

OPPENHEIMER HOLDINGS INC

Form 10-Q

May 05, 2011

As filed with the Securities and Exchange Commission on May 5, 2011

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended **March 31, 2011**

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: 1-12043

**OPPENHEIMER HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

Delaware

98-0080034

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(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

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 ☒ No ☐

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

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 April 30, 2011 was 13,545,063 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)

	March 31, 2011	December 31, 2010
<i>(Expressed in thousands of dollars)</i>		
<b>ASSETS</b>		
Cash and cash equivalents	\$52,940	\$52,854
Cash and securities segregated for regulatory and other purposes	150,157	142,446
Deposits with clearing organizations	26,487	23,228
Receivable from brokers and clearing organizations	348,663	302,844
Receivable from customers, net of allowance for doubtful accounts of \$2,716 (\$2,716 in 2010)	974,658	924,817
Income taxes receivable	3,482	4,979
Securities purchased under agreement to resell	201,500	347,070
Securities owned, including amounts pledged of \$434,315		
(\$102,501 in 2010), at fair value	962,336	367,019
Notes receivable, net	57,231	59,786
Office facilities, net	21,099	22,875
Intangible assets, net	39,897	40,979
Goodwill	132,472	132,472
Other	185,746	198,665
	<b>\$3,156,668</b>	<b>\$2,620,034</b>

(Continued on next page)

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

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	March 31, 2011	December 31, 2010
<i>(Expressed in thousands of dollars)</i>		
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Drafts payable	\$42,436	\$61,055
Bank call loans	113,200	147,000
Payable to brokers and clearing organizations	531,529	372,697
Payable to customers	520,471	406,916
Securities sold under agreement to repurchase	542,301	390,456
Securities sold, but not yet purchased, at fair value	377,747	160,052
Accrued compensation	105,859	175,938
Accounts payable and other liabilities	274,711	262,506
Senior secured credit note	22,378	22,503
Subordinated note	100,000	100,000
Deferred income tax, net	20,180	16,295
Excess of fair value of acquired assets over cost	7,020	7,020
	2,657,832	2,122,438
<b>Equity</b>		
Oppenheimer Holdings Inc. stockholders' equity		
Share capital		
Class A non-voting common stock		
(2011 13,535,063 shares issued and outstanding		
2010 13,268,522 shares issued and outstanding)	61,548	51,768
Class B voting common stock		
99,680 shares issued and outstanding	133	133
	61,681	51,901
Contributed capital	34,696	47,808
Retained earnings	398,234	394,648
Accumulated other comprehensive income	518	207
Total Oppenheimer Holdings Inc. stockholders' equity	495,129	494,564
Noncontrolling interest	3,707	3,032
Total equity	498,836	497,596



\$3,156,668

\$2,620,034

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 March 31,	
	2011	2010
<i>Expressed in thousands of dollars, except share and per share amounts</i>		
REVENUE:		
Commissions	\$136,855	\$138,197
Principal transactions, net	10,991	20,179
Interest	14,789	9,578
Investment banking	28,441	25,184
Advisory fees	48,449	42,794
Other	13,892	10,243
	253,417	246,175
EXPENSES:		
Compensation and related expenses	170,415	158,179
Clearing and exchange fees	6,313	6,562
Communications and technology	15,939	16,440
Occupancy and equipment costs	18,546	18,460
Interest	7,774	5,301
Other	24,601	25,373
	243,588	230,315
Profit before income taxes	9,829	15,860
Income tax provision	4,068	6,496

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Net profit for the period	5,761	9,364
Less net profit attributable to non-controlling interest, net of tax	675	196
Net profit attributable to Oppenheimer Holdings Inc.	\$5,086	\$9,168

Profit per share attributable to Oppenheimer Holdings Inc.:

Basic	\$0.38	\$0.69
Diluted	\$0.36	\$0.66
Weighted average common shares		
Basic	13,550,723	13,296,980
Diluted	14,203,413	13,855,982
Dividends declared per share	\$0.11	\$0.11

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	
	March 31,	
	2011	2010
<i>Expressed in thousands of dollars</i>		
Net profit for the period	\$5,761	\$9,364
Other comprehensive income:		
Currency translation adjustment	239	285
Change in cash flow hedges, net of tax	72	(367)
Comprehensive income for the period	6,072	9,282
Comprehensive income attributable to non-controlling interests	675	196
Comprehensive income attributable to Oppenheimer Holdings Inc.	\$5,397	\$9,086

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

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

	Three months ended	
	March 31,	
	2011	2010
<i>Expressed in thousands of dollars</i>		
Cash flows from operating activities:		
Net profit for the period	\$5,761	\$9,364
Adjustments to reconcile net profit to net cash used in operating activities:		
Non-cash items included in net profit:		
Depreciation and amortization	3,527	3,088
Deferred income tax	3,885	10,263
Amortization of notes receivable	5,087	4,916
Amortization of debt issuance costs	273	233
Amortization of intangibles	1,082	1,081
Provision for doubtful accounts	-	29
Share-based compensation	4,836	(1,769)
Decrease (increase) in operating assets:		
Cash and securities segregated for regulatory and other purposes	(7,711)	(8,534)
Deposits with clearing organizations	(3,259)	(3,400)
Receivable from brokers and clearing organizations	(45,819)	38,646
Receivable from customers	(49,841)	31,408
Income taxes receivable	1,497	(8,226)
Securities purchased under agreement to resell	145,570	(186,425)
Securities owned	(595,317)	(157,333)
Notes receivable	(2,532)	(3,116)
Other	12,684	(2,914)
Increase (decrease) in operating liabilities:		
Drafts payable	(18,619)	(12,748)
Payable to brokers and clearing organizations	158,904	22,932
Payable to customers	113,555	(82,418)
Securities sold under agreement to repurchase	151,845	186,731
Securities sold, but not yet purchased	217,695	147,078
Accrued compensation	(76,647)	(75,015)
Accounts payable and other liabilities	12,205	33,163
Cash provided by (used in) operating activities	38,661	(52,966)

(Continued on next page)

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

	Three months ended	
	March 31,	
	2011	2010
<i>Expressed in thousands of dollars</i>		
Cash flows from investing activities:		
Purchase of office facilities	(1,549)	(1,337)
Cash used in investing activities	(1,549)	(1,337)
Cash flows from financing activities:		
Cash dividends paid on Class A non-voting and Class B voting common stock	(1,500)	(1,463)
Issuance of Class A non-voting common stock	71	2,002
Tax shortfall from share-based compensation	(1,672)	(64)
Senior secured credit note repayments	(125)	(500)
Increase (decrease) in bank call loans, net	(33,800)	37,600
Cash (used in) provided by financing activities	(37,026)	37,575
Net increase (decrease) in cash and cash equivalents	86	(16,728)
Cash and cash equivalents, beginning of period	52,854	68,918
Cash and cash equivalents, end of period	\$52,940	\$52,190
Schedule of non-cash investing and financing activities:		
Employee share plan issuance	\$9,709	\$1,332
Supplemental disclosure of cash flow information:		
Cash paid during the periods for interest	\$11,232	\$5,214
Cash paid during the periods for income taxes	\$526	\$4,079

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



OPPENHEIMER HOLDINGS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)  
 AS AT MARCH 31,

	2011	2010
<i>Expressed in thousands of dollars</i>		
<b>Share capital</b>		
Balance at beginning of period	\$51,901	\$47,824
Issuance of Class A non-voting common stock	9,780	3,334
Balance at end of period	\$61,681	\$51,158
<b>Contributed capital</b>		
Balance at beginning of period	\$47,808	\$41,978
Vested employee share plan awards	(12,662)	(1,287)
Tax shortfall from share-based awards	(1,672)	(64)
Share-based expense	1,222	2,260
Balance at end of period	\$34,696	\$42,887
<b>Retained earnings</b>		
Balance at beginning of period	\$394,648	\$362,188
Net profit for the period attributable to Oppenheimer Holdings Inc.	5,086	9,168
Dividends (\$0.11 per share in 2011 and 2010)	(1,500)	(1,463)
Balance at end of period	\$398,234	\$369,893
<b>Accumulated other comprehensive income (loss)</b>		
Balance at beginning of period	\$207	\$(543)
Currency translation adjustment	239	285
Change in cash flow hedges, net of tax	72	(367)
Balance at end of period	\$518	\$(625)
<b>Stockholders' Equity of Oppenheimer Holdings Inc.</b>	\$495,129	\$463,313
<b>Non-controlling interest</b>		
Balance at beginning of period	\$3,032	\$-
Grant of non-controlling interest	-	784
Net profit attributable to non-controlling interest for the period, net of tax	675	196
Balance at end of period	\$3,707	\$980
<b>Total equity</b>	\$498,836	\$464,293

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 E.U. Ltd., 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 Fahnstock & 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. Oppenheimer holds a trading permit on the New York Stock Exchange and is a member of several other regional exchanges in the United States.

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 March 31, 2011, the Company owns 67.34% of OMHHF and the non-controlling interest recorded in the condensed consolidated balance sheet was \$3.7 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 year amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on previously reported net profit.

## 2. New Accounting Pronouncements

### *Recently Adopted*

In February 2010, the Financial Accounting Standards Board (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 ending March 31, 2011. See note 5.

In December 2010, 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.

## 3. Earnings per share

Earnings 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 earnings 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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Earnings per share has been calculated as follows:

Dollar amounts are expressed in thousands, except share amounts

	Three months ended	
	March 31,	
	2011	2010
Basic weighted average number of shares outstanding	13,550,723	13,296,980
Net dilutive effect of warrant, treasury method (1)	-	-
Net dilutive effect of share-based awards, treasury method (2)	652,690	559,002
Diluted weighted average number of shares outstanding	14,203,413	13,855,982
Net profit for the period	\$5,761	\$9,364
Net profit attributable to non-controlling interests	675	196
Net income attributable to Oppenheimer Holdings Inc.	\$5,086	\$9,168
Basic earnings per share	\$0.38	\$0.69
Diluted earnings per share	\$0.36	\$0.66

(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 months ended March 31, 2011 and 2010, the effect of the warrant is anti-dilutive.

(2)

For the three months ended March 31, 2011 and 2010, respectively, the diluted earnings per share computations do not include the anti-dilutive effect of 1,142,028 and 1,273,416 shares of Class A Stock granted under share-based compensation arrangements and the warrant described in (1).

#### 4. Receivable from and payable to brokers and clearing organizations

Dollar amounts are expressed in thousands.

	March 31, 2011	December 31, 2010
Receivable from brokers and clearing organizations consist of:		
Deposits paid for securities borrowed	\$239,138	\$199,117
Receivable from brokers	19,364	20,609
Securities failed to deliver	42,401	23,673
Clearing organizations	7,475	11,038
Omnibus accounts	19,122	19,129
Other	21,163	29,278
	\$348,663	\$302,844



	March 31, 2011	December 31, 2010
Payable to brokers and clearing organizations consist of:		
Deposits received for securities loaned	\$401,607	\$345,462
Securities failed to receive	28,906	24,944
Clearing organizations and other	101,016	2,291
	\$531,529	\$372,697

## 5. 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

Dollar amounts are expressed in thousands.

	March 31, 2011		December 31, 2010	
	Owned	Sold	Owned	Sold
U.S. Treasury, agency and sovereign obligations	\$753,105	\$315,939	\$160,114	\$105,564
Corporate debt and other obligations	41,122	10,961	32,204	6,788
Mortgage and other asset-backed securities	2,914	12	2,895	25
Municipal obligations	40,430	714	55,089	383
Convertible bonds	40,412	9,046	39,015	11,093
Corporate equities	45,266	41,006	39,151	36,164
Other	39,087	69	38,551	35
Total	\$962,336	\$377,747	\$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 March 31, 2011 are corporate equities with estimated fair values of approximately \$14.9 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.

## **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.

The Company held one exchange membership seat with the Chicago Board Options Exchange ( CBOE ) which was converted to 80,000 common shares when CBOE 's parent company, CBOE Holdings, was publicly listed on June 14, 2010. The Company sold 20,000 shares in the initial public offering at \$29 per share, sold a further 25,626 shares in the fourth quarter of 2010 and continues to hold 17,864 shares that are restricted for sale with a twelve month restriction period ( A-2 Shares ). The Company uses the Black-Scholes model to calculate the value of a call option to

purchase securities of CBOE Holdings which is used as a proxy for the discount associated with the selling restrictions. The inputs into the Black-Scholes model include the volatility of CBOE Holdings' common shares and yields associated with six month Treasury bills and twelve month Treasury notes. At March 31, 2011, the Company valued the restricted shares at \$483,400 and recorded an unrealized gain of \$115,000 for the three months ended March 31, 2011. The Company has categorized the restricted shares of CBOE Holdings as Level 2 in the fair value hierarchy.

#### *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 at March 31, 2011, the Company had purchased approximately \$41.5 million in ARS from its clients and expects to purchase at least an additional \$35.9 million of ARS from its clients by July 31, 2011. The Company's purchases of ARS from its clients will continue on a periodic basis thereafter pursuant to the settlements with the Regulators. 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 purchases of \$41.5 million of ARS as at March 31, 2011 from clients referred to above, the Company also held \$2.4 million in ARS in its proprietary trading account as of March 31, 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 March 31, 2011, the Company had a valuation adjustment (unrealized loss) of \$4.8 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.

The following table provides information about the Company's investments in Company-sponsored funds at March 31, 2011.

Expressed in thousands of dollars.

	<b>Fair Value</b>	<b>Unfunded Commit-ments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Hedge Funds <sup>(1)</sup>	\$1,215	\$-	Quarterly - Annually	30 - 120 Days
Private Equity Funds <sup>(2)</sup>	2,269	4,685	N/A	N/A
Distressed Opportunities Fund <sup>(3)</sup>	12,439		- Semi-Annually	180 Days
<b>Total</b>	<b>\$15,923</b>	<b>\$4,685</b>		

(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 resale commitment. The forward repurchase and resale 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.



**Fair Value Measurements**

The Company's assets and liabilities, recorded at fair value on a recurring basis as of March 31, 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 March 31, 2011:**

Dollar amounts are expressed in thousands.

	<b>Fair Value Measurements</b>			
	<b>As of March 31, 2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
<b>Cash equivalents</b>	<b>\$12,330</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$12,330</b>
<b>Securities segregated for regulatory and other purposes</b>	<b>14,498</b>	<b>-</b>	<b>-</b>	<b>14,498</b>
<b>Deposits with clearing organizations</b>	<b>9,094</b>	<b>-</b>	<b>-</b>	<b>9,094</b>
<b>Securities owned:</b>				
U.S. Treasury obligations	682,670	-	-	682,670
U.S. Agency obligations	37,733	32,702	-	70,435
Corporate debt and other obligations	-	41,122	-	41,122
Mortgage and other asset-backed securities	-	2,914	-	2,914
Municipal obligations	-	38,266	2,165	40,431
Convertible bonds	-	40,412	-	40,412
Corporate equities	33,981	11,285	-	45,266
Other	2,504	-	36,582	39,086
<b>Securities owned, at fair value</b>	<b>756,888</b>	<b>166,701</b>	<b>38,747</b>	<b>962,336</b>
<b>Investments (1)</b>	<b>1,336</b>	<b>37,059</b>	<b>17,308</b>	<b>55,703</b>
<b>Derivative contracts (2)</b>	<b>-</b>	<b>550,827</b>	<b>-</b>	<b>550,827</b>
<b>Securities purchased under agreements to resell</b>	<b>-</b>	<b>201,473</b>	<b>-</b>	<b>201,473</b>
<b>Total</b>	<b>\$794,146</b>	<b>\$956,060</b>	<b>\$56,055</b>	<b>\$1,806,261</b>

**Liabilities:**

Securities sold, but not yet purchased:

U.S. Treasury obligations	\$302,646	\$ -	\$ -	\$302,646
U.S. Agency obligations	2,023	11,270	-	13,293
Corporate debt and other obligations	-	10,961	-	10,961

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Mortgage and other asset-backed securities	-	12	-	12
Municipal obligations	-	714	-	714
Convertible bonds	-	9,046	-	9,046
Corporate equities	28,938	12,068	-	41,006
Other	69	-	-	69
<b>Securities sold, but not yet purchased</b>	<b>333,676</b>	<b>44,071</b>	<b>-</b>	<b>377,747</b>
<b>Investments</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>30</b>
<b>Derivative contracts (3)</b>	<b>526</b>	<b>884,680</b>	<b>-</b>	<b>885,206</b>
<b>Total</b>	<b>\$334,232</b>	<b>\$928,751</b>	<b>\$ -</b>	<b>\$1,262,983</b>

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

(2) Primarily represents the fair value of purchases of To-Be-Announced securities (TBAs). See Derivatives used for trading and investment purposes below.

(3) Primarily represents the fair value of sales of TBAs. See Derivatives used for trading and investment purposes below.

**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 (2)	-	513,790	-	513,790
Securities purchased under agreement to resell (4)	-	332,179	-	332,179
Total	\$224,704	\$1,035,635	\$54,917	\$1,315,256

Expressed in thousands of dollars.

Fair Value Measurements As of December 31, 2010				
	Level 1	Level 2	Level 3	Total
<b>Liabilities:</b>				
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
<b>Securities sold, but not yet purchased, at fair value</b>	<b>126,462</b>	<b>33,590</b>	<b>-</b>	<b>160,052</b>
<b>Investments</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>12</b>
<b>Derivative contracts (3)</b>	<b>147</b>	<b>532,510</b>	<b>-</b>	<b>532,657</b>
<b>Securities sold under agreements to repurchase (4)</b>	<b>-</b>	<b>389,305</b>	<b>-</b>	<b>389,305</b>
<b>Total</b>	<b>\$126,621</b>	<b>\$955,405</b>	<b>\$ -</b>	<b>\$1,082,026</b>

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

(2) Primarily represents the fair value of purchases of To-Be-Announced securities (TBAs). See Derivatives used for trading and investment purposes below.

(3) Primarily represents the fair value of sales of TBAs. See Derivatives used for trading and investment purposes below.

(4) Includes securities purchased under agreements to resell and 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 months ended March 31, 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 ending March 31, 2011 and 2010.

Dollar amounts are expressed in thousands.

		<b>Realized Gains (Losses) (4)</b>	<b>Unrealiz-ed Gains (Losses) (4) (5)</b>	<b>Purch-ases, Issu-ances</b>	<b>Sales, Settle-ments</b>	<b>Trans-fers In / Out</b>	<b>Ending Bal-ance</b>
	<b>Opening Balance</b>						
<b>For the three months ended March 31, 2011</b>							
<i>Assets:</i>							
Mortgage and other asset-backed	\$14	1	-		(15)	-	\$-
securities (1)							
Municipal obligations	1,787	-	(147)	525	-	-	2,165
Other (2)	35,908	-	(2,901)	6,575	(3,000)	-	36,582
Investments (3)	17,208	-	(2)	127	-	(25)	17,308
<i>Liabilities:</i>							
none							

		<b>Realized Gains (Losses) (4)</b>	<b>Unrealiz-ed Gains (Losses) (4) (5)</b>	<b>Purchases, Sales, Issuances, Settlements</b>	<b>Trans-fers In / Out</b>	<b>Ending Balance</b>
	<b>Opening Balance</b>					

**For the three months ended March 31, 2010**

*Assets:*

Mortgage and other  
asset-backed

securities (1)

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	\$317	1	(1)	64	(1)	\$380
Municipal obligations	1,075	-	(162)	-	62	975
Other (2)	4,450	-	-	-	-	4,450
Investments (3)	15,981	-	634	55	220	16,890

*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, net 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 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 March 31, 2011 or 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 ( resale 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 March 31, 2011, the fair value of the resale agreements and repurchase agreements was \$201.5 million and \$532.5 million, respectively. During the three months ended March 31, 2011, the amount of losses related to resale agreements was \$27,000. During the three months ended March 31, 2011, the amount of gains/losses related to repurchase agreements was \$nil.

## **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 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.

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 is subject to change due to changes in 3-Month



LIBOR. See note 6 for further information. These swaps have been designated as cash flow hedges. Changes in the fair value of the swap hedges are expected to be highly effective in offsetting changes in the interest payments due to changes in 3-Month LIBOR. For the three months ended March 31, 2011, the effective portion of the net gain on the interest rate swaps, after tax, was approximately \$69,000 (\$257,000 for the three months ended March 31, 2010) and has been recorded as other comprehensive income on the consolidated

statement of comprehensive income (loss). The interest rate swaps had a weighted-average fixed interest rate of 5.45% (5.45% in 2010). 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. This cap has been designated as a cash flow hedge. Changes in the fair value of the interest rate cap are expected to be highly effective in offsetting changes in the interest payments due to changes in 3-Month LIBOR. For the three months ended March 31, 2011, the effective portion of the net gain on the interest rate cap, after tax, was approximately \$2,500 (a net loss of \$624,000 for the three months ended March 31, 2010) and has been recorded as other comprehensive income on the condensed consolidated statement of comprehensive income. There was no ineffective portion as at March 31, 2011. The Company paid a premium for the interest rate cap of \$2.4 million which has a strike of 2% and matures December 31, 2012. As at March 31, 2011, the cumulative amortization of the premium on the interest rate cap was \$547,000 (\$366,000 at December 31, 2010).

#### *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 March 31, 2011, the Company did not have any such hedges in place.

#### *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 included U.S. Treasury notes, Federal Funds and Eurodollar contracts. At March 31, 2011, the Company had 240 open short contracts for 10-year U.S. Treasury notes with a fair value of \$525,800 used primarily as an economic hedge of interest rate risk associated with a portfolio of fixed income investments. At March 31, 2011, the Company had 3.3 million open contracts for Federal Funds futures with a fair value of approximately \$275.2 million and 205,000 open contracts for Eurodollar futures with a fair value of \$51.0 million both used as economic hedges of interest rate risk associated with government trading activities.

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 consolidated balance sheets in receivable from brokers and clearing organizations and payable to brokers and clearing organizations, respectively, and in the consolidated statement of operations as principal transactions revenue. See Fair Value of Derivative Instruments tables below for TBAs outstanding at March 31, 2011.

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 resale commitment. At March 31, 2011, the fair value of the forward repurchase commitment was

approximately \$52,000.

The notional amounts and fair values of the Company's derivatives at March 31, 2011 by product were as follows:

Expressed in thousands of dollars.

<b>Fair Value of Derivative Instruments</b>			
<b>As of March 31, 2011</b>			
	<b>Description</b>	<b>Notional</b>	<b>Fair Value</b>
<b>Assets:</b>			
<b>Derivatives designated as hedging instruments <sup>(1)</sup></b>			
Interest rate contracts	Cap	\$ 100,000	\$ 182
<b>Derivatives not designated as hedging instruments <sup>(1)</sup></b>			
Other contracts	TBAs	537,631	550,645
<b>Total Assets</b>		<b>\$ 637,631</b>	<b>\$ 550,827</b>
<b>Liabilities:</b>			
<b>Derivatives not designated as hedging instruments <sup>(1)</sup></b>			
Commodity contracts	U.S Treasury Futures	\$ 24,000	\$ 526
	Federal Funds Futures	3,310,000	275,185
	Eurodollar Futures	205,000	50,962
	Euro Fx Futures	2,832	2,836
Other contracts	TBAs	537,631	555,645
	Forward Purchase Commitment <sup>(2)</sup>	4,150,000	52
<b>Total Liabilities</b>		<b>\$ 8,229,463</b>	<b>\$ 885,206</b>

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

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



Expressed in thousands of dollars.

**Fair Value of Derivative Instruments****As of December 31, 2010**

<b>Description</b>		<b>Notional</b>	<b>Fair Value</b>
<b>Assets:</b>			
<b>Derivatives designated as hedging instruments <sup>(1)</sup></b>			
Interest rate contracts	Cap	\$ 100,000	\$ 178
<b>Derivatives not designated as hedging instruments <sup>(1)</sup></b>			
Other contracts	TBAs	496,266	513,612
<b>Total Assets</b>		<b>\$ 596,266</b>	<b>\$ 513,790</b>
<b>Liabilities:</b>			
<b>Derivatives designated as hedging instruments <sup>(1)</sup></b>			
Interest rate contracts	Swaps	\$ 9,000	\$ 116
<b>Derivatives not designated as hedging instruments <sup>(1)</sup></b>			
Commodity contracts	U.S Treasury Futures		
		14,000	147
Other contracts	TBAs	518,987	532,359
	Forward Purchase Commitment <sup>(2)</sup>		
		3,250,000	35
<b>Sub-total</b>		<b>3,782,987</b>	<b>532,541</b>
<b>Total Liabilities</b>		<b>\$ 3,791,987</b>	<b>\$ 532,657</b>

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

(2) 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 March 31, 2011.

			Recognized in Income on Derivatives (pre-tax)	Recognized in Other Comprehensive Income on Derivatives -Effective Portion (after tax) Gain/ (Loss)	Reclassified from Accumulated Other Comprehensive Income into Income -Effective Portion <sup>(2)</sup> (after tax)
Expressed in thousands of dollars.					
Hedging Relationship	Description	Location	Gain/ (Loss)		Loca-tion Gain/ (Loss)
<b><i>Cash Flow Hedges used for asset and liability management:</i></b>					
Interest rate contracts	Swaps <sup>(3)</sup>	N/A	\$ -	\$ -	Interest expense
	Caps <sup>(3)</sup>	N/A	-	3	Other revenue
<b><i>Derivatives used for trading and investment <sup>(1)</sup>:</i></b>					
Commodity contracts	U.S Treasury Futures	Principal transaction revenue	(44)	-	None
	Federal Funds Futures	Principal transaction revenue	(28)	-	None
	Euro-dollar Futures	Principal transaction revenue	(77)	-	None
	Euro FX	Principal transaction revenue	(94)	-	None
Other contracts	TBAs	Principal transaction revenue	1,254	-	None
	Forward purchase commitment <sup>(4)</sup>	Principal transaction revenue	(898)	-	None
<b>Total</b>			\$113	\$ 3	\$ (149)

(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 March 31, 2011.



(3) As noted above in Cash flow hedges used for asset and liability management , interest rate swaps and caps are used to hedge interest rate risk associated with the Senior Secured Credit Note and the Subordinated Note. As a result, changes in fair value of the interest rate swaps and caps are offset by interest rate changes on the outstanding Senior Secured Credit Note and Subordinated Note balances. There was no ineffective portion as at March 31, 2011.

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

### **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 March 31, 2011, bank call loans were \$113.2 million (\$147.0 million at December 31, 2010).

At March 31, 2011, the Company had both uncollateralized and collateralized borrowings. The collateralized loans, collateralized by firm and customer securities with market values of approximately \$82.6 million and \$200.9 million, respectively, at March 31, 2011, are primarily with two U.S. money center banks. At March 31, 2011, the Company had approximately \$1.4 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has repledged approximately \$364.7 million under securities loan agreements.

At March 31, 2011, the Company had deposited \$212.2 million of customer securities directly with the Options Clearing Corporation.

At March 31, 2011, the Company had no outstanding letters of credit.

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

Certain of the Company's repurchase agreements and resale 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 resale 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 March 31, 2011, the fair value of the resale agreements and repurchase agreements were \$201.5 million and \$532.5 million, respectively. During the three months ended March 31, 2011, the amount of losses related to resale agreements was \$27,000. During the three months ended March 31, 2011, the amount of gains/losses related to repurchase agreements was \$nil. At March 31, 2011, the gross balances of resale agreements and repurchase agreements were \$2.7 billion and \$3.0 billion, respectively (\$4.0 billion and \$4.1 billion, respectively at December 31, 2010).

The Company receives collateral in connection with securities borrowed and resale agreement transactions and customer margin loans. Under many agreements, the Company is permitted to sell or repledge the securities received (e.g., use the securities to enter into securities lending transactions, or deliver to counterparties to cover short positions). At March 31, 2011, the fair value of securities received as collateral under securities borrowed transactions and resale agreements was \$232.6 million (\$192.1 million at December 31, 2010) and \$2.6 billion (\$3.9 billion at December 31, 2010), respectively, of which the Company has re-pledged approximately \$18.4 million (\$47.3 million at December 31, 2010) under securities loaned transactions and \$2.6 billion under repurchase agreements (\$3.9 billion at December 31, 2010).

The Company pledges certain of its securities owned for securities lending and repurchase agreements and to collateralize bank call loan transactions. The carrying value of pledged securities owned that can be sold or re-pledged by the counterparty was \$434.3 million, as presented on the face of the condensed consolidated balance sheet at March 31, 2011 (\$102.5 million at December 31, 2010). The carrying value of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or re-pledge the collateral was \$107.1 million as at March 31, 2011 (\$149.9 million at December 31, 2010).

The Company manages credit exposure arising from repurchase and resale agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate and the right to offset a counterparty's rights and obligations. The Company also monitors the market value of collateral held and the market value of securities receivable from others. It is the Company's policy to request and obtain additional collateral when exposure to loss exists. In the event the counterparty is unable to meet its contractual obligation to return the securities, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices.

One of the Company's funds in which a subsidiary of the Company acts as a general partner and also owns a limited partnership interest utilized Lehman Brothers International (Europe) as a prime broker. As of March 31, 2011, Lehman Brothers International (Europe) held securities with a fair value of \$9.1 million that were segregated and not re-hypothecated.

### **Credit Concentrations**

Credit concentrations may arise from trading, investing, underwriting and financing activities and may be impacted by changes in economic, industry or political factors. In the normal course of business, the Company may be exposed to risk in the event customers, counterparties including other brokers and dealers, issuers, banks, depositories or clearing organizations are unable to fulfill their contractual obligations. The Company seeks to mitigate these risks by actively monitoring exposures and obtaining collateral as deemed appropriate. Included in receivable from brokers and clearing organizations as of March 31, 2011 are receivables from four major U.S. broker-dealers totaling approximately \$140.1 million.

The Company participates in loan syndications through its Debt Capital Markets business. Through OPY Credit Corp., the Company operates as underwriting agent in leveraged financing transactions where it utilizes a warehouse

facility provided by CIBC to extend financing commitments to third-party borrowers identified by the Company. The Company has exposure, up to a maximum of 10%, of the excess underwriting commitment provided by CIBC over CIBC's targeted loan retention (defined as "Excess Retention"). The Company quantifies its Excess Retention exposure by assigning a fair value to the underlying loan commitment provided by CIBC (in excess of what CIBC has agreed to retain) which is based on the fair value of the loans trading in the secondary market. To the extent that the fair value of the loans has decreased, the Company records an

unrealized loss on the Excess Retention. Underwriting of loans pursuant to the warehouse facility is subject to joint credit approval by the Company and CIBC. The maximum aggregate principal amount of the warehouse facility is \$1.5 billion, of which the Company utilized \$80.5 million (\$78.0 million as of December 31, 2010) and had \$nil in Excess Retention (\$nil as of December 31, 2010) as of March 31, 2011.

The Company is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to the Company. Clients are required to complete their transactions on settlement date, generally one to three business days after trade date. If clients do not fulfill their contractual obligations, the Company may incur losses. The Company has clearing/participating arrangements with the National Securities Clearing Corporation ( NSCC ), the Fixed Income Clearing Corporation ( FICC ), R.J. O'Brien & Associates (commodities transactions) and others. With respect to its business in resale and repurchase agreements, substantially all open contracts at March 31, 2011 are with the FICC. The clearing corporations have the right to charge the Company for losses that result from a client's failure to fulfill its contractual obligations. Accordingly, the Company has credit exposures with these clearing brokers. The clearing brokers can re-hypothecate the securities held on behalf of the Company. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing brokers, the Company believes there is no maximum amount assignable to this right. At March 31, 2011, the Company had recorded no liabilities with regard to this right. The Company's policy is to monitor the credit standing of the clearing brokers and banks with which it conducts business.

Through its Debt Capital Markets business, the Company also participates, with other members of loan syndications, in providing financing commitments under revolving credit facilities in leveraged financing transactions. As of March 31, 2011, the Company had \$6.7 million committed under such financing arrangements.

OMHHF, which is engaged in mortgage brokerage and servicing, has obtained an uncommitted warehouse facility line through PNC Bank ( PNC ) under which OMHHF pledges Federal Housing Administration ( FHA ) guaranteed mortgages for a period of up to 10 business days and PNC table funds the principal payment to the mortgagee. OMHHF repays PNC upon the securitization of the mortgage by the Government National Mortgage Association ( GNMA ) and the delivery of the security to the counter party for payment pursuant to a contemporaneous sale on the date the mortgage is funded. At March 31, 2011, OMHHF had \$39.0 million outstanding under the warehouse facility line at a variable interest rate of 1 month LIBOR plus 2.75%. Interest expense for the three months ended March 31, 2011 was \$372,100.

### **Variable Interest Entities (VIEs)**

VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The primary beneficiary of a VIE is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests. The enterprise that is considered the primary beneficiary of a VIE consolidates the VIE.

A subsidiary of the Company serves as general partner of hedge funds and private equity funds that were established for the purpose of providing investment alternatives to both its institutional and qualified retail clients. The Company holds variable interests in these funds as a result of its right to receive management and incentive fees. The Company's investment in and additional capital

commitments to these hedge funds and private equity funds are also considered variable interests. The Company's additional capital commitments are subject to call at a later date and are limited in amount.

The Company assesses whether it is the primary beneficiary of the hedge funds and private equity funds in which it holds a variable interest in the context of the total general and limited partner interests held in these funds by all parties. In each instance, the Company has determined that it is not the primary beneficiary and therefore need not consolidate the hedge funds or private equity funds. The subsidiaries' general partnership interests, additional capital commitments, and management fees receivable represent its maximum exposure to loss. The subsidiaries' general partnership interests and management fees receivable are included in other assets on the condensed consolidated balance sheet.

The following tables set forth the total VIE assets, the carrying value of the subsidiaries' variable interests, and the Company's maximum exposure to loss in Company-sponsored non-consolidated VIEs in which the Company holds variable interests and other non-consolidated VIEs in which the Company holds variable interests as at March 31, 2011 and December 31, 2010:

### As of March 31, 2011

Expressed in thousands of dollars.

	Total VIE Assets (1)	Carrying Value of the Company's Variable Interest		Capital Commitments	Maximum Exposure to Loss in Non-consolidated VIEs
		Assets (2)	Liabilities		
Hedge Funds	\$1,749,118	\$343	\$-	\$-	\$343
Private Equity Funds	159,873	23	-	-	23
Total	\$1,908,991	\$366	\$-	\$-	\$366

### As of December 31, 2010

Expressed in thousands of dollars.

	Total VIE Assets (1)	Carrying Value of the Company's Variable Interest		Capital Commitments	Maximum Exposure to Loss in Non-consolidated VIEs
		Assets (2)	Liabilities		
Hedge Funds	\$1,769,382	\$775	\$-	\$-	\$775
Private Equity	157,196	22	-	5	27



Funds

Total	\$1,926,578	\$797	\$-	\$5	\$802
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(1) Represents the total assets of the VIEs and does not represent the Company's interests in the VIEs.

(2) Represents the Company's interests in the VIEs and is included in other assets on the condensed consolidated balance sheet.

**6. Long-term debt**

Dollar amounts are expressed in thousands.

Issued	Maturity Date	Interest Rate at March 31, 2011	March 31, 2011	December 31, 2010
Senior Secured Credit Note (a)	7/31/2013	4.81%	\$22,378	\$22,503
Subordinated Note (b)	1/31/2014	5.55%	\$100,000	\$100,000

(a) In 2006, the Company issued a Senior Secured Credit Note in the amount of \$125.0 million at a variable interest rate based on LIBOR with a seven-year term to a syndicate led by Morgan Stanley Senior Funding Inc., as agent. In accordance with the Senior Secured Credit Note, the Company has provided certain covenants to the lenders with respect to the maintenance of a minimum fixed charge ratio and maximum leverage ratio and minimum net capital requirements with respect to Oppenheimer.

On December 22, 2008, certain terms of the Senior Secured Credit Note were amended, including (1) revised financial covenant levels that require that (i) the Company maintain a maximum leverage ratio (total long-term debt divided by EBITDA) of 2.00 at March 31, 2011 and (ii) the Company maintain a minimum fixed charge ratio (EBITDA adjusted for capital expenditures and income taxes divided by the sum of principal and interest payments on long-term debt) of 2.00 at March 31, 2011; (2) an increase in scheduled principal payments as follows: 2009 - \$400,000 per quarter plus \$4.0 million on September 30, 2009; 2010 - \$500,000 per quarter plus \$8.0 million on September 30, 2010; (3) an increase in the interest rate to LIBOR plus 450 basis points (an increase of 150 basis points); and (4) a pay-down of principal equal to the cost of any share repurchases made pursuant to the Issuer Bid. In the Company's view, the maximum leverage ratio and minimum fixed charge ratio represent the most restrictive covenants. These ratios adjust each quarter in accordance with the loan terms, and become more restrictive over time. At March 31, 2011, the Company was in compliance with all of its covenants.

The obligations under the Senior Secured Credit Note are guaranteed by certain of the Company's subsidiaries, other than broker-dealer subsidiaries, with certain exceptions, and are collateralized by a lien on substantially all of the assets of each guarantor, including a pledge of the ownership interests in each first-tier broker-dealer subsidiary held by a guarantor, with certain exceptions.

The effective interest rate on the Senior Secured Credit Note for the three months ended March 31, 2011 was 4.81%. Interest expense, as well as interest paid on a cash basis for the three months ended March 31, 2011, on the Senior Secured Credit Note was \$270,600 (\$387,000 in the three months ended March 31, 2010). The \$22.4 million principal amount outstanding at March 31, 2011 was repaid in full on April 12, 2011. See note 11.

(b) On January 14, 2008, in connection with the acquisition of certain businesses from CIBC World Markets Corp., CIBC made a loan in the amount of \$100.0 million and the Company issued a Subordinated Note to CIBC in the amount of \$100.0 million at a variable interest rate based on LIBOR. The Subordinated Note is due and payable on January 31, 2014 with interest payable on a quarterly basis. The purpose of this note is to support the capital requirements of the acquired business. In accordance with the Subordinated Note, the Company has provided certain covenants to CIBC with respect to the maintenance of a minimum fixed charge ratio and maximum leverage ratio and minimum net capital requirements with respect to Oppenheimer.

Effective December 23, 2008, certain terms of the Subordinated Note were amended, including (1) revised financial covenant levels that require that (i) the Company maintain a maximum leverage ratio of 2.35 at March 31, 2011 and (ii) the Company maintain a minimum fixed charge ratio of 1.65 at March 31, 2011; and (2) an increase in the interest rate to LIBOR plus 525 basis points (an increase of 150 basis points). In the Company's view, the maximum leverage ratio and minimum fixed charge ratio represent the most restrictive covenants. These ratios adjust each quarter in accordance with the loan terms, and become more restrictive over time. At March 31, 2011, the Company was in compliance with all of its covenants. On April 12, 2011, the Subordinated Note was repaid in full. See note 11.

The effective interest rate on the Subordinated Note for the three months ended March 31, 2011 was 5.55%. Interest expense, as well as interest paid on a cash basis for the three months ended March 31, 2011, on the Subordinated Note was \$1.4 million (\$1.4 million for the three months ended March 31, 2010).

## 7. Share capital

The following table reflects changes in the number of shares of Class A Stock outstanding for the periods indicated:

	Three months ended	
	March 31,	
	2011	2010
Class A Stock outstanding, beginning of period	13,268,522	13,118,001
Issued pursuant to the share-based compensation plans	266,541	123,551
Class A Stock outstanding, end of period	13,535,063	13,241,552

## 8. Net capital requirements

The Company's U.S. broker dealer subsidiaries, Oppenheimer and Freedom, are subject to the uniform net capital requirements of the SEC under Rule 15c3-1 (the "Rule"). Oppenheimer computes its net capital requirements under the alternative method provided for in the Rule which requires that Oppenheimer maintain net capital equal to two percent of aggregate customer-related debit items, as defined in SEC Rule 15c3-3. At March 31, 2011, the net capital of Oppenheimer as calculated under the Rule was \$172.3 million or 13.2% of Oppenheimer's aggregate debit items. This was \$146.1 million in excess of the minimum required net capital at that date. Freedom computes its net capital requirement under the basic method provided for in the Rule, which requires that Freedom maintain net capital equal

to the greater of \$250,000 or 6 2/3% of aggregate indebtedness, as defined. At March 31, 2011, Freedom had net capital of \$4.9 million, which was \$4.6 million in excess of the \$250,000 required to be maintained at that date.

At March 31, 2011, the regulatory capital of Oppenheimer E.U. Ltd. was \$3.3 million which was \$1.0 million in excess of the \$2.3 million required to be maintained at that date. Oppenheimer E.U. Ltd. computes its regulatory capital pursuant to the Fixed Overhead Method prescribed by the Financial Services Authority of the United Kingdom.

At March 31, 2011, the regulatory capital of Oppenheimer Investments Asia Ltd. was \$652,000 which was \$265,600 in excess of the \$386,400 required to be maintained on that date. Oppenheimer Investments Asia Ltd. computes its regulatory capital pursuant to the requirements of the Securities and Futures Commission in Hong Kong.

## **9. Related party transactions**

The Company does not make loans to its officers and directors except under normal commercial terms pursuant to client margin account agreements. These loans are fully collateralized by employee-owned securities.

## **10. Segment information**

The table below presents information about the reported revenue and profit before income taxes of the Company for the periods noted. The Company's segments are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The Company has allocated all revenue and expenses to its segments and has eliminated the "Other" category as these are now allocated by the Chief Executive Officer and Chief Financial Officer in their analysis. Previously reported segment information has been revised to reflect this change. The Company's business is conducted primarily in the United States with additional operations in the United Kingdom, Israel, Asia, and South America.

The table below presents information about the reported revenue and profit before income taxes of the Company for the three months ended March 31, 2011 and 2010. Asset information by reportable segment is not reported, since the Company does not produce such information for internal use. Substantially all assets are located in the United States.

Expressed in thousands of dollars.

	Three months ended	
	March 31,	
	2011	2010
Revenue:		
Private Client (1)	\$145,399	\$136,822
Capital Markets	89,753	92,444
Asset Management (1)	18,265	16,909
Total	\$253,417	\$246,175
Profit before income taxes:		
Private Client (1)	\$1,732	\$5,260
Capital Markets	3,031	6,355
Asset Management (1)	5,066	4,245
Total	\$9,829	\$15,860

(1)

Asset management revenue is allocated 77.5% to the Asset Management segment and 22.5% to the Private Client segment.



The Company has operations in the United States, United Kingdom, Israel, Asia and South America.

Revenues, classified by the major geographic areas in which they were earned for the three months ended March 31, 2011 and 2010, were as follows:

Expressed in thousands of dollars.

	Three months ended	
	March 31, 2011	2010
United States	\$239,290	\$234,814
Europe / Middle East	8,234	6,281
Asia	3,139	3,270
South America	2,755	1,810
	\$253,418	\$246,175

## 11. Subsequent events

On April 12, 2011, the Company completed the private placement of \$200.0 million in aggregate principal amount of 8.75 percent Senior Secured Notes due April 15, 2018 at par (the Notes). The interest on the Notes will be payable semi-annually on April 15<sup>th</sup> and October 15<sup>th</sup>. Proceeds from the private placement were used to retire the Morgan Stanley Senior Secured Credit Note due 2013 (\$22.4 million) and the CIBC Subordinated Note due 2014 (\$100.0 million) (together, the Debt) and other general corporate purposes. The carrying value of the outstanding Debt as of March 31, 2011 totaled \$122.4 million. The private placement resulted in the fixing of the interest rate over the term of the Notes compared to the variable rate debt that was retired and an extension of the debt maturity dates as described above. The cost to issue the Notes is estimated to total approximately \$4.1 million which will be capitalized during the three months ending June 30, 2011 and amortized over the period of the Notes. The Company will write off \$344,000 in unamortized debt issuance costs related to the Senior Secured Credit Note during the three months ending June 30, 2011. Additionally, as a result of the refinancing of the Subordinated Note, the effective portion of the net loss of \$1.3 million related to the interest rate cap cash flow hedge will be reclassified from accumulated other comprehensive loss on the condensed consolidated balance sheet to a loss on the condensed consolidated statement of operations during the three months ending June 30, 2011.

The indenture for the Notes contains covenants which place restrictions on the incurrence of indebtedness, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. The Notes provide for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. The Company's obligations under the Notes are guaranteed, subject to certain limitations, by the same subsidiaries that guaranteed the obligations under the Senior Secured Credit Note and the Subordinated Note which were retired. These guarantees may be shared, on a senior basis, under certain circumstances, with newly incurred debt outstanding in the future.

On April 29, 2011, the Company announced a cash dividend of \$0.11 per share (totaling \$1.4 million) payable on May 27, 2011 to Class A and Class B Stockholders of record on May 13, 2011.

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

The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Reference is also made to the Company's consolidated financial statements and notes thereto found in its Annual Report on Form 10-K for the year ended December 31, 2010.

The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, trust services and investment advisory and asset management services. Its principal subsidiaries are Oppenheimer & Co. Inc. ( Oppenheimer ) and Oppenheimer Asset Management ( OAM ). As at March 31, 2011, the Company provided its services from 96 offices in 26 states located throughout the United States, offices in Tel Aviv, Israel, Hong Kong, China, and London, England and in two offices in Latin America through local broker-dealers. Client assets entrusted to the Company as at March 31, 2011 totaled approximately \$74.8 billion. The Company provides investment advisory services through OAM and Oppenheimer Investment Management ( OIM ) and Oppenheimer's Fahnstock Asset Management, ALPHA and OMEGA Group divisions. The Company provides trust services and products through Oppenheimer Trust Company. The Company provides discount brokerage services through Freedom and through BUYandHOLD, a division of Freedom Investments, Inc. Through OPY Credit Corp., the Company offers syndication as well as trading of issued corporate loans. Oppenheimer Multifamily Housing and Healthcare Finance, Inc. (formerly Evanston Financial Corporation) ( OMHHF ) is engaged in mortgage brokerage and servicing. At March 31, 2011, client assets under management by the asset management groups totaled \$19.9 billion. At March 31, 2011, the Company employed 3,643 employees (3,572 full time and 71 part time), of whom approximately 1,434 were financial advisors.

### **Critical Accounting Policies**

The Company's accounting policies are essential to understanding and interpreting the financial results reported in the condensed consolidated financial statements. The significant accounting policies used in the preparation of the Company's condensed consolidated financial statements are summarized in notes 1 and 2 to the Company's consolidated financial statements and notes thereto found in its Annual Report on Form 10-K for the year ended December 31, 2010. Certain of those policies are considered to be particularly important to the presentation of the Company's financial results because they require management to make difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain.

During the three months ended March 31, 2011, there were no material changes to matters discussed under the heading Critical Accounting Policies in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

### **Business Environment**

The securities industry is directly affected by general economic and market conditions, including fluctuations in volume and price levels of securities and changes in interest rates, inflation, political events, investor participation levels, legal and regulatory, accounting, tax and compliance requirements and competition, all of which have an impact on commissions, firm trading, fees from accounts under investment management as well as fees for investment banking services, and investment income as well as on liquidity. Substantial fluctuations can occur in revenues and net income due to these and other factors.

For a number of years, the Company has offered auction rate securities ( ARS ) to its clients. A significant portion of the market in ARS has failed because, in the tight credit market, the dealers are no longer willing or able to purchase the imbalance between supply and demand for ARS. These securities have auctions scheduled on either a 7, 28 or 35 day cycle. Clients of the Company own a significant amount of ARS in their individual accounts. The absence of a liquid market for these securities presents a significant problem to clients and, as a result, to the Company. It should be noted that this is a failure of liquidity and not a default. These securities in almost all cases have not failed to pay interest or principal when due. These securities are fully collateralized for the most part and, for the most part, remain good credits. The Company has not acted as an auction agent for 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 March 31, 2011, the Company had a valuation adjustment (unrealized) of \$4.8 million for ARS.

The Company has sought, with limited success, financing from a number of sources to try to find a means for all its clients to find liquidity from their ARS holdings and will continue to do so. There can be no assurance that the Company will be successful in finding a liquidity solution for all its clients ARS holdings. See Risk Factors The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 and Factors Affecting Forward-Looking Statements .

The Company is focused on growing its private client and asset management businesses through strategic additions of experienced financial advisors in its existing branch system and employment of experienced money management personnel in its asset management business. In addition, the Company is committed to the improvement of its technology capability to support client service and the expansion of its capital markets capabilities while addressing the issue of managing its expenses to better align them with the current investment environment. The Company will continue to nurture the growth of OMMHF as well as its business in non-U.S. markets.

## **Regulatory and Legal Environment**

The brokerage business is subject to regulation by, among others, the Securities and Exchange Commission ( SEC ) and FINRA (formerly the NYSE and NASD) in the United States, the Financial Services Authority ( FSA ) in the United Kingdom, the Securities and Futures Commission in Hong Kong ( SFC ), the Israeli Securities Authority ( ISA ) in Israel and various state securities regulators. Events in recent years surrounding corporate accounting and other activities leading to investor losses resulted in the enactment of the Sarbanes-Oxley Act and have caused increased regulation of

public companies. New regulations and new interpretations and enforcement of existing regulations are creating increased costs of compliance and increased

investment in systems and procedures to comply with these more complex and onerous requirements. Increasingly, the various states are imposing their own regulations that make the uniformity of regulation a thing of the past, and make compliance more difficult and more expensive to monitor.

In July 2010, Congress enacted extensive legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd Frank ) in which it mandated that the SEC and other regulators conduct comprehensive studies and issue new regulations based on their findings to control the activities of financial institutions in order to protect the financial system, the investing public and consumers from issues and failures that occurred in the recent financial crisis. All relevant studies have not yet been completed, but they are widely expected to extensively impact the regulation and practices of financial institutions including the Company. The changes are likely to significantly reduce leverage available to financial institutions and to increase transparency to regulators and investors of risks taken by such institutions. It is impossible to presently predict the nature of such rulemaking, and rules adopted in the U.S. and the United Kingdom would create a new regulator for certain activities, regulate and/or prohibit proprietary trading for certain deposit taking institutions, control the amount and timing of compensation to highly paid employees, create new regulations around financial transactions with consumers requiring the adoption of a uniform fiduciary standard of care of broker-dealers and investment advisers providing personalized investment advice about securities to retail customers, and increase the disclosures provided to clients, and possibly create a tax on securities transactions. If and when enacted, such regulations will likely increase compliance costs and reduce returns earned by financial service providers and intensify compliance overall. It is difficult to predict the nature of the final regulations and their impact on the business of the Company.

The impact of the rules and requirements that were created by the passage of the Patriot Act, and the anti-money laundering regulations (AML) in the U.S. and similar laws in other countries that are related thereto have created significant costs of compliance and can be expected to continue to do so.

Pursuant to FINRA Rule 3130 (formerly NASD Rule 3013 and NYSE Rule 342), the chief executive officers ( CEOs ) of regulated broker-dealers (including the CEO of Oppenheimer) are required to certify that their companies have processes in place to establish and test supervisory policies and procedures reasonably designed to achieve compliance with federal securities laws and regulations, including applicable regulations of self-regulatory organizations. The CEO of the Company is required to make such a certification on an annual basis and did so in March 2011.

#### *Other Regulatory Matters*

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 at March 31, 2011, the Company had purchased approximately \$41.5 million in ARS from its clients and expects to purchase at least an additional \$35.9 million of ARS from its clients by July 31, 2011. The Company's purchases of ARS from its clients will continue on a periodic basis thereafter pursuant to the settlements with the Regulators. 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 purchases of \$41.5 million of ARS as of March 31, 2011 from clients referred to above, the Company also held \$2.4 million in ARS in its proprietary trading account as of March 31,





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 ).

The Company's clients held at Oppenheimer approximately \$484.8 million of ARS at March 31, 2011, exclusive of amounts that 1) were owned by Qualified Institutional Buyers ( QIBs ), 2) were transferred to the Company, 3) were purchased by clients after February 2008, or 4) were transferred from the Company to other securities firms after February 2008. This represents a decrease of \$47.0 million from amounts that our clients held as of December 31, 2010 as a result of issuer redemptions and purchases by the Company.

See Risk Factors The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market, appearing in Item 1A to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 and Legal Proceedings herein.

#### *Other Matters*

A subsidiary of the Company was the administrative agent for two closed-end funds until December 5, 2005. The Company has been advised by the current administrative agent for these two funds that the Internal Revenue Service may file a claim for interest and penalties for one of these funds with respect to the 2004 tax year as a result of an alleged failure of such subsidiary to take certain actions. The Company will continue to monitor developments in this matter.

The Company operates in all state jurisdictions in the United States and is thus subject to regulation and enforcement under the laws and regulations of each of these jurisdictions. The Company has been and expects that it will continue to be subject to investigations and some or all of these may result in enforcement proceedings as a result of its business conducted in the various states.

As part of its ongoing business, the Company records reserves for legal expenses, judgments, fines and/or awards attributable to litigation and regulatory matters. In connection therewith, the Company has maintained its legal reserves at levels it believes will resolve outstanding matters, but may increase or decrease such reserves as matters warrant. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. When loss contingencies are not both probable and reasonably estimable, the Company does not establish reserves. In some of the matters described below under Legal Proceedings , including but not limited to the *U.S. Airways* matter, loss contingencies are not probable and reasonably estimable in the view of management and, accordingly, reserves have not been established for those matters. See Legal Proceedings herein and note 13 to the consolidated financial statements appearing in Item 8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

## **Business Continuity**

The Company is committed to an on-going investment in its technology and communications infrastructure including extensive business continuity planning and investment. These costs are on-going and the Company believes that current and future costs will remain high due to business and regulatory requirements. This investment has increased in 2008 and 2009 as a result of the January 2008 acquisition of certain businesses from CIBC and the Company's need to build out its platform to accommodate these businesses. The Company made infrastructure investments for technology in 2010 when it built a new data center both to accommodate its existing and future

business and to restructure its disaster recovery planning.

## **Outlook**

The Company's long-term plan is to continue to expand existing offices by hiring experienced professionals as well as through the purchase of operating branch offices from other broker dealers or the opening of new branch offices in attractive locations, thus maximizing the potential of each office and the development of existing trading, investment banking, investment advisory and other activities. Equally important is the search for viable acquisition candidates. As opportunities are presented, it is the long-term intention of the Company to pursue growth by acquisition where a comfortable match can be found in terms of corporate goals and personnel at a price that would provide the Company's stockholders with incremental value. The Company may review additional potential acquisition opportunities, and will continue to focus its attention on the management of its existing business. In addition, the Company is committed to improving its technology capabilities to support client service and the expansion of its capital markets capabilities.

## Results of Operations

The Company reported a net profit of \$5.1 million or \$0.38 per share for the first quarter of 2011, compared to \$9.2 million or \$0.69 per share in the first quarter of 2010, a decrease of 44.5%. Revenue for the first quarter of 2011 was \$253.4 million, compared to revenue of \$246.2 million in the first quarter of 2010, an increase of 2.9%. Client assets entrusted to the Company and under administration totaled approximately \$74.8 billion while client assets under fee-based programs offered by the asset management groups totaled approximately \$19.9 billion at March 31, 2011 (\$69.6 billion and \$17.0 billion, respectively, at March 31, 2010).

The global economy continued to recover during the first quarter of 2011 and the stock market recovered to new highs during the quarter. The recovery continued despite uprisings in the Middle East and northern Africa, the earthquake and tsunami in Japan, continued concerns over European sovereign debt, signs of inflationary pressures throughout the emerging economies as well as expectations for higher interest rates. While job creation drove reduced unemployment and the reported earnings of American corporations recovered, concerns about record fiscal deficits and continued discord in Washington created market volatility amidst low volumes and lower investor participation in the markets.

Revenue increased by 2.9% in the first quarter of 2011 compared to the first quarter of 2010 driven by increased revenue relating to interest, investment banking and advisory fees, offset by reduced principal transaction revenues.

Expenses increased by 5.8% in the first quarter of 2011 compared to the first quarter of 2010 driven primarily by higher compensation costs. A significant increase in share-based compensation costs related to the Company's stock appreciation rights plan contributed to a \$7.6 million difference in compensation related costs between the three-month periods ended March 31, 2011 and March 31, 2010, as discussed below.

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The following table and discussion summarizes the changes in the major revenue and expense categories for the periods presented:

Expressed in thousands of dollars.

	Three months ended	
	March 31,	
	2011 versus 2010	
	Period to Period Change	Percentage Change
Revenue -		
Commissions	\$(1,342)	-1.0%
Principal transactions, net	(9,188)	-45.5%
Interest	5,211	54.4%
Investment banking	3,257	12.9%
Advisory fees	5,655	13.2%
Other	3,649	35.6%
Total revenue	7,242	2.9%
Expenses -		
Compensation and related expenses	12,236	7.7%
Clearing and exchanges fees	(249)	-3.8%
Communications and technology	(501)	-3.0%
Occupancy and equipment costs	86	0.5%
Interest	2,473	46.7%
Other	(772)	-3.0%
Total expenses	13,273	5.8%
Profit before income taxes	(6,031)	-38.0%
Income tax provision	(2,428)	-37.4%
Net profit	(3,603)	-38.5%
Net profit attributable to non- controlling interest, net of tax	479	244.4%
Net profit attributable to Oppenheimer Holdings Inc.	\$(4,082)	-44.5%

**Revenue and Expenses**

Revenue - First Quarter 2011

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Commission revenue was \$136.9 million for the first quarter of 2011, a decrease of 1.0% compared to \$138.2 million in the first quarter of 2010. Market conditions in the first quarter of 2011 were comparable to conditions in the first quarter of 2010.

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Principal transactions revenue was \$11.0 million in the first quarter of 2011 compared to \$20.2 million in the first quarter of 2010, a decrease of 45.5%. The decrease stems from lower profits in loan trading income which were \$321,400 in the first quarter of 2011 compared to \$3.3 million in the first quarter of 2010 reflecting lower trading activity. Trading revenue in fixed income declined by \$5.9 million in the first quarter of 2011 compared with the first quarter of 2010 driven primarily by increases to valuation

adjustments of \$3 million during the period related to a larger principal amount of auction rate securities.

Interest revenue was \$14.8 million in the first quarter of 2011, an increase of 54.4% compared to \$9.6 million in the first quarter of 2010. The increase is primarily attributable to interest earned on positions and reverse repurchase agreements held by the government trading desk which did substantially more business in the first quarter of 2011 compared to the same period in 2010.

Investment banking revenue for the first quarter 2011 was \$28.4 million, an increase of 12.9% compared to \$25.2 million in the first quarter of 2010 driven by a \$5.3 million increase in corporate advisory fees offset by a decrease of \$1.8 million in fees associated with equities underwritings.

Advisory fees were \$48.4 million in the first quarter of 2011, an increase of 13.2% compared to \$42.8 million in the first quarter of 2010. Asset management fees increased by \$6.2 million in the first quarter of 2011 compared to the same period in 2010 as a result of an increase in the value of assets under management of 14.6% during the period. Asset management fees are calculated based on client assets under management at the end of the prior quarter and were \$18.8 billion at December 31, 2010 (\$16.4 billion at December 31, 2009). This increase was offset by a decrease of \$311,000 of fees earned on money market products during the first quarter of 2011. During the first quarter of 2011, the Company waived \$5.9 million in fees that otherwise would have been due from money market funds (\$6.1 million in the first quarter of 2010).

Other revenue for the first quarter of 2011 was \$13.9 million, an increase of 35.6% compared to \$10.2 million in the first quarter of 2010 primarily as a result of an increase of \$3.5 million in loan origination and servicing fees from the Oppenheimer Multifamily Housing & Healthcare Finance business.

#### Expenses - First Quarter 2011

Compensation and related expenses for the first quarter of 2011 were \$170.4 million, an increase of 7.7% compared to \$158.2 million in the first quarter of 2010. As indicated above, share-based compensation expense directly related to the increase in the price of the Company's stock during the quarter accounted for \$7.6 million of the variance. The Company's stock price was \$33.51 per share at March 31, 2011 compared to \$26.21 per share at December 31, 2010 resulting in an expense of \$3.6 million during the three-month period ended March 31, 2011. During the comparable period in 2010, the Company recorded a credit of \$4.0 million based on a decline in the Company's stock price (\$25.51 per share at March 31, 2010 compared to \$33.22 per share at December 31, 2009). In addition, production and incentive-related compensation increased by \$5.7 million for the first quarter of 2011 due to overall higher revenues on which such compensation was measured in 2011 compared to 2010 and due to the recording of an out-of-period adjustment in the first quarter of 2010 in the amount of \$3.7 million related to over-accruals in compensation expense in 2009 which reduced expense in the 2010 period.

Clearing and exchange fees for the first quarter of 2011 were \$6.3 million, a decrease of 3.8% compared to \$6.6 million in the first quarter of 2010 due to lower transaction volumes.

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Communications and technology expenses for the first quarter of 2011 were \$15.9 million, a decrease of 3.0% compared to \$16.4 million in the first quarter of 2010 as a result of lower data communication and software costs offset by higher market data related costs.

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Occupancy and equipment costs for the first quarter of 2011 were \$18.5 million, relatively unchanged from the first quarter of 2010.



Interest expenses were \$7.8 million for the first quarter of 2011, an increase of 46.7% compared to \$5.3 million in the first quarter of 2010 primarily due to interest expense incurred on repurchase agreements utilized to finance higher levels of government inventories and for matched-book transactions.

Other expenses for the first quarter of 2011 were \$24.6 million, a decrease of 3.0% compared to \$25.4 million in the first quarter of 2010 primarily due to decreased legal costs.

### **Liquidity and Capital Resources**

Total assets at March 31, 2011 increased by 20.5% from December 31, 2010 levels due in large part to the Company's expansion of its government trading desk. The Company satisfies its need for short-term funds from internally generated funds and collateralized and uncollateralized borrowings, consisting primarily of bank loans, stock loans and uncommitted lines of credit. The Company finances its trading in government securities through the use of repurchase agreements. The Company's longer-term capital needs are met through the issuance of the Senior Secured Credit Note and the Subordinated Note. The amount of Oppenheimer's bank borrowings fluctuates in response to changes in the level of the Company's securities inventories and customer margin debt, changes in stock loan balances and changes in notes receivable from employees. The Company believes that such availability will continue going forward but current conditions in the credit markets may make the availability of bank financing more challenging in the months ahead. Oppenheimer has arrangements with banks for borrowings on a fully-collateralized basis. At March 31, 2011, the Company had \$113.2 million of such borrowings outstanding compared to outstanding borrowings of \$147.0 million at December 31, 2010.

Volatility in the financial markets, and the continuance of credit problems throughout the national economy, has had an adverse affect on the availability of credit through traditional sources. As a result of concern about the ability of markets generally and the strength of counterparties specifically, many lenders have reduced and, in some cases, ceased to provide funding to the Company on both a secured and unsecured basis.

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 at March 31, 2011, the Company had purchased approximately \$41.5 million in ARS from its clients and expects to purchase at least an additional \$35.9 million of ARS from its clients by July 31, 2011. The Company's purchases of ARS from its clients will continue on a periodic basis thereafter pursuant to the settlements with the Regulators. 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 purchases of \$41.5 million of ARS from clients referred to above, the Company also held \$2.5 million in ARS in its proprietary trading account as of March 31, 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 ).

In 2006, the Company issued a Senior Secured Credit Note in the amount of \$125.0 million at a variable interest rate based on LIBOR with a seven-year term to a syndicate led by Morgan Stanley Senior Funding Inc., as agent. In accordance with the Senior Secured Credit Note, the Company has provided certain covenants to the lenders with respect to the maintenance of a minimum fixed charge ratio and maximum leverage ratio and minimum net capital requirements with respect to Oppenheimer.

On December 22, 2008, certain terms of the Senior Secured Credit Note were amended, including (1) revised financial covenant levels that require that (i) the Company maintain a maximum leverage ratio (total long-term debt divided by EBITDA) of 2.00 at March 31, 2011 and (ii) the Company maintain a minimum fixed charge ratio (EBITDA adjusted for capital expenditures and income taxes divided by the sum of principal and interest payments on long-term debt) of 2.00 at March 31, 2011; (2) an increase in scheduled principal payments as follows: 2009 - \$400,000 per quarter plus \$4.0 million on September 30, 2009; 2010 - \$500,000 per quarter plus \$8.0 million on September 30, 2010; (3) an increase in the interest rate to LIBOR plus 450 basis points (an increase of 150 basis points); and (4) a pay-down of principal equal to the cost of any share repurchases made pursuant to the Issuer Bid. In the Company's view, the maximum leverage ratio and minimum fixed charge ratio represent the most restrictive covenants. These ratios adjust each quarter in accordance with the loan terms, and become more restrictive over time. At March 31, 2011, the Company was in compliance with all of its covenants.

The effective interest rate on the Senior Secured Credit Note for the three months ended March 31, 2011 was 4.81%. Interest expense, as well as interest paid on a cash basis for the three months ended March 31, 2011, on the Senior Secured Credit Note was \$270,600 (\$387,000 in the three months ended March 31, 2010). The \$22.4 million principal amount outstanding at March 31, 2011 was repaid in full on April 12, 2011.

The obligations under the Senior Secured Credit Note are guaranteed by certain of the Company's subsidiaries, other than broker-dealer subsidiaries, with certain exceptions, and are collateralized by a lien on substantially all of the assets of each guarantor, including a pledge of the ownership interests in each first-tier broker-dealer subsidiary held by a guarantor, with certain exceptions.

On January 14, 2008, in connection with the acquisition of certain businesses from CIBC World Markets Corp., CIBC made a loan in the amount of \$100.0 million and the Company issued a Subordinated Note to CIBC in the amount of \$100.0 million at a variable interest rate based on LIBOR. The Subordinated Note is due and payable on January 31, 2014 with interest payable on a quarterly basis. The purpose of this note is to support the capital requirements of the acquired business. In accordance with the Subordinated Note, the Company has provided certain covenants to CIBC with respect to the maintenance of a minimum fixed charge ratio and maximum leverage ratio and minimum net capital requirements with respect to Oppenheimer.

Effective December 23, 2008, certain terms of the Subordinated Note were amended, including (1) revised financial covenant levels that require that (i) the Company maintain a maximum leverage ratio of 2.35 at March 31, 2011 and (ii) the Company maintain a minimum fixed charge ratio of 1.65 at March 31, 2011; and (2) an increase in the interest rate to LIBOR plus 525 basis points (an increase of 150 basis points). In the Company's view, the maximum leverage ratio and minimum fixed charge ratio represent the most restrictive covenants. These ratios adjust each quarter in

accordance with the loan terms, and become more restrictive over time. At March 31, 2011, the Company was in compliance with all of its covenants.

The effective interest rate on the Subordinated Note for the three months ended March 31, 2011 was

5.55%. Interest expense, as well as interest paid on a cash basis for the three months ended March 31, 2011, on the Subordinated Note was \$1.4 million (\$1.4 million for the three months ended March 31, 2010). On April 12, 2011, the Subordinated Note was repaid in full.

### *Refinancing*

On April 12, 2011, the Company completed the private placement of \$200.0 million in aggregate principal amount of 8.75 percent Senior Secured Notes ( Notes ) due April 15, 2018 at par. The interest on the Notes will be payable semi-annually on April 15<sup>th</sup> and October 15<sup>th</sup>. Proceeds from the private placement were used to retire the Morgan Stanley Senior Secured Credit Note due 2013 (\$22.4 million) and the CIBC Subordinated Note due 2014 (\$100.0 million) and other general corporate purposes. The carrying value of the outstanding Debt as of March 31, 2011 totaled \$122.4 million. The private placement resulted in the fixing of the interest rate over the term of the Notes compared to the variable rate debt that was retired and an extension of the debt maturity dates as described above. The cost to issue the Notes is estimated to total approximately \$4.1 million which will be capitalized during the three months ending June 30, 2011 and amortized over the period of the Notes. The Company will write off \$344,000 in unamortized debt issuance costs related to the Senior Secured Credit Note during the three months ending June 30, 2011. Additionally, as a result of the refinancing of the Subordinated Note, the effective portion of the net loss of \$1.3 million related to the interest rate cap cash flow hedge will be reclassified from accumulated other comprehensive loss on the condensed consolidated balance sheet to a loss on the condensed consolidated statement of operations during the three months ending June 30, 2011.

The indenture for the Notes contains covenants (See Exhibit 10.1 filed herewith) which place restrictions on the incurrence of indebtedness, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. The Notes provide for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. The Company's obligations under the Notes are guaranteed, subject to certain limitations, by the same subsidiaries that guaranteed the obligations under the Senior Secured Credit Note and the Subordinated Note which were retired. These guarantees may be shared, on a senior basis, under certain circumstances, with newly incurred debt outstanding in the future.

### **Liquidity**

For the most part, the Company's assets consist of cash and assets which can be readily converted into cash. Receivable from dealers and clearing organizations represent deposits for securities borrowed transactions, margin deposits or current transactions awaiting settlement. Receivable from customers represents margin balances and amounts due on transactions awaiting settlement. Our receivables are, for the most part, collateralized by marketable securities. The Company's collateral maintenance policies and procedures are designed to limit the Company's exposure to credit risk. Securities owned, with the exception of the ARS, are mainly comprised of actively trading, readily marketable securities. The Company advanced \$2.5 million in forgivable notes, net to financial advisors for the three months ended March 31, 2011 (\$3.1 million for the three months ended March 31, 2010) as upfront or backend inducements. The amount of funds allocated to such inducements will vary with market conditions and available opportunities.

The Company satisfies its need for short-term liquidity from internally generated funds, collateralized and uncollateralized bank borrowings, stock loans and repurchase agreements. Bank borrowings are collateralized by firm and customer securities. In addition, letters of credit are issued

in the normal course of business to satisfy certain collateral requirements in lieu of depositing cash or securities.

The Company does not repatriate the earnings of its foreign subsidiaries. Foreign earnings are permanently reinvested for the use of the foreign subsidiaries and therefore these foreign earnings are not available to satisfy the domestic liquidity requirements of the Company.

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 March 31, 2011, bank call loans were \$113.2 million (\$37.6 million at March 31, 2010). Average bank loans outstanding for the three months ended March 31, 2011 were \$121.1 million (\$50.9 million for the three months ended March 31, 2010). The largest bank loan outstanding for the three months ended March 31, 2011 was \$193.6 million (\$128.6 million for the three months ended March 31, 2010). The average weighted interest rate applicable on March 31, 2011 was 1.29%.

At March 31, 2011, stock loan balances totaled \$401.6 million (\$400.3 million at March 31, 2010). The average daily stock loan balance for the three months ended March 31, 2011 was \$383.1 million (\$413.3 million for the three months ended March 31, 2010). The largest stock loan balances for the three months ended March 31, 2011 was \$450.8 million (\$456.1 million for the three months ended March 31, 2010).

The aggregate amount of stock loan and borrowing activity has increased as equity markets have improved and as the values of the underlying securities have increased. Client demand for margin borrowing has increased somewhat and with it the desire to establish short positions which creates further demand for stock borrowing activity to fulfill the obligation to complete delivery.

Securities purchased under agreements to sell and securities sold under agreements to repurchase are used by the Company when acting as intermediary between borrowers and lenders of short-term funds and to provide funding for various inventory positions. At March 31, 2011, the fair value of the resale agreements and repurchase agreements were \$201.5 million and \$532.5 million, respectively. At March 31, 2011, the gross balances of resale agreements and repurchase agreements were \$2.7 billion and \$3.0 billion, respectively. The average daily balance of resale agreements and repurchase agreements on a gross basis for the three months ended March 31, 2011 was \$5.0 billion and \$5.5 billion, respectively. The largest amount of resale agreements and repurchase agreements outstanding on a gross basis during the three months ended March 31, 2011 was \$7.4 billion and \$8.2 billion, respectively.

OMHHF, which is engaged in mortgage brokerage and servicing, has obtained an uncommitted warehouse facility line through PNC Bank ( PNC ) under which OMHHF pledges Federal Housing Administration ( FHA ) guaranteed mortgages for a period of up to 10 business days and PNC table funds the principal payment to the mortgagee. OMHHF repays PNC upon the securitization of the mortgage by the Government National Mortgage Association ( GNMA ) and the delivery of the security to the counter party for payment pursuant to a contemporaneous sale on the date the mortgage is funded. At March 31, 2011, OMHHF had \$39.0 million outstanding under the warehouse facility line at a variable interest rate of 1 month LIBOR plus 2.75%. Interest expense for the three months ended March 31,

2011 was \$372,100.



**Liquidity Management**

The Company manages its need for liquidity on a daily basis to ensure compliance with regulatory requirements and the covenants stipulated by its Senior Secured Credit Note and Subordinated Note obligations. The Company's liquidity needs may be affected by market conditions, increased inventory positions, business expansion and other unanticipated occurrences. In the event that existing financial resources do not satisfy the Company's needs, the Company may have to seek additional external financing. The availability of such additional external financing may depend on market factors outside the Company's control.

**Funding Risk**

Dollar amounts are expressed in thousands.

	For the three months ended March 31,	
	2011	2010
Cash provided by (used in) operating activities	\$38,661	\$(52,966)
Cash used in investing activities	(1,549)	(1,337)
Cash (used in) provided by financing activities	(37,026)	37,575
Net increase (decrease) in cash and cash equivalents	\$86	\$(16,728)

Management believes that funds from operations, combined with the Company's capital base and available credit facilities, are sufficient for the Company's liquidity needs in the foreseeable future. (See Factors Affecting Forward-Looking Statements ).

**Other Matters**

During the first quarter of 2011, the Company issued 266,541 shares of Class A Stock pursuant to the Company's share-based compensation programs.

On February 25, 2011, the Company paid cash dividends of \$0.11 per share of Class A and Class B Stock totaling approximately \$1.5 million from available cash on hand.

On April 28, 2011, the Board of Directors declared a regular quarterly cash dividend of \$0.11 per share of Class A and Class B Stock payable on May 27, 2011 to stockholders of record on May 13, 2011.

The book value of the Company's Class A and Class B Stock was \$36.31 at March 31, 2011 compared to \$34.73 at March 31, 2010, based on total outstanding shares of 13,634,743 and 13,341,232, respectively.

The diluted weighted average number of shares of Class A and Class B Stock outstanding for the three months ended March 31, 2011 was 14,203,413 compared to 13,855,982 outstanding for the same period in 2010.

### **Off-Balance Sheet Arrangements**

Information concerning the Company's off-balance sheet arrangements is included in Note 5 of the notes to the condensed consolidated financial statements. Such information is hereby incorporated by reference.

**Contractual and Contingent Obligations**

The Company has contractual obligations to make future payments in connection with non-cancelable lease obligations and debt assumed upon the acquisition of the New Capital Markets Business as well as debt issued in 2006. The Company also has contractual obligations to make payments to CIBC in connection with the acquisition in the form of an earn-out to be paid in 2013 as described in note 18 of the consolidated financial statements for the year ended December 31, 2010 appearing in Item 8 of the Company's Annual Report of Form 10-K for the year ended December 31, 2010. On April 12, 2011, the Company repaid the remaining debt assumed upon the acquisition from the proceeds of a new senior note issued in the amount of \$200.0 million. See note 11 to the condensed consolidated financial statements.

The following table sets forth these contractual and contingent commitments as at March 31, 2011.

Expressed in millions of dollars.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Minimum rentals	\$197	\$31	\$71	\$45	\$50
Committed capital	5	5	-	-	-
Earn-out	25	-	25	-	-
Revolving commitment (1)	7	-	-	-	7
Senior Secured Credit Note (2)	23	23	-	-	-
Subordinated Note (2)	100	100	-	-	-
ARS purchase offers (3)	44	36	8	-	-
Total	\$401	\$195	\$104	\$45	\$57

(1) Represents unfunded commitments to provide revolving credit facilities by OPY Credit Corp.

(2) The Senior Secured Credit Note and the Subordinated Note were retired on April 12, 2011 and the Company issued \$200 million in 8.75% Senior Secured Notes due April 15, 2018.

(3) Represents payments to be made pursuant to the ARS settlements entered into with Regulators in February 2010 as well as commitments to purchase ARS as a result of legal settlements. See note 13 to the consolidated financial statements for the year ended December 31, 2010 appearing in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.



## **New Accounting Pronouncements**

See Note 2 to the condensed consolidated financial statements. Such information is hereby incorporated by reference.

## **Factors Affecting Forward-Looking Statements**

From time to time, the Company may publish Forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act or make oral statements that constitute forward-looking statements. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products, anticipated market performance, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company cautions readers that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or other

expectations expressed in the Company's forward-looking statements. These risks and uncertainties, many of which are beyond the Company's control, include, but are not limited to: (i) transaction volume in the securities markets, (ii) the volatility of the securities markets, (iii) fluctuations in interest rates, (iv) changes in regulatory requirements which could affect the cost and method of doing business and reduce returns, (v) fluctuations in currency rates, (vi) general economic conditions, both domestic and international, (vii) changes in the rate of inflation and the related impact on the securities markets, (viii) competition from existing financial institutions and other participants in the securities markets, (ix) legal developments affecting the litigation experience of the securities industry and the Company, including developments arising from the failure of the Auction Rate Securities markets and the results of pending litigation involving the Company, (x) changes in federal and state tax laws which could affect the popularity of products sold by the Company or impose taxes on securities transactions, (xi) the effectiveness of efforts to reduce costs and eliminate overlap, (xii) war and nuclear confrontation as well as political unrest and regime changes, (xiii) the Company's ability to achieve its business plan, (xiv) corporate governance issues, (xv) the impact of the credit crisis and tight credit markets on business operations, (xvi) the effect of bailout, financial reform and related legislation including, without limitation, the Dodd-Frank Act, (xvii) the consolidation of the banking and financial services industry, (xviii) the effects of the economy on the Company's ability to find and maintain financing options and liquidity, (xix) credit, operations, legal and regulatory risks, and (xx) risks related to foreign operations. There can be no assurance that the Company has correctly or completely identified and assessed all of the factors affecting the Company's business. The Company does not undertake any obligation to publicly update or revise any forward-looking statements.

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

During the three months ended March 31, 2011, there were no material changes to the information contained in Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

### **ITEM 4. Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or its internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that break-downs can occur because of a simple error or

omission. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based, in part, upon certain assumptions

about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

The Company confirms that its management, including its Chief Executive Officer and its Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in its reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

### **Changes in Internal Control over Financial Reporting**

There have been no significant changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) during the three months ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.





## PART II

### OTHER INFORMATION

#### ITEM 1. Legal Proceedings

Many aspects of the Company's business involve substantial risks of liability. In the normal course of business, the Company has been the subject of customer complaints and has been named as a defendant or co-defendant in various lawsuits or arbitrations creating substantial exposure. The incidences of these types of claims have increased since the onset of the credit crisis and the resulting market disruptions. The Company is also involved from time to time in certain governmental and self-regulatory agency investigations and proceedings. These proceedings arise primarily from securities brokerage, asset management and investment banking activities. There has been an increased incidence of regulatory investigations in the financial services industry in recent years, including customer claims, which seek substantial penalties, fines or other monetary relief.

While the ultimate resolution of routine pending litigation and other matters cannot be currently determined, in the opinion of management, after consultation with legal counsel, the Company does not believe that the resolution of these matters will have a material adverse effect on its financial condition. However, the Company's results of operations could be materially affected during any period if liabilities in that period differ from prior estimates. Notwithstanding the foregoing, an adverse result in any of the matters set forth below or multiple adverse results in arbitrations and litigations currently filed or to be filed against the Company, including arbitrations and litigations relating to auction rate securities, would have a material adverse effect on the Company's results of operations and financial condition, including its cash position. The materiality of legal matters to the Company's future operating results depends on the level of future results of operations as well as the timing and ultimate outcome of such legal matters. See *Risk Factors* The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, as well as *Factors Affecting Forward-Looking Statements* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* *Regulatory and Legal Environment* *Other Regulatory Matters* and *Other Matters*.

#### *Auction Rate Securities Matters*

For a number of years, the Company offered auction rate securities (ARS) to its clients. A significant portion of the market in ARS failed in February 2008 due to credit market conditions, and dealers were no longer willing or able to purchase the imbalance between supply and demand for ARS. See *Risk Factors* The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 as well as *Management's Discussion and Analysis of Financial Condition and Results of Operations* *Regulatory and Legal Environment* *Other Regulatory Matters* and *Other Matters*.

Oppenheimer offered ARS to its clients in the same manner as dozens of other downstream firms in the ARS marketplace - as an available cash management option for clients seeking to increase their yields on short-term investments similar to a money market fund. The Company believes that Oppenheimer's participation therefore differs

dramatically from that of the larger broker-dealers who underwrote and provided supporting bids in the auctions and who subsequently entered into settlements with state and federal regulators, agreeing to purchase billions of dollars of their clients' ARS holdings. Unlike these other broker-dealers, Oppenheimer did not act as the lead or sole lead managing underwriter or dealer in any ARS auctions during the relevant time period, did not enter

support bids to ensure that any ARS auctions cleared, and played no role in any decision by the lead underwriters or broker-dealers to discontinue entering support bids and allowing auctions to fail.

On April 11, 2008, Oppenheimer (and a number of its affiliates) was named as a defendant in a proposed class action complaint captioned *Bette M. Grossman v. Oppenheimer & Co. Inc. et. al* in the United States District Court for the Southern District of New York. The complaint alleges, among other things, that Oppenheimer violated Section 10(b) of the Securities Exchange Act of 1934 (as well as other provisions of the Federal securities laws) by making material misstatements and omissions and engaging in deceptive activities in the offer and sale of ARS. Oppenheimer filed an answer to the complaint denying the allegations. Oppenheimer believes it has meritorious defenses to the claims raised in the lawsuit. On February 20, 2009, this action was consolidated with the *Vining* action described below and was subsequently dismissed with prejudice.

On May 12, 2008, Oppenheimer (and a number of its affiliates) was named as a defendant in a proposed class action complaint captioned *David T. Vining v. Oppenheimer & Co. Inc. et. al* in the United States District Court for the Southern District of New York. The complaint alleges, among other things, that Oppenheimer violated Section 10(b) of the Securities Exchange Act of 1934 (as well as other provisions of the Federal securities laws) by making material misstatements and omissions and engaging in deceptive activities in the offer and sale of ARS. Oppenheimer filed an answer to the complaint denying the allegations. Oppenheimer believes it has meritorious defenses to the claims raised in the lawsuit. On February 20, 2009, the *Grossman* action discussed above was consolidated with this action. The complaint requests relief in the form of compensatory damages in an amount to be proven at trial as well as costs and expenses. On September 10, 2009, Oppenheimer (and a number of its affiliates) filed a motion to dismiss this consolidated action. On September 27, 2010, Oppenheimer's motion to dismiss was granted without prejudice. Plaintiff filed an appeal of this dismissal with the United States Circuit Court for the Second Circuit on October 28, 2010. On or about January 26, 2011, Plaintiff and Oppenheimer stipulated to a dismissal of the appeal with prejudice.

On November 18, 2008, the Massachusetts Securities Division (the "MSD") filed an Administrative Complaint (the "Complaint") against Oppenheimer & Co. Inc. and certain individuals alleging violations of the Massachusetts General Law, the Massachusetts Uniform Securities Act and regulations thereunder with respect to the sale by Oppenheimer of ARS to its clients. The Complaint alleged, inter alia, that Oppenheimer improperly misrepresented the nature of ARS and the overall stability and health of the ARS market. All respondents filed an answer to the Complaint denying that the allegations in the Complaint had any basis in fact or law.

As previously disclosed, Oppenheimer entered into a Consent Order (the "Order") pursuant to the Massachusetts Uniform Securities Act on February 26, 2010 settling the pending administrative proceeding against the respondents related to Oppenheimer's sales of ARS to retail and other investors in the Commonwealth of Massachusetts. Oppenheimer agreed to pay, and has paid, the external costs incurred by the MSD related to the investigation and the administrative proceeding in the amount of \$250,000.

As previously disclosed, on February 23, 2010, the New York Attorney General ("NYAG") accepted Oppenheimer's offer of settlement and entered an Assurance of Discontinuance ("AOD") pursuant to New York State Executive Law Section 63(15) in connection with Oppenheimer's marketing and sale of ARS. Oppenheimer did not admit or deny any

of the findings or allegations contained in the AOD and no fine was imposed.

Pursuant to the terms of the Order, Oppenheimer commenced several offers to purchase Eligible ARS (as defined in the Order) from Customer Accounts (as defined in the Order) during 2010. Pursuant to the Order, the Company made an initial offer to purchase ARS from Massachusetts customers on May 21, 2010 which closed on August 4, 2010. Pursuant to the Order, on August 19, 2010, Oppenheimer commenced a second offer to purchase Eligible ARS from Massachusetts customers which closed on October 6, 2010. In addition, pursuant to the terms of the AOD, the Company made an initial offer to purchase ARS from Eligible Investors on May 21, 2010 which closed on August 4, 2010. Pursuant to the AOD, on December 3, 2010, Oppenheimer commenced an additional offer to purchase Eligible ARS from Eligible Investors which closed on February 16, 2011. Accounts were, and will continue to be, aggregated on a household basis for purposes of these offers. As at March 31, 2011, the Company had purchased approximately \$41.5 million of ARS from its clients pursuant to these offers.

The Company's purchases of ARS from clients will continue on a periodic basis pursuant to the settlements with the Regulators. On February 15, 2011, Oppenheimer commenced a third offer to purchase additional Eligible ARS from all eligible Massachusetts Customer Accounts which offer closed April 7, 2011. Starting on or about May 6, 2011 or such time as Oppenheimer receives approval from the NYAG, and continuing every six months thereafter until Oppenheimer has extended a purchase offer to all Eligible Investors, Oppenheimer will offer to purchase Eligible ARS from Eligible Investors who did not receive an initial purchase offer, as excess funds become available to Oppenheimer after giving effect to the financial and regulatory capital constraints applicable to Oppenheimer. Such offers will remain open for a period of seventy-five days from the date on which each such offer to purchase is sent. The Company expects to purchase at least an additional \$35.9 million of ARS from its clients by July 31, 2011. 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 also cannot be predicted.

In addition, Oppenheimer has agreed to work with issuers and other interested parties, including regulatory and other authorities and industry participants, to provide liquidity solutions for other Massachusetts clients not covered by the offers to purchase. In that regard, on May 21, 2010, Oppenheimer offered such clients a margin loan against marginable collateral with respect to such account holders' holdings of Eligible ARS. As of March 31, 2011, Oppenheimer had extended margin loans to five holders of Eligible ARS from Massachusetts.

Further, Oppenheimer has agreed to (1) no later than 75 days after Oppenheimer has completed extending a purchase offer to all Eligible Investors (as defined in the AOD), use its best efforts to identify any Eligible Investors who purchased Eligible ARS (as defined in the AOD) and subsequently sold those securities below par between February 13, 2008 and February 23, 2010 and pay the investor the difference between par and the price at which the Eligible Investor sold the Eligible ARS, plus reasonable interest thereon (the "ARS Losses"); (2) no later than 75 days after Oppenheimer has completed extending a Purchase Offer to all Eligible Investors, use its best efforts to identify Eligible Investors who took out loans from Oppenheimer after February 13, 2008 that were secured by Eligible ARS that were not successfully auctioning at the time the loan was taken out from Oppenheimer and who paid interest associated with the ARS-based portion of those loans in excess of the total interest and dividends received on the Eligible ARS during the duration of the loan (the "Loan Cost Excess") and reimburse such investors for the Loan Cost Excess plus reasonable interest thereon; (3) upon providing liquidity to all Eligible Investors, participate in a special arbitration process for the exclusive purpose of arbitrating any Eligible Investor's claim for consequential damages against Oppenheimer related to the investor's inability to sell Eligible ARS; and (4) work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors not within the



definition of Small Businesses and Institutions (as defined in the AOD) that held ARS in Oppenheimer brokerage accounts on February 13, 2008. Oppenheimer believes that because items (1) through (3) above will occur only after it has provided liquidity to all Eligible Investors, it will take an extended period of time before the requirements of items (1) through (3) will take effect.

Each of the AOD and the Order provides that in the event that Oppenheimer enters into another agreement that provides any form of benefit to any Oppenheimer ARS customer on terms more favorable than those set forth in the AOD or the Order, Oppenheimer will immediately extend the more favorable terms contained in such other agreement to all eligible investors. In the case of the Order, it is limited to more favorable agreements entered into subsequent to the February 26, 2010 Order while, in the case of the AOD, it covers more favorable agreements entered into prior and subsequent to the February 23, 2010 AOD. The AOD further provides that if Oppenheimer pays (or makes any pledge or commitment to pay) to any governmental entity or regulator pursuant to any other agreement costs or a fine or penalty or any other monetary amount, then an equivalent payment, pledge or commitment will become immediately owed to the State of New York for the benefit of New York residents.

If Oppenheimer fails to comply with any of the terms set forth in the Order, the MSD may institute an action to have the Order declared null and void and reinstitute the previously pending administrative proceedings. If Oppenheimer defaults on any obligation under the AOD, the NYAG may terminate the AOD, at his sole discretion, upon 10 days written notice to Oppenheimer.

Reference is made to the Order between the MSD and Oppenheimer et. al, described in Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and attached as Exhibit 10.24 thereto, as well as the disclosures related thereto in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010 and in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for additional details of the agreements with the MSD. Reference is also made to the AOD between the NYAG and Oppenheimer, described in Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and attached as Exhibit 10.22 thereto as well as the disclosures related thereto in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010 and in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for additional details of the agreements with the NYAG.

The Company is continuing to cooperate with investigating entities from states other than Massachusetts and New York.

In February 2009, Oppenheimer received notification of a filing of an arbitration claim before FINRA captioned *U.S. Airways v. Oppenheimer & Co. Inc., et. al* seeking an award compelling Oppenheimer to purchase approximately \$250 million in ARS previously purchased by U.S. Airways through Oppenheimer (which has subsequently been reduced to a \$110 million liquidated damages claim) or, alternatively, an award rescinding such sale. Plaintiffs seek an award of punitive damages from Oppenheimer as well as interest on such award. Plaintiff bases its claims on numerous causes of action including, but not limited to, fraud, gross negligence, misrepresentation and suitability. U.S. Airways is a publicly-traded corporation that bought and sold ARS for many years through several broker



dealers, not just Oppenheimer. It is also a Qualified Institutional Buyer (as defined in Rule 144A of the Securities Exchange Act of 1934) and purchased ARS for cash management purposes. On July 10, 2009, Oppenheimer asserted a third party statement of claim against Deutsche Bank Securities, Inc. ( DBSI ) and Deutsche Bank A.G. ( Deutsche AG ). Deutsche AG challenged Oppenheimer's efforts to compel that entity to appear at a FINRA arbitration, since, Deutsche AG argued, it is not a FINRA member. Subsequently, Oppenheimer

deferred further action against Deutsche AG and proceeded prosecuting its third party claim against DBSI. At the same time, Oppenheimer filed its answer denying any liability to U.S. Airways. DBSI subsequently filed a motion to sever the arbitration into a separate proceeding which motion was granted on July 28, 2010. To the extent there is a determination by an arbitration panel that U.S. Airways has been harmed, Oppenheimer's third party statement of claim against DBSI alleges that DBSI is liable to U.S. Airways because of its role in the process of creating, marketing and procuring ratings for certain auction rate credit-linked notes purchased by U.S. Airways. The arbitration with U.S. Airways is scheduled to commence in August 2011. No date has yet been set for the arbitration with the DBSI. On January 28, 2011, DBSI filed a motion to stay the DBSI arbitration. Oppenheimer filed its opposition to the DBSI motion to stay on February 25, 2011. Oppenheimer believes it has meritorious defenses to the claims made and intends to vigorously defend itself against the allegations in the *U.S. Airways* action.

In April 2009, Oppenheimer was served with a complaint in the United States District Court, Eastern District of Kentucky captioned *Ashland, Inc. and Ash Three, LLC v. Oppenheimer & Co. Inc.* seeking compensatory and consequential damages as a result of plaintiff's purchase of approximately \$194 million in ARS. Plaintiff sought an award of punitive damages from Oppenheimer as well as interest on such award. Plaintiff based its claim on numerous causes of action including, but not limited to, fraud, gross negligence, misrepresentation and suitability. Ashland is a publicly-traded corporation that bought and sold ARS for many years through several broker dealers, not just Oppenheimer. It is also a Qualified Institutional Buyer (as defined in Rule 144A of the Securities Exchange Act of 1934) and purchased ARS for cash management purposes. The court granted Oppenheimer's motion to dismiss this action with prejudice on February 22, 2010. Plaintiff filed an appeal of this dismissal with the United States Circuit Court for the Sixth Circuit on March 19, 2010. Oppenheimer believes it has meritorious defenses to the claims made and intends to vigorously defend itself in the appeal process.

In February 2009, the Company was served with an arbitration claim before FINRA captioned *Hansen Beverage Company v. Oppenheimer & Co. Inc., et.al.* Hansen demands that its investments in approximately \$60 million in ARS, which are illiquid and which Hansen purchased from Oppenheimer, be rescinded. The claim alleges that Oppenheimer misrepresented liquidity and market risks in the ARS market when recommending ARS to Hansen. Oppenheimer has filed its response to the claim and also filed a motion to dismiss respondents Oppenheimer Holdings and Oppenheimer Asset Management as parties improperly named in the arbitration. The arbitration is scheduled to commence no earlier than June 2011. The Company believes that, as of March 31, 2011, approximately \$26.5 million of the \$60 million Hansen held in ARS have been redeemed at par by their issuers. Hansen is a Qualified Institutional Buyer (as defined in Rule 144A of the Securities Exchange Act of 1934) and purchased ARS for cash management purposes. Oppenheimer believes it has meritorious defenses to the claims made and intends to vigorously defend itself against the allegations in the *Hansen* action.

In August 2009, Oppenheimer received notification of the filing of an arbitration claim before FINRA captioned *Investec Trustee (Jersey) Limited as Trustee for The St. Paul's Trust v. Oppenheimer & Co. Inc. et. al* seeking an award ordering Oppenheimer to repurchase approximately \$80 million in ARS previously purchased by Investec as Trustee for the St. Paul's Trust, and seeking additional damages of \$7.5 million as a result of claimant's liquidation of certain ARS positions in a private securities transaction. Oppenheimer believes that claimant's current ARS holdings are approximately \$57 million par value, with the difference resulting from issuer redemptions. Oppenheimer filed its answer denying any liability to the claimant and asserted a counter-claim against Investec as Trustee for the Trust, alleging that Investec, and not Oppenheimer or its representatives, owed a fiduciary duty to the St. Paul's Trust and violated that duty. On July 15, 2010



Investec as Trustee moved in the Supreme Court of the State of New York for a partial stay of the arbitration, arguing, that Oppenheimer's claim against Investec as Trustee is in reality a claim against Investec itself, and that Oppenheimer is inappropriately seeking damages against Investec. On January 4, 2011, the New York State Supreme Court denied Investec's application for a partial stay. Investec filed a notice of appeal to the New York State Appellate Division, First Department on January 28, 2011. On February 9, 2011, Oppenheimer filed its opposition to Investec's motion for a partial stay of the arbitration proceedings and cross-moved for a stay of the arbitration in its entirety and an adjournment of the appeal until the Appellate Division's June 2011 term. At the same time Oppenheimer filed its answer, Oppenheimer asserted third party claims against the underwriters of the ARS still held by claimant. Oppenheimer argued in its third party arbitration claim that those underwriters are liable to claimant because of their role in the processing, trading, marketing and supporting of the ARS still held by claimant and for other actions by the underwriters which lead to the interruption in the ARS market. The underwriters filed a motion to sever the arbitration into a separate proceeding which motion was granted on June 18, 2010. The arbitration with Investec is scheduled to commence in May 2011, subject to the appellate motions to stay the arbitration discussed above. No date has yet been set for the arbitration with the underwriters. Oppenheimer believes it has meritorious defenses to the claims made as well as third party claims and intends to vigorously defend itself in this matter.

As of March 31, 2011, Oppenheimer and certain affiliated parties are currently named as a defendant or respondent in approximately 34 arbitration claims before FINRA, brought by individuals and entities who purchased ARS through Oppenheimer in amounts ranging from \$25,000 to \$25 million, as well as five court actions brought in various jurisdictions, seeking awards compelling Oppenheimer to repurchase such ARS or, alternatively, awards rescinding such sales, based on a variety of causes of action similar to those described above. The Company has filed, or is in the process of filing, its responses to such claims and has participated in or is awaiting hearings regarding such claims before FINRA or in the court actions. As of March 31, 2011, four ARS matters were concluded in either court or arbitration with Oppenheimer prevailing in three of those matters and the claimant prevailing in the fourth. Oppenheimer believes it has meritorious defenses to these claims and intends to vigorously defend against these claims. Oppenheimer may also implead third parties, including underwriters where it believes such action is appropriate. It is possible that other individuals or entities that purchased ARS from Oppenheimer may bring additional claims against Oppenheimer in the future for repurchase or rescission.

See the Risk Factors The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market, and Note 13 to the consolidated financial statements appearing in Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 as well as Management's Discussion and Analysis of Financial Condition and Results of Operations Regulatory and Legal Environment Other Regulatory Matters and Other Matters.

#### *Other Pending Matters*

In addition to the ARS cases discussed above, on or about March 13, 2008, Oppenheimer was served in a matter pending in the United States Bankruptcy Court, Northern District of Georgia, captioned *William Perkins, Trustee for International Management Associates v. Lehman Brothers, Oppenheimer & Co. Inc., JB Oxford & Co., Bank of America Securities LLC and TD Ameritrade Inc.* The Trustee seeks to set aside as fraudulent transfers in excess of \$25 million in funds embezzled by the sole portfolio manager for International Management Associates, a hedge fund. Said portfolio manager purportedly used the broker/dealer defendants, including Oppenheimer, as conduits for his

embezzlement. Oppenheimer filed its answer to the complaint on June 18, 2010. Oppenheimer filed a motion for summary judgment, which was argued on March 31, 2011. Immediately thereafter, the

Bankruptcy Court dismissed all of the Trustee's claims against all defendants including Oppenheimer. The Trustee has indicated he will likely file an appeal of the dismissal.

In March 2010, the Company received a notice from counsel representing a receiver appointed by a state district court in Oklahoma (the Receiver) to oversee a liquidation proceeding of Providence Property and Casualty Company (Providence), an Oklahoma insurance company. That notice demanded the return of Providence's municipal bond portfolio of approximately \$55 million that had been custodied at Oppenheimer beginning in January 2009. In January 2009, the municipal bond portfolio had been transferred to an insurance holding company, Park Avenue Insurance LLC (Park Avenue), as part of a purchase and sale transaction. Park Avenue used the portfolio as collateral for a margin loan used to fund the purchase of Providence from Providence's parent. On October 19, 2010, Oppenheimer was named as a co-defendant in a complaint filed by the Receiver in state district court for Oklahoma County, Oklahoma captioned *State of Oklahoma, ex rel. Kim Holland, Insurance Commissioner, as Receiver for Park Avenue Property and Casualty Insurance Company v. Providence Holdings, Inc., Falcon Holdings, LLC et. al* alleging, that all defendants conspired to unlawfully transfer the assets of Providence to Park Avenue. In addition to Oppenheimer, the complaint names as defendants nine individuals alleging they were members of the board of directors of Oppenheimer & Co. Inc. during the time period at issue. In fact, for the time period alleged, six of these individuals were not members of such board. The complaint was subsequently amended to name three individuals including the Chairman and Chief Executive Officer, who is the only individual who has been served, who were directors of Oppenheimer & Co. Inc. at the time of the events in question. The complaint alleges causes of action for negligence, breach of fiduciary duty and trespass to chattel and/or conversion and seeks actual damages of \$102 million, punitive damages, interest and costs, including attorneys' fees. Oppenheimer moved to remove the matter to the United States District Court, Western District of Oklahoma on December 2, 2010. Thereafter, the Receiver moved to remand the matter to the District Court of Oklahoma County, Oklahoma. Oppenheimer filed its opposition to this motion on February 3, 2011; the motion to remand was granted. Oppenheimer believes it has meritorious defenses to the claims raised and intends to defend against these claims vigorously including seeking dismissal of the claims against all the directors. On January 18, 2011 and March 28, 2011, motions to dismiss were filed on behalf of Oppenheimer and the Chairman and Chief Executive Officer, respectively, which motions are currently pending. Discovery has not yet commenced.

In September 2010, Oppenheimer was named as a co-defendant in a complaint filed in the United States District Court for the Southern District of New York captioned *TPTCC NY, Inc., The Proton Institute of NY, LLC, and NY Medscan, LLC v. Radiation Therapy Services Inc., New York Proton Management LLC et. al* (10 CIV 7097) alleging that all defendants conspired to eliminate plaintiffs as competitors in providing a developing cancer treatment in the Greater New York Area. Oppenheimer provided certain investment banking services to the various parties. The complaint alleges causes of action for violation of the Sherman Act, conversion, misappropriation of trade secrets, unfair competition, and breaches of fiduciary duty and contract, and requests damages of \$350 million, punitive damages and injunctive relief. On November 12, 2010, Oppenheimer filed its motion to dismiss plaintiffs' complaint, and thereafter plaintiffs filed their First Amended Complaint. On January 7, 2011, Oppenheimer refiled its motion to dismiss the Amended Complaint which motion was granted in its entirety on February 25, 2011.

## ITEM 1A. Risk Factors

During the three months ended March 31, 2011, there were no material changes to the information contained in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended

December 31, 2010.

**ITEM 6. Exhibits**

(d) Exhibits

- |      |   |
|------|---|
| 10.1 | Indenture dated as of April 12, 2011 among Oppenheimer Holdings Inc., the subsidiary guarantors, The Bank of New York Mellon Trust Company, N.A., as Trustee and The Bank of New York Mellon Trust Company, as Collateral Agent.  |
| 10.2 | Registration Rights Agreement dated April 12, 2011 by and among Oppenheimer Holdings Inc., a Delaware corporation, E.A. Viner International Co., a Delaware corporation, Viner Finance Inc., a Delaware corporation and Morgan Stanley & Co. Incorporated, as representative of the several Initial Purchasers. |
| 10.3 | Security Agreement by and among Oppenheimer Holdings Inc., as grantor, and each other grantor from time to time party thereto and the Bank of New York Mellon Trust Company, N.A., as Collateral Agent dated as of April 12, 2011.  |
| 14   | Oppenheimer Holdings Inc. and Oppenheimer & Co. Inc. Code of Conduct and Business Ethics for Directors, Officers and Employees.   |
| 31.1 | Certification of Albert G. Lowenthal  |
| 31.2 | Certification of Elaine K. Roberts  |
| 32   | Certification of Albert G. Lowenthal and Elaine K. Roberts  |



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of New York, New York on this 5th day of May, 2011.

OPPENHEIMER HOLDINGS INC.

By: A.G. Lowenthal

A.G. Lowenthal, Chairman and Chief Executive Officer

(Principal Executive Officer)

By: E.K. Roberts

E.K. Roberts, President, Treasurer and Chief Financial Officer

(Principal Financial and Accounting Officer)

