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

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-12043

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**OPPENHEIMER HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**98-0080034**

(I.R.S. Employer  
Identification No.)

**85 Broad Street**

**New York, New York 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)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The number of shares of the Company’s Class A non-voting common stock and Class B voting common stock (being the only classes of common stock of the Company) outstanding on July 31, 2015 was 13,662,212 and 99,680 shares, respectively.

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OPPENHEIMER HOLDINGS INC.  
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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements (unaudited)

#### OPPENHEIMER HOLDINGS INC. CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

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

	June 30, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 50,313	\$ 63,807
Cash segregated for regulatory and other purposes	855	18,594
Deposits with clearing organizations	51,625	36,510
Receivable from brokers, dealers and clearing organizations	357,170	314,475
Receivable from customers, net of allowance for credit losses of \$2,491 (\$2,427 in 2014)	905,387	864,189
Income tax receivable	4,287	4,240
Securities purchased under agreements to resell	104,301	251,606
Securities owned, including amounts pledged of \$704,168 (\$518,123 in 2014), at fair value	1,005,150	843,155
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$48,448 and \$9,135, respectively (\$42,211 and \$8,606, respectively, in 2014)	35,086	34,932
Office facilities, net of accumulated depreciation of \$101,972 (\$103,547 in 2014)	27,938	29,589
Loans held for sale, at fair value	76,351	19,243
Mortgage servicing rights	29,220	30,140
Intangible assets	31,700	31,700
Goodwill	137,889	137,889
Other assets	112,271	107,386
Total assets	<u>\$ 2,929,543</u>	<u>\$ 2,787,455</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Drafts payable	\$ 4,054	\$ 35,373
Bank call loans	177,500	59,400
Payable to brokers, dealers and clearing organizations	238,007	257,161
Payable to customers	654,241	652,256
Securities sold under agreements to repurchase	623,852	687,440
Securities sold, but not yet purchased, at fair value	220,667	92,510
Accrued compensation	121,980	165,134
Accounts payable and other liabilities	182,426	141,352
Senior secured notes	150,000	150,000
Deferred tax liabilities, net of deferred tax assets of \$64,085 (\$68,622 in 2014)	18,182	13,097
Total liabilities	<u>2,390,909</u>	<u>2,253,723</u>
Contingencies (Note 11)		
<b>Stockholders' equity</b>		
Share capital		
Class A non-voting common stock, par value \$0.001 per share, 50,000,000 shares authorized, 13,650,149 and 13,530,688 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	65,403	62,264
Class B voting common stock, par value \$0.001 per share, 99,680 shares authorized, issued and outstanding	133	133
	<u>65,536</u>	<u>62,397</u>
Contributed capital	42,388	45,118
Retained earnings	424,038	421,047
Accumulated other comprehensive loss	(168)	(918)
Total Oppenheimer Holdings Inc. stockholders' equity	<u>531,794</u>	<u>527,644</u>
Noncontrolling interest	6,840	6,088
Total stockholders' equity	<u>538,634</u>	<u>533,732</u>
Total liabilities and stockholders' equity	<u>\$ 2,929,543</u>	<u>\$ 2,787,455</u>

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

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

(Expressed in thousands, except number of shares and per share amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
<b>REVENUE</b>				
Commissions	\$ 103,556	\$ 116,062	\$ 213,251	\$ 238,200
Advisory fees	72,243	70,430	143,209	138,635
Investment banking	29,020	26,799	56,325	60,323
Interest	12,030	12,548	23,065	24,938
Principal transactions, net	1,710	11,794	20,265	20,611
Other	20,369	12,056	28,374	22,150
Total revenue	238,928	249,689	484,489	504,857
<b>EXPENSES</b>				
Compensation and related expenses	158,214	159,851	321,305	331,801
Communications and technology	16,407	17,536	33,575	34,270
Occupancy and equipment costs	15,984	15,907	31,762	31,304
Clearing and exchange fees	6,231	6,024	12,633	11,916
Interest	4,505	4,412	8,415	9,576
Other	34,957	45,823	64,318	80,745
Total expenses	236,298	249,553	472,008	499,612
Income before income tax provision	2,630	136	12,481	5,245
Income tax provision	1,985	1,389	5,715	3,078
Net income (loss) for the period	645	(1,253)	6,766	2,167
Less net income attributable to noncontrolling interest	350	301	752	497
<b>Net income (loss) attributable to Oppenheimer Holdings Inc.</b>	<u>\$ 295</u>	<u>\$ (1,554)</u>	<u>\$ 6,014</u>	<u>\$ 1,670</u>
<b>Earnings (loss) per share attributable to Oppenheimer Holdings Inc.</b>				
Basic	\$ 0.02	\$ (0.11)	\$ 0.44	\$ 0.12
Diluted	\$ 0.02	\$ (0.11)	\$ 0.42	\$ 0.12
<b>Dividends declared per share</b>	\$ 0.11	\$ 0.11	\$ 0.22	\$ 0.22
<b>Weighted average shares</b>				
Basic	13,745,957	13,618,174	13,725,208	13,577,714
Diluted	14,390,580	13,618,174	14,342,474	14,184,330

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

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

<i>(Expressed in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss) for the period	\$ 645	\$ (1,253)	\$ 6,766	\$ 2,167
Other comprehensive income, net of tax <sup>(1)</sup>				
Currency translation adjustment	1,317	339	750	252
Comprehensive income (loss) for the period	1,962	(914)	7,516	2,419
Less net income attributable to noncontrolling interests	350	301	752	497
Comprehensive income (loss) attributable to Oppenheimer Holdings Inc.	\$ 1,612	\$ (1,215)	\$ 6,764	\$ 1,922

- (1) Other comprehensive loss is attributable to Oppenheimer Holdings Inc. No other comprehensive loss is attributable to noncontrolling interests.

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

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

(Expressed in thousands)

	2015	2014
<b>Share capital</b>		
Balance at beginning of period	\$ 62,397	\$ 60,198
Issuance of Class A non-voting common stock	3,139	1,959
Balance at end of period	65,536	62,157
<b>Contributed capital</b>		
Balance at beginning of period	45,118	42,407
Tax benefit (deficiency) from share-based awards	(270)	1,254
Share-based expense	2,362	3,025
Vested employee share plan awards	(4,822)	(3,937)
Balance at end of period	42,388	42,749
<b>Retained earnings</b>		
Balance at beginning of period	421,047	418,204
Net income for the period attributable to Oppenheimer Holdings Inc.	6,014	1,670
Dividends paid (\$0.22 per share)	(3,023)	(2,984)
Balance at end of period	424,038	416,890
<b>Accumulated other comprehensive income (loss)</b>		
Balance at beginning of period	(918)	1,709
Currency translation adjustment	750	252
Balance at end of period	(168)	1,961
<b>Total Oppenheimer Holdings Inc. stockholders' equity</b>	531,794	523,757
<b>Noncontrolling interest</b>		
Balance at beginning of period	6,088	5,353
Net income attributable to noncontrolling interest	752	497
Balance at end of period	6,840	5,850
<b>Total stockholders' equity</b>	<u>\$ 538,634</u>	<u>\$ 529,607</u>

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

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

(Expressed in thousands)

	2015	2014
<b>Cash flows from operating activities</b>		
Net income for the period	\$ 6,766	\$ 2,167
Adjustments to reconcile net income to net cash used in operating activities		
Payment of taxes due for vested share-based awards related to amounts the Company withheld on behalf of its employees to meet minimum statutory tax withholding requirements	(1,683)	(2,074)
Non-cash items included in net income:		
Depreciation and amortization of office facilities and leasehold improvements	3,564	3,862
Deferred income taxes	5,085	7,299
Amortization of notes receivable	6,831	8,534
Amortization of debt issuance costs	242	287
Write-off of debt issuance costs	—	588
Amortization of mortgage servicing rights	495	1,514
Provision for credit losses	64	13
Share-based compensation	4,462	3,479
Decrease (increase) in operating assets:		
Cash segregated for regulatory and other purposes	17,739	17,206
Deposits with clearing organizations	(15,115)	(8,506)
Receivable from brokers, dealers and clearing organizations	(42,695)	13,556
Receivable from customers	(41,262)	(82,159)
Income tax receivable	(47)	(6,678)
Securities purchased under agreements to resell	147,305	(65,175)
Securities owned	(161,995)	(88,383)
Notes receivable	(6,985)	(5,599)
Loans held for sale	(57,108)	60,183
Mortgage servicing rights	425	(1,750)
Other assets	(4,377)	29,586
Increase (decrease) in operating liabilities:		
Drafts payable	(31,319)	(15,285)
Payable to brokers, dealers and clearing organizations	(19,154)	32,117
Payable to customers	1,985	58,320
Securities sold under agreements to repurchase	(63,588)	59,115
Securities sold, but not yet purchased	128,157	49,778
Accrued compensation	(45,254)	(58,363)
Accounts payable and other liabilities	41,074	(27,022)
Cash used in operating activities	(126,388)	(13,390)
<b>Cash flows from investing activities</b>		
Purchase of office facilities	(1,913)	(2,185)
Cash used in investing activities	(1,913)	(2,185)
<b>Cash flows from financing activities</b>		
Cash dividends paid on Class A non-voting and Class B voting common stock	(3,023)	(2,984)
Issuance of Class A non-voting common stock	—	185
Tax benefit (deficiency) from share-based awards	(270)	1,254
Redemption of senior secured notes	—	(45,000)
Increase in bank call loans, net	118,100	29,000
Cash provided by (used in) financing activities	114,807	(17,545)
Net decrease in cash and cash equivalents	(13,494)	(33,120)
<b>Cash and cash equivalents, beginning of period</b>	63,807	98,294
<b>Cash and cash equivalents, end of period</b>	<u>\$ 50,313</u>	<u>\$ 65,174</u>
<b>Schedule of non-cash financing activities</b>		
Employee share plan issuance	\$ 3,139	\$ 1,774
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for interest	\$ 8,343	\$ 10,507
Cash paid during the period for income taxes, net of refunds	\$ 863	\$ 2,161

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



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

**1. Organization and basis of presentation**

***Organization***

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

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 Inc. ("OIM"), 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, Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHHF"), which is engaged in commercial mortgage origination and servicing, 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 financial services and is regulated by the Financial Conduct Authority, and Oppenheimer Investments Asia Limited, based in Hong Kong, China, which provides assistance in accessing the U.S. equities markets and limited mergers and acquisitions advisory services to Asia-based companies, as well as offering fixed income brokerage services to institutional investors, and is regulated by the Securities and Futures Commission.

Oppenheimer provides its services from 91 offices in 24 states located throughout the United States and in 6 foreign jurisdictions. 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. Freedom has been approved to operate as a representative office in Beijing, China. 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, 2014 (the "Form 10-K"). The accompanying December 31, 2014 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 six month period ended June 30, 2015 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 noncontrolling interests as a separate component of stockholders' equity on the Company's condensed consolidated balance sheet. As of June 30, 2015, the Company owned 83.68% of OMHHF and the noncontrolling interest recorded in the condensed consolidated balance sheet was \$6.8 million.

## 2. New accounting pronouncements

### ***Recently Adopted***

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." Under this ASU, a discontinued operation is defined as a disposal of a component or group of components that is disposed of and represents a strategic shift that has or will have a major effect on an entity's operation. The ASU also modified related disclosure requirements. The ASU became effective for the annual reporting period in the fiscal year that begins after December 15, 2014. The adoption of this accounting guidance did not have a material impact on the Company's condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing – Repurchase-to-Maturity Transactions, Repurchase Financing, and Disclosures," which makes amendments to the guidance in Accounting Standards Codification 860 on accounting for certain repurchase agreements. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015, except for the disclosures related to transactions accounted for as secured borrowings, which became effective for the period beginning on or after March 15, 2015. The adoption of this accounting guidance did not have a material impact on the Company's condensed consolidated financial statements. See Note 6, Collateralized transactions, below.

In November 2014, the FASB issued ASU No. 2014-17 "Business Combination - Pushdown Accounting." The ASU gives the acquired entity the option of applying pushdown accounting in its stand-alone financial statements upon a change-in-control event. The ASU became effective upon issuance. The adoption of this accounting guidance did not have a material impact on the Company's condensed consolidated financial statements.

### ***Recently Issued***

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Additionally, the ASU expands the disclosure requirements for revenue recognition. The ASU will be effective for the annual reporting period in the fiscal year that begins after December 15, 2017 and early adoption is permitted as of the original effective date. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation." The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based award as performance conditions that affect vesting. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern," which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The ASU requires management of an entity to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements and also provide disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2016 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact on its disclosure.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items," to simplify income statement classification by removing the concept of extraordinary items. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is of an unusual nature and occurs infrequently. This separate, net-of-tax presentation (and corresponding earnings per share impact) will no longer be allowed. However, the existing requirement to separately present items that are of an unusual nature or occur infrequently on a pre-tax basis within income from continuing operations has been retained. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015. Early adoption is permitted, but only as of the beginning of the fiscal year of adoption. Upon adoption, a reporting entity may elect prospective or retrospective application. If adopted prospectively, both the nature and amount of any subsequent adjustments to previously reported extraordinary items must be disclosed. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation - Amendments to the Consolidation Analysis," to eliminate the deferral of the application of the revised consolidation rules and make changes to both the variable interest model and the voting model. Under this ASU, a general partner will not consolidate a partnership or similar entity under the voting model. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which removes the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share practical expedient and related disclosures. The ASU is effective for the annual reporting periods in the fiscal year that begins after December 15, 2015 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

### 3. 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 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 June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Basic weighted average number of shares outstanding	13,745,957	13,618,174	13,725,208	13,577,714
Net dilutive effect of share-based awards, treasury method <sup>(1)</sup>	644,623	—	617,266	606,616
Diluted weighted average number of shares outstanding	14,390,580	13,618,174	14,342,474	14,184,330
Net income (loss) for the period	\$ 645	\$ (1,253)	\$ 6,766	\$ 2,167
Net income attributable to noncontrolling interest, net of tax	350	301	752	497
Net income (loss) attributable to Oppenheimer Holdings Inc.	\$ 295	\$ (1,554)	\$ 6,014	\$ 1,670
Basic earnings (loss) per share	\$ 0.02	\$ (0.11)	\$ 0.44	\$ 0.12
Diluted earnings (loss) per share	\$ 0.02	\$ (0.11)	\$ 0.42	\$ 0.12

- (1) For the three and six months ended June 30, 2015, the diluted earnings per share computation does not include the anti-dilutive effect of 37,333 and 40,309 shares of Class A Stock granted under share-based compensation arrangements, respectively (1,381,907 and 58,008, respectively, for the three and six months ended June 30, 2014).

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

(Expressed in thousands)

	As of	
	June 30, 2015	December 31, 2014
Receivable from brokers, dealers and clearing organizations consist of:		
Securities borrowed	\$ 279,695	\$ 242,172
Receivable from brokers	19,867	38,149
Securities failed to deliver	16,723	11,055
Clearing organizations	23,265	21,106
Other	17,620	1,993
Total	<u>\$ 357,170</u>	<u>\$ 314,475</u>
Payable to brokers, dealers and clearing organizations consist of:		
Securities loaned	\$ 209,226	\$ 137,892
Payable to brokers	6,454	4,559
Securities failed to receive	20,491	23,573
Other	1,836	91,137
Total	<u>\$ 238,007</u>	<u>\$ 257,161</u>

#### 5. Fair value measurements

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.

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

(Expressed in thousands)

	As of June 30, 2015		As of December 31, 2014	
	Owned	Sold	Owned	Sold
U.S. Government, agency and sovereign obligations	\$ 701,009	\$ 159,594	\$ 570,607	\$ 30,615
Corporate debt and other obligations	23,623	6,045	19,795	2,646
Mortgage and other asset-backed securities	4,718	—	6,689	255
Municipal obligations	66,030	49	60,833	51
Convertible bonds	61,711	8,194	49,813	11,369
Corporate equities	46,933	46,785	42,751	47,574
Money markets	742	—	1,245	—
Auction rate securities	100,384	—	91,422	—
Total	<u>\$ 1,005,150</u>	<u>\$ 220,667</u>	<u>\$ 843,155</u>	<u>\$ 92,510</u>

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, 2015 are corporate equities with estimated fair values of approximately \$14.3 million (\$15.7 million at December 31, 2014), which are related to deferred compensation liabilities to certain employees included in accrued compensation on the condensed consolidated balance sheet.

## **Valuation Techniques**

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

### *U.S. Government 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 of 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 and Other Obligations*

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

### *Mortgage and Other Asset-Backed Securities*

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

### *Municipal Obligations*

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

### *Convertible Bonds*

The fair value of convertible bonds is estimated using recently executed transactions and dollar-neutral price quotations, where observable. When observable price quotations are not available, fair value is determined based on cash flow models using yield curves and bond spreads as key inputs. Convertible bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

### *Corporate Equities*

Equity securities and options are generally valued based on quoted prices from the exchange or market where traded and categorized as Level 1 of the fair value hierarchy. To the extent quoted prices are not available, fair values are generally derived using bid/ask spreads, and these securities are generally categorized in Level 2 of the fair value hierarchy.

### *Loans Held for Sale*

The Company elected the fair value option for loans held for sale and determines the fair value using both a discounted cash flow model (see key assumptions used in determining mortgage servicing rights below) and quoted observable prices from market participants. Therefore, the Company categorizes these loans held for sale in Level 2 of the fair value hierarchy.

### *Interest Rate Lock Commitments*

OMHHF records an interest rate lock commitment upon the commitment to originate a loan with a borrower. This commitment, which can be an asset or a liability, is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan. The interest rate lock commitments are valued using a discounted cash flow model developed based on U.S. Treasury rate changes and other observable market data. The fair value is determined after considering the potential impact of collateralization, and the Company categorizes these commitments within Level 3 of the fair value hierarchy.

### *To-Be-Announced ("TBA") sale contracts*

TBA sale contracts of permanent loans originated or purchased at OMHHF are based on observable market prices of recently executed purchases of similar loans which are then used to derive a market implied spread, which in turn is used as the primary input in estimating the fair value of loans at the measurement date. TBA sale contracts of construction loans originated or purchased at OMHHF are based on observable market prices of recently executed purchases. TBA sale contracts are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.

### *Mortgage Servicing Rights ("MSRs")*

The Company's MSRs are measured at fair value on a nonrecurring basis. The MSRs are initially measured at fair value on the loan securitization date and subsequently measured on the amortized cost basis subject to quarterly impairment testing. MSRs do not trade in active open markets with readily observable pricing. Therefore the Company uses a discounted cash flow model to estimate the fair value of MSRs. The discounted cash flow model calculates the present value of estimated future net servicing income using inputs such as contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The Company reassesses and periodically adjusts the underlying inputs and assumptions used in the model to reflect observable and unobservable market conditions and assumptions that a market participant would consider in valuing an MSR asset. MSRs are carried at the lower of amortized cost or estimated fair value.

The following key assumptions were used in determining the initial fair value of MSRs:

**Discount Rate** – The discount rate used for originated permanent and construction loans averaged approximately 12%.

**Estimated Life** – The estimated life of the MSRs is derived using a continuous prepayment ("CPR") assumption which estimates projected prepayments of the loan portfolio by considering factors such as note rates, lockouts, and prepayment penalties at the loan level. The CPR rates used are 0% until such time that a loan's prepayment penalty rate hits 4% of the unpaid principal balance of the loan with the vast majority of CPR speeds ranging from 10% to 15% thereafter, with an average of 12%.

**Servicing Costs** – The estimated future cost to service the loans on an annual basis per loan averages approximately \$1,250 for a permanent loan, with a considerably higher cost to service during the construction phase.

The Company does not anticipate any credit losses on the commercial mortgages it services since all of the mortgages are insured for and guaranteed against credit losses by the Federal Housing Administration ("FHA") and the Government National Mortgage Association ("GNMA") and are thus guaranteed by the U.S. government.

### *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. 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 June 30, 2015, the Company purchased and holds (net of redemptions) approximately \$107.6 million in ARS from its clients. In addition, the Company is committed to purchase another \$16.7 million in ARS from clients through 2017 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 which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans.

Interest rates on ARS typically reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARS have historically been categorized as Level 1 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.

The ARS purchase commitment, or derivative 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.

Additional information regarding the valuation technique and inputs for Level 3 financial instruments used is as follows:

(Expressed in thousands)

Quantitative Information about Level 3 Fair Value Measurements at June 30, 2015

Product	Principal	Valuation Adjustment	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
<b>Auction Rate Securities Owned <sup>(1)</sup></b>							
Auction Rate Preferred Securities	\$ 85,175	\$ 4,546	\$ 80,629	Discounted Cash Flow	Discount Rate <sup>(2)</sup>	1.44% to 1.96%	1.69%
					Duration	4.0 years	4.0 years
					Current Yield <sup>(3)</sup>	0.14% to 0.47%	0.30%
Municipal Auction Rate Securities	12,350	1,218	11,132	Discounted Cash Flow	Discount Rate <sup>(4)</sup>	2.57%	2.57%
					Duration	4.5 years	4.5 years
					Current Yield <sup>(3)</sup>	0.22%	0.22%
	5,975	598	5,377	Secondary Market Trading Activity	Observable trades in inactive market for in portfolio securities	90.00% of par	90.00% of par
Student Loan Auction Rate Securities	450	62	388	Discounted Cash Flow	Discount Rate <sup>(5)</sup>	3.26%	3.26%
					Duration	7.0 years	7.0 years
					Current Yield <sup>(3)</sup>	1.02%	1.02%
Other <sup>(7)</sup>	3,625	767	2,858	Secondary Market Trading Activity	Observable trades in inactive market for in portfolio securities	78.83% of par	78.83% of par
	<u>\$ 107,575</u>	<u>\$ 7,191</u>	<u>\$ 100,384</u>				
<b>Auction Rate Securities Commitments to Purchase <sup>(6)</sup></b>							
Auction Rate Preferred Securities	\$ 13,048	\$ 676	\$ 12,372	Discounted Cash Flow	Discount Rate <sup>(2)</sup>	1.44% to 1.96%	1.69%
					Duration	4.0 years	4.0 years
					Current Yield <sup>(3)</sup>	0.14% to 0.47%	0.30%
Municipal Auction Rate Securities	3,562	351	3,211	Discounted Cash Flow	Discount Rate <sup>(4)</sup>	2.57%	2.57%
					Duration	4.5 years	4.5 years
					Current Yield <sup>(3)</sup>	0.22%	0.22%
Student Loan Auction Rate Securities	50	7	43	Discounted Cash Flow	Discount Rate <sup>(5)</sup>	3.26%	3.26%
					Duration	7.0 years	7.0 years
					Current Yield <sup>(3)</sup>	1.02%	1.02%
	<u>\$ 16,660</u>	<u>\$ 1,034</u>	<u>\$ 15,626</u>				
<b>Total</b>	<u><u>\$ 124,235</u></u>	<u><u>\$ 8,225</u></u>	<u><u>\$ 116,010</u></u>				

- (1) Principal amount represents the par value of the ARS and is included in securities owned in the condensed consolidated balance sheet at June 30, 2015. The valuation adjustment amount is included as a reduction to securities owned in the condensed consolidated balance sheet as well as principal transactions revenue in the statement of operations at June 30, 2015.
- (2) Derived by applying a multiple to the spread between 110% to 150% to the U.S. Treasury rate of 1.31%.
- (3) Based on current auctions in comparable securities that have not failed.
- (4) Derived by applying a multiple to the spread of 175% to the U.S. Treasury rate of 1.47%.
- (5) Derived by applying the sum of the spread of 1.20% to the U.S. Treasury rate of 2.06%.
- (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 at June 30, 2015.
- (7) Represents ARS issued by a credit default obligation structure that the Company has purchased and is committed to purchase as a result of a legal settlement.



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 June 30, 2015 would result in a decrease in the fair value of \$1.1 million (does not consider a corresponding reduction in duration as discussed above).
- The impact of a 50 basis point increase in the discount rate at June 30, 2015 would result in a decrease in the fair value of \$2.1 million (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, the Company categorizes ARS in Level 3 of the fair value hierarchy. As of June 30, 2015, the Company had a valuation adjustment (unrealized loss) of \$7.2 million for ARS owned which is included as a reduction to securities owned on the consolidated balance sheet. As of June 30, 2015, the Company also had a valuation adjustment of \$1.0 million on ARS purchase commitments from settlements with the Regulators and legal settlements and awards which is included in other liabilities on the condensed consolidated balance sheet. The total valuation adjustment was \$8.2 million as of June 30, 2015. The valuation adjustment represents the difference between the principal value and the fair value of the ARS owned and ARS purchase commitments.

### Investments

In its role as general partner in certain hedge funds and private equity funds, the Company, through its subsidiaries, holds direct investments in such funds. The Company uses the net asset value of the underlying fund as a basis for estimating the fair value of its investment. Due to the illiquid nature of these investments and difficulties in obtaining observable inputs, these investments are included in Level 3 of the fair value hierarchy.

The following table provides information about the Company's investments in Company-sponsored funds at June 30, 2015:

(Expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds <sup>(1)</sup>	\$ 2,300	\$ —	Quarterly - Annually	30 - 120 Days
Private equity funds <sup>(2)</sup>	6,105	1,251	N/A	N/A
	<u>\$ 8,405</u>	<u>\$ 1,251</u>		

- (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 consent of the general partner. The lock-up period of the private equity funds can extend to 10 years.

## **Valuation Process**

The 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 to ARS that are trading in the secondary market.

For financial instruments categorized in Level 3 of the fair value hierarchy measured on a non-recurring basis, primarily for MSRs, the OMHHF Valuation Committee, which is comprised of the OMHHF President & Chief Executive Officer, OMHHF CFO, OMHHF Chief Operating Officer, and OMHHF Asset Manager, is responsible for the MSR model and resulting fair valuations. The OMHHF Valuation Committee performs its review of the model and assumptions and its impairment analysis on a quarterly basis. On an annual basis, the Company utilizes an external valuation consultant to validate that the internal MSR model is functioning appropriately. The OMHHF Valuation Committee compares assumptions used for unobservable inputs, such as for discount rates, estimated life, and costs of servicing, to that used by the external valuation consultant for reasonableness. The model output and resulting valuation multiples are reviewed for reasonableness and consistency. Where available, comparisons are performed to recent MSR sales in the secondary market. The Company's management reviews the results of both the quarterly reviews and annual impairment analysis.

## Assets and Liabilities Measured at Fair Value

The Company's assets and liabilities, recorded at fair value on a recurring basis as of June 30, 2015 and December 31, 2014, 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, 2015

(Expressed in thousands)

	Fair Value Measurements at June 30, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 566	\$ —	\$ —	\$ 566
Deposits with clearing organizations	28,190	—	—	28,190
Securities owned:				
U.S. Treasury securities	677,766	—	—	677,766
U.S. Agency securities	751	21,896	—	22,647
Sovereign obligations	—	596	—	596
Corporate debt and other obligations	—	23,623	—	23,623
Mortgage and other asset-backed securities	—	4,718	—	4,718
Municipal obligations	—	65,968	62	66,030
Convertible bonds	—	61,711	—	61,711
Corporate equities	46,933	—	—	46,933
Money markets	742	—	—	742
Auction rate securities	—	—	100,384	100,384
Securities owned, at fair value	726,192	178,512	100,446	1,005,150
Investments <sup>(1)</sup>	—	54,810	9,114	63,924
Loans held for sale	—	76,351	—	76,351
Securities purchased under agreements to resell <sup>(2)</sup>	—	104,301	—	104,301
Derivative contracts:				
TBAAs	—	2,586	—	2,586
Interest rate lock commitments	—	—	5,060	5,060
Derivative contracts, total	—	2,586	5,060	7,646
<b>Total</b>	<b>\$ 754,948</b>	<b>\$ 416,560</b>	<b>\$ 114,620</b>	<b>\$ 1,286,128</b>
<b>Liabilities</b>				
Securities sold, but not yet purchased:				
U.S. Treasury securities	\$ 159,576	\$ —	\$ —	\$ 159,576
U.S. Agency securities	—	18	—	18
Corporate debt and other obligations	—	6,045	—	6,045
Municipal obligations	—	49	—	49
Convertible bonds	—	8,194	—	8,194
Corporate equities	46,785	—	—	46,785
Securities sold, but not yet purchased, at fair value	206,361	14,306	—	220,667
Derivative contracts:				
Futures	698	—	—	698
Foreign currency forward contracts	28	—	—	28
TBAAs	—	171	—	171
Interest rate lock commitments	—	—	683	683
ARS purchase commitments	—	—	1,034	1,034
Derivative contracts, total	726	171	1,717	2,614
<b>Total</b>	<b>\$ 207,087</b>	<b>\$ 14,477</b>	<b>\$ 1,717</b>	<b>\$ 223,281</b>

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

(2) Included in securities purchased under agreements to resell where the Company has elected fair value option treatment.

**Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014**
*(Expressed in thousands)*

	Fair Value Measurements at December 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 31,175	\$ —	\$ —	\$ 31,175
Deposits with clearing organizations	24,188	—	—	24,188
Securities owned:				
U.S. Treasury securities	540,223	—	—	540,223
U.S. Agency securities	—	26,261	—	26,261
Sovereign obligations	—	4,123	—	4,123
Corporate debt and other obligations	—	19,795	—	19,795
Mortgage and other asset-backed securities	—	6,689	—	6,689
Municipal obligations	—	60,669	164	60,833
Convertible bonds	—	49,813	—	49,813
Corporate equities	42,751	—	—	42,751
Money markets	1,245	—	—	1,245
Auction rate securities	—	—	91,422	91,422
Securities owned, at fair value	584,219	167,350	91,586	843,155
Investments <sup>(1)</sup>	—	51,246	9,508	60,754
Loans held for sale	—	19,243	—	19,243
Securities purchased under agreements to resell <sup>(2)</sup>	—	250,000	—	250,000
Derivative contracts:				
TBAs	—	4,535	—	4,535
Interest rate lock commitments	—	—	7,576	7,576
Derivative contracts, total	—	4,535	7,576	12,111
<b>Total</b>	<b>\$ 639,582</b>	<b>\$ 492,374</b>	<b>\$ 108,670</b>	<b>\$ 1,240,626</b>
<b>Liabilities</b>				
Securities sold, but not yet purchased:				
U.S. Treasury securities	\$ 30,581	\$ —	\$ —	\$ 30,581
U.S. Agency securities	—	34	—	34
Corporate debt and other obligations	—	2,646	—	2,646
Mortgage and other asset-backed securities	—	255	—	255
Municipal obligations	—	51	—	51
Convertible bonds	—	11,369	—	11,369
Corporate equities	47,574	—	—	47,574
Securities sold, but not yet purchased, at fair value	78,155	14,355	—	92,510
Derivative contracts:				
Futures	353	—	—	353
Foreign currency forward contracts	10	—	—	10
TBAs	—	1,018	—	1,018
Interest rate lock commitments	—	—	1,222	1,222
ARS purchase commitments	—	—	902	902
Derivative contracts, total	363	1,018	2,124	3,505
<b>Total</b>	<b>\$ 78,518</b>	<b>\$ 15,373</b>	<b>\$ 2,124</b>	<b>\$ 96,015</b>

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

(2) Included in securities purchased under agreements to resell where the Company has elected fair value option treatment.

There were no transfers between Level 1 and Level 2 financial assets and liabilities in the three and six months ended June 30, 2015.

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended June 30, 2015 and 2014:

(Expressed in thousands)

Level 3 Assets and Liabilities						
For the Three Months Ended June 30, 2015						
	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(5)(6)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Municipals	\$ 104	\$ (22)	\$ —	\$ (20)	\$ —	\$ 62
Auction rate securities <sup>(1)(7)(8)</sup>	99,057	(998)	2,500	(175)	—	100,384
Interest rate lock commitments <sup>(2)</sup>	11,424	(6,364)	—	—	—	5,060
Investments <sup>(3)</sup>	9,149	(155)	190	(70)	—	9,114
<b>Liabilities</b>						
Interest rate lock commitments <sup>(2)</sup>	544	(139)	—	—	—	683
ARS purchase commitments <sup>(4)</sup>	797	(237)	—	—	—	1,034

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Interest rate lock commitment assets and liabilities are recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. The commitment assets and liabilities are recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.
- (3) Primarily represents general partner ownership and limited partner interests in hedge funds and private equity funds sponsored by the Company.
- (4) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (5) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.
- (6) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.
- (7) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.
- (8) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

(Expressed in thousands)

Level 3 Assets and Liabilities  
For the Three Months Ended June 30, 2014

	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(5)(6)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Municipals	\$ 70	\$ (18)	\$ —	\$ —	\$ —	\$ 52
Auction rate securities <sup>(1)(7)(8)</sup>	85,025	(327)	10,975	(3,125)	—	92,548
Interest rate lock commitments <sup>(2)</sup>	3,038	7,490	—	—	—	10,528
Investments <sup>(3)</sup>	8,706	82	115	(124)	—	8,779
<b>Liabilities</b>						
Interest rate lock commitments <sup>(2)</sup>	4,402	569	—	—	—	3,833
ARS purchase commitments <sup>(4)</sup>	2,205	691	—	—	—	1,514

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Interest rate lock commitment assets and liabilities are recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. The commitment assets and liabilities are recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.
- (3) Primarily represents general partner ownership and limited partner interests in hedge funds and private equity funds sponsored by the Company.
- (4) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (5) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.
- (6) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.
- (7) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.
- (8) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2015 and 2014:

(Expressed in thousands)

Level 3 Assets and Liabilities For the Six Months Ended June 30, 2015						
	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(5)(6)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Municipals	\$ 164	\$ (82)	\$ —	\$ (20)	\$ —	\$ 62
Auction rate securities <sup>(1)(7)(8)</sup>	91,422	(63)	10,725	(1,700)	—	100,384
Interest rate lock commitments <sup>(2)</sup>	7,576	(2,516)	—	—	—	5,060
Investments <sup>(3)</sup>	9,508	(386)	388	(285)	(111)	9,114
<b>Liabilities</b>						
Interest rate lock commitments <sup>(2)</sup>	1,222	539	—	—	—	683
ARS purchase commitments <sup>(4)</sup>	902	(132)	—	—	—	1,034

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Interest rate lock commitment assets and liabilities are recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. The commitment assets and liabilities are recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.
- (3) Primarily represents general partner ownership and limited partner interests in hedge funds and private equity funds sponsored by the Company.
- (4) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (5) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.
- (6) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.
- (7) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.
- (8) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

(Expressed in thousands)

Level 3 Assets and Liabilities  
For the Six Months Ended June 30, 2014

	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(5)(6)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Municipals	\$ 236	\$ (184)	\$ —	\$ —	\$ —	\$ 52
Auction rate securities <sup>(1)(7)(8)</sup>	85,124	(326)	14,175	(6,425)	—	92,548
Interest rate lock commitments <sup>(2)</sup>	2,375	8,153	—	—	—	10,528
Investments <sup>(3)</sup>	5,946	(87)	4,167	(627)	(620)	8,779
<b>Liabilities</b>						
Interest rate lock commitments <sup>(2)</sup>	3,653	(180)	—	—	—	3,833
ARS purchase commitments <sup>(4)</sup>	2,600	1,086	—	—	—	1,514

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Interest rate lock commitment assets and liabilities are recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. The commitment assets and liabilities are recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.
- (3) Primarily represents general partner ownership and limited partner interests in hedge funds and private equity funds sponsored by the Company.
- (4) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (5) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.
- (6) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.
- (7) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.
- (8) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

### Financial Instruments Not Measured at Fair Value

The tables below present the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value in the condensed consolidated balance sheets. The tables below exclude non-financial assets and liabilities (e.g., office facilities and accrued compensation).

The carrying value of financial instruments not measured at fair value categorized in the fair value hierarchy as Level 1 or Level 2 (e.g., cash and receivables from customers) approximates fair value because of the relatively short period of time between their origination and expected maturity. The fair value of the Company's 8.75% Senior Secured Notes, categorized in Level 2 of the fair value hierarchy, is based on quoted prices from the market in which the Notes trade.

The fair value of MSRs is based on observable and unobservable inputs and thus categorized as Level 3 in the fair value hierarchy. See valuation techniques above for key assumptions used.



**Assets and liabilities not measured at fair value on a recurring basis as of June 30, 2015**
*(Expressed in thousands)*

	As of June 30, 2015		Fair Value Measurement: Assets			
	Carrying Value	Fair Value	As of June 30, 2015			
			Level 1	Level 2	Level 3	Total
Cash	\$ 49,747	\$ 49,747	\$ 49,747	\$ —	\$ —	\$ 49,747
Cash segregated for regulatory and other purposes	855	855	855	—	—	855
Deposits with clearing organization	23,435	23,435	23,435	—	—	23,435
Receivable from brokers, dealers and clearing organizations:						
Securities borrowed	279,695	279,695	—	279,695	—	279,695
Receivables from brokers	19,867	19,867	—	19,867	—	19,867
Securities failed to deliver	16,723	16,723	—	16,723	—	16,723
Clearing organizations	23,265	23,265	—	23,265	—	23,265
Other	17,620	17,620	—	17,620	—	17,620
	357,170	357,170	—	357,170	—	357,170
Receivable from customers	905,387	905,387	—	905,387	—	905,387
Mortgage servicing rights	29,220	41,414	—	—	41,414	41,414

*(Expressed in thousands)*

	As of June 30, 2015		Fair Value Measurement: Liabilities			
	Carrying Value	Fair Value	As of June 30, 2015			
			Level 1	Level 2	Level 3	Total
Drafts payable	\$ 4,054	\$ 4,054	\$ 4,054	\$ —	\$ —	\$ 4,054
Bank call loans	177,500	177,500	—	177,500	—	177,500
Payables to brokers, dealers and clearing organizations:						
Securities loaned	209,226	209,226	—	209,226	—	209,226
Payable to brokers	6,454	6,454	—	6,454	—	6,454
Securities failed to receive	20,491	20,491	—	20,491	—	20,491
Other	1,836	1,836	—	1,836	—	1,836
	238,007	238,007	—	238,007	—	238,007
Payables to customers	654,241	654,241	—	654,241	—	654,241
Securities sold under agreements to repurchase	623,852	623,852	—	623,852	—	623,852
Warehouse payable	70,860	70,860	—	70,860	—	70,860
Senior secured notes	150,000	156,563	—	156,563	—	156,563

**Assets and liabilities not measured at fair value on a recurring basis as of December 31, 2014**
*(Expressed in thousands)*

	As of December 31, 2014		Fair Value Measurement: Assets			
			As of December 31, 2014			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Cash	\$ 32,632	\$ 32,632	\$ 32,632	\$ —	\$ —	\$ 32,632
Cash segregated for regulatory and other purposes	18,594	18,594	18,594	—	—	18,594
Deposits with clearing organization	12,322	12,322	12,322	—	—	12,322
Receivable from brokers, dealers and clearing organizations:						
Securities borrowed	242,172	242,172	—	242,172	—	242,172
Receivables from brokers	38,149	38,149	—	38,149	—	38,149
Securities failed to deliver	11,055	11,055	—	11,055	—	11,055
Clearing organizations	21,106	21,106	—	21,106	—	21,106
Other	1,993	1,993	—	1,993	—	1,993
	314,475	314,475	—	314,475	—	314,475
Receivable from customers	864,189	864,189	—	864,189	—	864,189
Securities purchased under agreements to resell	1,606	1,606	1,606	—	—	1,606
Mortgage servicing rights	30,140	42,279	—	—	42,279	42,279

*(Expressed in thousands)*

	As of December 31, 2014		Fair Value Measurement: Liabilities			
			As of December 31, 2014			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Drafts payable	\$ 35,373	\$ 35,373	\$ 35,373	\$ —	\$ —	\$ 35,373
Bank call loans	59,400	59,400	—	59,400	—	59,400
Payables to brokers, dealers and clearing organizations:						
Securities loaned	137,892	137,892	—	137,892	—	137,892
Payable to brokers	4,559	4,559	—	4,559	—	4,559
Securities failed to receive	23,573	23,573	—	23,573	—	23,573
Other	91,137	91,137	—	91,137	—	91,137
	257,161	257,161	—	257,161	—	257,161
Payables to customers	652,256	652,256	—	652,256	—	652,256
Securities sold under agreements to repurchase	687,440	687,440	—	687,440	—	687,440
Warehouse payable	16,683	16,683	—	16,683	—	16,683
Senior secured notes	150,000	157,782	—	157,782	—	157,782

## **Fair Value Option**

The Company has elected to apply the fair value option to its loan trading portfolio which resides in OPY Credit Corp. and is included in other assets on the condensed consolidated balance sheet. Management has elected this treatment as it is consistent with the manner in which the business is managed as well as the way that financial instruments in other parts of the business are recorded. There were no loan positions held in the secondary loan trading portfolio at June 30, 2015 or December 31, 2014.

The Company elected the fair value option for repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. 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 mismatch in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At June 30, 2015, the fair value of the reverse repurchase agreements for which the fair value option was elected was \$104.3 million.

On October 1, 2013, the Company also elected the fair value option for loans held for sale which reside in OMHHF and are reported on the condensed consolidated balance sheet. Loans held for sale represent originated loans that are generally transferred or sold within 60 days from the date that a mortgage loan is funded. Electing to use fair value allows a better offset of the change in fair value of the loan and the change in fair value of the derivative instruments used as economic hedges. During the period prior to its sale, interest income on a loan held for sale is calculated in accordance with the terms of the individual loan. At June 30, 2015, the Company did not carry any loans held for sale for a period longer than 90 days. At June 30, 2015, the book value and fair value of loans held for sale was \$71.2 million and \$76.4 million, respectively.

## **Derivative Instruments and Hedging Activities**

The Company transacts, on a limited basis, in exchange traded and over-the-counter derivatives for both asset and liability management as well as for trading and investment purposes. Risks managed using derivative instruments include interest rate risk and, to a lesser extent, foreign exchange risk. All derivative instruments are measured at fair value and are recognized as either assets or liabilities on the condensed consolidated balance sheet.

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

For derivative instruments that were designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative was reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. For the three months ended June 30, 2015 and 2014, there were no derivative instruments that were designated and qualified as a cash flow hedge.

### *Foreign exchange hedges*

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

### *Derivatives used for trading and investment purposes*

Futures contracts represent commitments to purchase or sell securities or other commodities at a future date and at a specified price. Market risk exists with respect to these instruments. Notional or contractual amounts are used to express the volume of these transactions and do not represent the amounts potentially subject to market risk. The futures contracts the Company uses including U.S. Treasury notes, Federal funds, General collateral futures and Eurodollar contracts are used primarily as an economic hedge of interest rate risk associated with government trading activities.

### *Derivatives used for commercial mortgage banking*

In the normal course of business, OMHHF enters into contractual commitments to originate (purchase) and sell multifamily mortgage loans at fixed prices with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within time frames established by OMHHF. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, OMHHF's policy is to enter into a TBA sale contract with the investor simultaneously with the rate lock commitment with the borrower. The TBA sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. TBA sale contracts with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

Both the rate lock commitments to borrowers and the TBA sale contracts to buyers are undesignated derivatives and, accordingly, are marked to fair value through earnings. Unrealized gains and losses on rate lock commitments are recorded in other assets in the condensed consolidated balance sheets and other income in the condensed consolidated statements of operations. The fair value of the Company's rate lock commitments to borrowers and loans held for sale and the related input includes, as applicable:

- the assumed gain/loss of the expected resultant loan sale to the buyer;
- the expected net future cash flows associated with servicing the loan;
- the effects of interest rate movements between the date of the rate lock and the balance sheet date; and
- the nonperformance risk of both the counterparty and the Company.

The fair value of the Company's TBA sale contracts to investors considers effects of interest rate movements between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the TBA sale contracts to measure the fair value.

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons, if at all, and the expected net cash flows from servicing to be received upon securitization of the loan. The fair value of the expected net future cash flows associated with servicing the loan is calculated pursuant to the valuation techniques described previously for MSRs.

To calculate the effects of interest rate movements, the Company uses applicable published U.S. Treasury prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount.

The fair value of the Company's TBA sale contracts to investors considers the market price movement of the same type of security between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the TBA sale contracts to measure the fair value.

The fair value of the Company's interest rate lock commitments and TBA sale contracts is adjusted to reflect the risk that the agreement will not be fulfilled. The Company's exposure to nonperformance in rate lock and TBA sale contracts is represented by the contractual amount of those instruments. Given the credit quality of our counterparties, the short duration of interest rate lock commitments and TBA sale contracts, and the Company's historical experience with the agreements, the risk of nonperformance by the Company's counterparties is not significant.

### *TBA Securities*

The Company also transacts in pass-through mortgage-backed securities eligible to be sold in the TBA market as economic hedges against mortgage-backed securities that it owns or has sold but not yet purchased. TBAs provide for the forward or delayed delivery of the underlying instrument with settlement up to 180 days. The contractual or notional amounts related to these financial instruments reflect the volume of activity and do not reflect the amounts at risk. Unrealized gains and losses on TBAs are recorded in the condensed consolidated balance sheets in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations, respectively, and in the condensed consolidated statements of operations as principal transactions revenue, net.

The notional amounts and fair values of the Company's derivatives at June 30, 2015 and December 31, 2014 by product were as follows:

(Expressed in thousands)

		Fair Value of Derivative Instruments at June 30, 2015	
	Description	Notional	Fair Value
<b>Assets</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Other contracts	TBAs	\$ 55,725	\$ 183
	TBA sale contracts	337,948	2,403
	Interest rate lock commitments	219,603	5,060
		<u>\$ 613,276</u>	<u>\$ 7,646</u>
<b>Liabilities</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Commodity contracts <sup>(2)</sup>	Futures	\$ 3,403,000	\$ 698
Other contracts	Forward currency forward contracts	400	28
	TBAs	51,275	171
	Interest rate lock commitments	46,598	683
	ARS purchase commitments	16,660	1,034
		<u>\$ 3,517,933</u>	<u>\$ 2,614</u>

(1) See "Derivative Instruments and Hedging Activities" above for description of derivative financial instruments. Such derivative instruments are not subject to master netting agreements, thus the related amounts are not offset.

(2) Included in payable to brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

(Expressed in thousands)

		Fair Value of Derivative Instruments at December 31, 2014	
	Description	Notional	Fair Value
<b>Assets</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Other contracts	TBAs	\$ 105,185	\$ 1,026
	TBA sale contracts	188,178	3,509
	Interest rate lock commitments	147,521	7,576
		<u>\$ 440,884</u>	<u>\$ 12,111</u>
<b>Liabilities</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Commodity contracts <sup>(2)</sup>	Futures	\$ 3,835,600	\$ 353
Other contracts	Foreign currency forward contracts	400,000	10
	TBAs	105,186	1,018
	Interest rate lock commitments	22,269	1,222
	Forward start repurchase agreements	636,000	—
	ARS purchase commitments	12,249	902
		<u>\$ 5,011,304</u>	<u>\$ 3,505</u>

(1) See "Derivative Instruments and Hedging Activities" above for description of derivative financial instruments. Such derivative instruments are not subject to master netting agreements, thus the related amounts are not offset.

(2) Included in payable to brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect on the condensed consolidated statements of operations for the three months ended June 30, 2015 and 2014:

(Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations			
For the Three Months Ended June 30, 2015			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ (641)
Other contracts	Foreign exchange forward contracts	Other revenue	28
	TBAs	Principal transactions revenue	1
	TBA sale contracts	Other revenue	7,531
	Interest rate lock commitments	Other revenue	(6,503)
	ARS purchase commitments	Principal transactions revenue	(237)
			<u>\$ 179</u>

(Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations			
For the Three Months Ended June 30, 2014			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ (657)
Other contracts	TBAs	Principal transactions revenue	(60)
	TBA sale contracts	Other revenue	4,596
	Interest rate lock commitments	Other revenue	8,059
	ARS purchase commitments	Principal transactions revenue	691
			<u>\$ 12,629</u>

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect on the condensed consolidated statements of operations for the six months ended June 30, 2015 and 2014:

(Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations			
For the Six Months Ended June 30, 2015			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ (2,121)
Other contracts	Foreign exchange forward contracts	Other revenue	31
	TBAs	Principal transactions revenue	(13)
	TBA sale contracts	Other revenue	5,912
	Interest rate lock commitments	Other revenue	(1,977)
	ARS purchase commitments	Principal transactions revenue	(132)
			<u>\$ 1,700</u>

(Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations			
For the Six Months Ended June 30, 2014			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ (1,329)
Other contracts	TBAs	Principal transactions revenue	(24)
	TBA sale contracts	Other revenue	(3,771)
	Interest rate lock commitments	Other revenue	7,973
	ARS purchase commitments	Principal transactions revenue	1,086
			<u>\$ 3,935</u>

## 6. 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 June 30, 2015, bank call loans were \$177.5 million (\$59.4 million at December 31, 2014). At June 30, 2015, such loans, collateralized by firm and customer securities with market values of approximately \$198.2 million and \$246.0 million, respectively, were with commercial banks.

At June 30, 2015, the Company had approximately \$1.3 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has re-pledged approximately \$156.4 million under securities loan agreements.

At June 30, 2015, the Company had deposited \$483.7 million of customer securities directly with the Options Clearing Corporation to secure obligations and margin requirements under option contracts written by customers.

At June 30, 2015, the Company had no outstanding letters of credit.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Company's inventory positions. Except as described below, repurchase and reverse repurchase agreements, principally involving government and agency securities, are carried at amounts at which the securities subsequently will be resold or reacquired as specified in the respective agreements and include accrued interest. Repurchase and reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, the securities underlying the repurchase and reverse repurchase agreements exist in "book entry" form and certain other requirements are met.

The following table presents a disaggregation of the gross obligation by the class of collateral pledged and the remaining contractual maturity of the repurchase agreements and securities loaned transactions as of June 30, 2015:

*(Expressed in thousands)*

	Overnight and Open	Up to 30 Days	Total
<b>Repurchase agreements:</b>			
U.S. Treasury and agency securities	\$ 833,609	\$ 156,625	\$ 990,234
<b>Securities loaned:</b>			
Equity securities	209,226	—	209,226
<b>Gross amount of recognized liabilities for repurchase agreements and securities loaned</b>	<b>\$ 1,042,835</b>	<b>\$ 156,625</b>	<b>\$ 1,199,460</b>



The following tables present the gross amounts and the offsetting amounts of reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions as of June 30, 2015 and December 31, 2014:

As of June 30, 2015

(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
Reverse repurchase agreements	\$ 470,683	\$ (366,382)	\$ 104,301	\$ (104,125)	\$ —	\$ 176
Securities borrowed <sup>(1)</sup>	279,695	—	279,695	(273,885)	—	5,810
Total	<u>\$ 750,378</u>	<u>\$ (366,382)</u>	<u>\$ 383,996</u>	<u>\$ (378,010)</u>	<u>\$ —</u>	<u>\$ 5,986</u>

(1) Included in receivable from brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements	\$ 990,234	\$ (366,382)	\$ 623,852	\$ (621,303)	\$ —	\$ 2,549
Securities loaned <sup>(2)</sup>	209,226	—	209,226	(203,221)	—	6,005
Total	<u>\$ 1,199,460</u>	<u>\$ (366,382)</u>	<u>\$ 833,078</u>	<u>\$ (824,524)</u>	<u>\$ —</u>	<u>\$ 8,554</u>

(2) Included in payable to brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

As of December 31, 2014

(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
Reverse repurchase agreements	\$ 314,266	\$ (62,660)	\$ 251,606	\$ (250,000)	\$ —	\$ 1,606
Securities borrowed <sup>(1)</sup>	242,172	—	242,172	(234,376)	—	7,796
Total	<u>\$ 556,438</u>	<u>\$ (62,660)</u>	<u>\$ 493,778</u>	<u>\$ (484,376)</u>	<u>\$ —</u>	<u>\$ 9,402</u>

(1) Included in receivable from brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements	\$ 750,100	\$ (62,660)	\$ 687,440	\$ (686,119)	\$ —	\$ 1,321
Securities loaned <sup>(2)</sup>	137,892	—	137,892	(132,258)	—	5,634
Total	<u>\$ 887,992</u>	<u>\$ (62,660)</u>	<u>\$ 825,332</u>	<u>\$ (818,377)</u>	<u>\$ —</u>	<u>\$ 6,955</u>

(2) Included in payable to brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

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. 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, 2015, the fair value of the reverse repurchase agreements for which the fair value option was elected was \$104.3 million.

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 re-pledge 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, 2015, the fair value of securities received as collateral under securities borrowed transactions and reverse repurchase agreements was \$272.9 million (\$235.1 million at December 31, 2014) and \$365.1 million (\$314.1 million at December 31, 2014), respectively, of which the Company has sold and re-pledged approximately \$43.1 million (\$4.4 million at December 31, 2014) under securities loaned transactions and \$365.7 million under repurchase agreements (\$312.6 million at December 31, 2014).

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 \$704.2 million, as presented on the face of the condensed consolidated balance sheet at June 30, 2015 (\$518.1 million at December 31, 2014). The carrying value of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or re-pledge the collateral was \$197.9 million at June 30, 2015 (\$149.1 million at December 31, 2014).

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 manages market risk of repurchase agreements and securities loaned by monitoring the market value of collateral held and the market value of securities receivable from others. It is the Company's policy to request and obtain additional collateral when exposure to loss exists. In the event the counterparty is unable to meet its contractual obligation to return the securities, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices.

As of December 31, 2011, the interest in securities formerly held by one of the Company's funds which utilized Lehman Brothers International (Europe) ("LBIE") as a prime broker was transferred to an investment trust. On September 26, 2013, a first interim distribution in the amount of \$9.5 million was received by the trust and distributed to its members. During the first quarter of 2014, a second distribution in the amount of \$600,000 was received by the trust and distributed to its members. During the second quarter of 2015, the trust received a third distribution in the amount of \$437,000. LBIE expects that the third distribution will represent all the remaining value held in the pool of funds to be allocated to consenting beneficiaries, and so it is expected to be the final common terms distribution.

### **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, dealers and clearing organizations as of June 30, 2015 are receivables from two major U.S. broker-dealers totaling approximately \$124.1 million.

### *Warehouse Facilities*

Through OPY Credit Corp., the Company utilized a warehouse facility provided by Canadian Imperial Bank of Commerce ("CIBC") to extend financing commitments to third party borrowers identified by the Company. This warehouse arrangement terminated on July 15, 2012. However, the Company will remain contingently liable for some minimal expenses in relation to this facility related to commitments made by CIBC to borrowers introduced by the Company until such borrowings are repaid by the borrowers or until 2016, whichever is the sooner to occur. All such owed amounts will continue to be reflected in the Company's condensed consolidated statements of operations as incurred.

The Company reached an agreement with RBS Citizens, NA ("Citizens") that was announced in July 2012, whereby the Company, through OPY Credit Corp., will introduce lending opportunities to Citizens, which Citizens can elect to accept and in which the Company will participate in the fees earned from any related commitment by Citizens. The Company can also in certain circumstances assume a portion of Citizen's syndication and lending risk under such loans, and if it does so it shall be obligated to secure such obligations via a cash deposit determined through risk-based formulas. Neither the Company nor Citizens is obligated to make any specific loan or to commit any minimum amount of lending capacity to the relationship. The agreement also calls for Citizens and the Company at their option to jointly participate in the arrangement of various loan syndications. At June 30, 2015, there were no loans in place.

The Company is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to the Company. Clients are required to complete their transactions on the settlement date, generally one to three business days after the 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), Mortgage-Backed Securities and Clearing Corporation and others. With respect to its business in reverse repurchase and repurchase agreements, substantially all open contracts at June 30, 2015 are with the FICC. In addition, the Company began clearing its non-U.S. international equities business carried on by Oppenheimer Europe Ltd. through BNP Paribas Securities Services. The clearing organizations 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, 2015, the Company had recorded no liabilities with regard to this right. The Company's policy is to monitor the credit standing of the clearing brokers and banks with which it conducts business.

OMHHF, which is engaged in commercial mortgage origination and servicing, has obtained an uncommitted warehouse facility line through PNC Bank ("PNC") under which OMHHF pledges FHA-guaranteed mortgages for a period averaging 15 business days and PNC table funds the principal payment to the mortgagee. Warehouse payable represents the warehouse line amount outstanding with PNC and is included in accounts payable and other liabilities on the condensed consolidated balance sheet and cash flows from operating activities on the condensed consolidated statement of cash flows. OMHHF repays PNC upon the securitization of the mortgage by the GNMA and the delivery of the security to the counter-party for payment pursuant to a contemporaneous sale on the date the mortgage is securitized. At June 30, 2015, OMHHF had \$70.9 million outstanding under the warehouse facility line at a variable interest rate of 1 month LIBOR plus a spread. The Company earns a spread between the interest earned on the loans originated by the Company and the interest incurred on amounts drawn from the warehouse facility. Interest expense for the three and six months ended June 30, 2015 was \$385,000 and \$510,000, respectively (\$74,800 and \$225,400, respectively, for the three and six months ended June 30, 2014). The Company's ability to originate mortgage loans depends upon its ability to secure and maintain these types of short-term financings on acceptable terms.

As discussed in Note 5, Fair value measurements, the Company enters into TBA sale contracts to offset exposures related to commitments to provide funding for FHA loans at OMHHF. In the normal course of business, the Company may be exposed to the risk that counterparties to these TBA sale contracts are unable to fulfill their contractual obligations.

## **7. Variable interest entities ("VIEs")**

The Company's policy is to consolidate all subsidiaries in which it has a controlling financial interest, as well as any VIEs where the Company is deemed to be the primary beneficiary, when it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb significant losses or the right to receive benefits that could potentially be significant to the VIE.

For funds that the Company has concluded are not VIEs, the Company then evaluates whether the fund is a partnership or similar entity. If the fund is a partnership or similar entity, the Company evaluates the fund under the partnership consolidation guidance. Pursuant to that guidance, the Company consolidates funds in which it is the general partner, unless presumption of control by the Company can be overcome. This presumption is overcome only when unrelated investors in the fund have the substantive ability to liquidate the fund or otherwise remove the Company as the general partner without cause, based on a simple majority vote of unaffiliated investors, or have other substantive participating rights. If the presumption of control can be overcome, the Company accounts for its interest in the fund pursuant to the equity method of accounting.

The Company serves as general partner of hedge funds and private equity funds that were established for the purpose of providing investment alternatives to both its institutional and qualified retail clients. The Company holds variable interests in these funds as a result of its right to receive management and incentive fees. The Company's investment in and additional capital commitments to these hedge funds and private equity funds are also considered variable interests. The Company's additional capital commitments are subject to call at a later date and are limited in amount.

The Company assesses whether it is the primary beneficiary of the hedge funds and private equity funds in which it holds a variable interest in the form of general and limited partner interests. 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 and limited partnership interests, additional capital commitments, and management fees receivable represent its maximum exposure to loss. The subsidiaries' general and limited partnership interests and management fees receivable are included in other assets on the condensed consolidated balance sheet.

The following tables set forth the total VIE assets, the carrying value of the subsidiaries' variable interests, and the Company's maximum exposure to loss in Company-sponsored non-consolidated VIEs in which the Company holds variable interests and other non-consolidated VIEs in which the Company holds variable interests at June 30, 2015 and December 31, 2014:

(Expressed in thousands)

At June 30, 2015					
	Total VIE Assets <sup>(1)</sup>	Carrying Value of the Company's Variable Interest		Capital Commitments	Maximum Exposure to Loss in Non-consolidated VIEs
		Assets <sup>(2)</sup>	Liabilities		
Hedge funds	\$ 1,904,549	\$ 1,696	\$ —	\$ —	\$ 1,696
Private equity funds	75,400	27	—	2	29
Total	\$ 1,979,949	\$ 1,723	\$ —	\$ 2	\$ 1,725

(1) Represents the total assets of the VIEs and does not represent the Company's interests in the VIEs.

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

(Expressed in thousands)

At December 31, 2014					
	Total VIE Assets <sup>(1)</sup>	Carrying Value of the Company's Variable Interest		Capital Commitments	Maximum Exposure to Loss in Non-consolidated VIEs
		Assets <sup>(2)</sup>	Liabilities		
Hedge funds	\$ 1,955,515	\$ 1,584	\$ —	\$ —	\$ 1,584
Private equity funds	66,400	27	—	2	29
Total	\$ 2,021,915	\$ 1,611	\$ —	\$ 2	\$ 1,613

(1) Represents the total assets of the VIEs and does not represent the Company's interests in the VIEs.

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

## 8. Commercial mortgage banking

OMHHF is engaged in the business of originating and servicing FHA-insured multifamily and healthcare facility loans and securitizing these loans into GNMA mortgage backed securities. OMHHF also offers mortgage services to developers of commercial properties including apartments, elderly housing and nursing homes that satisfy FHA criteria. OMHHF maintains a mortgage servicing portfolio for which it provides a full array of services, including the collection of mortgage payments from mortgagors which are passed on to the mortgage holders, construction loan management and asset management.

The Company owns an 83.68% controlling interest in OMHHF. The 16.32% noncontrolling interest belongs to one related third party who is the President and Chief Executive Officer of OMHHF.

### *Loan Origination Fees*

OMHHF recognizes origination fees and other direct origination costs when it enters into a rate lock commitment with the borrower. The origination fees and other direct origination costs are recognized when OMHHF enters into a commitment to sell loans to third parties. In accordance with Housing and Urban Development ("HUD") guidelines, OMHHF will, with HUD's approval and for certain loan programs, apply the premium income towards the payment of prepayment costs that customers will incur on their prior mortgage. These costs are netted with revenues from premium income that are otherwise earned from these loan refinancings or modifications. Prepayment costs recorded as contra-revenue against premium income were \$7.8 million and \$16.0 million for the three and six months ended June 30, 2015, respectively (\$1.5 million and \$1.8 million for the three and six months ended June 30, 2014, respectively).

### *Funding Commitments*

OMHHF provides its clients with commitments to fund FHA-insured permanent or constructions loans. Upon providing these commitments to fund, OMHHF enters into TBA sale contracts directly or indirectly with counterparties to offset its exposures related to these funding commitments. See Note 5, Fair value measurements, for more information.

### *Loans Held For Sale*

OMHHF advances funds from its own cash reserves in addition to obtaining financing through warehouse facilities in order to fund initial loan closing and subsequent construction loan draws. Prior to the GNMA securitization of a loan, a loan held for sale is recorded on the condensed consolidated balance sheet. Loans held for sale are recorded at fair value through earnings.

### *Escrows Held in Trust*

Custodial escrow accounts relating to loans serviced by OMHHF totaled \$347.7 million at June 30, 2015 (\$285.5 million at December 31, 2014). These amounts are not included on the condensed consolidated balance sheets as such amounts are not OMHHF's assets. Certain cash deposits at financial institutions exceeded the FDIC insured limits. The combined uninsured balance with relation to escrow accounts at June 30, 2015 was approximately \$227.1 million. OMHHF places these deposits with major financial institutions where they believe the risk is minimal and that meet or exceed GNMA required credit ratings.

The total unpaid principal balance of loans the Company was servicing for various institutional investors was as follows:

*(Expressed in thousands)*

	As of June 30, 2015	As of December 31, 2014
Unpaid principal balance of loans	\$ 4,076,235	\$ 4,134,894

### *Mortgage Servicing Rights ("MSRs")*

OMHHF purchases commitments or originates mortgage loans that are sold and securitized into GNMA mortgage backed securities. OMHHF retains the servicing responsibilities for the loans securitized and recognizes either a MSR asset or a MSR liability for that servicing contract. OMHHF receives monthly servicing fees equal to a percentage of the outstanding principal balance of the loans being serviced.

OMHHF estimates the initial fair value of the servicing rights based on the present value of future net servicing income, adjusted for factors such as discount rate and prepayment. OMHHF uses the amortization method for subsequent measurement, subject to annual impairment. See Note 5, Fair value measurements, for more information.

The fair value of the servicing rights on the loan portfolio was \$41.4 million and \$42.3 million at June 30, 2015 and December 31, 2014, respectively (carrying value of \$29.2 million and \$30.1 million at June 30, 2015 and December 31, 2014, respectively). The following table summarizes the changes in carrying value of MSRs for the six months ended June 30, 2015 and 2014:

(Expressed in thousands)

	For the Six Months Ended June 30,	
	2015	2014
Balance at beginning of period	\$ 30,140	\$ 28,879
Originations <sup>(1)</sup>	3,491	2,474
Purchases	653	52
Disposals <sup>(1)</sup>	(4,569)	(776)
Amortization expense	(495)	(1,514)
Balance at end of period	<u>\$ 29,220</u>	<u>\$ 29,115</u>

(1) Includes refinancings.

Servicing rights are amortized using the straight-line method over 10 years. Estimated amortization expense for the next five years and thereafter is as follows:

(Expressed in thousands)

	Originated MSRs	Purchased MSRs	Total MSRs
2015	\$ 1,484	\$ 614	\$ 2,098
2016	2,967	1,228	4,195
2017	2,963	1,225	4,188
2018	2,934	1,220	4,154
2019	2,839	1,158	3,997
Thereafter	8,361	2,227	10,588
	<u>\$ 21,548</u>	<u>\$ 7,672</u>	<u>\$ 29,220</u>

The Company receives fees during the course of servicing the mortgage loans. The fees for the three and six months ended June 30, 2015 and 2014 were as follows:

(Expressed in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Servicing fees	\$ 1,454	\$ 1,381	\$ 2,921	\$ 2,725
Ancillary fees	93	75	194	168
Total MSR fees	<u>\$ 1,547</u>	<u>\$ 1,456</u>	<u>\$ 3,115</u>	<u>\$ 2,893</u>



## 9. Long-term debt

(Expressed in thousands)

Issued	Maturity Date	At June 30, 2015	At December 31, 2014
Senior Secured Notes	4/15/2018	\$ 150,000	\$ 150,000

On April 12, 2011, the Company completed the private placement of \$200.0 million in aggregate principal amount of 8.75% Senior Secured Notes due April 15, 2018 (the “Notes”) at par. The interest on the Notes is payable semi-annually on April 15th and October 15th.

The indenture for the Notes contains covenants which place restrictions on the incurrence of indebtedness, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. The Notes provide for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. The Company’s obligations under the Notes are guaranteed, subject to certain limitations. These guarantees may be shared, on a senior basis, under certain circumstances, with newly incurred debt outstanding in the future. At June 30, 2015, the Company was in compliance with all of its covenants.

On April 15, 2014, the Company retired early a total of \$50.0 million (25%) of the Notes. The Company redeemed \$45.0 million aggregate principal amount of the outstanding Notes at a redemption price equal to 106.563% of the principal amount of the Notes, plus accrued and unpaid interest. In addition, the Company retired the \$5.0 million aggregate principal amount of the Notes that it held. Upon completion of the redemption and retirement on April 15, 2014, \$150.0 million aggregate principal amount of the Notes remained outstanding. The retirement of the Notes reduced the Company’s interest costs by \$3.9 million annually beginning in the second quarter of 2014.

Interest expense for the three and six months ended June 30, 2015 on the Notes was \$3.3 million and \$6.6 million, respectively (\$3.4 million and \$7.7 million for the three and six months ended June 30, 2014, respectively).

## 10. Share capital

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

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Class A Stock outstanding, beginning of period	13,634,831	13,516,626	13,530,688	13,377,967
Issued pursuant to shared-based compensation plans	15,318	2,500	119,461	141,159
Class A Stock outstanding, end of period	<u>13,650,149</u>	<u>13,519,126</u>	<u>13,650,149</u>	<u>13,519,126</u>

### Stock buy-back

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

In the six months ended June 30, 2015, the Company did not buy back any stock under this program. As of June 30, 2015, 352,823 shares were available to be purchased under this program.

## 11. Contingencies

Many aspects of the Company's business involve substantial risks of liability. In the normal course of business, the Company has been named as defendant or co-defendant in various legal actions, including arbitrations, class actions, and other litigation, creating substantial exposure. Certain of the actual or threatened legal matters include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. These proceedings arise primarily from securities brokerage, asset management and investment banking activities. The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company's business which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The investigations include, among other things, inquiries from the Securities and Exchange Commission (the "SEC"), the Financial Industry Regulatory Authority ("FINRA") and various state regulators. The Company is named as a respondent in a number of arbitrations by its current or former clients as well as lawsuits related to its sale of ARS.

The Company accrues for estimated loss contingencies related to legal and regulatory matters when available information indicates that it is probable a liability had been incurred at the date of the condensed consolidated financial statements and the Company can reasonably estimate the amount of that loss. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is often not possible to reasonably estimate the size of the possible loss or range of loss or possible additional losses or range of additional losses.

For certain legal and regulatory proceedings, the Company cannot reasonably estimate such losses, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial, indeterminate or special damages. Numerous issues may need to be reviewed, analyzed or resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or range of loss or additional loss can be reasonably estimated for any proceeding. Even after lengthy review and analysis, the Company, in many legal and regulatory proceedings, may not be able to reasonably estimate possible losses or range of loss.

For certain other legal and regulatory proceedings, the Company can estimate possible losses, or, range of loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses individually, or in the aggregate, will have a material adverse effect on the Company's condensed consolidated financial statements as a whole.

For legal and regulatory proceedings where there is at least a reasonable possibility that a loss or an additional loss may be incurred, the Company estimates a range of aggregate loss in excess of amounts accrued of \$0 to approximately \$35.0 million. This estimated aggregate range is based upon currently available information for those legal proceedings in which the Company is involved, where an estimate for such losses can be made. For certain cases, the Company does not believe that an estimate can currently be made. The foregoing estimate is based on various factors, including the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the numerous yet-unresolved issues in many of the proceedings and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate.

In February 2010, Oppenheimer finalized settlements with 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. 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 June 30, 2015, the Company purchased and holds (net of redemptions) approximately \$107.6 million in ARS from its clients. In addition, the Company is committed to purchase another \$16.7 million in ARS from clients through 2017 under legal settlements and awards.

The Company's purchases of ARS from its clients holding ARS eligible for repurchase will, subject to the terms and conditions of the settlements with the Regulators, continue on a periodic basis. Pursuant to these terms and conditions, the Company is required to conduct a financial review every six months, until the Company has extended Purchase Offers to all Eligible Investors (as defined), to determine whether it has funds available, after giving effect to the financial and regulatory capital constraints applicable to the Company, to extend additional Purchase Offers. The financial review is based on the Company's operating results, regulatory net capital, liquidity, and other ARS purchase commitments outstanding under legal settlements and awards (described below). There are no predetermined quantitative thresholds or formulas used for determining the final



agreed upon amount for the Purchase Offers. Upon completion of the financial review, the Company first meets with its primary regulator, FINRA, and then with representatives of the NYAG and other regulators to present the results of the review and to finalize the amount of the next Purchase Offer. Various offer scenarios are discussed in terms of which Eligible Investors should receive a Purchase Offer. The primary criteria to date in terms of determining which Eligible Investors should receive a Purchase Offer has been the amount of household account equity each Eligible Investor had with the Company in February 2008. Once various Purchase Offer scenarios have been discussed, the regulators, not the Company, make the final determination of which Purchase Offer scenario to implement. The terms of settlements provide that the amount of ARS to be purchased during any period shall not risk placing the Company in violation of regulatory requirements.

As of June 30, 2015, the Company had \$5.0 million of outstanding ARS purchase commitments related to the settlements with the Regulators. Eligible Investors for future buybacks continued to hold approximately \$85.3 million of principal value of ARS as of June 30, 2015. It is reasonably possible that some ARS Purchase Offers will need to be extended to Eligible Investors holding ARS prior to redemptions (or tender offers) by issuers of the full amount that remains outstanding. The potential additional losses that may result from entering into ARS purchase commitments with Eligible Investors for future buybacks represents the estimated difference between the principal value and the fair value. It is possible that the Company could sustain a loss of all or substantially all of the principal value of ARS still held by Eligible Investors but such an outcome is highly unlikely. The amount of potential additional losses resulting from entering into these commitments cannot be reasonably estimated due to the uncertainties surrounding the amounts and timing of future buybacks that result from the six-month financial review and the amounts, scope, and timing of future issuer redemptions and tender offers of ARS held by Eligible Investors. The range of potential additional losses related to valuation adjustments is between \$0 and the amount of the estimated differential between the principal value and the fair value of ARS held by Eligible Investors for future buybacks that were not yet purchased or committed to be purchased by the Company at any point in time. The range of potential additional losses described here is not included in the estimated range of aggregate loss in excess of amounts accrued for legal and regulatory proceedings described above.

Outside of the settlements with the Regulators, the Company has also reached various legal settlements with clients and received unfavorable legal awards requiring it to purchase ARS. The terms and conditions including the ARS amounts committed to be purchased under legal settlements and awards are based on the specific facts and circumstances of each legal proceeding. In most instances, the purchase commitments are in increments and extend over a period of time. At June 30, 2015, no ARS purchase commitments related to legal settlements extended past 2017. To the extent the Company receives an unfavorable award, the Company usually must purchase the ARS provided for by the award within 30 days of the rendering of the award.

The Company has also been named as a respondent in a number of arbitrations by its current or former clients as well as lawsuits related to its sale of ARS. If the ARS market remains frozen, the Company may likely be further subject to claims by its clients. There can be no guarantee that the Company will be successful in defending any or all of the current actions against it or any subsequent actions filed in the future. Any such failure could, and in certain current ARS actions would, have a material adverse effect on the results of operations and financial condition of the Company including its cash position.

The Company has sought, with limited success, financing from a number of sources to try to find a means for all its clients to find liquidity from their ARS holdings and will continue to do so. There can be no assurance that the Company will be successful in finding a liquidity solution for all its clients' ARS.

On January 27, 2015, the SEC approved an Offer of Settlement from Oppenheimer and issued an Order Instituting Administrative and Cease and Desist Proceedings (the "Order") relating to Oppenheimer's failure to report a customer's suspicious activities which occurred through its Oppenheimer account in violation of the Exchange Act; violating the Exchange Act provisions requiring broker-dealers to maintain ledgers accurately reflecting liabilities and expenses; failing to accurately maintain records for each account showing the true beneficial owner as required by Exchange Act rule; and violating the securities registration provisions contained in Section 5 of the Securities Act and failing to prevent and detect such violations of Section 5 of the Securities Act as required by the Exchange Act. Pursuant to the Order, Oppenheimer was ordered to (i) cease and desist from committing or causing any violations of the relevant provisions of the federal securities laws; (ii) be censured; (iii) pay to the SEC \$10.0 million comprised of \$4.2 million in disgorgement, \$753,500 in prejudgment interest and \$5.1 million in civil penalties; and (iv) retain an independent consultant to review Oppenheimer's policies and procedures relating to anti-money laundering and Section 5 of the Securities Act. Oppenheimer made a payment of \$5.0 million to the SEC on February 17, 2015 and agreed to make a second payment of \$5.0 million to the SEC before January 27, 2017. On the same date the Order was issued a division of the United States Department of the Treasury ("FinCEN") issued a Civil Monetary Assessment (the "Assessment") against Oppenheimer relating to potential violations of the Bank Secrecy Act and the regulations promulgated thereunder related primarily to, in the Company's view, the SEC matters discussed immediately above. Pursuant to the terms of the Assessment, Oppenheimer admitted that it violated the Bank Secrecy Act and consented to the

payment of a civil money penalty, which, as a result of the payments to the SEC described above, obligates Oppenheimer to make an aggregate payment of \$10.0 million to FinCEN. On February 9, 2015, Oppenheimer made a payment of \$5.0 million to FinCEN and has agreed to make a second payment of \$5.0 million before January 27, 2017. Oppenheimer further agreed to provide FinCEN copies of any reports or other recommendations prepared by the independent compliance consultant retained pursuant to the SEC settlement described above. The Company had fully reserved the \$20.0 million related to the aforementioned matters through the period ended June 30, 2014.

As a result of the resolution of the SEC action, Oppenheimer consented to be enjoined, in order to avoid a disqualification that would have negatively impacted the Company's business and its results of operations. The Company sought and on January 27, 2015, received a waiver from the disqualification that would have prohibited the sale of certain privately-placed securities, including third party alternative investments. Oppenheimer believes that any disqualification resulting from the issuance of the Order for which Oppenheimer has not received a waiver or similar relief, is not material to the business of Oppenheimer or its affiliates.

Since early 2014, Oppenheimer has been responding to information requests from FINRA regarding the supervision of one of its former financial advisers who was indicted by the United States Attorney's Office for the District of New Jersey in March 2014 on allegations of insider trading. In August 2014, Oppenheimer received information requests from the SEC regarding supervision of the same financial adviser. A number of Oppenheimer employees have provided on-the-record testimony in connection with the SEC inquiry. Oppenheimer is continuing to cooperate with both the FINRA and SEC inquiries.

In November 2014, Oppenheimer received a Notice of Contemplated Action from the New Mexico Securities Division (the "Division") alleging that certain federal agency bonds purchased by Bernalillo County, New Mexico in 2012 and 2013 were not suitable. Oppenheimer and a former registered representative were both named as respondents. On July 7, 2015, the Division issued a scheduling order stating that discovery in the matter must conclude by August 7, 2015 and set an initial hearing date for August 31, 2015. In addition to assessing a monetary fine at the conclusion of the hearing, the Division could also suspend or revoke Oppenheimer's securities license in New Mexico. The Company believes that it has meritorious defenses to these allegations.

## **12. Regulatory requirements**

The Company's U.S. broker dealer subsidiaries, Oppenheimer and Freedom, are subject to the uniform net capital requirements of the SEC under Rule 15c3-1 (the "Rule") promulgated under the Exchange Act. Oppenheimer computes its net capital requirements under the alternative method provided for in the Rule which requires that Oppenheimer maintain net capital equal to two percent of aggregate customer-related debit items, as defined in SEC Rule 15c3-3. At June 30, 2015, the net capital of Oppenheimer as calculated under the Rule was \$145.9 million or 9.96% of Oppenheimer's aggregate debit items. This was \$116.6 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, 2015, Freedom had net capital of \$5.8 million, which was \$5.6 million in excess of the \$250,000 required to be maintained at that date.

New Basel III requirements being implemented in the European Union have changed how capital adequacy is reported under the Capital Requirements Directive (CRD IV), effective January 1, 2014, for Oppenheimer Europe Ltd. At June 30, 2015, the capital required and held under CRD IV was as follows:

- Common Equity Tier 1 ratio 9.56% (required 4.5%);
- Tier 1 Capital ratio 9.56% (required 6.0%); and
- Total Capital ratio 11.01% (required 8.0%).

At June 30, 2015, the regulatory capital of Oppenheimer Investments Asia Limited was \$2.8 million, which was \$2.4 million in excess of the \$387,000 required to be maintained on that date. Oppenheimer Investments Asia Limited computes its regulatory capital pursuant to the requirements of the Securities and Futures Commission in Hong Kong.

### 13. Segment information

The Company has determined its reportable segments based on the Company's method of internal reporting, which disaggregates its retail business by branch and its proprietary and investment banking businesses by product. The Company evaluates the performance of its reportable segments and allocates resources to them based upon profitability.

The Company's reportable segments are:

**Private Client**—includes commissions and a proportionate amount of fee income earned on assets under management ("AUM"), net interest earnings on client margin loans and cash balances, fees from money market funds, net contributions from stock loan activities and financing activities, and direct expenses associated with this segment;

**Asset Management**—includes a proportionate amount of fee income earned on AUM from investment management services of Oppenheimer Asset Management Inc. Oppenheimer's asset management divisions employ various programs to professionally manage client assets either in individual accounts or in funds, and includes direct expenses associated with this segment;

**Capital Markets**—includes investment banking, institutional equities sales, trading, and research, taxable fixed income sales, trading, and research, public finance and municipal trading, as well as the Company's operations in the United Kingdom, Hong Kong and Israel, and direct expenses associated with this segment; and

**Commercial Mortgage Banking**—includes loan origination and servicing fees from the Company's subsidiary, OMHHF.

**Corporate/Other**—The Company does not allocate costs associated with certain infrastructure support groups that are centrally managed for its reportable segments. These areas include, but are not limited to, legal, compliance, operations, accounting, and internal audit. Costs associated with these groups are separately reported in a Corporate/Other category and primarily include compensation and benefits.

The table below presents information about the reported revenue and net income before taxes of the Company for the three and six months ended June 30, 2015 and 2014. The information on total assets by reportable segment is not reported, since the Company does not produce such information for internal use by the chief operating decision maker.

(Expressed in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Revenue</b>				
Private client <sup>(1)</sup>	\$ 133,783	\$ 145,344	\$ 273,715	\$ 293,164
Asset management <sup>(1)</sup>	25,344	25,032	49,805	49,642
Capital markets	69,531	72,217	141,697	150,098
Commercial mortgage banking	10,969	6,958	19,355	11,830
Corporate/Other	(699)	138	(83)	123
<b>Total</b>	<b>\$ 238,928</b>	<b>\$ 249,689</b>	<b>\$ 484,489</b>	<b>\$ 504,857</b>
<b>Income (loss) before income tax provision</b>				
Private client <sup>(1)</sup>	\$ 13,402	\$ 7,560	\$ 30,159	\$ 17,868
Asset management <sup>(1)</sup>	7,801	8,353	15,687	16,036
Capital markets	3,623	7,082	10,358	18,266
Commercial mortgage banking	3,731	3,605	7,768	5,454
Corporate/Other	(25,927)	(26,464)	(51,491)	(52,379)
<b>Total</b>	<b>\$ 2,630</b>	<b>\$ 136</b>	<b>\$ 12,481</b>	<b>\$ 5,245</b>

(1) Asset management fees are allocated 22.5% to the Asset Management and 77.5% to the Private Client segments.

Revenue, classified by the major geographic areas in which it was earned for the three and six months ended June 30, 2015 and 2014, was as follows:

*(Expressed in thousands)*

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
United States	\$ 229,717	\$ 236,884	\$ 462,748	\$ 477,212
United Kingdom/Israel	8,332	10,040	19,304	23,877
China	879	2,765	2,437	3,768
Total	<u>\$ 238,928</u>	<u>\$ 249,689</u>	<u>\$ 484,489</u>	<u>\$ 504,857</u>

#### 14. Subsequent events

On July 31, 2015, the Company announced a quarterly dividend in the amount of \$0.11 per share, payable on August 28, 2015 to holders of Class A Stock and Class B Stock of record on August 14, 2015.

#### 15. Condensed consolidating financial information

The Company's Notes are jointly and severally and fully and unconditionally guaranteed on a senior basis by E.A. Viner International Co. and Viner Finance Inc. (together, the "Guarantors"), unless released as described below. Each of the Guarantors is 100% owned by the Company. The indenture for the Notes contains covenants with restrictions which are discussed in Note 9. The following condensed consolidating financial information present the financial position, results of operations and cash flows of the Company (referred to as "Parent" for purposes of this note only), the Guarantor subsidiaries, the Non-Guarantor subsidiaries and elimination entries necessary to consolidate the Company. Investments in subsidiaries are accounted for using the equity method for purposes of the consolidated presentation.

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

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF JUNE 30, 2015**

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 29	\$ 2,685	\$ 47,599	\$ —	\$ 50,313
Cash and securities segregated for regulatory and other purposes	—	—	855	—	855
Deposits with clearing organizations	—	—	51,625	—	51,625
Receivable from brokers, dealers and clearing organizations	—	—	357,170	—	357,170
Receivable from customers, net of allowance for credit losses of \$2,491	—	—	905,387	—	905,387
Income tax receivable	31,083	27,572	3	(54,371)	4,287
Securities purchased under agreements to resell	—	—	104,301	—	104,301
Securities owned, including amounts pledged of \$704,168, at fair value	—	4,630	1,000,520	—	1,005,150
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$48,448 and \$9,135, respectively	—	—	35,086	—	35,086
Office facilities, net of accumulated depreciation of \$101,972	—	19,475	8,463	—	27,938
Loans held for sale, at fair value	—	—	76,351	—	76,351
Mortgage servicing rights	—	—	29,220	—	29,220
Subordinated loan receivable	—	112,558	—	(112,558)	—
Intangible assets	—	—	31,700	—	31,700
Goodwill	—	—	137,889	—	137,889
Other assets	1,475	3,225	107,571	—	112,271
Deferred tax assets	6	309	24,939	(25,254)	—
Investment in subsidiaries	576,771	545,046	—	(1,121,817)	—
Intercompany receivables	77,686	—	—	(77,686)	—
Total assets	<u>\$ 687,050</u>	<u>\$ 715,500</u>	<u>\$ 2,918,679</u>	<u>\$ (1,391,686)</u>	<u>\$ 2,929,543</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Liabilities</b>					
Drafts payable	\$ —	\$ —	\$ 4,054	\$ —	\$ 4,054
Bank call loans	—	—	177,500	—	177,500
Payable to brokers, dealers and clearing organizations	—	—	238,007	—	238,007
Payable to customers	—	—	654,241	—	654,241
Securities sold under agreements to repurchase	—	—	623,852	—	623,852
Securities sold, but not yet purchased, at fair value	—	—	220,667	—	220,667
Accrued compensation	—	—	121,980	—	121,980
Accounts payable and other liabilities	2,816	35,768	143,842	—	182,426
Income tax payable	2,440	22,189	29,742	(54,371)	—
Senior secured notes	150,000	—	—	—	150,000
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred tax liabilities	—	71	43,365	(25,254)	18,182
Intercompany payables	—	64,289	13,397	(77,686)	—
Total liabilities	<u>155,256</u>	<u>122,317</u>	<u>2,383,205</u>	<u>(269,869)</u>	<u>2,390,909</u>
<b>Stockholders' equity</b>					
Stockholders' equity attributable to Oppenheimer Holdings Inc.	531,794	593,183	528,634	(1,121,817)	531,794
Noncontrolling interest	—	—	6,840	—	6,840
Total stockholders' equity	<u>531,794</u>	<u>593,183</u>	<u>535,474</u>	<u>(1,121,817)</u>	<u>538,634</u>
Total liabilities and stockholders' equity	<u>\$ 687,050</u>	<u>\$ 715,500</u>	<u>\$ 2,918,679</u>	<u>\$ (1,391,686)</u>	<u>\$ 2,929,543</u>

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF DECEMBER 31, 2014**

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 439	\$ 1,557	\$ 61,811	\$ —	\$ 63,807
Cash and securities segregated for regulatory and other purposes	—	—	18,594	—	18,594
Deposits with clearing organizations	—	—	36,510	—	36,510
Receivable from brokers, dealers and clearing organizations	—	—	314,475	—	314,475
Receivable from customers, net of allowance for credit losses of \$2,427	—	—	864,189	—	864,189
Income tax receivable	28,070	27,304	—	(51,134)	4,240
Securities purchased under agreements to resell	—	—	251,606	—	251,606
Securities owned, including amounts pledged of \$518,123, at fair value	—	5,806	837,349	—	843,155
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$42,211 and \$8,606, respectively	—	—	34,932	—	34,932
Office facilities, net of accumulated depreciation of \$103,547	—	20,181	9,408	—	29,589
Loans held for sale, at fair value	—	—	19,243	—	19,243
Mortgage servicing rights	—	—	30,140	—	30,140
Subordinated loan receivable	—	112,558	—	(112,558)	—
Intangible assets	—	—	31,700	—	31,700
Goodwill	—	—	137,889	—	137,889
Other assets	1,686	3,803	101,897	—	107,386
Deferred tax assets	18	309	27,973	(28,300)	—
Investment in subsidiaries	565,257	544,576	—	(1,109,833)	—
Intercompany receivables	87,442	—	—	(87,442)	—
Total assets	<u>\$ 682,912</u>	<u>\$ 716,094</u>	<u>\$ 2,777,716</u>	<u>\$ (1,389,267)</u>	<u>\$ 2,787,455</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Liabilities</b>					
Drafts payable	\$ —	\$ —	\$ 35,373	\$ —	\$ 35,373
Bank call loans	—	—	59,400	—	59,400
Payable to brokers, dealers and clearing organizations	—	—	257,161	—	257,161
Payable to customers	—	—	652,256	—	652,256
Securities sold under agreements to repurchase	—	—	687,440	—	687,440
Securities sold, but not yet purchased, at fair value	—	—	92,510	—	92,510
Accrued compensation	—	—	165,134	—	165,134
Accounts payable and other liabilities	2,828	35,800	102,724	—	141,352
Income tax payable	2,440	22,189	26,505	(51,134)	—
Senior secured notes	150,000	—	—	—	150,000
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred tax liabilities	—	88	41,309	(28,300)	13,097
Intercompany payables	—	76,492	10,950	(87,442)	—
Total liabilities	<u>155,268</u>	<u>134,569</u>	<u>2,243,320</u>	<u>(279,434)</u>	<u>2,253,723</u>
<b>Stockholders' equity</b>					
Stockholders' equity attributable to Oppenheimer Holdings Inc.	527,644	581,525	528,308	(1,109,833)	527,644
Noncontrolling interest	—	—	6,088	—	6,088
Total stockholders' equity	<u>527,644</u>	<u>581,525</u>	<u>534,396</u>	<u>(1,109,833)</u>	<u>533,732</u>
Total liabilities and stockholders' equity	<u>\$ 682,912</u>	<u>\$ 716,094</u>	<u>\$ 2,777,716</u>	<u>\$ (1,389,267)</u>	<u>\$ 2,787,455</u>

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2015**

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non- guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 103,556	\$ —	\$ 103,556
Advisory fees	—	—	72,654	(411)	72,243
Investment banking	—	—	29,020	—	29,020
Interest	—	2,557	12,038	(2,565)	12,030
Principal transactions, net	—	—	1,740	(30)	1,710
Other	—	96	20,349	(76)	20,369
Total revenue	—	2,653	239,357	(3,082)	238,928
<b>EXPENSES</b>					
Compensation and related expenses	263	—	157,951	—	158,214
Communications and technology	42	—	16,365	—	16,407
Occupancy and equipment costs	—	—	16,060	(76)	15,984
Clearing and exchange fees	—	—	6,231	—	6,231
Interest	3,281	—	3,789	(2,565)	4,505
Other	258	45	35,095	(441)	34,957
Total expenses	3,844	45	235,491	(3,082)	236,298
Income (loss) before income tax provision (benefit)	(3,844)	2,608	3,866	—	2,630
Income tax provision (benefit)	(1,521)	923	2,583	—	1,985
Equity in earnings of subsidiaries	2,618	933	—	(3,551)	—
Net income for the period	295	2,618	1,283	(3,551)	645
Less net income attributable to non-controlling interest, net of tax	—	—	350	—	350
Net income attributable to Oppenheimer Holdings Inc.	295	2,618	933	(3,551)	295
Other comprehensive income	—	—	1,317	—	1,317
Total comprehensive income	\$ 295	\$ 2,618	\$ 2,250	\$ (3,551)	\$ 1,612



**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2015**

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 213,251	\$ —	\$ 213,251
Advisory fees	—	—	144,074	(865)	143,209
Investment banking	—	—	56,325	—	56,325
Interest	—	5,123	23,071	(5,129)	23,065
Principal transactions, net	—	—	20,349	(84)	20,265
Other	—	191	28,334	(151)	28,374
Total revenue	—	5,314	485,404	(6,229)	484,489
<b>EXPENSES</b>					
Compensation and related expenses	575	—	320,730	—	321,305
Communications and technology	67	—	33,508	—	33,575
Occupancy and equipment costs	—	—	31,913	(151)	31,762
Clearing and exchange fees	—	—	12,633	—	12,633
Interest	6,562	—	6,982	(5,129)	8,415
Other	546	113	64,608	(949)	64,318
Total expenses	7,750	113	470,374	(6,229)	472,008
Income (loss) before income tax provision (benefit)	(7,750)	5,201	15,030	—	12,481
Income tax provision (benefit)	(3,001)	1,770	6,946	—	5,715
Equity in earnings of subsidiaries	10,763	7,332	—	(18,095)	—
Net income for the period	6,014	10,763	8,084	(18,095)	6,766
Less net income attributable to noncontrolling interest, net of tax	—	—	752	—	752
Net income attributable to Oppenheimer Holdings Inc.	6,014	10,763	7,332	(18,095)	6,014
Other comprehensive income	—	—	750	—	750
Total comprehensive income	\$ 6,014	\$ 10,763	\$ 8,082	\$ (18,095)	\$ 6,764



**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2014**

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non- guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 116,062	\$ —	\$ 116,062
Advisory fees	—	—	70,741	(311)	70,430
Investment banking	—	—	26,799	—	26,799
Interest	—	2,588	12,546	(2,586)	12,548
Principal transactions, net	—	131	11,663	—	11,794
Other	—	74	12,046	(64)	12,056
Total revenue	—	2,793	249,857	(2,961)	249,689
<b>EXPENSES</b>					
Compensation and related expenses	300	—	159,551	—	159,851
Communications and technology	47	—	17,489	—	17,536
Occupancy and equipment costs	—	—	15,971	(64)	15,907
Clearing and exchange fees	—	—	6,024	—	6,024
Interest	3,464	—	3,534	(2,586)	4,412
Other	3,817	11	42,306	(311)	45,823
Total expenses	7,628	11	244,875	(2,961)	249,553
Income (loss) before income tax provision (benefit)	(7,628)	2,782	4,982	—	136
Income tax provision (benefit)	(2,723)	1,269	2,843	—	1,389
Equity in earnings of subsidiaries <sup>(1)</sup>	3,351	1,838	—	(5,189)	—
Net income (loss) for the period	(1,554)	3,351	2,139	(5,189)	(1,253)
Less net income attributable to non-controlling interest, net of tax	—	—	301	—	301
Net income (loss) attributable to Oppenheimer Holdings Inc.	(1,554)	3,351	1,838	(5,189)	(1,554)
Other comprehensive income	—	—	339	—	339
Total comprehensive income (loss)	\$ (1,554)	\$ 3,351	\$ 2,177	\$ (5,189)	\$ (1,215)

- (1) The Company revised amounts in Equity in Earnings of Subsidiaries in the Condensed Consolidating Statement of Operations to properly reflect investments in subsidiaries. Offsetting amounts were adjusted in the eliminations column.

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014**

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non- guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 238,200	\$ —	\$ 238,200
Advisory fees	—	—	139,316	(681)	138,635
Investment banking	—	—	60,323	—	60,323
Interest	—	5,321	24,913	(5,296)	24,938
Principal transactions, net	—	171	20,440	—	20,611
Other	—	290	22,140	(280)	22,150
Total revenue	—	5,782	505,332	(6,257)	504,857
<b>EXPENSES</b>					
Compensation and related expenses	615	—	331,186	—	331,801
Communications and technology	74	—	34,196	—	34,270
Occupancy and equipment costs	—	—	31,584	(280)	31,304
Clearing and exchange fees	—	—	11,916	—	11,916
Interest	7,839	—	7,033	(5,296)	9,576
Other	4,161	13	77,252	(681)	80,745
Total expenses	12,689	13	493,167	(6,257)	499,612
Income (loss) before income tax provision (benefit)	(12,689)	5,769	12,165	—	5,245
Income tax provision (benefit)	(4,634)	1,131	6,581	—	3,078
Equity in earnings of subsidiaries <sup>(1)</sup>	9,725	5,087	—	(14,812)	—
Net income for the period	1,670	9,725	5,584	(14,812)	2,167
Less net income attributable to noncontrolling interest, net of tax	—	—	497	—	497
Net income attributable to Oppenheimer Holdings Inc.	1,670	9,725	5,087	(14,812)	1,670
Other comprehensive income	—	—	252	—	252
Total comprehensive income	\$ 1,670	\$ 9,725	\$ 5,339	\$ (14,812)	\$ 1,922

- (1) The Company revised amounts in Equity in Earnings of Subsidiaries in the Condensed Consolidating Statement of Operations to properly reflect investments in subsidiaries. Offsetting amounts were adjusted in the eliminations column.

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2015**

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
<b>Cash provided by (used in) operating activities</b>	\$ 2,883	\$ 1,128	\$(130,399)	\$ —	\$ (126,388)
<b>Cash flows from investing activities:</b>					
Purchase of office facilities	—	—	(1,913)	—	(1,913)
<b>Cash used in investing activities</b>	—	—	(1,913)	—	(1,913)
<b>Cash flows from financing activities:</b>					
Cash dividends paid on Class A non-voting and Class B voting common stock	(3,023)	—	—	—	(3,023)
Tax deficiency from share-based awards	(270)	—	—	—	(270)
Increase in bank call loans, net	—	—	118,100	—	118,100
<b>Cash flow provided by (used in) financing activities</b>	(3,293)	—	118,100	—	114,807
Net increase (decrease) in cash and cash equivalents	(410)	1,128	(14,212)	—	(13,494)
Cash and cash equivalents, beginning of the period	439	1,557	61,811	—	63,807
<b>Cash and cash equivalents, end of the period</b>	<u>\$ 29</u>	<u>\$ 2,685</u>	<u>\$ 47,599</u>	<u>\$ —</u>	<u>\$ 50,313</u>

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014**

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
<b>Cash provided by (used in) operating activities</b>	<b>\$ 47,295</b>	<b>\$ (24,341)</b>	<b>\$ (36,344)</b>	<b>\$ —</b>	<b>\$ (13,390)</b>
<b>Cash flows from investing activities:</b>					
Purchase of office facilities	—	—	(2,185)	—	(2,185)
<b>Cash used in investing activities</b>	<b>—</b>	<b>—</b>	<b>(2,185)</b>	<b>—</b>	<b>(2,185)</b>
<b>Cash flows from financing activities:</b>					
Cash dividends paid on Class A non-voting and Class B voting common stock	(2,984)	—	—	—	(2,984)
Issuance of Class A non-voting common stock	185	—	—	—	185
Tax benefit from share-based awards	1,254	—	—	—	1,254
Redemption of senior secured notes	(45,000)	—	—	—	(45,000)
Increase in bank call loans, net	—	—	29,000	—	29,000
<b>Cash flow provided by (used in) financing activities</b>	<b>(46,545)</b>	<b>—</b>	<b>29,000</b>	<b>—</b>	<b>(17,545)</b>
Net increase (decrease) in cash and cash equivalents	750	(24,341)	(9,529)	—	(33,120)
Cash and cash equivalents, beginning of the period	448	30,901	66,945	—	98,294
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 1,198</b>	<b>\$ 6,560</b>	<b>\$ 57,416</b>	<b>\$ —</b>	<b>\$ 65,174</b>

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

The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Reference is also made to the Company's consolidated financial statements and notes thereto found in its Annual Report on Form 10-K for the year ended December 31, 2014.

The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, trust services and investment advisory and asset management services. Its principal subsidiaries are Oppenheimer & Co. Inc. ("Oppenheimer") and Oppenheimer Asset Management Inc. ("OAM"). As of June 30, 2015, the Company provided its services from 91 offices in 24 states located throughout the United States, and offices in Tel Aviv, Israel, Hong Kong and Beijing, China, London, England, St. Helier, Isle of Jersey and Geneva, Switzerland. Client assets administered by the Company as of June 30, 2015 totaled approximately \$84.9 billion. The Company provides investment advisory services through OAM and Oppenheimer Investment Management, LLC ("OIM") and Oppenheimer's Fahnstock Asset Management, Alpha and OMEGA Group divisions. At June 30, 2015, client assets under management totaled approximately \$25.6 billion. The Company provides trust services and products through Oppenheimer Trust Company of Delaware. The Company provides discount brokerage services through Freedom Investments, Inc. ("Freedom"). Through OPY Credit Corp., the Company offers syndication as well as trading of issued syndicated corporate loans. Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHFF") is engaged in Federal Housing Administration ("FHA")-insured commercial mortgage origination and servicing. At June 30, 2015, the Company employed 3,368 employees (3,274 full-time and 94 part-time), of whom approximately 1,273 were financial advisers.

### **Critical Accounting Policies**

The Company's accounting policies are essential to understanding and interpreting the financial results reported in the condensed consolidated financial statements. The significant accounting policies used in the preparation of the Company's condensed consolidated financial statements are summarized in Note 2 to the Company's consolidated financial statements and notes thereto found in its Annual Report on Form 10-K for the year ended December 31, 2014. Certain of those policies are considered to be particularly important to the presentation of the Company's financial results because they require management to make difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain.

During the three months ended June 30, 2015, there were no material changes to matters discussed under the heading "Critical Accounting Policies" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

### **Business Environment**

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

For a number of years, the Company offered auction rate securities ("ARS") to its clients. A significant portion of the market in ARS 'failed' because, in the tight credit market in and subsequent to 2008, dealers were no longer willing or able to purchase the imbalance between supply and demand for ARS. These securities have auctions scheduled on either a 7, 28 or 35 day cycle. Clients of the Company own ARS in their individual accounts. The absence of a liquid market for these securities presents a significant problem to clients continuing to own ARS and, as a result, to the Company. It should be noted that this is a failure of liquidity and not a default. These securities in almost all cases have not failed to pay interest or principal when due. These securities are fully collateralized for the most part and, for the most part, remain good credits. The Company did not act as an auction agent for ARS.

Interest rates on ARS typically reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARS historically were categorized as Level 1 in the fair value hierarchy. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Once the auctions failed, the ARS could no longer be valued using observable prices set in the auctions. The Company has used less observable determinants of the fair value of ARS, including the strength in the underlying credits, announced issuer redemptions, completed issuer redemptions, and announcements from issuers regarding their intentions with respect to their outstanding ARS. The Company has also developed an internal methodology to discount for the lack of liquidity and non-performance risk of the failed auctions. Due to liquidity problems associated with the ARS market, ARS that lack liquidity are setting their interest rates according to a maximum rate formula defined in their registration statements.

The Company has sought financing from a number of sources, without success, in order to try to find a means for all its clients to find liquidity from their ARS holdings. It seems likely that liquidity will ultimately come from issuer redemptions and tender offers which, to date, combined with purchases by the Company have reduced client holdings by approximately 92%. There can be no assurance that the Company will be successful in finding a liquidity solution for all its clients' ARS. See "Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" appearing in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and "Factors Affecting 'Forward-Looking Statements'" herein.

Recent events have caused increased review and scrutiny of the methods utilized by financial service companies to finance their short term requirements for liquidity. The Company utilizes commercial bank loans, securities lending, and repurchase agreements to finance its short term liquidity needs (See "Liquidity"). All repurchase agreements and reverse repurchase agreements are collateralized by short term U.S. Government obligations and U.S. Government Agency obligations.

The Company is focused on growing its private client and asset management businesses through strategic additions of experienced financial advisers in its existing branch system and employment of experienced money management personnel in its asset management business. In addition, the Company is committed to the improvement of its technology capability to support client service and the expansion of its capital markets capabilities while addressing the issue of managing its expenses.

### **Regulatory and Legal Environment**

The brokerage business is subject to regulation by, among others, the SEC, the Commodity Futures Trading Commission ("CFTC") and FINRA in the United States, the Financial Conduct Authority ("FCA") in the United Kingdom, the Jersey Financial Services Commission ("JFSC") in the Isle of Jersey, the Securities and Futures Commission in Hong Kong ("SFC"), and various state securities regulators in the United States. In addition, Oppenheimer Israel (OPCO) Ltd. operates under the supervision of the Israeli Securities Authority. Past events surrounding corporate accounting and other activities leading to investor losses resulted in the enactment of the Sarbanes-Oxley Act and have caused increased regulation of public companies. The financial crisis of 2008-9 accelerated this trend. New regulations and new interpretations and enforcement of existing regulations have created increased costs of compliance and increased investment in systems and procedures to comply with these more complex and onerous requirements. The SEC has increased their enforcement activities with an intent to bring more actions against firms and individuals for violations of existing rules as well as for conduct that stems from violations of new interpretations of existing rules and to assert significant penalties in connection with such activities. Various states are imposing their own regulations that make compliance more difficult and more expensive to monitor.

In July 2010, Congress enacted extensive legislation entitled the Wall Street Reform and Consumer Protection Act ("Dodd Frank") in which it mandated that the SEC and other regulators conduct comprehensive studies and issue new regulations based on their findings to control the activities of financial institutions in order to protect the financial system, the investing public and consumers from issues and failures that occurred in the 2008-9 financial crisis. All relevant studies have not yet been completed, but they are widely expected to extensively impact the regulation and practices of financial institutions including the Company. The changes are likely to significantly reduce leverage available to financial institutions and to increase transparency to regulators and investors of risks taken by such institutions. It continues to be impossible to predict the nature and impact of such rulemaking. In addition, new rules have been adopted to regulate and/or prohibit proprietary trading for certain deposit taking institutions, control the amount and timing of compensation to "highly paid" employees, create new regulations around financial transactions with consumers requiring the adoption of a uniform fiduciary standard of care of broker-dealers and investment advisers providing personalized investment advice about securities to retail customers, increase the disclosures provided to clients, and create a tax on securities transactions. The Consumer Financial Protection Bureau has stated its intention to implement new rules affecting the interaction between financial institutions and consumers. In addition, the U.S. Department of Labor has proposed rules for financial institutions surrounding their fiduciary duty to retirement plans which could have significant negative implications for the industry's relationships with this broad group of clients including individuals holding Individual Retirement Accounts ("IRAs"). The proposed rules contemplate a contract between plan owners and custodians and managers in which all elements of the relationship are described including all relevant conflicts of interest. It is too early to tell if these rules will become final and their impact on the Company. In December 2012, France began applying a 0.2% transaction tax on financial transactions in American Depository Receipts of French companies that trade on U.S. exchanges. Italy implemented its own financial transaction tax in March 2013. The imposition of financial transaction taxes are likely to impact the jurisdictions in which securities are traded and the "spreads" demanded by market participants in order to make up for the cost of any such tax. Such a tax may be implemented throughout the European Union. Recent publicity around "high speed trading" has created suggestions by legislators to create a financial transaction tax in the U.S. to inhibit such trading. If and when enacted, such regulations will likely increase compliance costs and reduce returns earned by financial service providers and intensify compliance overall. It is difficult to predict the nature of the final regulations and their impact on the business of the Company.

Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds (the "Volcker Rule") was published by the U.S. Federal Reserve Board as required by Dodd-Frank in 2011. The Volcker Rule is intended to restrict U.S. banks and other financial institutions that accept deposits from conducting proprietary trading activities, as well as investing in hedge funds and private equity funds for their own account. The intent of the Volcker Rule is to reduce risk to the capital of such institutions through reducing speculation and risk-taking with bank capital. The draft form of the proposed rule was exposed for comment until February 13, 2012 and is scheduled to become effective on July 21, 2015 (subject to possible additional delays). There may be additional changes to the requirements of the Volcker Rule and it is impossible to determine the Volcker Rule's impact on market liquidity and on the liquidity of issued sovereign debt in Europe and Asia. Various committees of Congress are reviewing the impact of the Volcker Rule and are potentially moving to reduce its impact on smaller institutions. The Company believes that the Volcker Rule will not directly affect its operations, but indirect effects cannot be predicted with any certainty. Additionally, the Federal Reserve in conjunction with other U.S. regulatory organizations has analyzed the U.S. financial system and the impact that might result from the failure of one or more "Strategically Important Financial Institutions" ("SIFI"). To date, less than 50 such institutions have been identified and will be made subject to special regulations including the requirement to create a plan for their orderly demise in the event of a failure. Oppenheimer has not been identified as a SIFI. Recently one SIFI has proposed voluntarily discontinuing significant portions of its business to be relieved of the SIFI designation. There can be no assurance that this list will not grow to include more SIFI institutions. The identification process has not been completed and is subject to appeal by the affected institutions. The Company has no reason to believe that it will be identified as a SIFI. But, this requirement may have broader implications for the capital markets as capital becomes less available in various markets and markets become increasingly volatile.

Recent revelations concerning the potential manipulation of LIBOR ("London Interbank Offered Rate") during the period from 2008-2010 make it likely that more regulation surrounding the fixing of interest rates on commercial bank loans and reference rates on derivatives can be expected. Similar investigations are underway with respect to the setting of foreign exchange rates over a broad time period and there is no way to predict the outcome of these investigations although recently enforcement has been instituted against a number of international banks as well as employees of such banks with sizable fines being assessed.

The rules and requirements that were created by the passage of the Patriot Act, and the anti-money laundering regulations (AML) in the U.S. and similar laws in other countries that are related, have created significant costs of compliance and can be expected to continue to do so. FinCEN ("Financial Crimes Enforcement Network") has heightened their review of activities of broker-dealers where heretofore their focus had been on commercial banks. This increased focus is likely to lead to significantly higher levels of enforcement and higher fines and penalties on broker dealers. Regulators have expanded their views of the requirements of the Patriot Act, as well as through enforcement of the provisions of the Bank Secrecy Act ("BSA") and the Foreign Corrupt Practices Act ("FCPA") with respect to the amount of diligence required by financial institutions of both their foreign and domestic clients and their activities.

Pursuant to FINRA Rule 3130 (formerly NASD Rule 3013 and NYSE Rule 342), the chief executive officers ("CEOs") of regulated broker-dealers (including the CEO of Oppenheimer) are required to certify that their companies have processes in place to establish and test supervisory policies and procedures reasonably designed to achieve compliance with federal securities laws and regulations, including applicable regulations of self-regulatory organizations. The CEO of the Company is required to make such a certification on an annual basis and did so in March 2015.

On July 30, 2013, the SEC adopted final amendments to the financial responsibility rules ("FRRs") and reporting rules under SEC Rule 17a-5 ("Reporting Rule") for broker-dealers. The final amendments to the FRRs make changes to the rules related to proprietary accounts for broker-dealers, special reserve deposits with banks, bank sweep programs, deductions from net worth, solvency requirements, the SEC's ability to restrict withdrawals of capital, books and records requirements, and notifications to regulators. The rules became effective on March 3, 2014 except for the Reporting Rule which became effective on December 31, 2013.

The Reporting Rule requires all broker-dealers to file a new unaudited quarterly Form Custody report which provides information around custodial practices. In addition, the new Reporting Rule provides significant changes to annual reporting of broker-dealers by eliminating the internal control report referred to as the Material Inadequacy Letter, providing for a new Compliance Report asserting the effectiveness of internal controls for compliance with net capital, customer reserve formula, quarterly security count, and customer account statements. Also, the new Reporting Rule makes changes to the audit and attestation requirements for auditor reporting from American Institute of Certified Public Accountants ("AICPA") standards to Public Company Accounting Oversight Board ("PCAOB") standards as well as provides the SEC with access to auditors and audit workpapers. These rules were effective for fiscal years ending on or after June 1, 2014.



On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released an updated version of its Internal Control – Integrated Framework (the "2013 Framework"), which supersedes the original framework that was developed in 1992. The Company adopted the 2013 Framework on December 15, 2014 as a basis for its compliance with the Sarbanes-Oxley Act of 2002.

### ***Other Regulatory Matters***

On January 27, 2015, the SEC approved an Offer of Settlement from Oppenheimer and issued an Order Instituting Administrative and Cease and Desist Proceedings (the "Order") relating to Oppenheimer's failing to report a customer's suspicious activities which occurred through its Oppenheimer account in violation of the Exchange Act; violating the Exchange Act provisions requiring broker-dealers to maintain ledgers accurately reflecting liabilities and expenses; failing to accurately maintain records for each account showing the true beneficial owner as required by Exchange Act rule; and violating the securities registration provisions contained in Section 5 of the Securities Act and failing to prevent and detect such violations of Section 5 of the Securities Act as required by the Exchange Act. Pursuant to the Order, Oppenheimer was ordered to (i) cease and desist from committing or causing any violations of the relevant provisions of the federal securities laws; (ii) be censured; (iii) pay to the SEC \$10.0 million comprised of \$4.2 million in disgorgement, \$753,500 in prejudgment interest and \$5.1 million in civil penalties; and (iv) retain an independent consultant to review Oppenheimer's policies and procedures relating to anti-money laundering and Section 5 of the Securities Act. Oppenheimer made a payment of \$5.0 million to the SEC on February 17, 2015 and agreed to make a second payment of \$5.0 million to the SEC before January 27, 2017. On the same date the Order was issued a division of the United States Department of the Treasury ("FinCEN") issued a Civil Monetary Assessment (the "Assessment") against Oppenheimer relating to potential violations of the Bank Secrecy Act and the regulations promulgated thereunder related primarily to, in the Company's view, the SEC matters discussed immediately above. Pursuant to the terms of the Assessment, Oppenheimer admitted that it violated the Bank Secrecy Act and consented to the payment of a civil money penalty, which, as a result of the payments to the SEC described above, obligates Oppenheimer to make an aggregate payment of \$10.0 million to FinCEN. On February 9, 2015, Oppenheimer made a payment of \$5.0 million to FinCEN and has agreed to make a second payment of \$5.0 million before January 27, 2017. Oppenheimer further agreed to provide FinCEN copies of any reports or other recommendations prepared by the independent compliance consultant retained pursuant to the SEC settlement described above. The Company had fully reserved the \$20.0 million related to the aforementioned matters through the period ended June 30, 2014.

On February 19, 2015, the Board of Directors of the Company (the "Board") formed a Special Committee of the Board (the "Special Committee") in order to engage an independent law or consulting firm to conduct a review of Oppenheimer and OAM's broker dealer and investment adviser compliance processes and related internal controls and governance processes and provide recommendations to the Special Committee on how to improve any of the foregoing. On February 19, 2015, the Special Committee agreed to engage an independent law firm to conduct the aforementioned review. On April 22, 2015, the Special Committee agreed to retain Kalorama Partners LLP to act as the independent law firm. As part of its engagement, the Company agreed that the recommendations of the independent law firm shall be shared with the SEC. Moreover, Oppenheimer and OAM have agreed to adopt the recommendations made by the independent law firm.

For several quarters, Oppenheimer has been responding to information requests from FINRA regarding the sale of leveraged and inverse exchange traded funds ("ETFs"). A number of Oppenheimer employees have provided on-the-record testimony in connection with the FINRA inquiry. The Company believes that FINRA may file a complaint against the Company in connection with the investigation.

Since early 2014, Oppenheimer has been responding to information requests from FINRA regarding the supervision of one of its former financial advisers who was indicted by the United States Attorney's Office for the District of New Jersey in March 2014 on allegations of insider trading. In August 2014, Oppenheimer received information requests from the SEC regarding supervision of the same financial adviser. A number of Oppenheimer employees have provided on-the-record testimony in connection with the SEC inquiry. Oppenheimer is continuing to cooperate with both the FINRA and SEC inquiries.

In November 2014, Oppenheimer received a Notice of Contemplated Action from the New Mexico Securities Division (the "Division") alleging that certain federal agency bonds purchased by Bernalillo County, New Mexico in 2012 and 2013 were not suitable. Oppenheimer and a former registered representative were both named as respondents. On July 7, 2015, the Division issued a scheduling order stating that discovery in the matter must conclude by August 7, 2015 and set an initial hearing date for August 31, 2015. In addition to assessing a monetary fine at the conclusion of the hearing, the Division could also suspend or revoke Oppenheimer's securities license in New Mexico. The Company believes that it has meritorious defenses to these allegations.



In November 2014, Oppenheimer and OAM (the "Advisers") received a letter (the "Deficiency Letter") from the SEC examination staff (the "SEC Staff") as a result of an examination of the investment advisory activities of the Advisers. Pursuant to the Deficiency Letter the SEC Staff requested, among other items, that the Advisers conduct a "lookback" at certain investment advisory activities to determine whether such activities had an adverse impact on certain investment advisory clients of the Advisers. The Advisers are continuing to cooperate with the SEC Staff.

In March 2011, the Division of Securities for the State of Delaware ("Division of Securities") commenced an inquiry regarding a customer complaint received from an Oppenheimer customer resident in Delaware. The complaint and the inquiry concerned allegations of excessive trading of the customer's account. The customer complaint was settled in December 2012 and a Delaware state court approved the settlement. As part of its investigation, several employees gave on the record testimony concerning the customer's accounts. On June 25, 2015, Oppenheimer, without admitting or denying liability, entered into a Consent Order with the Division of Securities pursuant to which Oppenheimer was ordered to pay a fine of \$685,000 and to refrain from committing violations of the Delaware Securities Act. The Consent Order fully settles all matters associated with the Division of Securities inquiry.

As part of an industry wide initiative put forth by the SEC called the Municipal Continuing Disclosure Cooperation Initiative that involved a large number of municipal underwriting firms, Oppenheimer on April 14, 2015 executed an offer of settlement (the "Offer") pursuant to which Oppenheimer agreed, subject to approval of the Offer by the SEC and without admitting or denying any findings by the SEC, to consent to the entry of an order by the SEC finding that Oppenheimer willfully violated Section 17 (a) (2) of the Securities Act of 1933 by failing to perform adequate due diligence regarding statements made by municipal issuers or other obligated persons that such issuers or persons had not failed to comply in all material respects with any previous continuing disclosure undertakings required of such issuers or persons. On June 18, 2015, the SEC issued an order (the "Order") regarding the foregoing against Oppenheimer and also issued orders to approximately thirty-five other municipal underwriters. Pursuant to the Order, Oppenheimer will (i) pay a fine equal to \$400,000 and (ii) engage an independent consultant to review Oppenheimer's policies as they relate to municipal underwriting securities due diligence. As a result of the Order, Oppenheimer and the other underwriters became subject to a disqualification that would prohibit Oppenheimer's reliance on the safe harbor afforded by Rule 506 (d) for the sale of certain privately-placed securities, including third party alternative investments. On the same day as the Order, the SEC issued a waiver to Oppenheimer and the other municipal underwriters from the 506 (d) disqualification and certain other disqualifications.

In February 2010, Oppenheimer finalized settlements with 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. 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 June 30, 2015, the Company purchased and holds (net of redemptions) approximately \$107.6 million in ARS from its clients. As of June 30, 2015, the Company had \$5.0 million of outstanding ARS purchase commitments related to the settlements with the Regulators. In addition, the Company is committed to purchase another \$16.7 million from clients through 2017 under legal settlements and awards.

The ARS positions that the Company owns and are committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans.

The Company's clients held at Oppenheimer approximately \$117.2 million of ARS at June 30, 2015 exclusive of amounts that 1) were owned by Qualified Institutional Buyers ("QIBs"), 2) were transferred to the Company after February 2008, 3) were purchased by clients after February 2008, or 4) were transferred from the Company to other securities firms after February 2008. See "Off-Balance Sheet Arrangements" herein for additional details.

### ***Other Matters***

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

As part of its ongoing business, the Company records reserves for legal expenses, judgments, fines and/or awards attributable to litigation and regulatory matters. In connection therewith, the Company has maintained its legal reserves at levels it believes will resolve outstanding matters, but may increase or decrease such reserves as matters warrant. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. When loss contingencies are not both probable and reasonably estimable, the Company does not establish reserves. See "Legal Proceedings" herein.

### **Business Continuity**

The Company is committed to an on-going investment in its technology and communications infrastructure including extensive business continuity planning and investment. These costs are on-going and the Company believes that current and future costs will exceed historic levels due to business and regulatory requirements. The Company built a new data center in 2010 which is housed in a location different than its headquarters. The move to new headquarters in 2012 required additional outlays for business continuity purposes although considerable savings have begun to be realized by the availability of independent electric generating capacity for the entire building which will support the Company's infrastructure and occupancy.

The fourth quarter of 2012 was impacted by Superstorm Sandy which occurred on October 29, 2012 causing the Company to vacate its then two principal offices in downtown Manhattan and displaced 800 of the Company's employees including substantially all of its capital markets, operations and headquarters staff for in excess of 30 days. The Company continues to review both internally and with its landlords and vendors the infrastructure necessary to withstand a similar event in light of the issues that arose in the fall of 2012.

### **Cybersecurity**

The Company has been focused for many years on the issues of maintaining the security of its clients' data, access to its data processing environment, and its data processing facilities. Recent examples of vulnerabilities by other companies which have resulted in loss of client data and fraudulent activities by both domestic and foreign entities have caused the Company to review its security policies and procedures and to take additional actions to protect its network and its information. Such threats are ongoing and the Company believes that increased resources will need to be dedicated to this effort in the future.

### **Outlook**

The Company recognizes the regulatory requirements of our industry, and that we must perform a rigorous and ongoing assessment of our compliance and risk management efforts, and invest in people and programs, all while continuing to provide a platform with first class investment ideas and services. The Company's long-term growth plan is to continue to expand existing offices by hiring experienced professionals as well as expand through the purchase of operating branch offices from other broker dealers or the opening of new branch offices in attractive locations, thus maximizing the potential of each office and the development of existing trading, investment banking, investment advisory and other activities. Equally important is the search for viable acquisition candidates. As opportunities are presented, it is the long-term intention of the Company to pursue growth by acquisition where a comfortable match can be found in terms of corporate goals and personnel at a price that would provide the Company's stockholders with incremental value. The Company may review potential acquisition opportunities, and will continue to focus its attention on the management of its existing business and may, from time to time, dispose of business activities that are no longer strategic to its business operations or which have limited opportunities for growth. In addition, the Company is committed to improving its technology capabilities to support client service and the expansion of its capital markets capabilities.

## Results of Operations

The Company reported net income attributable to Oppenheimer Holdings Inc. of \$295,000 or \$0.02 basic earnings per share for the second quarter of 2015 compared with a net loss attributable to Oppenheimer Holdings Inc. of \$1.6 million or \$0.11 basic loss per share for the second quarter of 2014. Income before income tax provision was \$2.6 million for the second quarter of 2015 compared with income before income tax provision of \$136,000 for the second quarter of 2014. Revenue for the second quarter of 2015 was \$238.9 million compared with \$249.7 million in the second quarter of 2014, a decrease of 4.3%.

The following table and discussion summarizes the changes in the major revenue and expense categories for the three and six months ended June 30, 2015 compared to the same period in 2014:

(Expressed in thousands)

	For Three Months Ended June 30, 2015		For the Six Months Ended June 30, 2015	
	Amount	% Change	Amount	% Change
<b>Revenue</b>				
Commissions	\$ (12,506)	(10.8)	\$ (24,949)	(10.5)
Advisory fees	1,813	2.6	4,574	3.3
Investment banking	2,221	8.3	(3,998)	(6.6)
Interest	(518)	(4.1)	(1,873)	(7.5)
Principal transactions, net	(10,084)	(85.5)	(346)	(1.7)
Other	8,313	69.0	6,224	28.1
Total revenue	(10,761)	(4.3)	(20,368)	(4.0)
<b>Expenses</b>				
Compensation and related expenses	(1,637)	(1.0)	(10,496)	(3.2)
Communications and technology	(1,129)	(6.4)	(695)	(2.0)
Occupancy and equipment costs	77	0.5	458	1.5
Clearing and exchange fees	207	3.4	717	6.0
Interest	93	2.1	(1,161)	(12.1)
Other	(10,866)	(23.7)	(16,427)	(20.3)
Total expenses	(13,255)	(5.3)	(27,604)	(5.5)
Income before income tax provision	2,494	1,833.8	7,236	138.0
Income tax provision	596	42.9	2,637	85.7
Net income for the period	1,898	(151.5)	4,599	212.2
Less net income attributable to noncontrolling interest, net of tax	49	16.3	255	51.3
Net income attributable to Oppenheimer Holdings Inc.	\$ 1,849	*	\$ 4,344	260.1

\* Not comparable

## Second Quarter 2015

### Revenue

Commission revenue was \$103.6 million for the second quarter of 2015, a decrease of 10.8% compared with \$116.1 million for the second quarter of 2014 due to reduced transaction volumes from retail and institutional investors during the second quarter of 2015.

Advisory fees were \$72.2 million for the second quarter of 2015, an increase of 2.6% compared with \$70.4 million for the second quarter of 2014 due to increases in advisory fees on traditional managed products. Assets under management increased 3.9% from \$25.6 billion to \$26.6 billion from March 31, 2014 to March 31, 2015, which contributed to the aforementioned advisory fee increase as the fees are calculated quarterly based on the market value at the end of the previous period. Assets under management for the period ended June 30, 2015 decreased 3.9% to \$25.6 billion as compared to \$26.6 billion at March 31, 2015. The decrease in AUM was comprised of asset appreciation of \$0.3 billion and net redemption of assets of \$1.2 billion.

Investment banking revenue increased 8.3% to \$29.0 million for the second quarter of 2015 compared with \$26.8 million for the second quarter of 2014 due to higher fees from mergers and acquisitions activity during the second quarter of 2015.

Interest revenue was \$12.0 million for second quarter of 2015, a decrease of 4.1% compared with \$12.5 million for the second quarter of 2014. The decrease is primarily attributable to a decrease in interest revenue on margin extended to customers.

Principal transactions revenue decreased 85.5% to \$1.7 million during the second quarter of 2015 compared with \$11.8 million for the second quarter of 2014 primarily due to declines in equities and fixed income trading during the second quarter of 2015.

Other revenue was \$20.4 million for the second quarter of 2015, an increase of 69.0% compared to \$12.1 million for the second quarter of 2014. The increase is primarily due to an increase in loan modifications of commercial mortgages during the second quarter of 2015.

### ***Expenses***

Compensation and related expenses (including salaries, production and incentive compensation, share-based compensation, deferred compensation, and other benefit-related items) totaled \$158.2 million during the second quarter of 2015, a decrease of 1.0% compared to the second quarter of 2014. The decrease was due to lower production and deferred compensation expenses partially offset by higher share-based compensation expenses during the second quarter of 2015. Compensation and related expenses as a percentage of revenue was 66.2% during the second quarter of 2015 compared to 64.0% during the second quarter of 2014.

Non-compensation expenses were \$78.1 million during the second quarter of 2015, a decrease of 13.0% compared to \$89.7 million during the same period in 2014 primarily due to lower legal and regulatory costs during the second quarter of 2015.

The effective income tax rate for the second quarter of 2015 was 75.5%. The effective income tax rate for the second quarter of 2015 was negatively impacted due to increases in reserves taken on tax positions, non-deductible regulatory charges, as well as lower operating results of the international businesses (which benefit from lower tax rates) and by the size of these factors relative to income before income tax provision. The effective income tax rate for the second quarter of 2014 was significantly impacted by the non-deductible nature of the charges associated with low-priced securities regulatory matters and their size relative to income before income tax provision.

### **Year-to-date 2015**

#### ***Revenue***

Commission revenue was \$213.3 million for the six months ended June 30, 2015, a decrease of 10.5% compared with \$238.2 million for the six months ended June 30, 2014 due to reduced transaction volumes from retail and institutional investors during the six months ended June 30, 2015.

Advisory fees were \$143.2 million for the six months ended June 30, 2015, an increase of 3.3% compared with \$138.6 million for the six months ended June 30, 2014 due to increases in advisory fees on traditional managed products. Assets under management increased 2.3% from \$25.3 billion to \$25.9 billion from December 31, 2013 to December 31, 2014 and 3.9% from \$25.6 billion to \$26.6 billion from March 31, 2014 to March 31, 2015, which contributed to the aforementioned advisory fee increase as the fees are calculated quarterly based on the market value at the end of the previous period. Assets under management for the period ended June 30, 2015 decreased 3.5% to \$25.6 billion as compared to \$26.5 billion at June 30, 2014 which will be used to determine the advisory fees for the period ended September 30, 2015. The decrease was comprised of asset appreciation of \$0.3 billion and net redemption of assets of \$1.2 billion.

Investment banking revenue decreased 6.6% to \$56.3 million for the six months ended June 30, 2015 compared with \$60.3 million for the six months ended June 30, 2014 due to lower fees from mergers and acquisitions and equities underwritings during the six months ended June 30, 2015.

Interest revenue was \$23.1 million for the six months ended June 30, 2015, a decrease of 7.5% compared with \$24.9 million for the six months ended June 30, 2014. The decrease is primarily attributable to a decrease of \$1.0 million in interest from lower holdings of U.S. government and agency securities and a decrease in interest revenue on margin extended to customers.

Principal transactions revenue decreased 1.7% to \$20.3 million for the six months ended June 30, 2015 compared with \$20.6 million for the six months ended June 30, 2014 primarily due to declines in equities and fixed income trading during the second quarter of 2015, offset by higher volumes and dollar-value of loan modifications of commercial mortgages during the first quarter of 2015.

Other revenue was \$28.4 million for the six months ended June 30, 2015, an increase of 28.1% compared to \$22.2 million for the six months ended June 30, 2014. The increase is primarily due to an increase in loan modifications of commercial mortgages during the six months ended June 30, 2015 as the Company modified 22 commercial loans compared to 8 loans during the same period of 2014.

## Expenses

Compensation and related expenses (including salaries, production and incentive compensation, share-based compensation, deferred compensation, and other benefit-related items) totaled \$321.3 million for the six months ended June 30, 2015, a decrease of 3.2% compared to \$331.8 million for the six months ended June 30, 2014. The decrease was due to lower production and incentive compensation expenses the six months ended June 30, 2015. Compensation and related expenses as a percentage of revenue was 66.3% during the six months ended June 30, 2015 compared to 65.7% during the six months ended June 30, 2014.

Non-compensation expenses were \$150.7 million during the six months ended June 30, 2015, a decrease of 10.2% compared to \$167.8 million for the six months ended June 30, 2014 primarily due to lower legal and regulatory costs during the six months ended June 30, 2015.

The table below presents information about the reported revenue and net income (loss) before taxes of the Company's reportable business segments for the three and six months ended June 30, 2015 and 2014:

(Expressed in thousands)

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
<b>Revenue</b>						
Private Client	\$ 133,783	\$ 145,344	(8.0)	\$ 273,715	\$ 293,164	(6.6)
Asset Management	25,344	25,032	1.2	49,805	49,642	0.3
Capital Markets	69,531	72,217	(3.7)	141,697	150,098	(5.6)
Commercial Mortgage Banking	10,969	6,958	57.6	19,355	11,830	63.6
Corporate/Other	(699)	138	*	(83)	123	*
	<u>\$ 238,928</u>	<u>\$ 249,689</u>	<u>(4.3)</u>	<u>\$ 484,489</u>	<u>\$ 504,857</u>	<u>(4.0)</u>
<b>Income (loss) before income tax provision</b>						
Private Client	\$ 13,402	\$ 7,560	77.3	\$ 30,159	\$ 17,868	68.8
Asset Management	7,801	8,353	(6.6)	15,687	16,036	(2.2)
Capital Markets	3,623	7,082	(48.8)	10,358	18,266	(43.3)
Commercial Mortgage Banking	3,731	3,605	3.5	7,768	5,454	42.4
Corporate/Other	(25,927)	(26,464)	(2.0)	(51,491)	(52,379)	(1.7)
	<u>\$ 2,630</u>	<u>\$ 136</u>	<u>1,833.8</u>	<u>\$ 12,481</u>	<u>\$ 5,245</u>	<u>138.0</u>

\* Not comparable

## Private Client

Private Client reported revenue of \$133.8 million for the second quarter of 2015, 8.0% lower than the second quarter of 2014, due to decreases in transaction-based business during the second quarter of 2015. Income before income tax provision was \$13.4 million for the second quarter of 2015, an increase of 77.3% compared with the second quarter of 2014 primarily due to decreases in legal and regulatory costs during the second quarter of 2015.

- Client assets under administration were \$84.9 billion at June 30, 2015 compared to \$87.3 billion at December 31, 2014, a decrease of 2.7%.
- Financial adviser headcount was 1,273 at the end of the second quarter of 2015 (1,301 at the end of the first quarter of 2015), down from 1,370 at the end of the second quarter of 2014. The reduction primarily reflects the Company's review of its financial adviser standards for productivity, compliance and client service.
- Retail commissions were \$62.9 million for the second quarter of 2015, a decrease of 14.8% from the second quarter of 2014.
- Advisory fee revenue on traditional and alternative managed products was \$48.2 million for the second quarter of 2015, an increase of 2.5% over the second quarter of 2014 (see Asset Management below for further information).

- Money market fee waivers totaled \$685,000 during the second quarter of 2015 versus waivers of \$7.6 million during the second quarter of 2014. The elimination of money market fee waivers was due to the movement of client assets out of money market fund products and into FDIC-insured bank deposits reflecting the upcoming changes in regulatory rules that govern money market fund products which should make such temporary investment vehicles significantly less attractive to investors. The Company has discontinued offering retail money market funds and has transferred most of its client money market fund balances to FDIC-insured bank deposits. Interest earned on FDIC-insured bank deposits was \$3.0 million during the second quarter of 2015 versus \$1.3 million for the second quarter of 2014.

### **Asset Management**

Asset Management reported revenue of \$25.3 million for the second quarter of 2015, 1.2% higher than the second quarter of 2014. Income before income tax provision was \$7.8 million for the second quarter of 2015, a decrease of 6.6% compared with the second quarter of 2014.

- Advisory fee revenue on traditional and alternative managed products was \$24.0 million for the second quarter of 2015, an increase of 2.7% over the second quarter of 2014. Advisory fees are calculated based on the value of client assets under management ("AUM") at the end of the prior quarter which totaled \$26.6 billion at March 31, 2015 (\$25.6 billion at March 31, 2014) and are allocated to the Private Client and Asset Management business segments.
- AUM decreased 3.4% to \$25.6 billion at June 30, 2015, compared to \$26.5 billion at June 30, 2014, which is the basis for advisory fee billings for the third quarter of 2015. The decrease in AUM was comprised of asset appreciation of \$0.3 billion and net redemption of assets of \$1.2 billion.

The following table provides a breakdown of the change in assets under management for the three months ended June 30, 2015:

*(Expressed in millions)*

Fund Type	For the Three Months Ended June 30, 2015				
	Beginning Balance	Contributions	Redemptions	Appreciation (Depreciation)	Ending Balance
Traditional <sup>(1)</sup>	\$ 22,552	\$ 612	\$ (1,732)	\$ (15)	\$ 21,417
Institutional Fixed Income <sup>(2)</sup>	1,211	28	(18)	20	1,241
Alternative Investments:					
Hedge Funds <sup>(3)</sup>	2,472	83	(45)	81	2,591
Private Equity Funds <sup>(4)</sup>	383	—	—	(65)	318
	<u>\$ 26,618</u>	<u>\$ 723</u>	<u>\$ (1,795)</u>	<u>\$ 21</u>	<u>\$ 25,567</u>

- (1) Traditional investments include third party advisory programs, Oppenheimer financial adviser managed and advisory programs, and Oppenheimer Asset Management taxable and tax-exempt portfolio management strategies.
- (2) Institutional fixed income provides solutions to institutional investors including: Taft-Hartley Funds, Public Pension Funds, Corporate Pension Funds, and Foundations and Endowments.
- (3) Hedge funds represent single manager hedge fund strategies in areas including hedged equity, technology and financial services, and multi-manager and multi-strategy fund of funds.
- (4) Private equity funds represent private equity fund of funds including portfolios focused on natural resources and related assets.



## **Capital Markets**

Capital Markets reported revenue of \$69.5 million for the second quarter of 2015, 3.7% lower than the second quarter of 2014, primarily due to lower revenue from Taxable Fixed Income during the second quarter of 2015. Income before income tax provision was \$3.6 million for the second quarter of 2015, a decrease of 48.8% compared with income before income tax provision of \$7.1 million for the second quarter of 2014.

- Institutional equities commissions decreased 2.7% to \$27.6 million for the second quarter of 2015 compared with the second quarter of 2014.
- Advisory fees from investment banking activities increased 26.5% to \$11.5 million in the second quarter of 2015 compared with the prior year quarter due to an increase in mergers and acquisitions activity during the second quarter of 2015.
- Equity underwriting fees decreased 7.4% to \$10.2 million for the second quarter of 2015 compared with the second quarter of 2014.
- Revenue from Taxable Fixed Income decreased 13.5% to \$15.6 million for the second quarter of 2015 compared with the second quarter of 2014.
- Public Finance and Municipal Trading revenue decreased 2.5% to \$5.9 million for the second quarter of 2015 compared with the second quarter of 2014.

## **Commercial Mortgage Banking**

Commercial Mortgage Banking reported revenue of \$11.0 million for the second quarter of 2015, 57.6% higher than the second quarter of 2014, primarily due to an increase in loan modifications of commercial mortgages during the second quarter of 2015. Income before income tax provision was \$3.7 million for the second quarter of 2015, an increase of 3.5% compared with the second quarter of 2014.

- Premium income earned from loan modifications was \$9.6 million in the second quarter of 2015 compared with \$2.1 million in the second quarter of 2014 as the Company modified 14 commercial loans (3 in the second quarter of 2014) with an aggregate principal loan balance of \$118.0 million (\$25.5 million in the second quarter of 2014).
- Loan origination fees for the second quarter of 2015 were \$1.1 million, an increase of 23.7% compared with the second quarter of 2014, as the Company originated 9 commercial loans (9 in the second quarter of 2014) with an aggregate principal loan balance of \$116.3 million (\$44.9 million in the second quarter of 2014).
- Net servicing revenue for the second quarter of 2015 was \$1.5 million compared with \$1.4 million for the comparable period in 2014, an increase of 7.1%.
- Principal loan balances related to servicing activities totaled \$4.1 billion at June 30, 2015, up 2.5% from June 30, 2014.

## **Liquidity and Capital Resources**

Total assets at June 30, 2015 increased by 5.1% from December 31, 2014. The Company satisfies its need for short-term funds from internally generated funds and collateralized and uncollateralized borrowings, consisting primarily of bank call loans, stock loans, uncommitted lines of credit, and warehouse facilities. The Company finances its trading in government securities through the use of repurchase agreements. The Company's longer-term capital needs are met through the issuance of the Notes (see "Refinancing" below). The amount of Oppenheimer's bank borrowings fluctuates in response to changes in the level of the Company's securities inventories and customer margin debt, changes in notes receivable from employees, investment in office facilities, and changes in stock loan balances and financing through repurchase agreements. Oppenheimer has arrangements with banks for borrowings on a fully-collateralized basis. At June 30, 2015, the Company had \$177.5 million of such borrowings outstanding compared to outstanding borrowings of \$59.4 million at December 31, 2014. The Company also has some availability of short-term bank financing on an unsecured basis.

Volatility in the financial markets and ongoing concerns about the speed and degree of economic recovery has had an adverse effect on the availability of credit through traditional sources. As a result of concerns around financial markets generally and the strength of counterparties specifically, lenders have reduced and, in some cases, ceased to provide funding on both a secured and unsecured basis to financial service providers.

The Company's overseas subsidiaries, Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited, are subject to local regulatory capital requirements which restrict the Company's ability to utilize this capital for other purposes. The regulatory capital requirements for Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited were \$3.9 million and \$387,000, respectively, at June 30, 2015. See Note 12 to the condensed consolidated financial statements in Item 1 herein for further details. The liquid assets at Oppenheimer Europe Ltd. are primarily comprised of cash deposits in bank accounts. The liquid assets at Oppenheimer Investments Asia Limited are primarily comprised of investments in U.S. Treasuries and cash deposits in bank accounts. Any restrictions on transfer of these liquid assets from Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited to the Company or its other subsidiaries would be limited by the regulatory capital requirements.

The Company permanently reinvests eligible earnings of its foreign subsidiaries in such subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if these earnings were repatriated. The unrecognized deferred tax liability associated with earnings of foreign subsidiaries, net of associated U.S. foreign tax credits, is estimated at \$2.3 million for those subsidiaries with respect to which the Company would be subject to residual U.S. tax on cumulative earnings through June 30, 2015 were those earnings to be repatriated. The Company intends to continue to permanently reinvest the excess earnings of Oppenheimer Israel (OPCO) Ltd. in its own business and in the businesses in Europe and Asia to support business initiatives in those regions.

The impact of recent downgrades to securities issued by Greece and other turmoil in the Eurozone could adversely affect U.S. issuers' credit ratings, including our own as well as those of our clients and/or counterparties and could require us to post additional collateral on loans collateralized by U.S. Treasury securities. See Item 1A "Risk Factors – The downgrade of U.S. long term sovereign debt obligations and issues affecting the sovereign debt of European nations may adversely affect markets and our business." in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

In February 2010, Oppenheimer finalized settlements with the Regulators concluding investigations and administrative proceedings concerning Oppenheimer's marketing and sale of ARS. Pursuant to those settlements and legal settlements and awards, the Company has purchased and will, subject to the terms and conditions of the settlements, continue to purchase ARS on a periodic basis. The ultimate amount of ARS to be repurchased by the Company cannot be predicted with any certainty and will be impacted by redemptions by issuers and legal and other actions by clients during the relevant period which cannot be predicted. See "Off-Balance Sheet Arrangements" herein.

Additional settlements of regulatory matters could have an adverse effect on the Company's liquidity depending on the size and composition of any such settlement.

### ***Refinancing***

On April 12, 2011, the Company completed the private placement of \$200.0 million in aggregate principal amount of 8.75% Senior Secured Notes due April 15, 2018 (the "Notes") at par. Interest on the Notes is payable semi-annually on April 15th and October 15th. On April 15, 2014, the Company retired early a total of \$50.0 million (25%) of the Notes. Upon completion of the redemption and retirement on April 15, 2014, \$150.0 million aggregate principal amount of the Notes remains outstanding. See Note 9 to the condensed consolidated financial statements in Item 1 herein for further discussion.

On May 19, 2015, Moody's Corporation affirmed the Company's 'B2' Corporate Family rating and 'B2' rating on the Notes with a stable outlook. On July 17, 2015, S&P affirmed the Company's and its Notes' "B" rating and affirmed its stable outlook on the Notes.

### ***Liquidity***

For the most part, the Company's assets consist of cash and cash equivalents and assets which can be readily converted into cash. Receivable from brokers, dealers and clearing organizations represents deposits for securities borrowed transactions, margin deposits or current transactions awaiting settlement. Receivable from customers represents margin balances and amounts due on transactions awaiting settlement. The Company's receivables are, for the most part, collateralized by marketable securities. The Company's collateral maintenance policies and procedures are designed to limit the Company's exposure to credit risk. Securities owned, with the exception of the ARS, are mainly comprised of actively trading, readily marketable securities. The Company advanced \$3.8 million in forgivable notes to employees (which are inherently illiquid) for the three months ended June 30, 2015 (\$3.3 million for the three months ended June 30, 2014) as upfront or backend inducements. The amount of funds allocated to such inducements will vary with hiring activity.



The Company satisfies its need for short-term liquidity from internally generated funds, collateralized and uncollateralized bank borrowings, stock loans and repurchase agreements and warehouse facilities. Bank borrowings are collateralized by firm and customer securities. In addition, letters of credit are issued in the normal course of business to satisfy certain collateral requirements in lieu of depositing cash or securities.

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

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates not exceeding the broker call rate. At June 30, 2015, bank call loans were \$177.5 million (\$59.4 million at December 31, 2014 and \$147.2 million at June 30, 2014). The average daily bank loan outstanding for the three and six months ended June 30, 2015 was \$133.3 million and \$108.7 million, respectively (\$153.3 million and \$138.9 million for the three and six months ended June 30, 2014, respectively). The largest daily bank loan outstanding for the three and six months ended June 30, 2015 was \$225.7 million (\$234.8 million and 247.9 million for the three and six months ended June 30, 2014, respectively). The average weighted interest rate on bank call loans applicable on June 30, 2015 was 1.27%.

At June 30, 2015, securities loaned balances totaled \$209.2 million (\$137.9 million at December 31, 2014 and \$203.6 million at June 30, 2014). The average daily securities loan balance for the three and six months ended June 30, 2015 was \$177.0 million and \$165.0 million, respectively (\$247.5 million and \$232.8 million for the three and six months ended June 30, 2014, respectively). The largest daily stock loan balance for the three and six months ended June 30, 2015 was \$244.2 million (\$293.4 million for both the three and six months ended June 30, 2014).

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

Certain of the Company's repurchase agreements and reverse repurchase agreements are carried at fair value as a result of the Company's fair value option election. The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. 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, 2015, the fair value of the reverse repurchase agreements for which the fair value option was elected was \$104.3 million.

At June 30, 2015, the gross balances of reverse repurchase agreements and repurchase agreements were \$470.7 million and \$990.2 million, respectively. The average daily balance of reverse repurchase agreements and repurchase agreements on a gross basis for the three months ended June 30, 2015 was \$352.7 million and \$855.8 million, respectively (\$386.9 million and \$921.4 million, respectively, for the three months ended June 30, 2014). The largest amount of reverse repurchase agreements and repurchase agreements outstanding on a gross basis during the three months ended June 30, 2015 was \$746.8 million and \$1.3 billion, respectively (\$832.4 million and \$1.3 billion, respectively, for the three months ended June 30, 2014).

At June 30, 2015, the notional value of the repo-to-maturity was \$nil. The average balance for the repo-to-maturity for the three months ended June 30, 2015 was \$nil. At June 30, 2015, the gross leverage ratio was 5.4.

OMHHF, which is engaged in commercial mortgage origination and servicing, has obtained an uncommitted warehouse facility line through PNC Bank ("PNC") under which OMHHF pledges FHA-guaranteed mortgages for a period averaging 15 business days and PNC table funds the principal payment to the mortgagee. At June 30, 2015, OMHHF had \$70.9 million outstanding under the warehouse facility line at a variable interest rate of 1 month LIBOR plus a spread. Interest expense for the three and six months ended June 30, 2015 was \$385,000 and \$510,000, respectively (\$74,800 and \$225,400 for the three and six months ended June 30, 2014, respectively).

## Liquidity Management

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

The Company regularly reviews its sources of liquidity and financing and conducts internal stress analysis to determine the impact on the Company of events that could remove sources of liquidity or financing and to plan actions the Company could take in the case of such an eventuality. The Company's reviews have resulted in plans that the Company believes would result in a reduction of assets through liquidation that would significantly reduce the Company's need for external financing.

## Funding Risk

(Expressed in thousands)

	For the Six Months Ended June 30,	
	2015	2014
Cash used in operating activities	\$ (126,388)	\$ (13,390)
Cash used in investing activities	(1,913)	(2,185)
Cash provided by (used in) financing activities	114,807	(17,545)
Net decrease in cash and cash equivalents	<u>\$ (13,494)</u>	<u>\$ (33,120)</u>

Management believes that funds from operations, combined with the Company's capital base and available credit facilities, are sufficient for the Company's liquidity needs in the foreseeable future. Changes in capital requirements under international standards that will impact the costs and relative returns on loans may cause banks including those with whom the Company relies to back away from providing funding to the securities industry. Such a development might impact the Company's ability to finance its day to day activities or increase the costs to acquire funding. The Company may or may not be able to pass such increased funding costs on to its clients. (See "Factors Affecting 'Forward-Looking Statements'").

## Other Matters

On May 29, 2015, the Company paid cash dividends of \$0.11 per share of Class A and Class B Stock totaling approximately \$1.5 million from available cash on hand.

On July 31, 2015, the Board of Directors declared a regular quarterly cash dividend of \$0.11 per share of Class A and Class B Stock payable on August 28, 2015 to stockholders of record on August 14, 2015.

The book value of the Company's Class A and Class B Stock was \$38.68 at June 30, 2015 compared to \$38.71 at December 31, 2014, based on total outstanding shares of 13,749,829 and 13,630,368, respectively.

The diluted weighted average number of shares of Class A and Class B Stock outstanding for the three months ended June 30, 2015 was 14,390,580 compared to 13,618,174 outstanding for the same period in 2014.

## Off-Balance Sheet Arrangements

In February 2010, Oppenheimer finalized settlements with 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. 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 Regulators and client related legal settlements and awards to purchase ARS, as of June 30, 2015, the Company purchased and holds (net of redemptions) approximately \$107.6 million in ARS from its clients. In addition, the Company is committed to purchase another \$16.7 million from clients through 2017 under legal settlements and awards.

The Company's purchases of ARS from its clients holding ARS eligible for repurchase will, subject to the terms and conditions of the settlements with the Regulators, continue on a periodic basis. Pursuant to these terms and conditions, the Company is required to conduct a financial review every six months, until the Company has extended Purchase Offers to all Eligible Investors (as defined), to determine whether it has funds available, after giving effect to the financial and regulatory capital constraints applicable to the Company, to extend additional Purchase Offers. The financial review is based on the Company's operating results, regulatory net capital, liquidity, and other ARS purchase commitments outstanding under legal settlements and awards (described below). There are no predetermined quantitative thresholds or formulas used for determining the final agreed upon amount for the Purchase Offers. Upon completion of the financial review, the Company first meets with its primary regulator, FINRA, and then with representatives of the NYAG and other regulators to present the results of the review and to finalize the amount of the next Purchase Offer. Various offer scenarios are discussed in terms of which Eligible Investors should receive a Purchase Offer. The primary criteria to date in terms of determining which Eligible Investors should receive a Purchase Offer has been the amount of household account equity each Eligible Investor had with the Company in February 2008. Once various Purchase Offer scenarios have been discussed, the regulators, not the Company, make the final determination of which Purchase Offer scenario to implement. The terms of settlements provide that the amount of ARS to be purchased during any period shall not risk placing the Company in violation of regulatory requirements.

Outside of the settlements with the Regulators, the Company has also reached various legal settlements with clients and received unfavorable legal awards requiring it to purchase ARS. The terms and conditions including the ARS amounts committed to be purchased under legal settlements are based on the specific facts and circumstances of each legal proceeding. In most instances, the purchase commitments are in increments and extend over a period of time. At June 30, 2015, no ARS purchase commitments related to legal settlements extended past 2017. To the extent the Company receives an unfavorable award, the Company usually must purchase the ARS provided for by the award within 30 days of the rendering of the award. The ultimate amount of ARS to be repurchased by the Company under both the settlements with Regulators and the legal settlements and awards cannot be predicted with any certainty and will be impacted by redemptions by issuers, the Company's financial and regulatory constraints, and legal and other actions by clients during the relevant period, which also cannot be predicted.

The ARS positions that the Company owns and are committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans. At June 30, 2015, the amount of ARS held by the Company that was below investment grade was \$3.7 million and the amount of ARS that was unrated was \$50,000.

(Expressed in thousand)

Auction Rate Securities Owned and Committed to Purchase at June 30, 2015

Product	Principal	Valuation Adjustment	Fair Value
Auction Rate Securities ("ARS") Owned <sup>(1)</sup>	\$ 107,575	\$ 7,191	\$ 100,384
ARS Commitments to Purchase Pursuant to: <sup>(2)(3)</sup>			
Settlements with the Regulators <sup>(4)</sup>	5,000	284	4,716
Legal Settlements and Awards <sup>(5)</sup>	11,660	750	10,910
Total	<u>\$ 124,235</u>	<u>\$ 8,225</u>	<u>\$ 116,010</u>

- (1) Principal amount represents the par value of the ARS and is included in securities owned in the condensed consolidated balance sheet at June 30, 2015. The valuation adjustment amount is included as a reduction to securities owned in the condensed consolidated balance sheet at June 30, 2015.
- (2) 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 at June 30, 2015.
- (3) Specific ARS to be purchased under ARS Purchase Commitments are unknown until the beneficial owner selects the individual ARS to be purchased.
- (4) Commitments to purchase under settlements with the Regulators at June 30, 2015. Eligible Investors for future buybacks under the settlements with the Regulators held approximately \$85.3 million of ARS as of June 30, 2015.
- (5) Commitments to purchase under various legal settlements and awards with clients through 2017.

Per the above table, the Company has recorded a valuation adjustment on its ARS owned and ARS purchase commitments of \$8.2 million as of June 30, 2015. The valuation adjustment is comprised of \$7.2 million which represents the difference between the principal value and the fair value of the ARS the Company owns as of June 30, 2015 and \$1.0 million which represents the difference between the principal value and the fair value of the ARS the Company is committed to purchase under the settlements with the Regulators and legal settlements and awards. As of June 30, 2015, the Company had \$5 million of outstanding ARS purchase commitments related to the settlements with Regulators. Eligible Investors for future buybacks under the settlements with Regulators held approximately \$85.3 million of ARS as of June 30, 2015. Since the Company was not committed to purchase this amount as of June 30, 2015, there were no valuation adjustments booked to recognize the difference between the principal value and the fair value for this remaining amount.

Additional information concerning the Company's off-balance sheet arrangements is included in Note 5 and Note 7 to the condensed consolidated financial statements in Item 1 herein.

### Contractual Obligations

The following table sets forth the Company's contractual obligations as of June 30, 2015:

*(Expressed in millions)*

	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligations	\$ 286	\$ 40	\$ 71	\$ 53	\$ 122
Committed Capital	5	5	—	—	—
Senior Secured Notes <sup>(1)</sup>	189	13	176	—	—
ARS Purchase Commitments <sup>(2)</sup>	16	10	6	—	—
<b>Total</b>	<b>\$ 496</b>	<b>\$ 68</b>	<b>\$ 253</b>	<b>\$ 53</b>	<b>\$ 122</b>

(1) Includes interest payable of \$39.4 million through maturity.

(2) Represents payments to be made pursuant to the ARS settlements entered into with the Regulators in February 2010 as well as commitments to purchase ARS as a result of settlements with the Regulators and legal settlements and awards.

### Inflation

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

### Factors Affecting "Forward-Looking Statements"

From time to time, the Company may publish "Forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act or make oral statements that constitute forward-looking statements. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products, anticipated market performance, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company cautions readers that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. These risks and uncertainties, many of which are beyond the Company's control, include, but are not limited to: (i) transaction volume in the securities markets, (ii) the volatility of the securities markets, (iii) fluctuations in interest rates, (iv) changes in regulatory requirements which could affect the cost and method of doing business and reduce returns, (v) fluctuations in currency rates, (vi) general economic conditions, both domestic and international, (vii) changes in the rate of inflation and the related impact on the securities markets, (viii) competition from existing financial institutions and other participants in the securities markets, (ix) legal developments affecting the litigation experience of the securities industry and the Company, including developments arising from the failure of the Auction Rate Securities markets, the trading of low-priced securities, stepped up enforcement efforts by the SEC, FinCEN and other regulators and the results of pending litigation and regulatory proceedings involving the Company, (x) changes in federal and state tax laws which could affect the popularity of products sold by the Company or impose taxes on securities transactions, (xi) the effectiveness of efforts to reduce costs and eliminate overlap, (xii) war and nuclear confrontation as well as political unrest and regime changes, health epidemics and economic crisis in foreign countries, (xiii) the Company's ability to achieve its business plan, (xiv) corporate governance issues, (xv) the

impact of the credit crisis and tight credit markets on business operations, (xvi) the effect of bailout, financial reform and related legislation including, without limitation, the Dodd-Frank Act and the Volcker Rule and the rules and regulations thereunder, (xvii) the consolidation of the banking and financial services industry, (xviii) the effects of the economy on the Company's ability to find and maintain financing options and liquidity, (xix) credit, operations, legal and regulatory risks, (xx) risks related to foreign operations, (xxi) risks related to the downgrade of U.S. long-term sovereign debt obligations and the sovereign debt of European nations, (xxii) risks related to the manipulation of LIBOR and concerns over high speed trading, (xxiii) potential cyber security threats, (xxiv) risks related to the lowering by S&P of its rating on the Company and on the Notes, and (xxv) risks related to pending election results, Congressional gridlock, government shutdowns and threats of default by the federal government. There can be no assurance that the Company has correctly or completely identified and assessed all of the factors affecting the Company's business. The Company does not undertake any obligation to publicly update or revise any forward-looking statements. See Item 1A – "Risk Factors" appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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

During the six months ended June 30, 2015, there were no material changes to the information contained in Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

### **Item 4. Controls and Procedures**

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

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or its internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or omission. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company confirms that its management, including its Chief Executive Officer and its Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in its reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

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

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the six months ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Many aspects of the Company's business involve substantial risks of liability. In the normal course of business, the Company has been the subject of customer complaints and has been named as a defendant or co-defendant in various lawsuits or arbitrations creating substantial exposure. The incidences of these types of claims have increased since the onset of the credit crisis in 2008 and the resulting market disruptions. The Company is also involved from time to time in certain governmental and self-regulatory agency investigations and proceedings. These proceedings arise primarily from securities brokerage, asset management and investment banking activities. There has been an increased incidence of regulatory investigations in the financial services industry in recent years, including customer claims, and including investigations by multiple regulators of matters involving the same or similar underlying facts, which seek substantial penalties, fines or other monetary relief. The SEC, amongst other regulators, has announced its intention to bring more regulatory cases seeking substantial penalties in the future.

While the ultimate resolution of routine pending litigation, regulatory and other matters cannot be currently determined, in the opinion of management, after consultation with legal counsel, the Company does not believe that the resolution of these matters will have a material adverse effect on its financial condition. However, the Company's results of operations could be materially affected during any period if liabilities in that period differ from prior estimates.

Notwithstanding the foregoing, an adverse result in any of the matters set forth below or multiple adverse results in arbitrations, litigations or regulatory proceedings currently filed or to be filed against the Company, including arbitrations and litigations relating to auction rate securities, could have a material adverse effect on the Company's results of operations and financial condition, including its cash position.

The materiality of legal and regulatory matters to the Company's future operating results depends on the level of future results of operations as well as the timing and ultimate outcome of such legal and regulatory matters. See "Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory and Legal Environment – Other Regulatory Matters" as well as "Factors Affecting 'Forward-Looking Statements'" herein.

In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. When loss contingencies are not both probable and reasonably estimable, the Company does not establish reserves. In some of the matters described below, loss contingencies are not probable and reasonably estimable in the view of management and, accordingly, reserves have not been established for those matters. For legal or regulatory proceedings where there is at least a reasonable possibility that a loss or an additional loss may be incurred, the Company estimates a range of aggregate loss in excess of amounts accrued of \$0 to approximately \$35.0 million. This estimated aggregate range is based upon currently available information for those legal proceedings in which the Company is involved, where an estimate for such losses can be made. For certain cases, the Company does not believe that an estimate can currently be made. The foregoing estimate is based on various factors, including the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the numerous yet-unresolved issues in many of the proceedings and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate.

#### *Auction Rate Securities Matters*

For a number of years, the Company offered auction rate securities ("ARS") to its clients. A significant portion of the market in ARS 'failed' in February 2008 due to credit market conditions, and dealers were no longer willing or able to purchase the imbalance between supply and demand for ARS. Oppenheimer offered ARS to its clients in the same manner as dozens of other "downstream" firms in the ARS marketplace – as an available cash management option for clients seeking to increase their yields on short-term investments similar to a money market fund. The Company believes that Oppenheimer's participation therefore differed dramatically from that of the larger broker-dealers who underwrote and provided supporting bids in the auctions, actions Oppenheimer never undertook. Oppenheimer played no role in any decision by the lead underwriters or broker-dealers to discontinue entering support bids and allowing auctions to fail. See "Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory and Legal Environment – Other Regulatory Matters" herein.

As previously disclosed, Oppenheimer, without admitting or denying liability, entered into a Consent Order (the "Order") with the Massachusetts Securities Division (the "MSD") pursuant to the Massachusetts Uniform Securities Act on February 26, 2010 settling a pending administrative proceeding against the respondents related to Oppenheimer's sales of ARS to retail and other investors in the Commonwealth of Massachusetts.

As previously disclosed, on February 23, 2010, the New York Attorney General ("NYAG" and together with the MSD, the "Regulators") accepted Oppenheimer's offer of settlement and entered an Assurance of Discontinuance ("AOD") pursuant to New York State Executive Law Section 63(15) in connection with Oppenheimer's marketing and sale of ARS. Oppenheimer did not admit or deny any of the findings or allegations contained in the AOD and no fine was imposed.

Pursuant to the terms of the Order, Oppenheimer commenced and closed three offers to purchase Eligible ARS (as defined in the Order) from Customer Accounts (as defined in the Order) during 2010 and 2011 with the final offer closing on April 7, 2011. In addition, pursuant to the terms of the AOD, the Company has made nine offers to purchase ARS from Eligible Investors between the periods May 21, 2010 and February 23, 2015. The Company commenced a tenth offer to purchase on March 23, 2015 which expired on June 8, 2015. The Company's purchases of ARS from clients have continued and will, subject to the terms and conditions of the AOD, continue on a periodic basis. Accounts were, and will continue to be, aggregated on a "household" basis for purposes of these offers. As of June 30, 2015, the Company had purchased and holds (net of redemptions) approximately \$107.6 million of ARS pursuant to the settlements with the Regulators and legal settlements and awards.

Oppenheimer has agreed with the NYAG that it will offer to purchase Eligible ARS from Eligible Investors who did not receive an initial purchase offer, periodically, as excess funds become available to Oppenheimer after giving effect to the financial and regulatory capital constraints applicable to Oppenheimer, until Oppenheimer has extended a purchase offer to all Eligible Investors. Such offers will remain open for a period of seventy-five days from the date on which each such offer to purchase is sent. The ultimate amount of ARS to be repurchased by the Company cannot be predicted with any certainty and will be impacted by redemptions by issuers and client actions during the period, which also cannot be predicted.

In addition, Oppenheimer has agreed to work with issuers and other interested parties, including regulatory and other authorities and industry participants, to provide liquidity solutions for other Massachusetts clients not covered by the offers to purchase. In that regard, on May 21, 2010, Oppenheimer offered such clients a margin loan against marginable collateral with respect to such account holders' holdings of Eligible ARS. As of June 30, 2015, Oppenheimer had extended margin loans to six holders of Eligible ARS from Massachusetts.

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

Each of the AOD and the Order provides that in the event that Oppenheimer enters into another agreement that provides any form of benefit to any Oppenheimer ARS customer on terms more favorable than those set forth in the AOD or the Order, Oppenheimer will immediately extend the more favorable terms contained in such other agreement to all Eligible Investors. The AOD further provides that if Oppenheimer pays (or makes any pledge or commitment to pay) to any governmental entity or regulator pursuant to any other agreement costs or a fine or penalty or any other monetary amount, then an equivalent payment, pledge or commitment will become immediately owed to the State of New York for the benefit of New York residents.



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

Reference is made to the Order and the AOD, each as described in Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and attached thereto as Exhibits 10.24 and 10.22 respectively, as well as the subsequent disclosures related thereto in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 through March 31, 2015 and in the Company's Annual Reports on Form 10-K for the years ended December 31, 2010 through and including 2014, for additional details of the agreements with the MSD and NYAG. The Company is continuing to cooperate with investigating entities from states other than Massachusetts and New York.

As of June 30, 2015, Oppenheimer and certain affiliated parties are currently named as a defendant in one court action brought by an individual who purchased ARS through Oppenheimer in an amount of \$17.7 million seeking an award compelling Oppenheimer to repurchase such ARS or, alternatively, an award rescinding such sale based on a variety of causes of action. The Company has filed its response to such claim and discovery has commenced in the court action. As of June 30, 2015, ten ARS matters were concluded in either court or arbitration with Oppenheimer prevailing in four of those matters and the claimants prevailing in six of those matters. The Company has purchased approximately \$7.6 million in ARS from the prevailing claimants in those six actions. In addition, the Company has made cash payments of approximately \$12.7 million as a result of legal settlements with clients. Oppenheimer believes it has meritorious defenses to the claims in the pending court action and intends to vigorously defend against these claims. Oppenheimer may also implead third parties, including underwriters, where it believes such action is appropriate. It is possible that other individuals or entities that purchased ARS from Oppenheimer may bring additional claims against Oppenheimer in the future for repurchase or rescission.

See "Risk Factors - The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulatory and Legal Environment - Other Regulatory Matters" and "Off-Balance Sheet Arrangements" herein.

On January 27, 2015, the SEC approved an Offer of Settlement from Oppenheimer and issued an Order Instituting Administrative and Cease and Desist Proceedings (the "Order") relating to Oppenheimer's failure to report a customer's suspicious activities which occurred through its Oppenheimer account in violation of the Exchange Act; violating the Exchange Act provisions requiring broker-dealers to maintain ledgers accurately reflecting liabilities and expenses; failing to accurately maintain records for each account showing the true beneficial owner as required by Exchange Act rule; and violating the securities registration provisions contained in Section 5 of the Securities Act and failing to prevent and detect such violations of Section 5 of the Securities Act as required by the Exchange Act. Pursuant to the Order, Oppenheimer was ordered to (i) cease and desist from committing or causing any violations of the relevant provisions of the federal securities laws; (ii) be censured; (iii) pay to the SEC \$10.0 million comprised of \$4.2 million in disgorgement, \$753,500 in prejudgment interest and \$5.1 million in civil penalties; and (iv) retain an independent consultant to review Oppenheimer's policies and procedures relating to anti-money laundering and Section 5 of the Securities Act. Oppenheimer made a payment of \$5.0 million to the SEC on February 17, 2015 and agreed to make a second payment of \$5.0 million to the SEC before January 27, 2017. On the same date the Order was issued a division of the United States Department of the Treasury ("FinCEN") issued a Civil Monetary Assessment (the "Assessment") against Oppenheimer relating to potential violations of the Bank Secrecy Act and the regulations promulgated thereunder related primarily to, in the Company's view, the SEC matters discussed immediately above. Pursuant to the terms of the Assessment, Oppenheimer admitted that it violated the Bank Secrecy Act and consented to the payment of a civil money penalty, which, as a result of the payments to the SEC described above, obligates Oppenheimer to make an aggregate payment of \$10.0 million to FinCEN. On February 9, 2015, Oppenheimer made a payment of \$5.0 million to FinCEN and has agreed to make a second payment of \$5.0 million before January 27, 2017. Oppenheimer further agreed to provide FinCEN copies of any reports or other recommendations prepared by the independent compliance consultant retained pursuant to the SEC settlement described above. The Company had fully reserved the \$20.0 million related to the aforementioned matters through the period ended June 30, 2014.

### *Other Pending Matters*

On or about March 13, 2008, Oppenheimer was served in a matter pending in the United States Bankruptcy Court, Northern District of Georgia, captioned *William Perkins, Trustee for International Management Associates v. Lehman Brothers, Oppenheimer & Co. Inc., JB Oxford & Co., Bank of America Securities LLC and TD Ameritrade Inc.* The Trustee seeks to set aside as fraudulent transfers in excess of \$25.0 million in funds embezzled by the sole portfolio manager for International Management Associates, a hedge fund. The portfolio manager purportedly used the broker dealer defendants, including Oppenheimer, as conduits for his embezzlement. Oppenheimer filed its answer to the complaint on June 18, 2010. Oppenheimer filed a motion for summary judgment, which was argued on March 31, 2011. Immediately thereafter, the Bankruptcy Court dismissed all of the Trustee's claims against all defendants including Oppenheimer. In June 2011, the Trustee filed an appeal with the United States District Court for the Northern District of Georgia ("U.S.N.D. GA"). In addition, on June 10, 2011, the Trustee filed a petition for permission to appeal the dismissal to the United States Court of Appeals for the Eleventh Circuit. On July 27, 2011, the Court of Appeals for the Eleventh Circuit denied the Trustee's Petition. The Trustee then appealed to U.S.N.D. GA. On March 30, 2012, the U.S.N.D. GA affirmed in part and reversed in part the ruling from the Bankruptcy Court and remanded the matter to the Bankruptcy Court. Discovery has closed and Oppenheimer filed a motion for summary judgment at the end of February 2014. Oppenheimer's summary judgment motion remains under consideration by the Bankruptcy Court. Oppenheimer believes that as a result of previous court rulings in this matter, the claimed damages against Oppenheimer have been substantially reduced and that it has meritorious defenses to the remaining claims made against it and intends to defend itself vigorously.

On June 24, 2011, Oppenheimer was served with a petition in a matter pending in state court in Collin County, Texas captioned *Jerry Lancaster, Providence Holdings, Inc., Falcon Holdings, LLC and Derek Lancaster v. Oppenheimer & Co., Inc., Oppenheimer Trust Company, Charles Antonuicci, Alan Reichman, John Carley, Park Avenue Insurance, LLC and Park Avenue Bank.* The action requests unspecified damages, including exemplary damages, for Oppenheimer's alleged breach of fiduciary duty, negligent hiring, fraud, conversion, conspiracy, breach of contract, unjust enrichment and violation of the Texas Business and Commerce Code. The first amended petition alleges that Oppenheimer held itself out as having expertise in the insurance industry generally and managing insurance companies' investment portfolios but inappropriately allowed plaintiffs' bond portfolios to be used by Park Avenue Insurance Company to secure the sale of Providence Property and Casualty Insurance Company to Park Avenue Insurance Company. On July 22, 2011, defendants removed the case to the United States District Court for the Eastern District of Texas, Sherman Division, and subsequently, on October 3, 2012, Providence Holdings, Inc. filed a new action in the United States District Court for the Eastern Division of Texas against Oppenheimer, Oppenheimer Trust Company, and two individuals, re-asserting basically the same claims as above. On December 18, 2012, Oppenheimer and Oppenheimer Trust Company filed motions (i) to dismiss the new complaint and (ii) to stay the action pending resolution of all claims among the parties in the action pending in Oklahoma styled *State of Oklahoma ex rel. Holland v. Providence Holdings, Inc.* On March 18, 2013, the Texas court issued an order formally approving the parties' stipulation to stay the action. On April 15, 2011, in an action styled *State of Oklahoma ex rel. Holland v. Providence Holdings, Inc., et al.*, in the Oklahoma County District Court, Providence Holdings, Inc. and Jerry Lancaster asserted cross-claims against Oppenheimer and Oppenheimer Trust Company Inc. related to the same facts at issue in the Texas litigation discussed above. These cross-claims included claims for breach of fiduciary duty, various theories of fraud, violation of Texas commercial statutes, breach of contract, interference with prospective business advantage, and loss of business opportunity and sought undisclosed damages. That case is in document discovery, pending the resolution of several privilege claims by cross-claim plaintiffs that implicate receivership proceedings pending before several courts in Oklahoma. Oppenheimer believes it has meritorious defenses to the claims raised and intends to defend against these claims vigorously including pursuing dismissal of the claims against it.

On March 15, 2013, the Company filed in the Supreme Court of the State of New York, County of New York ("New York Court"), a breach of contract action against Canadian Imperial Bank of Commerce ("CIBC") in connection with the Company's acquisition of CIBC's U.S. capital markets businesses for an amount of damages to be proven at trial. As part of the transaction, the parties had provided for a deferred purchase price based on an agreed formula or a minimum payment of \$25.0 million. The deferred purchase price amount would have been otherwise due in April 2013 absent the breach of the agreements governing the sale of the business asserted by the Company in its complaint. The agreed-upon formula did not result in any additional payments and thus the minimum payment amount of \$25.0 million is in dispute. The Company deposited the \$25.0 million in escrow pending the outcome of the legal proceedings and the expense related to the deferred purchase price was charged to earnings by the Company over the life of the agreement and was fully accrued for at the end of December 2012. On January 31, 2014, the Company filed an amended complaint. On March 13, 2014, CIBC filed a motion to dismiss portions of the Company's amended complaint. In October, 2014, the motion to dismiss was granted in part and denied in part by the New York Court. Discovery in the case is proceeding. On June 6, 2013, CIBC filed a demand for arbitration with the American Arbitration Association seeking an award of the \$25.0 million deferred purchase price, along with interest and costs. On October 30, 2014, the Company and CIBC reached an agreement pursuant to which the Company, on October 31, 2014, paid CIBC \$25.0 million as well as certain other costs and pursuant to which CIBC, on November 4, 2014, dismissed the arbitration. The Company's action against CIBC will continue in the New York Court as more fully described above.

In October 2013, JPMorgan Chase Clearing Corp. ("JPMCC"), a division of JPMorgan Chase, filed a FINRA arbitration claim against Oppenheimer seeking a declaration from the panel that Oppenheimer would indemnify it for all damages and costs, including but not limited to attorneys' fees, for litigation in Germany that had begun in 2011 ("German Litigation"). Multiple investors in Germany sought redress from JPMCC for losses associated with a Swiss investment advisory firm, Salomon Investment AG, later renamed SAL Investment AG ("SAL"), that had solicited their business by phone and pooled their funds in an omnibus account at the German offices of Josephthal Lyon & Ross GmbH. ("Josephthal GmbH"), and had invested those funds unsuitably and charged the investors excessive commissions and fees from about 1995 to 1998. Josephthal Lyon & Ross Inc. ("Josephthal") was acquired by what is now Oppenheimer in 2001. Bear Stearns, acquired by JPMorgan Chase in 2008, cleared trades for the aforementioned omnibus account. JPMCC based its indemnification claim on agreements with Josephthal executed in 1991 and 2000. In February 2014, Oppenheimer and JPMCC stipulated to a stay of the aforementioned FINRA arbitration proceedings because the German Litigation referenced above was still ongoing. The arbitration proceedings have since resumed although a final hearing date has not been scheduled. In August 2014, judgments ("Judgments") in favor of seven German plaintiffs grouped in three separate cases were finalized in the German court in Dusseldorf against JPMCC. The German court found that JPMCC was liable to the plaintiffs for damages in amounts totaling (including damages, interest and attorneys' fees) approximately €1.2 million (approximately U.S. \$1.3 million). One of these three judgments was affirmed by an intermediate level appellate court, and JPMCC and Oppenheimer are appealing that decision to Germany's highest appellate court. The remaining two judgments also are presently being appealed by JPMCC and Oppenheimer. In addition, eighteen other plaintiffs have filed statements of claim against JPMCC in Dusseldorf with claimed aggregate damages (excluding claims for interest and attorneys' fees) of approximately €3.2 million (approximately U.S. \$3.5 million). Oppenheimer believes it has meritorious defenses to the claims and intends to defend itself vigorously.

See also "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory and Legal Environment – Other Regulatory Matters" herein.

**Item 1A. Risk Factors**

During the six months ended June 30, 2015, there were no material changes to the information contained in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

- (a) During the second quarter of 2015, the Company issued 15,318 shares of Class A Stock pursuant to the Company's share-based compensation programs for no cash consideration.
- (b) Not applicable.
- (c) Not applicable.

**Item 6. Exhibits**

31.1 Certification of Albert G. Lowenthal

31.2 Certification of Jeffrey J. Alfano

32 Certification of Albert G. Lowenthal and Jeffrey J. Alfano

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, (ii) the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014, (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2015 and 2014, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2015 and 2014, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014, and (vi) the notes to the Condensed Consolidated Financial Statements.\*

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

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of New York, New York on this 31st day of July, 2015.

OPPENHEIMER HOLDINGS INC.

By: /s/ Albert G. Lowenthal  
Albert G. Lowenthal, Chairman and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Jeffrey J. Alfano  
Jeffrey J. Alfano, Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Albert G. Lowenthal, certify that:

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

/s/ Albert G. Lowenthal

Name: Albert G. Lowenthal

Title: Chief Executive Officer

July 31, 2015

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey J. Alfano, certify that:

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

/s/ Jeffrey J. Alfano

Name: Jeffrey J. Alfano

Title: Chief Financial Officer

July 31, 2015



**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Albert G. Lowenthal, Chairman and Chief Executive Officer of Oppenheimer Holdings Inc. (the “Company”), and Jeffrey J. Alfano, Chief Financial Officer of the Company, hereby certify that to his knowledge the Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 of the Company filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period specified.

Signed at New York, New York, this 31st day of July, 2015.

/s/ Albert G. Lowenthal  
Albert G. Lowenthal  
Chairman and Chief Executive Officer

/s/ Jeffrey J. Alfano  
Jeffrey J. Alfano  
Chief Financial Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.