OPPENHEIMER HOLDINGS INC
Form 10-Q
October 26, 2018

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-12043

OPPENHEIMER HOLDINGS INC.
(Exact name of registrant as specified in its charter)

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

85 Broad Street
New York, NY 10004
(Address of principal executive offices) (Zip Code)

(212) 668-8000
(Registrant's telephone number, including area code)
(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 x No o

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

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

Large accelerated filer	o		Accelerated filer	x
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o
Emerging growth company	o			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o 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 October 26, 2018 was 13,177,931 and 99,665 shares, respectively.

Table of Contents

OPPENHEIMER HOLDINGS INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(Expressed in thousands, except number of shares and per share amounts)	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 37,531	$48,154
Deposits with clearing organizations	53,956	42,222
Receivable from brokers, dealers and clearing organizations	205,031	187,115
Receivable from customers, net of allowance for credit losses of $859 ($769 in 2017)	797,751	848,226
Income tax receivable	3,495	2,939
Securities purchased under agreements to resell, at fair value	1,502	658
Securities owned, including amounts pledged of $738,835 ($655,683 in 2017), at fair value	895,251	926,597
Notes receivable, net of accumulated amortization and allowance for uncollectibles of $24,334 and $7,126, respectively ($24,705 and $7,975, respectively, in 2017)	43,278	40,520
Furniture, equipment and leasehold improvements, net of accumulated depreciation of $87,165 ($82,826 in 2017)	28,842	27,187
Intangible assets	32,100	31,700
Goodwill	137,889	137,889
Other assets	119,659	145,310
Total assets	$ 2,356,285	$2,438,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Drafts payable	$ 29,242	$42,412
Bank call loans	3,000	118,300
Payable to brokers, dealers and clearing organizations	219,443	211,483
Payable to customers	351,750	385,907
Securities sold under agreements to repurchase	606,010	586,478
Securities sold but not yet purchased, at fair value	143,746	94,486
Accrued compensation	151,658	173,116
Accounts payable and other liabilities	95,820	92,495
Senior secured notes, net of debt issuance costs of $969 ($1,163 in 2017)	199,031	198,837
Deferred tax liabilities, net of deferred tax assets of $46,827 ($47,597 in 2017)	12,708	11,092
Total liabilities	1,812,408	1,914,606
Commitments and contingencies (note 12)		
Stockholders' equity		
Share capital		
Class A non-voting common stock, par value $0.001 per share, 50,000,000 shares authorized, 13,177,931 and 13,139,203 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	59,153	58,359
Class B voting common stock, par value $0.001 per share, 99,665 shares authorized, issued and outstanding as of September 30, 2018 and December 31, 2017	133	133
	59,286	58,492
Contributed capital	40,362	36,546
Retained earnings	443,188	426,930
Accumulated other comprehensive income	702	1,582

Total Oppenheimer Holdings Inc. stockholders' equity	543,538	523,550
Non-controlling interest	339	361
Total stockholders' equity	543,877	523,911
Total liabilities and stockholders' equity	$ 2,356,285	$2,438,517

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

Table of Contents

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Expressed in thousands, except number of shares and per share amounts)	2018	2017	2018	2017
REVENUE				
Commissions	$79,678	$ 77,635	$245,935	$ 248,204
Advisory fees	78,154	74,329	232,972	216,521
Investment banking	28,328	23,940	84,442	57,347
Bank deposit sweep income	30,053	21,146	84,203	52,992
Interest	13,403	12,952	38,686	36,346
Principal transactions, net	(16)	5,135	9,110	15,810
Other	8,214	11,083	19,552	28,145
Total revenue	237,814	226,220	714,900	655,365
EXPENSES				
Compensation and related expenses	152,846	142,090	457,821	428,625
Communications and technology	18,602	17,781	55,287	53,886
Occupancy and equipment costs	15,106	15,288	45,435	45,721
Clearing and exchange fees	5,378	5,622	17,254	17,392
Interest	12,915	6,500	32,787	18,710
Other	25,823	27,111	77,046	87,865
Total expenses	230,670	214,392	685,630	652,199
Income before income taxes from continuing operations	7,144	11,828	29,270	3,166
Income taxes	2,083	4,425	8,661	2,464
Net income from continuing operations	5,061	7,403	20,609	702
Discontinued operations				
Income from discontinued operations	—	769	—	1,834
Income taxes	—	308	—	733
Net income from discontinued operations	—	461	—	1,101
Net income	5,061	7,864	20,609	1,803
Less net income (loss) attributable to non-controlling interest, net of tax	(10)	75	(22)	180
Net income attributable to Oppenheimer Holdings Inc.	$5,071	$ 7,789	$20,631	$ 1,623
Basic net income per share attributable to Oppenheimer Holdings Inc.				
Continuing operations	$0.38	$ 0.56	$1.56	$ 0.05
Discontinued operations	—	0.03	—	0.07
Net income per share	$0.38	$ 0.59	$1.56	$ 0.12
Diluted net income per share attributable to Oppenheimer Holdings Inc.				
Continuing operations	$0.36	$ 0.54	$1.47	$ 0.05
Discontinued operations	—	0.03	—	0.07
Net income per share	$0.36	$ 0.57	$1.47	$ 0.12
Weighted average shares				
Basic	13,269,024	13,213,139	13,252,596	13,290,399

Diluted	14,140,263	13,763,516	14,043,326	13,790,136

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

Table of Contents

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Expressed in thousands)	2018	2017	2018	2017
Net income	$5,061	$7,864	$20,609	$1,803
Other comprehensive income (loss), net of tax (1)				
Currency translation adjustment	99	(251)	(880)	1,953
Comprehensive income	5,160	7,613	19,729	3,756
Net income (loss) attributable to non-controlling interest, net of tax	(10)	75	(22)	180
Comprehensive income attributable to Oppenheimer Holdings Inc.	$5,170	$7,538	$19,751	$3,576

(1) No other comprehensive income (loss) is attributable to non-controlling interests.
The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)
FOR THE NINE MONTHS ENDED SEPTEMBER 30,

(Expressed in thousands)	2018	2017
Share capital		
Balance at beginning of period	$58,492	$59,361
Issuance of Class A non-voting common stock	794	4,225
Repurchase of Class A non-voting common stock for cancellation	—	(7,464)
Balance at end of period	59,286	56,122
Contributed capital		
Balance at beginning of period	36,546	41,765
Share-based expense	4,647	4,112
Vested employee share plan awards	(831)	(6,457)
Cumulative-effect adjustment from adoption of new accounting update of employee share-based accounting	—	425
Balance at end of period	40,362	39,845
Retained earnings		
Balance at beginning of period	426,930	410,258
Net income attributable to Oppenheimer Holdings Inc.	20,631	1,623
Dividends paid ($0.33 per share)	(4,373)	(4,394)
Dividends received from non-controlling interest	—	6
Cumulative-effect adjustment from adoption of new accounting update of employee share-based accounting	—	(314)
Balance at end of period	443,188	407,179
Accumulated other comprehensive income (loss)		
Balance at beginning of period	1,582	(681)
Currency translation adjustment	(880)	1,953
Balance at end of period	702	1,272
Total Oppenheimer Holdings Inc. stockholders' equity	543,538	504,418
Non-controlling interest		
Balance at beginning of period	361	2,631
Net income (loss) attributable to non-controlling interest, net of tax	(22)	180
Dividends paid to non-controlling interest	—	(2,448)
Dividends paid to parent	—	(6)
Balance at end of period	339	357
Total stockholders' equity	$543,877	$504,775

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

Table of Contents

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
FOR THE NINE MONTHS ENDED SEPTEMBER 30,

(Expressed in thousands)	2018	2017
Cash flows from operating activities		
Net income	$20,609	$1,803
Adjustments to reconcile net income to net cash used in operating activities		
Non-cash items included in net income:		
Depreciation and amortization of furniture, equipment and leasehold improvements	4,999	4,185
Deferred income taxes	1,616	4,240
Amortization of notes receivable	9,480	8,658
Amortization of debt issuance costs	194	287
Write-off of debt issuance costs	—	430
Provision for (reversal of) credit losses	90	(12)
Share-based compensation	11,088	3,517
Decrease (increase) in operating assets:		
Deposits with clearing organizations	(11,734)	(6,016)
Receivable from brokers, dealers and clearing organizations	(17,916)	(33,957)
Receivable from customers	50,385	71,796
Income tax receivable	(556)	755
Securities purchased under agreements to resell	(844)	24,006
Securities owned	31,346	(330,355)
Notes receivable	(12,238)	(16,800)
Other assets	24,487	(9,585)
Increase (decrease) in operating liabilities:		
Drafts payable	(13,170)	(12,748)
Payable to brokers, dealers and clearing organizations	7,960	26,090
Payable to customers	(34,157)	(53,431)
Securities sold under agreements to repurchase	19,532	20,566
Securities sold but not yet purchased	49,260	281,531
Accrued compensation	(27,899)	(14,238)
Accounts payable and other liabilities	5,747	(5,108)
Cash provided by (used in) operating activities	118,279	(34,386)
Cash flows from investing activities		
Purchase of furniture, equipment and leasehold improvements	(6,654)	(3,506)
Purchase of intangible assets	(400)	—
Proceeds from the settlement of Company-owned life insurance	284	1,194
Cash used in investing activities	(6,770)	(2,312)
Cash flows from financing activities		
Cash dividends paid on Class A non-voting and Class B voting common stock	(4,373)	(4,394)
Cash dividends paid to non-controlling interest	—	(2,448)
Issuance of Class A non-voting common stock	70	—
Repurchase of Class A non-voting common stock for cancellation	—	(7,464)
Payments for employee taxes withheld related to vested share-based awards	(2,529)	(2,232)
Issuance of senior secured notes	—	200,000
Redemption of senior secured notes	—	(150,000)
Debt issuance costs	—	(1,183)
Decrease in bank call loans, net	(115,300)	(15,700)
Cash (used in) provided by financing activities	(122,132)	16,579

Net decrease in cash and cash equivalents	(10,623)	(20,119)
Cash and cash equivalents, beginning of period	48,154	64,913
Cash and cash equivalents, end of period	$37,531	$44,794
Schedule of non-cash financing activities		
Employee share plan issuance	$724	$4,225
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$36,500	$17,711
Cash paid during the period for income taxes, net	$7,757	$2,354

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

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

1. Organization and basis of presentation

Organization

Oppenheimer Holdings Inc. ("OPY" or the "Parent") is incorporated under the laws of the State of Delaware. The condensed consolidated financial statements include the accounts of OPY and its consolidated subsidiaries (together, the "Company"). The Company engages in a broad range of activities in the financial services industry, including retail securities brokerage, institutional sales and trading, market-making, research, investment banking (both corporate and public finance), investment advisory and asset management services and trust services.

The Company has 91 retail branch offices in the United States and has institutional businesses located in London, Tel Aviv, and Hong Kong. The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker-dealer in securities and investment adviser under the Investment Advisers Act of 1940; Oppenheimer Asset Management Inc. ("OAM") and its wholly-owned subsidiary, Oppenheimer Investment Management LLC, both registered investment advisers under the Investment Advisers Act of 1940; Oppenheimer Trust Company of Delaware ("Oppenheimer Trust"), a limited purpose trust company that provides fiduciary services such as trust and estate administration and investment management; OPY Credit Corp., which offers syndication as well as trading of issued corporate loans; Oppenheimer Europe Ltd., based in the United Kingdom, with offices in the Isle of Jersey and Switzerland, which provides institutional equities and fixed income brokerage and corporate finance and is regulated by the Financial Conduct Authority; Oppenheimer Investments Asia Limited, based in Hong Kong, China, which provides fixed income and equities brokerage services to institutional investors and is regulated by the Securities and Futures Commission; and Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHHF") which was formerly engaged in Federal Housing Administration ("FHA")-insured commercial mortgage origination and servicing. During 2016, the Company sold substantially all of the assets of OMHHF and ceased its operations. Oppenheimer owns Freedom Investments, Inc. ("Freedom"), a registered broker dealer in securities, which provides discount brokerage services, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel. Oppenheimer holds a trading permit on the New York Stock Exchange and is a member of several other regional exchanges in the United States.

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "Form 10-K"). The accompanying December 31, 2017 condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Preparing financial statements requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. Although these estimates are based on management's knowledge of current events and actions that the Company may undertake in the future, actual results may differ materially from the estimates. The condensed consolidated results of operations for the nine month period ended September 30, 2018 are not necessarily indicative of the results to be expected for any future interim or annual period.

Certain prior period amounts have been reclassified to conform to the current period presentation.
Accounting standards require the Company to present non-controlling interests as a separate component of stockholders' equity on the Company's condensed consolidated balance sheet. As of September 30, 2018, the Company owned 83.68% of OMHHF and the non-controlling interest recorded on the condensed consolidated balance sheet was $339,000.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

2. New accounting pronouncements

Recently Issued

In February 2016, the FASB issued ASU 2016-02, "Leases." The ASU requires the recognition of a right-of use asset and lease liability on the balance sheet by lessees for those leases classified as operating leases under previous guidance. The ASU is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of adopting this ASU which it expects will have a significant impact on its condensed consolidated financial statements. Since the Company has operating leases in over 100 locations, equipment leases and embedded leases, the Company expects to recognize a significant right-of use asset and lease liability on its condensed consolidated balance sheet upon adoption of this ASU. As of September 30, 2018, the Company estimates that it will record right-of-use assets between $170.0 million to $190.0 million and lease liabilities within the same range on the condensed consolidated balance sheet upon the adoption of this standard, which predominately relate to real estate leases. The Company has elected the modified retrospective method and will include any cumulative-effect adjustment as of the date of adoption.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," which amends the FASB's guidance on the impairment of financial instruments. The ASU adds to U.S. GAAP an impairment model ("current expected credit loss model"). Under this new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The ASU is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact, if any, that the ASU will have on the Company; the adoption of the ASU is not currently expected to have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other, Simplifying the Test for Goodwill Impairment," which simplifies the subsequent measurement of goodwill. The Company is no longer required to perform its Step 2 goodwill impairment test; instead, the Company should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The ASU is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, of the ASU on the Company; the adoption of the ASU is not currently expected to have a material impact on its condensed consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities," which amends the hedge accounting recognition and presentation requirements. The ASU improves the transparency and understandability of information conveyed to financial statement users by better aligning companies' hedging relationships to their existing risk management strategies, simplifies the application of hedge accounting and increases transparency regarding the scope and results of the hedging program. The ASU is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, of the ASU on the Company; the adoption of the ASU is not currently expected to have a material impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement - Disclosure Framework - Changes to the Disclosure Requirements for the Fair Value Measurement," which modifies the disclosure requirements related to fair value measurement. The ASU is effective for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, of the ASU on the Company's disclosure.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

3. Revenues from contracts with customers

In the first quarter of 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers." The Company has elected the modified retrospective method which did not result in a cumulative-effect adjustment at the date of adoption. The implementation of this new standard had no material impact on the Company's condensed consolidated financial statements for the three and nine months ended September 30, 2018.

Revenue from contracts with customers is recognized when, or as, the Company satisfies its performance obligations by transferring the promised goods or services to customers. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring the Company's progress in satisfying the performance obligation in a manner that depicts the transfer of the goods or services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for those promised goods or services (i.e., the "transaction price"). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, the Company considers the range of possible outcomes, the predictive value of our past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of the Company's influence, such as market volatility or the judgment and actions of third parties.

The Company earns revenue from contracts with customers and other sources (principal transactions, interest and other). The following provides detailed information on the recognition of the Company's revenue from contracts with customers:

Commissions

Commissions from Sales and Trading — The Company earns commission revenue by executing, settling and clearing transactions with clients primarily in exchange-traded and over-the-counter corporate equity and debt securities, money market instruments and exchange-traded options and futures contracts. A substantial portion of Company's revenue is derived from commissions from private clients through accounts with transaction-based pricing. Trade execution and clearing services, when provided together, represent a single performance obligation as the services are not separately identifiable in the context of the contract. Commission revenue associated with combined trade execution and clearing services, as well as trade execution services on a standalone basis, is recognized at a point in time on trade date when the performance obligation is satisfied. Commission revenue is generally paid on settlement date, which is generally two business days after trade date for equity securities and corporate bond transactions and one day for government securities and commodities transactions. The Company records a receivable on the trade date and receives a payment on settlement date.

Mutual Fund Income — The Company earns mutual fund income for sales and distribution of mutual fund shares. Many mutual fund companies pay distribution fees to intermediaries, such as broker-dealers, for selling their shares. The fees are operational expenses of the mutual fund and are included in its expense ratio. The Company recognizes mutual fund income at a point in time on trade date when the performance obligation is satisfied which is when the mutual fund interest is sold to the investor. Mutual fund income is generally received within 90 days.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

Advisory Fees

The Company earns management and performance (or incentive) fees in connection with the advisory and asset management services it provides to various types of funds and investment vehicles through its subsidiaries. Management fees are generally based on the account value at the valuation date per the respective asset management agreements and are recognized over time as the customer receives the benefits of the services evenly throughout the term of the contract. Performance fees are recognized when the return on client assets under management ("AUM") exceeds a specified benchmark return or other performance targets over a 12-month measurement period. Performance fees are considered variable as they are subject to fluctuation and/or are contingent on a future event over the measurement period and are not subject to adjustment once the measurement period ends. Such fees are computed as of the fund's year-end when the measurement period ends and generally are recorded as earned in the fourth quarter of the Company's fiscal year. Both management and performance fees are generally received within 90 days.

Investment Banking

The Company earns underwriting revenues by providing capital raising solutions for corporate clients through initial public offerings, follow-on offerings, equity-linked offerings, private investments in public entities, and private placements. Underwriting revenues are recognized at a point in time on trade date, as the client obtains the control and benefit of the capital markets offering at that point. These fees are generally received within 90 days after the transactions are completed. Transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment banking transaction revenue. Underwriting revenues and related expenses are presented gross on the condensed consolidated statement of income.

Revenue from financial advisory services includes fees generated in connection with mergers, acquisitions and restructuring transactions and such revenue and fees are primarily recorded at a point in time when services for the transactions are completed and income is reasonably determinable, generally as set forth under the terms of the engagement. Payment for advisory services is generally due upon a completion of the transaction or milestone. Retainer fees and fees earned from certain advisory services are recognized ratably over the service period as the customer receives the benefit of the services throughout the term of the contracts, and such fees are collected based on the terms of the contracts.

Bank Deposit Sweep Income

Bank deposit sweep income consists of revenue earned from the FDIC-insured bank deposit program. Under this program, client funds are swept into deposit accounts at participating banks and are eligible for FDIC deposit insurance up to FDIC standard maximum deposit insurance amounts. Fees are earned over time and are generally received within 30 days.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

Disaggregation of Revenue
The following presents the Company's revenue from contracts with customers disaggregated by major business activity and other sources of revenue for the three and nine months ended September 30, 2018:

(Expressed in thousands)	For the Three Months Ended September 30, 2018				
	Reportable Segments				
	Private Client	Asset Management	Capital Markets	Corporate/Other	Total
Revenues from contracts with customers:					
Commissions from sales and trading	$36,553	$ —	$31,807	$ 10	$68,370
Mutual fund income	11,059	240	4	5	11,308
Advisory fees	60,516	17,627	3	8	78,154
Investment banking - capital markets	2,733	—	15,806	—	18,539
Investment banking - advisory	—	—	9,789	—	9,789
Bank deposit sweep income	30,053	—	—	—	30,053
Other	3,654	3	318	40	4,015
Total revenues from contracts with customers	144,568	17,870	57,727	63	220,228
Other sources of revenue:					
Interest	9,469	—	3,678	256	13,403
Principal transactions, net	675	—	6,423	(7,114)	(16)
Other	3,371	—	302	526	4,199
Total other sources of revenue	13,515	—	10,403	(6,332)	17,586
Total revenue	$158,083	$ 17,870	$68,130	$ (6,269)	$237,814

(Expressed in thousands)	For the Nine Months Ended September 30, 2018				
	Reportable Segments				
	Private Client	Asset Management	Capital Markets	Corporate/Other	Total
Revenues from contracts with customers:					
Commissions from sales and trading	$115,924	$ —	$96,826	$ 87	$212,837
Mutual fund income	32,327	745	11	15	33,098
Advisory fees	180,426	52,465	57	24	232,972
Investment banking - capital markets	10,572	—	46,398	—	56,970
Investment banking - advisory	—	—	27,472	—	27,472
Bank deposit sweep income	84,203	—	—	—	84,203
Other	11,359	9	750	(6)	12,112
Total revenues from contracts with customers	434,811	53,219	171,514	120	659,664
Other sources of revenue:					
Interest	27,820	1	10,146	719	38,686

Principal transactions, net	807	—	15,804	(7,501)	9,110
Other	5,292	—	401	1,747	7,440
Total other sources of revenue	33,919	1	26,351	(5,035)	55,236
Total revenue	$468,730	$ 53,220	$197,865	$ (4,915)	$714,900

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Contract Balances

The timing of the Company's revenue recognition may differ from the timing of payment by its customers. The Company records receivables when revenue is recognized prior to payment and it has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied.

The Company had receivables related to revenue from contracts with customers of $23.7 million and $18.6 million at September 30, 2018 and January 1, 2018, respectively. The Company had no significant impairments related to these receivables during the three and nine months ended September 30, 2018.

Deferred revenue relates to IRA fees received annually in advance on customer's IRA accounts managed by the Company and the retainer fees and fees earned from certain advisory transactions where the performance obligations have not yet been satisfied. Total deferred revenue was $1.2 million and $nil at September 30, 2018 and January 1, 2018, respectively.

The following presents the Company's contract assets and deferred revenue balances from contracts with customers, which are included in other assets and other liabilities, respectively, on the condensed consolidated balance sheet:

(Expressed in thousands)

	Ending Balance at September 30, 2018	Opening Balance at January 1, 2018
Contract assets (receivables):		
Commission (1)	$ 2,867	$ 2,007
Mutual fund income (2)	7,364	7,779
Advisory fees (3)	681	1,460
Bank deposit sweep income (4)	3,849	3,459
Investment banking fees (5)	5,601	3,926
Other	3,290	—
Total contract assets	$ 23,652	$ 18,631
Deferred revenue (payables):		
Investment banking fees	$ 407	$ —
IRA fees	762	—
Total deferred revenue	$ 1,169	$ —

(1) Commission recorded on trade date but not yet settled.
(2) Mutual fund income earned but not yet received.
(3) Management and performance fees earned but not yet received.
(4) Fees earned from FDIC-insured bank deposit program but not yet received.
(5) Underwriting revenue and advisory fee earned but not yet received.

Contract Costs

The Company incurs incremental transaction-related costs to obtain and/or fulfill contracts associated with investment banking and advisory engagements where the revenue is recognized at a point in time and the costs are determined to be recoverable. As of September 30, 2018, the contract costs were $1.5 million. There were no significant charges recognized in relation to these costs for the nine months ended September 30, 2018.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

4. Earnings per share

Basic earnings per share is computed by dividing net income 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 number of shares of Class A Stock and Class B Stock outstanding and options to purchase Class A Stock and unvested restricted stock awards of Class A Stock using the treasury stock method.

Earnings per share have been calculated as follows:

(Expressed in thousands, except number of shares and per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic weighted average number of shares outstanding	13,269,024	13,213,139	13,252,596	13,290,399
Net dilutive effect of share-based awards, treasury method [1]	871,239	550,377	790,730	499,737
Diluted weighted average number of shares outstanding	14,140,263	13,763,516	14,043,326	13,790,136
Net income from continuing operations	$5,061	$ 7,403	$20,609	$ 702
Net income from discontinued operations	—	461	—	1,101
Net income	5,061	7,864	20,609	1,803
Less net income (loss) attributable to non-controlling interest, net of tax	(10)	75	(22)	180
Net income attributable to Oppenheimer Holdings Inc.	$5,071	$ 7,789	$20,631	$ 1,623
Basic net income per share attributable to Oppenheimer Holdings Inc.				
Continuing operations	$0.38	$ 0.56	$1.56	$ 0.05
Discontinued operations [2]	—	0.03	—	0.07
Net income per share	$0.38	$ 0.59	$1.56	$ 0.12
Diluted net income per share attributable to Oppenheimer Holdings Inc.				
Continuing operations	$0.36	$ 0.54	$1.47	$ 0.05
Discontinued operations [2]	—	0.03	—	0.07
Net income per share	$0.36	$ 0.57	$1.47	$ 0.12

(1) For both the three and nine months ended September 30, 2018, the diluted net income per share computation does not include the anti-dilutive effect of 4,050 shares of Class A Stock granted under share-based compensation arrangements (15,450 shares for both the three and nine months ended September 30, 2017).

(2) Represents net income from discontinued operations less net income attributable to non-controlling interest, net of tax divided by weighted average number of shares outstanding.

14

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

5. Receivable from and payable to brokers, dealers and clearing organizations
(Expressed in thousands)

	As of September 30, 2018	December 31, 2017
Receivable from brokers, dealers and clearing organizations consists of:		
Securities borrowed	$114,795	$ 132,368
Receivable from brokers	31,396	19,298
Securities failed to deliver	23,390	9,442
Clearing organizations	29,026	24,361
Other	6,424	1,646
Total	$205,031	$ 187,115
Payable to brokers, dealers and clearing organizations consists of:		
Securities loaned	$197,332	$ 180,270
Payable to brokers	2,004	1,567
Securities failed to receive	18,102	17,559
Other	2,005	12,087
Total	$219,443	$ 211,483

6. Fair value measurements
Securities owned, 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.
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. Government Obligations
U.S. Treasury securities are valued using quoted market prices obtained from active market makers and inter-dealer brokers.
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.
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.

Corporate Debt and Other Obligations
The fair value of corporate bonds is estimated using recent transactions, broker quotations and bond spread information.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

Mortgage and Other Asset-Backed Securities
The Company values non-agency securities collateralized by home equity and various other types of collateral based on external pricing and spread data provided by independent pricing services. When specific external pricing is not observable, the valuation is based on yields and spreads for comparable bonds.
Municipal Obligations
The fair value of municipal obligations is estimated using recently executed transactions, broker quotations, and bond spread information.
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.
Corporate Equities
Equity securities and options are generally valued based on quoted prices from the exchange or market where traded. To the extent quoted prices are not available, fair values are generally derived using bid/ask spreads.
Auction Rate Securities ("ARS")
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 the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions more fully described below. As of September 30, 2018, the Company had no outstanding ARS purchase commitments related to the settlements with the Regulators. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client-related legal settlements and awards to purchase ARS, as of September 30, 2018, the Company purchased and holds (net of redemptions) approximately $40.8 million in ARS from its clients. In addition, the Company is committed to purchase another $7.2 million in ARS from clients through 2020 under legal settlements and awards.
The ARS positions that the Company owns and is committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities that are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities that 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 classified as Level 1 of 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. Due to liquidity problems associated with the ARS market, ARS that lack liquidity are setting their interest rates according to a maximum rate formula. For example, an auction rate preferred security maximum rate may be set at 200% of a short-term index such as LIBOR or U.S. Treasury yield. For fair value purposes, the Company has determined that the maximum spread would be an adequate risk premium to account for illiquidity in the market. Accordingly, the Company applies a spread to the short-term index for each asset class to derive the discount rate. The Company uses short-term U.S. Treasury yields as its benchmark short-term index. The risk of non-performance is typically reflected in the prices of ARS positions where the fair value is derived from recent trades in the secondary market.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

The ARS purchase commitment, or derivative asset or liability, arises from both the settlements with the Regulators and legal settlements and awards. The ARS purchase commitment represents the difference between the principal value and the fair value of the ARS the Company is committed to purchase. The Company utilizes the same valuation methodology for the ARS purchase commitment as it does for the ARS it owns. Additionally, the present value of the future principal value of ARS purchase commitments under legal settlements and awards is used in the discounted valuation model to reflect the time value of money over the period of time that the commitments are outstanding. The amount of the ARS purchase commitment only becomes determinable once the Company has met with its primary regulator and the NYAG and agreed upon a buyback amount, commenced the ARS buyback offer to clients, and received notice from its clients which ARS they are tendering. As a result, it is not possible to observe the current yields actually paid on the ARS until all of these events have happened which is typically very close to the time that the Company actually purchases the ARS. For ARS purchase commitments pursuant to legal settlements and awards, the criteria for purchasing ARS from clients is based on the nature of the settlement or award which will stipulate a time period and amount for each repurchase. The Company will not know which ARS will be tendered by the client until the stipulated time for repurchase is reached. Therefore, the Company uses the current yields of ARS owned in its discounted valuation model to determine a fair value of ARS purchase commitments. The Company also uses these current yields by asset class (i.e., auction rate preferred securities, municipal auction rate securities, and student loan auction rate securities) in its discounted valuation model to determine the fair value of ARS purchase commitments. In addition, the Company uses the discount rate and duration of ARS owned, by asset class, as a proxy for the duration of ARS purchase commitments.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Additional information regarding the valuation technique and inputs for ARS used is as follows:
(Expressed in thousands)
Quantitative Information about ARS Level 3 Fair Value Measurements as of September 30, 2018

Product	Principal	Valuation Adjustment	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Auction Rate Securities Owned [1]							
Auction Rate Preferred Securities	$21,500	$ 406	$21,094	Discounted Cash Flow	Discount Rate [2]	3.14% to 4.28%	4.26%
					Duration	2.5 Years	2.5 Years
					Current Yield [3]	2.38% to 3.46%	3.45%
Auction Rate Preferred Securities	18,950	2,697	16,253	Tender Offer [4]	N/A	N/A	N/A
Municipal Auction Rate Securities	75	—	75	Par	N/A	N/A	N/A
Student Loan Auction Rate Securities	275	14	261	Discounted Cash Flow	Discount Rate [5]	4.17%	4.17%
					Duration	5.5 Years	5.5 Years
					Current Yield [3]	3.09%	3.09%
	$40,800	$ 3,117	$37,683				
Auction Rate Securities Commitments to Purchase [6]							
Auction Rate Preferred Securities	$49	$ 1	$48	Discounted Cash Flow	Discount Rate [2]	3.14% to 4.28%	4.26%
					Duration	2.5 Years	2.5 Years
					Current Yield [3]	2.38% to 3.46%	3.45%
Auction Rate Preferred Securities	7,184	1,078	6,106	Tender Offer [4]	N/A	N/A	N/A
	$7,233	$ 1,079	$6,154				
Total	$48,033	$ 4,196	$43,837				

(1) Principal amount represents the par value of the ARS and is included in securities owned on the condensed consolidated balance sheet as of September 30, 2018. The valuation adjustment amount is included as a reduction to securities owned on the condensed consolidated balance sheet as of September 30, 2018.

(2) Derived by applying a multiple to a spread between 110% to 150% to the U.S. Treasury rate of 2.85%.
(3) Based on current yields for ARS positions owned.
(4) Residual ARS amounts owned and ARS commitments to purchase that were subject to tender offers were priced at the tender offer price. Included in Level 2 of the fair value hierarchy.
(5) Derived by applying the sum of the spread of 1.20% to the U.S. Treasury rate of 2.97%.
(6) Principal amount represents the present value of the ARS par value that the Company is committed to purchase at a future date. This principal amount is presented as an off-balance sheet item. The valuation adjustment amount is included in accounts payable and other liabilities on the condensed consolidated balance sheet as of September 30, 2018.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

The fair value of ARS and ARS purchase commitments 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 effect 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. For example, see the following sensitivities:

- The impact of a 25 basis point increase in the discount rate at September 30, 2018 would result in a decrease in the fair value of $126,000 (does not consider a corresponding reduction in duration as discussed above).
- The impact of a 50 basis point increase in the discount rate at September 30, 2018 would result in a decrease in the fair value of $251,000 (does not consider a corresponding reduction in duration as discussed above).

These sensitivities are hypothetical and are based on scenarios where they are "stressed" and should be used with caution. These estimates do not include all of the interplay among assumptions and are estimated as a portfolio rather than as individual assets.

Due to the less observable nature of these inputs, ARS are primarily categorized in Level 3 of the fair value hierarchy. As of September 30, 2018, the Company had a valuation adjustment (unrealized loss) of $3.1 million for ARS owned which is included as a reduction to securities owned on the condensed consolidated balance sheet. As of September 30, 2018, the Company also had a valuation adjustment of $1.1 million on ARS purchase commitments from legal settlements and awards which is included in accounts payable and other liabilities on the condensed consolidated balance sheet. The total valuation adjustment was $4.2 million as of September 30, 2018. The valuation adjustment represents the difference between the principal value and the fair value of the ARS owned and ARS purchase commitments.

During the three months ended September 30, 2018, the Company participated in tender offers by issuers of ARS which resulted in recognized losses totaling $8.1 million. The recognized losses are comprised of realized losses of $4.6 million related to tendering ARS holdings at prices below par and unrealized losses of $3.5 million related to revaluing the remaining affected ARS owned and commitments to purchase at the tender offer prices.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

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.
The following table provides information about the Company's investments in Company-sponsored funds as of September 30, 2018:
(Expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds (1)	$ 1,631	$ —	Annually	30 - 120 Days
Private equity funds (2)	4,974	1,400	N/A	N/A
	$ 6,605	$ 1,400		

(1) Includes investments in hedge funds and hedge fund of funds that pursue long/short, event-driven, and activist strategies. Each hedge fund has various restrictions regarding redemption; no investment is locked-up for a period greater than one year.
(2) Includes private equity funds and private equity fund of funds with a focus on diversified portfolios, real estate and global natural resources. Due to the illiquid nature of these funds, investors are not permitted to make withdrawals without the consent of the general partner. The lock-up period of the private equity funds can extend to 10 years.

Valuation Process
The Company's Finance & Accounting ("F&A") group is responsible for the Company's fair value policies, processes and procedures. F&A is independent from the business units and trading desks and is headed by the Company's Chief Financial Officer ("CFO"), who has final authority over the valuation of the Company's financial instruments. The Finance Control Group ("FCG") within F&A is responsible for daily profit and loss reporting, front-end trading system position reconciliations, monthly profit and loss reporting, and independent price verification procedures.
For financial instruments categorized in Levels 1 and 2 of the fair value hierarchy, the FCG performs a monthly independent price verification to determine the reasonableness of the prices provided by the Company's independent pricing vendor. The FCG uses its third-party pricing vendor, executed transactions, and broker-dealer quotes for validating the fair values of financial instruments.
For financial instruments categorized in Level 3 of the fair value hierarchy measured on a recurring basis, primarily for ARS, a group comprised of the CFO, the Controller, and an Operations Director are responsible for the ARS valuation model and resulting fair valuations. Procedures performed include aggregating all ARS owned by type from firm inventory accounts and ARS purchase commitments from regulatory and legal settlements and awards provided by the Legal Department. Observable and unobservable inputs are aggregated from various sources and entered into the ARS valuation model. For unobservable inputs, the group reviews the appropriateness of the inputs to ensure consistency with how a market participant would arrive at the unobservable input. For example, for the duration assumption, the group would consider recent policy statements regarding short-term interest rates by the Federal Reserve and recent ARS issuer redemptions and announcements for future redemptions. The model output is reviewed for reasonableness and consistency. Where available, comparisons are performed between ARS owned or committed

to purchase with ARS that are trading in the secondary market.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

Assets and Liabilities Measured at Fair Value
The Company's assets and liabilities, recorded at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, 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, 2018
(Expressed in thousands)

	Fair Value Measurements as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$10,500	$ —	$ —	$10,500
Deposits with clearing organizations	31,291	—	—	31,291
Securities owned:				
U.S. Treasury securities	701,261	—	—	701,261
U.S. Agency securities	14,688	7,425	—	22,113
Sovereign obligations	—	2,964	—	2,964
Corporate debt and other obligations	—			