

# **Oppenheimer & Co. Inc. and Subsidiaries**

**Consolidated Statement of Financial Condition  
June 30, 2010  
(Unaudited)**

**Oppenheimer & Co. Inc. and Subsidiaries**  
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**June 30, 2010 (unaudited)**

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**Assets**

Cash and cash equivalents		\$27,061,127
Cash and securities (fair value of \$13,445,679) segregated under Federal and other regulations		28,632,806
Securities purchased under agreement to resell		430,928,039
Deposits with clearing organizations (includes securities with a fair value of \$8,992,907)		35,418,084
Receivable from brokers, dealers and clearing organizations		
Deposits paid for securities borrowed	\$252,720,820	
Securities failed to deliver	24,432,042	
Omnibus accounts	15,639,244	
Clearing organizations	14,117,135	
Other	3,527,407	
Total receivable from brokers, dealers and clearing organizations		310,436,648
Receivable from customers		842,987,948
Securities owned, at fair value		388,280,980
Office facilities, net		21,065,389
Notes receivable, net		64,977,878
Intangible assets, net		11,440,773
Deferred income tax, net		41,186,857
Other assets		91,563,757
Total assets		<u>\$2,293,980,286</u>

The accompanying notes are an integral part of this consolidated statement of financial condition.

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**Liabilities and Stockholder's Equity**

Drafts payable		\$37,179,565
Bank call loans		62,400,000
Securities sold under agreement to repurchase		464,043,500
Payable to brokers, dealers and clearing organizations		
Deposits received for securities loaned	\$327,734,145	
Securities failed to receive	16,757,484	
Other	61,367,046	
Total payable to brokers, dealers and clearing organizations		405,858,675
Securities sold, but not yet purchased, at fair value		181,869,833
Payable to customers		505,472,038
Income taxes payable		11,377,905
Accrued compensation		117,747,921
Accounts payable and other liabilities		85,644,893
Subordinated borrowings		112,558,118
Excess of fair value of assets acquired over cost		7,020,378
Total liabilities		<u>1,991,172,826</u>
Commitments and contingencies (Note 9)		
Stockholder's equity		
Common stock, par value \$100 per share - 1,000 shares authorized, 760 shares issued and outstanding	76,000	
Additional paid-in capital	260,315,446	
Retained earnings	43,883,215	
Accumulated other comprehensive income (loss)	(109,269)	
Less 369 shares of treasury stock, at cost	(1,357,932)	
Total stockholder's equity		<u>302,807,460</u>
Total liabilities and stockholder's equity		<u>\$2,293,980,286</u>

The accompanying notes are an integral part of this consolidated statement of financial condition.

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**1. Organization and Nature of Business**

Oppenheimer & Co. Inc. (“Oppenheimer” or “the Company”) is a wholly owned subsidiary whose ultimate parent is Oppenheimer Holdings Inc. (the “Parent”), a Delaware public corporation. Oppenheimer is a registered broker-dealer in securities under the Securities Exchange Act of 1934 (“the Act”) and is a member of various exchanges, including the New York Stock Exchange.

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), underwritings, research, market-making, securities lending activities and investment advisory and asset management services.

The Company provides its services from offices located throughout the United States. In addition, the Company conducts business through local broker-dealers in Israel and Latin America.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The consolidated statement of financial condition of Oppenheimer includes the accounts of Oppenheimer’s wholly owned subsidiaries, Freedom Investments, Inc. (“Freedom”), a registered broker-dealer in securities under the Act; Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel as a local broker-dealer registered with the Israeli Securities Authority; Josephthal & Co Inc., Prime Charter Ltd., Old Michigan Corp. (inactive) and Reich & Co., Inc. (in liquidation) (collectively, the “Company”). The consolidated statement of financial condition of Oppenheimer is reported in U.S. dollars.

This consolidated statement of financial condition has been prepared in conformity with accounting principles generally accepted in the United States of America. These accounting principles are set out in the notes to the Company’s audited consolidated statement of financial condition for the year ended December 31, 2009.

The preparation of the consolidated statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the interim period presented.

In presenting the consolidated financial statement of financial condition, management makes estimates regarding valuations of financial instruments, loans and allowances for doubtful accounts, the outcome of legal and regulatory matters, the carrying amount of goodwill and intangibles, valuation of stock-based compensation plans, and income taxes. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could be different from these estimates.

All material intercompany transactions and balances have been eliminated in the preparation of the consolidated statement of financial condition.

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**3. New Accounting Pronouncements**

*Recently Adopted*

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is effective for financial reporting periods ending after September 15, 2009. The ASC is now the single source of authoritative generally accepted accounting principles applicable to non-governmental entities in the United States.

In June 2009, the FASB updated the accounting guidance for transfers of financial assets. The updated guidance eliminates the concept of a qualifying special-purpose entity ("QSPE") and establishes a new "participating interest" definition that must be met for transfers of portions of financial assets to be eligible for sale accounting. In addition, the updated guidance provides clarification and amendments to the derecognition criteria for a transfer to be accounted for as a sale and changes the amount of recognized gains or losses on transfers accounted for as a sale when beneficial interests are received by the transferor. The updated guidance also provides extensive new disclosure requirements for collateral transferred, servicing assets and liabilities, transfers accounted for as sales in securitization and asset-backed financing arrangements when the transferor has continuing involvement with the transferred assets, and transfers of financial assets accounted for as secured borrowings. The updated guidance is to be applied prospectively to new transfers of financial assets occurring in fiscal years beginning after November 15, 2009. The Company's adoption did not have an impact on its financial condition.

In September 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-12, "Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)." ASU No. 2009-12 provides guidance about using net asset value to measure the fair value of interests in certain investment funds and requires additional disclosures about interests in investment funds. ASU No. 2009-12 is effective for financial statements issued for reporting periods ending after December 15, 2009, with earlier application permitted. Because this update is consistent with the Company's existing fair value measurement policy for its investment funds, the Company's adoption did not have an impact on its financial condition.

In June 2009, the FASB updated the accounting guidance for consolidation. The updated guidance amends the consolidation framework for variable interest entities ("VIEs") by requiring enterprises to qualitatively assess the determination of the primary beneficiary of a VIE based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The updated guidance changes the consideration of "kick-out" rights in determining if an entity is a VIE, which may cause certain additional entities to now be considered VIEs. The updated guidance requires an ongoing reconsideration of the primary beneficiary. It also amends the events that trigger a reassessment of whether an entity is a VIE. The updated guidance also expands the disclosures required in respect of VIEs. The transition requirements of the updated guidance stipulate that assets, liabilities, and non-controlling interests of the VIE be measured at their carrying amounts as if the statement had been applied from the inception of the VIE with any difference reflected as a cumulative effect adjustment.

In February 2010, the FASB issued ASU No. 2010-10, "Consolidation – Amendments for Certain Investment Funds", that will indefinitely defer the effective date of the updated VIE accounting guidance for certain investment funds. To qualify for the deferral, the investment fund needs to meet certain

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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. See note 4 for further details. 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 will adopt this requirement in the reporting period ending March 31, 2011.

**4. Cash and Securities Segregated for Regulatory and Other Purposes**

Deposits of \$28.6 million were held at year-end in special reserve bank accounts for the exclusive benefit of customers in accordance with regulatory requirements. To the extent permitted, these deposits may be invested in interest bearing accounts collateralized by qualified securities.

**5. Financial Instruments**

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

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

Expressed in thousands of dollars.

	<b>June 30, 2010</b>	
	<b>Owned</b>	<b>Sold</b>
U.S. Government, agency and sovereign obligations	\$196,077	\$123,048
Corporate debt and other obligations	21,624	8,679
Mortgage and other asset-backed securities	3,195	14
Municipal obligations	73,136	878
Convertible bonds	37,588	12,380
Corporate equities	33,562	36,676
Other	23,099	195
Total	<u>\$388,281</u>	<u>\$181,870</u>

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Securities owned and securities sold, but not yet purchased, consist of trading and investment securities at fair values. Included in securities owned at June 30, 2010 are corporate equities with estimated fair values of approximately \$12.4 million, which are related to deferred compensation liabilities to certain employees included in accrued compensation on the consolidated statement of financial condition.

**Valuation Techniques**

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

*U.S. Treasury Obligations*

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

*U.S. Agency Obligations*

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

*Sovereign Obligations*

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

*Corporate Debt & Other Obligations*

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

*Mortgage and Other Asset-Backed Securities*

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

*Municipal Obligations*

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

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*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*

Exchange-traded equity securities and options are generally valued based on quoted prices from the exchange and categorized as Level 1 in the fair value hierarchy.

The Company held one exchange membership seat with the Chicago Board Options Exchange (“CBOE”) which was converted to 80,000 common shares when CBOE’s parent company, CBOE Holdings, was publicly listed on June 14, 2010. The Company sold 20,000 shares in the initial public offering at \$29 per share and continues to hold 60,000 shares that are restricted for sale in increments of 30,000 with a six month restriction period (“A-1 Shares”) and 30,000 shares with a twelve month restriction period (“A-2 Shares”). The Company uses the Black-Scholes model to calculate the value of a call option to purchase CBOE Holdings which is used as a proxy for the discount associated with the selling restrictions. The inputs into the Black-Scholes model include the volatility of CBOE Holdings common shares and yields associated with six month Treasury bills and twelve month Treasury notes. The Company has categorized the restricted shares of CBOE Holdings as Level 2 in the fair value hierarchy.

*Other*

As previously reported, during the week ended February 26, 2010, Oppenheimer finalized settlements with each of the New York Attorney General’s office (“NYAG”) and the Massachusetts Securities Division (“MSD” and, together with the NYAG, the “Regulators”) concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer’s marketing and sale of auction rate securities (“ARS”). Pursuant to the terms of the settlements, Oppenheimer estimates that it is obligated to purchase up to an aggregate of approximately \$39 million of eligible ARS in the initial 15 month period covered by the settlements with the Regulators. Oppenheimer commenced an initial offer to purchase ARS on May 21, 2010. The Company had purchased approximately \$19.8 million in ARS from its clients at June 30, 2010. The period in which clients are eligible to participate in the initial offer to purchase expires August 4, 2010. The ultimate amount to be redeemed will be impacted by redemptions by issuers and client actions during the period, which cannot be predicted.

In addition to the ARS client purchases of \$19.8 million referred to above, the Company also held \$2.5 million in ARS in its proprietary trading account as a result of the failed auctions in February 2008 as of June 30, 2010. These ARS positions primarily represent Auction Rate Preferred Securities (“ARPS”) issued by closed-end funds and, to a lesser extent, Municipal Auction Rate Securities (“MARS”) which are municipal bonds wrapped by municipal bond insurance and Student Loan Auction Rate Securities (“SLARS”) which are asset-backed securities backed by student loans (collectively referred to as “ARS”).

Interest rates on ARS typically reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARS have historically been categorized as Level 1 in the fair value hierarchy. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Once the auctions failed, the ARS could no longer be valued using observable prices set in the auctions. The Company has used less observable determinants of the fair value of ARS, including the strength in the underlying credits, announced issuer redemptions, completed issuer redemptions, and announcements from issuers regarding their intentions with respect to their

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outstanding ARS. The Company has also developed an internal methodology to discount for the lack of liquidity and non-performance risk of the failed auctions. Key inputs include spreads on comparable Treasury yields to derive a discount rate, an estimate of the ARS duration, and yields based on current auctions in comparable securities that have not failed. Due to the less observable nature of these inputs, the Company categorizes ARS in Level 3 of the fair value hierarchy.

*Investments*

In its role as general partner in certain hedge funds and private equity funds, the Company 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 June 30, 2010.

Amounts are expressed in thousands of dollars.

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Hedge Funds <sup>(1)</sup>	\$ 281	\$ -	Quarterly	120 Days
Private Equity Funds <sup>(2)</sup>	\$ 36	-	N/A	N/A
<b>Total</b>	<b>\$ 317</b>	<b>\$ -</b>		

(1) Includes investments in hedge fund of funds that pursue activist strategies.

(2) Includes private equity funds with a focus on real estate investing.

*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.

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

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**Fair Value Measurements**

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

**Assets and liabilities measured at fair value on a recurring basis as of June 30, 2010.**

Amounts are expressed in thousands of dollars.

	<b>Fair Value Measurements</b>			
	<b>As of June 30, 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
<b>Cash equivalents</b>	<b>\$9,252</b>	<b>\$-</b>	<b>\$-</b>	<b>\$9,252</b>
<b>Securities segregated for regulatory and other purposes</b>	<b>13,496</b>	<b>-</b>	<b>-</b>	<b>13,496</b>
<b>Deposits with clearing organizations</b>	<b>8,993</b>	<b>-</b>	<b>-</b>	<b>8,993</b>
<b>Securities owned:</b>				
U.S. Treasury securities	151,541	-	-	151,541
U.S. agency securities	39,417	5,086	-	44,503
Sovereign obligations	33	-	-	33
Corporate debt and other obligations	-	21,624	-	21,624
Mortgage and other asset-backed securities	-	3,153	42	3,195
Municipal obligations	-	71,283	1,853	73,136
Convertible bonds	-	37,588	-	37,588
Corporate equities	27,155	6,407	-	33,562
Other	2,242	-	20,857	23,099
<b>Securities owned, at fair value</b>	<b>220,388</b>	<b>145,141</b>	<b>22,752</b>	<b>388,281</b>
<b>Investments (1)</b>	<b>-</b>	<b>29,840</b>	<b>1,100</b>	<b>30,940</b>
<b>Derivative contracts (2)</b>	<b>-</b>	<b>4,561</b>	<b>-</b>	<b>4,561</b>
<b>Securities purchased under agreements to resell</b>	<b>-</b>	<b>51,480</b>	<b>-</b>	<b>51,480</b>
<b>Total</b>	<b>\$252,129</b>	<b>\$231,022</b>	<b>\$23,852</b>	<b>\$507,003</b>

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	<b>Fair Value Measurements</b>			
	<b>As of June 30, 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Liabilities:</b>				
Securities sold, but not yet purchased:				
U.S. Treasury securities	122,914	-	-	122,914
U.S. agency securities	10	124	-	134
Corporate debt and other obligations	-	8,679	-	8,679
Mortgage and other asset-backed securities	-	14	-	14
Municipal obligations	-	878	-	878
Convertible bonds	-	12,380	-	12,380
Corporate equities	26,362	10,314	-	36,676
Other	195	-	-	195
<b>Securities sold, but not yet purchased, at fair value</b>	<b>149,481</b>	<b>32,389</b>	<b>-</b>	<b>181,870</b>
<b>Derivative contracts (3)</b>	<b>322</b>	<b>506</b>	<b>-</b>	<b>828</b>
<b>Securities sold under agreements to repurchase (4)</b>	<b>-</b>	<b>453,929</b>	<b>-</b>	<b>453,929</b>
<b>Total</b>	<b>\$149,803</b>	<b>\$486,824</b>	<b>\$-</b>	<b>\$636,627</b>

(1) Included in other assets on the consolidated statement of financial condition.

(2) Included in receivable from brokers and clearing organizations on the consolidated statement of financial condition.

(3) Included in payables to brokers and clearing organizations on the consolidated statement of financial condition.

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

**Fair Value Option**

The Company 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 June 30, 2010, the fair value of the reverse repurchase agreements and repurchase agreements was \$51.5 million and \$453.9 million, 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. All derivative instruments are measured at fair value and are recognized as either assets or liabilities on the consolidated statement of financial condition. Risks managed using derivative instruments include interest rate risk and, to a lesser extent, foreign exchange risk.

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*Foreign exchange hedges*

The Company 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.

*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. At June 30, 2010, the Company had 140 open short contracts for 10-year U.S. Treasury notes with a fair value of \$322,000 used primarily as an economic hedge of interest rate risk associated with a portfolio of fixed income investments.

The Company has some limited trading activities in pass-through mortgage-backed securities eligible to be sold in the "To-be-announced" or TBA market. TBAs provide for the forward or delayed delivery of the underlying instrument with settlement up to 180 days. The contractual or notional amounts related to these financial instruments reflect the volume of activity and do not reflect the amounts at risk. Unrealized gains and losses on TBAs are recorded in the consolidated statement of financial condition in receivable from brokers and clearing organizations and payable to brokers and clearing organizations, respectively. See the Fair Value of Derivative Instruments tables below for TBAs outstanding at June 30, 2010.

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The notional amounts and fair values of the Company's derivatives at June 30, 2010 by product were as follows:

Amounts expressed in thousands of dollars.

	Type	Notional	Fair Value
<b>Assets:</b>			
<b>Derivatives not designated as hedging instruments</b>			
Other contracts (1)	TBA's	\$378,981	\$4,561
<b>Total assets</b>		<u>\$378,981</u>	<u>\$4,561</u>
<b>Liabilities:</b>			
<b>Derivatives not designated as hedging instruments</b>			
Commodity contracts (2)	U.S. Treasury futures	\$14,000	\$322
Other contracts (2)	TBA's	383,455	-
	Forward purchase commitment (3)	2,450,000	506
<b>Total liabilities</b>		<u>\$2,847,455</u>	<u>\$828</u>

(1) Included in receivable from brokers and clearing organizations on the consolidated statement of financial condition.

(2) Included in payable to brokers and clearing organizations on the consolidated statement of financial condition.

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

**Collateralized Transactions**

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

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates but not exceeding the broker call rate. At

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June 30, 2010, bank call loans were \$62.4 million. At June 30, 2010, the Company had both uncollateralized and collateralized borrowings. The collateralized loans, collateralized by firm securities with market values of approximately \$79.9 million at June 30, 2010, are primarily with two U.S. money center banks. At June 30, 2010, the Company had approximately \$1.2 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has repledged approximately \$254.4 million under securities loan agreements.

At June 30, 2010, the Company had available collateralized letters of credit of \$248.0 million. Collateral for these letters of credit include firm and customer securities with a market value of approximately \$9.3 million and \$316.7 million, respectively, pledged to two financial institutions.

In June 2009, the Company significantly expanded its government trading operations and began financing those 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 securities subsequently will be resold or reacquired as specified in the respective agreements and include accrued interest (repo-to-maturity transactions). 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 June 30, 2010, the fair value of the reverse repurchase agreements and repurchase agreements were \$51.5 million and \$453.9 million, respectively. At June 30, 2010, the gross balances of reverse repurchase agreements and repurchase agreements were \$2.4 billion and \$5.0 billion, respectively. The average daily balance of reverse repurchase agreements and repurchase agreements on a gross basis for the three months ended June 30, 2010 was \$3.6 billion and \$5.9 billion, respectively. The average daily balance of reverse repurchase agreements and repurchase agreements on a gross basis for the six months ended June 30, 2010 was \$3.2 billion and \$5.0 billion, respectively.

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 June 30, 2010, the fair value of securities received as collateral under securities borrowed transactions and reverse repurchase agreements was \$243.3 million and \$2.4 billion, respectively, of which the Company has re-pledged approximately \$50.6 million under securities loaned transactions and \$2.4 billion under repurchase agreements.

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 \$194.8 million as at June 30, 2010. The carrying value of securities owned by the Company that have been loaned or pledged to counterparties where those

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counterparties do not have the right to sell or re-pledge the collateral was \$89.2 million as at June 30, 2010.

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.

**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 June 30, 2010 are receivables from five major U.S. broker-dealers totaling approximately \$162.4 million.

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 securities purchased under agreement to resell and securities sold under agreement to repurchase, substantially all open contracts at June 30, 2010 are with the FICC. The clearing brokers 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 June 30, 2010, 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.

**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 rights to receive

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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 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 consolidated statement of financial condition.

The following tables set forth the total VIE assets, carrying value of the subsidiaries' variable interests, and the Company's maximum exposure to loss in Company-sponsored non-consolidated VIEs in which the Company holds variable interests and other non-consolidated VIEs in which the Company holds variable interests as at June 30, 2010:

**As of June 30, 2010**

Expressed in thousands of dollars.

	<b>Total VIE Assets (1)</b>	<b>Carrying Value of the Company's Variable Interest</b>		<b>Capital Commitments</b>	<b>Maximum Exposure to Loss in Non- consolidated VIEs</b>
		<b>Assets (2)</b>	<b>Liabilities</b>		
Private Equity Funds	\$166,778	\$317	-	\$5	\$322

(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 consolidated statement of financial condition.

**6. Subordinated Borrowings**

The subordinated loans are payable to E.A. Viner International Co., a wholly-owned subsidiary of the Parent, and bear interest at 11-1/2% per annum. These loans are due: \$1,620,000, June 25, 2011; \$3,850,000, November 29, 2011; and \$7,088,118, December 31, 2011 and are automatically renewed for an additional year unless terminated by either party within seven months of their expiration.

On January 14, 2008, in conjunction with the acquisition of the capital markets businesses acquired from Canadian Imperial Bank of Commerce, Oppenheimer issued a subordinated note to E.A. Viner International Co. in the amount of \$100,000,000 at a variable interest rate based on LIBOR which is due and payable on January 31, 2014. The interest rate on the subordinated note at June 30, 2010 was 5.54%.

The subordinated loans are available in computing net capital under the Securities and Exchange Commission's uniform net capital rule. These borrowings may be repaid only if, after giving effect to such repayment, Oppenheimer meets the Securities and Exchange Commission's net capital requirements.

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**7. Regulatory Requirements**

Oppenheimer and Freedom, are subject to the uniform net capital requirements of the SEC under Rule 15c3-1 (the "Rule"). Oppenheimer computes its net capital requirements under the alternative method provided for in the Rule which requires that Oppenheimer maintain net capital equal to two percent of aggregate customer-related debit items, as defined in SEC Rule 15c3-3. At June 30, 2010, the net capital of Oppenheimer as calculated under the Rule was \$160.4 million or 13% of Oppenheimer's aggregate debit items. This was \$136.5 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 June 30, 2010, Freedom had net capital of \$5.0 million, which was \$4.7 million in excess of the \$250,000 required to be maintained at that date.

In accordance with the Securities and Exchange Commission's No Action Letter dated November 3, 1998, Oppenheimer has computed a reserve requirement for the proprietary accounts of introducing firms as of June 30, 2010. Oppenheimer had no deposit requirement as of June 30, 2010.

**8. Income Taxes**

Oppenheimer is included in an affiliated group which files a consolidated Federal income tax return. State and local income tax returns are filed either on a unitary or stand-alone entity basis depending on the state's requirements. Oppenheimer's income tax provision is computed on a separate company basis.

**9. Commitments and Contingencies**

The Company has operating leases for office space, equipment and furniture and fixtures expiring at various dates through 2019.

Future minimum rental commitments under such office and equipment leases as at June 30, 2010 are as follows:

<b>Period Ended December 31,</b>	<b>Future Minimum Rentals</b>
2010	\$20,166,287
2011	37,883,232
2012	30,323,226
2013	18,814,700
2014	13,791,921
2015 and thereafter	<u>23,390,272</u>
	<u>\$144,369,638</u>

Certain of these leases contain provisions for rent escalation based on increases in costs incurred by the lessor.

In conjunction with the January 14, 2008 acquisition, the Company has a commitment to pay an earn-out of no less than \$25.0 million in early 2013 to Canadian Imperial Bank of Commerce.

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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 lawsuits creating substantial exposure. The Company is the subject of customer complaints, has been named as defendant or co-defendant in various lawsuits seeking, in total, substantial damages and is involved in certain governmental and self-regulatory agency investigations and proceedings. These proceedings arise primarily from securities brokerage, asset management and investment banking activities. The Company is also involved from time to time in governmental and self-regulatory agency investigations and proceedings. The investigations include, among other things, inquiries from the Securities and Exchange Commission, the Financial Industry Regulatory Authority and various state regulators.

As previously reported, during the week ended February 26, 2010, Oppenheimer finalized settlements with each of the New York Attorney General's office ("NYAG") and the Massachusetts Securities Division ("MSD" and, together with the NYAG, the "Regulators") concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of auction rate securities ("ARS"). Pursuant to the terms of the settlements, Oppenheimer estimates that it is obligated to purchase up to an aggregate of approximately \$39 million of eligible ARS in the initial 15 month period covered by the settlements with the Regulators. Oppenheimer commenced an initial offer to purchase ARS on May 21, 2010. The Company had purchased approximately \$19.8 million in ARS from its clients at June 30, 2010. The period in which clients are eligible to participate in the initial offer to purchase expires August 4, 2010. The ultimate amount to be redeemed will be impacted by redemptions by issuers and client actions during the period, which cannot be predicted.

**10. Related Party Transactions**

During the period ended June 30, 2010, Oppenheimer made distributions to the Parent in order to fund the Parent's obligations. Oppenheimer intends to continue to do so in the future.

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The Consolidated Statement of Financial Condition has been prepared in accordance with SEC Rule 17a-5. Copies of this document are available, upon request, from Oppenheimer & Co. Inc. and from [www.opco.com](http://www.opco.com).