

OPPENHEIMER HOLDINGS INC
Form 10-Q
May 05, 2011

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

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

FORM 10-Q

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

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

or

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

For the transition period from ___ to ___

Commission File Number: 1-12043

OPPENHEIMER HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

98-0080034

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

125 Broad Street

New York, New York 10004

(Address of principal executive offices) (Zip Code)

(212) 668-8000

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

The number of shares of the Company's Class A non-voting common stock and Class B voting common stock (being the only classes of common stock of the Company) outstanding on April 30, 2011 was 13,545,063 and 99,680 shares, respectively.

OPPENHEIMER HOLDINGS INC.

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PART I
FINANCIAL INFORMATION

Item. 1 Financial Statements

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

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

(Continued on next page)

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

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

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

\$3,156,668

\$2,620,034

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

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

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

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Net profit for the period	5,761	9,364
Less net profit attributable to non-controlling interest, net of tax	675	196
Net profit attributable to Oppenheimer Holdings Inc.	\$5,086	\$9,168
Profit per share attributable to Oppenheimer Holdings Inc.:		
Basic	\$0.38	\$0.69
Diluted	\$0.36	\$0.66
Weighted average common shares		
Basic	13,550,723	13,296,980
Diluted	14,203,413	13,855,982
Dividends declared per share	\$0.11	\$0.11

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

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

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

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

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

Three months ended

March 31,
2011 2010

Expressed in thousands of dollars

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

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

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

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

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

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

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

OPPENHEIMER HOLDINGS INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of significant accounting policies

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

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

Accounting standards require the Company to present non-controlling interests (previously referred to as minority interests) as a separate component of stockholders equity on the Company s condensed consolidated balance sheet. As of March 31, 2011, the Company owns 67.34% of OMHHF and the non-controlling interest recorded in the condensed consolidated balance sheet was \$3.7 million.

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

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

Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on previously reported net profit.

2. New Accounting Pronouncements

Recently Adopted

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

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

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

3. Earnings per share

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

Earnings per share has been calculated as follows:

Dollar amounts are expressed in thousands, except share amounts

	Three months ended	
	March 31,	
	2011	2010
Basic weighted average number of shares outstanding	13,550,723	13,296,980
Net dilutive effect of warrant, treasury method (1)	-	-
Net dilutive effect of share-based awards, treasury method (2)	652,690	559,002
Diluted weighted average number of shares outstanding	14,203,413	13,855,982
Net profit for the period		