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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarterly Period ended September 30, 2012

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

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**OPPENHEIMER HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**98-0080034**  
(I.R.S. Employer  
Identification No.)

**125 Broad Street**  
**New York, New York**  
(Address of principal executive offices)

**10004**  
(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)

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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 October 31, 2012 was 13,515,012 and 99,680 shares, respectively.

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OPPENHEIMER HOLDINGS INC.  
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**PART I FINANCIAL INFORMATION**

**Item. 1 Financial Statements (unaudited)**

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

*(Expressed in thousands of dollars)*

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 93,184	\$ 70,329
Cash and securities segregated for regulatory and other purposes	29,142	30,086
Deposits with clearing organizations	68,919	35,816
Receivable from brokers and clearing organizations	361,589	288,113
Receivable from customers, net of allowance for credit losses of \$2,240 (\$2,548 in 2011)	785,176	837,822
Income taxes receivable	6,097	6,743
Securities purchased under agreements to resell	10,175	847,688
Securities owned, including amounts pledged of \$725,412 (\$653,651 in 2011), at fair value	1,041,590	924,541
Notes receivable, net	49,332	54,044
Office facilities, net	28,228	16,976
Intangible assets, net	32,345	35,589
Goodwill	137,889	137,889
Other	182,004	241,803
	<u>\$2,825,670</u>	<u>\$3,527,439</u>

(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)

<i>(Expressed in thousands of dollars)</i>	September 30, 2012	December 31, 2011
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Drafts payable	\$ 37,181	\$ 51,848
Bank call loans	94,600	27,500
Payable to brokers and clearing organizations	251,695	335,610
Payable to customers	550,586	479,896
Securities sold under agreements to repurchase	778,427	1,508,493
Securities sold, but not yet purchased, at fair value	102,535	69,415
Accrued compensation	124,668	144,283
Accounts payable and other liabilities	172,950	184,669
Senior secured note	195,000	195,000
Deferred income taxes, net	1,985	10,302
Excess of fair value of acquired assets over cost	7,020	7,020
	<u>2,316,647</u>	<u>3,014,036</u>
<b>Stockholders' equity</b>		
<b>Share capital</b>		
Class A non-voting common stock (2012 – 13,515,012 shares issued and outstanding 2011 – 13,572,265 shares issued and outstanding)	62,149	62,593
Class B voting common stock 99,680 shares issued and outstanding	133	133
	<u>62,282</u>	<u>62,726</u>
Contributed capital	39,177	36,832
Retained earnings	404,318	408,720
Accumulated other comprehensive income (loss)	(682)	(208)
Total Oppenheimer Holdings Inc. stockholders' equity	<u>505,095</u>	<u>508,070</u>
Non-controlling interest	3,928	5,333
	<u>509,023</u>	<u>513,403</u>
	<u>\$2,825,670</u>	<u>\$3,527,439</u>

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

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

<i>Expressed in thousands of dollars, except share and per share amounts</i>	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<b>REVENUE:</b>				
Commissions	\$ 113,424	\$ 123,267	\$ 351,487	\$ 380,912
Principal transactions, net	14,372	8,233	40,387	32,537
Interest	14,823	15,161	42,462	43,599
Investment banking	21,589	29,199	66,647	91,357
Advisory fees	53,015	50,696	156,796	149,200
Other	14,615	5,063	45,418	31,949
	<u>231,838</u>	<u>231,619</u>	<u>703,197</u>	<u>729,554</u>
<b>EXPENSES:</b>				
Compensation and related expenses	151,969	148,951	461,516	479,802
Clearing and exchange fees	6,026	6,514	18,046	19,127
Communications and technology	15,880	15,138	47,346	47,146
Occupancy and equipment costs	17,526	18,977	59,279	56,047
Interest	8,842	10,230	25,864	28,673
Other	26,337	27,545	84,538	82,962
	<u>226,580</u>	<u>227,355</u>	<u>696,589</u>	<u>713,757</u>
Profit before income taxes	5,258	4,264	6,608	15,797
Income tax provision	2,234	1,805	4,092	7,139
Net profit for the period	3,024	2,459	2,516	8,658
Less net profit attributable to non-controlling interest, net of tax	702	353	2,429	1,775
Net profit attributable to Oppenheimer Holdings Inc.	<u>\$ 2,322</u>	<u>\$ 2,106</u>	<u>\$ 87</u>	<u>\$ 6,883</u>
Profit per share attributable to Oppenheimer Holdings Inc.:				
Basic	\$ 0.17	\$ 0.15	\$ 0.01	\$ 0.51
Diluted	\$ 0.16	\$ 0.15	\$ 0.01	\$ 0.49
Weighted average common shares:				
Basic	13,610,991	13,670,604	13,599,431	13,627,122
Diluted	14,161,257	13,915,897	13,937,016	13,922,637
Dividends declared per share	\$ 0.11	\$ 0.11	\$ 0.33	\$ 0.33

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

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

<i>Expressed in thousands of dollars</i>	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net profit for the period	\$3,024	\$ 2,459	\$2,516	\$ 8,658
Other comprehensive income:				
Currency translation adjustment	180	(1,513)	(474)	(1,394)
Change in cash flow hedges, net of tax	—	—	—	1,322
Comprehensive income for the period	<u>\$3,204</u>	<u>\$ 946</u>	<u>\$2,042</u>	<u>\$ 8,586</u>

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

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

<i>Expressed in thousands of dollars</i>	Nine months ended September 30,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net profit for the period	\$ 2,516	\$ 8,658
<b>Adjustments to reconcile net profit to net cash used in operating activities:</b>		
<b>Non-cash items included in net profit:</b>		
Depreciation and amortization	8,019	9,299
Deferred income tax	(8,317)	2,453
Amortization of notes receivable	14,679	15,103
Amortization of debt issuance costs	479	734
Amortization of intangibles	3,244	3,244
Provision for credit losses	(308)	(317)
Share-based compensation	3,030	118
<b>Decrease (increase) in operating assets:</b>		
Cash and securities segregated for regulatory and other purposes	944	(1,840)
Deposits with clearing organizations	(33,103)	654
Receivable from brokers and clearing organizations	(73,476)	(30,255)
Receivable from customers	52,954	31,563
Income taxes receivable	646	9
Securities purchased under agreement to resell	837,513	(242,595)
Securities owned	(117,049)	(429,846)
Notes receivable	(9,967)	(11,282)
Other	51,965	29,625
<b>Increase (decrease) in operating liabilities:</b>		
Drafts payable	(14,667)	(15,006)
Payable to brokers and clearing organizations	(83,915)	55,215
Payable to customers	70,690	170,065
Securities sold under agreement to repurchase	(730,066)	469,904
Securities sold, but not yet purchased	33,120	50,928
Accrued compensation	(19,675)	(46,796)
Accounts payable and other liabilities	(14,719)	(15,135)
Cash (used in) provided by operating activities	<u>(25,463)</u>	<u>54,500</u>

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

<i>Expressed in thousands of dollars</i>	Nine months ended September 30,	
	2012	2011
<b>Cash flows from investing activities:</b>		
Purchase of office facilities	(12,390)	(3,865)
Cash used in investing activities	<u>(12,390)</u>	<u>(3,865)</u>
<b>Cash flows from financing activities:</b>		
Cash dividends paid on Class A non-voting and Class B voting common stock	(4,489)	(4,506)
Issuance of Class A non-voting common stock	—	337
Repurchase of Class A non-voting common stock for cancellation	(1,766)	—
Tax benefit (shortfall) from share-based compensation	(137)	(1,621)
Senior secured note issuance	—	200,000
Senior secured credit note repayments	—	(22,503)
Subordinated note repayment	—	(100,000)
Increase (decrease) in bank call loans, net	67,100	(87,700)
Cash provided by (used in) financing activities	<u>60,708</u>	<u>(15,993)</u>
Net increase in cash and cash equivalents	22,855	34,642
Cash and cash equivalents, beginning of period	70,329	52,854
Cash and cash equivalents, end of period	<u>\$ 93,184</u>	<u>\$ 87,496</u>
<b>Schedule of non-cash investing and financing activities:</b>		
Employee share plan issuance	\$ 1,322	\$ 10,446
Acquisition of shares of Oppenheimer Multifamily Housing and Healthcare Finance, Inc.	\$ (3,000)	—
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the periods for interest	\$ 24,237	\$ 15,309
Cash paid during the periods for income taxes	\$ 10,492	\$ 7,680

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



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

<i>Expressed in thousands of dollars</i>	Nine months ended September 30,	
	2012	2011
<b>Share capital</b>		
Balance at beginning of period	\$ 62,726	\$ 51,901
Issuance of Class A non-voting common stock	1,322	10,783
Repurchase of Class A non-voting common stock for cancellation	(1,766)	—
Balance at end of period	<u>\$ 62,282</u>	<u>\$ 62,684</u>
<b>Contributed capital</b>		
Balance at beginning of period	\$ 36,832	\$ 47,808
Vested employee share plan awards	(1,316)	(13,348)
Tax benefit (shortfall) from share-based awards	(137)	(1,621)
Share-based expense	2,964	3,112
Acquisition of non-controlling interest	834	—
Balance at end of period	<u>\$ 39,177</u>	<u>\$ 35,951</u>
<b>Retained earnings</b>		
Balance at beginning of period	\$408,720	\$404,414
Net profit for the period attributable to Oppenheimer Holdings Inc.	87	6,883
Dividends (\$0.33 per share in 2012 and 2011)	(4,489)	(4,506)
Balance at end of period	<u>\$404,318</u>	<u>\$406,791</u>
<b>Accumulated other comprehensive income (loss)</b>		
Balance at beginning of period	\$ (208)	\$ 207
Currency translation adjustment	(474)	(1,394)
Change in cash flow hedges, net of tax	—	1,322
Balance at end of period	<u>\$ (682)</u>	<u>\$ 135</u>
<b>Stockholders' Equity</b>	<u>\$505,095</u>	<u>\$505,561</u>
<b>Non-controlling interest</b>		
Balance at beginning of period	\$ 5,333	\$ 3,032
Net profit attributable to non-controlling interest for the period, net of tax	2,429	1,775
Acquisition of non-controlling interest	(3,834)	—
Balance at end of period	<u>\$ 3,928</u>	<u>\$ 4,807</u>
<b>Total equity</b>	<u>\$509,023</u>	<u>\$510,368</u>

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

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

Oppenheimer Holdings Inc. ("OPY") is incorporated under the laws of the State of Delaware. The condensed 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. ("OMHMF"), which is engaged in mortgage brokerage and servicing, and OPY Credit Corp., which offers syndication as well as trading of issued corporate loans. Oppenheimer Europe Ltd. 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, 2011 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 consolidated balance sheet. On September 28, 2012, the Company agreed to purchase additional shares of OMHMF for \$3 million, representing 16.32% of OMHMF. As of September 30, 2012, the Company owned 83.67% of OMHMF and the non-controlling interest recorded in the condensed consolidated balance sheet was \$3.9 million.

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.

During the three month period ended June 30, 2012, the Company recorded adjustments of \$1.3 million, net of taxes, related to prior periods to establish additional reserves for tax positions. These out-of-period adjustments, which were not material to any prior period, resulted in an increase to income tax expense of \$1.85 million offset by a decrease in interest expense of \$588,000 on an after-tax basis.

## **2. New Accounting Pronouncements**

### *Recently Adopted*

In April 2011, the FASB issued ASU No. 2011-03, "Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements," which removes the requirement to consider whether sufficient collateral is held when determining whether to account for repurchase agreements and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity as sales or as secured financings. The guidance is effective prospectively for transactions beginning on January 1, 2012. The Company adopted this guidance in the period ending March 31, 2012.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS," which provides clarifying guidance on how to measure fair value and has additional disclosure requirements. The amendments prohibit the use of blockage factors at all levels of the fair value hierarchy and provide guidance on measuring financial instruments that are managed on a net portfolio basis. Additional disclosure requirements include transfers between Levels 1 and 2 and, for Level 3 fair value measurements, a description of the valuation processes and additional information about unobservable inputs impacting Level 3 measurements. The updates are effective for fiscal years beginning after December 15, 2011. The Company adopted this guidance in the period ending March 31, 2012. See note 6 for further details.

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

### *Recently Issued*

On December 31, 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," which requires new disclosures about balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the ASU requires disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The ASU is effective for annual reporting periods beginning on or after January 1, 2013. The Company is currently evaluating the impact, if any, that these updates will have on its financial condition, results of operations and cash flows.

On July 27, 2012, the FASB issued ASU 2012-02, "Testing indefinite-Lived Intangible Assets for Impairment," which gives entities the option of performing a qualitative assessment before the quantitative analysis. If entities determine the fair value of a reporting unit is more likely than not less than the carrying amount, the impairment needs to be assessed. The ASU is effective for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company will not early adopt this ASU and is currently evaluating whether it will continue to perform quantitative analysis for indefinite-lived intangible asset impairment.

### **3. Revision to Financial Statements**

During the year ended December 31, 2011, the Company identified historical errors relating to its tax treatment of deferred compensation obligations assumed as part of the 2003 acquisition of the Private Client Division from Canadian Imperial Bank of Commerce (“CIBC”) that affected prior periods. As a result, the Company determined the need to reestablish book basis of goodwill related to the 2003 transaction in the amount of \$5.4 million. Further analysis revealed uncertain tax positions that were inadvertently taken as a result of the errors, leading to the establishment of a reserve in the amount of \$3.0 million, including accrued interest, as well as cumulative adjustments primarily related to current and deferred tax items of \$2.8 million for periods prior to 2009.

The Company assessed the impact of the errors, including the impact of previously disclosed out-of-period adjustments, on its prior period financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2010 and concluded that these errors were not material, individually or in the aggregate, to any of those financial statements. Although the effect of these errors was not material to any previously issued financial statements, the cumulative effect of correcting these historical errors during the fiscal year 2011 would have been material. As part of this revision process, the Company also reversed other previously disclosed out-of-period adjustments which were immaterial and recorded them instead in the periods in which the errors originated. These revisions have no net impact on the Company’s net cash amounts provided by (used in) operating, financing or investing activities for the any of the periods previously reported, nor in the current period. The cumulative effect of the above adjustments resulted in a \$9.8 million credit to opening retained earnings as of January 1, 2011.

The financial statements as of September 30, 2011, included herein, have been prepared in light of the cumulative revisions above. The financial statements for all other periods affected by the revisions can continue to be relied upon, and will be revised to reflect the revisions discussed above the next time such financial statements are included in future reports for comparative purposes.

### **4. Earnings Per Share**

Basic earnings per share was computed by dividing net profit by the weighted average number of shares of Class A and Class B Stock outstanding. Diluted earnings per share includes the weighted average number of shares of Class A and Class B Stock outstanding and the effects of the warrant using the if converted method and options to purchase the Class A Stock and restricted stock awards of Class A Stock using the treasury stock method.

Earnings per share has been calculated as follows:

Expressed in thousands of dollars, except share and per share amounts.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Basic weighted average number of shares outstanding	13,610,991	13,670,604	13,599,431	13,627,122
Net dilutive effect of warrant, treasury method (1)	—	—	—	—
Net dilutive effect of share-based awards, treasury method (2)	<u>550,266</u>	<u>245,294</u>	<u>337,585</u>	<u>295,515</u>
Diluted weighted average number of shares outstanding	<u>14,161,257</u>	<u>13,915,897</u>	<u>13,937,016</u>	<u>13,922,637</u>
Net profit for the period	\$ 3,024	\$ 2,459	\$ 2,516	\$ 8,658
Net profit attributable to non-controlling interests	<u>702</u>	<u>353</u>	<u>2,429</u>	<u>1,775</u>
Net profit attributable to Oppenheimer Holdings Inc.	<u>\$ 2,322</u>	<u>\$ 2,106</u>	<u>\$ 87</u>	<u>\$ 6,883</u>
Basic profit per share	\$ 0.17	\$ 0.15	\$ 0.01	\$ 0.51
Diluted profit per share	\$ 0.16	\$ 0.15	\$ 0.01	\$ 0.49

- (1) As part of the consideration for the 2008 acquisition of certain businesses from CIBC World Markets Corp., the Company issued a warrant to CIBC to purchase 1 million shares of Class A Stock of the Company at \$48.62 per share exercisable five years from the January 14, 2008 acquisition date. For the three and nine months ended September 30, 2012 and 2011, the effect of the warrant is anti-dilutive.
- (2) For the both the three and nine months ended September 30, 2012, the diluted earnings per share computations do not include the anti-dilutive effect of 1,059,638 shares of Class A Stock granted under share-based compensation arrangements together with the warrant described in (1) above (1,139,695 and 1,142,028 shares of Class A Stock, respectively, for the three and nine months ended September 30, 2011).

## 5. Receivable from and Payable to Brokers and Clearing Organizations

Expressed in thousands of dollars.

	September 30, 2012	December 31, 2011
Receivable from brokers and clearing organizations consist of:		
Deposits paid for securities borrowed	\$ 189,241	\$ 217,353
Receivable from brokers	22,823	23,516
Securities failed to deliver	30,549	11,551
Clearing organizations	22,158	19,209
Omnibus accounts	25,767	15,907
Other	71,051	577
	<u>\$ 361,589</u>	<u>\$ 288,113</u>
	September 30, 2012	December 31, 2011
Payable to brokers and clearing organizations consist of:		
Deposits received for securities loaned	\$ 219,155	\$ 318,834
Securities failed to receive	18,887	15,236
Clearing organizations and other	13,653	1,540
	<u>\$ 251,695</u>	<u>\$ 335,610</u>

## 6. Financial Instruments

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

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

Expressed in thousands of dollars.

	September 30, 2012		December 31, 2011	
	Owned	Sold	Owned	Sold
U.S. Treasury, agency and sovereign obligations	\$ 754,288	\$ 60,559	\$682,805	\$27,509
Corporate debt and other obligations	24,345	3,370	27,188	3,696
Mortgage and other asset-backed securities	2,793	34	4,609	14
Municipal obligations	103,656	933	54,963	485
Convertible bonds	44,654	9,847	50,157	8,533
Corporate equities	42,592	27,665	38,634	29,056
Other	69,262	127	66,185	122
Total	<u>\$1,041,590</u>	<u>\$102,535</u>	<u>\$924,541</u>	<u>\$69,415</u>

Securities owned and securities sold, but not yet purchased, consist of trading and investment securities at fair values. Included in securities owned at September 30, 2012 are mutual funds with estimated fair values of approximately \$13.8 million (\$13.2 million at December 31, 2011), which are related to deferred compensation liabilities to certain employees included in accrued compensation on the condensed consolidated balance sheet. As of September 30, 2012, the Company did not have any exposure to European sovereign debt.

### **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 collateralized by various types of collateral 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.

### *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 ARS. Pursuant to those settlements and legal settlements, as of September 30, 2012, the Company purchased and holds approximately \$79.6 million in ARS from its clients pursuant to several purchase offers and legal settlements. The Company's purchases of ARS from its clients will continue on a periodic basis pursuant to the settlements with the Regulators. In addition, the Company is committed to purchase another \$40.5 million in ARS from clients through 2016. See "Legal Proceedings-Auction Rate Securities Matters" herein. 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 legal and other actions by clients during the relevant period, which cannot be predicted. The Company also held \$150,000 in ARS in its proprietary trading account as of September 30, 2012 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.

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. Additional information regarding the valuation technique and inputs used is as follows:



Expressed in thousands of dollars.

### Quantitative Information about Level 3 Fair Value Measurements at September 30, 2012

<u>Product</u>	<u>Principal</u>	<u>Valuation Adjustment</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Auction Rate Securities <sup>(1)</sup>	\$120,306	\$ 5,256	\$115,050	Discounted Cash Flow	Discount Rate	1.14% to 3.01%
					Duration	5 to 8 Years
					Current Yield <sup>(2)</sup>	0.27% to 1.37%
Total						

- (1) Includes ARS owned by the Company of \$79.8 million included in the condensed consolidated balance sheet at September 30, 2012 as well as additional commitments to purchase ARS from clients of \$40.5 million which is disclosed in the notes to the co
- (2) Based on current auctions in comparable securities that have not failed

The fair value of ARS is particularly sensitive to movements in interest rates. Increases in short-term interest rates would increase the discount rate input used in the ARS valuation and thus reduce the fair value of the ARS (increase the valuation adjustment). Conversely, decreases in short-term interest rates would decrease the discount rate and thus increase the fair value of ARS (decrease the valuation adjustment). However, an increase (decrease) in the discount rate input would be partially mitigated by an increase (decrease) in the current yield earned on the underlying ARS asset increasing the cash flows and thus the fair value. Furthermore, movements in short term interest rates would likely impact the ARS duration (i.e., sensitivity of the price to a change in interest rates), which would also have a mitigating affect on interest rate movements. For example, as interest rates increase, issuers of ARS have an incentive to redeem outstanding securities as servicing the interest payments gets prohibitively expensive which would lower the duration assumption thereby increasing the ARS fair value. Alternatively, ARS issuers are less likely to redeem ARS in a lower interest rate environment as it is a relatively inexpensive source of financing which would increase the duration assumption thereby decreasing the ARS fair value.

Due to the less observable nature of these inputs, the Company categorizes ARS in Level 3 of the fair value hierarchy. As of September 30, 2012, the Company had a valuation adjustment of \$5.3 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 September 30, 2012.

Expressed in thousands of dollars.

	Fair Value	Unfunded Commit - ments	Redemption Frequency	Redemption Notice Period
Hedge Funds <sup>(1)</sup>	\$ 881	\$ —	Quarterly - Annually	30 - 120 Days
Private Equity Funds <sup>(2)</sup>	3,408	1,018	N/A	N/A
Distressed Opportunities Investment Trust <sup>(3)</sup>	7,558	—	N/A	N/A
Total	<u>\$ 11,847</u>	<u>\$ 1,018</u>		

- (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) Special purpose vehicle 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 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. 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 (referred to as “repo-to-maturity” transactions). Such transactions are treated as a sale of financial assets and a forward repurchase commitment, or conversely as a purchase of financial assets and a forward reverse repurchase commitment. The forward repurchase and reverse repurchase commitments are valued based on the spread between the market value of the government security and the underlying collateral and are categorized in Level 2 of the fair value hierarchy.

#### **Fair Value Measurements**

The Company’s assets and liabilities, recorded at fair value on a recurring basis as of September 30, 2012 and December 31, 2011 have been categorized based upon the above fair value hierarchy as follows:

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2012

Expressed in thousands of dollars.

	Fair Value Measurement: Assets As of September 30, 2012			
	Level 1	Level 2	Level 3	Total
<b>Cash equivalents</b>	<b>\$ 40,702</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 40,702</b>
<b>Cash and securities segregated for regulatory and other purposes</b>	<b>11,498</b>	<b>—</b>	<b>—</b>	<b>11,498</b>
<b>Deposits with clearing organization</b>	<b>9,091</b>	<b>—</b>	<b>—</b>	<b>9,091</b>
Securities owned:				
U.S. Treasury securities	699,535	—	—	699,535
U.S. Agency securities	38,155	16,565	—	54,720
Sovereign obligations	—	33	—	33
Corporate debt and other obligations	12,060	12,285	—	24,345
Mortgage and other asset-backed securities	—	2,767	26	2,793
Municipal obligations	—	92,984	10,672	103,656
Convertible bonds	—	44,654	—	44,654
Corporate equities	34,165	8,427	—	42,592
Other	2,883	—	66,379	69,262
<b>Securities owned, at fair value</b>	<b>786,798</b>	<b>177,715</b>	<b>77,077</b>	<b>1,041,590</b>
<b>Investments<sup>(1)</sup></b>	<b>433</b>	<b>36,678</b>	<b>12,805</b>	<b>49,916</b>
<b>Derivative contracts</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>TBAs</b>	<b>—</b>	<b>4,203</b>	<b>—</b>	<b>4,203</b>
<b>Securities purchased under agreements to resell</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total</b>	<b><u>\$848,522</u></b>	<b><u>\$218,596</u></b>	<b><u>\$89,882</u></b>	<b><u>\$1,157,000</u></b>

	Fair Value Measurement: Liabilities As of September 30, 2012			
	Level 1	Level 2	Level 3	Total
Securities sold, not yet purchased:				
U.S. Treasury securities	\$ 59,445	\$ —	\$ —	\$ 59,445
U.S. Agency securities	1,073	41	—	1,114
Corporate debt and other obligations	—	3,370	—	3,370
Mortgage and other asset-backed securities	—	34	—	34
Municipal obligations	—	933	—	933
Convertible bonds	—	9,847	—	9,847
Corporate equities	18,615	9,050	—	27,665
Other	127	—	—	127
<b>Securities sold, not yet purchased at fair value</b>	<b>79,260</b>	<b>23,275</b>	<b>—</b>	<b>102,535</b>
<b>Investments</b>	<b>125</b>	<b>—</b>	<b>—</b>	<b>125</b>
<b>Derivative contracts</b>	<b>290</b>	<b>215</b>	<b>2,253</b>	<b>2,758</b>
<b>TBAs</b>	<b>—</b>	<b>1,219</b>	<b>—</b>	<b>1,219</b>
<b>Securities sold under agreements to repurchase<sup>(2)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total</b>	<b><u>\$ 79,675</u></b>	<b><u>\$ 24,709</u></b>	<b><u>\$ 2,253</u></b>	<b><u>\$ 106,637</u></b>

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

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

**Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011**

Expressed in thousands of dollars.

	Fair Value Measurement: Assets As of December 31, 2011			
	Level 1	Level 2	Level 3	Total
<b>Cash equivalents</b>	<b>\$ 30,924</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 30,924</b>
<b>Cash and securities segregated for regulatory and other purposes</b>	<b>11,500</b>	<b>—</b>	<b>—</b>	<b>11,500</b>
<b>Deposits with clearing organizations</b>	<b>9,095</b>	<b>—</b>	<b>—</b>	<b>9,095</b>
Securities owned:				
U.S. Treasury securities	627,870	—	—	627,870
U.S. Agency securities	32,663	21,695	—	54,358
Sovereign obligations	—	577	—	577
Corporate debt and other obligations	12,538	14,650	—	27,188
Mortgage and other asset-backed securities	—	4,593	16	4,609
Municipal obligations	—	51,401	3,562	54,963
Convertible bonds	—	50,157	—	50,157
Corporate equities	29,150	9,484	—	38,634
Other	1,184	—	65,001	66,185
<b>Securities owned, at fair value</b>	<b>703,405</b>	<b>152,557</b>	<b>68,579</b>	<b>924,541</b>
<b>Investments<sup>(1)</sup></b>	<b>1,512</b>	<b>32,964</b>	<b>12,482</b>	<b>46,958</b>
<b>Derivative contracts</b>	<b>—</b>	<b>20</b>	<b>—</b>	<b>20</b>
<b>TBAs</b>	<b>—</b>	<b>5,791</b>	<b>—</b>	<b>5,791</b>
<b>Securities purchased under agreements to resell<sup>(2)</sup></b>	<b>—</b>	<b>847,610</b>	<b>—</b>	<b>847,610</b>
<b>Total</b>	<b><u>\$756,436</u></b>	<b><u>\$1,038,942</u></b>	<b><u>\$81,061</u></b>	<b><u>\$1,876,439</u></b>

	Fair Value Measurement: Liabilities As of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Securities sold, not yet purchased:				
U.S. Treasury securities	\$ 27,462	\$ —	\$ —	\$ 27,462
U.S. Agency securities	—	47	—	47
Sovereign obligations	—	—	—	—
Corporate debt and other obligations	—	3,696	—	3,696
Mortgage and other asset-backed securities	—	14	—	14
Municipal obligations	—	485	—	485
Convertible bonds	—	8,533	—	8,533
Corporate equities	16,467	12,589	—	29,056
Other	72	—	50	122
<b>Securities sold, not yet purchased at fair value</b>	<b>44,001</b>	<b>25,364</b>	<b>50</b>	<b>69,415</b>
<b>Investments</b>	<b>26</b>	<b>—</b>	<b>—</b>	<b>26</b>
<b>Derivative contracts</b>	<b>66</b>	<b>8</b>	<b>2,347</b>	<b>2,421</b>
<b>TBAs</b>	<b>—</b>	<b>2,254</b>	<b>—</b>	<b>2,254</b>
<b>Total</b>	<b><u>\$ 44,093</u></b>	<b><u>\$ 27,626</u></b>	<b><u>\$ 2,397</u></b>	<b><u>\$ 74,116</u></b>

<sup>(1)</sup> Included in other assets on the condensed consolidated balance sheet.

<sup>(2)</sup> Includes securities purchased under agreements to resell where the Company has elected fair value option treatment.

There were no significant transfers between Level 1 and Level 2 assets and liabilities in the three months ended September 30, 2012.

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2012 and 2011.

Expressed in thousands of dollars.

	Level 3 Assets and Liabilities						Ending Balance
	For the Three-Month Period Ended September 30, 2012						
	Beginning Balance	Realized Gains (Losses) <sup>(4)</sup>	Unrealized Gains (Losses) <sup>(5)</sup>	Purchases & Issuances	Sales & Settlements	Transfers In / Out	
<i>Assets:</i>							
Mortgage and other asset-backed securities <sup>(1)</sup>	\$ 12	—	3	11	—	—	\$ 26
Municipals	10,120	—	(13)	655	(90)	—	10,672
Other <sup>(2)</sup>	64,644	—	410	5,950	(4,625)	—	66,379
Investments <sup>(3)</sup>	12,760	(9)	(32)	231	(145)	—	12,805
<i>Liabilities:</i>							
Mortgage and other asset-backed securities <sup>(1)</sup>	\$ —	—	—	—	—	—	\$ —
Other <sup>(2)</sup>	—	—	—	—	—	—	—
Derivative contracts	2,334	—	(81)	—	—	—	2,253

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

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

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

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

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

Expressed in thousands of dollars.

**Level 3 Assets and Liabilities**  
**For the Three-Month Period Ended September 30, 2011**

	<b>Beginning Balance</b>	<b>Realized Gains (Losses)<sup>(4)</sup></b>	<b>Unrealized Gains (Losses)<sup>(5)</sup></b>	<b>Purchases &amp; Issuances</b>	<b>Sales &amp; Settlements</b>	<b>Transfers In / Out</b>	<b>Ending Balance</b>
<i>Assets:</i>							
Mortgage and other asset-backed securities <sup>(1)</sup>	\$ 105	1	(3)	893	(230)	0	\$ 766
Municipals	3,829	(12)	(143)	575	(119)	—	4,129
Other <sup>(2)</sup>	63,098	—	543	4,028	(2,450)	—	65,219
Investments <sup>(3)</sup>	16,141	—	(793)	126	—	(1)	15,473
<i>Liabilities:</i>							
Mortgage and other asset-backed securities <sup>(1)</sup>	\$ 11	—	—	(11)	—	—	\$ —
Other <sup>(2)</sup>	—	—	—	1,502	—	—	1,502
Derivative contracts	—	—	—	—	—	—	—

<sup>(1)</sup> Represents private placements of non-agency collateralized mortgage obligations.

<sup>(2)</sup> Represents auction rate securities that failed in the auction rate market.

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

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

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

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2012 and 2011.

Expressed in thousands of dollars.

	Level 3 Assets and Liabilities						Ending Balance
	For the Nine-Month Period Ended September 30, 2012						
	Beginning Balance	Realized Gains (Losses) <sup>(4)</sup>	Unrealized Gains (Losses) <sup>(5)</sup>	Purchases & Issuances	Sales & Settlements	Transfers In / Out	
<i>Assets:</i>							
Mortgage and other asset-backed securities <sup>(1)</sup>	\$ 16	(8)	5	95	(80)	(2)	\$ 26
Municipals	3,562	(5)	(505)	9,960	(2,340)	—	10,672
Other <sup>(2)</sup>	65,001	—	(351)	20,675	(18,946)	—	66,379
Investments <sup>(3)</sup>	12,482	(9)	405	358	(442)	11	12,805
<i>Liabilities:</i>							
Mortgage and other asset-backed securities <sup>(1)</sup>	\$ —	—	—	—	—	—	\$ —
Other <sup>(2)</sup>	50	—	—	(50)	—	—	—
Derivative contracts	2,347	—	(94)	—	—	—	2,253

<sup>(1)</sup> Represents private placements of non-agency collateralized mortgage obligations

<sup>(2)</sup> Represents auction rate securities that failed in the auction rate market

<sup>(3)</sup> Primarily represents general partner ownership interests in hedge funds and private equity funds sponsored by the Company

<sup>(4)</sup> Included in principal transactions on the consolidated statement of operations, except for investments which are included in other income on the consolidated statement of operations

<sup>(5)</sup> Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date

Expressed in thousands of dollars.

**Level 3 Assets and Liabilities**  
**For the Nine-Month Period Ended September 30, 2011**

	<b>Beginning Balance</b>	<b>Realized Gains (Losses)<sup>(4)</sup></b>	<b>Unrealized Gains (Losses)<sup>(5)</sup></b>	<b>Purchases &amp; Issuances</b>	<b>Sales &amp; Settlements</b>	<b>Transfers In / Out</b>	<b>Ending Balance</b>
<i>Assets:</i>							
Mortgage and other asset-backed securities <sup>(1)</sup>	\$ 14	1	(0)	995	(244)	0	\$ 766
Municipals	1,787	(12)	(334)	2,982	(294)	—	4,129
Other <sup>(2)</sup>	35,909	—	(393)	38,178	(8,475)	—	65,219
Investments <sup>(3)</sup>	17,208	—	(794)	572	(1,500)	(13)	15,473
<i>Liabilities:</i>							
Mortgage and other asset-backed securities <sup>(1)</sup>	\$ —	0	—	11	(11)	—	\$ —
Other <sup>(2)</sup>	—	—	—	1,502	—	—	1,502
Derivative contracts	—	—	—	—	—	—	—

<sup>(1)</sup> Represents non-agency securities primarily collateralized by home equity and manufactured housing

<sup>(2)</sup> Represents auction rate preferred securities that failed in the auction market. Fair value approximates par due to strength in the underlying credits and the recent trend in issuer redemptions

<sup>(3)</sup> Primarily represents general partner ownership interests in hedge funds and private equity funds sponsored by the Company

<sup>(4)</sup> Included in principal transactions, net on the condensed consolidated statement of operations, except for investments which is included in other income on the condensed consolidated statement of operations.

<sup>(5)</sup> Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date



## **Fair Value Option**

The Company has the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The Company may make a fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company has elected to apply the fair value option to its loan trading portfolio which resides in OPY Credit Corp. and is included in other assets on the condensed consolidated balance sheet. Management has elected this treatment as it is consistent with the manner in which the business is managed as well as the way that financial instruments in other parts of the business are recorded. There were no loan positions held in the secondary loan trading portfolio at September 30, 2012 (none at December 31, 2011).

The Company also elected the fair value option for those securities sold under agreements to repurchase (“repurchase agreements”) and securities purchased under agreements to resell (“reverse repurchase agreements”) that do not settle overnight or have an open settlement date or that are not accounted for as purchase and sale agreements (such as repo-to-maturity transactions). The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At September 30, 2012, the fair value of the reverse repurchase agreements and repurchase agreements was \$nil and \$nil, respectively.

## **Fair Value of Derivative Instruments**

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

### *Cash flow hedges used for asset and liability management*

For derivative instruments that were designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative was 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 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 was subject to change due to changes in 3-Month LIBOR. With the repayment of the Subordinated Note in the second quarter of 2011, this cap is no longer designated as a cash flow hedge. The Company recorded \$nil in interest expense with respect to the interest rate cap for both the three and nine months ended September 30, 2012.

### *Foreign exchange hedges*

From time to time, the Company also utilizes forward and options contracts to hedge the foreign currency risk associated with compensation obligations to Oppenheimer Israel (OPCO) Ltd. employees denominated in New Israeli Shekels. Such hedges have not been designated as accounting hedges. At September 30, 2012, the Company did not have any such hedges in place.

*“To-be-announced” securities”*

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

The following table summarizes the notional and fair values of the TBAs as of September 30, 2012 and December 31, 2011.

Expressed in thousands of dollars.

	September 30, 2012		December 31, 2011	
	Notional	Fair Value	Notional	Fair Value
Sale of TBAs <sup>(1)</sup>	\$551,897	\$ 4,203	\$574,365	\$ 5,791
Purchase of TBAs	\$203,439	\$ 1,219	\$137,572	\$ 2,254

- <sup>(1)</sup> TBAs are used to offset exposures related to commitments to provide funding for FHA loans at OMHFF. At September 30, 2012, the loan commitments balance was \$297.5 million (\$326.7 million at December 31, 2011). In addition, at September 30, 2012, OMHFF had a loan receivable balance (included in other assets) of \$56.3 million (\$109.3 million at December 31, 2011) which relates to prior loan commitments that have been funded but have not yet been securitized. The “when issued” securitizations of these loans have been sold to market counter-parties.

*Derivatives used for trading and investment purposes*

Futures contracts represent commitments to purchase or sell securities or other commodities at a future date and at a specified price. Market risk exists with respect to these instruments. Notional or contractual amounts are used to express the volume of these transactions, and do not represent the amounts potentially subject to market risk. The futures contracts the Company used include U.S. Treasury notes, Federal Funds and Eurodollar contracts. At September 30, 2012, the Company had 420 open short contracts for Treasury notes with a fair value of \$290,000 used primarily as an economic hedge of interest rate risk associated with a portfolio of fixed income investments. At September 30, 2012, the Company had 7.7 billion open contracts for Federal Funds futures with a fair value of approximately \$209,808 used primarily as an economic hedge of interest rate risk associated with government trading activities.

From time-to-time, the Company enters into securities financing transactions that mature on the same date as the underlying collateral (referred to as “repo-to-maturity” transactions). These transactions are treated as a sale of financial assets and a forward repurchase commitment, or conversely as a purchase of financial assets and a forward reverse repurchase commitment. At September 30, 2012, the Company did not have any repo-to-maturity transactions outstanding.

The notional amounts and fair values of the Company's derivatives at September 30, 2012 and December 31, 2011 by product were as follows:

Expressed in thousands of dollars.

**Fair Value of Derivative Instruments**

**As of September 30, 2012**

	Description	Notional	Fair Value
<b>Assets:</b>			
<b>Derivatives not designated as hedging instruments <sup>(1)</sup></b>			
Interest rate contracts	Cap <sup>(2)</sup>	\$ 10,000	\$ 0
<b>Total Assets</b>		<u>\$ 10,000</u>	<u>\$ 0</u>
<b>Liabilities:</b>			
<b>Derivatives not designated as hedging instruments <sup>(1)</sup></b>			
Commodity contracts	U.S Treasury Futures <sup>(3)</sup>	\$ 64,000	\$ 290
	Federal Funds Futures <sup>(3)</sup>	7,745,000	210
	Euro Dollars Futures	13,000	5
Other contracts	Auction rate securities purchase commitment <sup>(4)</sup>	40,541	2,253
<b>Total Liabilities</b>		<u>\$7,862,541</u>	<u>\$ 2,758</u>

- (1) See "Fair Value of Derivative Instruments" below for description of derivative financial instruments.
- (2) Included in receivable from brokers and clearing organizations on the condensed consolidated balance sheet.
- (3) Included in payable from brokers and clearing organizations on the condensed consolidated balance sheet.
- (4) Included in other liabilities on the condensed consolidated balance sheet.

Expressed in thousands of dollars.

**Fair Value of Derivative Instruments**

**As of December 31, 2011**

	Description	Notional	Fair Value
<b>Assets:</b>			
<b>Derivatives not designated as hedging instruments <sup>(1)</sup></b>			
Interest rate contracts	Cap <sup>(2)</sup>	\$ 100,000	\$ 20
<b>Total Assets</b>		<u>\$ 100,000</u>	<u>\$ 20</u>
<b>Liabilities:</b>			
<b>Derivatives not designated as hedging instruments <sup>(1)</sup></b>			
Commodity contracts	U.S Treasury Futures <sup>(3)</sup>	\$ 20,000	\$ 66
	Federal Funds Futures <sup>(3)</sup>	5,985,000	8
Other contracts	Auction rate securities purchase commitment <sup>(4)</sup>	57,292	2,347
<b>Total Liabilities</b>		<u>\$6,062,292</u>	<u>\$ 2,421</u>

- (1) See "Fair Value of Derivative Instruments" below for description of derivative financial instruments.
- (2) Included in receivable from brokers and clearing organizations on the condensed consolidated balance sheet.
- (3) Included in payable from brokers and clearing organizations on the condensed consolidated balance sheet.
- (4) Included in other liabilities on the condensed consolidated balance sheet.

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect on the statement of operations for the three months ended September 30, 2012.

Expressed in thousands of dollars.

Hedging Relationship	Description	Recognized in Income on Derivatives (pre-tax)		Reclassified from Accumulated Other Comprehensive Income into Income -Effective Portion <sup>(2)</sup> (after-tax)	
		Location	Gain/(Loss)	Location	Gain/(Loss)
Interest rate contracts	Caps <sup>(3)</sup>	N/A	\$ —	Interest expense	\$—
Commodity contracts	U.S Treasury Futures	Principal transaction revenue	(395)	None	—
	Federal Funds Futures	Principal transaction revenue	(334)	None	—
	Euro-Dollars Futures	Principal transaction revenue	18	—	—
Other contracts	Auction rate securities purchase commitment	Principal transaction revenue	81	None	—
<b>Total</b>			<u><u>\$(630)</u></u>		<u><u>\$—</u></u>

- (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 period ended September 30, 2012.
- (3) As noted above in "Cash flow hedges used for asset and liability management", interest rate caps are used to hedge interest rate risk associated with the Subordinated Note. With the repayment of the Subordinated Note in the second quarter of 2011, this cap is no longer designated as a cash flow hedge.

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect on the statement of operations for the nine months ended September 30, 2012.

Expressed in thousands of dollars.

Hedging Relationship	Description	Recognized in Income on Derivatives (pre-tax)		Reclassified from Accumulated Other Comprehensive Income into Income -Effective Portion <sup>(2)</sup> (after-tax)	
		Location	Gain/ (Loss)	Location	Gain/ (Loss)
Interest rate contracts	Caps <sup>(3)</sup>	N/A	(12)	Interest expense	—
Commodity contracts		Principal transaction			
	U.S Treasury Futures	revenue	(1,032)	None	—
	Federal Funds Futures	Principal transaction			
	revenue	(74)	None	—	
	Euro-dollar Futures	Principal transaction			
	revenue	(9)	None	—	
Other contracts		Principal transaction			
	Auction rate securities purchase commitment	revenue	94	None	—
<b>Total</b>			<u>\$ (1,033)</u>		<u>\$ —</u>

- (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 period ended September 30, 2012.
- (3) As noted above in "Cash flow hedges used for asset and liability management", interest rate caps are used to hedge interest rate risk associated with the Subordinated Note. With the repayment of the Subordinated Note in the second quarter of 2011, this cap is no longer designated as a cash flow hedge

## Collateralized Transactions

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

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates but not exceeding the broker call rate. At September 30, 2012, bank call loans were \$94.6 million (\$27.5 million at December 31, 2011).

At September 30, 2012, the Company had collateralized loans, collateralized by firm and customer securities with market values of approximately \$111.5 million and \$46.4 million, respectively, primarily with two U.S. money center banks. At September 30, 2012, the Company had approximately \$1.1 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has repledged approximately \$198.2 million under securities loan agreements.

At September 30, 2012, the Company had deposited \$46.4 million of customer securities directly with the Options Clearing Corporation to secure obligations and margin requirements under option contracts written by customers.

At September 30, 2012, the Company had no outstanding letters of credit.

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

Certain of the Company's repurchase agreements and reverse repurchase agreements are carried at fair value as a result of the Company's fair value option election. The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date or that are not accounted for as purchase and sale agreements (such as the repo-to-maturity transactions described above). The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At September 30, 2012, the fair value of the reverse repurchase agreements and repurchase agreements was \$nil and \$nil, respectively.

At September 30, 2012, the gross balances of reverse repurchase agreements and repurchase agreements were \$4.3 billion and \$5.1 billion, respectively (\$5.5 billion and \$6.1 billion, respectively, at December 31, 2011).

The Company receives collateral in connection with securities borrowed and reverse repurchase 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 September 30, 2012, the fair value of securities received as collateral under securities borrowed transactions and reverse repurchase agreements was \$183.2 million (\$209.9 million at December 31, 2011) and \$4.4 billion (\$5.5 billion at December 31, 2011), respectively, of which the Company has sold and re-pledged approximately \$10.4 million (\$44.0 million at December 31, 2011) under securities loaned transactions and \$4.4 billion under repurchase agreements (\$5.5 billion at December 31, 2011).

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 \$725.4 million, as presented on the face of the condensed consolidated balance sheet at September 30, 2012 (\$653.7 million at December 31, 2011). 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 \$171.3 million as at September 30, 2012 (\$119.8 million at December 31, 2011).

The Company manages credit exposure arising from repurchase and reverse repurchase 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.

As of December 31, 2011, the interest in securities formerly held by one of the Company's funds which utilized Lehman Brothers International (Europe) as a prime broker was transferred to an investment trust. As of September 30, 2012, the fair value of the Company's investment in the securities held by Lehman Brothers International (Europe) that were segregated and not re-hypothecated was \$7.5 million. This investment has been included in the condensed consolidated financial statements of the Company.

### **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 September 30, 2012 are receivables from four major U.S. broker-dealers totaling approximately \$112.9 million.



Through OPY Credit Corp., the Company utilized a warehouse facility provided by CIBC to extend financing commitments to third-party borrowers identified by the Company. As of September 30, 2012, the Company utilized \$61.2 million (\$65.9 million as of December 31, 2011) under such warehouse facility and had \$nil in Excess Retention (\$nil as of December 31, 2011). This warehouse arrangement terminated on July 15, 2012. However, the Company will remain liable for some minimal expenses in relation to this facility related to commitments made by CIBC to borrowers introduced by the Company until such borrowings are repaid by the borrower or until 2016, whichever is the sooner to occur. All such owed amounts will continue to be reflected in the Company's income statement as incurred.

The Company reached an agreement with RBS Citizens, NA ("Citizens") that was announced in July 2012, whereby the Company, through OPY Credit Corp., will introduce lending opportunities to Citizens, which Citizens can elect to accept and in which the Company will participate in the fees earned from any related commitment by Citizens. The Company can also in certain circumstances assume a portion of Citizen's syndication and lending risk under such loans, and if it does so it shall be obligated to secure such obligations via a cash deposit determined through risk based formulas. Neither the Company nor Citizens is obligated to make any specific loan or to commit any minimum amount of lending capacity to the relationship. The agreement also calls for Citizens and the Company at their option to jointly participate in the arrangement of various loan syndications. At September 30, 2012, there were no loans in place.

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 reverse repurchase and repurchase agreements, substantially all open contracts at September 30, 2012 are with the FICC. In addition, the Company recently began clearing its non-U.S. international equities business carried on by Oppenheimer Europe Ltd. through BNP Paribas Securities Services. 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 September 30, 2012, 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.

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 September 30, 2012, OMHHF had \$27 million outstanding under the warehouse facility line at a variable interest rate of 1 month LIBOR plus 1.85%. Interest expense for the three and nine months ended September 30, 2012 was \$305,000 and \$705,000, respectively (\$332,000 and \$1.1 million, respectively, for the three and nine months ended September 30, 2011).

As discussed in note 6, Financial Instruments, the Company enters into TBA transactions to offset exposures related to commitments to provide funding for FHA loans at OMHHF. In the normal course of business, the Company may be exposed to the risk that counterparties to these TBAs are unable to fulfill their contractual obligations.

### 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 at September 30, 2012 and December 31, 2011:

#### As of September 30, 2012

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	\$ 1,995,924	\$ 317	\$ —	\$ —	\$ 317
Private Equity Funds	171,681	30	—	10	40
<b>Total</b>	<b>\$ 2,167,605</b>	<b>\$ 347</b>	<b>\$ —</b>	<b>\$ 10</b>	<b>\$ 357</b>

## As of December 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	\$ 1,668,508	\$ 393	\$ —	\$ —	\$ 393
Private Equity Funds	142,275	27	—	13	40
<b>Total</b>	<b>\$ 1,810,783</b>	<b>\$ 420</b>	<b>\$ —</b>	<b>\$ 13</b>	<b>\$ 433</b>

(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.

## 7. Long-term Debt

Expressed in thousands of dollars.

Issued	Maturity Date	September 30, 2012	December 31, 2011
Senior Secured Notes (a)	4/15/2018	\$ 195,000	\$ 195,000
Senior Secured Credit Note (b)	7/31/2013*	\$ —	\$ —
Subordinated Note (c)	1/31/2014*	\$ —	\$ —

\* Retired on April 12, 2011

(a) On April 12, 2011, the Company completed the private placement of \$200 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 is 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 Senior Secured Credit Note due 2013 (\$22.4 million) and the Subordinated Note due 2014 (\$100 million) and for other general corporate purposes. 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 was approximately \$4.6 million which was capitalized in the second quarter of 2011 and will be amortized over the period of the Notes. The Company wrote off \$344,000 in unamortized debt issuance costs related to the Senior Secured Credit Note during the second quarter of 2011. Additionally, as a result of the retirement of the Subordinated Note, the effective portion of the net loss of \$1.3 million related to the interest rate cap cash flow hedge was reclassified from accumulated other comprehensive income (loss) on the condensed consolidated balance sheet to interest expense in the condensed consolidated statement of operations during the second quarter of 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. At September 30, 2012, the Company was in compliance with all of its covenants.

On July 12, 2011, the Company's Registration Statement on Form S-4 filed to register the exchange of the Notes for fully registered Notes was declared effective by the SEC. The Exchange Offer was completed in its entirety on August 9, 2011.

In November 2011, the Company repurchased \$5.0 million of its Notes at a cost of \$4.7 million resulting in the recording of a gain of \$300,000 during the three months ending December 31, 2011.

On April 4, 2012, the Company's Registration Statement on Form S-3 filed to enable the Company to act as a market maker in connection with the Notes was declared effective by the SEC.

Interest expense on the Notes for the three and nine months ended September 30, 2012 was \$4.4 million and \$13.1 million, respectively (\$4.4 million and \$8.2 million, respectively, for the three and nine months ended September 30, 2011). Interest is due on the Notes semi-annually on April 15 and October 15.

- (b) 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 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.

The remaining principal balance of the Senior Secured Credit Note in the amount of \$22.4 million was repaid in full on April 12, 2011 in connection with the issuance of the Notes described in (a) above.

Interest expense, as well as interest paid, for the three and nine months ended September 30, 2011 on the Senior Secured Credit Note was \$nil and \$306,000, respectively.

- (c) 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 million and the Company issued a Subordinated Note to CIBC in the amount of \$100 million at a variable interest rate based on LIBOR. The purpose of this Subordinated Note was to support the capital requirements of the acquired business. In accordance with the Subordinated Note, the Company 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.

The principal balance of the Subordinated Note in the amount of \$100 million was repaid in full on April 12, 2011 in connection with the issuance of the Notes described in (a) above.

Interest expense, as well as interest paid, for the three and nine months ended September 30, 2011 on the Subordinated Note was \$nil and \$1.6 million, respectively.

## 8. Share Capital

The Company's authorized share capital consists of (a) 50,000,000 shares of Preferred Stock, par value \$0.001 per share; (b) 50,000,000 shares of Class A non-voting common stock, par value \$0.001 per share ("Class A Stock"); and (c) 99,680 shares of Class B voting common stock, par value \$0.001 per share ("Class B Stock"). No Preferred Stock has been issued. 99,680 shares of Class B Stock have been issued and are outstanding.

The Class A and the Class B Stock are equal in all respects except that the Class A Stock is non-voting.

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Class A Stock outstanding, beginning of period	13,489,162	13,568,945	13,572,265	13,268,522
Issued pursuant to the share-based compensation plans	40,850	2,000	57,647	302,423
Repurchased and cancelled pursuant to the stock buy-back	(15,000)	—	(114,900)	—
Class A Stock outstanding, end of period	<u>13,515,012</u>	<u>13,570,945</u>	<u>13,515,012</u>	<u>13,570,945</u>

### *Stock buy-back*

On October 7, 2011, the Company announced its intention to purchase up to 675,000 shares of its Class A Stock in compliance with the rules and regulations of the New York Stock Exchange and the Securities and Exchange Commission and the terms of its senior secured debt. The 675,000 shares represented approximately 5% of its then 13,572,265 issued and outstanding shares of Class A Stock. Any such purchases are being made by the Company in the open market at the prevailing open market price using cash on hand. All shares purchased will be cancelled. The repurchase program is expected to continue indefinitely. The repurchase program does not obligate the Company to repurchase any dollar amount or number of shares of Class A Stock. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice.

In the nine months ended September 30, 2012, the Company purchased and cancelled 114,900 shares of Class A Stock for total consideration of \$1.8 million (\$15.36 per share).

## 9. Commitments and Contingencies

The following supplements and amends our discussion set forth in Note 14 (“Commitments and Contingencies”) to item 8 of the Form 10-K filed by the Company for the year ended December 31, 2011. No other matters were reportable during the period ended September 30, 2012.

*Legal*—Many aspects of the Company’s business involve substantial risks of liability. In the normal course of business, the Company has been named as defendant or co-defendant in various legal actions, including arbitrations, class actions, and other litigation, creating substantial exposure. Certain of the actual or threatened legal matters include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. These proceedings arise primarily from securities brokerage, asset management and investment banking activities.

For legal proceedings where there is at least a reasonable possibility that a loss or an additional loss may be incurred, the Company estimates a range of aggregate loss in excess of amounts accrued of \$0 to approximately \$180.5 million at September 30, 2012, which has been reduced from an estimated range of \$0 to approximately \$247.5 million at December 31, 2011. This estimated aggregate range is based upon currently available information for those legal proceedings in which the Company is involved, where an estimate for such losses can be made. For certain cases, the Company does not believe that an estimate can currently be made. The foregoing estimate is based on various factors, including the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the numerous yet-unresolved issues in many of the proceedings and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Company’s estimate will change from time to time, and actual losses may be more than the current estimate.

## 10. Regulatory 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”) promulgated under Securities Exchange Act of 1934, as amended (the “Exchange Act”). 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 September 30, 2012, the net capital of Oppenheimer as calculated under the Rule was \$163.4 million or 14.63% of Oppenheimer's aggregate debit items. This was \$141.1 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 September 30, 2012, Freedom had net capital of \$4.8 million, which was \$4.5 million in excess of the \$250,000 required to be maintained at that date.

At September 30, 2012, Oppenheimer and Freedom had \$12.5 million and \$15.7 million, respectively, in cash and U.S. Treasury securities segregated under Federal and other regulations.

At September 30, 2012, the regulatory capital of Oppenheimer Europe Ltd. was \$4.2 million which was \$800,000 in excess of the \$3.4 million required to be maintained at that date. Oppenheimer Europe Ltd. computes its regulatory capital pursuant to the Fixed Overhead Method prescribed by the Financial Services Authority of the United Kingdom.

At September 30, 2012, the regulatory capital of Oppenheimer Investments Asia Ltd. was \$1.3 million, which was \$897,000 in excess of the \$387,000 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.

In accordance with the SEC's No-Action Letter dated November 3, 1998, the Company has computed a reserve requirement for the proprietary accounts of introducing firms as of September 30, 2012. The Company had no deposit requirements as of September 30, 2012.

### 11. 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.

### 12. Segment Information

The Company has determined its reportable segments based on the Company's method of internal reporting, which disaggregates its retail business by branch and its proprietary and investment banking businesses by product. The Company's segments are: Private Client which includes commission and fee income earned on client transactions, net interest earnings on client margin loans and cash balances, stock loan activities and financing activities; Capital Markets which includes investment banking, market-making activities in over-the-counter equities, institutional trading in both fixed income and equities, structured assets transactions, bond trading, trading in mortgage-backed securities, corporate underwriting activities, public finance activities, syndicate participation as well as the Company's operations in the United Kingdom, Hong Kong, and Israel; and Asset Management which includes fees from money market funds and the investment management services of Oppenheimer Asset Management Inc. and Oppenheimer's asset management divisions employing various programs to professionally manage client assets either in individual accounts or in funds. The Company evaluates the performance of its segments and allocates resources to them based upon profitability. 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 table below presents information about the reported revenue and profit (loss) before income taxes of the Company for the three months and nine months ended September 30, 2012 and 2011. Asset information by reportable segment is not reported, since the Company does not produce such information for internal use.

Expressed in thousands of dollars.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<b>Revenue:</b>				
Private Client (1)	\$132,847	\$128,154	\$403,307	\$413,117
Capital Markets	77,082	87,682	234,431	262,660
Asset Management (1)	21,909	15,783	65,459	53,777
<b>Total</b>	<b>\$231,838</b>	<b>\$231,619</b>	<b>\$703,197</b>	<b>\$729,554</b>
<b>Profit (loss) before income taxes:</b>				
Private Client (1)	\$ 5,700	\$ 4,528	15,798	\$ 18,868
Capital Markets	(5,252)	(2,097)	(23,942)	(14,045)
Asset Management (1)	4,810	1,833	14,752	10,974
<b>Total</b>	<b>\$ 5,258</b>	<b>\$ 4,264</b>	<b>6,608</b>	<b>\$ 15,797</b>

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

Revenue, classified by the major geographic areas in which it was earned for the three and nine months ended September 30, 2012 and 2011 was as follows:

Expressed in thousands of dollars.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
United States	\$222,226	\$219,545	\$670,339	\$691,107
Europe / Middle East	5,894	7,093	21,428	21,881
Asia	1,913	2,787	5,359	9,172
South America	1,805	2,194	6,071	7,394
<b>Total</b>	<b>\$231,838</b>	<b>\$231,619</b>	<b>\$703,197</b>	<b>\$729,554</b>

### 13. Subsequent Events

On October 25, 2012, the Company declared a cash dividend of \$0.11 per share (totaling \$1.5 million) payable on November 23, 2012 to Class A and Class B Stockholders of record on November 9, 2012.

In late October 2012, Hurricane Sandy made landfall in the Eastern United States causing widespread business disruption and dislocation as well as substantial damage to five states including in particular New York and New Jersey which has experienced severe flooding and damage to critical infrastructure, municipal transportation, and electric power. The Company occupies two office buildings, including the Company's headquarters, in Zone A in lower Manhattan that were ordered evacuated by order of New York City on Sunday, October 28th. The Company has relocated critical personnel to other Company locations. Many of the Company's employees located throughout the New York metropolitan area have also been affected, as has been their access to their place of work and their personal residence. The events described above are still unfolding and their ultimate effects will not be known for some time and, as a result, the Company cannot estimate how long the relocation will last or when the restoration of critical infrastructure, municipal transportation and electric power will occur. Although the Company believes that the current relocation will allow it to continue to operate its critical business functions, there can be no guarantee that the effects of Hurricane Sandy won't have a significant negative financial impact on the Company.

### 14. Supplemental Guarantor Consolidated Financial Statements (unaudited)

The Company's Notes are jointly and severally and fully and unconditionally guaranteed on a senior basis by E.A. Viner International Co. and Viner Finance Inc. (together, the "Guarantors"), unless released as described below. Each of the Guarantors is 100% owned by the Company. The following consolidating financial statements present the financial position, results of operations and cash flows of the Company (referred to as "Parent" for purposes of this note only), the Guarantor subsidiaries, the Non-Guarantor subsidiaries and elimination entries necessary to consolidate the Company. Investments in subsidiaries are accounted for using the equity method for purposes of the consolidated presentation.

Each Guarantor will be automatically and unconditionally released and discharged upon: the sale, exchange or transfer of the capital stock of a Guarantor and the Guarantor ceases to be a direct or indirect subsidiary of the Company if such sale does not constitute an asset sale under the indenture for the Notes or does not constitute an asset sale effected in compliance with the asset sale and merger covenants of the indenture for the Notes; a Guarantor being dissolved or liquidated; a Guarantor being designated unrestricted in compliance with the applicable provisions of the Notes; or the exercise by the Company of its legal defeasance option or covenant defeasance option or the discharge of the Company's obligations under the indenture for the Notes in accordance with the terms of such indenture.



**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2012**

<i>Expressed in thousands of dollars</i>	<u>Parent</u>	<u>Guarantor subsidiaries</u>	<u>Non-guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 607	\$ 22,440	\$ 70,137	\$ —	\$ 93,184
Cash and securities segregated for regulatory and other purposes	—	—	29,142	—	29,142
Deposits with clearing organizations	—	—	68,919	—	68,919
Receivable from brokers and clearing organizations	—	—	361,589	—	361,589
Receivable from customers, net of allowance for credit losses of \$2,240	—	—	785,176	—	785,176
Income taxes receivable	12,518	28,742	(417)	(34,746)	6,097
Securities purchased under agreements to resell	—	—	10,175	—	10,175
Securities owned, including amounts pledged of \$725,412, at fair value	—	12,278	1,029,312	—	1,041,590
Subordinated loan receivable	—	112,558	—	(112,558)	—
Notes receivable, net	—	—	49,332	—	49,332
Office facilities, net	—	14,615	13,613	—	28,228
Deferred tax asset	—	2,167	31,668	(33,835)	—
Intangible assets, net	—	—	32,345	—	32,345
Goodwill	—	—	137,889	—	137,889
Other	3,611	542	177,851	—	182,004
Investment in subsidiaries	505,970	895,795	(194,021)	(1,207,744)	—
Intercompany receivables	188,103	(107,210)	(44,286)	(36,607)	—
	<u>\$710,809</u>	<u>\$ 981,927</u>	<u>\$2,558,424</u>	<u>\$(1,425,490)</u>	<u>\$2,825,670</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Liabilities</b>					
Drafts payable	\$ —	\$ —	\$ 37,181	\$ —	37,181
Bank call loans	—	—	94,600	—	94,600
Payable to brokers and clearing organizations	—	—	251,695	—	251,695
Payable to customers	—	—	550,586	—	550,586
Securities sold under agreements to repurchase	—	—	778,427	—	778,427
Securities sold, but not yet purchased, at fair value	—	—	102,535	—	102,535
Accrued compensation	—	—	124,668	—	124,668
Accounts payable and other liabilities	8,128	43,994	123,569	(2,741)	172,950
Income taxes payable	2,440	19,951	10,118	(32,509)	—
Senior secured note	195,000	—	—	—	195,000
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred income tax, net	146	—	35,674	(33,835)	1,985
Excess of fair value of acquired assets over cost	—	—	7,020	—	7,020
Intercompany payables	—	36,603	—	(36,603)	—
	<u>205,714</u>	<u>100,548</u>	<u>2,228,631</u>	<u>(218,246)</u>	<u>2,316,647</u>
Stockholders' equity attributable to Oppenheimer Holdings Inc.	505,095	881,379	325,865	(1,207,244)	505,095
Noncontrolling interest	—	—	3,928	—	3,928
Stockholders' equity	<u>505,095</u>	<u>881,379</u>	<u>329,793</u>	<u>(1,207,244)</u>	<u>509,023</u>
	<u>\$710,809</u>	<u>\$ 981,927</u>	<u>\$2,558,424</u>	<u>\$(1,425,490)</u>	<u>\$2,825,670</u>

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING BALANCE SHEET (unaudited)**  
**AS OF DECEMBER 31, 2011**

<i>Expressed in thousands of dollars.</i>	<u>Parent</u>	<u>Guarantor subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,555	\$ 11,882	\$ 55,892	\$ —	\$ 70,329
Cash and securities segregated for regulatory and other purposes	—	—	30,086	—	30,086
Deposits with clearing organizations	—	—	35,816	—	35,816
Receivable from brokers and clearing organizations	—	20	288,093	—	288,113
Receivable from customers, net of allowance for credit losses of \$2,548	—	—	837,822	—	837,822
Income taxes receivable	6,785	30,942	(702)	(30,282)	6,743
Securities purchased under agreements to resell	—	—	847,688	—	847,688
Securities owned, including amounts pledged of \$653,651, at fair value	—	17,811	906,730	—	924,541
Subordinated loan receivable	—	112,558	—	(112,558)	—
Notes receivable, net	—	—	54,044	—	54,044
Office facilities, net	—	—	16,976	—	16,976
Deferred tax asset	(50)	309	21,130	(21,389)	—
Intangible assets, net	—	—	35,589	—	35,589
Goodwill	—	—	137,889	—	137,889
Other	4,055	1,533	236,215	—	241,803
Investment in subsidiaries	496,512	896,819	(199,063)	(1,194,268)	—
Intercompany receivables	199,387	(128,746)	(33,506)	(37,135)	—
	<u>\$709,244</u>	<u>\$ 943,128</u>	<u>\$3,270,699</u>	<u>\$(1,395,632)</u>	<u>\$3,527,439</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Liabilities</b>					
Drafts payable	\$ —	\$ —	\$ 51,848	\$ —	\$ 51,848
Bank call loans	—	—	27,500	—	27,500
Payable to brokers and clearing organizations	—	—	335,610	—	335,610
Payable to customers	—	—	479,896	—	479,896
Securities sold under agreements to repurchase	—	—	1,508,493	—	1,508,493
Securities sold, but not yet purchased, at fair value	—	—	69,415	—	69,415
Accrued compensation	—	—	144,283	—	144,283
Accounts payable and other liabilities	3,734	6,915	174,318	(298)	184,669
Income taxes payable	2,440	22,189	5,653	(30,282)	—
Senior secured note	195,000	—	—	—	195,000
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred income tax, net	—	(1,855)	33,546	(21,389)	10,302
Excess of fair value of acquired assets over cost	—	—	7,020	—	7,020
Intercompany payables	—	37,126	—	(37,126)	—
	<u>201,174</u>	<u>64,375</u>	<u>2,950,140</u>	<u>(201,653)</u>	<u>3,014,036</u>
Stockholders' equity attributable to Oppenheimer Holdings Inc.	508,070	878,753	315,226	(1,193,979)	508,070
Noncontrolling interest	—	—	5,333	—	5,333
Stockholders' equity	<u>508,070</u>	<u>878,753</u>	<u>320,559</u>	<u>(1,193,979)</u>	<u>513,403</u>
	<u>\$709,244</u>	<u>\$ 943,128</u>	<u>\$3,270,699</u>	<u>\$(1,395,632)</u>	<u>\$3,527,439</u>

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (unaudited)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

<i>Expressed in thousands of dollars</i>	<u>Parent</u>	<u>Guarantor subsidiaries</u>	<u>Non-guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE</b>					
Commissions	\$ —	\$ —	\$ 351,487	\$ —	\$ 351,487
Principal transactions, net	—	728	39,659	—	40,387
Interest	—	9,203	42,370	(9,111)	42,462
Investment banking	—	—	66,647	—	66,647
Advisory fees	—	—	158,683	(1,887)	156,796
Other	—	126	45,420	(128)	45,418
	<u>—</u>	<u>10,057</u>	<u>704,266</u>	<u>(11,126)</u>	<u>703,197</u>
<b>EXPENSES</b>					
Compensation and related expenses	335	—	461,181	—	461,516
Clearing and exchange fees	—	—	18,046	—	18,046
Communications and technology	57	—	47,289	—	47,346
Occupancy and equipment costs	—	—	59,405	(126)	59,279
Interest	13,125	—	21,851	(9,112)	25,864
Other	1,139	55	85,232	(1,888)	84,538
	<u>14,656</u>	<u>55</u>	<u>693,004</u>	<u>(11,126)</u>	<u>696,589</u>
Profit before income taxes	(14,656)	10,002	11,262	—	6,608
Income tax provision (benefit)	(5,630)	5,563	4,159	—	4,092
Net profit for the period	(9,026)	4,439	7,103	—	2,516
Less net profit attributable to non-controlling interest, net of tax	—	—	2,429	—	2,429
Equity in subsidiaries	9,113	—	—	(9,113)	—
Net profit attributable to Oppnheimer Holdings Inc.	<u>\$ 87</u>	<u>\$ 4,439</u>	<u>\$ 4,674</u>	<u>\$ (9,113)</u>	<u>\$ 87</u>
Comprehensive income (loss)	<u>\$ 1</u>	<u>—</u>	<u>\$ (475)</u>	<u>—</u>	<u>\$ (474)</u>

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (unaudited)**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012**

<i>Expressed in thousands of dollars</i>	<u>Parent</u>	<u>Guarantor subsidiaries</u>	<u>Non-guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE</b>					
Commissions	\$ —	\$ —	\$ 113,424	\$ —	\$ 113,424
Principal transactions, net	—	438	13,934	—	14,372
Interest	—	3,049	14,554	(2,780)	14,823
Investment banking	—	—	21,589	—	21,589
Advisory fees	—	—	53,645	(630)	53,015
Other	—	42	14,617	(44)	14,615
	<u>—</u>	<u>3,529</u>	<u>231,763</u>	<u>(3,454)</u>	<u>231,838</u>
<b>EXPENSES</b>					
Compensation and related expenses	123	—	151,846	—	151,969
Clearing and exchange fees	—	—	6,026	—	6,026
Communications and technology	13	—	15,867	—	15,880
Occupancy and equipment costs	—	—	17,568	(42)	17,526
Interest	4,375	(20)	7,268	(2,781)	8,842
Other	367	18	26,583	(631)	26,337
	<u>4,878</u>	<u>(2)</u>	<u>225,158</u>	<u>(3,454)</u>	<u>226,580</u>
Profit before income taxes	(4,878)	3,531	6,605	—	5,258
Income tax provision (benefit)	(1,720)	1,277	2,677	—	2,234
Net profit for the period	(3,158)	2,254	3,928	—	3,024
Less net profit attributable to non- controlling interest, net of tax	—	—	702	—	702
Equity in subsidiaries	5,480	—	—	(5,480)	—
Net profit attributable to Oppnheimer Holdings Inc.	<u>\$ 2,322</u>	<u>\$ 2,254</u>	<u>\$ 3,226</u>	<u>\$ (5,480)</u>	<u>\$ 2,322</u>
Comprehensive income (loss)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 180</u>	<u>\$ —</u>	<u>\$ 180</u>

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (unaudited)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

<i>Expressed in thousands of dollars.</i>	<u>Parent</u>	<u>Guarantor subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE</b>					
Commissions	—	—	380,912	—	380,912
Principal transactions, net	—	(1,698)	34,235	—	32,537
Interest	1	7,356	43,167	(6,925)	43,599
Investment banking	—	—	92,357	(1,000)	91,357
Advisory fees	—	—	151,015	(1,815)	149,200
Other	—	1	31,948	—	31,949
	<u>1</u>	<u>5,659</u>	<u>733,634</u>	<u>(9,740)</u>	<u>729,554</u>
<b>EXPENSES</b>					
Compensation and related expenses	221	—	479,581	—	479,802
Clearing and exchange fees	—	—	19,127	—	19,127
Communications and technology	45	—	47,101	—	47,146
Occupancy and equipment costs	—	—	56,047	—	56,047
Interest	8,167	3,438	23,993	(6,925)	28,673
Other	1,906	280	83,591	(2,815)	82,962
	<u>10,339</u>	<u>3,718</u>	<u>709,440</u>	<u>(9,740)</u>	<u>713,757</u>
Profit before income taxes	(10,338)	1,941	24,194	—	15,797
Income tax provision (benefit)	(4,444)	876	10,707	—	7,139
Net profit for the period	(5,894)	1,065	13,487	—	8,658
Less net profit attributable to non-controlling interest, net of tax	—	—	1,775	—	1,775
Equity in subsidiaries	12,777	—	—	(12,777)	—
Net profit attributable to Oppnheimer Holdings Inc.	<u>\$ 6,883</u>	<u>\$ 1,065</u>	<u>\$ 11,712</u>	<u>\$ (12,777)</u>	<u>\$ 6,883</u>
Comprehensive income (loss)	<u>\$ (27)</u>	<u>—</u>	<u>\$ (45)</u>	<u>—</u>	<u>\$ (72)</u>

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (unaudited)**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011**

<i>Expressed in thousands of dollars.</i>	<u>Parent</u>	<u>Guarantor subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE</b>					
Commissions	—	—	123,267	—	123,267
Principal transactions, net	—	(1,391)	9,624	—	8,233
Interest	1	2,937	14,937	(2,714)	15,161
Investment banking	—	—	29,199	—	29,199
Advisory fees	—	—	51,320	(624)	50,696
Other	—	—	5,063	—	5,063
	<u>1</u>	<u>1,546</u>	<u>233,410</u>	<u>(3,338)</u>	<u>231,619</u>
<b>EXPENSES</b>					
Compensation and related expenses	69	—	148,882	—	148,951
Clearing and exchange fees	—	—	6,514	—	6,514
Communications and technology	24	—	15,114	—	15,138
Occupancy and equipment costs	—	—	18,977	—	18,977
Interest	4,375	11	8,558	(2,714)	10,230
Other	360	18	27,791	(624)	27,545
	<u>4,828</u>	<u>29</u>	<u>225,836</u>	<u>(3,338)</u>	<u>227,355</u>
Profit before income taxes	(4,827)	1,517	7,574	—	4,264
Income tax provision (benefit)	(2,252)	610	3,447	—	1,805
Net profit for the period	(2,575)	907	4,127	—	2,459
Less net profit attributable to non-controlling interest, net of tax	—	—	353	—	353
Equity in subsidiaries	4,681	—	—	(4,681)	—
Net profit attributable to Oppnheimer Holdings Inc.	<u>\$ 2,106</u>	<u>\$ 907</u>	<u>\$ 3,774</u>	<u>\$ (4,681)</u>	<u>\$ 2,106</u>
Comprehensive income (loss)	<u>\$ (26)</u>	<u>—</u>	<u>\$ (1,487)</u>	<u>—</u>	<u>\$ (1,513)</u>

**OPPNEHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (unaudited)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

<i>Expressed in thousands of dollars</i>	<u>Parent</u>	<u>Guarantor subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Cash flows from operations:</b>					
Net income (loss) for the period	\$ (9,026)	\$ 4,439	\$ 7,103	\$ —	\$ 2,516
Adjustments to reconcile net profit (loss) to net cash used in operating activities:					
Depreciation and amortization	—	—	8,019	—	8,019
Deferred income tax	—	—	(8,317)	—	(8,317)
Amortization of notes receivable	—	—	14,679	—	14,679
Amortization of debt issuance costs	479	—	—	—	479
Amortization of intangible assets	—	—	3,244	—	3,244
Provision for credit losses	—	—	(308)	—	(308)
Share-based compensation expense	—	—	3,030	—	3,030
Changes in operating assets and liabilities	<u>12,991</u>	<u>6,119</u>	<u>(67,915)</u>	<u>—</u>	<u>(48,805)</u>
<b>Cash flow provided by (used in) continuing operations</b>	<b><u>4,444</u></b>	<b><u>10,558</u></b>	<b><u>(40,465)</u></b>	<b><u>—</u></b>	<b><u>(25,463)</u></b>
<b>Cash flows from Investment activities</b>					
Purchase of office facilities	—	—	(12,390)	—	(12,390)
<b>Cash used in investing activities</b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>(12,390)</u></b>	<b><u>—</u></b>	<b><u>(12,390)</u></b>
<b>Cash flows from financing activities</b>					
Cash dividends paid on Class A non-voting and Class B voting common stock	(4,489)	—	—	—	(4,489)
Issuance of Class A non-voting common stock	—	—	—	—	—
Repurchase of Class A non-voting common stock	(1,766)	—	—	—	(1,766)
Tax benefit (shortfall) from shared based compensation	(137)	—	—	—	(137)
Debt Issuance Cost	—	—	—	—	—
Issuance of senior secured note	—	—	—	—	—
Buy back of senior secured note	—	—	—	—	—
Repayments of senior secured credit note	—	—	—	—	—
Repayments of senior secured credit note	—	—	—	—	—
Other financing activities	—	—	67,100	—	67,100
<b>Cash flow provided by (used in) financing activities</b>	<b><u>(6,392)</u></b>	<b><u>—</u></b>	<b><u>67,100</u></b>	<b><u>—</u></b>	<b><u>60,708</u></b>
Net increase (decrease) in cash and cash equivalents	(1,948)	10,558	14,245	—	22,855
Cash and cash equivalents, beginning of the period	2,555	11,882	55,892	—	70,329
<b>Cash and cash equivalents, end of the period</b>	<b><u>\$ 607</u></b>	<b><u>\$ 22,440</u></b>	<b><u>\$ 70,137</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 93,184</u></b>

**OPPNEHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (unaudited)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

<i>Expressed in thousands of dollars</i>	<u>Parent</u>	<u>Guarantor subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Cash flows from operations:</b>					
Net income (loss) for the period	\$ (5,894)	\$ 1,065	\$ 13,487	\$ —	\$ 8,658
Adjustments to reconcile net profit (loss) to net cash used in operating activities:					
Depreciation and amortization			9,299	—	9,299
Deferred income tax	(93)	(1,890)	4,436	—	2,453
Amortization of notes receivable	—	—	15,103	—	15,103
Amortization of debt issuance costs	734	—	—	—	734
Amortization of intangible assets	—	—	3,244	—	3,244
Provision for credit losses	—	—	(317)	—	(317)
Share-based compensation expense	—	—	118	—	118
Changes in operating assets and liabilities	(176,292)	19,294	172,206	—	15,208
<b>Cash flow provided by (used in) continuing operations</b>	<b>(181,545)</b>	<b>18,469</b>	<b>217,576</b>	<b>—</b>	<b>54,500</b>
<b>Cash flows from Investment activities</b>					
Purchase of office facilities	—	—	(3,865)	—	(3,865)
<b>Cash used in investing activities</b>	<b>—</b>	<b>—</b>	<b>(3,865)</b>	<b>—</b>	<b>(3,865)</b>
<b>Cash flows from financing activities</b>					
Cash dividends paid on Class A non-voting and Class B voting common stock	(4,506)	—	—	—	(4,506)
Issuance of Class A non-voting common stock	337	—	—	—	337
Tax benefit (shortfall) from shared based compensation	(1,621)	—	—	—	(1,621)
Senior Secured Note Issuance	200,000	—	—	—	200,000
Subordinated note Repayment	—	—	(100,000)	—	(100,000)
Senior secured credit note Repayment	—	—	(22,503)	—	(22,503)
Other financing activities	—	—	(87,700)	—	(87,700)
<b>Cash flow provided by (used in) financing activities</b>	<b>194,210</b>	<b>—</b>	<b>(210,203)</b>	<b>—</b>	<b>(15,993)</b>
Net increase (decrease) in cash and cash equivalents	12,665	18,469	3,508	—	34,642
Cash and cash equivalents, beginning of the period	361	(241)	52,734	—	52,854
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 13,026</b>	<b>\$ 18,228</b>	<b>\$ 56,242</b>	<b>\$ —</b>	<b>\$ 87,496</b>



## **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, 2011.

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 September 30, 2012, the Company provided its services from over 94 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 September 30, 2012 totaled approximately \$77.4 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. At September 30, 2012, client assets under fee-based programs offered by the asset management groups totaled approximately \$21.1 billion. 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 September 30, 2012, the Company employed 3,535 employees (3,468 full time and 67 part time), of whom approximately 1,423 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, 2011. 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 September 30, 2012, there were no material changes to matters discussed under the heading “Critical Accounting Estimates” in Part II, Item 7 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

### **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 revenue and net income due to these and other factors.

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 OMHHF as well as its business in non-U.S. markets.

Recent events have caused increased review and scrutiny of the methods utilized by financial service companies to finance their short term requirements for liquidity. The Company utilizes commercial bank loans, securities lending, and repurchase agreements (through overnight, term, and repo-to-maturity transactions) to finance its short term liquidity needs (see "Liquidity"). All repurchase agreements and reverse repurchase agreements are collateralized by short term U.S. Government obligations and U.S. Government Agency obligations. At September 30, 2012, the Company did not have any repo-to-maturity transactions outstanding. In its commodity business, the Company holds all client segregated funds in cash on deposit in commercial bank segregated accounts or in short term securities issued by the U.S. Government.

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 2008. Clients of the Company continue to 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 did not act as an auction agent 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" appearing in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and "Factors Affecting 'Forward-Looking Statements'".

### **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 in the United States. Events in the early 2000's 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. The resulting 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 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, but rules adopted in the U.S. and the United Kingdom will likely 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. Recently, the SEC postponed indefinitely the planning and implementation of uniform fiduciary standard for broker-dealer activities. 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.

Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds (the “Volcker Rule”) was published by the U.S. Federal Reserve Board as required by Dodd-Frank in 2011. The Volcker Rule is intended to restrict U.S. banks and other financial institutions that accept deposits from conducting proprietary trading activities, as well as investing in hedge funds and private equity funds for their own account. The intent of the Volcker Rule is to reduce risk to the capital of such institutions through reducing speculation and risk-taking with bank capital. The draft form of the proposed rule was exposed for comment until January 13, 2012 and is scheduled to become effective on July 21, 2014. It seems likely that additional comments will be permitted surrounding the impact of the Volcker Rule on market liquidity and importantly on the liquidity of issued sovereign debt in Europe and Asia. While it is widely expected that the impact of the Volcker Rule may significantly impact the liquidity in various capital markets, the effect cannot be predicted with any certainty. The Company believes that the Volcker Rule will not directly affect its operations, but indirect effects cannot be predicted with any certainty. Additionally, the Federal Reserve in conjunction with other U.S regulatory organizations has analyzed the U.S. financial system and the impact that might result from the failure of one or more “Strategically Important Financial Institutions” (“SIFI”). To date, less than 25 such institutions have been identified and will be made subject to special regulations including the requirement to create a plan for their orderly demise in the event of a failure. The identification process has not been completed and is subject to appeal by the affected institutions. The Company has no reason to believe that it will be identified as a SIFI. Recent revelations around the fixing of the LIBOR (“London Interbank Offered Rate”) during the period from 2008-2010 make it likely that more regulation surrounding the fixing of interest rates on commercial bank loans and reference rates on derivatives is likely.

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.

### *Other Regulatory Matters*

For several quarters, Oppenheimer has been responding to information requests from the Enforcement Staff of FINRA regarding Oppenheimer's policies and procedures in relation to, and the activities of several financial advisors concerning, the sale of low-priced securities. The Company has responded to numerous document requests and there has been on-the-record testimony given by present and former financial advisors and supervisory personnel who work or worked in several of Oppenheimer's branch offices as well as its New York headquarters in connection with this inquiry.

On June 23, 2011, Oppenheimer received notice of an investigation by the SEC pursuant to which the SEC requested information from the Company regarding the sale of a number of low-priced securities effected primarily through one of Oppenheimer's financial advisors. The Company has responded to numerous document requests and there has been on-the-record testimony given by personnel who work in at least one of Oppenheimer's branch offices as well as its New York headquarters in connection with this inquiry.

Oppenheimer is continuing to cooperate with the investigating entities and will continue to closely monitor the activities of its financial advisors and their supervisors in relation to the sale of low-priced securities.

Since October 2011, Oppenheimer and OAM have been responding to information requests from the SEC and the Attorney General of the Commonwealth of Massachusetts regarding an alleged overvaluation in the fall of 2009 of a single portfolio holding in the Oppenheimer Global Resource Private Equity Fund L.P. ("OGRPE") as well as certain marketing practices associated with OGRPE that occurred during the same time period. Oppenheimer and OAM have responded to document requests and there has been on-the-record testimony given by members of OAM's private equity group as well as supervisory personnel.

On February 24, 2012, Oppenheimer and OAM received notice from the United States Attorney's Office for Massachusetts (Boston, "USAMA") that it intends to seek information from Oppenheimer and OAM regarding the foregoing matters. On March 29, 2012, the USAMA served a subpoena on OGRPE regarding the issues described above.

Oppenheimer, OAM and OGRPE intend to continue to cooperate with the investigating entities.

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 ARS. Pursuant to those settlements and legal settlements, as of September 30, 2012, the Company purchased and holds approximately \$79.6 million in ARS from its clients pursuant to several purchase offers and legal settlements. The Company's purchases of ARS from its clients will continue on a periodic basis pursuant to the settlements with the Regulators. In addition, the Company is committed to purchase another \$40.5 million in ARS from clients through 2016. See "Legal Proceedings-Auction Rate Securities Matters" herein. 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 legal and other actions by clients during the relevant period, which cannot be predicted. The Company also held \$150,000 in ARS in its proprietary trading account as of September 30, 2012 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.

The Company's clients held at Oppenheimer approximately \$231.7 million of ARS at September 30, 2012, exclusive of amounts that (1) were owned by Qualified Institutional Buyers ("QIBs"), (2) were transferred to the Company after February 2008, (3) were purchased by clients after February 2008, or (4) were transferred from the Company to other securities firms after February 2008. Of the \$231.7 million of ARS referred to above, the Company has committed to repurchase \$45.1 million as a result of legal settlements, resulting in a net number of client assets not subject to a legal settlement repurchase commitment of \$186.6 million. See "Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" appearing in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and "Legal Proceedings" herein.

#### *Other Matters*

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 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.

#### **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 exceed historic levels due to business and regulatory requirements. This investment 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. The recent move to new headquarters will require additional outlays for this purpose although considerable savings will be realized by the availability of independent electric generating capacity for the entire building which will support the Company's infrastructure and occupancy.

In late October 2012, Hurricane Sandy made landfall in the Eastern United States causing widespread business disruption and dislocation as well as substantial damage to five states including in particular New York and New Jersey which has experienced severe flooding and damage to critical infrastructure, municipal transportation, and electric power. The Company occupies two office buildings, including the Company's headquarters, in Zone A in lower Manhattan that were ordered evacuated by order of New York City on Sunday, October 28th. The Company has relocated critical personnel to other Company locations. Many of the Company's employees located throughout the New York metropolitan area have also been affected, as has been their access to their place of work and their personal residence. The events described above are still unfolding and their ultimate effects will not be known for some time and, as a result, the Company cannot estimate how long the relocation will last or when the restoration of critical infrastructure, municipal transportation and electric power will occur. Although the Company believes that the current relocation will allow it to continue to operate its critical business functions, there can be no guarantee that the effects of Hurricane Sandy won't have a significant negative financial impact on the Company.

## **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 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 \$2.3 million or \$0.17 per share for the third quarter of 2012 compared to a net profit of \$2.1 million or \$0.15 per share in the third quarter of 2011. Revenue for the third quarter of 2012 was \$231.8 million compared to revenue of \$231.6 million in the third quarter of 2011.

The Company reported a net profit for the nine months ended September 30, 2012 of \$87,000 or \$0.01 per share compared to a net profit of \$6.9 million or \$0.51 per share in the same period of 2011. Revenue for the nine months ended September 30, 2012 was \$703.2 million, a decrease of 3.6% compared to \$729.6 million in the same period of 2011. The results for the nine months ended September, 30 2012 were negatively impacted by costs associated with auction rate securities (litigation costs and valuation adjustments to auction rate securities the Company has purchased or committed to purchase at a future date) of \$10.2 million and the New York City real estate consolidation of \$6.6 million.

While many of the cash expenses associated with the Company's move to its new headquarters in New York City have been reimbursed by the landlord, the required accounting treatment resulted in a significant negative impact to earnings of \$6.7 million for the first nine months of the year. In addition, costs of \$10.2 million resulting from the failure of the auction rate securities (ARS) market in 2008 had a significant impact on the first nine months of 2012. The impact arises from valuing ARS previously purchased and those committed to be purchased from clients as well the costs associated with resolving numerous ARS arbitrations that were pending. When the Company makes a decision to resolve these or any other ARS cases, it does so with the intent of resolving them with the least possible risk to the Company and at the lowest cost. The Company resolved four ARS cases in the third quarter of 2012 and twenty-two cases in the first nine months of 2012. These settlements were made at a cost that was substantially less than the amounts claimed in these cases and provides certainty of outcome for the Company. Such costs include both settlement costs, legal costs and liquidity allowances for commitments associated with purchasing ARS from plaintiffs over the next few years.

Client assets entrusted to the Company and under management totaled approximately \$77.4 billion while client assets under fee-based programs offered by the asset management groups totaled approximately \$21.1 billion at September 30, 2012 (\$77.3 billion and \$17.7 billion, respectively, at September 30, 2011). Client assets under administration increased by less than 0.1% while assets under fee-based programs increased 19.2% at September 30, 2012 compared to September 30, 2011.

While uncertainty about the economy persists, including concerns about the looming “fiscal cliff”, the likelihood of increased taxes and continuing sovereign debt issues in Europe, the U.S. equity markets continue to perform remarkably well with most barometers hitting their 2007 levels for the first time in five years. High levels of unemployment and the slow recovery in housing has put pressure on consumer confidence and consumer spending. Credit concerns and concerns about a slow-down in the Euro-zone and in China have kept U.S. treasury interest rates at or near their record lows, and while the European Central Bank has committed to save the Euro and to take all necessary action, the lack of concrete plans continues to impact investor sentiment and forced the U.S. Federal Reserve to launch its third campaign of quantitative easing, and to extend the period of record low short term interest rates through the end of 2015. This consistent drumbeat of news held down investor activity and held down Oppenheimer’s revenues during the third quarter and this impact on revenue, combined with ongoing costs associated with litigation is reflected in the low operating results during the third quarter.

The Company derives most of its revenue from the operations of its principal subsidiaries, Oppenheimer and OAM. Although separate legal entities, the operations of the Company's brokerage subsidiaries both in the U.S. and other countries are closely related because Oppenheimer acts as clearing broker and omnibus clearing agent in transactions initiated by these subsidiaries. Except as expressly otherwise stated, the discussion below pertains to the operations of Oppenheimer.

The following table and discussion summarizes the changes in the major revenue and expense categories for the three and nine months ended September 30, 2012 compared to the same period in 2011.

Amounts are expressed in thousands of dollars.

	Three months ended September 30, 2012		Nine months ended September 30, 2012	
	Period to period change	Percentage change	Period to period change	Percentage change
Revenue -				
Commissions	\$(9,843)	-8.0%	\$(29,425)	-7.7%
Principal transactions, net	6,139	74.6%	7,850	24.1%
Interest	(338)	-2.2%	(1,137)	-2.6%
Investment banking	(7,610)	-26.1%	(24,710)	-27.0%
Advisory fees	2,319	4.6%	7,596	5.1%
Other	9,552	188.7%	13,469	42.2%
Total revenue	219	0.1%	(26,357)	-3.6%

	Three months ended September 30, 2012		Nine months ended September 30, 2012	
	Period to period change	Percentage change	Period to period change	Percentage change
<b>Expenses -</b>				
Compensation and related expenses	3,018	2.0%	\$(18,286)	-3.8%
Clearing and exchange fees	(488)	-7.5%	(1,081)	-5.7%
Communications and technology	742	4.9%	200	0.4%
Occupancy and equipment costs	(1,451)	-7.6%	3,232	5.8%
Interest	(1,388)	-13.6%	(2,809)	-9.8%
Other	(1,208)	-4.4%	1,576	1.9%
Total expenses	(775)	-0.3%	(17,168)	-2.4%
Profit (loss) before income taxes	994	23.3%	(9,189)	-58.2%
Income tax provision (benefit)	429	23.8%	(3,047)	-42.7%
Net profit (loss)	565	23.0%	(6,142)	-70.9%
Net profit attributable to non-controlling interest, net of tax	349	98.9%	654	36.8%
Net profit (loss) attributable to the Company	\$ 216	10.3%	\$ (6,796)	-98.7%

Highlights of the Company's results for the three and nine months ended September 30, 2012 follow:

### Revenue and Expenses

#### Revenue—Third Quarter 2012

- Commission revenue was \$113.4 million for the third quarter of 2012, a decrease of 8.0% compared to \$123.3 million in the third quarter of 2011. Weak investor confidence contributed to the decline.
- Principal transactions revenue was \$14.4 million in the third quarter of 2012, an increase of 74.6% compared to \$8.2 million in the third quarter of 2011 primarily due to an increase of \$5.6 million in the value of the Company's investments in the third quarter of 2012 compared to the same period in 2011.
- Interest revenue was \$14.8 million in the third quarter of 2012, a decrease of 2.2% compared to \$15.2 million in the third quarter of 2011. The decrease is primarily attributable to a \$2.0 million increase in other interest revenue earned in the third quarter of 2011 on a disputed fee related to a 2008 investment banking transaction.
- Investment banking revenue was \$21.6 million in the third quarter of 2012, a decrease of 26.1% compared to \$29.2 million in the third quarter of 2011 attributable to a marked decline in income from equity issuances in the third quarter of 2012 compared to the same period in 2011 as the markets were largely closed to equity issuers during the 2012 period.
- Advisory fees were \$53.0 million in the third quarter of 2012, an increase of 4.6% compared to \$50.7 million in the third quarter of 2011. Asset management fees increased by \$1.7 million in the third quarter of 2012 compared to the same period in 2011 as a result of an increase in the value of assets under management of 2% during the six months ended June 30, 2012 compared to the same period in 2011. Asset management fees are calculated based on client assets under management at the end of the prior quarter which totaled \$20.1 billion at June 30, 2012 (\$19.7 billion at June 30, 2011).



- Other revenue was \$14.6 million in the third quarter of 2012, an increase of 188.7% compared to \$5.1 million in the third quarter of 2011 partly as a result of a \$2.9 million increase in fees generated from Oppenheimer Multifamily Housing & Healthcare Finance, Inc. (“OMHHF”) in the third quarter of 2012 compared to the same period in 2011. This increase was augmented by a \$6.1 million increase in the mark-to-market value of Company-owned life insurance policies that relate to our employee deferred compensation programs (which was largely offset by an increase in employee compensation liabilities and expense).

#### Revenue – Year-to-date 2012

- Commission revenue was \$351.5 million for the nine months ended September 30, 2012, a decrease of 7.7% compared to \$380.9 million in the same period of 2011. Low transaction volumes in the 2012 period contributed to the decline.
- Principal transactions revenue was \$40.4 million in the nine months ended September 30, 2012, an increase of 24.1% compared to \$32.5 million in the same period of 2011 primarily due to an increase of \$6.5 million in the value of the Company’s investments in the third quarter of 2012 compared to the same period in 2011.
- Interest revenue was \$42.5 million in the nine months ended September 30, 2012, a decrease of 2.6% compared to \$43.6 million in the same period of 2011. The decrease was a result of lower interest of \$1.1 million from client debit balances as well as a \$2.0 million increase in other interest revenue earned in the third quarter of 2011 on a disputed fee related to a 2008 investment banking transaction which was offset by an increase of \$2.7 million in interest earned on government and agency positions.
- Investment banking revenue was \$66.6 million in the nine months ended September 30, 2012, a decrease of 27.0% compared to \$91.4 million in the same period of 2011 attributable to a marked decline in income from equity issuances in the nine months ended September 30, 2012 compared to the same period in 2011 as the markets were largely closed to equity issuers during the 2012 period.
- Advisory fees were \$156.8 million in the nine months ended September 30, 2012, an increase of 5.1% compared to \$149.2 million in the same period of 2011. Asset management fees increased by \$6.4 million in the nine months ended September 30, 2012 compared to the same period in 2011 as a result of an increase in the value of assets under management during the 2012 period.
- Other revenue was \$45.4 million in the nine months ended September 30, 2012, an increase of 42.2% compared to \$31.9 million in the same period of 2011 partly as a result of a \$6.3 million increase in fees generated from OMHHF in the nine months ended September 30, 2012 compared to the same period in 2011. This increase was augmented by a \$6.9 million increase in the mark-to-market value of Company-owned life insurance policies that relate to our employee deferred compensation programs (which was largely offset by an increase in employee compensation liabilities and expense).

#### Expenses – Third Quarter 2012

- Compensation and related expenses were \$152.0 million in the third quarter of 2012, an increase of 2.0% compared to \$149.0 million in the same period of 2011. Stock-based compensation increased \$3.4 million in the third quarter of 2012 compared to the third quarter of 2011, primarily due to that portion of stock-based compensation that tracks the Company’s stock price. The significant decline in the Company’s stock price for the three months ended September 30, 2011 resulted in a credit to stock-based compensation expense of \$3.5 million. The modest decline in the Company’s stock price for the three months ended September 30, 2012 resulted in a credit to stock-based compensation expense of \$149,000.

- Clearing and exchange fees were \$6.0 million in the third quarter of 2012, a decrease of 7.5% compared to \$6.5 million in the same period of 2011 due to lower trade execution costs and floor brokerage fees.
- Communications and technology expenses were \$15.9 million in the third quarter of 2012, an increase of 4.9% compared to \$15.1 million in the same period of 2011 due to higher costs of information technology which were partially offset by lower telecommunications costs in the third quarter of 2012 compared to the same period in 2011.
- Occupancy and equipment costs were \$17.5 million in the third quarter of 2012, a decrease of 7.6% compared to \$19.0 million in the same period of 2011 due primarily to the acceleration of amortization in conjunction with the move to the Company's new headquarters in 2011.
- Interest expense was \$8.8 million in the third quarter of 2012, a decrease of 13.6% compared to \$10.2 million in the same period in 2011 primarily due to a \$1.0 million decrease in interest expense relating to the Company's government trading activities.
- Other expenses were \$26.3 million in the third quarter of 2012, a decrease of 4.4% compared to \$27.5 million in the same period in 2011 primarily due to a decrease of \$1.2 million in legal and settlement costs as well as savings on travel and entertainment costs in the third quarter of 2012 compared to the same period in 2011.

#### Expenses – Year-to-date 2012

- Compensation and related expenses were \$461.5 million in the nine months ended September 30, 2012, a decrease of 3.8% compared to \$479.8 million in the same period of 2011. Variable compensation relating to revenue has decreased with the decrease in revenue.
- Clearing and exchange fees were \$18.0 million in the nine months ended September 30, 2012, a decrease of 5.7% compared to \$19.1 million in the same period of 2011 due to lower trade execution costs and floor brokerage fees.
- Communications and technology expenses were \$47.3 million in the nine months ended September 30, 2012, an increase of 0.4% compared to \$47.1 million in the same period of 2011.
- Occupancy and equipment costs were \$59.3 million in the nine months ended September 30, 2012, an increase of 5.8% compared to \$56.0 million in the same period of 2011. The Company's New York City real estate consolidation resulted in additional costs of \$6.6 million during the nine months ended September 30, 2012 from overlapping rent, accelerated amortization of fixed and intangible assets and relocation costs.
- Interest expense was \$25.9 million in the nine months ended September 30, 2012, a decrease of 9.8% compared to \$28.7 million in the same period in 2011 primarily due to a loss of \$1.6 million on the Company's interest rate cap which had hedged a subordinated loan and was reclassified from other comprehensive income into interest expense in the nine months ended September 30, 2011 as well as a \$1.5 million decrease in interest expense relating to the Company's government trading activities in the nine months ended September 30, 2012 compared to the same period in 2011.

- Other expenses were \$84.5 million in the nine months ended September 30, 2012, an increase of 1.9% compared to \$83.0 million in the same period in 2011 primarily due to an increase in fees paid to third party portfolio managers of \$5.4 million in the nine months ended September 30, 2012 compared to the same period in 2011 and offset by a decrease of \$1.1 million in legal and settlement costs.
- During the second quarter of 2012, the Company recorded adjustments of \$1.3 million, net of taxes, related to prior periods to establish additional reserves for taxes and adjust related interest.

### **Liquidity and Capital Resources**

Total assets at September 30, 2012 decreased by 19.9% from December 31, 2011 levels due in large part to the Company's reduction of its inventory of government and agency securities. 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, uncommitted lines of credit, and warehouse facilities. The Company finances its trading in government securities through the use of repurchase agreements. The Company's longer-term capital needs have been met through the issuance of the Notes (see "Refinancing" below). 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 notes receivable from employees, investment in office facilities, changes in stock loan balances and financing through repurchase agreements. The Company believes that such availability will continue going forward but current conditions in the worldwide 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 September 30, 2012, the Company had \$94.6 million of such borrowings outstanding compared to outstanding borrowings of \$27.5 million at December 31, 2011. The Company also has limited availability of short-term bank financing on an unsecured basis.

Volatility in the financial markets, and the continuance of credit and sovereign debt issues throughout the World, 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, a few lenders have reduced and, in some cases, ceased to provide funding to the Company on both a secured and unsecured basis. As of September 30, 2012, the Company did not have any exposure to European sovereign debt.

On August 5, 2011, Standard & Poor's lowered its long term sovereign credit rating on the United States of America from AAA to AA+. On February 22, 2012, Moody's announced that it was reviewing for downgrade the ratings of North American bank subsidiaries of European banks. Moody's is also reviewing for possible downgrade various U.S. banks and financial institutions. In recent weeks, Moody's reduced the credit ratings of various large financial institutions both in the U.S. and in Europe. Moody's has announced that its reviews are ongoing. There is no assurance that the credit rating of the Company may not also be affected by these reviews by credit agencies. Credit agencies have also reduced the credit ratings of various sovereign nations in recent months. While the ultimate impact of such actions is inherently unpredictable, these downgrades could have a material adverse impact on financial markets and economic conditions throughout the World, including, specifically, the United States. Moreover, the market's anticipation of these impacts could have a material adverse effect on our business, financial condition and liquidity. The negative impact that may result from these downgrades or any future downgrade could adversely affect our credit ratings, as well as those of our clients and/or counterparties and could require us to post additional collateral on loans collateralized by U.S. Treasury securities. The unprecedented nature of these and any future negative credit rating actions with respect to U.S. government obligations and the credit ratings of other sovereign nations may have an impact on our business, financial condition and liquidity. See Item 1A "Risk Factors- The recent downgrade of U.S. long term sovereign debt obligations and issues affecting the sovereign debt of European nations may adversely affect markets and our business" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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 ARS. Pursuant to those settlements and legal settlements, as of September 30, 2012, the Company purchased and holds approximately \$79.6 million in ARS from its clients pursuant to several purchase offers and legal settlements. The Company's purchases of ARS from its clients will continue on a periodic basis pursuant to the settlements with the Regulators. In addition, the Company is committed to purchase another \$40.5 million in ARS from clients through 2016. See "Legal Proceedings-Auction Rate Securities Matters" herein. 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 legal and other actions by clients during the relevant period, which cannot be predicted. In addition to the ARS held pursuant to purchases from clients of \$79.6 million as of September 30, 2012 referred to above, the Company also held \$150,000 in ARS in its proprietary trading account as of September 30, 2012 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.

### *Refinancing*

On April 12, 2011, the Company completed the private placement of \$200 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 is 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 Senior Secured Credit Note due 2013 (\$22.4 million) and the Subordinated Note due 2014 (\$100 million) and for other general corporate purposes. 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 was approximately \$4.6 million which was capitalized in the second quarter of 2011 and will be amortized over the period of the Notes. The Company wrote off \$344,000 in unamortized debt issuance costs related to the Senior Secured Credit Note during the second quarter of 2011. Additionally, as a result of the retirement of the Subordinated Note, the effective portion of the net loss of \$1.3 million related to the interest rate cap cash flow hedge was reclassified from accumulated other comprehensive income (loss) on the condensed consolidated balance sheet to interest expense in the condensed consolidated statement of operations during the second quarter of 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. At September 30, 2012, the Company was in compliance with all of its covenants.

On July 12, 2011, the Company's Registration Statement on Form S-4 filed to register the exchange of the Notes for fully registered Notes was declared effective by the SEC. The Exchange Offer was completed in its entirety on August 9, 2011.

In November, 2011, the Company repurchased \$5.0 million of its Notes at a cost of \$4.7 million resulting in the recording of a gain during the three month period ended December 31, 2011 of \$300,000.

On April 4, 2012, the Company's Registration Statement on Form S-3 filed to enable the Company to act as a market maker in connection with the Notes was declared effective by the SEC.

Interest expense on the Notes for the three and nine months ended September 30, 2012 was \$4.4 million and \$13.1 million, respectively (\$4.4 million and \$8.2 million, respectively for the three and nine months ended September 30, 2011). Interest is due on the Notes semi-annually on April 15 and October 15.

## **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 represents 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 \$2.3 million in forgivable notes, net, to financial advisors (which are inherently illiquid) for the three months ended September 30, 2012 (\$1.1 million for the three months ended September 30, 2011) 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 and warehouse facilities. 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 not exceeding the broker call rate. At September 30, 2012, bank call loans were \$94.6 million (\$27.5 million at December 31, 2011 and \$59.3 million at September 30, 2011). The average bank loans outstanding for the three and nine months ended September 30, 2012 were \$46.3 million and \$65.6 million, respectively (\$84.8 million and \$108.8 million, respectively, for the three and nine months ended September 30, 2011). The largest bank loan outstanding for the three and nine months ended September 30, 2012 was \$109.5 million and \$158.6 million, respectively (\$237.8 million and \$240.1 million, respectively, for the three and nine months ended September 30, 2011). The weighted average interest rate on bank call loans applicable on September 30, 2012 was 1.27%.

At September 30, 2012, stock loan balances totaled \$219.2 million (\$318.8 million at December 31, 2011 and \$289.3 million at September 30, 2011). The average daily stock loan balance for the three and nine months ended September 30, 2012 was \$270.4 million and \$312.1 million, respectively (\$299.8 million and \$359.3 million, respectively, for the three and nine months ended September 30, 2011). The largest stock loan balance for the three and nine months ended September 30, 2012 was \$313.9 million and \$400.5 million, respectively (\$335.8 million and \$471.9 million, respectively, for the three and nine months ended September 30, 2011).

The Company finances its government trading operations through the use of securities purchased under agreement to repurchase (“repurchase agreements”) and securities sold under agreement to resell (“reverse repurchase agreements”). Except as described below, repurchase and reverse repurchase 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 reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, the securities underlying the repurchase and reverse repurchase agreements exist in “book entry” form and certain other requirements are met.

Certain of the Company’s repurchase agreements and reverse repurchase agreements are carried at fair value as a result of the Company’s fair value option election. The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date or that are not accounted for as purchase and sale agreements (such as repo-to-maturity transactions described above). The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At September 30, 2012, the fair value of the reverse repurchase agreements and repurchase agreements were \$nil and \$nil, respectively.

At September 30, 2012, the gross balances of reverse repurchase agreements and repurchase agreements were \$5.1 billion and \$4.3 billion, respectively. The average daily balance of repurchase agreements on a gross basis for the three and nine months ended September 30, 2012 was \$5.8 billion and \$7.0 billion, respectively (\$6.9 billion and \$7.2 billion, respectively, for the three and nine months ended September 30, 2011). The largest amount of reverse repurchase agreements outstanding on a gross basis during the three and nine months ended September 30, 2012 was \$5.7 billion and \$8.8 billion, respectively (\$8.5 billion and \$9.1 billion, respectively, for the three and nine months ended September 30, 2011). The average daily balance of reverse repurchase agreements on a gross basis for the three and nine months ended September 30, 2012 was \$5.1 billion and \$6.2 billion, respectively (\$5.1 billion and \$6.2 billion, respectively, for the three and nine months ended September 30, 2011).

At September 30, 2012, the notional value of the repo-to-maturity was \$nil. The average balance for the repo-to-maturity for the three months ended September 30, 2012 was \$nil. At September 30, 2012, the gross leverage ratios including and excluding the effects of treating repo-to-maturity transactions as sales transactions were 5.6 and 5.6, respectively.

As previously disclosed, the Company has been consolidating its New York City key businesses and operations into one location. Since the fourth quarter of 2011, the Company has purchased \$15.5 million of fixed assets related to the relocation of which \$14.0 million has been reimbursed by its landlord through incentives resulting in a net cash outlay of \$1.5 million.

Through OPY Credit Corp., the Company utilized a warehouse facility provided by CIBC to extend financing commitments to third-party borrowers identified by the Company. As of September 30, 2012, the Company utilized \$61.2 million (\$65.9 million as of December 31, 2011) under such warehouse facility and had \$nil in Excess Retention (\$nil as of December 31, 2011). This warehouse arrangement terminated on July 15, 2012. However, the Company will remain liable for some minimal expenses in relation to this facility related to commitments made by CIBC to borrowers introduced by the Company until such borrowings are repaid by the borrower or until 2016, whichever is the sooner to occur. All such owed amounts will continue to be reflected in the Company's income statement as incurred.

The Company reached an agreement with RBS Citizens, NA ("Citizens") that was announced in July 2012 whereby the Company, through OPY Credit Corp., will introduce lending opportunities to Citizens, which Citizens can elect to accept and in which the Company will participate in the fees earned from any related commitment by Citizens. The Company can also in certain circumstances assume a portion of Citizen's syndication and lending risk under such loans, and if it does so it shall be obligated to secure such obligations via a cash deposit determined through risk based formulas. Neither the Company nor Citizens are obligated to make any specific loan or to commit any minimum amount of lending capacity to the relationship. The agreement also calls for Citizens and the Company at their option to jointly participate in the arrangement of various loan syndications. At September 30, 2012, there were no loans in place.

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 September 30, 2012, OMHHF had \$27 million outstanding under the warehouse facility line at a variable interest rate of 1 month LIBOR plus 1.85%. Interest expense for the three and nine months ended September 30, 2012 was \$305,000 and \$705,000, respectively (\$332,000 and \$1.1 million, respectively, for the three and nine months ended September 30, 2011).

### **Liquidity Management**

The Company manages its need for liquidity on a daily basis to ensure compliance with regulatory requirements. 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

Expressed in thousands of dollars.

	For the nine months ended September 30,	
	2012	2011
Cash provided by (used in) operating activities	\$(25,463)	\$ 54,500
Cash used in investing activities	(12,390)	(3,865)
Cash (used in) provided by financing activities	60,708	(15,993)
Net increase in cash and cash equivalents	<u>\$ 22,855</u>	<u>\$ 34,642</u>

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 third quarter of 2012, the Company issued 40,850 shares of Class A Stock pursuant to the Company's share-based compensation programs.

During the third quarter of 2012, the Company repurchased 15,000 shares of Class A Stock for a total consideration of \$214,950.

During the year ended December 31, 2011, the Company identified historical errors in its tax accounts resulting in a \$9.8 million credit to opening retained earnings as of January 1, 2011. See note 3 to the condensed consolidated financial statements appearing in Item 1 for further details.

On August 24, 2012, 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 October 25, 2012, the Board of Directors declared a regular quarterly cash dividend of \$0.11 per share of Class A and Class B Stock payable on November 23, 2012 to stockholders of record on November 9, 2012.

The book value of the Company's Class A and Class B Stock was \$37.10 at September 30, 2012 compared to \$36.98 at September 30, 2011, based on total outstanding shares of 13,614,692 and 13,670,625, respectively.

The diluted weighted average number of shares of Class A and Class B Stock outstanding for the three months ended September 30, 2012 was 14,161,257 (13,915,897 for the three months ended September 30, 2011).

## Off-Balance Sheet Arrangements

Information concerning the Company's off-balance sheet arrangements is included in note 6 to the condensed consolidated financial statements appearing in Item 1 herein.



## Contractual and Contingent Obligations

The Company 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. On April 12, 2011, the Company repaid the remaining debt assumed upon the acquisition from the proceeds of the new senior secured notes issued in the amount of \$200 million. See note 7 to the condensed consolidated financial statements appearing in Item 1 herein.

The following table sets forth the Company's contractual and contingent commitments as at September 30, 2012.

Expressed in millions of dollars.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Minimum rentals (1)	377	10	94	75	198
Committed capital	5	5	—	—	—
Earn-out	25	—	25	—	—
Senior Secured Notes (2)	195	—	—	—	195
ARS purchase offers (3)	41	13	24	4	—
Total	<u>643</u>	<u>28</u>	<u>143</u>	<u>79</u>	<u>393</u>

- (1) On July 15, 2011, the Company signed a lease to occupy seven floors at 85 Broad Street in New York City for a term of 15 years. The commitment of \$185.4 million related to this lease has been included in the table.
- (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 and bought back \$5 million in November 2011.
- (3) Represents payments to be made pursuant to the ARS settlements entered into with the Regulators in February 2010 as well as commitments to purchase ARS as a result of legal settlements.

## Inflation

Because the assets of the Company's brokerage subsidiaries are highly liquid, and because securities inventories are carried at current market values, the impact of inflation generally is reflected in the financial statements. However, the rate of inflation affects the Company's costs relating to employee compensation, rent, communications and certain other operating costs, and such costs may not be recoverable in the level of commissions or fees charged. To the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect the Company's financial position and results of operations.

### **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 and the proposed Volcker Rule, (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, (xx) risks related to foreign operations, (xxi) risks related to the downgrade of U.S. long-term sovereign debt obligations and the sovereign debt of European nations, (xxii) risks related to the manipulation of LIBOR and (xxiii) the effects of Hurricane Sandy and the relocation of critical Company personnel. 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. See Item 1A – “Risk Factors” appearing in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

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

During the three months ended September 30, 2012, 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, 2011.

### **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 errors 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 September 30, 2012 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 in 2008 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 US Airways arbitration, discussed in more detail below, commenced in September 2011 and the Company expects that the arbitration will conclude in the fourth quarter of 2012 and a decision rendered in early 2013.**

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" appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory and Legal Environment – Other Regulatory Matters and – Other Matters" as well as "Factors Affecting 'Forward-Looking Statements'" herein.

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. For legal proceedings set forth below where there is at least a reasonable possibility that a loss or an additional loss may be incurred, the Company estimates a range of aggregate loss in excess of amounts accrued of \$0 to approximately \$180.5 million. This estimated aggregate range is based upon currently available information for those legal proceedings in which the Company is involved, where an estimate for such losses can be made. For certain cases, the Company does not believe that an estimate can currently be made. The foregoing estimate is based on various factors, including the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the numerous yet-unresolved issues in many of the proceedings and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate.

### *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” appearing in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Business Environment – Other Regulatory Matters and – Other Matters” herein.

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.

As previously disclosed, Oppenheimer entered into a Consent Order (the “Order”) pursuant to the Massachusetts Uniform Securities Act on February 26, 2010 settling a pending administrative proceeding against the respondents related to Oppenheimer’s sales of ARS to retail and other investors in the Commonwealth of Massachusetts. Oppenheimer did not admit or deny any of the findings or allegations contained in the underlying administrative complaint. Oppenheimer agreed to pay, and has paid, the external costs incurred by the Massachusetts Securities Division (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 and 2011. 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. On February 15, 2011, Oppenheimer commenced a third and final offer to purchase additional Eligible ARS from all eligible Massachusetts Customer Accounts which offer closed April 7, 2011. On May 6, 2011, pursuant to the AOD, Oppenheimer commenced an additional offer to purchase Eligible ARS from Eligible Investors who did not receive an initial purchase offer which offer closed on July 22, 2011. The Company’s purchases of ARS from clients have continued and will continue on a periodic basis pursuant to the settlements with the Regulators. Accounts were, and will continue to be, aggregated on a “household” basis for purposes of these offers. As at September 30, 2012, the Company had purchased and holds approximately \$79.6 million of ARS from repurchases from clients and legal settlements.

The Company's purchases of ARS from clients will continue on a periodic basis pursuant to the settlements with the Regulators. Oppenheimer has agreed with the NYAG that it will offer to purchase Eligible ARS from Eligible Investors who did not receive an initial purchase offer periodically, as excess funds become available to Oppenheimer after giving effect to the financial and regulatory capital constraints applicable to Oppenheimer, until Oppenheimer has extended a purchase offer to all Eligible Investors. 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 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 September 30, 2012, Oppenheimer had extended margin loans to six 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 reinstate 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, September 30, 2010 and 2011, and March 31, 2012 and June 30, 2012 and in the Company's Annual Reports on Form 10-K for the year ended December 31, 2010 and 2011, 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, September 30, 2010 and 2011, and March 31, 2012 and June 30, 2012 and in the Company's Annual Reports on Form 10-K for the year ended December 31, 2010 and 2011, 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. Claimant seeks an award of punitive damages from Oppenheimer as well as interest on such award. Claimant 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 26, 2012, in connection with claimant having rested its case, Oppenheimer made a Motion to Dismiss the arbitration or in the alternative, to make a finding that claimant should have reasonably mitigated its damages in the fall of 2007. On August 10, 2012, the panel issued an order denying Oppenheimer's Motion to Dismiss and made a finding that claimant should have reasonably mitigated its damages in the fall of 2007. This finding will limit the damages on which an award can be made. The panel requested more evidence to determine the amount for which claimant could have sold the securities at issue in the arbitration, which will be introduced during the Company's presentation of its case. The Company expects that the arbitration with U.S. Airways will conclude in the fourth quarter of 2012 with a decision rendered early in 2013.

In connection with the U.S. Airways matter, 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 commenced in September 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. On May 25, 2011, the arbitration panel granted DBSI’s motion to stay the DBSI arbitration. On June 10, 2011, Oppenheimer filed a motion for reconsideration of the arbitration panel’s decision to stay the arbitration which motion for reconsideration was denied on July 14, 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 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 approximately \$11.5 million as a result of claimant’s liquidation of certain ARS positions in a private securities transaction. Claimant further seeks interest and attorneys fees as part of its claim. The claimant’s current ARS holdings are \$7 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. On March 8, 2011, Oppenheimer’s cross-motion was granted and the arbitration was stayed. On June 16, 2011, the Appellate Division issued an order lifting the stay. The arbitration had subsequently been rescheduled to commence in October 2012. On August 31, 2012, the parties entered into a settlement agreement pursuant to which (i) Oppenheimer agreed to pay and subsequently did pay \$4.5 million to Investec; (ii) Oppenheimer agreed to repurchase any remaining ARS held by Investec on January 15, 2015 and (iii) the claims in the arbitration were withdrawn. At September 30, 2012, Investec held approximately \$7 million in ARS.



In addition to the ARS cases discussed above, as of September 30, 2012, Oppenheimer and certain affiliated parties are currently named as a defendant or respondent in approximately seven arbitration claims before FINRA, as well as one court action brought by individuals and entities who purchased ARS through Oppenheimer in amounts ranging from \$100,000 to \$20 million, 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 September 30, 2012, ten ARS matters were concluded in either court or arbitration with Oppenheimer prevailing in four of those matters and the claimants prevailing in six of those matters. The Company has purchased approximately \$7.6 million in ARS from the prevailing claimants in those six actions. In addition, the Company has made cash payments of approximately \$12.1 million as a result of legal settlements with clients. Oppenheimer believes it has meritorious defenses to the claims in the pending arbitrations and court actions 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 Item 1A, “Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market,” and note 14 to the consolidated financial statements appearing in Item 8 appearing in the Company’s Annual Report of Form 10-K for the year ended December 31, 2011 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” herein.

#### *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. In June 2011, the Trustee filed an appeal with the United States District Court for the Northern District of Georgia. In addition, on June 10, 2011, the Trustee filed a petition for permission to appeal the dismissal with the United States Court of Appeals for the Eleventh Circuit. On July 27, 2011, the Court of Appeals for the Eleventh Circuit denied the Trustee’s Petition. The Trustee then appealed to the United States District Court for the Northern District of Georgia (U.S.N.D. GA). On March 30, 2012, the U.S.N.D. GA affirmed in part and reversed in part the ruling from the Bankruptcy Court and remanded the matter to the Bankruptcy Court. Oppenheimer believes that as a result of the foregoing the claimed damages against Oppenheimer have been substantially reduced and that it has meritorious defenses to the remaining claims made against it and intends to defend itself vigorously.

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 Insurance 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 on February 24, 2011. On January 18, 2011 and March 28, 2011, motions to dismiss the complaint were filed on behalf of Oppenheimer and the Chairman and Chief Executive Officer, respectively. On June 17, 2011, the motion to dismiss Oppenheimer was deferred and the motion to dismiss the Chairman and Chief Executive Officer was granted in its entirety. The motion to dismiss the Receiver’s action against Oppenheimer, which was refiled in state court after remand from the Federal court, was denied on August 2, 2011. On July 20, 2012, Providence Holding, Inc. (“Providence Holding”), the seller of Providence to Park Avenue in the transaction referenced above, filed a motion in the Oklahoma proceeding for permission to assert a tardy cross-claim against Oppenheimer and Oppenheimer Trust Co. alleging breach of fiduciary duty, fraud, breach of contract, and interference with prospective business advantage. Providence Holding’s motion remains under consideration. On September 7, 2012, the court entered a scheduling order requiring that all discovery be completed by December 4, 2013. Discovery is ongoing. On October 1, 2012, a 13-count indictment was unsealed in the United States District Court for the Southern District of New York charging three individuals, including a former registered representative of Oppenheimer, with, conspiracy to commit wire fraud in connection with Park Avenue’s acquisition of Providence. Oppenheimer is not named in the indictment, and there are no indications that it is a target of any investigation. Oppenheimer believes it has meritorious defenses to the claims raised in the Oklahoma proceedings and intends to defend against these claims vigorously.

On June 24, 2011, Oppenheimer was served with a petition in a matter pending in state court in Collin County, Texas captioned *Jerry Lancaster, Providence Holdings, Inc., Falcon Holdings, LLC and Derek Lancaster v. Oppenheimer & Co., Inc., Oppenheimer Trust Company, Charles Antonuicci, Alan Reichman, John Carley, Park Avenue Insurance, LLC and Park Avenue Bank*. The action requests unspecified damages, including exemplary damages, for Oppenheimer's alleged breach of fiduciary duty, negligent hiring, fraud, conversion, conspiracy, breach of contract, unjust enrichment and violation of the Texas Business and Commerce Code. The first amended petition alleges that Oppenheimer held itself out as having expertise in the insurance industry generally and managing insurance companies' investment portfolios but inappropriately allowed plaintiffs' bond portfolios to be used by Park Avenue Insurance Company to secure the sale of Providence Property and Casualty Insurance Company to Park Avenue Insurance Company. On July 22, 2011, defendants removed the case to the United States District Court for the Eastern District of Texas, Sherman Division, and subsequently moved to dismiss or transfer the action. On October 5, 2011 plaintiffs in the matter filed a voluntary dismissal without prejudice. On the same date, Oppenheimer and Oppenheimer Trust Company agreed to suspend the running of any applicable statute of limitations defense for one year. Just prior to the expiration of the one-year tolling agreement, on October 3, 2012, Providence Holding filed a new action in the United States District Court for the Eastern Division of Texas. against Oppenheimer, Oppenheimer Trust Co, and two individuals, re-asserting basically the same claims. Neither Oppenheimer entity has been served with process in the new action as yet. 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 it.

## ITEM 1A. Risk Factors

During the three months ended September 30, 2012, 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, 2011.

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

- (a) During the third quarter of 2012, the Company issued 40,850 shares of Class A Stock pursuant to the Company's share-based compensation programs for no cash consideration.
- (b) Not applicable.
- (c) In the three months ended September 30, 2012, the Company purchased and cancelled 15,000 shares of Class A Stock for total consideration of \$214,950 (\$14.33 per share), summarized as follows:

### ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
June 2012	—	\$ —	—	575,100
July 2012	—	\$ —	—	575,100
August 2012	15,000	\$ 14.33	15,000	560,100
Total	15,000	\$ 14.33	15,000	560,100

## ITEM 6. Exhibits

### (d) Exhibits

31.1 Certification of Albert G. Lowenthal

31.2 Certification of Elaine K. Roberts

32 Certification of Albert G. Lowenthal and Elaine K. Roberts

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011, (iv) the Condensed Consolidated Statements of Changes in Equity for the periods ended September 30, 2012 and 2011, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011, and (vi) the notes to the Condensed Consolidated Financial Statements.\*

\* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

## **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 6th day of November, 2012.

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 and Treasurer  
(Principal Financial and Accounting Officer)

## CERTIFICATION

I, Albert G. Lowenthal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oppenheimer Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: "A.G. Lowenthal"  
Name: Albert G. Lowenthal  
Title: Chief Executive Officer  
November 6, 2012

CERTIFICATION

I, Elaine K. Roberts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oppenheimer Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: "E.K. Roberts"

Name: Elaine K. Roberts

Title: Principal Financial Officer

November 6, 2012

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

The undersigned, Albert G. Lowenthal, Chairman and Chief Executive Officer of Oppenheimer Holdings Inc. (the "Company"), and Elaine K. Roberts, President and Principal Financial Officer of the Company, hereby certify that to his/her knowledge the Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 of the Company filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period specified.

Signed at New York, New York, this 6th day of November, 2012.

"A.G. Lowenthal"

Albert G. Lowenthal  
Chairman and Chief Executive Officer

"E.K. Roberts"

Elaine K. Roberts  
President and Principal Financial Officer