,855
Other investments	4,164	-	201	3,963	4,164
Other investments, measured at net asset value <sup>(1)</sup>	10,228	-	-	-	-
Loans held for investment, net of allowance for loan losses	4,777	-	-	4,825	4,825
Total assets:	<u>\$ 151,965</u>	<u>\$ 66,819</u>	<u>\$ 201</u>	<u>\$ 74,065</u>	<u>\$ 141,085</u>
<b>Liabilities:</b>					
Marketable securities sold, but not yet purchased	\$ 2,837	\$ 2,837	\$ -	\$ -	\$ 2,837
Notes payable	15,812	-	14,983	829	15,812
Bond payable	82,427	-	87,618	-	87,618
Total liabilities:	<u>\$ 101,076</u>	<u>\$ 2,837</u>	<u>\$ 102,601</u>	<u>\$ 829</u>	<u>\$ 106,267</u>

<i>(In thousands)</i>	<b>December 31, 2018</b>				
	<b>Carrying Value</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets:</b>					
Cash and cash equivalents	\$ 70,927	\$ 70,927	\$ -	\$ -	\$ 70,927
Restricted cash and deposits	61,881	61,881	-	-	61,881
Marketable securities owned	18,874	18,874	-	-	18,874
Other investments	490	-	490	-	490
Other investments, measured at net asset value <sup>(1)</sup>	9,423	-	-	-	-
Loans held for investment, net of allowance for loan losses	29,608	-	26,188	2,576	28,764
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	1,161,463	-	1,125,310	1,173	1,126,483
Total assets:	<u>\$ 1,352,666</u>	<u>\$ 151,682</u>	<u>\$ 1,151,988</u>	<u>\$ 3,749</u>	<u>\$ 1,307,419</u>
<b>Liabilities:</b>					
Marketable securities sold, but not yet purchased	\$ 4,626	\$ 4,626	\$ -	\$ -	\$ 4,626
Asset-backed securities issued, net of debt issuance costs	1,112,342	-	1,091,677	-	1,091,677
Notes payable	829	-	-	829	829
CLO warehouse credit facilities	22,500	-	22,500	-	22,500
Bond payable	83,497	-	78,642	-	78,642
Total liabilities:	<u>\$ 1,223,794</u>	<u>\$ 4,626</u>	<u>\$ 1,192,819</u>	<u>\$ 829</u>	<u>\$ 1,198,274</u>

(1) In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The carrying value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position. The carrying values of these lines reconciles to the parenthetical disclosure of other investments on the Statements of Financial Condition.



## Recurring Fair Value Measurement

The following tables provide information related to the Company's assets and liabilities carried at fair value on a recurring basis at September 30, 2019 and December 31, 2018:

(In thousands)

	Carrying Value	September 30, 2019			
		Level 1	Level 2	Level 3	Total
Marketable securities owned	\$ 70,739	\$ 17,578	\$ -	\$ 53,161	\$ 70,739
Other investments:					
Equity investments	3,963	-	-	3,963	3,963
Investments in hedge funds managed by the Company	201	-	201	-	201
Investments in other funds managed by the Company <sup>(1)</sup>	5,282	-	-	-	-
Limited partnership in investments in private equity/ real estate funds <sup>(1)</sup>	4,946	-	-	-	-
Total other investments	14,392	-	201	3,963	4,164
<b>Total assets:</b>	<b>\$ 85,131</b>	<b>\$ 17,578</b>	<b>\$ 201</b>	<b>\$ 57,124</b>	<b>\$ 74,903</b>
Marketable securities sold, but not yet purchased	2,837	2,837	-	-	2,837
<b>Total liabilities:</b>	<b>\$ 2,837</b>	<b>\$ 2,837</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,837</b>

(In thousands)

	Carrying Value	December 31, 2018			
		Level 1	Level 2	Level 3	Total
Marketable securities owned	\$ 18,874	\$ 18,874	\$ -	\$ -	\$ 18,874
Other investments:					
Investments in hedge funds managed by the Company	490	-	490	-	490
Investments in other funds managed by the Company <sup>(1)</sup>	5,503	-	-	-	-
Limited partnership in investments in private equity/ real estate funds <sup>(1)</sup>	3,920	-	-	-	-
Total other investments	9,913	-	490	-	490
<b>Total assets:</b>	<b>\$ 28,787</b>	<b>\$ 18,874</b>	<b>\$ 490</b>	<b>\$ -</b>	<b>\$ 19,364</b>
Marketable securities sold, but not yet purchased	4,626	4,626	-	-	4,626
<b>Total liabilities:</b>	<b>\$ 4,626</b>	<b>\$ 4,626</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,626</b>

(1) In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The carrying values of these lines reconciles to the parenthetical disclosure of other investments on the Consolidated Statements of Financial Condition.

As of September 30, 2019, marketable securities sold but not yet purchased were primarily comprised of U.S. listed securities. As of September 30, 2019, marketable securities was comprised of U.S. listed equity securities and CLO debt securities. As of December 31, 2018, both marketable securities owned and marketable securities sold, but not yet purchased, were primarily comprised of U.S. listed equity securities.

Transfers between levels of the fair value hierarchy result from changes in the observability of fair value inputs used in determining fair values for different types of financial assets and are recognized at the beginning of the reporting period in which the event or change in circumstances that caused the transfer occurs. The Company's policy is to recognize the fair value of transfers among Levels 1, 2 and 3 as of the end of the reporting period. For recurring fair value measurements, there were no transfers between Levels 1, 2 and 3 for the nine months ended September 30, 2019 and the year ended December 31, 2018.

The Company's Level 2 assets held in other investments consist of investments in hedge funds managed by HCS. The carrying value of investments in hedge funds are calculated using the equity method and approximates fair value. Earnings or losses attributable to these investments are recorded in principal transactions. These assets are considered Level 2 as the underlying hedge funds are mainly invested in publicly traded stocks whose value is based on quoted market prices. The Company's proportionate share of those investments is included in the tables above.

The investments in private equity funds managed by HCS and JMPAM are recognized using the fair value option. The Company uses the reported net asset value per share as a practical expedient to estimate the fair value of the funds. The risks associated with these investments are limited to the amounts of invested capital, remaining capital commitment and any management and incentive fees receivable.

The Company determined the fair value of short-term debt, which includes notes payable and CLO credit facilities, to approximate their carrying values. This was determined as the debt has either (1) a variable interest rate tied to LIBOR and therefore reflects market conditions, or (2) a term less than one year and there have been no observable changes in the credit quality of the Company since the issuance of the debt. Based on the fair value methodology, the Company has identified short-term debt as Level 2 liabilities.

The Company's Level 3 assets in other investments is comprised of investments in equity securities of private companies. The Company determines the fair value of the investments either through (1) using the net present value of discounted cash flows of the estimated value of the put option of the investment or

(2) using a market multiples approach. For the investment whose fair value determined using the discounted cash flows approach, the Company has a put option on this investment that is exercisable at three times the management fee revenue of the entity for the prior twelve months as of the effective date of the put option. The put option may be elected beginning March 31, 2022. The significant unobservable inputs under this approach are the estimated twelve months of revenues, the credit factor and the discount rate. For this investment, the Company elected the fair value option as the Company determined that the fair value of its option to put the equity securities was the best representation of the fair value of the investment. While the Company has made other equity investments, it has not elected the fair value option for those investments as it is impractical to determine the fair value of those investments. For the investment whose fair value is determined using the market multiples approach, the Company determines the enterprise value of the investment using the investments estimated EBITDA and an EBITDA multiple from comparable companies.

The Company's Level 3 assets held in marketable securities consist of investments in CLO debt securities. The fair value of the CLO debt securities is determined using the net present value of discounted cash flows. The significant unobservable inputs used in the fair value measurement under this approach are the risk adjusted discount factors. The Company also uses performance and covenant compliance information provided by the CLO manager along with other risk factors including default risk, prepayment rates, interest rate risk, and credit spread risk when valuing this investment. During the nine months ended September 30, 2019, the fair value of the Company's investment in CLO debt securities declined due to changes in market interest rates and the CLO debt securities were not determined to be impaired. This conclusion was reached as the reduction in fair value was not due to credit factors and the Company believes that any reduction in fair value can be recovered before the security is sold or matures, whichever comes first.

For the three and nine months ended September 30, 2019, the changes in Level 3 assets measured at fair value on a recurring basis were as follows:

<i>(In thousands)</i>	<b>CLO Junior Subordinated Notes</b>	<b>CLO Senior Subordinated Notes</b>	<b>Equity Investment</b>	<b>Total</b>
<b>Balance as of December 31, 2018</b>	\$ -	\$ -	\$ 57	\$ 57
Fair value at recognition date	54,279	9,289	3,568	67,136
Purchases	-	-	11	11
Accrued interest	294	34	-	328
Unrealized losses on investments, recognized in OCI	(1,055)	-	-	(1,055)
<b>Balance as of March 31, 2019</b>	<u>53,518</u>	<u>9,323</u>	<u>3,636</u>	<u>66,477</u>
Accrued interest	1,969	69	-	2,038
Purchases	-	-	171	171
Investment distributions	(1,170)	(883)	-	(2,053)
Unrealized losses on investments, recognized in OCI	(2,418)	-	-	(2,418)
Unrealized gains on investments, recognized in earnings	-	-	297	297
Realized losses on sales, recognized in earnings	-	(112)	-	(112)
Sales	-	(8,397)	-	(8,397)
<b>Balance as of June 30, 2019</b>	<u>51,899</u>	<u>-</u>	<u>4,104</u>	<u>56,003</u>
Accrued interest	1,733	-	-	1,733
Purchases	-	-	-	-
Investment distributions	(1,389)	-	-	(1,389)
Unrealized gains on investments, recognized in OCI	918	-	-	918
Unrealized losses on investments, recognized in earnings	-	-	(141)	(141)
<b>Balance as of September 30, 2019</b>	<u>\$ 53,161</u>	<u>\$ -</u>	<u>\$ 3,963</u>	<u>\$ 57,124</u>

For assets classified in the Level 3 hierarchy, any changes to any of the inputs to the fair value measurement could result in a significant increase or decrease in the fair value measurement. For CLO debt securities, a significant increase (decrease) in the discount rate, default rate, and severity rate would result in a significant decrease (increase) in the fair value of the instruments. For the equity investments, a significant increase (decrease) in the credit factor or the discount rate would result in a significantly lower (higher) fair value measurement or a significant increase (decrease) in the EBITDA multiple would result in a significant higher (lower) fair value measurement. For Level 3 assets measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

<i>(In thousands)</i>	Valuation Technique	Description	Significant Unobservable Inputs Range (Weighted-average)		Fair Value	
			September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
			CLO debt security	Discounted cash flows	Risk adjusted discounting factor	15.0%
			0% - 2%			
		Default rate	(1.9%)	N/A		
		Severity rate	25.0%	N/A		
		Prepay rate	25 CPR	N/A		
		Collateral liquidation price	99.0%	N/A		
Equity investments	Discounted cash flows	Credit factor	20.0%	N/A	\$ 3,542	\$ -
		Risk adjusted discounting factor	17.3%	N/A		
	Market	EBITDA Multiple	8.0x	N/A	\$ 421	\$ 57

The Company determined the fair value of loans collateralizing ABS issued and loans held for investment identified as Level 2 assets primarily using the average market bid and ask quotation obtained from a loan pricing service. The valuations are received from a pricing service to which the Company subscribes. The pricing service's analysis incorporates comparable loans traded in the marketplace, the obligors industry, future business prospects, capital structure, and expected credit losses. Significant declines in the performance of the obligor would result in decrease to the fair value measurement. The fair value of loans held for investment identified as Level 3 assets are determined using the discounted cash flow model using the treasury rate, loan interest rate, and an internally generated risk rate.

The Company determined the fair value of ABS issued based upon pricing from published market research for equivalent-rated CLO notes. Based on the fair value methodology, the Company has identified the asset-backed securities issued as Level 2 liabilities.

As of September 30, 2019 and December 31, 2018, \$10.2 million and \$9.4 million of assets were measured using the net asset value as a practical expedient. Investments for which fair value was estimated using net asset value as a practical expedient were as follows:

<i>Dollars in thousands</i>	Redemption Notice Frequency	Redemption Notice Period	Fair Value at		Unfunded Commitments	
			September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Limited partner investments in private equity/ real estate funds	Nonredeemable	N/A	\$ 4,946	\$ 3,920	\$ 1,176	\$ 68
Investment in other funds managed by the Company	Nonredeemable	N/A	\$ 5,282	\$ 5,503	\$ 1,677	\$ 1,945

#### Non-recurring Fair Value Measurements

The Company's assets that are measured at fair value on a non-recurring basis result from the application of lower of cost or market accounting or write-downs of individual assets. The Company held loans measured at fair value on a non-recurring basis of \$0.6 million and \$1.3 million as of September 30, 2019 and December 31, 2018, respectively.

The Company had marketable securities that were measured at fair value on a non-recurring basis as the Company has the intent and ability to hold these securities until maturity. The Company held marketable securities measured at fair-value on a non-recurring basis of \$12.8 million as of September 30, 2019.

## 5. Investment Securities

### Debt Securities

The following table summarizes available-for-sale securities in an unrealized position as of September 30, 2019:

<i>(In thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total Impairment in OCI	Number of Positions
CLO IV junior subordinated notes	\$ 28,294	\$ -	\$ (2,091)	\$ 26,203	\$ -	1
CLO V junior subordinated notes	27,422	-	(464)	26,958	-	1
<b>Total</b>	<b>\$ 55,716</b>	<b>\$ -</b>	<b>\$ (2,555)</b>	<b>\$ 53,161</b>	<b>\$ -</b>	

The following table summarizes the held-to-maturity securities in an unrealized position as of September 30, 2019:

<i>(In thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Number of Positions</b>
CLO III subordinated notes	\$ 12,816	\$ -	\$ (700)	\$ 12,116	1
<b>Total</b>	<u>\$ 12,816</u>	<u>\$ -</u>	<u>\$ (700)</u>	<u>\$ 12,116</u>	

The following table summarizes the fair value and amortized cost of the available-for-sale and held-to-maturity securities by contractual maturity as of September 30, 2019:

(In thousands)

	Available-for-Sale		Held-to-Maturity	
	Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value
5-10 years	\$ 28,294	26,203	12,816	12,116
10+ years	27,422	26,958	-	-
<b>Total</b>	<b>\$ 55,716</b>	<b>\$ 53,161</b>	<b>\$ 12,816</b>	<b>\$ 12,116</b>

The following table summarizes the fair value and gross unrealized losses aggregated by category and the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2019:

(In thousands)

	Less than 12 months <sup>(1)</sup>		Greater than 12 months		Total	
	Gross		Gross		Gross	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
CLO III subordinated notes	\$ 12,116	\$ (700)	\$ -	\$ -	\$ 12,116	\$ (700)
CLO IV junior subordinated notes	26,203	(2,091)	-	-	26,203	(2,091)
CLO V junior subordinated notes	26,958	(464)	-	-	26,958	(464)
<b>Total</b>	<b>\$ 65,277</b>	<b>\$ (3,255)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 65,277</b>	<b>\$ (3,255)</b>

(1) For all CLO debt securities, the gross unrealized loss is measured since the date of deconsolidation, which was January 17, 2019 for CLO III and March 19, 2019 for CLO IV and CLO V.

During the three months ended September 30, 2019 and 2018, the Company recognized unrealized gains on CLO debt securities of \$0.9 million and zero, respectively. During the nine months ended September 30, 2019 and 2018, the Company recognized unrealized losses on CLO debt securities of \$2.6 million and zero, respectively.

#### Equity Securities

The Company has equity securities with quoted prices in active markets as well as equity securities without readily determinable fair market values. Equity securities without readily determinable fair market values are valued at cost, less any impairment, plus or minus changes in fair value resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. The Company's carrying value of these securities was \$15.3 million and \$0.8 million as of September 31, 2019 and December 31, 2018, respectively. Since obtaining ownership of these securities the Company has recognized \$0.2 million of impairment, but no other upward or downward adjustments to the carrying value. The Company has not recognized any impairment or upward or downward adjustments during the three-months or nine-months ended September 31, 2019 and 2018.

## 6. Loans

#### Loans collateralizing ABS issued

During the period ending September 30, 2019, the Company deconsolidated its investments in the CLOs and as a result, no longer has loans collateralizing ABS on its Consolidated Statements of Financial Condition as of September 30, 2019. See Note 1 for additional information on deconsolidation. A summary of the activity in the allowance for loan losses for the three and nine months ended September 30, 2019 and 2018 is as follows:

(In thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Impaired	Non-Impaired	Impaired	Non-Impaired	Impaired	Non-Impaired	Impaired	Non-Impaired
Balance, at beginning of period	\$ -	\$ -	\$ (110)	\$ (6,861)	\$ (836)	\$ (9,751)	\$ (390)	\$ (6,533)
Provision for loan losses:								
Specific reserve	-	-	(558)	-	-	-	(1,366)	-
General reserve	-	-	-	(747)	-	-	-	(1,075)
Charge off	-	-	110	-	181	-	1,198	-
Transfer from loans held for investment	-	-	-	(1,746)	-	-	-	-
Derecognition due to deconsolidation	-	-	-	-	655	9,751	-	(1,746)
Balance, at end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (558)</u>	<u>\$ (9,354)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (558)</u>	<u>\$ (9,354)</u>

A loan is considered to be impaired when, based on current information, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the original loan agreement, including scheduled principal and interest payments. As of December 31, 2018, \$1.8 million of the recorded investment amount in loans collateralizing ABS issued were individually evaluated for impairment. The remaining \$1,170.2 million of recorded investment amount of loans collateralizing ABS issued were collectively evaluated for impairment as of December 31, 2018.

As of December 31, 2018 the Company classified all its loans as Cash Flow loans, as their funding decisions were all primarily driven by the cash flows of the borrower. The table below presents certain information pertaining to the loans on non-accrual status at December 31, 2018:

<i>(In thousands)</i>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>December 31, 2018</b>					
Impaired loans with an allowance recorded	\$ 1,813	\$ 1,951	\$ 838	\$ 1,817	\$ 119
Impaired loans with no related allowance recorded	-	-	-	-	-
Total impaired loans	<u>\$ 1,813</u>	<u>\$ 1,951</u>	<u>\$ 838</u>	<u>\$ 1,817</u>	<u>\$ 119</u>

Loans are considered past due if the required principal and interest payments havenot been received as of the date such payments were due. No loans were past due at September 30, 2019 or December 31, 2018. The Company had one troubled debt restructuring during the nine months ended September 30, 2019. The loan, with a principal balance and a carrying balance of \$0.5 million and \$0.2 million in total, respectively, was converted to equity. The Company valued the equity at \$0.2 million in total upon conversion and recorded no material gain or loss upon the execution of the restructuring.

During the three and nine months ended September 30, 2018, the Company had two loans, which were modified in a troubled debt restructuring. The loans, with a principal balance and a carrying balance of \$1.9 million and \$1.0 million in total, respectively, were converted to equity. The Company valued the equity at \$0.8 million in total upon conversion and incurred a loss of \$0.1 million in relation to the restructuring as of December 31, 2018.

The Company's management, at least on a quarterly basis, reviews each loan and evaluates the credit quality of the loan. The review primarily includes the following credit quality indicators with regard to each loan: 1) Moody's rating, 2) current internal rating, 3) the trading price of the loan and 4) performance of the obligor. The tables below present, by credit quality indicator, the Company's recorded investment in loans collateralizing asset-backed securities issued at December 31, 2018. These loans were deconsolidated as of September 30, 2019 as part of the deconsolidation of the CLOs. See Note 1 for additional information.

*(In thousands)*

	<b>Cash Flow Loans</b>	
	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>Moody's rating:</b>		
Baa1 - Baa3	\$ -	\$ 7,300
Ba1 - Ba3	-	247,686
B1 - B3	-	856,204
Caa1 - Caa3	-	59,046
Ca	-	1,813
<b>Total:</b>	<u>\$ -</u>	<u>\$ 1,172,049</u>
<b>Internal rating: <sup>(1)</sup></b>		
2	\$ -	\$ 1,018,261
3	-	132,169
4	-	19,806
5	-	1,813
<b>Total:</b>	<u>\$ -</u>	<u>\$ 1,172,049</u>
<b>Performance:</b>		
Performing	\$ -	\$ 1,170,236
Non-Performing	-	1,813
<b>Total:</b>	<u>\$ -</u>	<u>\$ 1,172,049</u>

(1) Loans with an internal rating of 3 or below are reviewed individually to identify loans to be designated for non-accrual status.

## Loans Held for Investment

As of September 30, 2019 and December 31, 2018, the number of loans held for investment outside of the CLO warehouse portfolio was six and five, respectively. The Company reviews the credit quality of these loans within this portfolio segment on a loan by loan basis mainly focusing on the borrower's financial position and results of operations as well as the current and expected future cash flows on the loans. As of December 31, 2018, the Company held \$26.0 million of loans held for investment in the CLO VI warehouse portfolio. The credit quality of the CLO VI warehouse loans are evaluated in the same manner as the credit quality of loans collateralizing ABS issued. On March 19, 2019, the Company deconsolidated its investments in the CLO VI warehouse and as a result, no longer has loans held for investment related to CLO VI on its Consolidated Statements of Financial Condition as of September 30, 2019. See Note 1 for additional information on the deconsolidation.

There were no loans past due as of September 30, 2019 and 2018. A summary of activity in loan losses for the three and nine months ended September 30, 2019 and 2018 is as follows:

(in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Impaired	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired
Balance, at beginning of the period	\$ -	\$ -	\$ -	\$ (1,746)	\$ (218)	\$ (181)	\$ (2,279)	\$ (494)
Provision for loan losses								
Specific	(438)	-	(149)	-	(438)	-	(353)	-
General	-	-	-	-	-	-	-	(1,278)
Charge off	-	-	-	-	218	-	2,483	26
Transfer from loans collateralizing asset-backed securities	-	-	-	1,746	-	-	-	1,746
Derecognition due to deconsolidation	-	-	-	-	-	181	-	-
Balance, at end of the period	<u>\$ (438)</u>	<u>\$ -</u>	<u>\$ (149)</u>	<u>\$ -</u>	<u>\$ (438)</u>	<u>\$ -</u>	<u>\$ (149)</u>	<u>\$ -</u>

A loan is considered to be impaired when, based on current information, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the original loan agreement, including scheduled principal and interest payments. As of September 30, 2019 and December 31, 2018, \$1.0 million and \$0.5 million of recorded investment amount of loans issued were individually evaluated for impairment, respectively. During the three months ended September 30, 2019, the Company recorded \$0.4 million of impairment on the \$1.0 million loans evaluated for impairment.

The Company had one troubled debt restructuring during the nine months ended September 30, 2019. The loan, with a principal balance and a carrying balance of \$0.5 million and \$0.2 million in total, respectively, was converted to equity. The Company valued the equity at \$0.2 million in total upon conversion and recorded no material gain or loss upon the execution of the restructuring.

During the three and nine months ended September 30, 2018, the Company had two loans, which were modified in a troubled debt restructuring. The two loans were held under the same borrower. The loans, with a principal balance and a carrying balance of \$1.9 million and \$1.0 million in total, respectively, were converted to equity. The Company valued the equity at \$0.8 million in total upon conversion and incurred a loss of \$0.1 million in relation to the restructuring as of September 30, 2018.

As of September 30, 2019 and December 31, 2018, the Company classified all its loans held for investment as Cash Flow loans, as their funding decisions were all primarily driven by the cash flows of the borrower. The table below presents certain information pertaining to the loans on non-accrual status as of September 30, 2019 and December 31, 2018, respectively:

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>September 30, 2019</b>					
Impaired loans with an allowance recorded	\$ 1,013	\$ 1,078	\$ 438	\$ 924	\$ 86
Impaired loans with no related allowance recorded	-	-	-	-	-
Total impaired loans	<u>\$ 1,013</u>	<u>\$ 1,078</u>	<u>\$ 438</u>	<u>\$ 924</u>	<u>\$ 86</u>
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>December 31, 2018</b>					
Impaired loans with an allowance recorded	\$ 462	\$ 484	\$ 219	\$ 462	\$ 34
Impaired loans with no related allowance recorded	-	-	-	-	-
Total impaired loans	<u>\$ 462</u>	<u>\$ 484</u>	<u>\$ 219</u>	<u>\$ 462</u>	<u>\$ 34</u>

The Company's management, at least on a quarterly basis, reviews each loan and evaluates the credit quality of the loan. The review primarily includes the following credit quality indicators with regard to each loan: 1) Moody's rating, 2) current internal rating (through March 19, 2019) 3) trading price of the loan, and 4) performance of the obligor. The table below presents, by credit quality indicator, the Company's recorded investment in loans held for investment at September 30, 2019 and December 31, 2018:

(In thousands)

Cash Flow Loans

	September 30, 2019	December 31, 2018
<b>Moody's rating:</b>		
Baa1 - Baa3	\$ -	\$ -
Ba1 - Ba3	-	7,459
B1 - B3	-	18,342
Caa1 - Caa3	1,013	419
Ca	-	463
Not Rated	4,203	3,326
<b>Total:</b>	<u>\$ 5,216</u>	<u>\$ 30,009</u>
<b>Internal rating: <sup>(1)</sup></b>		
2	\$ -	\$ 26,208
3	-	909
4	-	-
5	-	462
Not rated	5,216	2,430
<b>Total:</b>	<u>\$ 5,216</u>	<u>\$ 30,009</u>
<b>Performance:</b>		
Performing	\$ 4,203	\$ 29,547
Non-performing	1,013	462
<b>Total:</b>	<u>\$ 5,216</u>	<u>\$ 30,009</u>

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



## 7. Debt

### Bond Payable

(In thousands)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
8.00% Senior Notes due 2023	\$ -	\$ 36,000
7.25% Senior Notes due 2027	50,000	50,000
6.875% Senior Notes due 2029	36,000	-
Total outstanding principal	\$ 86,000	\$ 86,000
Less: Debt issuance costs	(3,521)	(2,428)
Less: Consolidation elimination	(52)	(75)
Total bond payable, net	<u>\$ 82,427</u>	<u>\$ 83,497</u>

On September 26, 2019, the Company issued \$36.0 million of 6.875% senior notes (the "2019 Senior Notes"). The 2019 Senior Notes will mature on September 30, 2029, may be redeemable in whole or in part at any time or from time to time at JMP Group LLC's option on or after September 30, 2021, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest. The notes bear interest at a rate of 6.875% per year, payable quarterly on March 30, June 30, September 30, and December 30 of each year, and commencing on December 30, 2019.

On September 27, 2019 the Company announced JMP Group Inc.'s intention to redeem the JMP Group Inc. outstanding \$25.0 million principal amount of 8.00% senior notes (the "2013 Senior Notes") on October 28, 2019. The Company opted to pay the principal and contractually owed interest to the trustee, U.S. Bank National Association, in order to satisfy and discharge the debt as of September 27, 2019. On September 27, 2019 the Company deposited sufficient funds with the trustee to satisfy and discharge the 2013 Senior Notes and the trustee acknowledged such satisfaction and discharge. In connection with the redemption, the Company recorded losses on early retirement of debt related to unamortized bond issuance costs of \$0.5 million and recognized an additional \$0.2 million of interest expense on the accelerated repayment during the quarter ended September 30, 2019.

The 7.25% senior notes due 2027 (the "2017 Senior Notes") and the 2019 Senior Notes (collectively with the 2017 Senior Notes the "Senior Notes") were issued by JMP Group Inc. and JMP Group LLC, respectively, pursuant to indentures with U.S. Bank National Association, as trustee. The Senior Notes indentures contain customary event of default and cure provisions. If an uncured default occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the Senior Notes may declare the Senior Notes immediately due and payable. The Senior Notes are JMP Group Inc.'s and JMP Group LLC's general unsecured senior obligations, and rank equally with all existing and future senior unsecured indebtedness and are senior to any other indebtedness expressly made subordinate to the notes. At both September 30, 2019 and December 31, 2018, the Company was in compliance with the debt covenants in the indentures.

The future scheduled principal payments of the debt obligations as of September 30, 2019 were as follows:

(In thousands)

2019	\$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	86,000
Total	<u>\$ 86,000</u>

### Note Payable, Lines of Credit and Credit Facilities

(In thousands)

	<u>Outstanding Balance</u>	
	<u>September 30, 2019</u>	<u>December 31, 2018</u>
\$100 million, CLO VI warehouse credit facility through October 11, 2021	\$ -	\$ 22,500
\$25 million, JMP Holding credit agreement through December 31, 2020	14,983	-
\$20 million, JMP Securities revolving line of credit through June 6, 2020	-	-
Note payable	829	829
Total note payable, lines of credit, and credit facilities	<u>\$ 15,812</u>	<u>\$ 23,329</u>

The Company's Credit Agreement (the "Credit Agreement") dated as of April 30, 2014, was entered by and between JMP Holding LLC ("JMP Holding") and City National Bank ("CNB"). The Credit Agreement contains financial and other covenants, including, but not limited to, limitations on debt, liens and investments, as well as the maintenance of certain financial covenants. A violation of any one of these covenants could result in a default under the Credit Agreement, which would permit CNB to terminate the Company's note and require the immediate repayment of any outstanding principal and interest. The Credit Agreement has been amended throughout its life to make various updates, clarifications and conforming changes to reflect the corporate structure and business changes of the Company since the Credit Agreements execution. The Credit Agreement provides a \$25.0 million revolving line of credit (the "Revolver") through December 31, 2020. On such date, if the revolving period has not been previously extended, any outstanding amounts under the Revolver would convert to a term loan (the "Converted Term Loan"). The Converted Term Loan must be repaid in 12 quarterly installments commencing on January 1, 2021, with each of the first six installments being equal to 3.75% of the principal amount of the Converted Term Loan and each of the next six installments being equal to 5.0% of the principal amount of the Converted Term Loan. A final payment of all remaining principal and interest due under the Converted Term Loan must be made at the earlier of: (a) December 31, 2023; or (b) if certain liquidity requirements are not satisfied by the Company, the date that is last day of the fiscal quarter ending most recently (but no less than 60 days) prior to the earliest maturity date of any senior unsecured notes issued by JMP Group Inc. or JMP Group LLC then outstanding. The Revolver bears interest at a rate of LIBOR plus 225 bps and the Company's outstanding balance on the Credit

Agreement was \$15.0 million and zero as of September 30, 2019 and December 30, 2018, respectively. As of September 30, 2019, the Company had letters of credit outstanding under the Revolver supporting office lease obligations of approximately \$1.1 million in the aggregate.

The Credit Agreement contains financial and other covenants, including, but not limited to, limitations on debt, liens and investments, as well as the maintenance of certain financial covenants. A violation of any one of these covenants could result in a default under the Credit Agreement, which would permit CNB to terminate out note and require the immediate repayment of any outstanding principal and interest. In addition, our subsidiaries are restricted under the Credit Agreement under certain circumstances from making distributions to us if an event of default has occurred under the Credit Agreement. As of September 30, 2019 and December, 31, 2018, we were in compliance with the loan covenants.

JMP Holding's obligations under the Credit Agreement are guaranteed by all of its wholly owned subsidiaries (other than JMP Securities and certain dormant subsidiaries) and are secured by substantially all of its and the guarantors' assets. In addition, we have entered into a limited recourse pledge agreement whereby we have granted a lien on all of our equity interests in JMP Investment Holdings and JMPAM to secure JMP Holding's obligations under the Credit Agreement.

Separately, under a Revolving Note and Cash Subordinate Agreement, JMP Securities holds a \$20.0 million revolving line of credit with CNB to be used for regulatory capital purposes during its securities underwriting activities. The unused portion of the line accrued an unused fee at the rate of 0.25% per annum, payable monthly. On June 6, 2020, any outstanding amount under the line will convert to a term loan maturing the following year. There was no borrowing on this line of credit as of September 30, 2019 or December 31, 2018. The line of credit bears interest at a rate to be agreed upon at the time of advance between the Company and CNB.

The net loans collateralizing the CLO VI warehouse facility were zero and \$26.0 million as of September 30, 2019 and December 31, 2018, respectively. As of December 31, 2018, the CLO VI warehouse facility has a market standard advance rate and the outstanding balances bear interest at LIBOR plus 1.250% until October 11, 2021, which marks the end of the revolving period on the facility. The facility has a 12 months amortization period after the revolving period in which the outstanding balances bear standard market interest rate based on LIBOR. During the nine months ended September 30, 2019, the Company deconsolidated its investments in the CLO VI warehouse and as a result, no longer has the CLO VI warehouse credit facility on its Consolidated Statements of Financial Condition as of September 30, 2019. See Note 1 for additional information on deconsolidation.

On January 9, 2018, an affiliate purchased a \$0.8 million note from the Company. The note bears interest at a rate of 12.5% per annum and matures November 20, 2022. As of September 30, 2019, the carrying value of the note payable was \$0.8 million.

## 8. Asset-backed Securities Issued

The table below sets forth the outstanding debt obligations of CLO III, CLO IV, and CLO V as of December 31, 2018:

(In thousands)

	As of December 31, 2018		
	Outstanding Principal Balance	Interest Rate Spread to LIBOR	Weighted Average Remaining Maturity (years)
Class A Senior Secured Floating Rate Notes	\$ 769,750	0.85%-1.37%	10.04
Class B Senior Secured Floating Rate Notes	143,700	1.30%-1.90%	10.04
Class C Senior Secured Deferrable Floating Rate Notes	71,500	1.80%-2.65%	9.99
Class D Senior Secured Deferrable Floating Rate Notes	68,350	2.60%-4.15%	10.01
Class E Senior Secured Deferrable Floating Rate Notes	60,800	5.70%-6.80%	10.03
Total secured notes sold to investors	\$ 1,114,100		
Senior Subordinated Notes	7,221	6.90%	11.00
Less: Debt issuance costs	(8,979)		
Total asset-backed securities issued	\$ 1,112,342		

The secured notes and subordinated notes are limited recourse obligations payable solely from cash flows of the CLOs loan portfolios and related collection and payment accounts pledged as security. Payment on Class A notes rank senior in right of payment to the other secured notes and the subordinated notes. Payment on the Class B, Class C, Class D and Class E notes generally rank subordinate in right of payment to any other class of notes which has an earlier alphabetical designation. Payment of interest on the Class C, Class D, Class E, and senior subordinated notes is payable only to the extent proceeds are available under the applicable payment priority provisions. To the extent proceeds are not available, interest on the Class C, Class D, Class E, and senior subordinated notes will be deferred. The secured notes are secured by the CLOs loan portfolio and the funds on deposit in various related collection and payment accounts. The terms of the debt securitization subject the loans included in the CLOs loan portfolio to a number of collateral quality, portfolio profile, interest coverage and overcollateralization tests. The subordinated notes are subordinated in right of payment to all other classes of notes and are unsecured.

During the nine months ended September 30, 2019, the Company deconsolidated CLO III, CLO IV, and CLO V, and as a result, no longer carried the ABS issued on its Consolidated Statements of Financial Condition as of September 30, 2019. See Note 1 for additional information on deconsolidation.

The net loans collateralizing asset-backed securities for CLO III, CLO IV, and CLO V was \$1,161.5 million as of December 31, 2018.

## 9. Leases

Substantially all of the leases in which the Company is the lessee are office space leases with various terms with the maximum duration through 2026. All of our leases are classified as operating leases, and therefore, were previously not recognized on the Company's Consolidated Statements of Financial Condition. With the adoption of ASU 2016-02, *Leases (Topic 842)*, operating lease agreements are required to be recognized on the Consolidated Statements of Financial Condition as a "right-of-use" ("ROU") asset and a corresponding lease liability.

The calculated amount of the ROU asset and lease liability are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

	September 30, 2019
<b>Weighted-average remaining lease term</b>	
Operating leases	5.54
<b>Weighted-average discount rate</b>	
Operating leases	6.12%

The Company leases office space in California, Illinois, Georgia (through March 19, 2019), Massachusetts, Minnesota, Florida, and New York under various operating leases. Occupancy expense were both \$1.2 million for quarters ended September 30, 2019 and 2018, respectively. Occupancy expense was \$4.0 million and \$3.4 million for the nine months ended September 30, 2019 and 2018, respectively.

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

(In thousands)	Minimum Future Lease Payments
<i>Year Ending December 31,</i>	
2019	\$ 1,416
2020	5,629
2021	5,693
2022	5,649
2023	5,643
Thereafter	6,562
Total minimum future lease payments	30,592
Amounts representing interest	(4,447)
Present value of net future minimum lease payments	\$ 26,145
	<b>Nine Months Ended September 30, 2019</b>
Cash paid for amounts included in the measurement of lease liabilities	
Cash used in operating activities	\$ 4,081
Operating leases	\$ 4,081

## 10. Shareholders' Equity

### Share Repurchase Program

On February 17, 2017, our board of directors authorized the repurchase of up to 1,000,000 shares through December 31, 2018. On December 3, 2018, with the previous authorization expired, our board of directors approved the extension of the term of the Company's share repurchase program through April 30, 2019. On April 22, 2019 the Company's board of directors approved the extension of the term of the Company's share repurchase program through June 30, 2019. During the three months ended September 30, 2019, the Company repurchased zero of the Company's shares. During the nine months ended September 30, 2019, the Company repurchased 318,826 of the Company's shares, at an average price of \$4.09 per share, for an aggregate purchase price of \$1.3 million on the open market. The Company terminated its repurchase program effective May 8, 2019, prior to the launch of a self-tender offer.

### Self-Tender Offer

On May 13, 2019, the Company launched a self-tender offer (the "Tender Offer") to repurchase for cash up to 3,000,000 shares representing limited liability interests of the Company, or approximately 14.2% of the Company's outstanding common shares. The Tender Offer expired on June 13, 2019. The Tender Offer resulted in the Company's repurchase of 1,816,732 shares at a purchase price of \$3.95 per share for a total purchase price of \$7.2 million, excluding fees and expenses related to the Tender Offer.

## 11. Accumulated Other Comprehensive Income

The following table summarizes the unrealized gains and losses on securities of accumulated other comprehensive losses, before tax, tax effect, and net of tax, for the three and nine months ended September 30, 2019:

(In thousands)	Before Tax	Tax Effect	Net of Tax
<b>Beginning, January 1, 2019</b>	\$ -	\$ -	\$ -
Net unrealized losses during the period	(1,055)	273	(782)
<b>Balance as of March 31, 2019</b>	(1,055)	273	(782)
Net unrealized losses during the period	(2,418)	631	(1,787)
<b>Balance as of June 30, 2019</b>	(3,473)	904	(2,569)
Net unrealized gains during the period	918	(209)	709
<b>Balance as of September 30, 2019</b>	\$ (2,555)	\$ 695	\$ (1,860)

## 12. Share-Based Compensation

On January 27, 2015, the board of directors adopted the JMP Group LLC Amended and Restated Equity Incentive Plan ("JMP Group Plan"). The plan maintains authorization of the issuance of 4,000,000 shares, as originally approved by shareholders on April 12, 2007 and subsequently approved by shareholders on June 6, 2011. This amount is increased by any shares the Company purchases on the open market, or through any share repurchase or share exchange program, initiated by the Company unless the board of directors or its appointee determines otherwise. The Company will issue shares upon exercises or vesting from authorized but unissued shares or from treasury shares.

### Share Options

The following table summarizes the share option activity for the nine months ended September 30, 2019:

	<b>Nine Months Ended September 30, 2019</b>	
	<b>Shares Subject to Option</b>	<b>Weighted Average Exercise Price</b>

Balance, beginning of year	1,300,000	\$ 6.85
Balance, end of period	1,300,000	\$ 6.85
Options exercisable at end of period	1,300,000	\$ 6.85

The following table summarizes the share options outstanding as well as share options vested and exercisable as of September 30, 2019:

September 30, 2019								
Options Outstanding					Options Vested and Exercisable			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$6.79 - \$7.33	1,300,000	0.25	\$ 6.85	\$ -	1,300,000	0.25	\$ 6.85	\$ -

The Company recognizes share-based compensation expense for share options over the vesting period using the accelerated attribution method when they are subject to graded vesting and on a straight-line basis when they are subject to cliff vesting. The Company recognized compensation expense related to share options of zero for both the three and nine months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019, there was no unrecognized compensation expense related to share options.

There were no share options exercised during both the three and nine months ended September 30, 2019 and September 30, 2018. As a result, the Company did not recognize any current income tax benefits from the exercise of share options.

The Company uses the Black-Scholes option-pricing model or other quantitative models to calculate the fair value of option awards.

#### Restricted Share Units

On February 6, 2019 the Company granted approximately 280,000 RSUs to certain employees of the Company as part of the 2018 deferred compensation program. 50% of these units will vest on December 1, 2019 and the remaining 50% will vest on December 1, 2020, subject to the grantees' continued employment through such dates. The Company also granted RSUs for new hires throughout the year which have various vesting schedules.

The following table summarizes RSU activity for the nine months ended September 30, 2019:

	Nine Months Ended September 30, 2019	
	Restricted Share Units	Weighted Average Grant Date Fair Value
Balance, beginning of year	297,639	\$ 4.79
Granted	572,695	4.06
Vested	(183,997)	4.49
Balance, end of period	686,337	\$ 4.26

The aggregate fair value of RSUs vested during both the three months ended September 30, 2019 and 2018 were \$86 thousand and \$91 thousand, respectively. The aggregate fair value of RSUs vested during both the nine months ended September 30, 2019 and 2018 were \$826 thousand and \$399 thousand, respectively. The income tax benefits realized from the vested RSUs were \$31 thousand and zero for the three months ended September 30, 2019 and 2018, respectively. The income tax benefits realized from the vested RSUs were \$210 thousand and \$28 thousand for the nine months ended September 30, 2019 and 2018, respectively.

The Company recognizes compensation expense for RSUs over the vesting period using the accelerated attribution method when they are subject to graded vesting and on a straight-line basis when they are subject to cliff vesting. For both three months ended September 30, 2019 and 2018, the Company recorded compensation expenses related to RSU's of \$0.5 million. For the nine months ended September 30, 2019 and 2018, the Company recorded compensation expenses related to RSU's of \$1.6 million and \$1.3 million, respectively.

For the three months ended September 30, 2019 and 2018, the Company recognized income tax benefits of \$157 thousand and \$101 thousand, respectively, related to the compensation expense recognized for RSUs. For the nine months ended September 30, 2019 and 2018, the Company recognized income tax benefits of \$432 thousand and \$215 thousand, respectively, related to the compensation expense recognized for RSUs. As of September 30, 2019, there was \$1.3 million of unrecognized compensation expense related to RSUs expected to be recognized over a weighted average period of 1.49 years.

The Company pays cash distribution equivalents on certain RSUs upon vesting. Distribution equivalents paid on RSUs are generally charged to retained earnings. The Company accounts for the tax benefit related to distribution equivalents paid on RSUs as an increase in additional paid-in capital.

### Share Appreciation Rights

In February 2015, the Company granted an aggregate of 2,865,000 share appreciation rights (“SARs”) to certain employees and the Company’s independent directors. These SARs have a base price of \$7.33 per share, an exercise period of five years and have vested and became exercisable on December 31, 2017 subject to the terms and conditions of the applicable grant agreements. The fair value of the SARs was determined using a quantitative model, using the following assumptions: expected life of 2.0 years, risk-free interest rate of 2.09%, distribution yield of 19.47%, and volatility of 20.00%. The risk-free rate was interpolated from the U.S. constant maturity treasuries for a term corresponding to the maturity of the SAR. The volatility was calculated from the historical weekly share prices of the Company as of the grant date for a term corresponding to the maturity of the SAR. The distribution yield was calculated as the sum of the last twelve-month distributions over the share price as of the grant date.

The following table summarizes the SARs activity for the nine months ended September 30, 2019

	<b>Nine Months Ended September 30, 2019</b>	
	<b>Share Appreciation Rights</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of year	2,485,000	\$ 7.33
Balance, end of period	2,485,000	\$ 7.33

The following table summarizes the share options outstanding as well as share options vested and exercisable as of September 30, 2019:

<b>September 30, 2019 SARs Outstanding</b>					
<b>Exercise Price</b>	<b>Number Outstanding</b>	<b>Weighted Average Remaining Contractual Life in Years</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>	
\$ 7.33	2,485,000	0.25	\$ 7.33	\$	-

The Company recognizes compensation expense for SARs over the vesting period, through monthly mark to market of adjustments to the liability award. For the three months ended September 30, 2019 and 2018, the Company recorded compensation benefit of zero and \$50 thousand, respectively. For the nine months ended September 30, 2019 and 2018, the Company recorded compensation benefit of zero and \$149 thousand, respectively.

For the three months ended September 30, 2019 and 2018, the Company recognized income tax benefit of zero and \$13 thousand related to the compensation expense recognized for SARs. For the nine months ended September 30, 2019 and 2018, the Company recognized income tax benefit of zero and \$39 thousand related to the compensation expense recognized for SARs. As of September 30, 2019, there was no unrecognized compensation expense related to SARs.

### 13. Net Income per Common Share

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

The computations of basic and diluted net income per share for the three and nine months ended September 30, 2019 and 2018 are shown in the tables below:

<i>(In thousands, except per share data)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Numerator:</b>				
Net income (loss) attributable to JMP Group LLC	\$ (4,061)	\$ 288	\$ (104)	\$ (1,983)
<b>Denominator:</b>				
Basic weighted average shares outstanding	19,324	21,435	20,454	21,545
<b>Effect of potential dilutive securities:</b>				
Restricted share units	-	302	-	-
Diluted weighted average shares outstanding	19,324	21,737	20,454	21,545
<b>Net income (loss) per share</b>				
Basic	\$ (0.21)	\$ 0.01	\$ (0.01)	\$ (0.09)
Diluted	\$ (0.21)	\$ 0.01	\$ (0.01)	\$ (0.09)

Due to the net loss for three and nine months ended September 30, 2019, and the nine months ended September 30, 2018, all of the share ptions and restricted share units outstanding, were anti-dilutive and, therefore, were not included in the computation of diluted weighted-average common shares outstanding.



#### 14. ASC 606 Revenue from contracts with customers

The following tables represent the Company's total revenues from contracts with customers, disaggregated by major business activity, for the three and nine months ended September 30, 2019 and September 30, 2018, respectively.

(in thousands)

	Three Months Ended September 30, 2019						
	Broker - Dealer	Asset Management		Total Asset Management	Corporate Costs	Eliminations	Total
		Asset Management Fee Income	Investment Income				
<b>Total revenues from contracts with customers</b>							
Equity and debt origination	\$ 8,561	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,561
Strategic advisory and private placements	6,667	-	-	-	-	-	6,667
Total investment banking revenues	15,228	-	-	-	-	-	15,228
Commissions	2,900	-	-	-	-	-	2,900
Research payments	1,152	-	-	-	-	-	1,152
Net trading losses	(84)	-	-	-	-	-	(84)
Total brokerage revenues	3,968	-	-	-	-	-	3,968
Base management fees	-	1,597	-	1,597	-	(25)	1,572
Incentive management fees	-	59	-	59	-	(3)	56
Total asset management fees	-	1,656	-	1,656	-	(28)	1,628
Total revenues from contracts with customers	<u>\$ 19,196</u>	<u>\$ 1,656</u>	<u>\$ -</u>	<u>\$ 1,656</u>	<u>\$ -</u>	<u>\$ (28)</u>	<u>\$ 20,824</u>

(in thousands)

	Three Months Ended September 30, 2018						
	Broker - Dealer	Asset Management		Total Asset Management	Corporate Costs	Eliminations	Total
		Asset Management Fee Income	Investment Income				
<b>Total revenues from contracts with customers</b>							
Equity and debt origination	\$ 11,366	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,366
Strategic advisory and private placements	9,729	-	-	-	-	-	9,729
Total investment banking revenues	21,095	-	-	-	-	-	21,095
Commissions	3,251	-	-	-	-	-	3,251
Research payments	1,525	-	-	-	-	-	1,525
Net trading losses	(100)	-	-	-	-	-	(100)
Total brokerage revenues	4,676	-	-	-	-	-	4,676
Base management fees	-	4,536	-	4,536	-	(1,337)	3,199
Incentive management fees	-	487	16	503	-	-	503
Total asset management fees	-	5,023	16	5,039	-	(1,337)	3,702
Total revenues from contracts with customers	<u>\$ 25,771</u>	<u>\$ 5,023</u>	<u>\$ 16</u>	<u>\$ 5,039</u>	<u>\$ -</u>	<u>\$ (1,337)</u>	<u>\$ 29,473</u>

(in thousands)

	Nine Months Ended September 30, 2019						
	Broker - Dealer	Asset Management		Total Asset Management	Corporate Costs	Eliminations	Total
		Asset Management Fee Income	Investment Income				
<b>Total revenues from contracts with customers</b>							
Equity and debt origination	\$ 27,678	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,678
Strategic advisory and private placements	17,165	-	-	-	-	-	17,165
Total investment banking revenues	44,843	-	-	-	-	-	44,843
Commissions	9,262	-	-	-	-	-	9,262
Research payments	4,016	-	-	-	-	-	4,016
Net trading losses	(118)	-	-	-	-	-	(118)
Total brokerage revenues	13,160	-	-	-	-	-	13,160
Base management fees	-	5,835	-	5,835	-	(1,058)	4,777
Incentive management fees	-	647	261	908	-	-	908
Total asset management fees	-	6,482	261	6,743	-	(1,058)	5,685
Total revenues from contracts with customers	<u>\$ 58,003</u>	<u>\$ 6,482</u>	<u>\$ 261</u>	<u>\$ 6,743</u>	<u>\$ -</u>	<u>\$ (1,058)</u>	<u>\$ 63,688</u>

(in thousands)

Nine Months Ended September 30, 2018

	<u>Broker - Dealer</u>	<u>Asset Management</u>		<u>Total Asset Management</u>	<u>Corporate Costs</u>	<u>Eliminations</u>	<u>Total</u>
		<u>Asset Management Fee Income</u>	<u>Investment Income</u>				
<b>Total revenues from contracts with customers</b>							
Equity and debt origination	\$ 47,277	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,277
Strategic advisory and private placements	23,042	-	-	-	-	-	23,042
Total investment banking revenues	70,319	-	-	-	-	-	70,319
Commissions	11,237	-	-	-	-	-	11,237
Research payments	4,160	-	-	-	-	-	4,160
Net trading losses	(610)	-	-	-	-	-	(610)
Total brokerage revenues	14,787	-	-	-	-	-	14,787
Base management fees	-	12,856	-	12,856	-	(3,333)	9,523
Incentive management fees	-	910	5,318	6,228	-	(246)	5,982
Total asset management fees	-	13,766	5,318	19,084	-	(3,579)	15,505
Total revenues from contracts with customers	<u>\$ 85,106</u>	<u>\$ 13,766</u>	<u>\$ 5,318</u>	<u>\$ 19,084</u>	<u>\$ -</u>	<u>\$ (3,579)</u>	<u>\$ 100,611</u>

### 15. Employee Benefits

All salaried employees of the Company are eligible to participate in the JMP Group 401(k) Plan after three months of employment. Participants may contribute up to the limits set by the U.S. Internal Revenue Service. Effective January 1, 2015, the Company contributes a match of 100% of each participant's contributions to the JMP Group 401(k) Plan up to a maximum of 3% of the participant's compensation plus 50% of the participant's elective deferrals between 3% and 5%. All participants are immediately vested 100% on matched contributions. The Company recorded JMP Group 401(k) Plan matching expense of \$0.2 million and \$0.3 million for the three months ended September 30, 2019 and 2018, respectively. The Company recorded JMP Group 401(k) Plan matching expense of \$1.3 million and \$1.5 million for the nine months ended September 30, 2019 and 2018, respectively.

### 16. Income Taxes

JMP Group LLC's election to be taxed as a corporation for United States federal income tax purposes was approved by the Internal Revenue Service with an effective date of January 1, 2019. Taxable income derived from the investment activities of its previously untaxed pass-through entities will now be taxed at a U.S. federal and state corporate rate, along with the Company's corporate subsidiaries.

For the three months ended September 30, 2019 and 2018, the Company recorded income tax benefit of \$1.2 million and expense of \$0.5 million, respectively. The effective tax rate is 22.81% and 32.17% for the three months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, the Company recorded income tax benefit of \$5.8 million and \$0.1 million, respectively. The effective tax rate is 96.95% and 7.33% for the nine months ended September 30, 2019 and 2018, respectively.

For financial reporting purposes, the Company's effective tax rate used for the interim periods is based on the estimated full-year income tax rate. The effective tax rate differs from the statutory rate primarily due to the change in tax status from non-taxable to taxable which resulted in recognizing the initial temporary differences between book bases and tax bases of assets and liabilities.

The Company recognizes deferred tax assets and liabilities in accordance with ASC 740, Income Taxes, and are determined based upon the temporary differences between the financial reporting and tax basis of the Company's assets and liabilities using the tax rates and laws in effect when the differences are expected to reverse.

## 17. Commitments and Contingencies

In connection with its underwriting activities, JMP Securities may, from time to time, enter into firm commitments for the purchase of securities in return for a fee. These commitments require JMP Securities to purchase securities at a specified price. Securities underwriting exposes JMP Securities to market and credit risk, primarily in the event that, for any reason, securities purchased by JMP Securities cannot be distributed at anticipated price levels. Settlement of transactions relating to such underwriting commitments, which were open at September 30, 2019, had no material effect on the Company's consolidated financial statements. JMP Securities had no open underwriting commitments as of December 31, 2018.

The marketable securities owned and the restricted cash, as well as the cash held by the clearing broker may be used to maintain margin requirements. The Company had \$0.3 million of cash on deposit with JMP Securities' clearing broker at both September 30, 2019 and December 31, 2018. Furthermore, the marketable securities owned may be hypothecated or borrowed by the clearing broker.

Unfunded commitments are agreements to lend to a borrower, provided that all conditions have been met. The Company had unfunded commitments to lend of \$0.8 million and \$28.7 million as of September 30, 2019 and December 31, 2018. Using the average market bid and ask quotation obtained from a loan pricing service, the Company determined the fair value of the unfunded commitments to be \$0.8 million and \$27.0 million as of September 30, 2019 and December 31, 2018.

## 18. Regulatory Requirements

JMP Securities is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital, as defined, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. JMP Securities had net capital of \$15.8 million and \$29.8 million, which were \$14.7 million and \$28.7 million in excess of the required net capital of \$1.1 million at both September 30, 2019 and December 31, 2018. JMP Securities' ratio of aggregate indebtedness to net capital was 1.04 to 1 and 0.57 to 1 at September 30, 2019 and December 31, 2018, respectively.

Since all customer transactions are cleared through another broker-dealer on a fully disclosed basis, JMP Securities is not required to maintain a separate bank account for the exclusive benefit of customers in accordance with Rule 15c3-3 under the Exchange Act.

## 19. Related Party Transactions

The Company earns base management fees and incentive fees from serving as investment advisor for various entities, including corporations, partnerships limited liability companies, and offshore investment companies. The Company also owns an investment in some of such affiliated entities. As of September 30, 2019 and December 31, 2018, the aggregate fair value of the Company's investments in the affiliated entities for which the Company serves as the investment advisor was \$18.7 million and \$18.6 million, respectively, which consisted of investments in hedge and other private funds of \$8.8 million and \$8.6 million, respectively, and an investment in HCC common stock of \$9.9 million and \$10.0 million, respectively. Base management fees earned from these affiliated entities were \$1.6 million and \$3.2 million for the three months ended September 30, 2019 and 2018. Base management fees earned from these affiliated entities were \$4.8 million and \$9.5 million for the nine months ended September 30, 2019 and 2018. Also, the Company earned incentive fees of \$0.1 million and \$0.5 million, from these affiliated entities for the three months ended September 30, 2019 and 2018. The Company earned incentive fees of \$0.9 million and \$6.0 million, from these affiliated entities for the nine months ended September 30, 2019 and 2018.

On September 19, 2017, the Company made a loan to a registered investment adviser of \$3.4 million at an interest rate of 15% per year. In October 2017, the Company sold 30% of the loan, or \$1.0 million, to an affiliate. As of September 30, 2019 and December 31, 2018, the Company's portion of the outstanding loan balance to this entity was \$2.4 million. The Company determined the fair value of loan held for investment to be \$2.5 million as of September 30, 2019 and \$2.3 million as of December 31, 2018, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate.

On January 9, 2018, an affiliate purchased a \$0.8 million note from the Company. As of September 30, 2019, the carrying value of note payable was \$0.8 million.

On January 9, 2018, the Company sold a 30% subscription into an investment series held by a subsidiary to an affiliate. The transaction resulted in the admission of the affiliate into the limited liability company subsidiary as a non-controlling member. The Company recorded \$0.5 million as capital attributable to non-controlling interest upon execution as of December 31, 2018. The Company has allocated income on the investment based on the affiliates' pro-rata share of ownership of the investment series of \$12 thousand and \$43 thousand for the three and nine months ended September 30, 2019. The Company has allocated income on the investment based on the affiliates' pro-rata share of ownership of the investment series of \$16 thousand and \$44 thousand for the three and nine months ended September 30, 2018.

## 20. Guarantees

JMP Securities has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the accounts of customers introduced by JMP Securities. Should a customer not fulfill its obligation on a transaction, JMP Securities may be required to buy or sell securities at prevailing market prices in the future on behalf of its customer. JMP Securities' obligation under the indemnification has no maximum amount. All unsettled trades at September 30, 2019 and December 31, 2018 have subsequently settled with no resulting material liability to the Company. For the three and nine months ended September 30, 2019 and 2018, the Company had no material loss due to counterparty failure, and has no obligations outstanding under the indemnification arrangement as of September 30, 2019 or December 31, 2018.

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

## 21. Litigation

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

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

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

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

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

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

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a borrower to a third party. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to borrowers. In connection with the CLOs, the Company had standby letters of credit of zero and \$1.4 million as of September 30, 2019 and December 31, 2018, respectively. In addition, the Company had unfunded commitments to lend to a borrower. See Note 18 for description of the Company's unfunded commitments to lend as of September 30, 2019 and December 31, 2018.

### 23. Business Segments

The Company's business results are categorized into the following four business segments: Broker-Dealer, Asset Management Fee Income, Investment Income, and Corporate costs. The Broker-Dealer segment includes a broad range of services, such as underwriting and acting as a placement agent for public and private capital markets raising transactions and financial advisory services in M&A, restructuring and other strategic transactions. The Broker-Dealer segment also includes institutional brokerage services and equity research services to our institutional investor clients. The Asset Management Fee Income segment includes the management of a broad range of pooled investment vehicles, including the Company's hedge funds, private equity funds, hedge funds of funds, and collateralized loan obligations. The Investment income segment includes income from the Company's principal investments in public and private securities and investment funds managed by HCS, as well as any other net interest and income from investing activities, and interest expense related to the Company's bond issuance. The Corporate Costs segment also includes expenses related to JMP Group LLC, JMP Holding LLC and JMP Group Inc., and is mainly comprised of corporate overhead expenses.

During the year ended 2018, the Company changed its internal reporting which resulted in changes to the Company's segment information. The Company has restated the prior period presented herein to conform to the new presentation.

Management uses operating net income as a key metric when evaluating the performance of the Company's core business strategy and ongoing operations. This measure adjusts the Company's net income as follows: (i) reverses share-based compensation expense related to historical equity awards granted in prior periods, (ii) recognizes 100% of the cost of deferred compensation in the period for which such compensation was awarded, instead of recognizing such cost over the vesting period as required under GAAP, (iii) reverses amortization expense related to an intangible asset resulting from the repurchase of a portion of the equity of CLO III; (iv) unrealized gains or losses on commercial real estate investments, adjusted for non-cash expenditures, including depreciation and amortization; (v) reverses net unrealized gains and losses on strategic equity investments and warrants, (vi) excludes general loan loss provisions related to the CLOs, (vii) reverses one-time transaction costs related to the refinancing of the debt; (viii) one time expense associated with redemption of debt underlying the CLOs, the redemption of other debt, and the resulting acceleration of amortization of remaining capitalized issuance costs for each; and (ix) presents revenues and expenses on a basis that deconsolidates the CLOs and removes any non-controlling interest in consolidated but less than wholly owned subsidiaries. These charges may otherwise obscure the Company's operating income and complicate an assessment of the Company's core business activities. The operating pre-tax net income facilitates a meaningful comparison of the Company's results in a given period to those in prior and future periods.

The Company's segment information for the three and nine months ended September 30, 2019 and 2018 was prepared using the following methodology:

- Revenues and expenses directly associated with each segment are included in determining segment operating income.
- Revenues and expenses not directly associated with a specific segment are allocated based on the most relevant measures applicable, including revenues, headcount and other factors.
- Each segment's operating expenses include: a) compensation and benefits expenses that are incurred directly in support of the segments and b) other operating expenses, which include expenses for premises and occupancy, professional fees, travel and entertainment, communications and information services, equipment and indirect support costs (including compensation and other operating expenses related thereto) for administrative services.
- Assets directly associated with each segment are allocated to the respective segment. One exception is depreciable assets, which are held at the Corporate segment. The associated depreciation is allocated to the related segment.
- Investment Income segment assets are presented net of an intercompany loan.

## Segment Operating Results

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

(In thousands)	Three Months Ended September		Nine Months Ended September	
	2019	2018	2019	2018
<b>Broker-Dealer</b>				
Non-interest revenues	\$ 19,202	\$ 25,777	\$ 58,021	\$ 85,121
Total net revenues after provision for loan losses	\$ 19,202	\$ 25,777	\$ 58,021	\$ 85,121
Non-interest expenses	20,677	23,202	62,035	76,528
Segment operating pre-tax net income (loss)	\$ (1,475)	\$ 2,575	\$ (4,014)	\$ 8,593
Segment assets	\$ 49,554	\$ 68,352	\$ 49,554	\$ 68,352
<b>Asset Management Fee Income</b>				
Non-interest revenues	\$ 1,795	\$ 4,878	\$ 6,692	\$ 13,439
Total net revenues after provision for loan losses	\$ 1,795	\$ 4,878	\$ 6,692	\$ 13,439
Non-interest expenses	2,101	4,794	8,074	14,570
Segment operating pre-tax net income (loss)	\$ (306)	\$ 84	\$ (1,382)	\$ (1,131)
Segment assets	\$ 11,889	\$ 21,033	\$ 11,889	\$ 21,033
<b>Investment Income</b>				
Non-interest revenues	\$ 1,434	\$ 237	\$ 9,309	\$ 5,961
Net interest income	563	3,715	4,702	8,769
Loss on repurchase, reissuance or early retirement of debt	-	-	-	(42)
Provision for loan losses	(438)	(470)	(438)	(1,400)
Total net revenues after provision for loan losses	\$ 1,559	\$ 3,482	\$ 13,573	\$ 13,288
Non-interest expenses	334	1,535	3,378	9,096
Segment operating pre-tax net income	\$ 1,225	\$ 1,947	\$ 10,195	\$ 4,192
Segment assets	\$ 78,910	\$ 1,270,289	\$ 78,910	\$ 1,270,289
<b>Corporate Costs</b>				
Non-interest revenues	\$ 76	\$ -	\$ 76	\$ -
Total net revenues after provision for loan losses	76	-	76	-
Non-interest expenses	2,172	2,688	6,214	7,519
Segment operating pre-tax net loss	\$ (2,096)	\$ (2,688)	\$ (6,138)	\$ (7,519)
Segment assets	\$ 240,718	\$ 258,217	\$ 240,718	\$ 258,217
<b>Eliminations</b>				
Non-interest revenues	\$ (47)	\$ (1,205)	\$ (1,095)	\$ (3,352)
Total net revenues after provision for loan losses	\$ (47)	\$ (1,205)	\$ (1,095)	\$ (3,352)
Non-interest expenses	(47)	(1,205)	(1,095)	(3,354)
Segment operating pre-tax net income	\$ -	\$ -	\$ -	\$ 2
Segment assets	\$ (147,780)	\$ (254,326)	\$ (147,780)	\$ (254,326)
<b>Consolidating adjustments and reconciling items</b>				
Non-interest revenues	\$ (938) (a)	\$ 325 (a)	\$ (597) (a)	\$ (1,312) (a)
Net interest income	(165) (b)	1,148 (b)	47 (b)	3,137 (b)
Loss on repurchase or early retirement of debt	(458)	(170)	(458)	(2,796)
Reversal (provision) for loan losses	-	(984)	-	(2,799)
Total net revenues after provision for loan losses	\$ (1,561)	\$ 319	\$ (1,008)	\$ (3,770)
Non-interest expenses	1,135 (c)	599 (c)	3,676 (c)	2,358 (c)
Non-controlling interest (expense) income	(67)	823	(80)	138
Segment operating pre-tax net income (loss)	\$ (2,629)	\$ (1,103)	\$ (4,604)	\$ (6,266)
<b>Total Segments</b>				
Non-interest revenues	\$ 21,522	\$ 30,012	\$ 72,406	\$ 99,857
Net interest income	398	4,863	4,749	11,906
Loss on repurchase, reissuance or early retirement of debt	(458)	(170)	(458)	(2,838)
Provision for loan losses	(438)	(1,454)	(438)	(4,199)
Total net revenues after provision for loan losses	\$ 21,024	\$ 33,251	\$ 76,259	\$ 104,726
Non-interest expenses	26,372	31,613	82,282	106,717
Non-controlling interest (expense) income	(67)	823	(80)	138
Consolidated net income (loss) attributable to JMP Group LLC	\$ (5,281)	\$ 815	\$ (5,943)	\$ (2,129)
Total assets	\$ 233,291	\$ 1,363,566	\$ 233,291	\$ 1,363,566

(a) Non-interest revenue adjustments are comprised of mark-to-market gains/losses on strategic equity investments and warrants, deferred compensation invested in funds, and unrealized gains or losses on commercial real estate investments, adjusted for non-cash expenditures, included depreciation and amortization.

(b) The net interest income adjustment is comprised of costs related to refinancing and early retirement of debt.

(c) Non-interest expense adjustments relate to reversals of share-based and deferred compensation and the amortization expense related to an intangible asset.

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Operating net income (loss)</b>	\$ (1,963)	\$ 1,741	\$ (991)	\$ 3,494
Addback (subtract) of segment income tax expense (benefit)	(689)	177	(348)	643
<b>Total segments adjusted operating pre-tax net income (loss)</b>	\$ (2,652)	\$ 1,918	\$ (1,339)	\$ 4,137
Subtract (addback)				
Share-based awards and deferred compensation	753	76	2,184	289
General loan loss provision – CLOs, CLO warehouse	-	855	-	2,348
Early debt retirement/reissuance	625	170	625	1,488
CLO refinancing costs	-	-	-	54
Amortization of intangible asset – CLO III	-	69	277	207
Unrealized loss on real estate fund investment – depreciation and amortization	647	260	1,425	1,864
Unrealized mark-to-market (gain) loss on strategic equity investments	604	(327)	93	16
Total consolidation adjustments and reconciling items	2,629	1,103	4,604	6,266
<b>Consolidated pre-tax net income (loss) attributable to JMP Group LLC</b>	\$ (5,281)	\$ 815	\$ (5,943)	\$ (2,129)
Income tax expense (benefit)	(1,220)	527	(5,839)	(146)
<b>Consolidated net income (loss) attributable to JMP Group LLC</b>	\$ (4,061)	\$ 288	\$ (104)	\$ (1,983)

## 24. Nonconsolidated Variable Interest Entities

VIEs for which the Company is not the primary beneficiary consists of private equity funds, CLO investments, and other investments in which the Company has an equity ownership interest. In the first quarter of 2019, the Company deconsolidated its CLOs from its Consolidated Statements of Financial Condition but retained an ownership investment in the CLOs. As the CLOs are VIEs, the CLOs are presented in the nonconsolidated VIE table as of September 30, 2019. See Note 1 for additional information on deconsolidation of the CLOs. The Company's maximum exposure to loss from its non-consolidated VIEs consists of equity investments and receivables as follows:

(In thousands)

	As of							
	September 30, 2019				December 31, 2018			
	Financial Statement		Maximum Exposure		Financial Statement		Maximum	
	Carrying Amount		to		Carrying Amount		Exposure to	
Assets	Liabilities	Loss	VIE Assets	Assets	Liabilities	Loss	VIE Assets	
CLOs	\$ 81,354	\$ -	\$ 81,354	\$ 1,443,237	\$ -	\$ -	\$ -	\$ -
Fund investments	10,107	-	12,960	342,978	5,083	-	7,028	204,646
Other investments	4,897	104	4,897	1,199,083	933	-	933	1,235,146
Total	\$ 96,358	\$ 104	\$ 99,211	\$ 2,985,298	\$ 6,016	\$ -	\$ 7,961	\$ 1,439,792

## 25. Consolidating Financial Statements

JMP Group Inc., a wholly-owned subsidiary of JMP Group LLC, is the primary obligor of the Company's 2017 Senior Notes and 2013 Senior Notes (Note 7). In conjunction with the Reorganization Transaction, on January 1, 2015, JMP Group LLC and JMP Investment Holdings became guarantors of JMP Group Inc.'s obligations under the Senior Notes. The guarantee is full and unconditional. One of the non-guarantor subsidiaries, JMP Securities, is subject to certain regulations, which require the maintenance of minimum net capital. This requirement may limit the issuer's access to this subsidiary's assets. On September 27, 2019, the Company announced that it will redeem the 2013 Senior Notes on October 28, 2019. See Note 7 for further information.

The following financial statements present the financial condition, results of operations and cash flows of JMP Group LLC and JMP Investment Holdings LLC ("Parent Companies and Guarantors"), JMP Group Inc. ("Subsidiary Issuer"), all other consolidated subsidiaries (collectively "Non-Guarantor Subsidiaries"), and the elimination of entries necessary to consolidate or combine the Subsidiary Issuer with the Parent Companies and Guarantors and Non-Guarantor Subsidiaries. These statements are presented in accordance with the disclosure requirements under SEC Regulation S-X Rule 3-10.

	As of September 30, 2019				
	Parent Companies and Guarantors	Subsidiary Issuer	Non-Guarantor Subsidiaries	Eliminations	Consolidated JMP Group LLC
<b>Assets</b>					
Cash and cash equivalents	\$ 11,651	\$ 7,676	\$ 28,693	\$ -	\$ 48,020
Restricted cash and deposits	-	1,221	-	-	1,221
Investment banking fees receivable, net of allowance for doubtful accounts	-	-	7,392	-	7,392
Marketable securities owned	12,868	26,927	43,811	(51)	83,555
Other investments	3,994	2,723	28,124	-	34,841
Loans held for investment, net of allowance for loan losses	1,775	574	2,428	-	4,777
Interest receivable	-	4	848	(480)	372
Fixed assets, net	-	-	2,649	-	2,649
Operating lease right-of-use asset	-	20,293	-	-	20,293
Other assets	966	82,777	39,435	(93,007)	30,171
Investment in subsidiaries	198,544	73,602	-	(272,146)	-
Total assets	\$ 229,798	\$ 215,797	\$ 153,380	\$ (365,684)	\$ 233,291
<b>Liabilities and Equity</b>					
<b>Liabilities:</b>					
Marketable securities sold, but not yet purchased, at fair value	\$ -	\$ -	\$ 2,837	\$ -	\$ 2,837
Accrued compensation	615	1,699	15,553	-	17,867
Interest payable	28	463	539	(481)	549
Notes payable	81,034	-	27,746	(92,968)	15,812
Bond payable, net of debt issuance costs	34,227	48,252	-	(52)	82,427
Operating lease liability	-	26,145	-	-	26,145
Other liabilities	6,188	250	9,635	68	16,141
Total liabilities	\$ 122,092	\$ 76,809	\$ 56,310	\$ (93,433)	\$ 161,778
Total shareholders' equity	107,706	138,988	97,618	(272,463)	71,849
Nonredeemable Non-controlling Interest	\$ -	\$ -	\$ (548)	\$ 212	\$ (336)
Total equity	\$ 107,706	\$ 138,988	\$ 97,070	\$ (272,251)	\$ 71,513
Total liabilities and equity	\$ 229,798	\$ 215,797	\$ 153,380	\$ (365,684)	\$ 233,291





## As of December 31, 2018

	Parent Companies and Guarantors	Subsidiary Issuer	Non- Guarantor Subsidiaries	Eliminations	Consolidated JMP Group LLC
<b>Assets</b>					
Cash and cash equivalents	\$ 4,863	\$ 8,755	\$ 57,309	\$ -	\$ 70,927
Restricted cash and deposits	-	1,221	60,660	-	61,881
Investment banking fees receivable, net of allowance for doubtful accounts	-	-	6,647	-	6,647
Marketable securities owned, at fair value	10,027	-	8,921	(74)	18,874
Other investments	10,922	1,785	13,262	(9,845)	16,124
Loans held for investment, net of allowance for loan losses	1,139	-	28,469	-	29,608
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	-	-	1,161,463	-	1,161,463
Interest receivable	137	1	3,345	(479)	3,004
Fixed assets, net	-	-	2,351	-	2,351
Other assets	(18,812)	121,932	63,386	(146,143)	20,363
Investment in subsidiaries	317,113	77,427	-	(394,540)	-
Total assets	<u>\$ 325,389</u>	<u>\$ 211,121</u>	<u>\$ 1,405,813</u>	<u>\$ (551,081)</u>	<u>\$ 1,391,242</u>
<b>Liabilities and Equity</b>					
<b>Liabilities:</b>					
Marketable securities sold, but not yet purchased, at fair value	\$ -	\$ -	\$ 4,626	\$ -	\$ 4,626
Accrued compensation	-	150	41,459	-	41,609
Asset-backed securities issued, net of debt issuance costs	-	-	1,122,187	(9,845)	1,112,342
Interest payable	-	1,071	10,614	(475)	11,210
Notes payable	127,603	-	17,763	(144,537)	829
CLO warehouse credit facilities	-	-	22,500	-	22,500
Bond payable, net of debt issuance costs	-	83,572	-	(75)	83,497
Other liabilities	2,700	7,603	8,620	(1,500)	17,423
Total liabilities	<u>\$ 130,303</u>	<u>\$ 92,396</u>	<u>\$ 1,227,769</u>	<u>\$ (156,432)</u>	<u>\$ 1,294,036</u>
Total shareholders' (deficit) equity	181,497	118,725	178,346	(394,861)	83,707
Nonredeemable Non-controlling Interest	\$ 13,589	\$ -	\$ (302)	\$ 212	\$ 13,499
Total equity	<u>\$ 195,086</u>	<u>\$ 118,725</u>	<u>\$ 178,044</u>	<u>\$ (394,649)</u>	<u>\$ 97,206</u>
Total liabilities and equity	<u>\$ 325,389</u>	<u>\$ 211,121</u>	<u>\$ 1,405,813</u>	<u>\$ (551,081)</u>	<u>\$ 1,391,242</u>

**For the Three Months Ended September 30, 2019**

	<b>Parent Companies and Guarantors</b>	<b>Subsidiary Issuer</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated JMP Group LLC</b>
<b>Revenues</b>					
Investment banking	\$ -	\$ -	\$ 15,228	\$ -	\$ 15,228
Brokerage	-	-	3,968	-	3,968
Asset management fees	-	-	1,675	(47)	1,628
Principal transactions	281	78	(699)	-	(340)
Loss on sale, payoff and mark-to-market of loans	-	-	-	-	-
Net dividend income	6	26	247	-	279
Other income	129	76	554	-	759
Equity earnings (losses) of subsidiaries	(1,550)	(2,565)	-	4,115	-
Non-interest revenues (losses)	(1,134)	(2,385)	20,973	4,068	21,522
Interest income	815	1,339	1,655	(1,481)	2,328
Interest expense	(808)	(1,918)	(684)	1,480	(1,930)
Net interest income (expense)	7	(579)	971	(1)	398
Loss on repurchase, reissuance or early retirement of debt	-	(458)	-	-	(458)
Provision for loan losses	-	(438)	-	-	(438)
Total net revenues (losses) after provision for loan losses	(1,127)	(3,860)	21,944	4,067	21,024
<b>Non-interest expenses</b>					
Compensation and benefits	284	1,117	16,105	-	17,506
Administration	158	108	2,082	(47)	2,301
Brokerage, clearing and exchange fees	-	-	617	-	617
Travel and business development	5	17	1,241	-	1,263
Managed deal expense	-	-	685	-	685
Communications and technology	1	3	1,057	-	1,061
Occupancy	-	-	1,196	-	1,196
Professional fees	594	60	582	-	1,236
Depreciation	-	-	307	-	307
Other	-	-	200	-	200
Total non-interest expenses	1,042	1,305	24,072	(47)	26,372
Net income (loss) before income tax expense	(2,169)	(5,165)	(2,128)	4,114	(5,348)
Income tax expense (benefit)	2	(211)	(1,011)	-	(1,220)
Net income (loss)	(2,171)	(4,954)	(1,117)	4,114	(4,128)
Less: Net loss attributable to nonredeemable non-controlling interest	-	-	(67)	-	(67)
Net income (loss) attributable to JMP Group LLC	<u>\$ (2,171)</u>	<u>\$ (4,954)</u>	<u>\$ (1,050)</u>	<u>\$ 4,114</u>	<u>\$ (4,061)</u>

**For the Three Months Ended September 30, 2018**

	<b>Parent Companies and Guarantors</b>	<b>Subsidiary Issuer</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated JMP Group LLC</b>
<b>Revenues</b>					
Investment banking	\$ -	\$ -	\$ 21,095	\$ -	\$ 21,095
Brokerage	-	-	4,676	-	4,676
Asset management fees	-	-	3,742	(40)	3,702
Principal transactions	620	(390)	239	-	469
Loss on sale, payoff and mark-to-market of loans	-	-	(556)	-	(556)
Net dividend income	284	13	23	-	320
Other income	-	-	306	-	306
Equity earnings of subsidiaries	5,490	1,635	-	(7,125)	-
Non-interest revenues	<u>6,394</u>	<u>1,258</u>	<u>29,525</u>	<u>(7,165)</u>	<u>30,012</u>
Interest income	639	1,084	19,122	(2,193)	18,652
Interest expense	(1,080)	(2,144)	(12,758)	2,193	(13,789)
Net interest income (expense)	<u>(441)</u>	<u>(1,060)</u>	<u>6,364</u>	<u>-</u>	<u>4,863</u>
Loss on repurchase, reissuance or early retirement of debt	-	(170)	-	-	(170)
Provision for loan losses	(149)	-	(1,305)	-	(1,454)
Total net revenues after provision for loan losses	<u>5,804</u>	<u>28</u>	<u>34,584</u>	<u>(7,165)</u>	<u>33,251</u>
<b>Non-interest expenses</b>					
Compensation and benefits	745	1,086	20,840	-	22,671
Administration	151	128	2,063	(40)	2,302
Brokerage, clearing and exchange fees	-	-	808	-	808
Travel and business development	11	12	1,057	-	1,080
Communications and technology	1	1	1,038	-	1,040
Managed deal expense	-	-	614	-	614
Occupancy	-	-	1,172	-	1,172
Professional fees	586	169	517	-	1,272
Depreciation	-	-	285	-	285
Other	69	-	300	-	369
Total non-interest expenses	<u>1,563</u>	<u>1,396</u>	<u>28,694</u>	<u>(40)</u>	<u>31,613</u>
Net income (loss) before income tax expense	4,241	(1,368)	5,890	(7,125)	1,638
Income tax expense (benefit)	-	(265)	792	-	527
Net income (loss)	4,241	(1,103)	5,098	(7,125)	1,111
Less: Net income attributable to nonredeemable non-controlling interest	707	-	116	-	823
Net income (loss) attributable to JMP Group LLC	<u>\$ 3,534</u>	<u>\$ (1,103)</u>	<u>\$ 4,982</u>	<u>\$ (7,125)</u>	<u>\$ 288</u>

**For the Nine Months Ended September 30, 2019**

	<b>Parent Companies and Guarantors</b>	<b>Subsidiary Issuer</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated JMP Group LLC</b>
<b>Revenues</b>					
Investment banking	\$ -	\$ -	\$ 44,843	\$ -	\$ 44,843
Brokerage	-	-	13,160	-	13,160
Asset management fees	-	-	5,755	(70)	5,685
Principal transactions	672	561	5,138	-	6,371
Loss on sale, payoff and mark-to-market of loans	(21)	-	(17)	-	(38)
Net dividend income	125	66	677	-	868
Other income	364	76	1,077	-	1,517
Equity earnings (losses) of subsidiaries	9,875	(3,824)	-	(6,051)	-
Non-interest revenues (losses)	11,015	(3,121)	70,633	(6,121)	72,406
Interest income	3,645	3,541	17,633	(5,428)	19,391
Interest expense	(2,920)	(6,052)	(11,263)	5,593	(14,642)
Net interest income (expense)	725	(2,511)	6,370	165	4,749
Loss on repurchase, reissuance or early retirement of debt	-	(458)	-	-	(458)
Provision for loan losses	-	(438)	-	-	(438)
Total net revenues (losses) after provision for loan losses	11,740	(6,528)	77,003	(5,956)	76,259
<b>Non-interest expenses</b>					
Compensation and benefits	1,309	3,209	50,155	-	54,673
Administration	460	327	6,261	(70)	6,978
Brokerage, clearing and exchange fees	-	-	2,051	-	2,051
Travel and business development	79	37	3,515	-	3,631
Managed deal expense	-	-	2,552	-	2,552
Communications and technology	3	4	3,234	-	3,241
Occupancy	-	-	4,028	-	4,028
Professional fees	1,679	184	1,650	-	3,513
Depreciation	-	-	915	-	915
Other	277	-	423	-	700
Total non-interest expenses	3,807	3,761	74,784	(70)	82,282
Net income (loss) before income tax expense	7,933	(10,289)	2,219	(5,886)	(6,023)
Income tax expense (benefit)	256	(5,454)	(641)	-	(5,839)
Net income (loss)	7,677	(4,835)	2,860	(5,886)	(184)
Less: Net income (loss) attributable to nonredeemable non-controlling interest	167	-	(247)	-	(80)
Net income (loss) attributable to JMP Group LLC	<u>\$ 7,510</u>	<u>\$ (4,835)</u>	<u>\$ 3,107</u>	<u>\$ (5,886)</u>	<u>\$ (104)</u>

**For the Nine Months Ended September 30, 2018**

	<b>Parent Companies and Guarantors</b>	<b>Subsidiary Issuer</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated JMP Group LLC</b>
<b>Revenues</b>					
Investment banking	\$ -	\$ -	\$ 70,319	\$ -	\$ 70,319
Brokerage	-	-	14,787	-	14,787
Asset management fees	-	-	15,766	(261)	15,505
Principal transactions	(2,026)	(533)	1,092	-	(1,467)
Loss on sale, payoff and mark-to-market of loans	(15)	-	(873)	-	(888)
Net dividend income	836	27	72	-	935
Other income	-	-	666	-	666
Equity earnings of subsidiaries	12,586	4,426	-	(17,012)	-
Non-interest revenues	11,381	3,920	101,829	(17,273)	99,857
Interest income	1,972	3,366	48,417	(6,724)	47,031
Interest expense	(3,382)	(6,735)	(31,731)	6,723	(35,125)
Net interest income (expense)	(1,410)	(3,369)	16,686	(1)	11,906
Loss on repurchase, reissuance or early retirement of debt	(42)	(170)	(2,626)	-	(2,838)
Provision for loan losses	(134)	-	(4,065)	-	(4,199)
Total net revenues after provision for loan losses	9,795	381	111,824	(17,274)	104,726
<b>Non-interest expenses</b>					
Compensation and benefits	1,826	3,161	71,083	-	76,070
Administration	477	367	6,663	(261)	7,246
Brokerage, clearing and exchange fees	-	-	2,373	-	2,373
Travel and business development	46	31	3,159	-	3,236
Managed deal expense	-	-	4,528	-	4,528
Communications and technology	2	6	3,141	-	3,149
Occupancy	-	-	3,432	-	3,432
Professional fees	1,847	321	2,147	-	4,315
Depreciation	-	-	836	-	836
Other	208	-	1,324	-	1,532
Total non-interest expenses	4,406	3,886	98,686	(261)	106,717
Net income (loss) before income tax expense	5,389	(3,505)	13,138	(17,013)	(1,991)
Income tax expense (benefit)	-	(2,520)	2,374	-	(146)
Net income (loss)	5,389	(985)	10,764	(17,013)	(1,845)
Less: Net income (loss) attributable to nonredeemable non-controlling interest	477	-	(339)	-	138
Net income (loss) attributable to JMP Group LLC	<u>\$ 4,912</u>	<u>\$ (985)</u>	<u>\$ 11,103</u>	<u>\$ (17,013)</u>	<u>\$ (1,983)</u>

**For the Nine Months Ended September 30, 2019**

	<b>Parent Companies and Guarantors</b>	<b>Subsidiary  Issuer</b>	<b>Non- Guarantor  Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated JMP  Group LLC</b>
<b>Cash flows from operating activities:</b>					
Net cash provided by (used in) operating activities	\$ 3,309	\$ (4,054)	\$ (7,271)	\$ (22,412)	\$ (30,428)
<b>Cash flows from investing activities:</b>					
Purchases of fixed assets	-	-	(1,341)	-	(1,341)
Purchases of other investments	(499)	(867)	(11,172)	-	(12,538)
Sales or distributions from other investments	2,095	411	9,028	(879)	10,655
Funding of loans collateralizing asset-backed securities issued	-	-	(35,153)	-	(35,153)
Funding of loans held for investment	(1,136)	(963)	(23,580)	-	(25,679)
Sale, payoff and principal receipts of loans collateralizing asset-backed securities issued	-	-	23,806	-	23,806
Sale, payoff and principal receipts on loans held for investment	327	7	6,877	-	7,211
Net decrease in cash and restricted cash due to deconsolidation of subsidiaries	-	-	(27,771)	-	(27,771)
Investment in subsidiary	51,495	3,825	-	(55,320)	-
Net cash provided by (used in) investing activities	\$ 52,282	\$ 2,413	\$ (59,306)	\$ (56,199)	\$ (60,810)
<b>Cash flows from financing activities:</b>					
Proceeds from drawdowns on line of credit	-	-	16,583	-	16,583
Proceeds from drawdowns on CLO warehouse facilities	-	-	7,750	-	7,750
Proceeds from bond issuance	36,000	-	-	-	36,000
Payment of debt issuance costs	(1,778)	(6)	(103)	-	(1,887)
Repayment of line of credit	-	-	(1,600)	-	(1,600)
Repayment of asset-backed securities issued	-	-	(1,679)	878	(801)
Repayment on bonds payable	-	(36,000)	-	23	(35,977)
Distributions and distribution equivalents paid on common shares and RSUs	(2,686)	-	-	-	(2,686)
Purchases of common shares for treasury	(8,614)	-	-	-	(8,614)
Distributions to non-controlling interest shareholders	(913)	-	-	-	(913)
Employee taxes paid on shares withheld for tax-withholding purposes	(184)	-	-	-	(184)
Repayment of note payable	(11,500)	-	(5,000)	16,500	-
Capital contributions of parent	(59,128)	36,568	(38,650)	61,210	-
Net cash provided by (used in) financing activities	\$ (48,803)	\$ 562	\$ (22,699)	\$ 78,611	\$ 7,671
Net increase (decrease) in cash and cash equivalents	6,788	(1,079)	(89,276)	-	(83,567)
Cash, cash equivalents and restricted cash, beginning of period	4,863	9,976	117,969	-	132,808
Cash, cash equivalents and restricted cash, end of period	\$ 11,651	\$ 8,897	\$ 28,693	\$ -	\$ 49,241

	<b>For the Nine Months Ended September 30, 2018</b>				
	<b>Parent Companies and Guarantors</b>	<b>Subsidiary Issuer</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated JMP Group LLC</b>
<b>Cash flows from operating activities:</b>					
Net cash provided by (used in) operating activities	\$ 11,080	\$ 9,608	\$ 14,341	\$ (27,074)	\$ 7,955
<b>Cash flows from investing activities:</b>					
Purchases of fixed assets	-	-	(877)	-	(877)
Purchases of other investments	(5,460)	(430)	(88)	4,453	(1,525)
Sales or distributions from other investments	13,363	448	4,549	(4,411)	13,949
Funding of loans collateralizing asset-backed securities issued	-	-	(307,808)	-	(307,808)
Funding of loans held for investment	(664)	-	(311,425)	-	(312,089)
Sale, payoff and principal receipts of loans collateralizing asset-backed securities issued	(15)	-	268,254	-	268,239
Sale, payoff and principal receipts on loans held for investment	1,614	-	25,112	-	26,726
Investment in subsidiary	35,711	(5,550)	-	(30,161)	-
Net cash provided by (used in) investing activities	<u>\$ 44,549</u>	<u>\$ (5,532)</u>	<u>\$ (322,283)</u>	<u>\$ (30,119)</u>	<u>\$ (313,385)</u>
<b>Cash flows from financing activities:</b>					
Repayment on bonds payable	-	(9,980)	-	-	(9,980)
Proceeds from issuance of repurchase agreement	3,878	-	-	-	3,878
Proceeds from drawdowns on CLO warehouse facility	-	-	263,750	-	263,750
Repayments on CLO V warehouse facility	-	-	(325,000)	-	(325,000)
Proceeds from sale of note payable to affiliate	-	-	829	-	829
Payments of debt issuance costs	-	(203)	(1,715)	21	(1,897)
Repayment of asset-backed securities issued	(4,453)	-	(327,647)	-	(332,100)
Repayment of notes payable	(10,000)	-	-	10,000	-
Repayment of Repurchase Agreement	(3,878)	-	-	-	(3,878)
Proceeds from issuance of asset-backed securities issued	-	-	699,107	-	699,107
Reissuance of asset-back securities	4,411	-	42	-	4,453
Distributions and distribution equivalents paid on common shares and RSUs	(5,906)	-	-	-	(5,906)
Capital contributions of nonredeemable non-controlling interest holders	-	-	449	-	449
Purchases of common shares for treasury	(2,309)	-	-	-	(2,309)
Purchase of subsidiary shares from non-controlling interest holders	(656)	-	656	-	-
Distributions to non-controlling interest shareholders	(1,418)	-	(109)	-	(1,527)
Employee taxes paid on shares withheld for tax-withholding purposes	(31)	-	-	-	(31)
Capital contributions of parent	(42,236)	7,107	(12,043)	47,172	-
Net cash provided by (used in) financing activities	<u>\$ (62,598)</u>	<u>\$ (3,076)</u>	<u>\$ 298,319</u>	<u>\$ 57,193</u>	<u>\$ 289,838</u>
Net increase (decrease) in cash and cash equivalents	(6,969)	1,000	(9,623)	-	(15,592)
Cash, cash equivalents and restricted cash, beginning of period	13,632	6,290	117,399	-	137,321
Cash, cash equivalents and restricted cash, end of period	<u>\$ 6,663</u>	<u>\$ 7,290</u>	<u>\$ 107,776</u>	<u>\$ -</u>	<u>\$ 121,729</u>

## 26. Subsequent Events

On October 23, 2019, the Company repaid \$9.0 million of the outstanding balance on the revolving line of credit with CNB at JMP Holding.

On November 4, 2019, the Company's board of directors declared cash distributions of \$0.04 per share for the third quarter of 2019. The distribution is payable on November 29, 2019, to shareholders of record as of November 15, 2019.



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

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the unaudited consolidated financial statements and the related notes included elsewhere in this report. For additional context with which to understand our financial condition and results of operations, see the MD&A for the fiscal year ended December 31, 2018 contained in our Form 10-K (the "Annual Report"), as well as the consolidated financial statements and notes contained therein.*

### Cautionary Statement Regarding Forward-Looking Statements

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

### Overview

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

- investment banking services, including corporate finance, mergers and acquisitions and other strategic advisory services, to corporate clients;
- sales and trading and related securities brokerage services to institutional investors;
- equity research coverage of four target industries;
- asset management products and services to institutional investors, high net-worth individuals and for our own account; and
- management of collateralized loan obligations (through March 19, 2019) and a specialty finance company.

### Deconsolidation of the CLOs and JMPCA

On January 17, 2019, the non-call period of JMP Credit Advisors CLO III(R) Ltd. ("CLO III") expired, which resulted in a change in the entity with the control over the most significant activities of the variable interest entity ("VIE"). The expiration of the non-call period resulted in the Company losing control over the most significant activities of CLO III. The Company deconsolidated CLO III as of January 17, 2019. The Company continues to hold approximately 47% of the outstanding junior subordinated notes of CLO III and the Company accounts for its ownership of the CLO III subordinated notes as an investment in a CLO debt security and will recognize interest income based on the effective yield method. The Company recognized a gain of \$1.6 million as revenue from principal transactions on the deconsolidation of CLO III for the nine months ended September 30, 2019.

On March 19, 2019, the Company sold a 50.1% equity interest in JMP Credit Advisors LLC ("JMPCA") to Medalist Partners LP ("Medalist"), an alternative asset management firm specializing in structured credit and asset-backed lending, and a 4.9% interest to management employees of JMPCA. JMP Holding LLC, a wholly-owned subsidiary of the Company, retained 45.0% of the equity interest in JMPCA. Due to the transaction JMPCA went through a reconsideration event as defined in Accounting Standard Codification ("ASC") 810, *Consolidation*, and the Company determined that JMPCA is a VIE after the transaction date. The Company determined that we are not the primary beneficiary of JMPCA as we are not the party with the power to direct the most significant activities of JMPCA. As the Company was determined to not be the primary beneficiary, the Company deconsolidated JMPCA as of the date of sale. As the Company still retains 45.0% of the equity interest of JMPCA and has significant influence, the Company has determined that it will account for its retained interest as an equity method investment after the date of deconsolidation, however; the Company has made the election to use the fair value option to account for the investment. The Company received a cash payment of \$0.3 million in consideration for the limited liability company interest and recorded a gain of \$3.4 million on deconsolidation as revenue from principal transactions. As a result of the transaction, JMPCA has been renamed Medalist Partners Corporate Finance LLC. The transaction agreement also requires Medalist to provide additional capital to purchase an equity interest in CLO VI to finance the acquisition of broadly syndicated corporate loans, which resulted in Medalist related entities purchasing approximately 66% of the outstanding equity interests of JMP Credit Advisors CLO VI Ltd ("CLO VI"). The Company will receive a portion of the subordinated management fees from the CLOs JMPCA manages.

After the sale of JMPCA, the Company concluded that it has lost the ability to direct the most significant activities of the VIEs: JMP Credit Advisors CLO IV Ltd. ("CLO IV"), JMP Credit Advisors CLO V Ltd. ("CLO V"), and JMP Credit Advisors CLO VI Ltd. ("CLO VI") (collectively with CLO III the "CLOs") and also deconsolidated those CLOs as of March 19, 2019. The Company continues to hold 100% of the junior subordinated notes of CLO IV and CLO V and approximately 33% of the equity interests of CLO VI. The Company owned 100% and 25% of the senior subordinated notes in CLO IV and CLO V, respectively, at the date of deconsolidation. The Company sold all of its senior subordinated notes in CLO IV and CLO V in May 2019. The Company accounts for its ownership of the subordinated notes as a beneficial interest in a debt security and accounts for its equity interests of CLO VI as an equity investment. The Company classifies the junior subordinated notes as available-for-sale securities and classified the senior subordinated notes as trading securities up until their sale. Collectively, the Company recognized a loss on the deconsolidation of CLO IV, CLO V, and CLO VI of \$1.8 million and a loss of \$0.1 million on the sale of the senior subordinated notes of CLO IV and CLO V for the nine months ended September 30, 2019 in revenues from principal transactions. On August 8, 2019, Medalist closed a refinancing of the asset-backed securities issued by CLO IV, which lowered the weighted average cost of funds. The refinancing of CLO IV had no impact on the Company's accounting for the investment in the CLO IV debt securities including the decision to deconsolidate CLO IV.

### **The Election for JMP Group LLC to be Taxed as a C Corporation**

Since January 2015, JMP Group LLC had been a publicly traded partnership and, as such, was taxed as a partnership, and not as a corporation, for U.S. federal income tax purposes, so long as 90% or more of its gross income for each taxable year constitutes "qualifying income." On January 31, 2019, the Company filed an election with the U.S. Internal Revenue Service to be treated as a C corporation for tax purposes, rather than as a partnership, going forward. The election was approved and became retroactively effective as of January 1, 2019. As a partnership, the Company had only paid taxes on a few taxable corporate holding subsidiaries.

An entity taxed as a partnership generally does not incur any U.S. federal income tax liability, and any income, gains, losses or deductions are taken in by the owners of the partnership in computing their U.S. federal income tax liability, regardless of any distributions from the partnership. In contrast, an entity treated as a corporation for U.S. federal income tax purposes generally pays U.S. federal income tax on its taxable income as it is considered a taxable entity. For years beginning after December 31, 2017, the maximum U.S. federal tax rate imposed on the net income of corporations is 21%. This rate may be subject to change in the future. Owners of a corporate entity generally do not incur any U.S. federal income tax liability on any earnings of the corporation unless the corporation makes a distribution of cash or property. Any distributions paid from current or accumulated earnings are treated as dividends, and these "qualifying dividends" are generally taxed at a lower rate than the ordinary income tax rate. Any distributions in excess of current or accumulated earnings are treated as nontaxable returns of capital which reduce the owner's tax basis in the corporation. Any remaining excess is treated as capital gain. For corporate entities, as both the corporation and distributions from the corporation are taxed, there are two levels of potential tax on the income earned.

### **Components of Revenues**

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

### *Investment Banking*

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

### *Underwriting Revenues*

We earn revenues from securities offerings in which we act as an underwriter, such as initial public offerings and follow-on equity offerings. Underwriting revenues include management fees, underwriting fees, selling concessions, and realized and unrealized net gains and losses on equity positions held in inventory for a period of time to facilitate the completion of certain underwritten offerings. We record underwriting revenues, gross of related syndicate expenses, on the trade date which is typically the date of pricing an offering (or the following day). The Company has determined that its performance obligations are completed and the related income is reasonably determinable on the trade date. In syndicated transactions, management estimates our share of transaction-related expenses incurred by the syndicate, and we recognize revenues gross 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 consist of success fees received upon the closing of mergers and acquisitions but also include retainer fees received when we are first engaged to provide advisory services. We also earn fees for related advisory work and other services, such as fairness opinions, valuation analyses, due diligence, and pre-transaction structuring advice. These revenues may be earned for providing services to either the buyer or the seller involved in a transaction. Depending on the nature of the engagement letter and the agreed upon services, customers may simultaneously receive and consume the benefits of services or services may culminate in the delivery of the advisory services at a point in time. The Company evaluates each contract individually and the performance obligations identified to determine if revenue should be recognized ratably over the term of the agreement or at a specific point in time. Any retainer fees received in connection with these agreements are individually evaluated and any unearned fees are deferred for revenue recognition.

### *Private Capital Markets and Other Revenues*

We earn fees for private capital markets and other services in connection with transactions that are not underwritten, such as private placements of equity securities, private investments in public equity ("PIPE") transactions and Rule 144A offerings. We record private placement revenues on the closing date of these transactions. Client reimbursements for costs associated for private placement fees are recorded gross within Investment banking and various expense captions, excluding compensation.

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

### *Brokerage Revenues*

Our brokerage revenues include trading commissions paid by customers for purchases or sales of exchange-listed and over-the-counter equity securities. Commissions resulting from equity securities transactions executed on behalf of customers are recorded on a trade date basis. The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon, and the risks and rewards of ownership have been transferred to/from the customer. Brokerage revenues also include net trading gains and losses that result from market-making activities and from our commitment of capital to facilitate customer transactions. Our brokerage revenues may vary between periods, in part depending on commission rates, trading volumes and our ability to deliver equity 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 across our industry. We expect this trend toward alternative trading systems and the related pricing pressure in the brokerage business to continue. We are, to some extent, compensated through brokerage commissions for the equity 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, an institutional investor concentrates its trading with fewer "execution" brokers and pays a fixed amount for execution, with a designated amount set aside for payments to other firms for research or other brokerage services. Accordingly, trading volume directed to us by investors that enter into such arrangements may be reduced, or eliminated, but we may be compensated for our research and sales efforts through allocations of the designated amounts. Depending on the extent to which we agree to this practice and depending on our ability to enter into arrangements on terms acceptable to us, this trend would likely impair the revenues and profitability of our brokerage business by negatively affecting both volumes and trading commissions.

### *Asset Management Fees*

We earn asset management fees for managing a family of investment partnerships, including hedge funds, hedge funds of funds, private equity funds, real estate funds, a capital debt fund, as well as a publicly traded specialty finance company, Harvest Capital Credit Corporation ("HCC"). These fees include base management fees and incentive fees. Base management fees are generally determined by the fair value of the assets under management ("AUM") or the aggregate capital commitment and the fee schedule for each fund or account. Incentive fees are based upon the investment performance of the funds or accounts. For most of our funds, incentive fees equate to a percentage of the excess investment return above a specified high-water mark or hurdle rate over a defined period of time. For private equity funds, incentive fees equate to a percentage of the realized gain from the disposition of each portfolio investment in which each investor participates, which we earn after returning contributions by an investor for a portfolio investment. Some of these incentive fees are subject to contingent repayments to investors or clawback and cannot be recognized until it is probable that there will not be a significant reversal of revenue. Any such fees earned are deferred for revenue recognition until the contingency is removed or the Company determines that it is not probable that a significant reversal of revenue will occur. Generally, we do not earn management fees calculated on the basis of average AUM.

As of September 30, 2019 the contractual base management fees earned from each of our investment funds or companies ranged between 1% and 2% of AUM or were between 1% and 2% of aggregate committed capital. The contractual incentive fees were generally 20%, subject to high-water marks, for the hedge funds; 5% to 20%, subject to high-water marks or a performance hurdle rate, for the hedge funds of funds; 20%, subject to high-water marks, for Harvest Growth Capital LLC ("HGC") and Harvest Growth Capital II LLC ("HGC II"); 20%, subject to an 8% hurdle rate for real estate funds; and 30% for JMP Capital I LLC ("JMP Capital I"). Our asset management revenues are subject to fluctuations due to a variety of factors that are unpredictable, including the overall condition of the economy, the securities markets as a whole and our core sectors. These market and industry conditions can have a material effect on the inflows and outflows of AUM and on the performance of our asset management funds. For example, a significant portion of the performance-based or incentive fee 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.

The Company sold the general partnership interest in the Harvest Small Cap Partners ("HSCP") fund entities to a newly formed entity owned by the portfolio manager of the HSCP funds. The sale closed on December 31, 2018 upon which the Company's investment management contracts with the HSCP funds terminated. As a result, the Company's AUM decreased by \$365.7 million on January 1, 2019. As part of the sale, the Company will receive a portion of the management and incentive fees generated by these funds over the next five years, subject to a limit on the total revenue share. The revenue share will be recognized as other income.

On March 19, 2019, the Company sold a 50.1% equity interest in JMPCA to Medalist, an alternative asset management firm specializing in structured credit and asset-backed lending, and a 4.9% interest to management employees of JMPCA. A wholly-owned subsidiary of the Company retains a 45.0% interest in JMPCA. Due to the sale of the majority of the equity interest and the loss of control over JMPCA, the Company deconsolidated JMPCA as of the date of sale and will no longer recognize asset management fees related to the CLOs. As a result of the transaction, JMPCA has been renamed Medalist Partners Corporate Finance LLC.

Prior to the sale of the majority equity interest in JMPCA, the asset management fees for the CLO under management during the period consisted only of senior and subordinated base management fees. We recognized base management fees for the CLOs on a monthly basis over the period during which the collateral management services are performed. The base management fees for the CLOs were calculated as a percentage of the average aggregate collateral balances for a specified period. As we consolidated the CLOs, the management fees earned at JMPCA from the CLOs were eliminated on consolidation in accordance with GAAP. For the period from January 1, 2019 through January 17, 2019 (deconsolidation date) the contractual senior and subordinated base management fees earned from CLO III were 0.35% of the average aggregate collateral balance. The contractual senior and subordinated base management fees earned from CLO III were and 0.33% for the period from January 1, 2018 to February 20, 2018, and 0.35% for the period from February 21, 2018 to September 30, 2018 of the average aggregate collateral balance. For both the period from January 1, 2019 through March 19, 2019 (deconsolidation date) and for the nine months ended September 30, 2018, the contractual base and subordinated fees earned from CLO IV were 0.50% of the average aggregate collateral balance. For the nine months ended September 30, 2018, the contractual base and subordinated fees earned from CLO V warehouse portfolio were 1.0% of the average equity contributions. For the period from January 1, 2019 through March 19, 2019 (deconsolidation date) and for the nine months ended September 30, 2018 (from July 26, 2018) the contractual base and subordinated fees earned from CLO V were 0.50% of the average aggregate collateral balance. For the nine months ended September 30, 2019, the contractual base and subordinated fees earned from CLO VI warehouse portfolio were 1.0% of the average equity contributions.

The redemption provisions of our funds require at least 90 days' advance notice. The redemption provisions do not apply to the CLOs.

The following tables present certain information with respect to the investment funds managed by HCS, JMP Asset Management LLC ("JMPAM"), HCAP Advisors LLC ("HCAP Advisors"), CLOs managed by JMPCA (through March 19, 2019), and the Company's client assets under management:

(In thousands)

	Assets Under Management <sup>(1)</sup> at		Company's Share of Assets Under Management at	
	September 30,	December 31,	September 30,	December 31,
	2019	2018	2019	2018
<b>Funds Managed by HCS, JMPAM, or HCAP Advisors:</b>				
Hedge Funds:				
Harvest Small Cap Partners <sup>(2)</sup>	\$ -	\$ 365,728	\$ -	\$ -
Harvest Agriculture Select <sup>(3)</sup>	75,687	68,591	201	490
Private Equity Funds:				
Harvest Growth Capital LLC	23,495	20,189	1,001	876
Harvest Growth Capital II LLC	162,898	198,782	3,314	3,823
Harvest Intrexon Enterprise Fund	59,251	67,729	365	415
JMP Realty Partners I	35,213	39,782	2,832	2,832
JMP Realty Partners II	27,617	-	1,992	-
Other	23,793	20,924	N/A	N/A
Funds of Funds:				
JMP Masters Fund <sup>(4)</sup>	2,037	2,371	4	5
Capital or Private Debt Capital:				
Harvest Capital Credit Corporation	132,297	123,689	N/A	N/A
JMP Capital I	23,529	23,529	2,329	2,329
<b>HCS, JMPAM, and HCAP Advisors Totals</b>	<b>565,817</b>	<b>931,314</b>	<b>12,038</b>	<b>10,770</b>
<b>CLOs Managed by JMPCA:</b>				
CLO III <sup>(5)</sup> <sup>(6)</sup>	-	360,086	N/A	N/A
CLO IV <sup>(5)</sup> <sup>(6)</sup>	-	450,594	N/A	N/A
CLO V <sup>(5)</sup> <sup>(6)</sup>	-	400,557	N/A	N/A
CLO VI warehouse <sup>(5)</sup> <sup>(6)</sup>	-	34,219	N/A	N/A
<b>JMPCA Totals</b>	<b>-</b>	<b>1,245,456</b>	<b>-</b>	<b>-</b>
<b>Assets Under Management by Sponsored Funds: <sup>(7)</sup></b>				
CLOs and CLO warehouse	1,443,237	-	N/A	N/A
Other asset management funds	3,753,208	3,448,725	N/A	N/A
<b>Sponsored Funds Totals</b>	<b>5,196,445</b>	<b>3,448,725</b>	<b>-</b>	<b>-</b>
<b>JMP Group LLC Totals</b>	<b>\$ 5,762,262</b>	<b>\$ 5,625,495</b>	<b>\$ 12,038</b>	<b>\$ 10,770</b>

- (1) For hedge funds, funds of funds, HGC, HGC II, Harvest Intrexon Enterprise Fund, and Other, assets under management represent the net assets of such funds. For JMP Realty Partners I, JMP Realty Partners II, and JMP Capital I, assets under management represent the commitment amount. For JMP Realty Partners I and JMP Realty Partners II the commitment amount is subject to the management fee calculation. For CLOs, assets under management represent the sum of the aggregate collateral balance and restricted cash to be reinvested in collateral, upon which management fees are earned.
- (2) The Company sold the general partnership interest in the HSCP fund entities to a newly formed entity owned by the portfolio manager of the HSCP funds. The sale closed on December 31, 2018 upon which the Company's investment management contracts with the HSCP funds terminated. As part of the sale, the Company will receive contingent revenue generated by these funds over the next five years, subject to a limit on the total contingent revenue.
- (3) Harvest Agriculture Select ("HAS") includes managed accounts in which the Company has neither equity investment nor control. These are included as they follow the respective funds' strategy and earn fees.
- (4) JMP Masters began the process of liquidation on December 31, 2015.
- (5) On March 19, 2019, the Company sold a total of 55.0% of the equity interest in JMPCA. Due to the sale of the majority of the equity interest and the loss of control over JMPCA, the Company deconsolidated JMPCA as of the date of sale and will no longer recognize asset management fees related to the CLOs. As part of the sale, the subordinated management fee structure of CLOs III, IV and V was modified so that the Company will receive a portion of the subordinated management fees directly from the CLOs. Such subordinated management fees are recorded as other income.
- (6) CLO III, CLO IV, CLO V and CLO VI warehouse were consolidated in the Consolidated Statements of Financial Condition as of December 31, 2018. CLO III, CLO IV, CLO V and CLO VI were deconsolidated during the first quarter of 2019.
- (7) Sponsored funds are asset managers in which the Company owns an economic interest.

In thousands)

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Company's Share of Change in Fair Value	Management Fee	Incentive Fee	Company's Share of Change in Fair Value	Management Fee	Incentive Fee
<b>Hedge Funds:</b>						
Harvest Small Cap Partners <sup>(1)</sup>	\$ -	\$ -	\$ -	\$ 19	\$ 1,600	\$ 16
Harvest Agriculture Select <sup>(2)</sup>	(2)	193	-	7	206	-
<b>Private Equity Funds:</b>						
Harvest Growth Capital LLC	-	-	-	61	-	-
Harvest Growth Capital II LLC	5	83	(3)	32	146	-
Harvest Intrexon Enterprise Fund	3	178	-	(32)	176	-
JMP Realty Partners I	36	94	4	(30)	89	-
JMP Realty Partners II	(22)	79	-	-	-	-
Other	-	6	-	-	6	-
<b>Funds of Funds:</b>						
JMP Masters Fund <sup>(3)</sup>	-	5	-	1	6	-
<b>Loans:</b>						
Harvest Capital Credit Corporation <sup>(4)</sup>	N/A	921	-	N/A	964	487
JMP Capital I	(29)	14	55	-	1	-
<b>CLOs and Other:</b>						
CLO III <sup>(5) (6)</sup>	N/A	-	N/A	N/A	323	N/A
CLO IV <sup>(5) (6)</sup>	N/A	-	N/A	N/A	575	N/A
CLO V Warehouse <sup>(5) (6)</sup>	N/A	-	N/A	N/A	413	N/A
Totals	<u>\$ (9)</u>	<u>\$ 1,573</u>	<u>\$ 56</u>	<u>\$ 58</u>	<u>\$ 4,505</u>	<u>\$ 503</u>

- (1) The Company sold the general partnership interest in the HSCP fund entities to a newly formed entity owned by the portfolio manager of the HSCP funds. The sale closed on December 31, 2018 upon which the Company's investment management contracts with the HSCP funds terminated. As part of the sale, the Company will receive contingent revenue generated by these funds over the next five years, subject to a limit on the total contingent revenue.
- (2) HAS includes managed accounts in which the Company has neither equity investment nor control. These are included with the funds, as they follow the respective strategies and earn fees.
- (3) JMP Masters began the process of liquidation on December 31, 2015.
- (4) Management fees earned includes administrative services revenue.
- (5) On March 19, 2019 the Company sold a total of 55.0% of the equity interest in JMPCA. Due to the sale of the majority of the equity interest and the loss of control over JMPCA, the Company deconsolidated JMPCA as of the date of sale and will no longer recognize asset management fees related to the CLOs. As part of the sale, the subordinated management fee structure of CLOs III, IV and V were modified so that the Company will receive a portion of the subordinated management fees directly from the CLOs. Such subordinated management fees are recorded as other income.
- (6) Management and incentive fees earned from the CLOs and CLO warehouse were consolidated and then eliminated in the consolidation in the Company's Consolidated Statements of Operations. The CLOs and JMPCA were all deconsolidated in the first quarter of 2019.

(In thousands)

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Company's Share of Change in Fair Value	Management Fee	Incentive Fee	Company's Share of Change in Fair Value	Management Fee	Incentive Fee
<b>Hedge Funds:</b>						
Harvest Small Cap Partners <sup>(1)</sup>	\$ -	\$ -	\$ -	\$ 32	\$ 4,717	\$ 5,318
Harvest Agriculture Select <sup>(2)</sup>	49	559	-	(353)	662	-
<b>Private Equity Funds:</b>						
Harvest Growth Capital LLC	161	-	-	170	-	-
Harvest Growth Capital II LLC	(7)	310	261	452	460	-
Harvest Intrexon Enterprise Fund	(50)	532	-	(98)	527	-
JMP Realty Partners I	540	293	484	29	268	-
JMP Realty Partners II	(22)	130	-	-	-	-
Other	-	19	-	-	23	80
<b>Funds of Funds:</b>						
JMP Masters Fund <sup>(3)</sup>	-	15	-	1	20	-
<b>Loans:</b>						
Harvest Capital Credit Corporation <sup>(4)</sup>	N/A	2,657	6	N/A	2,945	487
JMP Capital I	(29)	41	158	-	12	96
<b>CLOs and Other:</b>						
CLO III <sup>(5) (6)</sup>	N/A	271	N/A	N/A	913	N/A
CLO IV <sup>(5) (6)</sup>	N/A	482	N/A	N/A	1,709	N/A
CLO V and CLO V warehouse <sup>(5) (6)</sup>	N/A	428	N/A	N/A	617	N/A
CLO VI Warehouse <sup>(5) (6)</sup>	N/A	13	N/A	N/A	-	N/A
Totals	<u>\$ 642</u>	<u>\$ 5,750</u>	<u>\$ 909</u>	<u>\$ 233</u>	<u>\$ 12,873</u>	<u>\$ 5,981</u>

- (1) The Company sold the general partnership interest in the HSCP fund entities to a newly formed entity owned by the portfolio manager of the HSCP funds. The sale closed on December 31, 2018 upon which the Company's investment management contracts with the HSCP funds terminated. As part of the sale, the Company will receive contingent revenue generated by these funds over the next five years, subject to a limit on the total contingent revenue.
- (2) HAS includes managed accounts in which the Company has neither equity investment nor control. These are included with the funds, as they follow the respective strategies and earn fees.
- (3) JMP Masters began the process of liquidation on December 31, 2015.
- (4) Management fees earned includes administrative services revenue.
- (5) On March 19, 2019 the Company sold a total of 55.0% of the equity interest in JMPCA. Due to the sale of the majority of the equity interest and the loss of control over JMPCA, the Company deconsolidated JMPCA as of the date of sale and will no longer recognize asset management fees related to the CLOs. As part of the sale, the subordinated management fee structure of CLOs III, IV and V were modified so that the Company will receive a portion of the subordinated management fees directly from the CLOs. Such subordinated management fees are recorded as other income.
- (6) Management and incentive fees earned from the CLOs and CLO warehouse were consolidated and then eliminated in the consolidation in the Company's Consolidated Statements of Operations. The CLOs and JMPCA were all deconsolidated in the first quarter of 2019.

### *Principal Transactions*

Principal transaction revenues include net realized and unrealized gains and losses resulting from our principal investments in equity and other securities for our own account as well as equity-linked warrants received from certain investment banking clients and limited partner investments in private funds managed by third parties. Principal transaction revenues also include earnings, or losses, attributable to interests in investment partnerships managed by our asset management subsidiaries, HCS and JMPAM, which are recorded using the fair value option and the net asset value practical expedient, or are accounted for using the equity method of accounting. Revenues also included unrealized gains and losses on investments that elect the fair option and unrealized gains and losses on the deconsolidation of businesses and investments. In addition, our principal transaction revenues include unrealized gains or losses on an investment in an entity that acquires buildings and land for the purpose of holding, managing and selling the properties and also include unrealized gains or losses on the investments in other private companies.

### *Gain (Loss) on Sale, Payoff, and Mark-to-Market of Loans*

Gain (loss) on sale, payoff, and mark-to-market of loans consists of gains and losses from the sale and payoff of loans collateralizing asset-backed securities ("ABS"). Gains are recorded when the proceeds exceed the carrying value of the loan.

### *Net Dividend Income*

Net dividend income includes dividends from our investments offset by dividend expense resulting from short positions in our principal investment portfolio.

### *Other Income*

Other income includes revenues from equity method investments, revenues from fee-sharing arrangements with our funds, contingent revenue from a sale of a general partnership, subordinated management fees earned on CLO investments, and fees earned to raise capital for third-party investment partnerships.

### *Interest Income*

Interest income primarily consists of interest income earned on loans collateralizing ABS issued, investments in CLO equity tranches, and loans held for investment. Interest income on loans is comprised of the stated coupon as a percentage of the face amount receivable as well as accretion of purchase discounts and deferred fees. Interest income is recorded on an accrual basis, in accordance with the terms of the respective loans, unless such loans are placed on non-accrual status.

On January 17, 2019, the non-call period for CLO III expired and the Company lost the ability to direct the most significant activities of CLO III. As a result, the Company deconsolidated CLO III as of January 17, 2019 and ceased recognizing interest income on loans collateralizing asset-backed securities for CLO III as of the date of sale.

On March 19, 2019, the Company sold a total of 55.0% of the equity interest in JMPCA. Due to the sale of the majority of the equity interest and the loss of control over the CLO IV, CLO V, and the CLO VI warehouse, the Company deconsolidated these entities and ceased recognizing interest income on loans collateralizing asset-backed securities as of the date of sale for CLO IV, CLO V, and CLO VI. After deconsolidation of the CLOs and the CLO VI warehouse, the Company accounted for its ownership of the subordinated notes of the CLOs as beneficial interests in debt securities and recorded interest income on those instruments using the effective-yield method.

### *Interest Expense*

Interest expense primarily consists of interest expense related to ABS issued, Senior Notes, lines of credit, and notes payable, as well as the amortization of bond issuance costs. Interest expense on asset-backed securities is the stated coupon payable as a percentage of the principal amount. Interest expense is recorded on an accrual basis, in accordance with the terms of the respective debt instruments. Due to deconsolidation of the CLOs and the CLO VI warehouse in the first quarter of 2019, the Company ceased recording interest expense on asset-backed securities issued as of January 17, 2019 for CLO III and on March 19, 2019, for CLO IV, CLO V, and CLO VI warehouse.

### *Loss on Repurchase, Reissuance, or Early Retirement of Debt*

Loss on repurchase, reissuance, or early retirement of debt primarily consists of losses incurred in the write-off of debt issuance costs related to Senior Notes or ABS issued that have been repurchased or retired sooner than the life of the instrument.

### *Provision for Loan Losses*

Provision for loan losses includes the provision for losses recognized on our loan notes at JMP Investment Holdings LLC, JMP Capital LLC and JMP Group Inc., (collectively loans held for investment) and on loans collateralizing ABS in order to record the loans held for investment and ABS at their estimated net realizable value. We maintain an allowance for loan losses that is intended to estimate loan losses inherent in the loans held for investment's and the CLO's loan portfolio. A provision for loan losses is charged to expense to establish the allowance for loan losses. The allowance for loan losses is maintained at a level, in the opinion of management, sufficient to offset estimated losses inherent in the loan portfolio as of the date of the financial statements. The appropriateness of the allowance and the allowance components are reviewed quarterly. Our estimate of each allowance component is based on observable information and on market and third-party data that we believe are reflective of the underlying loan losses being estimated. We employ internally developed and third-party estimation tools for measuring credit risk (loan ratings, probability of default, and exposure at default).

A specific reserve is provided for loans that are considered impaired. A loan is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral securing the loan, if the loan is collateral-dependent, depending on the circumstances and our collection strategy. For loans deemed impaired at the date of acquisition, if there is a further decline in expected future cash flows, this reduction is recognized as a specific reserve in accordance with the guidance above. For those loans deemed



impaired subsequent to the acquisition date, if the net realizable value is lower than the current carrying value, the carrying value is reduced, and the difference is booked as a provision for loan losses. If the total discount from unpaid principal balance to carrying value is larger than the expected loss at the date of assessment, no provision for loan losses is recognized.

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

Due to the deconsolidation of the CLOs and the CLO VI warehouse in the first quarter of 2019, the Company ceased recording provisions for loan losses on the loans collateralizing ABS issued and the loans held for investment in the warehouse.

## **Components of Expenses**

We classify our expenses as compensation and benefits; administration; brokerage, clearing and exchange fees; travel and business development; managed deal expenses, communications and technology; occupancy; professional fees, depreciation, and other. A significant portion of our expense base is variable, including compensation and benefits; brokerage, clearing and exchange fees; travel and business development; and communication and technology expenses.

### *Compensation and Benefits*

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

Compensation is accrued with specific ratios of total compensation and benefits to total revenues applied to specific revenue categories, with adjustments made if, in management's opinion, such adjustments are necessary and appropriate to maintain competitive compensation levels.

### *Administration*

Administration expense primarily includes the cost of hosted conferences, non-capitalized systems and software expenditures, insurance, business tax (non-income), office supplies, recruiting, 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. Changes in brokerage, clearing and exchange fees fluctuate largely in line with the volume of our sales and trading activity.

### *Travel and Business Development*

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

### *Managed Deal Expenses*

Managed deal expenses primarily relate to costs incurred and/or allocated in the execution of investment banking transactions, including reimbursable costs.

### *Communications and Technology*

Communications and technology expense primarily relates to the cost of communication and connectivity, information processing, and subscriptions to certain market data feeds and services.

### *Occupancy Expenses*

Occupancy costs primarily include payments made under operating leases that are recognized on a straight-line basis over the period of the lease and the accretion of any lease incentives.

### *Professional Fees*

Professional fees primarily relate to legal and accounting professional services.

### *Depreciation*

Depreciation expenses include the straight-line amortization of purchases of certain furniture and fixtures, computer and office equipment, certain software costs, and leasehold improvements to allocate their depreciation amounts over their estimated useful life.

### *Other Expenses*

Other operating expenses primarily include occupancy, depreciation, and CLO administration expense at JMP Investment Holdings

### *Income Taxes*

Since January 2015, JMP Group LLC had been a publicly traded partnership and, as such, was taxed as a partnership, and not as a corporation, for U.S. federal income tax purposes, so long as 90% or more of its gross income for each taxable year constitutes "qualifying income." On January 31, 2019, the Company filed an election with the U.S. Internal Revenue Service to be treated as a C corporation for tax purposes, rather than a partnership, going forward. The election was approved and became retroactively effective as of January 1, 2019. As a partnership, the Company has only paid taxes on a few taxable corporate holding subsidiaries.

The Company recognizes deferred tax assets and liabilities in accordance with ASC 740, *Income Taxes*, which are determined based upon the temporary differences between the financial reporting and tax basis of the Company's assets and liabilities using the tax rates and laws in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce the deferred tax assets when it is more likely than not that a

portion or all of the deferred tax assets will not be realized.

The Company records uncertain tax positions using a two-step process: (i) the Company determines whether it is more likely than not that each tax position will be sustained on the basis of the technical merits of the position; and (ii) for those tax positions that meet the more-likely-than not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than fifty percent likely to be realized upon ultimate settlement with the related tax authority

The Company's policy for recording interest and penalties associated with the tax audits or unrecognized tax benefits, if any, is to record such items as a component of income tax.

#### Non-controlling Interest

Non-controlling interest for the three months ended September 30, 2019 includes the interest of third parties in HCS Strategic Investments LLC ("HCS SI") and HCAP Advisors. Non-controlling interest for the three months ended September 30, 2018 includes the interest of third parties in CLO III, HCS SI, and HCAP Advisors. Non-controlling interest for both the nine months ended September 30, 2019 and 2018 includes the interest of third parties in CLO III (through January 17, 2019), HCS SI, and HCAP Advisors, partially-owned subsidiaries consolidated in our financial statements.

The Company currently manages several asset management funds, which are structured as limited partnerships, and is the general partner of each. The Company assesses whether the partnerships meet the definition of VIEs in accordance with ASC 810-10-15-14 and whether the Company qualifies as the primary beneficiary. Funds determined not to meet the definition of a VIE are considered voting interest entities, for which the rights of the limited partners are evaluated to determine if consolidation is necessary. Such guidance provides that the presumption that the general partner controls the limited partnership may be overcome if the limited partners have substantive kick-out rights.

The Company had determined CLO III to be a variable interest entity and identified itself as the primary beneficiary, based on its ability to direct activities of CLO III through its subsidiary manager, JMPCA, and its equity ownership. As of December 31, 2018 the Company's ownership of unsecured subordinated notes was 46.7%. On January 17, 2019, the non-call period for CLO III expired and the Company lost the ability to direct the most significant activities of CLO III. As a result, the Company deconsolidated CLO III as of January 17, 2019 and ceased recognizing any non-controlling interest.

HCAP Advisors was formed on December 18, 2012. HCAP Advisors appointed JMP Holding LLC as its Manager effective May 1, 2013 and began offering investment advisory services. The Company owned a 51.0% equity interest in the entity until April 27, 2018 when the Company purchased an additional 18.4% of HCAP Advisors, equity from a non-controlling interest holder. As of April 27, 2018, the Company owns a 69.4% of equity interest in the entity. The Company was identified as the primary beneficiary, based on the ability to direct activities of HCAP Advisors as the Manager and its equity ownership.

HCS SI was formed on September 27, 2017. The purpose of HCS SI is to purchase, hold, and sell portfolio securities. On November 20, 2017, HCS SI made an investment in an investment advisor to purchase approximately 25.0% of the issued and outstanding equity securities. On January 9, 2018, a debt fund purchased 30% of the investment series in the investment advisor for \$0.4 million and the Company's ownership percentage of HCS SI was reduced to 70%.

#### Results of Operations

The following table sets forth our results of operations for the three and nine months ended September 30, 2019 and 2018, and is not necessarily indicative of the results to be expected for any future period.

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		Three Month Change From 2018 to 2019		Nine Month Change From 2018 to 2019	
	2019	2018	2019	2018	\$	%	\$	%
<b>Revenues</b>								
Investment banking	\$ 15,228	\$ 21,095	\$ 44,843	\$ 70,319	\$ (5,867)	-27.8%	\$ (25,476)	-36.2%
Brokerage	3,968	4,676	13,160	14,787	(708)	-15.1%	(1,627)	-11.0%
Asset management fees	1,628	3,702	5,685	15,505	(2,074)	-56.0%	(9,820)	-63.3%
Principal transactions	(340)	469	6,371	(1,467)	(809)	-172.5%	7,838	-534.3%
Loss on sale, payoff and mark-to-market of loans	-	(556)	(38)	(888)	556	-100.0%	850	-95.7%
Net dividend income	279	320	868	935	(41)	-12.8%	(67)	-7.2%
Other income	759	306	1,517	666	453	148.0%	851	127.8%
Non-interest revenues	21,522	30,012	72,406	99,857	(8,490)	-28.3%	(27,451)	-27.5%
Interest income	2,328	18,652	19,391	47,031	(16,324)	-87.5%	(27,640)	-58.8%
Interest expense	(1,930)	(13,789)	(14,642)	(35,125)	11,859	-86.0%	20,483	-58.3%
Net interest income	398	4,863	4,749	11,906	(4,465)	-91.8%	(7,157)	-60.1%
Loss on repurchase, reissuance, or early retirement of debt	(458)	(170)	(458)	(2,838)	(288)	169.4%	2,380	-83.9%
Provision for loan losses	(438)	(1,454)	(438)	(4,199)	1,016	-69.9%	3,761	-89.6%
Total net revenues after provision for loan losses	21,024	33,251	76,259	104,726	(12,227)	-36.8%	(28,467)	-27.2%
<b>Non-interest expenses</b>								
Compensation and benefits	17,506	22,671	54,673	76,070	(5,165)	-22.8%	(21,397)	-28.1%
Administration	2,301	2,302	6,978	7,246	(1)	0.0%	(268)	-3.7%
Brokerage, clearing and exchange fees	617	808	2,051	2,373	(191)	-23.6%	(322)	-13.6%
Travel and business development	1,263	1,080	3,631	3,236	183	16.9%	395	12.2%
Managed deal expenses	685	614	2,552	4,528	71	11.6%	(1,976)	-43.6%
Communication and technology	1,061	1,040	3,241	3,149	21	2.0%	92	2.9%

Occupancy	1,196	1,172	4,028	3,432	24	2.0%	596	17.4%
Professional fees	1,236	1,272	3,513	4,315	(36)	-2.8%	(802)	-18.6%
Depreciation	307	285	915	836	22	7.7%	79	9.4%
Other	200	369	700	1,532	(169)	-45.8%	(832)	-54.3%
Total non-interest expenses	<u>26,372</u>	<u>31,613</u>	<u>82,282</u>	<u>106,717</u>	<u>(5,241)</u>	<u>-16.6%</u>	<u>(24,435)</u>	<u>-22.9%</u>
Income (loss) before income tax expense	(5,348)	1,638	(6,023)	(1,991)	(6,986)	-426.5%	(4,032)	202.5%
Income tax expense (benefit)	<u>(1,220)</u>	<u>527</u>	<u>(5,839)</u>	<u>(146)</u>	<u>(1,747)</u>	<u>-331.5%</u>	<u>(5,693)</u>	<u>3899.3%</u>
Net income (loss)	(4,128)	1,111	(184)	(1,845)	(5,239)	-471.6%	1,661	-90.0%
Less: Net income (loss) attributable to non-controlling interest	<u>(67)</u>	<u>823</u>	<u>(80)</u>	<u>138</u>	<u>(890)</u>	<u>-108.1%</u>	<u>(218)</u>	<u>-158.0%</u>
Net income (loss) attributable to JMP Group LLC	<u>\$ (4,061)</u>	<u>\$ 288</u>	<u>\$ (104)</u>	<u>\$ (1,983)</u>	<u>\$ (4,349)</u>	<u>-1510.1%</u>	<u>\$ 1,879</u>	<u>-94.8%</u>

### **Operating Net Income (Non-GAAP Financial Measure)**

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

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

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

- (i) reverses share-based compensation expense recognized under GAAP related to equity awards granted in prior periods, as management generally evaluates performance by considering the full expense of equity awards in the period in which they are granted, even if the expense of such compensation will be recognized in future periods under GAAP;
- (ii) recognizes 100% of the cost of deferred compensation in the period for which such compensation was awarded, instead of recognizing such cost over the vesting period as required under GAAP, in order to match compensation expense with the actual period upon which the compensation was based;
- (iii) reverses amortization expense related to an intangible asset resulting from the repurchase of a portion of the equity of CLO III prior to the first quarter of 2019;
- (iv) unrealized gains or losses on commercial real estate investments, adjusted for non-cash expenditures, including depreciation and amortization;
- (v) reverses net unrealized gains and losses on strategic equity investments and warrant positions;
- (vi) excludes general loan loss provisions related to the CLOs prior to the first quarter of 2019;
- (vii) reverses the one-time transaction costs related to the refinancing of the debt;
- (viii) reverses one-time expenses associated with the redemption of debt underlying the CLOs, the redemption of other debt, and the resulting acceleration of the amortization of remaining capitalized issuance costs for each;
- (ix) as of the quarter and year ended September 30, 2019, a combined federal, state and local income tax rate of 26% at the consolidated taxable parent company, JMP Group LLC, while, prior to the quarter and year ended September 30, 2019, a combined federal, state and local income tax rate of 26% at the taxable direct subsidiary of the Company and a tax rate of 0% at the company's other direct subsidiary, which was a "pass-through entity" for tax purposes.
- (x) presents revenues and expenses on a basis that deconsolidates the CLOs and removes any non-controlling interest in consolidated but less than wholly owned subsidiaries.

Discussed below is our Operating Net Income by segment. This information is reflected in a manner utilized by management to assess the financial operations of the Company's various business lines.

<b>Three Months Ended September 30, 2019</b>							
<i>(In thousands)</i>	<b>Broker-Dealer</b>	<b>Asset Management</b>			<b>Corporate Costs</b>	<b>Eliminations</b>	<b>Total Segments</b>
		<b>Asset Management Fee Income</b>	<b>Investment Income</b>	<b>Total Asset Management</b>			
<b>Revenues</b>							
Investment banking	\$ 15,228	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,228
Brokerage	3,968	-	-	-	-	-	3,968
Asset management related fees	6	1,795	234	2,029	76	(47)	2,064
Principal transactions	-	-	883	883	-	-	883
Net dividend income	-	-	317	317	-	-	317
Net interest income	-	-	563	563	-	-	563
Provision for loan losses	-	-	(438)	(438)	-	-	(438)
Adjusted net revenues	19,202	1,795	1,559	3,354	76	(47)	22,585
<b>Non-interest expenses</b>							
Non-interest expenses	20,677	2,101	334	2,435	2,172	(47)	25,237
Operating pre-tax net income (loss)	(1,475)	(306)	1,225	919	(2,096)	-	(2,652)
Income tax expense (benefit)	(383)	(79)	318	239	(545)	-	(689)
Operating net income (loss)	<u>\$ (1,092)</u>	<u>\$ (227)</u>	<u>\$ 907</u>	<u>\$ 680</u>	<u>\$ (1,551)</u>	<u>\$ -</u>	<u>\$ (1,963)</u>

<b>Three Months Ended September 30, 2018</b>							
<i>(In thousands)</i>	<b>Broker-Dealer</b>	<b>Asset Management</b>			<b>Corporate Costs</b>	<b>Eliminations</b>	<b>Total Segments</b>
		<b>Asset Management Fee Income</b>	<b>Investment Income</b>	<b>Total Asset Management</b>			
<b>Revenues</b>							
Investment banking	\$ 21,095	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,095
Brokerage	4,676	-	-	-	-	-	4,676
Asset management related fees	6	4,878	16	4,894	-	(1,205)	3,695
Principal transactions	-	-	377	377	-	-	377
Loss on sale, payoff, and mark-to-market of loans	-	-	(495)	(495)	-	-	(495)
Net dividend income	-	-	339	339	-	-	339
Net interest income	-	-	3,715	3,715	-	-	3,715
Provision for loan losses	-	-	(470)	(470)	-	-	(470)
Adjusted net revenues	25,777	4,878	3,482	8,360	-	(1,205)	32,932
<b>Non-interest expenses</b>							
Non-interest expenses	23,202	4,794	1,535	6,329	2,688	(1,205)	31,014
Operating pre-tax net income (loss)	2,575	84	1,947	2,031	(2,688)	-	1,918
Income tax expense (benefit)	670	23	(153)	(130)	(363)	-	177
Operating net income (loss)	<u>\$ 1,905</u>	<u>\$ 61</u>	<u>\$ 2,100</u>	<u>\$ 2,161</u>	<u>\$ (2,325)</u>	<u>\$ -</u>	<u>\$ 1,741</u>

<b>Nine Months Ended September 30, 2019</b>							
<i>(In thousands)</i>	<b>Broker-Dealer</b>	<b>Asset Management</b>			<b>Corporate Costs</b>	<b>Eliminations</b>	<b>Total Segments</b>
		<b>Asset Management Fee Income</b>	<b>Investment Income</b>	<b>Total Asset Management</b>			
<b>Revenues</b>							
Investment banking	\$ 44,843	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,843
Brokerage	13,160	-	-	-	-	-	13,160
Asset management related fees	18	6,692	603	7,295	76	(1,095)	6,294
Principal transactions	-	-	7,762	7,762	-	-	7,762
Loss on sale, payoff, and mark-to-market of loans	-	-	(39)	(39)	-	-	(39)
Net dividend income	-	-	983	983	-	-	983
Net interest income	-	-	4,702	4,702	-	-	4,702
Provision for loan losses	-	-	(438)	(438)	-	-	(438)

Adjusted net revenues	58,021	6,692	13,573	20,265	76	(1,095)	77,267
Non-interest expenses							
Non-interest expenses	62,035	8,074	3,378	11,452	6,214	(1,095)	78,606
Operating pre-tax net income (loss)	(4,014)	(1,382)	10,195	8,813	(6,138)	-	(1,339)
Income tax expense (benefit)	(1,043)	(360)	2,650	2,290	(1,595)	-	(348)
Operating net income (loss)	<u>\$ (2,971)</u>	<u>\$ (1,022)</u>	<u>\$ 7,545</u>	<u>\$ 6,523</u>	<u>\$ (4,543)</u>	<u>\$ -</u>	<u>\$ (991)</u>

**Nine Months Ended September 30, 2018**

<i>(In thousands)</i>	<b>Broker- Dealer</b>	<b>Asset Management</b>			<b>Corporate Costs</b>	<b>Eliminations</b>	<b>Total Segments</b>
		<b>Asset Management Fee Income</b>	<b>Investment Income</b>	<b>Total Asset Management</b>			
<b>Revenues</b>							
Investment banking	\$ 70,319	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 70,320
Brokerage	14,787	-	-	-	-	-	14,787
Asset management related fees	16	13,439	5,318	18,757	-	(3,354)	15,419
Principal transactions	-	-	498	498	-	-	498
Loss on sale, payoff, and mark-to-market of loans	-	-	(859)	(859)	-	-	(859)
Net dividend income	-	-	1,004	1,004	-	-	1,004
Net interest income	-	-	8,769	8,769	-	-	8,769
Loss on repurchase, reissuance, or early retirement of debt	-	-	(42)	(42)	-	-	(42)
Provision for loan losses	-	-	(1,400)	(1,400)	-	-	(1,400)
Adjusted net revenues	85,122	13,439	13,288	26,727	-	(3,353)	108,496
<b>Non-interest expenses</b>							
Non-interest expenses	76,528	14,570	9,096	23,666	7,519	(3,354)	104,359
Operating pre-tax net income (loss)	8,594	(1,131)	4,192	3,061	(7,519)	1	4,137
Income tax expense (benefit)	2,234	(293)	(289)	(582)	(1,009)	-	643
Operating net income (loss)	<u>\$ 6,360</u>	<u>\$ (838)</u>	<u>\$ 4,481</u>	<u>\$ 3,643</u>	<u>\$ (6,510)</u>	<u>\$ 1</u>	<u>\$ 3,494</u>



The following table reconciles operating net income (loss) to Total Segments operating pre-tax net income, and also to consolidated pre-tax net income (loss) attributable to JMP Group LLC and to consolidated net income (loss) attributable to JMP Group LLC for the three months and nine months ended September 30, 2019 and 2018.

(In thousands)

	<b>Three Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Consolidated net income (loss) attributable to JMP Group LLC</b>	\$ (4,061)	\$ 288
Income tax expense (benefit)	(1,220)	527
<b>Consolidated pre-tax net income (loss) attributable to JMP Group LLC</b>	<b>\$ (5,281)</b>	<b>\$ 815</b>
Addback (subtract):		
Share-based awards and deferred compensation	(753)	(76)
General loan loss provision – CLOs, CLO warehouse	-	(855)
Early retirement/reissuance	(625)	(170)
Amortization of intangible asset – CLO III	-	(69)
Unrealized loss in real estate fund investment – depreciation and amortization	(647)	(260)
Unrealized mark-to-market gain (loss) on strategic equity investments	(604)	327
Total consolidation adjustments and reconciling items	(2,629)	(1,103)
<b>Total segments adjusted operating pre-tax net income (loss)</b>	<b>\$ (2,652)</b>	<b>\$ 1,918</b>
Subtract (addback) of segment income tax expense (benefit)	(689)	177
<b>Operating net income (loss)</b>	<b>\$ (1,963)</b>	<b>\$ 1,741</b>

(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Consolidated net income (loss) attributable to JMP Group LLC</b>	\$ (104)	\$ (1,983)
Income tax benefit	(5,839)	(146)
<b>Consolidated pre-tax net loss attributable to JMP Group LLC</b>	<b>\$ (5,943)</b>	<b>\$ (2,129)</b>
Subtract:		
Share-based awards and deferred compensation	(2,184)	(289)
General loan loss provision – CLOs, CLO warehouse	-	(2,348)
Early retirement/reissuance	(625)	(1,488)
CLO refinancing costs	-	(54)
Amortization of intangible asset – CLO III	(277)	(207)
Unrealized loss in real estate fund investment – depreciation and amortization	(1,425)	(1,864)
Unrealized mark-to-market loss on strategic equity investments	(93)	(16)
Total consolidation adjustments and reconciling items	(4,604)	(6,266)
<b>Total segments adjusted operating pre-tax net income (loss)</b>	<b>\$ (1,339)</b>	<b>\$ 4,137</b>
Subtract (addback) of segment income tax expense (benefit)	(348)	643
<b>Operating net income (loss)</b>	<b>\$ (991)</b>	<b>\$ 3,494</b>

### Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

#### Overview

Total net revenues after provision for loan losses was \$33.3 million for the quarter ended September 30, 2018 and \$21.0 million for the same period in 2019.

Non-interest revenues decreased \$8.5 million, or 28.3%, from \$30.0 million for the quarter ended September 30, 2018 to \$21.5 million in the same period in 2019. This decrease was driven by a \$5.9 million decrease in investment banking revenues and a \$2.1 million decrease in asset management revenues.

Net interest income decreased \$4.5 million, or 91.8%, from \$4.9 million for the quarter ended September 30, 2018 to \$0.4 million for the quarter ended September 30, 2019. The decrease in net interest income was due to the deconsolidation of the CLOs during the three month period ended March 31, 2019.

Provision for loan losses decreased \$1.1 million from a provision of \$1.5 million for the quarter ended September 30, 2018 to \$0.4 for the quarter ended September 30, 2019. The decrease in provision of loan losses was due to the deconsolidation of the CLOs during the three months ended March 31, 2019.

Total non-interest expenses decreased \$5.2 million, or 16.6%, from \$31.6 million for the quarter ended September 30, 2018 to \$26.4 million for the quarter ended September 30, 2019, primarily due to a \$5.2 million decrease in compensation and benefits.

Net income attributable to non-controlling interest decreased \$0.9 million, or 108.1%, from net income of \$0.8 million for the quarter ended September 30, 2018 to a net loss of \$0.1 million for the quarter ended September 30, 2019. The decrease in net income attributable to non-controlling interest holders is due to the deconsolidation of CLO III during the three months ended March 31, 2019.

Net income attributable to JMP Group LLC decreased \$4.4 million from a net income of \$0.3 million for the quarter ended September 30, 2018 to a net loss of \$4.1 million for the quarter ended September 30, 2019. The decrease in net income attributable to JMP Group LLC was primarily due to the decreased non-interest revenues earned in the quarter ended September 30, 2019 compared to the same period in 2018.

#### Revenues

##### Investment Banking

Investment banking revenues, earned in our Broker-Dealer segment, decreased \$5.9 million, or 27.8%, from \$21.1 million for the quarter ended

September 30, 2018 to \$15.2 million for the same period in 2019. As a percentage of total net revenues after provision for loan losses, investment banking revenues increased from 63.4% for the quarter ended September 30, 2018 to 72.4% for the quarter ended September 30, 2019. On an operating basis, investment banking revenues were 67.5% and 64.1% for the quarters ended September 30, 2019 and 2018, respectively, as a percentage of adjusted net revenues.

(Dollars in thousands)

	Three Months Ended September 30,				Change from 2019 to 2018		
	2019		2018		Count	\$	%
	Count	Revenues	Count	Revenues			
Equity and debt origination	17	\$ 8,561	21	\$ 11,366	(4)	\$ (2,805)	-24.7%
Strategic advisory and private placements	6	6,667	4	9,729	2	(3,062)	-31.5%
Total	23	\$ 15,228	25	\$ 21,095	(2)	\$ (5,867)	-27.8%

The decrease in revenues was driven by an 8.0% decrease in the number of transactions executed and a 21.5% decrease in the average size of the fee paid per transaction. The number of transactions in which we acted as a bookrunning manager was six and one for the quarters ended September 30, 2019 and 2018, respectively.

#### Brokerage Revenues

Brokerage revenues earned in our Broker-Dealer segment decreased from \$4.7 million for the quarter ended September 30, 2018 to \$4.0 million for the quarter ended September 30, 2019. Brokerage revenues increased as a percentage of total net revenues after provision for loan losses, from 14.1% for the quarter ended September 30, 2018 to 18.9% for the quarter ended September 30, 2019. On an operating basis, brokerage revenues were 17.6% and 14.2% for the quarters ended September 30, 2019 and 2018, respectively, as a percentage of adjusted net revenues.

Asset Management Fees

(In thousands)

	Three Months Ended September 30,	
	2019	2018
<b>Base management fees:</b>		
Fees reported as asset management fees	\$ 1,572	\$ 3,199
Less: Non-controlling interest in HCAP Advisors	(282)	(123)
Total base management fees	<u>1,290</u>	<u>3,076</u>
<b>Incentive fees:</b>		
Fees reported as asset management fees	\$ 56	\$ 503
Less: Non-controlling interest in HCAP Advisors	-	(149)
Total incentive fees	<u>56</u>	<u>354</u>
<b>Other fee income:</b>		
Fundraising fees and other	\$ 759	\$ 306
Less: Non-controlling interest in HCAP Advisors	(41)	(41)
Total other fee income	<u>718</u>	<u>265</u>
<b>Asset management related fees:</b>		
Fees reported as asset management fees	\$ 1,628	\$ 3,702
Fees reported as other income	759	306
Less: Non-controlling interest in HCAP Advisors	(323)	(313)
Total segment asset management related fee revenues	<u>\$ 2,064</u>	<u>\$ 3,695</u>

Fees reported as asset management fees were \$1.6 million and \$3.7 million for the quarters ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, asset management revenues decreased from 11.1% for the quarter ended September 30, 2018 to 7.7% for the quarter ended September 30, 2019. Asset management fees decreased from the quarter ended September 30, 2018 due to the sale of the HSCP entities on December 31, 2018, which resulted in a decrease of approximately \$360.0 million in assets under management.

Total segment asset management-related fees include base management fees and incentive fees from our funds, HCC and CLOs under management (through March 19, 2019), as well as other income from fee-sharing arrangements with, and fees earned to raise capital for, third-party or equity-method investment partnerships or funds. Total segment asset management-related fee revenues are reconciled to the GAAP measure, total asset management fee revenues, in the table above. We believe that presenting operating asset management-related fees is useful to investors as a means of assessing the performance of our combined asset management activities, including fundraising and other services for third parties. We believe that segment asset management-related fee revenues provides useful information by indicating the relative contributions of base management fees and performance-related incentive fees, thus facilitating a comparison of those fees in a given period to those in prior and future periods. We also believe that asset management-related fee revenue is a more meaningful measure than standalone asset management fees as reported, because asset management-related fee revenues represent the combined impact of the various asset management activities on the Company's total net revenues.

Total segment asset management related fee revenue decreased \$1.6 million from \$3.7 million for the quarter ended September 30, 2018 to \$2.1 million for the quarter ended September 30, 2019. Total base management fees were \$1.3 million and \$3.1 million for the quarters ended September 30, 2019 and 2018, respectively. Total base management fees decreased from the quarter ended September 30, 2018 due to the sale of the HSCP entities on December 31, 2018, which resulted in a decrease of approximately \$360.0 million in assets under management. Total incentive fees decreased from \$0.4 million for the quarter ended September 30, 2018 to \$0.1 million for the same period in 2019. On an operating basis, asset management related fee revenues were 9.1% and 11.2% for the quarters ended September 30, 2019 and 2018, respectively, as a percentage of adjusted net revenues.

### Principal Transactions

Principal transaction revenues decreased \$0.8 million from a gain of \$0.5 million for the quarter ended September 30, 2018 to a loss of \$0.3 million for the same period in 2019. As a percentage of total net revenues after provision for loan losses, principal transaction revenues were 1.4% for the quarter ended September 30, 2018 and 1.6% for the quarter ended September 30, 2019.

Total segment principal transaction revenues increased from a gain of \$0.4 million for the quarter ended September 30, 2018 to a gain of \$0.9 million for the same period in 2019. Total segment principal transaction revenues are a non-GAAP financial measure that aggregates our segment reported principal transaction revenues across each segment. The principal transaction revenues for both 2019 and 2018 were included in our Investment Income segment. Total segment principal transaction revenues are reconciled to the GAAP measure, total principal transaction revenues, in the table below. See the Operating Net Income section above for additional information on the adjustments made to arrive at the non-GAAP measure and why management believes that this non-GAAP number is useful and important to the users of these financial statements.

(In thousands)

	Three Months Ended September 30,	
	2019	2018
Equity and other securities	\$ (15)	\$ 199
Warrants and other investments	894	83
Investment partnerships	4	95
Total segment principal transaction revenues	883	377
Operating adjustment addbacks	(1,223)	92
Total principal transaction revenues	<u>\$ (340)</u>	<u>\$ 469</u>

The decrease in principal transaction revenue in the quarter ended September 30, 2019 compared to the same period in 2018 is primarily attributed to a \$0.9 million decrease in revenues related to the change in the fair value of the Company's investment in Harvest Capital Credit Corporation, a \$0.2 million decrease in revenues related to the Company's principal trading activity, which was partially offset by \$0.5 million increase in revenues from the Company's investment in a venture capital fund. On an operating basis, as a percentage of adjusted net revenues, principal transaction revenues increased from 1.1% for the quarter ended September 30, 2018 to 3.9% for the quarter ended September 30, 2019.

### Gain (Loss) on Sale, Payoff, and Mark-to-Market of Loans

Gain (loss) on sale, payoff, and mark-to-market of loans decreased from a loss of \$0.6 million for the quarter ended September 30, 2018 to zero for the quarter ended September 30, 2019. Gain (loss) on sale, payoff, and mark-to-market of loans was earned in our Investment Income segment. On a segment basis, gain (loss) on sale, payoff, and mark-to-market of loans decreased from a loss of \$0.5 million for the quarter ended September 30, 2018 to zero for the quarter ended September 30, 2019.

### Net Dividend Income

Net dividend income was \$0.3 million for both of the quarters ended September 30, 2019 and 2018. Net dividend income primarily related to dividends from our HCC investment.

Net Interest Income/Expense

(In thousands)

	Three Months Ended September 30,	
	2019	2018
CLO III loan contractual interest income	\$ -	\$ 5,553
CLO III ABS issued contractual interest expense	-	(3,343)
Net CLO III contractual interest	-	2,210
CLO IV loan contractual interest income	\$ -	\$ 6,939
CLO IV ABS issued contractual interest expense	-	(4,943)
Net CLO IV contractual interest	-	1,996
CLO V loan contractual interest income	\$ -	\$ 5,780
CLO V warehouse/ABS issued contractual interest expense	-	(3,816)
Net CLO V contractual interest	-	1,964
CLO VI loan contractual interest income	\$ -	\$ -
CLO VI warehouse credit facility contractual interest expense	-	-
Net CLO VI contractual interest	-	-
Bond payable interest expense	(1,647)	(1,792)
CLO subordinated notes interest income	1,929	-
Less: Non-controlling interest and other adjustments	165	(1,148)
Other interest income	116	485
Total segment net interest income	<u>\$ 563</u>	<u>\$ 3,715</u>
Non-controlling interest and other adjustments	(165)	1,148
Total net interest income	<u>\$ 398</u>	<u>\$ 4,863</u>

Net interest income decreased \$4.5 million from \$4.9 million for the quarter ended September 30, 2018 to \$0.4 million for the quarter ended September 30, 2019. The decrease in interest income was driven primarily by a \$6.2 million decrease in interest earned on the CLOs as they were deconsolidated during the three months ended March 31, 2019, partially offset by a \$1.9 million increase in interest income earned on the retained interest in CLO subordinated notes. As a percentage of total net revenues after provision for loan losses, net interest income was 1.9% for the quarter ended September 30, 2018 and 14.6% for the quarter ended September 30, 2019.

Total segment net interest income decreased from \$3.7 million for the quarter ended September 30, 2018 to \$0.5 million for the quarter ended September 30, 2019. Net interest income is earned in our Investment Income segment and reflects our portion of the net CLO contractual interest before deconsolidation in the first quarter of 2019, net of bond interest expense. Total segment net interest income after deconsolidation reflects the effective yield of the Company's ownership of subordinated notes in CLO III, CLO IV, and CLO V, net of bond interest expense. Total segment net interest income is reconciled to the GAAP measure, total net interest income, in the table above. As a percentage of total segment net revenues, net interest income was 11.3% for the quarter ended September 30, 2018 and 2.4% for the quarter ended September 30, 2019.

The following table sets forth contractual interest income and expense related to CLO loans and ABS issued (through the respective deconsolidation date of each CLO) and their weighted average contractual interest rates:

(In thousands)

	Three Months Ended September 30, 2018				
	Interest Income (Expense)	Average CLO loan contractual interest income (CLO ABS contractual interest expense) Balance	Weighted Average Contractual Interest Rate	Weighted Average LIBOR	Spread to Weighted Average LIBOR
CLO III loan contractual interest income	\$ 5,553	\$ 352,740	5.87%	2.34%	3.53%
CLO III ABS contractual interest expense	(3,343)	(332,100)	3.74%	2.39%	1.35%
CLO IV loan contractual interest income	6,939	443,247	5.88%	2.34%	3.54%
CLO IV ABS contractual interest expense	(4,943)	(422,017)	4.45%	2.39%	2.06%
CLO V loan contractual interest income	5,780	368,143	5.81%	2.33%	3.48%
CLO V warehouse contractual interest expense	(3,816)	(378,000)	4.23%	2.33%	1.90%
Net CLO contractual interest	<u>\$ 6,170</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

## Provision for Loan Losses

(in thousands)

	Three Months Ended September 30,	
	2019	2018
CLO related provision	\$ -	\$ (1,305)
Non-CLO related provision	(438)	(149)
Provision for loan losses	(438)	(1,454)
Less: General reserves related to CLOs and CLO warehouse	-	(984)
Segment provision for loan losses	\$ (438)	\$ (470)

Provision for loan losses decreased \$1.1 million, from a provision of \$1.5 million for the quarter ended September 30, 2018 to a provision of \$0.4 million for the same period in 2019. The decrease was due to deconsolidation of CLO III, CLO IV, CLO V, and CLO VI warehouse during the first quarter of 2019. As a percent of net revenues after provision for loan losses, the provision for loan losses was 4.4% of the quarter ended September 30, 2018 and 2.1% for the quarter ended September 30, 2019.

Total segment provision for loan losses decreased from a provision of \$0.5 million for the quarter ended September 30, 2018 to a provision of \$0.4 million for the quarter ended September 30, 2019. Total segment provision for loan losses is a non-GAAP financial measure that aggregates our segment reported provision for loan losses across each segment. Our total segment provision for loan losses in 2019 and 2018 was solely earned in our Investment Income segment. As a percent of total segment adjusted net revenues, segment provision for loan losses increased from 1.4% for the quarter ended September 30, 2018 and 1.9% for the quarter ended September 30, 2019.

## Expenses

### Non-Interest Expenses

#### *Compensation and Benefits*

Compensation and benefits, which includes employee payroll, taxes and benefits, performance-based cash bonus and commissions, as well as equity-based compensation to our employees and managing directors, decreased \$5.2 million, or 22.8%, from \$22.7 million for the quarter ended September 30, 2018 to \$17.5 million for the quarter ended September 30, 2019.

Employee payroll, taxes and benefits, and consultant fees increased from \$10.4 million for the quarter ended September 30, 2018 to \$10.5 million for the quarter ended September 30, 2019. Performance-based bonus and commission decreased \$5.4 million from \$11.9 million for the quarter ended September 30, 2018 to \$6.5 million for the quarter ended September 30, 2019.

Equity-based compensation was \$0.5 million for both of the quarters ended September 30, 2019 and 2018.

Compensation and benefits as a percentage of revenues increased from 68.2% of total net revenues after provision for loan losses for the quarter ended September 30, 2018 to 83.3% for the quarter ended September 30, 2019. The decrease in the compensation and benefits is primarily due to the decrease in total net revenues after provision for loan losses from the three months ended September 30, 2018 compared to the provision in the same period in 2019. As employee bonuses are performance based and make up a substantial portion of total compensation, decreased total net revenues after provisions for loan losses has decreased compensation for the period. Compensation and benefits as a percentage of revenues increased due to lower net revenues after provision for loan losses in the quarter ended September 30, 2019 compared to the same period on 2018.

Our segment reported compensation and benefits recognizes 100% of the cost of deferred compensation, including non-cash share-based compensation expense, in the period for which such compensation was awarded, instead of recognizing such cost over the vesting period as required under GAAP, in order to match compensation expense with the actual period upon which the compensation was based. The segment reported compensation and benefits decreased \$5.9 million from \$22.3 million for the quarter ended September 30, 2018 to \$16.4 million for the quarter ended September 30, 2019. As a percent of total segment net revenues, compensation and benefits were 67.7% for the quarter ended September 30, 2018 and 72.7% for the quarter ended September 30, 2019.

#### *Administration*

Administration expense was \$2.3 million for both of the quarters ended September 30, 2019 and 2018. As a percentage of total net revenues after provision for loan losses, administration expense were 10.9% and 6.9% for the quarters ended September 30, 2019 and 2018, respectively.

#### *Brokerage, Clearing and Exchange Fees*

Brokerage, clearing and exchange fees were \$0.6 million and \$0.8 million for the quarters ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, our brokerage, clearing and exchange fees were 2.9% and 2.4% for the quarters ended September 30, 2019 and 2018, respectively.

#### *Travel and Business Development*

Travel and business development expenses were \$1.3 million and \$1.1 million for the quarters ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, travel and business development expense was 6.0% and 3.2% for the quarters ended September 30, 2019 and 2018, respectively.

#### *Managed deal expenses*

Managed deal expenses were \$0.7 million and \$0.6 million for the quarters ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, managed deal expenses were 3.3% and 1.8% for the quarters ended September 30, 2019 and 2018, respectively.

#### *Communications and Technology*

Communications and technology expenses were \$1.1 million and \$1.0 million for the quarters ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, communications and technology expense were 5.0% and 3.1% for the quarters ended September 30, 2019 and 2018, respectively.

#### *Occupancy*

Occupancy expenses were \$1.2 million for both of the quarters ended September 30, 2019 and 2018. As a percentage of total net revenues after provision for loan losses, occupancy expenses were 5.7% and 3.5% for the quarters ended September 30, 2019 and 2018, respectively.

#### *Professional Fees*

Professional fees were \$1.2 million and \$1.3 million for the quarters ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, professional fees were 5.9% and 3.8% for the quarters ended September 30, 2019 and 2018, respectively.

#### *Depreciation*

Depreciation expenses were \$0.3 million for both of the quarters ended September 30, 2019 and 2018. As a percentage of total net revenues after provision for loan losses, depreciation was 1.5% and 0.9% for the quarters ended September 30, 2019 and 2018, respectively.

#### *Other Expenses*

Other expenses were \$0.2 million and \$0.4 million for the quarters ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, other expenses were 1.0% and 1.1% for the quarters ended September 30, 2019 and 2018, respectively.

#### *Net Income Attributable to Non-controlling Interest*

Net income attributable to non-controlling interest decreased from net income of \$0.8 million for the quarter ended September 30, 2018 to net loss of \$0.1 million for the quarter ended September 30, 2019. The decrease in the income attributable to non-controlling interest holders is a result of the deconsolidation of CLO III during the three months ended March 31, 2019. Non-controlling interest for the quarter ended September 30, 2018 includes the interest of third parties in CLO III, HCAP Advisors, and HCS SI. Non-controlling interest for the quarter ended September 30, 2019 includes the interest of third parties in HCAP Advisors and HCS SI.

#### *Provision for Income Taxes*

The income tax recorded was a benefit of \$1.2 million and an expense of \$0.5 million for the quarters ended September 30, 2019 and 2018, respectively. The Company's tax expense decreased for the quarter ended September 30, 2019 from September 30, 2018 due to decreased net income from period to period. For the quarter ended September 30, 2019, an effective tax rate of 26% is assumed for our taxable parent company, based on our best estimation of the subsidiary's average rate of taxation over the long term. For the quarter ended September 30, 2018, an effective tax rate of 26% is assumed at the taxable direct subsidiary and a tax rate of 0% is assumed at the other direct subsidiary, which was a "a pass through entity" for tax purposes. Segment income tax was a \$0.7 million benefit and \$0.2 million expense for the quarters ended September 30, 2019 and 2018, respectively.

U.S. federal corporate income tax reform included a broad range of proposals affecting businesses, including corporate tax rates, business deductions and international tax provisions. The reduction in the federal corporate tax rate required a revaluation of our deferred tax assets at the corporate entity level. International tax provisions, including a shift to a territorial system, did not impact JMP Group LLC's investment in foreign corporations, as the Company has historically included accumulated earnings and profits from controlled foreign corporations.

### **Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018**

#### **Overview**

Total net revenues after provision for loan losses was \$104.7 million for the nine months ended September 30, 2018 and \$76.3 million for the same period in 2019.

Non-interest revenues decreased \$27.5 million, or 27.5%, from \$99.9 million for the nine months ended September 30, 2018 to \$72.4 million in the same period in 2019. This decrease was driven by a \$25.5 million decrease in investment banking revenues, \$9.8 million decrease in asset management revenues, and a \$1.6 million decrease in brokerage revenues, partially offset by a \$7.8 million increase in principal transaction revenue.

Net interest income decreased \$7.2 million, or 60.1%, from \$11.9 million for the nine months ended September 30, 2018 to \$4.7 million for the nine months ended September 30, 2019. The decrease in net interest income was due to the deconsolidation of the CLOs during the three month period ended March 31, 2019.

Loss on repurchase, reissuance, or early retirement of debt decreased \$2.3 million from \$2.8 million for the nine months ended September 30, 2018 to \$0.5 million for the nine months ended September 30, 2019.

Provision for loan losses decreased \$3.8 million from a provision of \$4.2 million for the nine months ended September 30, 2018 to a provision of \$0.4 million for the nine months ended September 30, 2019. The decrease in provision of loan losses was due to the deconsolidation of the CLOs during the three months ended March 31, 2019.

Total non-interest expenses decreased \$24.4 million, or 22.9%, from \$106.7 million for the nine months ended September 30, 2018 to \$82.3 million for the nine months ended September 30, 2019, primarily due to a \$21.4 million decrease in compensation and benefits, a \$2.0 million decrease in managed deal expenses, a \$0.8 million decrease in professional fees, and a \$0.8 million decrease in other fees.

Net income attributable to non-controlling interest decreased \$0.2 million, or 158.0%, from net income of \$0.1 million for the nine months ended September 30, 2018 to a net loss of \$0.1 million for the nine months ended September 30, 2019.

Net income attributable to JMP Group LLC increased \$1.9 million from a net loss of \$2.0 million for the nine months ended September 30, 2018 to net loss of \$0.1 million for the nine months ended September 30, 2019. The increase in net income attributable to JMP Group LLC was due to the Company's election to be treated as a C-corporation for tax purposes which resulted in the Company recognizing initial temporary differences between the book and tax basis of assets and liabilities that were previously held by pass through entities.

## Revenues

### Investment Banking

Investment banking revenues, earned in our Broker-Dealer segment, decreased \$25.5 million, or 36.2%, from \$70.3 million for the nine months ended September 30, 2018 to \$44.8 million for the same period in 2019. As a percentage of total net revenues after provision for loan losses, investment banking revenues decreased from 67.1% for the nine months ended September 30, 2018 to 58.8% for the nine months ended September 30, 2019. On an operating basis, investment banking revenues were 58.0% and 64.8% for the nine months ended September 30, 2019 and 2018, respectively, as a percentage of adjusted net revenues.

(Dollars in thousands)

	Nine Months Ended September 30,				Change from 2019 to 2018		
	2019		2018		Count	\$	%
	Count	Revenues	Count	Revenues			
Equity and debt origination	59	\$ 27,678	73	\$ 47,276	(14)	\$ (19,598)	-41.5%
Strategic advisory and private placements	15	17,165	17	23,043	(2)	\$ (5,878)	-25.5%
Total	74	\$ 44,843	90	\$ 70,319	(16)	\$ (25,476)	-36.2%

The decrease in revenues was driven by a 17.8% decrease in the number of transactions executed and a 22.4% decrease in the average size of the fee paid per transaction. The number of transactions in which we acted as a bookrunning manager was sixteen and nine for the nine months ended September 30, 2019 and 2018, respectively.

### Brokerage Revenues

Brokerage revenues earned in our Broker-Dealer segment decreased from \$14.8 million for the nine months ended September 30, 2018 to \$13.2 million for the nine months ended September 30, 2019. Brokerage revenues increased as a percentage of total net revenues after provision for loan losses, from 14.1% for the nine months ended September 30, 2018 to 17.3% for the nine months ended September 30, 2019. On an operating basis, brokerage revenues were 17.0% and 13.6% for the nine months ended September 30, 2019 and 2018, respectively, as a percentage of adjusted net revenues.



Asset Management Fees

(In thousands)

	Nine Months Ended September 30,	
	2019	2018
<b>Base management fees:</b>		
Fees reported as asset management fees	\$ 4,777	\$ 9,524
Less: Non-controlling interest in HCAP Advisors	(782)	(483)
Total base management fees	<u>3,995</u>	<u>9,041</u>
<b>Incentive fees:</b>		
Fees reported as asset management fees	\$ 908	\$ 5,981
Less: Non-controlling interest in HCAP Advisors	(2)	(149)
Total incentive fees	<u>906</u>	<u>5,832</u>
<b>Other fee income:</b>		
Fundraising fees and other	\$ 1,517	\$ 666
Less: Non-controlling interest in HCAP Advisors	(124)	(120)
Total other fee income (loss)	<u>1,393</u>	<u>546</u>
<b>Asset management related fees:</b>		
Fees reported as asset management fees	\$ 5,685	\$ 15,505
Fees reported as other income	1,517	666
Less: Non-controlling interest in HCAP Advisors	(908)	(752)
Total segment asset management related fee revenues	<u>\$ 6,294</u>	<u>\$ 15,419</u>

Fees reported as asset management fees were \$5.7 million and \$15.5 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, asset management revenues decreased from 14.8% for the nine months ended September 30, 2018 to 7.5% for the nine months ended September 30, 2019. Asset management fees decreased from the nine months ended September 30, 2018 due to (i) the sale of the HSCP entities on December 31, 2018 which resulted in a decrease of approximately \$360.0 million in assets under management and (ii) due to decreased incentive fees recorded in the nine months ended September 30, 2019 compared to the same period in 2018. In the nine months ended September 30, 2018, the Company recognized \$5.3 million in incentive fees related to a hedge fund managed by the Company that liquidated during the period. As a result, the Company recognized incentive fees that were previously deferred due to the presence of claw backs.

Total segment asset management-related fees include base management fees and incentive fees from our funds, HCC and CLOs under management (through March 19, 2019), as well as other income from fee-sharing arrangements with, and fees earned to raise capital for, third-party or equity-method investment partnerships or funds. Total segment asset management-related fee revenues are reconciled to the GAAP measure, total asset management fee revenues, in the table above. We believe that presenting operating asset management-related fees is useful to investors as a means of assessing the performance of our combined asset management activities, including fundraising and other services for third parties. We believe that segment asset management-related fee revenues provides useful information by indicating the relative contributions of base management fees and performance-related incentive fees, thus facilitating a comparison of those fees in a given period to those in prior and future periods. We also believe that asset management-related fee revenue is a more meaningful measure than standalone asset management fees as reported, because asset management-related fee revenues represent the combined impact of the various asset management activities on the Company's total net revenues.

Total segment asset management related fee revenue decreased \$9.1 million, from \$15.4 million for the nine months ended September 30, 2018 to \$6.3 million for the nine months ended September 30, 2019. Total base management fees were \$4.0 million and \$9.2 million for the nine months ended September 30, 2019 and 2018, respectively. Total incentive fees decreased from \$5.8 million for the nine months ended September 30, 2018 to \$0.9 million for the same period in 2019. Asset management fees decreased from the nine months ended September 30, 2018 due to (i) the sale of the HSCP entities on December 31, 2018 which resulted in a decrease of approximately \$360.0 million in assets under management and decreased base management fees and (ii) due to decreased incentive fees recorded in the nine months ended September 30, 2019 compared to the same period in 2018. In the nine months ended September 30, 2018, the Company recognized \$5.3 million in incentive fees related to a hedge fund managed by the Company that liquidated during the period. As a result, the Company recognized incentive fees that were previously deferred due to the presence of claw backs. On an operating basis, asset management related fee revenues were 8.1% and 14.2% for the nine months ended September 30, 2019 and 2018, respectively, as a percentage of adjusted net revenues.

### Principal Transactions

Principal transaction revenues increased \$7.8 million from a loss of \$1.5 million for the nine months ended September 30, 2018 to a gain of \$6.4 million for the same period in 2019. As a percentage of total net revenues after provision for loan losses, principal transaction revenues were 1.4% for the nine months ended September 30, 2018 and 8.4% for the nine months ended September 30, 2019.

Total segment principal transaction revenues increased \$7.3 million from \$0.5 million in revenues for the nine months ended September 30, 2018 to \$7.8 million in revenues for the same period in 2019. Total segment principal transaction revenues are a non-GAAP financial measure that aggregates our segment reported principal transaction revenues across each segment. The principal transaction revenues for both 2019 and 2018 were earned in our Investment Income segment. Total segment principal transaction revenues are reconciled to the GAAP measure, total principal transaction revenues, in the table below. See the Operating Net Income section above for additional information on the adjustments made to arrive at the non-GAAP measure and why management believes that this non-GAAP number is useful and important to the users of these financial statements.

(In thousands)

	Nine Months Ended September 30,	
	2019	2018
Equity and other securities excluding non-controlling interest	\$ 1,354	\$ (630)
Warrants and other investments	6,253	812
Investment partnerships	155	316
Total segment principal transaction revenues	7,762	498
Operating adjustment addbacks	(1,391)	(1,965)
Total principal transaction revenues	<u>\$ 6,371</u>	<u>\$ (1,467)</u>

The increase in principal transaction revenue is primarily attributed to a \$3.4 million gain on deconsolidation of JMPCA, an increase of \$2.3 million in gains on investments in real estate, a \$1.4 million increase in gains on principal investments, and a \$0.5 million increase in gains from investments in private capital, partially offset by a \$1.2 million decrease in principal investments. On an operating basis, as a percentage of adjusted net revenues, principal transaction revenues increased from 0.5% for the nine months ended September 30, 2018 to 10.0% for the nine months ended September 30, 2019.

### Gain (Loss) on Sale, Payoff, and Mark-to-Market of Loans

Gain (loss) on sale, payoff, and mark-to-market of loans decreased from a loss of \$0.9 million for the nine months ended September 30, 2018 to \$38 thousand for the nine months ended September 30, 2019. Gain (loss) on sale, payoff, and mark-to-market of loans was earned in our Investment Income segment. On an operating basis as a percentage of adjusted net revenues, gain (loss) on sale, payoff, and mark-to-market of loans decreased from 0.8% for the nine months ended September 30, 2018, to 0.1% for the nine months ended September 30, 2019.

### Net Dividend Income

Net dividend income was \$0.9 million for both of the nine months ended September 30, 2019 and 2018. Net dividend income primarily related to dividends from our HCC investment.

Net Interest Income/Expense

(In thousands)

	Nine Months Ended September 30,	
	2019	2018
CLO III loan contractual interest income	\$ 1,074	\$ 15,885
CLO III ABS issued contractual interest expense	(660)	(9,680)
Net CLO III contractual interest	414	6,205
CLO IV loan contractual interest income	\$ 6,240	\$ 19,691
CLO IV ABS issued contractual interest expense	(4,492)	(13,879)
Net CLO IV contractual interest	1,748	5,812
CLO V loan contractual interest income	\$ 5,400	\$ 10,475
CLO V warehouse/ABS issued contractual interest expense	(3,836)	(6,148)
Net CLO V contractual interest	1,564	4,327
CLO VI loan contractual interest income	\$ 551	\$ -
CLO VI warehouse credit facility contractual interest expense	(245)	-
Net CLO VI contractual interest	306	-
Bond payable interest expense	(5,108)	(5,630)
CLO subordinated notes interest income	5,081	-
Less: Non-controlling interest and other adjustments	(47)	(3,137)
Other interest income	744	1,192
Total segment net interest income	\$ 4,702	\$ 8,769
Non-controlling interest and other adjustments	47	3,137
Total net interest income	\$ 4,749	\$ 11,906

Net interest income decreased \$7.2 million from \$11.9 million for the nine months ended September 30, 2018 to \$4.7 million for the nine months ended September 30, 2019. The decrease in interest income was driven primarily by a \$12.3 million decrease in interest earned on the CLOs as they were deconsolidated during the three months ended March 31, 2019, partially offset by a \$5.1 million increase in interest income earned on the retained interest in CLO subordinated notes. As a percentage of total net revenues after provision for loan losses, net interest income was 11.4% for the nine months ended September 30, 2018 and 6.2% for the nine months ended September 30, 2019.

Total segment net interest income decreased from \$8.8 million for the nine months ended September 30, 2018 to \$4.7 million for the nine months ended September 30, 2019. Net interest income is earned in our Investment Income segment and reflects our portion of the net CLO contractual interest before deconsolidation and interest earned on the Company's retained interest in the CLOs after deconsolidation, net of bond interest expense. Total segment net interest income after deconsolidation reflects the effective yield of the Company's ownership of subordinated notes in CLO III, CLO IV, and CLO V, net of bond interest expense. Total segment net interest income is reconciled to the GAAP measure, total net interest income, in the table above. As a percentage of total segment net revenues, net interest income was 8.1% for the six months ended September 30, 2018 and 6.1% for the quarter ended September 30, 2019.

The following table sets forth contractual interest income and expense related to CLO loans and ABS issued (through the respective deconsolidation date of each CLO) and their weighted average contractual interest rates:

(In thousands)

	Nine Months Ended September 30, 2019				
	Interest Income (Expense)	Average CLO loan contractual interest income (CLO ABS contractual interest expense) Balance	Weighted Average Contractual Interest Rate	Weighted Average LIBOR	Spread to Weighted Average LIBOR
CLO III loan contractual interest income <sup>(1)</sup>	\$ 1,074	\$ 351,245	6.21%	2.72%	3.49%
CLO III ABS contractual interest expense <sup>(1)</sup>	(660)	(332,100)	3.96%	2.61%	1.35%
CLO IV loan contractual interest income <sup>(2)</sup>	6,240	439,283	6.27%	2.72%	3.55%
CLO IV ABS contractual interest expense <sup>(2)</sup>	(4,492)	(421,173)	4.76%	2.72%	2.05%
CLO V loan contractual interest income <sup>(2)</sup>	5,400	394,925	6.23%	2.72%	3.52%
CLO V warehouse/ABS contractual interest expense <sup>(2)</sup>	(3,836)	(376,657)	4.59%	2.71%	1.88%
CLO VI loan contractual interest income <sup>(2)</sup>	551	38,006	6.33%	2.77%	3.56%
CLO VI warehouse contractual interest expense <sup>(2)</sup>	(245)	(28,981)	4.02%	2.77%	1.25%
Net CLO contractual interest	\$ 4,032	N/A	N/A	N/A	N/A

- (1) Interest income and interest expense were earned and accrued through January 17, 2019.
- (2) Interest income and interest expense were earned and accrued through March 19, 2019.

(In thousands)

	Nine Months Ended September 30, 2018				
	Average CLO loan contractual interest income (CLO ABS contractual interest expense) Balance		Weighted Average Contractual Interest Rate	Weighted Average LIBOR	Spread to Weighted Average LIBOR
	Interest Income (Expense)				
CLO III loan contractual interest income	\$ 15,885	\$ 351,788	5.69%	2.08%	3.61%
CLO III ABS contractual interest expense	(9,680)	(332,100)	3.56%	2.11%	1.44%
CLO IV loan contractual interest income	19,691	438,583	5.69%	2.08%	3.61%
CLO IV ABS contractual interest expense	(13,879)	(422,847)	4.18%	2.12%	2.07%
CLO V loan contractual interest income	10,475	231,550	5.66%	2.33%	3.32%
CLO V warehouse contractual interest expense	(6,148)	(378,000)	4.23%	2.33%	1.90%
Net CLO contractual interest	\$ 16,344	\$ N/A	N/A	N/A	N/A

#### Provision for Loan Losses

(in thousands)

	Nine Months Ended September 30,	
	2019	2018
CLO related provision	\$ -	\$ (3,860)
Non-CLO related provision	(438)	(339)
Provision for loan losses	(438)	(4,199)
Less: General reserves related to CLOs and CLO warehouse	-	2,799
Segment provision for loan losses	\$ (438)	\$ (1,400)

Provision for loan losses decreased \$3.8 million from a provision of \$4.2 million for the nine months ended September 30, 2018 to a provision of \$0.4 million for the same period in 2019. The decrease was due to deconsolidation of CLO III, CLO IV, CLO V, and CLO VI warehouse during the first quarter of 2019. As a percent of net revenues after provision for loan losses, the provision for loan losses was 4.0% of the nine months ended September 30, 2018 and 0.6% for the nine months ended September 30, 2019.

Total segment provision for loan losses decreased from a provision of \$1.4 million for the nine months ended September 30, 2018 to a provision of \$0.4 million for the nine months ended September 30, 2019. Total segment provision for loan losses is a non-GAAP financial measure that aggregates our segment reported provision for loan losses across each segment. Our total segment provision for loan losses in 2019 and 2018 was solely earned in our Investment Income segment. As a percent of total segment adjusted net revenues, segment provision for loan losses decreased from 1.3% for the nine months ended September 30, 2018 and 0.6% for the nine months ended September 30, 2019.

#### Expenses

##### Non-Interest Expenses

##### Compensation and Benefits

Compensation and benefits, which includes employee payroll, taxes and benefits, performance-based cash bonus and commissions, as well as equity-based compensation to our employees and managing directors, decreased \$21.4 million, or 28.1%, from \$76.1 million for the nine months ended September 30, 2018 to \$54.7 million for the nine months ended September 30, 2019.

Employee payroll, taxes and benefits, and consultant fees decreased from \$33.0 million for the nine months ended September 30, 2018 to \$32.0 million for the nine months ended September 30, 2019. Performance-based bonus and commission decreased \$20.8 million from \$41.9 million for the nine months ended September 30, 2018 to \$21.1 million for the nine months ended September 30, 2019.

Equity-based compensation increased \$0.3 million from \$1.3 million for the nine months ended September 30, 2018 to \$1.6 million for the nine months ended September 30, 2019.

Compensation and benefits as a percentage of revenues decreased from 72.6% of total net revenues after provision for loan losses for the nine months ended September 30, 2019 to 71.7% for the nine months ended September 30, 2019. The decrease in compensation and benefits during the nine months ended September 30, 2019 compared to the same period in 2018 is due to lower net revenues after the provision for loan losses. The Company's compensation structure includes a large performance-based bonus expense and due to lower net revenues after provision for loan losses in the nine months ended September 30, 2019 compared to the same period in 2018, this expense has been greatly reduced.

Our segment reported compensation and benefits recognizes 100% of the cost of deferred compensation, including non-cash share-based compensation expense, in the period for which such compensation was awarded, instead of recognizing such cost over the vesting period as required under GAAP, in order to match compensation expense with the actual period upon which the compensation was based. The segment reported compensation and benefits decreased \$23.4 million from \$74.8 million for the nine months ended September 30, 2018 to \$51.4 million for the nine months ended September 30, 2019. As a percent of total segment net revenues, compensation and benefits were 69.0% for the nine months ended September 30, 2018 and 66.6% for the nine months ended September 30, 2019. The decrease in the compensation and benefits as a percentage of revenues is primarily due to a change in the composition of revenues and the overall decrease in total net revenues after provision for loan losses between periods. In the nine months ended September 30, 2019, revenues were heavily comprised of items for which the employee compensation ratio is lower compared to the nine months ended September 30, 2018.



#### *Administration*

Administration expense was \$7.2 million and \$7.0 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, administration expense was 9.2% and 6.9% for the nine months ended September 30, 2019 and 2018, respectively.

#### *Brokerage, Clearing and Exchange Fees*

Brokerage, clearing and exchange fees were \$2.1 million and \$2.4 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, our brokerage, clearing and exchange fees were 2.7% and 2.3% for the nine months ended September 30, 2019 and 2018, respectively.

#### *Travel and Business Development*

Travel and business development expenses were \$3.6 million and \$3.2 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, travel and business development expense was 4.8% and 3.1% and for the nine months ended September 30, 2019 and 2018, respectively.

#### *Managed deal expenses*

Managed deal expenses were \$2.6 million and \$4.5 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, managed deal expenses were 3.3% and 4.3% for the nine months ended September 30, 2019 and 2018, respectively.

#### *Communications and Technology*

Communications and technology expenses were \$3.2 million and \$3.1 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, communications and technology expense were 4.2% and 3.0% for the nine months ended September 30, 2019 and 2018, respectively.

#### *Occupancy*

Occupancy expenses were \$4.0 million and \$3.4 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, occupancy expenses were 5.3% and 3.3% for the nine months ended September 30, 2019 and 2018, respectively.

#### *Professional Fees*

Professional fees were \$3.5 million and \$4.3 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, professional fees were 4.6% and 4.1% for the nine months ended September 30, 2019 and 2018, respectively.

#### *Depreciation*

Depreciation expenses were \$0.9 million and \$0.8 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, depreciation expenses were 1.2% and 0.8% for the nine months ended September 30, 2019 and 2018, respectively.

#### *Other Expenses*

Other expenses were \$0.7 million and \$1.5 million for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of total net revenues after provision for loan losses, other expenses were 0.9% and 1.5% for the nine months ended September 30, 2019 and 2018, respectively.

#### *Net Income Attributable to Non-controlling Interest*

Net income attributable to non-controlling interest decreased from net income of \$0.1 million for the nine months ended September 30, 2018 to net loss of \$0.1 million for the nine months ended September 30, 2019. The decrease in the net loss attributable to non-controlling interest holders is a result of the deconsolidation of CLO III during the three month ended March 31, 2019. Non-controlling interest for both of the nine months ended September 30, 2019 and 2018 includes the interest of third parties in CLO III, HCAP Advisors, and HCS SI.

#### *Provision for Income Taxes*

The income tax benefit recorded was \$5.8 million and \$0.1 million for the nine months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019, an effective tax rate of 26% is assumed for our taxable parent company, based on our best estimation of the subsidiary's average rate of taxation over the long term. For the nine months ended September 30, 2018, an effective tax rate of 26% is assumed at the taxable direct subsidiary and a tax rate of 0% is assumed at the other direct subsidiary, which was a "a pass through entity" for tax purposes. Segment income tax expense was \$0.3 million and income tax benefit of \$0.6 million for the nine months ended September 30, 2019 and 2018, respectively.

The Company recorded a tax benefit for the period ended September 30, 2019 larger than the Company's net loss before income tax expense due to a change in tax status effective January 1, 2019. During the nine months ended September 30, 2019, the Company filed an election to be treated as a C corporation for tax purposes, rather than a partnership, which resulted in the Company recognizing initial temporary differences between the book and tax basis of assets and liabilities that were previously held under pass through entities.

U.S. federal corporate income tax reform included a broad range of proposals affecting businesses, including corporate tax rates, business deductions and international tax provisions. The reduction in the federal corporate tax rate required a revaluation of our deferred tax assets at the corporate entity level.

International tax provisions, including a shift to a territorial system, did not impact JMP Group LLC's investment in foreign corporations, as the Company has historically included accumulated earnings and profits from controlled foreign corporations.



## Financial Condition, Liquidity and Capital Resources

In the section that follows, we discuss the significant changes in the components of our balance sheet, cash flows and capital resources and liquidity for the nine months ended September 30, 2019 to demonstrate where our capital is invested and the financial condition of the Company.

### Overview

As of September 30, 2019, we had net liquid assets of \$113.4 million primarily consisting of cash and cash equivalents, receivable from clearing broker, marketable securities owned, and investment banking receivables, net of marketable securities sold but not yet purchased and accrued compensation. We have satisfied our capital and liquidity requirements primarily through the issuance of the Senior Notes, draws on a line of credit, and internally generated cash from operations. Most of our financial instruments, other than loans held for investment and certain marketable securities, are recorded at fair value or amounts that approximate fair value.

### Liquidity Considerations

As of September 30, 2019, our material indebtedness consisted of our then outstanding Senior Notes and borrowing on our revolving line of credit with City National Bank (“CNB”) under the Credit Agreement described below.

### Senior Notes

In January 2013, JMP Group Inc. raised \$46.0 million from the issuance of 8.00% Senior Notes (“2013 Senior Notes”). JMP Group Inc. redeemed \$10.0 million of the issued and outstanding 2013 Senior Notes on July 31, 2018 and recorded a loss of \$0.2 million related to this partial retirement of the 2013 Senior Notes. On July 18, 2019, JMP Group Inc. redeemed \$11.0 million of the issued and outstanding 2013 Senior Notes and recorded a loss of \$0.2 million related to this partial retirement of the 2013 Senior Notes. On September 27, 2019, the Company announced JMP Group Inc.’s intention to redeem all of the remaining issued and outstanding 2013 Senior Notes on October 28, 2019. The Company opted to satisfy and discharge its obligations under the 2013 Senior Notes as of September 27, 2019 by paying the principal and owed interest through the redemption date to the trustee, U.S. Bank National Association. On September 27, 2019 the Company deposited sufficient funds with the trustee to satisfy and discharge the 2013 Senior Notes and the trustee acknowledged such satisfaction and discharge. In connection with the redemption, the Company recorded losses on early retirement of debt related to unamortized bond issuance costs of \$0.3 million and recognized an additional \$0.2 million of interest expense on the accelerated repayment during the quarter ended September 30, 2019.

In November 2017, JMP Group Inc. raised \$50.0 million from the issuance of 7.25% Senior Notes (“2017 Senior Notes”). The 2017 Senior Notes will mature on November 15, 2027 and may be redeemed in whole or in part at any time or from time to time at JMP Group Inc.’s option on or after November 28, 2020 at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest. The 2017 Senior Notes bear interest at a rate of 7.25% per year, payable quarterly on February 15, May 15, August 15 and November 15 of each year. Pursuant to the indenture of the 2017 Senior Notes, JMP Group LLC and JMP Investment Holdings LLC (the “Guarantors”) are the guarantors of the 2017 Senior Notes. The Guarantors jointly and severally provide a full and unconditional guarantee of the due and punctual payment of the principal and interest on the 2017 Senior Notes and the due and punctual payment or performance of all other obligations of JMP Group Inc. under the indenture governing the 2017 Senior Notes.

In September 2019, JMP Group LLC raised \$36.0 million from the issuance of 6.875% Senior Notes (“2019 Senior Notes”). The 2019 Senior Notes will mature on September 30, 2029 and may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after September 30, 2021 at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest. The 2019 Senior Notes bear interest at a rate of 6.875% per year, payable quarterly on March 30, June 30, September 30, and December 30 of each year.

### JMP Holding LLC Credit Agreement with CNB

JMP Holding LLC (the “Borrower”), a wholly owned subsidiary of the Company, entered into a Second Amended and Restated Credit Agreement dated April 30, 2014 among the Borrower, the lenders from time to time party thereto (the “Lenders”) and CNB, as administrative agent for the Lenders (as amended, the “Credit Agreement”).

The Credit Agreement provides a \$25.0 million revolving line of credit (the “Revolver”) through December 31, 2020. On such date, if the revolving period has not been previously extended, any outstanding amounts under the Revolver would convert to a term loan (the “Converted Term Loan”). The Converted Term Loan must be repaid in 12 quarterly installments commencing on January 1, 2021, with each of the first six installments being equal to 3.75% of the principal amount of the Converted Term Loan and each of the next six installments being equal to 5.0% of the principal amount of the Converted Term Loan. A final payment of all remaining principal and interest due under the Converted Term Loan must be made at the earlier of: (a) December 31, 2023; or (b) if certain liquidity requirements are not satisfied by the Company, the date that is last day of the fiscal quarter ending most recently (but no less than 60 days) prior to the earliest maturity date of any senior unsecured notes issued by JMP Group Inc. or JMP Group LLC then outstanding.

The Credit Agreement provides that the Revolver may be used, on a revolving basis, to fund specified permitted investments in collateralized loan obligation vehicles. In addition, up to \$5.0 million of the Revolver may be used, on a revolving basis, to fund other types of permitted investments and acquisitions and for working capital.

As of September 30, 2019, the Borrower had drawn \$15 million against the Revolver and had letters of credit outstanding under this facility to support office lease obligations of approximately \$1.1 million in the aggregate. On October 23, 2019, the Company repaid \$9.0 million of the outstanding balance on the Revolver.

The Credit Agreement contains financial and other covenants, including, but not limited to, limitations on debt, liens and investments, as well as the maintenance of certain financial covenants. The Credit Agreement also includes an event of default for a “change of control” that tests, in part, the composition of our ownership and an event of default if three or more of the members of the Company’s executive committee fail to be involved actively on an ongoing basis in the management of the Company or any of its subsidiaries. A violation of any one of these covenants could result in a default under the Credit Agreement, which would permit CNB to terminate our Revolver or Converted Term Loan and require the immediate repayment of any outstanding principal and interest. In addition, our subsidiaries are restricted under the Credit Agreement under certain circumstances from making distributions to us if an event of default has occurred under the Credit Agreement.

As of September 30, 2019 and December 30, 2018, we were in compliance with the loan covenants under the Credit Agreement.

The Borrowers's obligations under the Credit Agreement are guaranteed by all of the Company's other wholly owned subsidiaries (other than JMP Securities and certain dormant subsidiaries) and are secured by substantially all of its and the guarantors' assets. In addition, we have entered into a limited recourse pledge agreement with CNB whereby JMP Group LLC granted a lien on the equity interests in JMP Investment Holdings LLC and JMPAM to secure the Borrower's obligations under the Credit Agreement.

*JMP Securities LLC Revolving Note Agreement with CNB*

Under a Revolving Note and Cash Subordination Agreement (as amended, the “Revolving Note Agreement”) and related Revolving Note (as amended, the “Revolving Note”), each dated April 8, 2011, JMP Securities holds a \$20.0 million revolving line of credit with CNB to be used for regulatory capital purposes in connection with its securities underwriting activities. Advances under the Revolving Note Agreement bear interest at CNB’s announced prime interest rate. The unused portion of the line bears interest at the rate of 0.25% per annum, paid monthly.

On June 6, 2019, JMP Securities entered Amendment Number Ten to the Revolving Note Agreement. Pursuant to this amendment, the \$20.0 million Revolving Note Agreement was extended for one year until June 8, 2020. On June 8, 2020, any existing outstanding amount under the Revolving Note will convert to a term loan maturing the following year.

There was no borrowing on the Revolving Note as of September 30, 2019 and December 31, 2018.

The Revolving Note Agreement contains financial and other covenants. A violation of any one of these covenants could result in a default under the Revolving Note, which would permit CNB to terminate the Revolving Note and require the immediate repayment of any outstanding principal and interest, subject to the terms of the Revolving Note Agreement.

At both September 30, 2019 and December 31, 2018, JMP Securities was in compliance with the loan covenants under the Revolving Note Agreement.

JMP Securities’ obligations under the Revolving Note Agreement are guaranteed by all of the Company’s wholly owned subsidiaries (other than JMP Securities and certain dormant subsidiaries) and are secured by substantially all the guarantors’ assets.

On May 13, 2019, the Company launched a self-tender offer (the “Tender Offer”) to repurchase for cash up to 3,000,000 of shares representing limited liability company interests of the Company. On June 13, 2019, the Company repurchased 1,816,732 shares under the Tender Offer at a price \$3.95 per share for a total purchase price of \$7.2 million, excluding fees and expenses related to the Tender Offer.

The timing of bonus compensation payments to our employees may significantly affect our cash position and liquidity from period to period. While our employees and managing directors are generally paid semi-monthly during the year, bonus compensation, which makes up a larger portion of total compensation, is generally paid once a year during the first two months of the following year. In the first two months of 2019, we paid out \$37.1 million of cash bonuses for 2019, excluding employer payroll tax expense.

The Company currently intends to continue to declare quarterly cash distributions on all outstanding shares. For the three months ended September 30, 2019, the Company declared cash distributions on all outstanding shares on August 1, 2019. The distribution of \$0.04 per share for the second quarter of 2019 was paid on August 30, 2019, to shareholders of record as of August 16, 2019.

During the three months ended September 30, 2019, the Company did not repurchase any of the Company's shares.

We had total restricted cash of \$1.2 million comprised primarily of restricted cash at JMP Group Inc. related to the Company's letters of credit on leasing arrangements.

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

JMP Securities, our wholly-owned subsidiary and a registered securities broker-dealer, is subject to the SEC’s Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital, as defined, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. JMP Securities had net capital of \$15.8 million and \$29.8 million, which were \$14.7 million and \$28.7 million in excess of the required net capital of \$1.1 million and \$1.1 million, at September 30, 2019 and December 31, 2018, respectively. JMP Securities’ ratio of aggregate indebtedness to net capital was 1.04 to 1 and 0.57 to 1 at September 30, 2019 and December 31, 2018, respectively.

A condensed table of cash flows for the nine months ended September 30, 2019 and 2018 is presented below.

<i>(Dollars in thousands)</i>	<b>Nine Months Ended September</b>		<b>Change from 2018 to 2019</b>	
	<b>30,</b>			
	<b>2019</b>	<b>2018</b>	<b>\$</b>	<b>%</b>
Cash flows provided by (used in) operating activities	\$ (30,428)	\$ 7,955	(38,383)	-482.5%
Cash flows used in investing activities	(60,810)	(313,385)	252,575	-80.6%
Cash flows provided by financing activities	7,671	289,838	(282,167)	-97.4%
Total cash flows	<u>\$ (83,567)</u>	<u>\$ (15,592)</u>	<u>\$ (67,975)</u>	<u>436.0%</u>

#### **Cash Flows for the nine months ended September 30, 2019**

Cash decreased by \$83.6 million during the nine months ended September 30, 2019 as a result of cash used in operating and investing activities, partially offset by cash provided by financing activities.

Our operating activities used \$30.4 million of cash from a net loss of \$0.2 million, adjusted for the cash used by operating assets and liabilities of \$28.8 million, the cash used by non-cash revenue and expense items of \$1.9 million and the cash received as investment income from equity method investments of \$0.5 million. The cash used by the change in operating assets and liabilities was primarily due to a decrease in accrued compensation of \$23.5 million, increases in other assets of \$10.2 million, increases in interest receivable of \$4.9 million, and decreases in interest payable of \$4.0 million, partially offset by a \$9.6 million decrease in marketable securities, and a \$6.9 million increase in other liabilities.

Our investing activities used \$60.8 million of cash primarily due to a \$35.2 million funding of loans collateralizing ABS issued, a \$27.8 million decrease in cash and restricted cash due to deconsolidation of subsidiaries, \$25.7 million of funding of loans held for investment, and \$12.5 million of purchases of other investments, partially offset by \$23.8 million of receipts from loans collateralizing ABS issued, \$10.7 million of receipts from sales and distributions from other investments, and \$7.2 million of receipts from loans held for investment.

Our financing activities provided \$7.7 million of cash primarily due to \$36.0 million of proceeds from a bond issuance, \$16.6 million of proceeds from draw downs on the line of credit, \$7.8 million of proceeds from the drawdowns on the CLO warehouse facility, partially offset by \$36.0 million repayments on bonds payable, \$8.6 million in purchases of common shares from treasury, \$2.7 million in distributions and distribution equivalents on common shares and RSUs, \$1.9 million of payments on bond issuance costs, \$1.6 million in repayments on the line of credit, and \$0.9 million of distributions to non-controlling interest shareholders.

#### **Cash Flows for the nine months ended September 30, 2018**

Cash decreased by \$15.6 million during the nine months ended September 30, 2018, as a result of cash used in investing activities, partially offset by cash provided by operating and financing activities.

Our operating activities provided \$8.0 million of cash from a net loss of \$1.8 million, adjusted for the cash used by operating assets and liabilities of \$0.9 million and the cash provided by provided by non-cash revenue and expense items of \$10.7 million. The cash used by the change in operating assets and liabilities was primarily due to a \$9.8 million decrease in accrued compensation, a \$2.3 million decrease in marketable securities sold, but not yet purchased, and a \$1.5 million decrease in receivables, partially offset by a \$6.9 million decrease in deposits and other assets, a \$3.9 million increase in interest payable, and a \$2.0 million increase in other liabilities.

Our investing activities used \$313.4 million of cash primarily due to a \$307.8 million funding of loans collateralizing ABS issued and \$312.0 million of funding for loans held for investment, partially offset by \$268.2 million of receipts from loans collateralizing ABS issued, \$26.7 million of receipts from loans held for investment, and \$13.9 million in sales or distributions from other investments.

Our financing activities provided \$289.8 million of cash primarily due to \$699.1 million of proceeds from the issuance of ABS issued, \$263.8 million of proceeds from draw downs on CLO warehouse facilities, \$4.5 million on proceeds from reissuance of ABS issued, and \$3.9 million of proceeds from the Repurchase Agreement, partially offset by the repurchase of \$332.1 million of ABS issued, \$10.0 million of repayments on bonds payable, \$5.9 million of distributions and distributions equivalents paid on common shares and RSUs, \$3.9 million of payments on the Repurchase Agreement, and \$1.9 million in payments on debt issuance costs.

#### **Contractual Obligations**

As of September 30, 2019, our aggregate minimum future commitment on our leases was \$30.6 million. See Note 9 of the notes to the consolidated financial statements for more information. Our remaining contractual obligations have not materially changed from those reported in our Annual Report.

## Off-Balance Sheet Arrangements

The Company had unfunded commitments to lend of \$0.8 million and \$1.4 million as of September 30, 2019 and December 31, 2018, respectively. Had the borrower drawn on these, the Company would have been obligated to fund them. The funds for the unfunded commitments to lend and the cash collateral supporting these standby letters of credit are included in restricted cash on the Consolidated Statements of Financial Position as of December 31, 2018. The CLO-related commitments do not extend to JMP Group LLC. See Note 22 of the notes to the consolidated financial statements for more information on the financial instruments with off-balance sheet risk in connection with the CLOs.

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

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

We had no other material off-balance sheet arrangements as of September 30, 2019. However, as described below under "Item 3. Quantitative and Qualitative Disclosures About Market Risk," through indemnification provisions in our clearing agreements with our clearing broker, customer activities may expose us to off-balance sheet credit risk, which we seek to mitigate through customer screening and collateral requirements.

## Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reporting periods. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. The use of different estimates and assumptions could produce materially different results. For example, if factors such as those described under the caption "Risk Factors" in our Annual Report cause actual events to differ from the assumptions we used in applying the accounting policies, our results of operations, financial condition and liquidity could be adversely affected.

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

- the nature of the estimates or assumptions is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates or assumptions on our financial condition or operating performance is material.

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

- *Valuation of Financial Instruments*
- *Asset Management Investment Partnerships*
- *Loans Collateralizing Asset-backed Securities Issued*
- *Allowance for Loan Losses*
- *Asset-backed Securities Issued*
- *Legal and Other Contingent Liabilities*
- *Income Taxes*
- *CLO Debt Securities*

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

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

Not Applicable.

**ITEM 4. Controls and Procedures**

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

**ITEM 5. Other Information**

## **PART II—OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

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

### **ITEM 1A. Risk Factors**

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

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

During the quarter ended September 30, 2019, no purchases of the Company's shares was made by or on behalf of JMP Group LLC. As of September 30, 2019, there were no shares available to be repurchased as part of publicly announced programs or plans.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

Not Applicable.

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

See Exhibit Index.



## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description</b>
4.13	<a href="#">Indenture dated as of September 26, 2019, between JMP Group LLC and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on September 26, 2019).</a>
4.14	<a href="#">First Supplemental Indenture dated as of September 26, 2019, between JMP Group LLC and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on September 26, 2019).</a>
4.15	<a href="#">Form of 6.875% Senior Note due 2029 (included as Exhibit A to Exhibit 4.14 above).</a>
10.30	<a href="#">Amendment Number Six to Second Amended and Restated Credit Agreement dated September 5, 2019, by and between JMP Holding LLC, as Borrower, the lenders party thereto and City National Bank, a national banking association, as the administrative agent for the lenders (incorporated by reference to Exhibit 10.30 to the Registrant's Form 8-K filed on September 6, 2019).</a>
10.31*	<a href="#">Amendment Number Ten to Revolving Note and Cash Subordination Agreement &amp; Revolving Note, dated June 6, 2019, by and between JMP Securities LLC and City National Bank, a national banking association.</a>
31.1*	<a href="#">Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document

\*Filed herewith

\*\* Furnished, not filed

**SIGNATURES**

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

Date: November 12, 2019

JMP Group LLC

By: \_\_\_\_\_ /s/ JOSEPH A. JOLSON  
**Name: Joseph A. Jolson**  
**Title: Chairman and Chief Executive Officer**

By: \_\_\_\_\_ /s/ RAYMOND S. JACKSON  
**Name: Raymond S. Jackson**  
**Title: Chief Financial Officer**

**AMENDMENT NUMBER TEN TO REVOLVING NOTE AND CASH SUBORDINATION AGREEMENT & REVOLVING NOTE**

This **AMENDMENT NUMBER TEN TO REVOLVING NOTE AND CASH SUBORDINATION AGREEMENT & REVOLVING NOTE** (this "Amendment"), effective as of June 6, 2019, is entered into by and between **JMP SECURITIES LLC**, a Delaware limited liability company ("Broker/Dealer"), and **CITY NATIONAL BANK**, a national banking association ("Lender"), and in light of the following:

**WITNESSETH**

**WHEREAS**, Broker/Dealer and Lender are parties to: (a) that certain Revolving Note and Cash Subordination Agreement, dated as of April 8, 2011 (as amended, restated, supplemented, or otherwise modified from time to time, the "Note Agreement"), and (b) that certain Revolving Note, dated as of April 8, 2011 (as amended, restated, supplemented, or otherwise modified from time to time, the "Note");

**WHEREAS**, **JMP HOLDING LLC**, formerly known as JMP Group LLC, a Delaware limited liability company ("JMP Holding Guarantor") guaranteed in favor of Lender, the obligations of Broker/Dealer under the Note Agreement and the Note pursuant to that certain General Continuing Guaranty, dated as of April 8, 2011 (as amended, restated, supplemented, or otherwise modified from time to time, the "JMP Holding Broker/Dealer Guaranty");

**WHEREAS**, **HARVEST CAPITAL STRATEGIES LLC**, formerly known as JMP Asset Management LLC, a Delaware limited liability company ("Harvest Guarantor") guaranteed in favor of Lender, the obligations of Broker/Dealer under the Note Agreement and the Note pursuant to that certain General Continuing Guaranty, dated as of April 30, 2014 (as amended, restated, supplemented, or otherwise modified from time to time, the "Harvest Broker/Dealer Guaranty");

**WHEREAS**, **JMP INVESTMENT HOLDING LLC**, a Delaware limited liability company ("JMP Investment Guarantor"); JMP Investment Guarantor, JMP Holding Guarantor, and Harvest Guarantor, collectively, the "Guarantors") guaranteed in favor of Lender, the obligations of Broker/Dealer under the Note Agreement and the Note pursuant to that certain General Continuing Guaranty, dated as of May 12, 2016 (as amended, restated, supplemented, or otherwise modified from time to time, the "JMP Investment Broker/Dealer Guaranty"; the JMP Investment Broker/Dealer Guaranty, the JMP Holding Broker/Dealer Guaranty and the Harvest Broker/Dealer Guaranty, collectively, the "Broker/Dealer Guaranties");

**WHEREAS**, Broker/Dealer has requested that the Lender make certain amendments to the Note Agreement and the Note; and

**WHEREAS**, upon the terms and conditions set forth herein, Lender is willing to accommodate the Broker/Dealer's requests.

**NOW, THEREFORE**, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Defined Terms. All initially capitalized terms used herein (including the preamble and recitals hereof) without definition shall have the meanings ascribed thereto in the Note Agreement, as amended hereby.

2. Amendments to Note Agreement

(a) Section 1(a) of the Note Agreement is hereby amended by replacing the reference to "6th day of June, 2019" with "8th day of June, 2020".

(b) Section 1(c) of the Note Agreement is hereby amended by replacing the reference to "6th day of June, 2020" with "7th day of June, 2021".

3. Amendments to Note

(a) The Note is hereby amended by replacing the reference to "6th day of June, 2020" with "7th day of June, 2021".

4. Conditions Precedent to Amendment. The satisfaction of each of the following shall constitute conditions precedent to the effectiveness of the Amendment (such date being the "Amendment Effective Date"):

(a) Lender shall have received this Amendment, duly executed by the parties hereto, and the same shall be in full force and effect.

(b) Lender shall have received the reaffirmation and consent of each the Guarantors attached hereto as Exhibit A, duly executed and delivered by an authorized officer of each Guarantor.

(c) After giving effect to this Amendment, the representations and warranties herein, in the Note Agreement, and in the Note shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of the date hereof, as though made on such date (except to the extent that such representations and warranties relate solely to an earlier date).

(d) No injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the consummation of the transactions contemplated herein shall have been issued and remain in force by any governmental entity against Broker/Dealer, any of the Guarantors, or Lender.

(e) No Events of Acceleration or Event of Default shall have occurred and be continuing or shall result from the consummation of the transactions contemplated herein.

(f) Pursuant to Section 19(b) of the Note Agreement, FINRA shall have provided prior written approval of this Amendment.

(g) All other documents and legal matters in connection with the transactions contemplated by this Amendment shall have been delivered, executed, or recorded and shall be in form and substance reasonably satisfactory to Lender.

5. Representations and Warranties. Broker/Dealer hereby represents and warrants to Lender as follows:

(a) It (i) is duly organized and existing and in good standing under the laws of the jurisdiction of its organization, (ii) is qualified to do business in any state where the failure to be so qualified reasonably could be expected to result in a material adverse effect, and (iii) has all requisite power and authority to own and operate its properties, to carry on its business as now conducted, to enter into this Amendment and carry out the transactions contemplated hereby.

(b) The execution, delivery, and performance by it of this Amendment (i) have been duly authorized by all necessary limited liability company action, (ii) do not and will not (A) violate any material provision of federal, state or local law, rule or regulation, or any order, judgment, decree, writ, injunction or award of any arbitrator, court or governmental entity binding on it or of any of the Guarantors, (B) violate the certificate of formation or limited liability company agreement of it or of any of the Guarantors, (C) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation of it or of any of the Guarantors, except to the extent that any such conflict, breach or default could not individually or in the aggregate reasonably be expected to have a material adverse effect, (D) result in or require the creation or imposition of any lien of any nature whatsoever upon any assets of Broker/Dealer, other than as expressly permitted by Lender, or (E) require any approval of Broker/Dealer's interest holders or any approval or consent of any person under any material contractual obligation of Broker/Dealer, other than consents or approvals that have been obtained and that are still in force and effect and except, in the case of a material contractual obligation, for consents or approvals, the failure of which to obtain could not individually or in the aggregate reasonably be expected to cause a material adverse effect.

(c) The execution, delivery and performance by Broker/Dealer of this Amendment, and the consummation of the transactions contemplated herein do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any governmental entity other than consents or approvals that have been obtained and that are still in force and effect.

(d) This Amendment, when executed and delivered by each person that is a party thereto, will constitute the legal, valid and binding obligation of it, enforceable against it in accordance with its respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally.

(e) As of the date hereof, no injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the consummation of the transactions contemplated herein has been issued and remains in force by any governmental entity against Broker/Dealer or any of the Guarantors.

(f) No Events of Acceleration or Event of Default has occurred and is continuing as of the date of the effectiveness of this Amendment, and no condition exists which constitutes an Event of Acceleration or an Event of Default.

(g) The representations and warranties set forth in this Amendment, the Note Agreement, and the Note, as amended by this Amendment and after giving effect hereto, are true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of the date hereof, as though made on such date (except to the extent that such representations and warranties relate solely to an earlier date).

6. Agreements. This Amendment has been entered into without force or duress, of the free will of Broker/Dealer, and the decision of Broker/Dealer to enter into this Amendment is a fully informed decision and Broker/Dealer is aware of all legal and other ramifications of each decision. It has read and understands this Amendment, has consulted with and been represented by independent legal counsel of its own choosing in negotiations for and the preparation of this Amendment, has read this Amendment in full and final form, and has been advised by its counsel of its rights and obligations hereunder and thereunder.

7. Payment of Costs and Fees. Broker/Dealer shall reimburse Lender on demand for all of its actual out-of-pocket costs, expenses, fees and charges in connection with the preparation, negotiation, execution and delivery of this Amendment and any documents and instruments relating hereto (which costs may include the reasonable fees and expenses of any attorneys retained by Lender).

8. Choice of Law. This Amendment and the rights of the parties hereunder, shall be governed by, and construed in accordance with, the laws of the State of California applicable to contracts made and to be performed in the State of California.

9. Amendments. This Amendment cannot be altered, amended, changed or modified in any respect or particular unless each such alteration, amendment, change or modification shall have been agreed to by each of the parties and reduced to writing in its entirety and signed and delivered by each party.

10. Counterpart Execution. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which, when executed and delivered, shall be deemed to be an original and all of which, when taken together, shall constitute but one and the same agreement. Delivery of an executed counterpart of this Amendment by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile or other electronic method of transmission shall deliver an original executed counterpart of this Amendment, but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment.

11. Effect on Note Agreement and Note.

(a) The Note Agreement and the Note, as amended hereby, shall be and remain in full force and effect in accordance with their respective terms and hereby are ratified and confirmed in all respects. Except for the amendments to the Note Agreement and the Note expressly set forth herein, the Note Agreement and the Note shall remain unchanged and in full force and effect. The execution, delivery and performance of this Amendment shall not operate, except as expressly set forth herein, as a modification or waiver of any right, power, or remedy of Lender under the Note Agreement or the Note. The amendments set forth herein are limited to the specifics hereof, and, except as expressly set forth herein, shall neither excuse any future non-compliance with the Note Agreement or the Note, nor operate as a waiver of any Event of Acceleration or Event of Default.

(b) Upon and after the effectiveness of this Amendment, each reference in the Note Agreement and the Note to "this Agreement", "hereunder", "herein", "hereof" or words of like import referring to the Note Agreement, and each reference in each of the Broker/Dealer Guaranties to "the Note Agreement", "thereunder", "therein", "thereof" or words of like import referring to the Note Agreement, shall mean and be a reference to the Note Agreement as modified and amended hereby.

(c) Upon and after the effectiveness of this Amendment, each reference in the Note Agreement and the Note to "the Revolving Note",

“hereunder”, “herein”, “hereof” or words of like import referring to the Note, and each reference in each of the Broker/Dealer Guaranties to “the Note”, “thereunder”, “therein”, “thereof” or words of like import referring to the Note, shall mean and be a reference to the Note as modified and amended hereby.

(d) To the extent any terms or provisions of this Amendment conflict with those of the Note Agreement or the Note, the terms and provisions of this Amendment shall control. To the extent that any terms and conditions shall contradict or be in conflict with any terms or conditions of the Note Agreement or the Note, after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Note Agreement and the Note as modified or amended hereby.

(e) Unless the context of this Amendment clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the terms “includes” and “including” are not limiting, and the term “or” has, except where otherwise indicated, the inclusive meaning represented by the phrase “and/or”.

12. Entire Agreement. This Amendment, and terms and provisions hereof, the Note Agreement, and the Note constitute the entire understanding and agreement between the parties hereto with respect to the subject matter hereof and supersedes any and all prior or contemporaneous amendments or understandings with respect to the subject matter hereof, whether express or implied, oral or written.

13. Reaffirmation of Obligations. The Broker/Dealer hereby restates, ratifies and reaffirms each and every term and condition set forth in the Note Agreement and the Note effective as of the date hereof and as amended hereby.

14. Severability. In case any provision in this Amendment shall be invalid, illegal or unenforceable, such provision shall be severable from the remainder of this Amendment and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

[Signature page follows]

IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date first above written.

**JMP SECURITIES LLC,**  
a Delaware limited liability company, as Broker/Dealer

By: /s/ Mark Lehmann  
Mark Lehmann  
President

**CITY NATIONAL BANK,**  
a national banking association, as Lender

By: /s/ Eric Lo  
Eric Lo  
Vice President

**Exhibit A**  
**REAFFIRMATION AND CONSENT**

All capitalized terms used herein without definition shall have the meanings ascribed thereto in: (a) that certain Revolving Note and Cash Subordination Agreement, dated as of April 8, 2012 (as amended, restated, supplemented, or otherwise modified from time to time, the “Note Agreement”) by and between **JMP SECURITIES LLC**, a Delaware limited liability company (“Broker/Dealer”) and **CITY NATIONAL BANK**, a national banking association (“Lender”), and (b) that certain Revolving Note, dated as of April 8, 2011 (as amended, restated, supplemented, or otherwise modified from time to time, the “Note”) by and between Broker/Dealer and Lender. Reference is made to: (a) that certain Amendment Number Ten to Revolving Note and Cash Subordination Agreement & Revolving Note, effective as of June 6, 2019 (the “Amendment”), by and between Broker/Dealer and Lender, (b) that certain General Continuing Guaranty, dated as of April 8, 2011 (as amended, restated, supplemented, or otherwise modified from time to time, the “JMP Holding Broker/Dealer Guaranty”) by **JMP HOLDING LLC**, formerly known as JMP Group LLC, a Delaware limited liability company (“JMP Holding Guarantor”), in favor of Lender, (c) that certain General Continuing Guaranty, dated as of April 30, 2014 (as amended, restated, or otherwise modified from time to time, the “Harvest Broker/Dealer Guaranty”) by **HARVEST CAPITAL STRATEGIES LLC**, formerly known as JMP Asset Management LLC, a Delaware limited liability company (“Harvest Guarantor”), in favor of Lender and (d) that certain General Continuing Guaranty, dated as of May 12, 2016 (as amended, restated, supplemented, or otherwise modified from time to time, the “JMP Investment Broker/Dealer Guaranty”; the JMP Investment Broker/Dealer Guaranty, the JMP Holding Broker/Dealer Guaranty and the Harvest Broker/Dealer Guaranty, collectively, the “Broker/Dealer Guaranties”) by **JMP INVESTMENT HOLDING LLC**, a Delaware limited liability company (“JMP Investment Guarantor”; the JMP Investment Guarantor, JMP Holding Guarantor and the Harvest Guarantor, collectively, the “Guarantors”), in favor of Lender. The undersigned Guarantors each hereby (a) represents and warrants to the Lender that the execution, delivery, and performance of this Reaffirmation and Consent are within its powers, have been duly authorized by all necessary limited liability company action, and are not in contravention of any law, rule, or regulation, or any order, judgment, decree, writ, injunction, or award of any arbitrator, court, or governmental entity, or of the terms of its certificate of formation and limited liability company agreement, or of any material contractual obligation to which it is a party or by which any of its properties may be bound or affected, except to the extent that any such conflict, breach or default could not individually or in the aggregate reasonably be expected to have a material adverse effect; (b) consents to the amendment of the Note Agreement and the Note as set forth in the Amendment and any waivers granted therein; (c) acknowledges and reaffirms its obligations owing to the Lender under the applicable Broker/Dealer Guaranty, as amended hereby; and (d) agrees that the Note Agreement and the Note shall remain in full force and effect, as amended hereby. Although each of the undersigned has been informed of the matters set forth herein and has acknowledged and agreed to same, they each understand that the Lender has no obligation to inform it of such matters in the future or to seek its acknowledgment or agreement to future amendments, and nothing herein shall create such a duty. Delivery of an executed counterpart of this Reaffirmation and Consent by telefacsimile or electronic mail shall be equally as effective as delivery of an original executed counterpart of this Reaffirmation and Consent. Any party delivering an executed counterpart of this Reaffirmation and Consent

by telefacsimile or electronic mail also shall deliver an original executed counterpart of this Reaffirmation and Consent but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Reaffirmation and Consent. This Reaffirmation and Consent shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, the undersigned have each caused this Reaffirmation and Consent to be executed as of the date of the Amendment.

**JMP HOLDING LLC** (formerly known as JMP Group LLC), a Delaware limited liability company

By: /s/ Raymond S. Jackson  
Raymond S. Jackson  
Chief Financial Officer

**HARVEST CAPITAL STRATEGIES LLC**  
(formerly known as JMP Asset Management LLC),  
a Delaware limited liability company

By: /s/ Raymond S. Jackson  
Raymond S. Jackson  
Chief Financial Officer

**JMP INVESTMENT HOLDINGS LLC,**  
a Delaware limited liability company

By: /s/ Raymond S. Jackson  
Raymond S. Jackson  
Chief Financial Officer

## JMP GROUP LLC

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER REQUIRED BY RULE 13A-14(A) OR RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.**

I, Joseph A. Jolson, certify that:

1. I have reviewed this quarterly report for the period ended September 30, 2019 on Form 10-Q of JMP Group LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that a) material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to b) provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal d) quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Joseph A. Jolson

Joseph A. Jolson

Chairman and Chief Executive Officer

(Principal Executive Officer)

## JMP GROUP LLC

**CERTIFICATION OF CHIEF FINANCIAL OFFICER REQUIRED BY RULE 13A-14(A) OR RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.**

I, Raymond S. Jackson, certify that:

1. I have reviewed this quarterly report for the period ended September 30, 2019 on Form 10-Q of JMP Group LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that a) material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to b) provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal d) quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Raymond S. Jackson  
Raymond S. Jackson  
Chief Financial Officer  
(Principal Financial Officer)



JMP GROUP LLC

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.**

In connection with the periodic report of JMP Group LLC (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Joseph A. Jolson, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 12, 2019

/s/ Joseph A. Jolson  
Joseph A. Jolson  
Chief Executive Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

JMP GROUP LLC

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.**

In connection with the periodic report of JMP Group LLC (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Raymond S. Jackson, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 12, 2019

/s/ Raymond S. Jackson  
Raymond S. Jackson  
Chief Financial Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.