OPPENHEIMER HOLDINGS INC
Form 10-Q
November 10, 2011

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As filed with the Securities and Exchange Commission on November 10, 2011.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period ended September 30, 2011

or

o **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: 1-12043

OPPENHEIMER HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	98-0080034
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

125 Broad Street
New York, New York 10004
(Address of principal executive offices) (Zip Code)
(212) 668-8000
(Registrant s telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)

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 þ No o

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 þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

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

The number of shares of the Company s Class A non-voting common stock and Class B voting common stock (being the only classes of common stock of the Company) outstanding on October 31, 2011 was 13,572,265 and 99,680 shares, respectively.

OPPENHEIMER HOLDINGS INC.
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PART I
FINANCIAL INFORMATION

Item. 1 Financial Statements

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(Expressed in thousands of dollars)	September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 87,496	$ 52,854
Cash and securities segregated for regulatory and other purposes	199,948	142,446
Deposits with clearing organizations	22,574	23,228
Receivable from brokers and clearing organizations	335,266	302,844
Receivable from customers, net of allowance for doubtful accounts of $2,399 ($2,716 in 2010)	893,571	924,817
Income taxes receivable	5,135	5,142
Securities purchased under agreement to resell	589,665	347,070
Securities owned, including amounts pledged of $402,666 ($102,501 in 2010), at fair value	796,865	367,019
Notes receivable, net	55,965	59,786
Office facilities, net	18,047	22,875
Intangible assets, net	37,735	40,979
Goodwill	137,889	137,889
Other	166,306	198,665
	$ 3,346,462	$ 2,625,614

(Continued on next page)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(Expressed in thousands of dollars)	September 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
Liabilities		
Drafts payable	$ 46,049	$ 61,055
Bank call loans	59,300	147,000
Payable to brokers and clearing organizations	426,590	372,697
Payable to customers	576,981	406,916
Securities sold under agreement to repurchase	860,360	390,456
Securities sold, but not yet purchased, at fair value	210,980	160,052
Accrued compensation	129,050	175,938
Accounts payable and other liabilities	308,233	265,535
Senior secured note	200,000	
Senior secured credit note		22,503
Subordinated note		100,000
Deferred income tax, net	13,637	11,186
Excess of fair value of acquired assets over cost	7,020	7,020
	2,838,200	2,120,358
Equity		
Oppenheimer Holdings Inc. stockholders equity Share capital		
Class A non-voting common stock		
(2011 13,570,945 shares issued and outstanding		
2010 13,268,522 shares issued and outstanding)	62,551	51,768
Class B voting common stock		
99,680 shares issued and outstanding	133	133
	62,684	51,901
Contributed capital	35,951	47,808
Retained earnings	404,685	402,308
Accumulated other comprehensive income	135	207
Stockholders equity	503,455	502,224
Noncontrolling interest	4,807	3,032
Total equity	508,262	505,256
	$ 3,346,462	$ 2,625,614

The accompanying notes are an integral part of these condensed consolidated financial statements.

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
Expressed in thousands of dollars, except share and per share amounts	2011	2010	2011	2010
REVENUE:				
Commissions	$ 123,267	$ 120,940	$ 380,912	$ 398,719
Principal transactions, net	8,233	22,646	32,537	60,803
Interest	15,161	11,220	43,599	31,996
Investment banking	29,199	21,791	91,357	83,311
Advisory fees	50,696	43,356	149,200	130,134
Other	5,063	15,190	31,949	34,550
	231,619	235,143	729,554	739,513
EXPENSES:				
Compensation and related expenses	148,951	159,486	479,802	485,765
Clearing and exchange fees	6,514	5,525	19,127	19,910
Communications and technology	15,138	15,838	47,146	48,578
Occupancy and equipment costs	18,977	18,162	56,047	54,884
Interest	10,230	6,546	28,673	18,016
Other	27,545	22,127	82,962	75,615
	227,355	227,684	713,757	702,768
Profit before income taxes	4,264	7,459	15,797	36,745
Income tax provision	1,805	3,210	7,139	14,871
Net profit for the period	2,459	4,249	8,658	21,874
Less net profit attributable to non-controlling interest, net of tax	353	595	1,775	1,505
Net profit attributable to Oppenheimer Holdings Inc.	$ 2,106	$ 3,654	$ 6,883	$ 20,369
Profit per share attributable to Oppenheimer Holdings Inc.:				
Basic	$ 0.15	$ 0.27	$ 0.51	$ 1.53
Diluted	$ 0.15	$ 0.26	$ 0.49	$ 1.46
Weighted average common shares:				
Basic	13,670,604	13,355,468	13,627,122	13,334,214
Diluted	13,915,897	13,956,711	13,922,637	13,920,725
Dividends declared per share	$ 0.11	$ 0.11	$ 0.33	$ 0.33

The accompanying notes are an integral part of these condensed consolidated financial statements.

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
Expressed in thousands of dollars	2011	2010	2011	2010
Net profit for the period	$ 2,459	$ 4,249	$ 8,658	$ 21,874
Other comprehensive income:				
Currency translation adjustment	(1,513)	1,290	(1,394)	1,059
Change in cash flow hedges, net of tax		(146)	1,322	(963)
Comprehensive income for the period	946	5,393	8,586	21,970
Comprehensive income attributable to non-controlling interests	353	595	1,775	1,505
Comprehensive income attributable to Oppenheimer Holdings Inc.	$ 593	$ 4,798	$ 6,811	$ 20,465

The accompanying notes are an integral part of these condensed consolidated financial statements.

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Expressed in thousands of dollars	Nine months ended September 30, 2011	2010
Cash flows from operating activities:		
Net profit for the period	$ 8,658	$ 21,874
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:		
Non-cash items included in net profit:		
Depreciation and amortization	9,299	9,053
Deferred income tax	2,451	32,336
Amortization of notes receivable	15,103	15,062
Amortization of debt issuance costs	734	742
Amortization of intangibles	3,244	3,243
Provision for credit losses	(317)	336
Share-based compensation	118	3,979
Decrease (increase) in operating assets:		
Cash and securities segregated for regulatory and other purposes	(57,502)	(43,280)
Deposits with clearing organizations	654	(6,632)
Receivable from brokers and clearing organizations	(32,422)	1,824
Receivable from customers	31,563	(11,595)
Income taxes receivable	7	(30,566)
Securities purchased under agreement to resell	(242,595)	(61,713)
Securities owned	(429,846)	(183,638)
Notes receivable	(11,282)	(16,966)
Other	29,625	(19,252)
Increase (decrease) in operating liabilities:		
Drafts payable	(15,006)	(9,767)
Payable to brokers and clearing organizations	55,215	(30,972)
Payable to customers	170,065	(57,791)
Securities sold under agreement to repurchase	469,904	290,496
Securities sold, but not yet purchased	50,928	(9,132)
Accrued compensation	(46,796)	(36,971)
Accounts payable and other liabilities	42,698	75,501
Cash provided by (used in) operating activities	54,500	(63,829)

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OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) Continued

Expressed in thousands of dollars	Nine months ended September 30, 2011	2010
Cash flows from investing activities:		
Purchase of office facilities	(3,865)	(11,877)
Cash used in investing activities	(3,865)	(11,877)
Cash flows from financing activities:		
Cash dividends paid on Class A non-voting and Class B voting common stock	(4,506)	(4,401)
Issuance of Class A non-voting common stock	337	2,132
Tax shortfall from share-based compensation	(1,621)	(101)
Senior secured note issuance.	200,000	
Senior secured credit note repayment	(22,503)	(9,500)
Subordinated note repayment	(100,000)	
Increase (decrease) in bank call loans, net	(87,700)	68,800
Cash (used in) provided by financing activities	(15,993)	56,930
Net increase (decrease) in cash and cash equivalents	34,642	(18,776)
Cash and cash equivalents, beginning of period	52,854	68,918
Cash and cash equivalents, end of period	$ 87,496	$ 50,142
Schedule of non-cash investing and financing activities:		
Employee share plan issuance	$ 10,446	$ 1,765
Supplemental disclosure of cash flow information:		
Cash paid during the periods for interest	$ 15,309	$ 15,933
Cash paid during the periods for income taxes	$ 7,680	$ 11,402

The accompanying notes are an integral part of these condensed consolidated financial statements.

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OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)

Expressed in thousands of dollars	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Share capital		
Balance at beginning of period	$ 51,901	$ 47,824
Issuance of Class A non-voting common stock	10,783	3,897
Balance at end of period	$ 62,684	$ 51,721
Contributed capital		
Balance at beginning of period	$ 47,808	$ 41,978
Vested employee share plan awards	(13,348)	(1,710)
Tax shortfall from share-based awards	(1,621)	(101)
Share-based compensation expense	3,112	5,919
Balance at end of period	$ 35,951	$ 46,086
Retained earnings		
Balance at beginning of period	$ 402,308	$ 369,697
Net profit for the period attributable to Oppenheimer Holdings Inc.	6,883	20,369
Dividends ($0.33 per share in 2011 and 2010)	(4,506)	(4,401)
Balance at end of period	$ 404,685	$ 385,665
Accumulated other comprehensive income (loss)		
Balance at beginning of period	$ 207	$ (543)
Currency translation adjustment	(1,394)	1,059
Change in cash flow hedges, net of tax	1,322	(963)
Balance at end of period	$ 135	$ (447)
Stockholders Equity	$ 503,455	$ 483,025
Non-controlling interest		
Balance at beginning of period	$ 3,032	$
Grant of non-controlling interest		731
Net profit attributable to non-controlling interest for the period, net of tax	1,775	1,505
Balance at end of period	$ 4,807	$ 2,236
Total equity	$ 508,262	$ 485,261

The accompanying notes are an integral part of these condensed consolidated financial statements.

OPPENHEIMER HOLDINGS INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of significant accounting policies

Oppenheimer Holdings Inc. (OPY) is incorporated under the laws of the State of Delaware. The consolidated financial statements include the accounts of OPY and its subsidiaries (together, the Company). The principal subsidiaries of OPY are Oppenheimer & Co. Inc. (Oppenheimer), a registered broker dealer in securities, Oppenheimer Asset Management Inc. (OAM) and its wholly owned subsidiary, Oppenheimer Investment Management Inc. (OIM), both registered investment advisors under the Investment Advisors Act of 1940, Oppenheimer Trust Company, a limited purpose trust company chartered by the State of New Jersey to provide fiduciary services such as trust and estate administration and investment management, Oppenheimer Multifamily Housing and Healthcare Finance, Inc. (formerly Evanston Financial Corporation) (OMHHF), which is engaged in mortgage brokerage and servicing, and OPY Credit Corp., which offers syndication as well as trading of issued corporate loans. Oppenheimer Europe Ltd. (formerly Oppenheimer E.U. Ltd.) (Oppenheimer Europe), based in the United Kingdom, provides institutional equities and fixed income brokerage and corporate financial services and is regulated by the Financial Services Authority. Oppenheimer Investments Asia Limited, based in Hong Kong, China, provides assistance in accessing the U.S. equities markets and limited mergers and acquisitions advisory services to Asia-based companies. Oppenheimer operates as Fahnestock & Co. Inc. in Latin America. Oppenheimer owns Freedom Investments, Inc. (Freedom), a registered broker dealer in securities, which also operates as the BUYandHOLD division of Freedom, offering on-line discount brokerage and dollar-based investing services, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel as a local broker dealer.

The Company s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These accounting principles are set out in the notes to the Company s consolidated financial statements for the year ended December 31, 2010 included in its Annual Report on Form 10-K for the year then ended.

Accounting standards require the Company to present non-controlling interests (previously referred to as minority interests) as a separate component of stockholders equity on the Company s condensed consolidated balance sheet. As of September 30, 2011, the Company owned 67.34% of OMHHF and the non-controlling interest recorded in the condensed consolidated balance sheet was $4.8 million.

The condensed consolidated financial statements include all adjustments, which in the opinion of management are normal and recurring and necessary for a fair statement of the results of operations, financial position and cash flows for the interim periods presented. The nature of the Company s business is such that the results of operations for the interim periods are not necessarily indicative of the results to be expected for a full year.

Disclosures reflected in these condensed consolidated financial statements comply in all material respects with those required pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC) with respect to quarterly financial reporting.

Certain prior period amounts appearing in the notes to the condensed consolidated financial statements pertaining to the fair value measurement of derivative contracts have been reclassified to conform with current presentation.

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2. New accounting pronouncements

Recently Adopted

In December 2010, the Financial Accounting Standards Board (the FASB) issued ASU No. 2010-28, Intangibles Goodwill and Other, which modified Step 1 of the goodwill impairment test for reporting units with a zero or negative carrying value, stating that under such circumstances an entity should perform Step 2 of the impairment analysis when it is more likely than not that goodwill is impaired. The Company adopted this requirement in the period ending March 31, 2011 with no impact on its financial statements.

In February 2010, the FASB issued ASU No. 2010-10, Consolidation Amendments for Certain Investment Funds , that will indefinitely defer the effective date of the updated Variable Interest Entity (VIE) accounting guidance for certain investment funds. To qualify for the deferral, the investment fund needs to meet certain attributes of an investment company, does not have explicit or implicit obligations to fund losses of the entity and is not a securitization entity, an asset-backed financing entity, or an entity formerly considered a qualifying special-purpose entity (QSPE). The Company s investment funds meet the conditions in ASU No. 2010-10 and qualify for the deferral adoption. Therefore, the Company is not required to consolidate any of its investment funds which are VIEs until further guidance is issued.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurement . ASU No. 2010-06 requires new disclosures regarding transfers of assets and liabilities measured at fair value in and out of Level 1 and 2 of the fair value hierarchy. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfer. ASU No. 2010-06 also provides additional guidance on the level of disaggregation of fair value measurements and disclosures regarding inputs and valuation techniques. The Company adopted this disclosure requirement in the three months ended March 31, 2010. In addition, ASU No.2010-06 requires the reconciliation of beginning and ending balances for fair value measurements using significant unobservable inputs (i.e., Level 3) to be presented on a gross basis. The Company adopted this requirement in the period ended March 31, 2011. See note 5 for further information.

Recently Issued

In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements, which removes the requirement to consider whether sufficient collateral is held when determining whether to account for repurchase agreements and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity as sales or as secured financings. The guidance is effective prospectively for transactions beginning on January 1, 2012. The Company does not believe that the adoption of this guidance will have an impact on its financial condition, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, which provides clarifying guidance on how to measure fair value and has additional disclosure requirements. The amendments prohibit the use of blockage factors at all levels of the fair value hierarchy and provide guidance on measuring financial instruments that are managed on a net portfolio basis. Additional disclosure requirements include transfers between Levels 1 and 2 and, for Level 3 fair value measurements, a description of the valuation processes and additional information about unobservable inputs impacting Level 3 measurements. The updates are effective for the reporting period ending December 31, 2011. The Company is currently evaluating the impact, if any, that these updates will have on its financial condition, results of operations and cash flows.

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In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income , requiring entities to present items of net income and other comprehensive income either in one continuous statement (referred to as the statement of comprehensive income) or in two separate, but consecutive, statements of net income and other comprehensive income. The Company intends to adopt this requirement in the period ending December 31, 2011.

In September, 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment , which gives entities the option of performing a qualitative assessment before the quantitative analysis. If entities determine the fair value of a reporting unit is more likely than not less than the carrying amount based on the qualitative factors, the two-step quantitative test would be required. Otherwise, further testing would not be needed. The ASU is effective for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company is currently evaluating whether it will early adopt the ASU.

3. Revision to financial statements

During the three months ended September 30, 2011, the Company identified historical errors relating to its tax treatment of deferred compensation obligations assumed as part of the 2003 acquisition of the Private Client Division from Canadian Imperial Bank of Commerce (CIBC) that affected prior periods. As a result, the Company has determined the need to reestablish book basis of goodwill related to the 2003 transaction in the amount of $5.4 million. Further analysis revealed uncertain tax positions, that were inadvertently taken as a result of the errors, leading to the establishment of a reserve in the amount of $3 million, including accrued interest, as well as cumulative adjustments to current and deferred tax items of $6.6 million primarily related to periods prior to 2008.

The Company assessed the impact of the errors, including the impact of previously disclosed out-of-period adjustments, on its prior period financial statements included in the December 31, 2010 Form 10-K and concluded that these errors were not material, individually or in the aggregate, to any of those financial statements. Although the effect of these errors was not material to any previously issued financial statements, the cumulative effect of correcting these historical errors in the current year would have been material for the fiscal year 2011. Consequently, the Company has revised its prior period financial statements by adjusting opening retained earnings as of January 1, 2010 in the amount of $7.5 million. As part of this revision process, the Company also reversed other previously disclosed out-of-period adjustments (see below for more details), which were immaterial, and recorded them instead in the periods in which the errors originated. These revisions have no net impact on the Company s net cash amounts provided by (used in) operating, financing or investing activities for the any of the periods previously reported, nor in the current period.

The financial statements as of September 30, 2010, and for the three and nine-month periods then ended and as of December 31, 2010, included herein have been prepared in light of the cumulative revisions above. The financial statements for all other periods affected by the revisions can continue to be relied upon, and will be revised to reflect the revisions discussed above, the next time such financial statements are included in future reports for comparative purposes.

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As previously disclosed, the Company identified certain over-accruals in compensation and related expenses related to prior periods which the Company adjusted during the three month period ended March 31, 2010. These previously recorded out-of-period adjustments, which were not material to any prior period, resulted in an increase to compensation and related expenses of $3.7 million for the year ended December 31, 2010. The over-accruals occurred in the Global High Yield (GHY) loan sales and trading business and were the result of duplicate production related compensation expenses being accrued. In addition, the Company had other out-of-period adjustments in 2010 that offset the over-accrual of GHY compensation totaling $1.1 million that were also corrected in the three month period ended March 31, 2010. Most notably was the reversal of a legal accrual of $1 million related to the settlement of an Auction Rate Securities (ARS) case and the recognition of a fair value adjustment of $1.1 million related to ARS as a result of this legal settlement (net effect of $67,000). The remaining out-of-period adjustments, individually of lesser amounts, in the aggregate were approximately $1 million.

The Company considered all of the above out-of-period adjustments both individually and in the aggregate in light of several quantitative and qualitative factors that mitigate the large percentage impact on pre-tax income when assessing impact to the overall financial statements. The out-of-period adjustments of $3.7 million related to the GHY business did not result in any over payments to employees or members of management. And compensation payments made in April 2010 were substantially equal to and offsetting the amount referred to above. The magnitude of the out-of-period adjustments were exacerbated by the low profitability of the Company in 2009 and 2010. The adjustments did not impact the trend of earnings from the net loss in 2008 to the net income reported in 2009 and 2010 nor did they cause income (loss) to result in loss (income) for any of the periods in question. The adjustments for each period would have improved results incrementally and did not change significantly the magnitude of the variances period-over-period.

While this reduced level of earnings in 2009 and 2010 resulted in the net over accrual being quantitatively large on pre-tax earnings, the Company assessed the impact on return on assets, return on equity, total revenues, total expenses, compensation expense, compensation as a percentage of revenue ratio, shareholders equity, book value per share, and the capital markets business segment s total revenues and profitability in determining the materiality of the adjustments to the financial statements taken as a whole and concluded that the adjustments were not material in the context of the overall financial statements. The Company also considered factors such as there was no negative impact on regulatory or debt covenant calculations as a result of these items. As a result, the Company concluded that the impact of the adjustments was not material, individually or in the aggregate, to the 2009 or 2010 consolidated financial statements.

As indicated above, the previously recorded out-of-period adjustments have now been reversed and recorded in the proper period as part of the revision process.

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The impact of the above adjustments for the nine month period ended September 30, 2010 was as follows:

(In thousands, except per share data)	As Previously Reported	Revision	Revised Balance
Principal transactions, net	$ 59,602	$ 1,201	$ 60,803
Compensation and related expenses	$ 481,968	$ 3,797	$ 485,765
Interest expense	$ 18,208	$ (192)	$ 18,016
Other expenses	$ 75,272	$ 343	$ 75,615
Profit (loss) before income taxes	$ 39,492	$ (2,747)	$ 36,745
Income tax provision (benefit)	$ 16,249	$ (1,378)	$ 14,871
Net profit	$ 23,243	$ (1,369)	$ 21,874
Earnings Per Share	$ 1.63	$ 0.10	$ 1.53

The impact of the above adjustments for the three month period ended September 30, 2010 serves to increase net income by $232,000 and earnings per share by $0.01, primarily related to tax items.

4. Profit per share

Profit per share was computed by dividing net profit attributable to Oppenheimer Holdings Inc. by the weighted average number of shares of Class A non-voting common stock (Class A Stock) and Class B voting common stock (Class B Stock) outstanding. Diluted profit per share includes the weighted average Class A and Class B Stock outstanding and the effects of warrants issued and Class A Stock granted under share-based compensation arrangements using the treasury stock method, if dilutive.

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Profit per share has been calculated as follows:
Expressed in thousands of dollars, except share and per share amounts

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Basic weighted average number of shares outstanding	13,670,604	13,355,468	13,627,122	13,334,214
Net dilutive effect of warrant, treasury method (1)				
Net dilutive effect of share-based awards, treasury method (2)	245,294	601,243	295,515	586,511
Diluted weighted average number of shares outstanding	13,915,897	13,956,711	13,922,637	13,920,725
Net profit for the period	$ 2,459	$ 4,249	$ 8,658	$ 21,874
Net profit attributable to non-controlling interests	353	595	1,775	1,505
Net profit attributable to Oppenheimer Holdings Inc.	$ 2,106	$ 3,654	$ 6,883	$ 20,369
Basic profit per share	$ 0.15	$ 0.27	$ 0.51	$ 1.53
Diluted profit per share	$ 0.15	$ 0.26	$ 0.49	$ 1.46

(1) As part of the consideration for the 2008 acquisition of a portion of CIBC World Markets Corp. s U.S. capital markets businesses, the Company issued a warrant to purchase 1 million shares of Class A Stock of the Company at $48.62 per share exercisable five years from the January 14, 2008 acquisition date. For the three and nine months ended September 30, 2011 and 2010, the effect of the warrant is anti-dilutive.

(2) For the three and nine months ended September 30, 2011, the diluted profit per share computations do not include the anti-dilutive effect of 1,139,695 and 1,142,028 shares of Class A Stock granted under share-based compensation arrangements together with the warrant described in (1) (1,273,416 shares of Class A Stock for both the three and nine months ended September 30, 2010).

5. Receivable from and payable to brokers and clearing organizations

Expressed in thousands of dollars.

	September 30, 2011	December 31, 2010
Receivable from brokers and clearing organizations consist of:		
Deposits paid for securities borrowed	$ 245,601	$ 199,117
Receivable from brokers	27,117	20,609
Securities failed to deliver	27,936	23,673
Clearing organizations	19,023	11,038
Omnibus accounts	15,215	19,129
Other	374	29,278
	$ 335,266	$ 302,844

	September 30, 2011	December 31, 2010
Payable to brokers and clearing organizations consist of:		
Deposits received for securities loaned	$ 289,343	$ 345,462
Securities failed to receive	48,964	24,944
Clearing organizations and other (1)	88,283	2,291
	$ 426,590	$ 372,697

(1) At September 30, 2011, $79.9 million was a trade date/settlement date adjustment.

In April 2008, Oppenheimer commenced an action against Metal Management Inc. (Metal) in the United States District Court for the Southern District of New York (the Court) to collect an unpaid fee related to an investment banking transaction. On June 20, 2011, the Court issued an order granting Oppenheimer s motion for summary judgment. On July 25, 2011, Metal appealed such order to the United States Court of Appeals for the Second Circuit. On August 26, 2011, Oppenheimer entered into a settlement agreement pursuant to which Metal paid to Oppenheimer approximately $10.0 million.

6. Financial instruments

Securities owned and securities sold but not yet purchased, investments and derivative contracts are carried at fair value with changes in fair value recognized in earnings each period. The Company s other financial instruments are generally short-term in nature or have variable interest rates and as such their carrying values approximate fair value, with the exception of notes receivable from employees which are carried at cost.

Securities Owned and Securities Sold, But Not Yet Purchased at Fair Value

Expressed in thousands of dollars.

	September 30, 2011		December 31, 2010	
	Owned	Sold	Owned	Sold
U.S. Treasury, agency and sovereign obligations	$ 523,822	$ 158,580	$ 160,114	$ 105,564
Corporate debt and other obligations	42,138	15,785	32,204	6,788
Mortgage and other asset-backed securities	4,676	8	2,895	25
Municipal obligations	75,644	435	55,089	383
Convertible bonds	50,962	7,227	39,015	11,093
Corporate equities	31,225	28,886	39,151	36,164
Other	68,398	59	38,551	35
Total	$ 796,865	$ 210,980	$ 367,019	$ 160,052

Securities owned and securities sold, but not yet purchased, consist of trading and investment securities at fair values. Included in securities owned at September 30, 2011 are corporate equities with estimated fair values of approximately $12.8 million ($14.3 million at December 31, 2010), which are related to deferred compensation liabilities to certain employees included in accrued compensation on the condensed consolidated balance sheet.

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Valuation Techniques

A description of the valuation techniques applied and inputs used in measuring the fair value of the Company s financial instruments is as follows:

U.S. Treasury Obligations

U.S. Treasury securities are valued using quoted market prices obtained from active market makers and inter-dealer brokers and, accordingly, are categorized in Level 1 in the fair value hierarchy.

U.S. Agency Obligations

U.S. agency securities consist of agency issued debt securities and mortgage pass-through securities. Non-callable agency issued debt securities are generally valued using quoted market prices. Callable agency issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of mortgage pass-through securities are model driven with respect to spreads of the comparable To-be-announced (TBA) security. Actively traded non-callable agency issued debt securities are categorized in Level 1 of the fair value hierarchy. Callable agency issued debt securities and mortgage pass-through securities are generally categorized in Level 2 of the fair value hierarchy.

Sovereign Obligations

The fair value of sovereign obligations is determined based on quoted market prices when available or a valuation model that generally utilizes interest rate yield curves and credit spreads as inputs. Sovereign obligations are categorized in Level 1 or 2 of the fair value hierarchy.

Corporate Debt & Other Obligations

The fair value of corporate bonds is estimated using recent transactions, broker quotations and bond spread information. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

Mortgage and Other Asset-Backed Securities

The Company holds non-agency securities primarily collateralized by home equity and manufactured housing which are valued based on external pricing and spread data provided by independent pricing services and are generally categorized in Level 2 of the fair value hierarchy. When specific external pricing is not observable, the valuation is based on yields and spreads for comparable bonds and, consequently, the positions are categorized in Level 3 of the fair value hierarchy.

Municipal Obligations

The fair value of municipal obligations is estimated using recently executed transactions, broker quotations, and bond spread information. These obligations are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

Convertible Bonds

The fair value of convertible bonds is estimated using recently executed transactions and dollar-neutral price quotations, where observable. When observable price quotations are not available, fair value is determined based on cash flow models using yield curves and bond spreads as key inputs. Convertible bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

Corporate Equities

Equity securities and options are generally valued based on quoted prices from the exchange or market where traded and categorized as Level 1 in the fair value hierarchy. To the extent quoted prices are not available, prices are generally derived using bid/ask spreads, and these securities are generally categorized in Level 2 of the fair value hierarchy.

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Other

In February 2010, Oppenheimer finalized settlements with each of the New York Attorney General s office (NYAG) and the Massachusetts Securities Division (MSD and, together with the NYAG, the Regulators) concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer s marketing and sale of auction rate securities (ARS). Pursuant to those settlements, as of September 30, 2011, the Company purchased and holds approximately $69.3 million in ARS from its clients pursuant to several purchase offers and legal settlements. The Company s purchases of ARS from its clients will continue on a periodic basis thereafter pursuant to the settlements with the Regulators. In addition, the Company is committed to purchase another $40.2 million in ARS from clients through 2016 and pay approximately $2.5 million as a result of legal settlements with clients. The ultimate amount of ARS to be repurchased by the Company cannot be predicted with any certainty and will be impacted by redemptions by issuers and client actions during the period, which cannot be predicted. In addition to the ARS held pursuant to purchases from clients of $69.3 million as of September 30, 2011 referred to above, the Company also held $2.1 million in ARS in its proprietary trading account as of September 30, 2011 as a result of the failed auctions in February 2008. These ARS positions primarily represent Auction Rate Preferred Securities issued by closed-end funds and, to a lesser extent, Municipal Auction Rate Securities which are municipal bonds wrapped by municipal bond insurance and Student Loan Auction Rate Securities which are asset-backed securities backed by student loans (collectively referred to as ARS).

Interest rates on ARS typically reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARS have historically been categorized as Level 1 in the fair value hierarchy. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Once the auctions failed, the ARS could no longer be valued using observable prices set in the auctions. The Company has used less observable determinants of the fair value of ARS, including the strength in the underlying credits, announced issuer redemptions, completed issuer redemptions, and announcements from issuers regarding their intentions with respect to their outstanding ARS. The Company has also developed an internal methodology to discount for the lack of liquidity and non-performance risk of the failed auctions. Key inputs include spreads on comparable Treasury yields to derive a discount rate, an estimate of the ARS duration, and yields based on current auctions in comparable securities that have not failed. Due to the less observable nature of these inputs, the Company categorizes ARS in Level 3 of the fair value hierarchy. As of September 30, 2011, the Company had a valuation adjustment (unrealized loss) of $4.0 million for ARS.

Investments

In its role as general partner in certain hedge funds and private equity funds, the Company, through its subsidiaries, holds direct investments in such funds. The Company uses the net asset value of the underlying fund as a basis for estimating the fair value of its investment. Due to the illiquid nature of these investments and difficulties in obtaining observable inputs, these investments are included in Level 3 of the fair value hierarchy.

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The following table provides information about the Company s investments in Company-sponsored funds at September 30, 2011.
Expressed in thousands of dollars.

	Fair Value	Unfunded Commit-ments	Redemption Frequency	Redemption Notice Period
Hedge Funds(1)	$ 1,039	$	Quarterly - Annually	30 - 120 Days
Private Equity Funds(2)	2,771	1,367	N/A	N/A
Distressed Opportunities Fund(3)	10,431		Semi-Annually	180 Days
Total	$ 14,241	$ 1,367		

(1) Includes investments in hedge funds and hedge fund of funds that pursue long/short, event-driven, and activist strategies.

(2) Includes private equity funds and private equity fund of funds with a focus on diversified portfolios, real estate and global natural resources.

(3) Hedge fund that invests in distressed debt of U.S. companies.

Derivative Contracts

From time to time, the Company transacts in exchange-traded and over-the-counter derivative transactions to manage its interest rate risk. Exchange-traded derivatives, namely U.S. Treasury futures, Federal funds futures, and Eurodollar futures, are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy. Over-the-counter derivatives, namely interest rate swap and interest rate cap contracts, are valued using a discounted cash flow model and the Black-Scholes model, respectively, using observable interest rate inputs and are categorized in Level 2 of the fair value hierarchy.

As described below in Credit Concentrations , the Company participates in loan syndications and operates as underwriting agent in leveraged financing transactions where it utilizes a warehouse facility provided by Canadian Imperial Bank of Commerce (CIBC) to extend financing commitments to third-party borrowers identified by the Company. The Company uses broker quotations on loans trading in the secondary market as a proxy to determine the fair value of the underlying loan commitment which is categorized in Level 3 of the fair value hierarchy. The Company also purchases and sells loans in its proprietary trading book where CIBC provides the financing through a loan trading facility. The Company uses broker quotations to determine the fair value of loan positions held which are categorized in Level 2 of the fair value hierarchy.

The Company from time to time enters into securities financing transactions that mature on the same date as the underlying collateral. Such transactions are treated as a sale of financial assets and a forward repurchase commitment, or conversely as a purchase of financial assets and a forward reverse repurchase commitment. The forward repurchase and reverse repurchase commitments are valued based on the spread between the market value of the government security and the underlying collateral and are categorized in Level 2 of the fair value hierarchy.

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Fair Value Measurements

The Company s assets and liabilities, recorded at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, have been categorized based upon the above fair value hierarchy as follows:

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2011:

Expressed in thousands of dollars.

	Fair Value Measurements As of September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents	**$ 46,442**	**$**	**$**	**$ 46,442**
Securities segregated for regulatory and other purposes	**174,203**			**174,203**
Deposits with clearing organizations	**9,095**			**9,095**
Securities owned:				
U.S. Treasury obligations	487,882			487,882
U.S. Agency obligations	4,408	31,471		35,879
Sovereign obligations		61		61
Corporate debt and other obligations	12,165	29,973		42,138
Mortgage and other asset-backed securities		3,910	766	4,676
Municipal obligations		71,515	4,129	75,644
Convertible bonds		50,962		50,962
Corporate equities	22,630	8,595		31,225
Other	3,179		65,219	68,398
Securities owned, at fair value	**530,264**	**196,487**	**70,114**	**796,865**
Investments (1)	**797**	**30,573**	**15,473**	**46,843**
Derivative contracts		**23**		**23**
To-be-announced securities		**459**		**459**
Securities purchased under agreements to resell (2)		**574,969**		**574,969**
Total	**$ 760,801**	**$ 802,511**	**$ 85,587**	**$ 1,648,899**

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Expressed in thousands of dollars.

	Fair Value Measurements As of September 30, 2011			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Securities sold, but not yet purchased:				
U.S. Treasury obligations	$ 158,478	$	$	$ 158,478
U.S. Agency obligations		90		90
Sovereign debt obligations		12		12
Corporate debt and other obligations	312	15,473		15,785
Mortgage and other asset-backed securities		8		8
Municipal obligations		435		435
Convertible bonds		7,227		7,227
Corporate equities	14,378	14,508		28,886
Other	59			59
Securities sold, but not yet purchased	**173,227**	**37,753**		**210,980**
Investments	**34**			**34**
Derivative contracts	**125**	**221**	**1,502**	**1,848**
To-be-announced securities		**4,070**		**4,070**
Securities sold under agreements to repurchase (3)		**403,374**		**403,374**
Total	**$ 173,386**	**$ 445,418**	**$ 1,502**	**$ 620,306**

(1) Included in other assets on the condensed consolidated balance sheet.

(2) Includes securities purchased under agreements to resell where the Company has elected the fair value option.

(3) Includes securities sold under agreements to repurchase where the Company has elected the fair value option.

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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010:
Expressed in thousands of dollars.

	Fair Value Measurements As of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	**$ 14,384**	**$**	**$**	**$ 14,384**
Securities segregated for regulatory and other purposes	**14,497**			**14,497**
Deposits with clearing organizations	**9,094**			**9,094**
Securities owned:				
U.S. Treasury obligations	115,790			115,790
U.S. Agency obligations	23,963	20,348		44,311
Sovereign obligations	13			13
Corporate debt and other obligations		32,204		32,204
Mortgage and other asset-backed securities		2,881	14	2,895
Municipal obligations		53,302	1,787	55,089
Convertible bonds		39,015		39,015
Corporate equities	31,798	7,353		39,151
Other	2,643		35,908	38,551
Securities owned, at fair value	**174,207**	**155,103**	**37,709**	**367,019**
Investments (1)	**12,522**	**34,563**	**17,208**	**64,293**
Derivative contracts		**178**		**178**
To-be-announced securities		**1,526**		**1,526**
Securities purchased under agreement to resell (2)		**332,179**		**332,179**
Total	**$ 224,704**	**$ 523,549**	**$ 54,917**	**$ 803,170**

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Expressed in thousands of dollars.

	Fair Value Measurements As of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Securities sold, but not yet purchased:				
U.S. Treasury obligations	$ 101,060	$	$	$ 101,060
U.S. Agency obligations	4,405	99		4,504
Sovereign obligations				
Corporate debt and other obligations		6,788		6,788
Mortgage and other asset-backed securities		25		25
Municipal obligations		383		383
Convertible bonds		11,093		11,093
Corporate equities	20,962	15,202		36,164
Other	35			35
Securities sold, but not yet purchased, at fair value	**126,462**	**33,590**		**160,052**
Investments	**12**			**12**
Derivative contracts	**147**	**151**		**298**
To-be-announced securities		**1,213**		**1,213**
Securities sold under agreements to repurchase (3)		**389,305**		**389,305**
Total	**$ 126,621**	**$ 424,259**	**$**	**$ 550,880**

(1) Included in other assets on the consolidated balance sheet.

(2) Includes securities purchased under agreements to resell where the Company has elected the fair value option.

(3) Includes securities sold under agreements to repurchase where the Company has elected the fair value option.

There were no significant transfers between Level 1 and Level 2 assets and liabilities in the three and nine months ended September 30, 2011.

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The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2011 and 2010.
Expressed in thousands of dollars.

	Opening Balance	Realized Gains (Losses) (5)	Unrealized Gains (Losses) (5) (6)	Purchases, Issuances	Sales, Settlements	Transfers In / Out	Ending Balance
For the three months ended September 30, 2011							
Assets:							
Mortgage and other asset-backed securities (1)	$ 105	1	(3)	893	(230)		$ 766
Municipal obligations	3,829	(12)	(143)	575	(119)		4,129
Other (2)	63,098		543	4,028	(2,450)		65,219
Investments (3)	16,141		(793)	126		(1)	15,473
Liabilities:							
Mortgage and other asset-backed securities (1)	$ 11			(11)			$
Other(4)	$			1,502			1,502

	Opening Balance	Realized Gains (Losses) (4)	Unrealized Gains (Losses) (4) (5)	Purchases, Sales, Issuances, Settlements	Transfers In / Out	Ending Balance
For the three months ended September 30, 2010						
Assets:						
Mortgage and other asset-backed securities (1)	$ 42	(5)		(37)		$
Municipal obligations	1,853		(125)	75		1,803
Other (2)	20,870		(424)	5,375		25,821
Investments (3)	16,930	(150)	352	94		17,226
Liabilities:						
none						

(1) Represents private placements of non-agency collateralized mortgage obligations.

(2) Represents auction rate preferred securities that failed in the auction rate market.

(3) Primarily represents general partner ownership interests in hedge funds and private equity funds sponsored by the Company.

(4) Represents valuation adjustment on commitments to purchase ARS as a result of legal settlements

(5) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.

(6) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

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The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2011 and 2010.
Expressed in thousands of dollars.

	Opening Balance	Realized Gains (Losses) (4)	Unrealized Gains (Losses) (4) (5)	Purchases, Issuances	Sales, Settlements	Transfers In / Out	Ending Balance
For the nine months ended September 30, 2011							
Assets:							
Mortgage and other asset-backed securities (1)	$ 14	1		995	(244)		$ 766
Municipal obligations	1,787	(12)	(334)	2,982	(294)		4,129
Other (2)	35,909		(393)	38,178	(8,475)		65,219
Investments (3)	17,208		(794)	572	(1,500)	(13)	15,473
Liabilities:							
Mortgage and other asset-backed securities (1)	$			11	(11)		$
Other	$			1,502			1,502

	Opening Balance	Realized Gains (Losses) (4)	Unrealized Gains (Losses) (4) (5)	Purchases, Sales, Issuances, Settlements	Transfers In / Out	Ending Balance
For the nine months ended September 30, 2010						
Assets:						
Mortgage and other asset-backed securities (1)	$ 317	2	8	(25)	(302)	$
Municipal obligations	1,075	(4)	(790)	1,460	62	1,803
Other (2)	4,450		(779)	22,150		25,821
Investments (3)	15,981	(150)	678	496	221	17,226
Liabilities:						
none						

(1) Represents private placements of non-agency collateralized mortgage obligations.

(2) Represents auction rate preferred securities that failed in the auction rate market.

(3) Primarily represents general partner ownership interests in hedge funds and private equity funds sponsored by the Company.

(4) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.

(5) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

Fair Value Option

The Company has the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The Company may make a fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company has elected to apply the fair value option to its loan trading portfolio which resides in OPY Credit Corp. and is included in other assets on the condensed consolidated balance sheet. Management has elected this treatment as it is consistent with the manner in which the business is managed as well as the way that financial instruments in other parts of the business are recorded. There were no loan positions held in the secondary loan trading portfolio at September 30, 2011 (None at December 31, 2010).

The Company also elected the fair value option for those securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) that do not settle overnight or have an open settlement date or that are not accounted for as purchase and sale agreements (such as repo-to-maturity transactions). The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At September 30, 2011, the fair value of the reverse repurchase agreements and repurchase agreements were $575.0 million and $403.4, respectively. During the three and nine months ended September 30, 2011, the amount of losses related to reverse repurchase agreements was $1,000 and $7,000, respectively. During the three and nine months ended September 30, 2011, the amount of gains and losses related to repurchase agreements was $1,000 and $1,000, respectively.

Fair Value of Derivative Instruments

The Company transacts, on a limited basis, in exchange traded and over-the-counter derivatives for both asset and liability management as well as for trading and investment purposes. Risks managed using derivative instruments include interest rate risk and, to a lesser extent, foreign exchange risk. Interest rate swaps and interest rate caps are entered into to manage the Company s interest rate risk associated with floating-rate borrowings. All derivative instruments are measured at fair value and are recognized as either assets or liabilities on the condensed consolidated balance sheet. The Company designates interest rate swaps and interest rate caps as cash flow hedges of floating-rate borrowings.

Cash flow hedges used for asset and liability management

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

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On September 29, 2006, the Company entered into interest rate swap transactions to hedge the interest payments associated with its floating rate Senior Secured Credit Note, which was subject to change due to changes in 3-Month LIBOR. See note 6 for further information. These swaps were designated as cash flow hedges. Changes in the fair value of the swap hedges were expected to be highly effective in offsetting changes in the interest payments due to changes in 3-Month LIBOR. For the three and nine months ended September 30, 2011, the effective portion of the net gain on the interest rate swaps, after tax, was approximately $nil and $69,000, respectively ($56,000 and $384,000, respectively, for the three and nine months ended September 30, 2010) and has been recorded as other comprehensive income on the condensed consolidated statement of comprehensive income (loss). The swaps expired on March 31, 2011.

On January 20, 2009, the Company entered into an interest rate cap contract, incorporating a series of purchased caplets with fixed maturity dates ending December 31, 2012, to hedge the interest payments associated with its floating rate Subordinated Note, which is subject to changes in 3-Month LIBOR. See note 6 for further information. With the repayment of the Subordinated Note in the second quarter of 2011, this cap is no longer designated as a cash flow hedge. The loss of $1.3 million related to this hedge that was previously included in other comprehensive income (loss) was reversed and included in interest expense in the condensed consolidated statement of operations in the second quarter of 2011.

Foreign exchange hedges

From time to time, the Company also utilizes forward and options contracts to hedge the foreign currency risk associated with compensation obligations to Oppenheimer Israel (OPCO) Ltd. employees denominated in New Israeli Shekels. Such hedges have not been designated as accounting hedges. At September 30, 2011, the Company did not have any such hedges in place.

To-be-announced securities

The Company also transacts in pass-through mortgage-backed securities eligible to be sold in the To-Be-Announced or TBA market. TBAs provide for the forward or delayed delivery of the underlying instrument with settlement up to 180 days. The contractual or notional amounts related to these financial instruments reflect the volume of activity and do not reflect the amounts at risk. Unrealized gains and losses on TBAs are recorded in the condensed consolidated balance sheets in receivable from brokers and clearing organizations and payable to brokers and clearing organizations, respectively, and in the condensed consolidated statement of operations as principal transactions revenue.

The following table summarizes the notional and fair values of the TBAs as of September 30, 2011 and December 31, 2010.

Expressed in thousands of dollars.

	September 30, 2011		December 31, 2010	
	Notional	Fair Value	Notional	Fair Value
Sale of TBAs [1]	$ 435,412	$ 4,070	$ 518,987	$ 1,213
Purchase of TBAs	$ 24,295	$ 459	$ 24,695	$ 1,526

[1] TBAs are used to offset exposures related to commitments to provide funding for FHA loans at OMHHF. At September 30, 2011, the loan commitments balance was $370.7 million. In addition, at September 30, 2011, OMHHF had a loan receivable balance (included in other assets) of $40.4 million which relates to prior loan commitments that have been funded but have not yet been securitized.

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Derivatives used for trading and investment purposes

Futures contracts represent commitments to purchase or sell securities or other commodities at a future date and at a specified price. Market risk exists with respect to these instruments. Notional or contractual amounts are used to express the volume of these transactions, and do not represent the amounts potentially subject to market risk. The futures contracts the Company used include U.S. Treasury notes, Federal Funds and Eurodollar contracts. At September 30, 2011, the Company had 200 open short contracts for 10-year U.S. Treasury notes with a fair value of $122,000 used primarily as an economic hedge of interest rate risk associated with a portfolio of fixed income investments. At September 30, 2011, the Company had 4.5 billion open contracts for Federal Funds futures with a fair value of approximately $3,000 used an economic hedge of interest rate risk associated with government trading activities.

From time-to-time, the Company enters into securities financing transactions that mature on the same date as the underlying collateral. These transactions are treated as a sale of financial assets and a forward repurchase commitment, or conversely as a purchase of financial assets and a forward reverse repurchase commitment. At September 30, 2011, the fair value of the forward repurchase commitment was approximately $221,000.

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The notional amounts and fair values of the Company s derivatives at September 30, 2011 by product were as follows: Expressed in thousands of dollars.

Fair Value of Derivative Instruments
As of September 30, 2011

	Description	Notional	Fair Value
Assets:			
Derivatives designated as hedging instruments (1)			
Interest rate contracts	Cap (2)	$ 100,000	$ 23
Derivatives not designated as hedging instruments (1)			
Other contracts	Forward Start Repo (2)	50,000	
Total Assets		$ 150,000	$ 23
Liabilities:			
Derivatives not designated as hedging instruments (1)			
Commodity contracts	U.S Treasury Futures (3)	$ 20,000	$ 122
Other contracts	Federal Funds Futures (4)	4,520,000	3
	Forward Purchase Commitment (3) (5)	1,750,000	221
	Auction rate securities purchase commitment (6)	40,220	1,502
	Forward start Repo (3)	200,000	
Total Liabilities		$ 6,530,220	$ 1,848

(1) See Fair Value of Derivative Instruments below for description of derivative financial instruments.

(2) Included in receivable from brokers and clearing organizations on the condensed consolidated balance sheet.

(3) Included in payable from brokers and clearing organizations on the condensed consolidated balance sheet.

(4) Included in accounts payable and other liabilities on the condensed consolidated balance sheet.

(5) Forward commitment to repurchase government securities that received sale treatment related to Repo-to-Maturity transactions.

(6) Included in securities owned on the condensed consolidated balance sheet.

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Expressed in thousands of dollars.

Fair Value of Derivative Instruments
As of December 31, 2010

	Description	Notional	Fair Value
Assets:			
Derivatives designated as hedging instruments [1]			
Interest rate contracts	Cap [2]	$ 100,000	$ 178
Total Assets		$ 100,000	$ 178
Liabilities:			
Derivatives designated as hedging instruments [1]			
Interest rate contracts	Swaps	$ 9,000	$ 116
Derivatives not designated as hedging instruments [1]			
Commodity contracts	U.S Treasury Futures [3]	14,000	147
Other contracts	Forward Purchase Commitment [3] [4]	3,250,000	35
Sub-total		3,264,000	182
Total Liabilities		$ 3,273,000	$ 298

(1) See Fair Value of Derivative Instruments below for description of derivative financial instruments.

(2) Included in receivable from brokers and clearing organizations on the condensed consolidated balance sheet.

(3) Included in payable from brokers and clearing organizations on the condensed consolidated balance sheet.

(4) Forward commitment to repurchase government securities that received sale treatment related to Repo-to-Maturity transactions.

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The following table presents the location and fair value amounts of the Company s derivative instruments and their effect on the statement of operations for the three months ended September 30, 2011.
Expressed in thousands of dollars.

Hedging Relationship	Description	Recognized in Income on Derivatives (pre-tax) Location	Recognized in Income on Derivatives (pre-tax) Gain/ (Loss)	Recognized in Other Comprehensive Income on Derivatives - Effective Portion (after-tax) Gain/ (Loss)	Reclassified from Accumulated Other Comprehensive Income into Income-Effective Portion [2] (after-tax) Location	Reclassified from Accumulated Other Comprehensive Income into Income-Effective Portion [2] (after-tax) Gain/ (Loss)
Cash Flow Hedges used for asset and liability management:						
Interest rate contracts	Caps [3]	N/A	$ (10)	$	Interest expense	$
Derivatives used for trading and investment [1]:						
Commodity contracts	U.S Treasury Futures	Principal transaction revenue	(2,041)		None	
	Federal Funds Futures	Principal transaction revenue	(259)		None	
	Euro-dollar Futures	Principal transaction revenue	33		None	
Other contracts	Forward purchase commitment [3]	Principal transaction revenue	(363)		None	
	Auction rate securities purchase commitment [4]	Principal transaction revenue	438		None	
Total			$ (2,202)	$		$

(1) See Fair Value of Derivative Instruments above for description of derivative financial instruments.

(2) There is no ineffective portion included in income for the three months ended September 30, 2011.

(3) Forward commitment to repurchase government securities that received sale treatment related to Repo-to-Maturity transactions.

(4) Represents change in valuation allowance on commitments to purchase ARS as a result of legal settlements

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The following table presents the location and fair value amounts of the Company s derivative instruments and their effect on the statement of operations for the nine months ended September 30, 2011.
Expressed in thousands of dollars.

		Recognized in Income on Derivatives (pre-tax)		Recognized in Other Comprehensive Income on Derivatives- Effective Portion (after-tax)	Reclassified from Accumulated Other Comprehensive Income into Income- Effective Portion [2] (after-tax)	
Hedging Relationship	**Description**	**Location**	**Gain/ (Loss)**	**Gain/ (Loss)**	**Loca- tion**	**Gain/ (Loss)**
Cash Flow Hedges used for asset and liability management:						
Interest rate contracts	Swaps	N/A	$	$	Interest expense	$ (50)
	Caps [3]	N/A	(1,960)		Interest expense	(1,272)
Derivatives used for trading and investment [1]:						
Commodity contracts	U.S Treasury Futures	Principal transaction revenue	(3,221)		None	
	Federal Funds Futures	Principal transaction revenue	(509)		None	
	Euro-dollar Futures	Principal transaction revenue	(378)		None	
	Euro FX	Principal transaction revenue	(131)		None	
Other contracts	Forward purchase commitment [4]	Principal transaction revenue	(1,147)		None	
	Auction rate securities purchase commitment	Principal transaction revenue	(1,502)		None	
Total			$ (8,848)	$		$ (1,322)

(1) See Fair Value of Derivative Instruments above for description of derivative financial instruments.

(2) There is no ineffective portion included in income for the nine months ended September 30, 2011.

(3) As noted above in Cash flow hedges used for asset and liability management , interest rate caps are used to hedge interest rate risk associated with the Subordinated Note. With the repayment of the Subordinated Note in the second quarter of 2011, this cap is no longer designated as a cash flow hedge and, as a result, a loss of $1.3 million, net of tax, has been reclassified from other comprehensive income (loss) to other expenses on the

condensed consolidated statement of operations.

(4) Forward commitment to repurchase government securities that received sale treatment related to Repo-to-Maturity transactions.

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Collateralized Transactions

The Company enters into collateralized borrowing and lending transactions in order to meet customers needs and earn residual interest rate spreads, obtain securities for settlement and finance trading inventory positions. Under these transactions, the Company either receives or provides collateral, including U.S. government and agency, asset-backed, corporate debt, equity, and non-U.S. government and agency securities.

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates but not exceeding the broker call rate. At September 30, 2011, bank call loans were $59.3 million ($147.0 million at December 31, 2010).

At September 30, 2011, the Company had collateralized loans, collateralized by firm and customer securities with market values of approximately $109.2 million and $146.5 million, respectively, primarily with two U.S. money center banks. At September 30, 2011, the Company had approximately $1.3 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has repledged approximately $255.4 million under securities loan agreements.

At September 30, 2011, the Company had deposited $599.0 million of customer securities directly with the Options Clearing Corporation to secure obligations and margin requirements under option contracts written by customers.

At September 30, 2011, the Company had no outstanding letters of credit.

The Company finances its government trading operations through the use of repurchase agreements and reverse repurchase agreements. Except as described below, repurchase and reverse repurchase agreements, principally involving government and agency securities, are carried at amounts at which the securities subsequently will be resold or reacquired as specified in the respective agreements and include accrued interest. Repurchase and reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, the securities underlying the repurchase and reverse repurchase agreements exist in book entry form and certain other requirements are met.

Certain of the Company s repurchase agreements and reverse repurchase agreements are carried at fair value as a result of the Company s fair value option election. The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date or that are not accounted for as purchase and sale agreements (such as repo-to-maturity transactions described above). The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At September 30, 2011, the fair value of the reverse repurchase agreements and repurchase agreements was $575.0 million and $403.4, respectively. During the three and nine months ended September 30, 2011, the amount of losses related to reverse repurchase agreements was $1,000 and $7,000, respectively. During the three and nine months ended September 30, 2011, the amount of gains and losses related to repurchase agreements was $1,000 and $1,000, respectively.

At September 30, 2011, the gross balances of reverse repurchase agreements and repurchase agreements were $6.9 billion and $7.2 billion, respectively ($4.0 billion and $4.1 billion, respectively at December 31, 2010).