

JMP Group Inc.  
Form 10-Q  
October 31, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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**(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, 2013 OR**

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

**For the transition period from      to**

**Commission File Number: 001-33448**

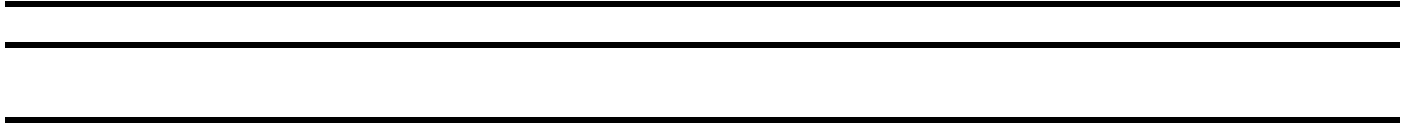
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**JMP Group Inc.**

**(Exact name of registrant as specified in its charter)**



The number of shares of the Registrant's common stock, par value \$0.001 per share, outstanding as of October 30, 2013 was 21,848,146.



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## AVAILABLE INFORMATION

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

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

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

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Assets		
Cash and cash equivalents	\$55,740	\$ 67,075
Restricted cash and deposits (includes cash on deposit with clearing broker of \$150 at both September 30, 2013 and December 31, 2012)	84,788	69,813
Receivable from clearing broker	1,304	1,117
Investment banking fees receivable, net of allowance for doubtful accounts of zero at September 30, 2013 and December 31, 2012	13,957	5,148
Marketable securities owned, at fair value	19,569	14,347
Incentive fee receivable	2,960	2,945
Other investments (of which \$169,229 and \$80,945 are recorded at fair value at September 30, 2013 and December 31, 2012, respectively)	169,413	81,161
Loans held for sale	-	3,134
Loans held for investment, net of allowance for loan losses	667	150
Small business loans	-	38,934
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	709,403	401,003
Interest receivable	1,009	1,229
Fixed assets, net	2,237	2,663
Deferred tax assets	9,237	13,087
Other assets	13,036	8,056
Total assets	\$1,083,320	\$ 709,862
Liabilities and Equity		
Liabilities:		
Marketable securities sold, but not yet purchased, at fair value	\$ 15,397	\$ 11,567
Accrued compensation	34,459	20,256

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Asset-backed securities issued	722,279	415,456
Interest payable	4,417	588
Note payable	17,184	10,486
Line of credit	-	28,227
Bond payable	46,000	-
Deferred tax liability	3,095	9,775
Other liabilities	22,278	26,203
Total liabilities	865,109	522,558
Redeemable Non-controlling Interest	-	161
Commitments and Contingencies		
JMP Group Inc. Stockholders' Equity		
Common stock, \$0.001 par value, 100,000,000 shares authorized; 22,780,052 shares issued at both September 30, 2013 and December 31, 2012; 21,961,227 and 22,591,649 shares outstanding at September 30, 2013 and December 31, 2012	23	23
Additional paid-in capital	131,548	128,318
Treasury stock, at cost, 818,825 and 188,403 shares at September 30, 2013 and December 31, 2012	(5,124 )	(1,007 )
Accumulated other comprehensive loss	(14 )	(55 )
Accumulated deficit	(2,693 )	(408 )
Total JMP Group Inc. stockholders' equity	123,740	126,871
Nonredeemable Non-controlling Interest	94,471	60,272
Total equity	218,211	187,143
Total liabilities and equity	\$1,083,320	\$ 709,862

See accompanying notes to consolidated financial statements.

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

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Cash and cash equivalents	\$ 150	\$ -
Restricted cash	68,113	56,968
Loans held for sale	-	3,134
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	709,403	401,003
Interest receivable	1,717	1,062
Incentive fees receivable	495	-
Deferred tax assets	2,438	3,387
Other assets	3,120	32
Total assets of consolidated VIEs	\$ 785,436	\$ 465,586
Asset-backed securities issued	722,279	415,456
Note payable	2,500	-
Interest payable	3,603	542
Deferred tax liability	2,756	8,437
Other liabilities	5,896	3,573
Total liabilities of consolidated VIEs	\$ 737,034	\$ 428,008

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

See accompanying notes to consolidated financial statements.





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

	<b>Three Months Ended September 30, 2013</b>		<b>Nine Months Ended September 30, 2013</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Revenues				
Investment banking	\$19,137	\$12,218	\$52,301	\$38,010
Brokerage	5,750	5,371	17,924	16,275
Asset management fees	5,328	3,755	15,606	10,721
Principal transactions	640	(1,955 )	4,849	12,309
Gain on sale and payoff of loans and mark-to-market of loans	166	564	1,591	3,016
Net dividend income (expense)	243	(2 )	290	(25 )
Other income	267	365	581	3,507
Non-interest revenues	31,531	20,316	93,142	83,813
Interest income	8,734	8,333	24,603	24,051
Interest expense	(4,421 )	(10,087 )	(25,825 )	(29,573 )
Net interest income (expense)	4,313	(1,754 )	(1,222 )	(5,522 )
Provision for loan losses	(467 )	65	(2,391 )	(1,135 )
Total net revenues after provision for loan losses	35,377	18,627	89,529	77,156
Non-interest expenses				
Compensation and benefits	24,685	17,358	69,066	55,833
Administration	1,919	1,645	7,255	4,604
Brokerage, clearing and exchange fees	939	902	2,851	2,656
Travel and business development	994	746	2,991	2,435
Communications and technology	907	909	2,592	2,642
Occupancy	822	814	2,434	2,352
Professional fees	632	967	2,468	2,324
Depreciation	231	227	695	642
Other	342	67	649	282
Total non-interest expenses	31,471	23,635	91,001	73,770
Income (loss) before income tax expense	3,906	(5,008 )	(1,472 )	3,386
Income tax expense (benefit)	1,634	(884 )	178	(1,423 )
Net income (loss)	2,272	(4,124 )	(1,650 )	4,809
	(1,017 )	(2,817 )	(1,785 )	7,380

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Less: Net (loss) income attributable to nonredeemable non-controlling interest

Income (loss) attributable to JMP Group Inc.	\$3,289	\$(1,307 )	\$135	\$(2,571 )
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Net income (loss) attributable to JMP Group Inc. per common share:

Basic	\$0.15	\$(0.06 )	\$0.01	\$(0.11 )
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Diluted	\$0.14	\$(0.06 )	\$0.01	\$(0.11 )
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Dividends declared per common share	\$0.035	\$0.035	\$0.105	\$0.100
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Weighted average common shares outstanding:

Basic	22,014	22,737	22,271	22,564
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Diluted	22,713	22,737	22,669	22,564
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See accompanying notes to consolidated financial statements.

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

	<b>Three Months Ended September 30, 2013</b>		<b>Nine Months Ended September 30, 2013</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income (loss)	\$2,272	\$(4,124)	\$(1,650)	\$4,809
Other comprehensive income (loss)				
Unrealized gain on cash flow hedge, net of tax	13	14	41	34
Comprehensive income (loss)	2,285	(4,110)	(1,609)	4,843
Less: Comprehensive (loss)/income attributable to non-controlling interest	(1,017)	(2,817)	(1,785)	7,380
Comprehensive income (loss) attributable to JMP Group Inc.	\$3,302	\$(1,293)	\$176	\$(2,537)

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

<b>JMP Group Inc. Stockholders' Equity</b>								
<b>Common Stock</b>	<b>Treasury Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings/ Accumulated Deficit</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Nonredeemable Non-controlling Interest</b>	<b>Total Equity</b>		
<b>Shares</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>		
<b>Balance, December 31, 2012</b>	22,780	\$ 23	\$(1,007)	\$ 128,318	\$(408)	\$ (55)	\$ 60,272	\$ 187,143

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Net income (loss)	-	-	-	-	135	-	(1,785)	(1,650)
Additonal paid-in capital - stock-based compensation	-	-	-	3,150	-	-	-	3,150
Dividends and dividend equivalents declared on common stock and restricted stock units	-	-	-	-	(2,420)	-	-	(2,420)
Purchases of shares of common stock for treasury	-	-	(4,342)	-	-	-	-	(4,342)
Reissuance of shares of common stock from treasury	-	-	225	80	-	-	-	305
Distributions to non-controlling interest holders	-	-	-	-	-	-	(3,552)	(3,552)
Unrealized gain on cash flow hedge, net of tax	-	-	-	-	-	41	-	41
Capital contributions from non-controlling interest holders	-	-	-	-	-	-	62,725	62,725
Reorganization/dissolution of subsidiaries (Note 2)	-	-	-	-	-	-	(23,189)	(23,189)
<b>Balance, September 30, 2013</b>	22,780	\$ 23	\$(5,124)	\$ 131,548	\$(2,6930	\$ (14)	\$ 94,471	\$ 218,211

See accompanying notes to consolidated financial statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
Cash flows from operating activities:		
Net (loss) income	\$(1,650 )	\$4,809
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for doubtful accounts	2	-
Provision for loan losses	2,391	1,135
Accretion of deferred loan fees	(1,522 )	(928 )
Amortization of liquidity discount, net	14,911	21,631
Amortization of debt issuance costs	31	-
Amortization of original issuance discount, related to CLO II	360	-
Interest paid in kind	(284 )	(129 )
Gain on sale and payoff of loans	(1,591 )	(2,643 )
Change in other investments:		
Fair value	(3,850 )	(7,091 )
Incentive fees reinvested in general partnership interests	(5,424 )	(2,216 )
Change in fair value of small business loans	(90 )	(120 )
Realized gain on other investments	(175 )	(2,280 )
Depreciation and amortization of fixed assets	695	642
Stock-based compensation expense	3,883	582
Deferred income taxes	(2,830 )	(907 )
Net change in operating assets and liabilities:		
Decrease (increase) in interest receivable	220	(217 )
Increase in receivables	(9,585 )	(8,685 )
(Increase) decrease in marketable securities	(5,222 )	9,827
Decrease (increase) in restricted cash (excluding restricted cash reserved for lending activities), deposits and other assets	13,703	(22 )
Increase in marketable securities sold, but not yet purchased	3,830	462
Increase (decrease) in interest payable	3,829	(4 )
Increase (decrease) in accrued compensation and other liabilities	10,642	(11,195 )
Net cash provided by operating activities	22,274	2,651
Cash flows from investing activities:		
Purchases of fixed assets	(269 )	(1,167 )
Investment in subsidiary	(17,325 )	-
Purchases of other investments	(80,058 )	(19,873 )
Sales of other investments	9,873	10,478

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Funding of loans collateralizing asset-backed securities issued	(494,924)	(122,542)
Funding of small business loans	(1,451 )	(18,459 )
Funding of loans held for investment	(517 )	-
Sale and payoff of loans collateralizing asset-backed securities issued	157,951	111,681
Principal receipts on loans collateralizing asset-backed securities issued	33,066	25,453
Net change in restricted cash reserved for lending activities	325,625	(14,615 )
Cash associated with consolidation / deconsolidation of subsidiaries	(13,343 )	-
Net cash used in investing activities	(81,372 )	(29,044 )

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Cash flows from financing activities:		
Proceeds from issuance of note payable	15,000	-
Proceeds from borrowing on line of credit	-	9,987
Proceeds from bond issuance	46,000	-
Payments of debt issuance costs	(1,694 )	-
Repayments of borrowing on line of credit	(28,227)	-
Repayment of note payable	(8,302 )	(6,552 )
Repayment of asset-backed securities issued	(20,647)	-
Dividends and dividend equivalents paid on common stock and RSUs	(2,420 )	(2,279 )
Purchases of shares of common stock for treasury	(4,342 )	(4,839 )
Cash settlement of share-based compensation	(427 )	-
Capital contributions of redeemable non-controlling interest holders	134	110
Capital contributions of nonredeemable non-controlling interest holders	56,240	24,565
Distributions to non-controlling interest shareholders	(3,552 )	(5,272 )
Net cash provided by financing activities	47,763	15,720
Net decrease in cash and cash equivalents	(11,335)	(10,673)
Cash and cash equivalents, beginning of period	67,075	70,363
Cash and cash equivalents, end of period	\$55,740	\$59,690
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$5,938	\$4,669
Cash paid during the period for taxes	\$7,046	\$839
Non-cash investing and financing activities:		
Issuance of shares of common stock from treasury related to vesting of restricted stock units and exercises of stock options	\$225	\$7,430

See accompanying notes to consolidated financial statements.



**JMP GROUP INC.**

**Notes to Consolidated Financial Statements**

**September 30, 2013**

**(Unaudited)**

**1. Organization and Description of Business**

JMP Group Inc., together with its subsidiaries (collectively, the “Company”), is an independent investment banking and asset management firm headquartered in San Francisco, California. The Company conducts its brokerage business through JMP Securities LLC (“JMP Securities”), its asset management business through Harvest Capital Strategies LLC (“HCS”), and HCAP Advisors LLC (“HCAP Advisors”), its corporate credit business through JMP Credit Corporation (“JMP Credit”), JMP Credit Advisors LLC (“JMPCA”) and certain principal investments through JMP Capital LLC (“JMP Capital”). 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, 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. From September 2011 through May 2, 2013, the Company also conducted corporate credit business through partly owned Harvest Capital Credit LLC (“HCC LLC”). On December 26, 2012, Harvest Capital Credit Corporation (“HCC”) filed a registration statement on Form N-2 with the SEC in connection with a proposed initial public offering as a Business Development Company (“BDC”) under the Investment Company Act of 1940. On May 2, 2013, HCC priced its initial public offering. On December 18, 2012, HCAP Advisors was formed as a Delaware Limited Liability Company. Effective May 1, 2013, HCAP Advisors provides investment advisory services. On April 30, 2013, the Company, through JMPCA CLO II Ltd (“CLO II”) closed a CLO, managed by JMPCA.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

These consolidated financial statements and related notes are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in its 2012 10-K. These consolidated

financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for the fair statement of the results for the interim periods. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

The consolidated accounts of the Company include the wholly-owned subsidiaries, JMP Securities, HCS, JMP Capital, JMP Credit, JMPCA, and the partly-owned subsidiaries Harvest Growth Capital LLC (“HGC”), CLO I, HCC LLC (through May 2, 2013), Harvest Growth Capital II LLC (“HGC II”) (effective October 1, 2012), CLO II (effective April 30, 2013) and HCAP Advisors (effective May 1, 2013). All material intercompany accounts and transactions have been eliminated in consolidation. Non-controlling interest on the Consolidated Statements of Financial Condition at September 30, 2013 and December 31, 2012 relate to the interest of third parties in the partly-owned subsidiaries.

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

#### *Recent Business Transactions*

On April 25, 2013, HCC entered into an acquisition agreement with HCC LLC. Pursuant to this acquisition agreement, immediately prior to the election to be treated as a BDC under the 1940 Act, HCC acquired HCC LLC, and the holders of membership interests in HCC LLC received shares of HCC common stock in exchange for their interests in HCC LLC. The outstanding limited liability company units of HCC LLC were converted into a number of shares of HCC common stock equal to (i) \$33.7 million (*i.e.*, the net asset value of HCC LLC as of December 31, 2012), plus the proceeds of sales of membership interests by HCC LLC since December 31, 2012, plus the reclassification of mezzanine equity to members capital, and minus distributions of pre - December 31, 2012 earnings made by HCC LLC after December 31, 2012, divided by (ii) \$15.00 per share of HCC common stock. In connection with the merger, the number of units underlying each warrant, and the exercise price thereof, were converted into its common stock equivalent. HCC assumed and succeeded to all of the assets and liabilities of HCC LLC, including its obligations under the revolving credit facility with JMP Group, as amended. The conversion of units to shares and HCC LLC to HCC did not result in a change of control, or a change in management. The conversion was a transaction to change corporate form in preparation for the IPO. HCC engaged HCAP Advisors LLC to act as its adviser. Subject to the overall supervision of the HCC independent board of directors, HCAP Advisors manages HCC's day-to-day operations and provides investment advisory services. On May 2, 2013, HCC priced its initial public offering of 3.4 million shares of its common stock at a price of \$15.00 per share, raising \$51.0 million in gross proceeds. The underwriters of the offering were granted a 30-day option to purchase up to an additional 433,333 shares of common stock from the company. That option was exercised on May 15, raising an additional \$6.5 million. After the offering, the Company's ownership of HCC was 11.6%. The Company performed a consolidation analysis at the time of the offering. Because of its current ownership and management position, the Company deconsolidated HCC effective May 2, 2013. The Company accounts for its investment in HCC using the fair value option.



On April 3, 2013, entities sponsored by JMP Group Inc. priced a \$343.8 million CLO. The senior notes offered in this transaction (the "Secured Notes") were issued by JMP Credit Advisors CLO II Ltd., a special purpose Cayman vehicle, and co-issued in part by JMP Credit Advisors CLO II LLC, a special purpose Delaware vehicle, and were backed by a diversified portfolio of broadly syndicated leveraged loans. The Secured Notes were issued in multiple tranches and are rated by Standard & Poor's Ratings Services and, in respect of certain tranches, Moody's Investors Service, Inc. The Secured Notes were priced with a weighted average coupon of three-month LIBOR plus 1.86%. The Company, through a wholly-owned subsidiary, retained \$17.3 million of the subordinated notes of the Issuer (the "Subordinated Notes"). The Subordinated Notes do not bear interest and are not rated. The transaction closed on April 30, 2013. The Company manages CLO II, and owns approximately 73% of the Subordinated Notes.

HCAP Advisors was formed on December 18, 2012. HCAP Advisors appointed JMP Group LLC as its Manager effective May 1, 2013, and began offering investment advisory services. The Company owns a 51% equity interest in HCAP Advisors. HCAP Advisors borrowed \$2.5 million from JMP Capital LLC, to be repaid in quarterly installments, commencing on the last business day of March 2015, with the last such installment due and payable on December 31, 2017. HCAP Advisors used these funds to pay the underwriters a portion of the sales load in the amount of \$2.5 million, related to the IPO of HCC. HCC is not obligated to repay the portion of the sales load paid by HCAP Advisors.

The Company follows the authoritative accounting guidance for the consolidation of variable interest entities ("VIEs"). Such guidance applies to VIEs, which are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficiency of equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. When the Company enters into a transaction with a VIE, the Company determines if it is the primary beneficiary of the VIE by performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, related party relationships, the Company's fee arrangements and the design of the VIE. The Company performed this analysis for HCAP Advisors and CLO II, and concluded they were VIEs and that the Company is the primary beneficiary for both. As a result, the Company consolidates the assets and liabilities of both entities. The underlying loans owned by CLO II are shown on the Consolidated Statements of Financial Condition under loans collateralizing asset-backed securities issued and the asset-backed securities ("ABS") issued to third parties are shown under asset-backed securities issued. See Note 5 and Note 7 for information pertaining to the loans owned and ABS issued by CLO II, respectively.

On August 6, 2013, JMP Capital LLC made a \$0.5 million investment in RB Multifamily LLC ("RMI"), an investment company which invests in real estate joint ventures. On September 20, 2013, the Company made a subsequent investment of \$2.2 million. The Company elected to account for its 31.25% equity interest in RMI using the fair value option. The primary reason for electing the fair value option was to measure the gains on the investments on the same basis as the other equity securities, all of which are stated at fair value. The Company uses net asset value as a practical expedient to estimate fair value. The gains on the investments in RMI are reported in Principal Transactions in the Consolidated Statements of Operation.

### 3. Recent Accounting Pronouncements

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

#### 4. Fair Value Measurements

The following tables provide fair value information related to the Company's financial instruments at September 30, 2013 and December 31, 2012:

<i>(In thousands)</i>	<b>At September 30, 2013</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	\$55,740	\$55,740	\$-	\$-	\$55,740
Restricted cash and deposits	84,788	84,788	-	-	84,788
Marketable securities owned	19,569	19,569	-	-	19,569
Other investments	169,413	10,611	62,757	95,861	169,229
Loans held for investment, net of allowance for loan losses	667	-	-	568	568
Loans collateralizing asset-backed securities issued, net of allowance for loan losses	709,403	-	718,107	-	718,107
Long term receivable	1,090	-	-	1,330	1,330
Total assets:	\$1,040,670	\$170,708	\$780,864	\$97,759	\$1,049,331
<b>Liabilities:</b>					
Marketable securities sold, but not yet purchased	\$15,397	\$15,397	\$-	\$-	\$15,397
Asset-backed securities issued	722,279	-	708,946	-	708,946
Bond payable	46,000	-	46,495	-	46,495
Note payable	17,184	-	17,184	-	17,184
Total liabilities:	\$800,860	\$15,397	\$772,625	\$-	\$788,022

<i>(In thousands)</i>	<b>At December 31, 2012</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	\$67,075	\$67,075	\$-	\$-	\$67,075
Restricted cash and deposits	69,813	69,813	-	-	69,813
Marketable securities owned	14,347	14,347	-	-	14,347
Other investments	81,161	865	28,137	51,943	80,945
Loans held for investment, net of allowance for loan losses	150	-	-	150	150
Loans held for sale	3,134	-	3,134	-	3,134
Small business loans	38,934	-	3,487	35,447	38,934
	401,003	-	406,313	5,716	412,029

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Loans collateralizing asset-backed securities issued, net of allowance for loan losses

Long term receivable	1,342	-	-	1,647	1,647
Total assets:	\$676,959	\$152,100	\$441,071	\$94,903	\$688,074

**Liabilities:**

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

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*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, 2013 and December 31, 2012:

<i>(In thousands)</i>	<b>September 30, 2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Marketable securities owned	\$19,569	\$-	\$-	\$19,569
Other investments:				
Investments in hedge funds managed by HCS	-	60,184	-	60,184
Investments in funds of funds managed by HCS	-	-	130	130
Total investment in funds managed by HCS	-	60,184	130	60,314
Investments in private equity/ real estate funds	-	-	4,944	4,944
Warrants and other held at JMPS and JMPG LLC	-	-	1,286	1,286
Equity securities in HCC	10,549	-	-	10,549
Equity securities in HGC, HGC II and JMP Capital	62	2,573	83,425	86,060
Forward purchase contract	-	-	6,076	6,076
Total other investments	10,611	62,757	95,861	169,229
<b>Total assets:</b>	<b>\$30,180</b>	<b>\$62,757</b>	<b>\$95,861</b>	<b>\$188,798</b>
Marketable securities sold, but not yet purchased	15,397	-	-	15,397
<b>Total liabilities:</b>	<b>\$15,397</b>	<b>\$-</b>	<b>\$-</b>	<b>\$15,397</b>

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



Marketable securities sold, but not yet purchased	11,567	-	-	11,567
<b>Total liabilities:</b>	\$11,567	\$-	\$-	\$11,567

The Company holds a limited partner investment in a private equity fund. This fund aims to achieve medium to long-term capital appreciation by investing in a diversified portfolio of technology companies that leverage the growth of Greater China. The Company also holds an investment in a real estate fund, which aims to generate revenue stream from investments in real estate joint ventures.

The Company's Level 2 assets held in other investments consist of small business loans (through May 2, 2013), investments in hedge funds managed by HCS, and equity securities in HGC, HGC II, and JMP Capital. The fair value of the Level 2 small business loans is calculated using the average market bid and ask quotation obtained from a loan pricing service. The fair value of the investment in hedge funds is calculated using the net asset value. These assets are considered Level 2, as the underlying hedge funds are mainly invested in publicly traded stocks whose value is based on quoted market prices. The Level 2 equity securities in HGC, HGC II, and JMP Capital reflect investments in public securities, where the Company is subject to a lockup period. The fair value of the Level 2 equity securities in HGC, HGC II and JMP Capital is calculated by applying a discount rate to the quoted market prices of the portfolio securities due to lack of marketability.

The tables below provide a reconciliation of the beginning and ending balances for the assets held at fair value using significant unobservable inputs (Level 3) for the three months ended September 30, 2013 and 2012.

<i>(In thousands)</i>	Balance as of  June 30,  2013	Purchases	Sales	Settlements	Total gains (losses)		Balance as of  September 30,  2013	Unrealized gains/(losses)  included in earnings related to assets still held at reporting date
					- realized and unrealized included in earnings (1)	Transfers out of Level 3 / Deconsolidation in		
General partner investment in funds of funds	\$ 128	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ 130	\$ 2
Investment in private equity/ real estate funds	2,691	2,734	-	(634)	153	-	4,944	153
Warrants and other held at JMPS/JMPG	783	-	-	-	503	-	1,286	503
Equity securities in HGC, HGC II and JMP Capital	77,741	9,884	-	-	(1,628)	(2,572)	83,425	(1,628)
Forward purchase contract	5,000	-	-	-	1,076	-	6,076	1,076
Total Level 3 assets	\$86,343	\$ 12,618	\$ -	\$ (634)	\$ 106	\$ (2,572)	\$ 95,861	\$ 106

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

<i>(In thousands)</i>	Balance as of  June 30,  2012	Purchases	Sales	Settlements	Total gains (losses)		Balance as of  September 30,  2012	Unrealized gains/(losses)  included in earnings related to assets still held at reporting date
					- realized and unrealized included in earnings (1)	Transfers out of Level 3		

	<b>earnings</b>						<b>held at</b>	
	<b>(1)</b>						<b>reporting</b>	
							<b>date</b>	
General partner investment in funds of funds	\$ 104	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 105	\$ 1
Investment in private equity fund	2,741	25	-	-	(322)	-	2,444	(322)
Warrants and other held at JMPS/JMPG	782	-	-	-	(113)	-	669	(113)
Warrants and other held at HCC LLC	100	206	-	-	-	-	306	-
Small business loans	16,478	3,306	-	-	318		20,102	318
Equity securities in HGC, HGC II and JMP Capital	35,976	2,771	-	-	(3,070)	(300)	35,377	(3,070)
Forward purchase contract	7,424	-	-	-	(887)	-	6,537	(887)
Total Level 3 assets	\$ 63,605	\$ 6,308	\$ -	\$ -	\$ (4,073)	\$ (300)	\$ 65,540	\$ (4,073)

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

The tables below provide a reconciliation of the beginning and ending balances for the assets held at fair value using significant unobservable inputs (Level 3) for the nine months ended September 30, 2013 and 2012.

<i>(In thousands)</i>	<b>Balance as of December 31, 2012</b>	<b>Purchases</b>	<b>Sales</b>	<b>Settlements</b>	<b>Total gains (losses) - realized and unrealized included in earnings (1)</b>	<b>Transfers out of Level 3 / Deconsolidation</b>	<b>Balance as of September 30, 2013</b>	<b>Unrealized gains/(losses) included in earnings related to assets still held at reporting date</b>
General partner investment in funds of funds	\$ 109	\$ -	\$ -	\$ -	\$ 21	\$ -	\$ 130	\$ 21
Investment in private equity/ real estate funds	2,332	2,734	-	(634)	512	-	4,944	512
Warrants and other held at JMPS/JMPG	413	42	-	-	831	-	1,286	831
Warrants and other held at HCC LLC	2,577	100	-	-	425	(3,102)	-	-
Small business loans	35,447	1,771	(43)	-	30	(37,205)	-	-
Equity securities in HGC, HGC II and JMP Capital	41,075	45,922	-	-	(1,000)	(2,572)	83,425	(1,000)
Forward purchase contract	5,437	-	-	-	639	-	6,076	639
<b>Total Level 3 assets</b>	<b>\$ 87,390</b>	<b>\$ 50,569</b>	<b>\$(43)</b>	<b>\$( 634)</b>	<b>\$ 1,458</b>	<b>\$ (42,879)</b>	<b>\$ 95,861</b>	<b>\$ 1,003</b>

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

<i>(In thousands)</i>	<b>Balance as of December 31, 2011</b>	<b>Purchases</b>	<b>Sales</b>	<b>Settlements</b>	<b>Total gains (losses)</b>	<b>Transfers out of Level</b>	<b>Balance as of September 30,</b>	<b>Unrealized gains/(losses)</b>
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					-	3	2012	included in earnings related to assets still held at reporting date
					realized and unrealized			
					included in earnings (1)			
General partner investment in funds of funds	\$ 102	\$ -	\$ -	\$ -	\$ 3	\$ -	\$ 105	\$ 3
Investment in private equity fund	2,585	25	-	(49)	(117)	-	2,444	(117)
Warrants and other held at JMPS	617	2	-	-	50	-	669	50
Warrants and other held at HCC LLC	-	306	-	-	-	-	306	-
Small business loans	3,902	16,513	(500)	-	187	-	20,102	187
Equity securities in HGC and JMP Capital	20,707	12,273	-	-	3,610	(1,213)	35,377	3,610
Forward purchase contract	-	5,000	-	-	1,537	-	6,537	1,537
Total Level 3 assets	\$ 27,913	\$ 34,119	\$ (500)	\$ (49)	\$ 5,270	\$ (1,213)	\$ 65,540	\$ 5,270

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

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

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

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

There was one transfer into Level 1 for the three and nine months ended September 30, 2013, as a result of the expiration of the lockup discount on the Company's investment in HCC. There were transfers into Level 2 from Level 3 of \$2.6 million for the three months ended September 30, 2013, as a result of the observability of fair value

associated with the equity securities in HGC and JMP Capital. There were transfers into Level 2 from Level 3 of \$1.2 million for the nine months ended September 30, 2012, as a result of the observability of fair value associated with the equity securities in HGC and JMP Capital. There were no other transfers in or out of Level 1, Level 2 or Level 3 during the three or nine months ended September 30, 2013 and 2012.

In connection with the deconsolidation of HCC LLC, Level 3 assets previously consolidated are no longer reflected in the Company's assets as of the second quarter of 2013. The deconsolidation resulted in the exclusion of \$3.1 million warrants and other equity and \$37.2 million in small business loans from the Company's Level 3 assets.

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

Included in other investments are investments in partnerships in which one of the Company's subsidiaries is the investment manager and general partner. The Company accounts for these investments using the equity method as described in Note 2 - Summary of Significant Accounting Policies in the Company's 2012 10-K. The Company's proportionate share of those investments is included in the tables above. In addition, other investments include warrants and investments in funds managed by third parties. The investments in private investment funds managed by third parties are generally not redeemable at the option of the Company. As of September 30, 2013, the Company had unfunded investment commitments of \$0.1 million related to private investment funds managed by third parties.

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

<i>Dollars in thousands</i>	<b>Fair Value at</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range</b>			
	<b>September 30, 2013</b>			<b>(Weighted Average)</b>			
Investments in Funds of Funds managed by HCS (1)	\$ 130	Net Asset Value	N/A	N/A			
Investments in private equity/real estate funds (1)	\$ 4,944	Net Asset Value	N/A	N/A			
Warrants and other held at JMPS/JMPG	\$ 1,286	Black-Scholes Option Model	Annualized volatility of credit	0.0%	-	16.3%	(14.4%)
			Risk adjusted discount factor	0.0%	-	75.0%	(1.1%)
Equity securities in HGC, HGC II and JMP Capital	\$ 83,425	Market comparable companies	Revenue multiples	1.6x	-	10.1x	(4.9x)
			EBITDA multiples	13.4x	-	33.5x	(21.0x)
			Discount for lack of marketability	30%	-	40%	(32%)
		Market transactions	Revenue multiples	3.3x	-	6.8x	(5.4x)

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Forward purchase contract	\$ 6,076	Market comparable companies	EBITDA multiples	11.8x	-	27.9x	(17.6x)
			Control premium			25%	
			Revenue multiples	8.0x	-	10.1x	(8.9x)
		Market transactions	Billing multiples	6.8x	-	8.6x	(7.6x)
			Discount for lack of marketability			30%	
			Revenue multiples			6.7x	
			Control premium			25%	

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

<i>Dollars in thousands</i>	<b>Fair Value at</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range</b>		
				<b>(Weighted Average)</b>		
	<b>December 31, 2012</b>					
Investments in Funds of Funds managed by HCS (1)	\$ 109	Net Asset Value	N/A			N/A
Investment in private equity fund (1)	\$ 2,332	Net Asset Value	N/A			N/A
Warrants and Other held at JMPS	\$ 413	Black-Scholes Option Model	Annualized volatility of credit	16.2%	-	28.9% (16.8%)
Warrants and equity held at HCC LLC	\$ 2,577	Market comparable companies	EBITDA multiples	3.8x	-	9.3x (8.5x)
		Income	Weighted average cost of capital	10.0%	-	18.0% (15.6%)
Small business loans	\$ 35,447	Bond yield	Risk adjusted discount factor	8.5%	-	16.2% (13.2%)
		Market comparable companies	EBITDA multiples	3.8x	-	9.3x (8.5x)
		Income	Weighted average cost of capital	10.0%	-	18.0% (15.6%)
			Expected principal recovery	0.0%	-	100.0% (100.0%)
	\$ 41,075		Revenue multiples	2.1x	-	7.3x (3.5x)



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Equity securities in HGC and JMP Capital		Market comparable companies	EBITDA multiples	8.8x	-	22.9x	(15.8x)
			Discount for lack of marketability	30%	-	40%	(34%)
		Market transactions	Revenue multiples	3.2x	-	11.7x	(5.2x)
			EBITDA multiples	11.7x	-	19.8x	(15.4x)
			Control premium			25%	
Forward purchase contract	\$ 5,437	Market comparable companies	Revenue multiples	6.7x	-	8.1x	(7.3x)
			Billing multiples	6.0x	-	7.2x	(6.5x)
			Discount for lack of marketability			30%	
		Market transactions	Revenue multiples			6.3x	
			Control premium			25%	

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

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

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

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

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

*Non-recurring Fair Value Measurements*

The Company's assets that are measured at fair value on a non-recurring basis result from the application of lower of cost or market accounting or write-downs of individual assets. The following tables provide information related to the Company's assets carried at fair value on a non-recurring basis at September 30, 2013 and 2012:

	Fair Value		Losses for the Three Months Ended		Losses for the Nine Months Ended	
	September 30, 2013	December 31, 2012	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<i>(In thousands)</i>						
<b>Assets:</b>						
Nonaccrual loans	\$ -	\$ 5,716	\$ -	\$ (1,000)	\$ (870)	\$ (1,000)
	-	3,134	-	210	(422)	(155)

## Loans held for sale

Total:	\$ -	\$ 8,850	\$ -	\$ (790)	\$ (1,292)	\$ (1,1550)
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The fair value for the loans held for sale was calculated using the average market bid and ask quotation obtained from a loan pricing service. Such loans are identified as Level 2 assets. The nonaccrual loan is a Level 3 asset. The fair value of the nonaccrual loan as of December 31, 2012 was calculated using the expected recovery of the loan. The significant unobservable input used in its fair value measurement was the loss severity rate of 75%. Increases in this rate would result in decreases in the fair value measurement.

*Small Business Loans*

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

Due to its adoption of investment company accounting in December 2012, HCC LLC was required to change certain accounting principles which it had been permitted to employ historically. These changes were retrospectively applied and as of September 30, 2012, HCC LLC reported all investments, including debt investments, at market value or, in the absence of a readily available market value, at fair value, with unrealized gains and losses recorded in Gain on sale, payoff and mark-to-market on the Consolidated Statements of Operations. The Company recorded unrealized gains of \$0.4 million relating to the fair value adjustment of small business loans in both the three and six months ended 2012, respectively. The Company recorded unrealized gains of \$0.1 million relating to the fair value adjustment of small business loans in 2013, prior to the deconsolidation of HCC LLC on May 2, 2013.

In connection with the initial HCC public offering on May 2, 2013, the Company ceased consolidating HCC LLC and began recognizing its investment, including common stock and warrants of HCC, using the fair value option. The Company's investments in HCC common stock and warrants are included in other investments. The deconsolidation of HCC LLC resulted in a net loss of \$36 thousand. The Company recorded unrealized gains of \$0.2 million and \$0.1 million in the three and nine months ended September 30, 2013 related to its investments in HCC. The Company recognized the initial loss on deconsolidation and subsequent market adjustments to its investments in principal transactions. Dividends received during the three and nine months ended September 30, 2013 on HCC stock of \$0.2 million and \$0.3 million were recorded in net dividend income on the Consolidated Statements of Operations.

*Loans Held for Investment*

At September 30, 2013 and December 31, 2012, loans held for investment included two loans and one loan, respectively. Given the small size of this loan portfolio segment, the Company reviews credit quality of the 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 loan.

Effective July 1, 2013, the Company agreed to lend Blue Jay Capital Management LLC (“Blue Jay”) up to \$2.0 million, at an interest rate of 10% per year. The outstanding principal balance and all accrued and unpaid interest is due and payable on July 1, 2018. As of September 30, 2013, the Company’s loan outstanding to Blue Jay was \$0.5 million.

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The Company determined the fair value of loans held for investment to be \$0.6 million and \$0.2 million as of September 30, 2013 and December 31, 2012, respectively, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate.

#### *Investments at Cost*

On February 11, 2010, the Company made a \$1.5 million investment in Class D Preferred Units of Sanctuary Wealth Services LLC ("Sanctuary"). Sanctuary provides a turnkey platform that allows independent wealth advisors to establish an independent advisory business without the high startup costs and regulatory hurdles. The Class D Preferred Units entitled the Company to receive a preferred dividend with units that were convertible into equity of Sanctuary at the option of the Company prior to the maturity date, February 11, 2013. During the fourth quarter of 2010, the Company determined that its investment in Sanctuary was fully impaired and recorded an impairment loss of \$1.5 million, which was included in Principal Transactions on the Consolidated Statements of Operations. On April 3, 2012, the Company purchased a \$2.3 million receivable from Sanctuary for \$1.4 million. The \$1.4 million was composed of cash consideration of \$0.5 million and \$0.9 million applied to the redemption of the Class D Preferred Units owned by the Company. The Company recognized the \$0.9 million as a gain in Principal Transactions, and the \$2.3 million receivable in Other Assets. The carrying value of the Company's investment in Sanctuary remained at zero at September 30, 2013. The carrying value of the long-term receivable was \$1.1 million as of September 30, 2013. The Company determined the fair value of the long-term receivable to be \$1.3 million as of September 30, 2013, using anticipated cash flows, discounted at an appropriate market credit adjusted interest rate. Significant increases in the market credit adjusted interest rate in isolation would result in decreases to the fair value measurement.

#### *Derivative Financial Instruments*

The Company entered into a forward purchase contract to secure the acquisition of shares of a privately-held company. The contract incorporates downside protection for up to two years, for a cost basis of \$5.0 million. In January 2012, the Company exchanged \$5.0 million for physical custody of the shares. For one year beginning December 1, 2012, the Company may, at its discretion, become the beneficial and record holder of the shares. If the Company has not yet exercised its option at December 1, 2013, the shares will be assigned automatically to the Company. This contract is recorded in Other Investments in the Consolidated Statements of Financial Condition at fair value. The Company records changes in the fair value of this forward contract as unrealized gain or loss in Principal Transactions. For the three and nine months ended September 30, 2013, the Company recorded \$1.1 million and \$0.6 million unrealized gain, respectively. Once the shares are in the Company's name, the shares will be accounted for as equity securities, remaining in Other Investments in the Consolidated Statement of Financial Condition.

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

Loans collateralizing asset-backed securities issued and loans held for sale are commercial loans securitized and owned by CLO I and CLO II. The loans consist of those loans within the CLO securitization structure at the acquisition date of Cratos and loans purchased by the CLO subsequent to the Cratos acquisition date. As of April 30, 2013 (the closing date of the securitization), the loans also consist of loans purchased by CLO II. The following table presents the components of loans collateralizing asset-backed securities issued and loans held for sale at September 30, 2013 and December 31, 2012:

	<b>Loans Collateralizing Asset-backed Securities</b>		<b>Loans Held for Sale</b>	
	<b>September 30, 2013</b>	<b>December 31, 2012</b>	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Loans	\$717,903	\$414,000	\$ -	\$ 4,686
Allowance for Loan Losses	(3,625)	(3,127)	-	-
Liquidity discount	(1,224)	(3,052)	-	(1,279)
Deferred loan fees, net	(3,651)	(6,818)	-	(156)
Valuation allowance	N/A	N/A	-	