OPPENHEIMER HOLDINGS INC
Form 10-Q
August 01, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-12043

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

Delaware	98-0080034
(State or other jurisdiction of incorporation or organization)	(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)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o 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	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

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

The number of shares of the Company's Class A non-voting common stock and Class B voting common stock (being the only classes of common stock of the Company) outstanding on July 31, 2014 was 13,530,688 and 99,680 shares, respectively.

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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 share amounts)	June 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$65,174	$98,294
Cash and securities segregated for regulatory and other purposes	19,117	36,323
Deposits with clearing organizations	32,185	23,679
Receivable from brokers, dealers and clearing organizations	351,317	364,873
Receivable from customers, net of allowance for credit losses of $2,436 ($2,423 in 2013)	951,015	868,869
Income tax receivable, net	13,240	6,562
Securities purchased under agreements to resell	250,000	184,825
Securities owned, including amounts pledged of $664,654 ($586,625 in 2013), at fair value	944,471	856,088
Notes receivable, net	37,816	40,751
Office facilities, net accumulated depreciation of $100,510 ($97,118 in 2013)	31,262	32,939
Intangible assets	31,700	31,700
Goodwill	137,889	137,889
Loans held for sale	15,806	75,989
Mortgage servicing rights	29,115	28,879
Other assets	134,851	165,060
Total assets	$3,044,958	$2,952,720
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities		
Drafts payable	$32,913	$48,198
Bank call loans	147,200	118,200
Payable to brokers, dealers and clearing organizations	255,432	223,315
Payable to customers	684,884	626,564
Securities sold under agreements to repurchase	816,606	757,491
Securities sold, but not yet purchased, at fair value	126,092	76,314
Accrued compensation	122,210	180,119
Accounts payable and other liabilities	165,619	192,552
Senior secured notes	150,000	195,000
Deferred tax liabilities, net	14,395	7,096
Total liabilities	2,515,351	2,424,849
Contingencies (Note 11)		
Stockholders’ equity		
Share capital		
Class A non-voting common stock (2014 – 13,519,126 shares issued and outstanding; 2013 – 13,377,967 shares issued and outstanding)	62,024	60,065
Class B voting common stock (99,680 shares issued and outstanding)	133	133
	62,157	60,198
Contributed capital	42,749	42,407
Retained earnings	416,890	418,204

Accumulated other comprehensive income	1,961	1,709
Total Oppenheimer Holdings Inc. stockholders' equity	523,757	522,518
Non-controlling interest	5,850	5,353
Total stockholders' equity	529,607	527,871
Total liabilities and stockholders' equity	$3,044,958	$2,952,720

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

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

(Expressed in thousands, except number of shares and per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
REVENUE				
Commissions	$116,062	$124,440	$238,200	$244,020
Advisory fees	70,430	60,580	138,635	117,300
Investment banking	26,799	22,567	60,323	41,015
Interest	12,548	13,106	24,938	25,477
Principal transactions, net	11,794	7,532	20,611	23,249
Other	12,056	15,605	22,150	31,915
Total revenue	249,689	243,830	504,857	482,976
EXPENSES				
Compensation and related expenses	159,851	160,006	331,801	319,215
Communications and technology	17,536	16,018	34,270	31,882
Occupancy and equipment costs	15,907	17,141	31,304	34,706
Clearing and exchange fees	6,024	6,293	11,916	12,335
Interest	4,412	7,143	9,576	14,005
Other	45,823	31,555	80,745	58,446
Total expenses	249,553	238,156	499,612	470,589
Income before income taxes	136	5,674	5,245	12,387
Income tax provision	1,389	2,608	3,078	5,428
Net income (loss) for the period	(1,253)	3,066	2,167	6,959
Less net income attributable to non-controlling interest, net of tax	301	218	497	448
Net income (loss) attributable to Oppenheimer Holdings Inc.	$(1,554)	$2,848	$1,670	$6,511
Earnings (loss) per share attributable to Oppenheimer Holdings Inc.				
Basic	$(0.11)	$0.21	$0.12	$0.48
Diluted	$(0.11)	$0.20	$0.12	$0.46
Dividends declared per share	$0.11	$0.11	$0.22	$0.22
Weighted average shares				
Basic	13,618,174	13,607,348	13,577,714	13,607,671
Diluted	13,618,174	14,068,368	14,184,330	14,068,779

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

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

	Three Months Ended		Six Months Ended	
(Expressed in thousands)	2014	2013	2014	2013
Net income (loss) for the period	$(1,253)	$3,066	$2,167	$6,959
Other comprehensive income, net of tax [1]				
Currency translation adjustment	339	49	252	500
Comprehensive income (loss) for the period	(914)	3,115	2,419	7,459
Less net income attributable to non-controlling interests, net of tax	301	218	497	448
Comprehensive income (loss) attributable to Oppenheimer Holdings Inc.	$(1,215)	$2,897	$1,922	$7,011

(1) Other comprehensive income is attributable to Oppenheimer Holdings Inc. No other comprehensive income is attributable to non-controlling interests.

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

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

(Expressed in thousands)	2014	2013
Share capital		
Balance at beginning of period	$60,198	$62,181
Issuance of Class A non-voting common stock	1,959	—
Repurchase of Class A non-voting common stock for cancellation	—	(208)
Balance at end of period	62,157	61,973
Contributed capital		
Balance at beginning of period	42,407	39,231
Tax benefit from share-based awards	1,254	—
Share-based expense	3,025	2,508
Vested employee share plan awards	(3,937)	—
Balance at end of period	42,749	41,739
Retained earnings		
Balance at beginning of period	418,204	399,121
Net income for the period attributable to Oppenheimer Holdings Inc.	1,670	6,511
Dividends paid ($0.22 per share)	(2,984)	(2,994)
Balance at end of period	416,890	402,638
Accumulated other comprehensive income		
Balance at beginning of period	1,709	207
Currency translation adjustment	252	500
Balance at end of period	1,961	707
Total Oppenheimer Holdings Inc. stockholders' equity	523,757	507,057
Non-controlling interest		
Balance at beginning of period	5,353	4,261
Net income attributable to non-controlling interest, net of tax	497	448
Balance at end of period	5,850	4,709
Total stockholders' equity	$529,607	$511,766

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

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

(Expressed in thousands)	2014	2013
Cash flows from operating activities		
Net income for the period	$2,167	$6,959
Adjustments to reconcile net income to net cash used in operating activities		
Payment of taxes due for share-based awards	(2,074)	—
Non-cash items included in net income:		
Depreciation and amortization of office facilities and leasehold improvements	3,862	5,045
Deferred income taxes	7,299	14,399
Amortization of notes receivable	8,534	9,388
Amortization of debt issuance costs	287	319
Write-off of debt issuance costs	588	—
Amortization of mortgage servicing rights	1,514	538
Provision for (reversal of) credit losses	13	(147)
Share-based compensation	3,479	3,280
Decrease (increase) in operating assets:		
Cash and securities segregated for regulatory and other purposes	17,206	(7,055)
Deposits with clearing organizations	(8,506)	(417)
Receivable from brokers, dealers and clearing organizations	13,556	193,866
Receivable from customers	(82,159)	(146,509)
Income tax receivable	(6,678)	(11,165)
Securities purchased under agreements to resell	(65,175)	—
Securities owned	(88,383)	(109,148)
Notes receivable	(5,599)	(4,555)
Loans held for sale	60,183	(13,486)
Mortgage servicing rights less amortization	(1,750)	(1,220)
Other assets	29,586	(22,786)
Increase (decrease) in operating liabilities:		
Drafts payable	(15,285)	(8,908)
Payable to brokers, dealers and clearing organizations	32,117	50,501
Payable to customers	58,320	(59,725)
Securities sold under agreements to repurchase	59,115	103,631
Securities sold, but not yet purchased	49,778	(62,374)
Accrued compensation	(58,363)	(34,910)
Accounts payable and other liabilities	(27,022)	(11,400)
Cash used in operating activities	(13,390)	(105,879)
Cash flows from investing activities		
Purchase of office facilities	(2,185)	(11,687)
Cash used in investing activities	(2,185)	(11,687)
Cash flows from financing activities		
Cash dividends paid on Class A non-voting and Class B voting common stock	(2,984)	(2,994)
Issuance of Class A non-voting common stock	185	—
Repurchase of Class A non-voting common stock for cancellation	—	(208)
Tax benefit from share-based awards	1,254	—
Redemption of senior secured notes	(45,000)	—
Increase in bank call loans, net	29,000	91,500
Cash (used in) provided by financing activities	(17,545)	88,298

Net decrease in cash and cash equivalents	(33,120)	(29,268)
Cash and cash equivalents, beginning of period	98,294	135,366
Cash and cash equivalents, end of period	$65,174	$106,098
Schedule of non-cash financing activities		
Employee share plan issuance	$1,774	$—
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$10,507	$13,349
Cash paid during the period for income taxes, net of refunds	$2,161	$1,939

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

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OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements

1. Organization and basis of presentation

Organization

Oppenheimer Holdings Inc. (“OPY”) is incorporated under the laws of the State of Delaware. The consolidated financial statements include the accounts of OPY and its subsidiaries (together, the “Company”). The principal subsidiaries of OPY are Oppenheimer & Co. Inc. (“Oppenheimer”), a registered broker dealer in securities, Oppenheimer Asset Management Inc. (“OAM”) and its wholly owned subsidiary, Oppenheimer Investment Management Inc. (“OIM”), both registered investment advisors under the Investment Advisors Act of 1940, Oppenheimer Trust Company 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 an office 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.

Oppenheimer provides its services from 96 offices in 25 states located throughout the United States and in 6 foreign jurisdictions. Oppenheimer owns Freedom Investments, Inc. (“Freedom”), a registered broker dealer in securities, which also operates the BUY and HOLD division, offering on-line discount brokerage and dollar-based investing services, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel. 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, 2013 (the “Form 10-K”). The accompanying December 31, 2013 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 three month and six month periods ended June 30, 2014 were not necessarily indicative of the results to be expected for any future interim or annual period.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Accounting standards require the Company to present non-controlling interests as a separate component of stockholders' equity on the Company's condensed consolidated balance sheet. As of June 30, 2014, the Company owned 83.68% of OMHHF and the non-controlling interest recorded in the condensed consolidated balance sheet was $5.9 million.

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2. New accounting pronouncements

Recently Adopted

In June 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") No. 2013-08 “Financial Services – Investment Companies, Amendments to the Scope, Measurement and Disclosure Requirement.” The ASU clarifies the characteristics of an investment company by amending the measurement criteria for certain interests in other investment companies. Additionally, the ASU introduces new disclosure requirements. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2013. The Company adopted this guidance in the period ended March 31, 2014. The adoption of this accounting guidance did not have a material impact on the Company’s condensed consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11 “Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” The ASU provides guidance that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2013. The Company adopted this guidance in the period ended March 31, 2014. The adoption of this accounting guidance did not have a material impact on the Company’s condensed consolidated financial statements.

Recently Issued

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 is effective for the annual reporting period in the fiscal year that begins after December 15, 2014 and early adoption is permitted. The Company is currently evaluating the impact, if any, that the ASU will have on its financial condition, results of operations and cash flows.

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 is effective for the annual reporting period in the fiscal year that begins after December 15, 2017 and early adoption is not permitted. The Company is currently evaluating the impact, if any, that the ASU will have on its financial condition, results of operations and cash flows.

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 and early adoption is not permitted. The Company is currently evaluating the impact, if any, that the ASU will have on its financial condition, results of operations and cash flows.

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 financial condition, results of operations and cash flows.

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3. Earnings per share

Basic earnings per share was 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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic weighted average number of shares outstanding	13,618,174	13,607,348	13,577,714	13,607,671
Net dilutive effect of share-based awards, treasury method [(1)]	—	461,020	606,616	461,108
Diluted weighted average number of shares outstanding	13,618,174	14,068,368	14,184,330	14,068,779
Net income (loss) for the period	$(1,253)	$3,066	$2,167	$6,959
Net income attributable to non-controlling interest, net of tax	301	218	497	448
Net income (loss) attributable to Oppenheimer Holdings Inc.	$(1,554)	$2,848	$1,670	$6,511
Basic earnings (loss) per share	$(0.11)	$0.21	$0.12	$0.48
Diluted earnings (loss) per share	$(0.11)	$0.20	$0.12	$0.46

(1) For the three and six months ended June 30, 2014, the diluted earnings per share computation does not include the anti-dilutive effect of 1,381,907 and 58,008 shares of Class A Stock granted under share-based compensation arrangements, respectively (57,573 shares of Class A Stock granted under share-based compensation arrangements for the three and six months ended June 30, 2013).

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

(Expressed in thousands)

	As of	
	June 30, 2014	December 31, 2013
Receivable from brokers, dealers and clearing organizations consist of:		
Securities borrowed	$245,206	$274,127
Receivable from brokers	23,086	23,384
Securities failed to deliver	51,432	9,628
Clearing organizations	22,820	26,446
Omnibus accounts	—	18,086
Other	8,773	13,202
	$351,317	$364,873
Payable to brokers, dealers and clearing organizations consist of:		
Securities loaned	$203,585	$211,621
Securities failed to receive	37,910	5,346
Clearing organizations and other	13,937	6,348

	$255,432	$223,315

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5. Financial instruments

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

Securities Owned and Securities Sold, But Not Yet Purchased at Fair Value
(Expressed in thousands)

	As of June 30, 2014		As of December 31, 2013	
	Owned	Sold	Owned	Sold
U.S. Government, agency and sovereign obligations	$642,125	$72,327	$596,114	$11,889
Corporate debt and other obligations	23,791	477	14,673	4,847
Mortgage and other asset-backed securities	4,914	—	3,395	7
Municipal obligations	63,947	73	40,166	72
Convertible bonds	59,870	7,073	53,719	13,922
Corporate equities	54,629	46,116	61,634	45,336
Money markets	2,647	26	1,263	241
Auction rate securities	92,548	—	85,124	—
Total	$944,471	$126,092	$856,088	$76,314

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, 2014 are corporate equities with estimated fair values of approximately $15.6 million ($15.3 million at December 31, 2013), 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.

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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 loans held for sale are reported at fair value. The Company determines the fair value of the loans held for sale using both a discounted cash flow model 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 asset and 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 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, 2014, the Company purchased and holds (net of redemptions) approximately $99.4 million in ARS from its clients. In addition, the Company is committed to purchase another $20.2 million in ARS from clients through 2016 under legal settlements and awards.

The Company also held $150,000 in ARS in its proprietary trading account as of June 30, 2014 as a result of the failed auctions in February 2008. 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.

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. Accordingly, the Company adds 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 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

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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.

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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, 2014

Product	Principal	Valuation Adjustment	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Auction Rate Securities Owned [1]							
Auction Rate Preferred Securities	$78,850	$4,059	$74,791	Discounted Cash Flow	Discount Rate [2]	1.37% to 1.86%	1.62%
					Duration	4.0 years	4.0 years
					Current Yield [3]	0.13% to 0.43%	0.28%
Municipal Auction Rate Securities	10,030	958	9,072	Discounted Cash Flow	Discount Rate [4]	2.51%	2.51%
					Duration	4.5 years	4.5 years
					Current Yield [3]	0.24%	0.24%
	5,975	441	5,534	Secondary Market Trading Activity	Observable trades in inactive market for in portfolio securities	92.60% of par	92.60% of par
Student Loan Auction Rate Securities	900	92	808	Discounted Cash Flow	Discount Rate [5]	3.33%	3.33%
					Duration	7.0 years	7.0 years
					Current Yield [3]	1.67%	1.67%
Other [7]	3,625	1,282	2,343	Secondary Market Trading Activity	Observable trades in inactive market for in portfolio securities	64.60% of par	64.60% of par
	$99,380	$6,832	$92,548				
Auction Rate Securities Commitments to Purchase [6]							
Auction Rate Preferred Securities	$9,033	$443	$8,590	Discounted Cash Flow	Discount Rate [2]	1.37% to 1.86%	1.62%
					Duration	4.0 years	4.0 years
					Current Yield [3]	0.17% to 0.43%	0.28%
Municipal Auction Rate Securities	10,653	1,017	9,636	Discounted Cash Flow	Discount Rate [4]	2.51%	2.51%
					Duration	4.5 years	4.5 years
					Current Yield [3]	0.24%	0.24%
Student Loan Auction Rate	527	54	473	Discounted Cash Flow	Discount Rate [5]	3.33%	3.33%

Securities						
				Duration	7.0 years	7.0 years
				Current Yield [3]	1.67%	1.67%
	$20,213	$1,514	$18,699			
Total	$119,593	$8,346	$111,247			

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(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, 2014. 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 statements of operations at June 30, 2014.
(2) Derived by applying a multiple to the spread between 110% to 150% to the U.S. Treasury rate of 1.24%.
(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 1.43%.
(5) Derived by applying the sum of the spread of 1.20% to the U.S. Treasury rate of 2.13%.
(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, 2014.
(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, 2014 would result in a decrease in the fair value of $1.0 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, 2014 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, 2014, the Company had a valuation adjustment (unrealized loss) of $6.8 million for ARS owned which is included in principal transactions on the condensed consolidated statements of operations. As of June 30, 2014, the Company also had a valuation adjustment of $1.5 million on ARS purchase commitments from settlements with the Regulators and legal settlements and awards which is included in other revenue on the condensed consolidated statements of operations. The total valuation adjustment was $8.3 million as of June 30, 2014. 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.

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The following table provides information about the Company's investments in Company-sponsored funds at June 30, 2014:
(Expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds[1]	$1,324	$—	Quarterly - Annually	30 - 120 Days
Private equity funds[2]	6,725	1,836	N/A	N/A
	$8,049	$1,836		

(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 fund is expected to be 10 years.

Derivative Contracts

From time to time, the Company transacts in exchange-traded and over-the-counter derivative transactions to manage its interest rate risk. Exchange-traded derivatives, namely U.S. Treasury futures, Federal funds futures and Eurodollar futures, are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy. Over-the-counter derivatives, are valued using a discounted cash flow model and the Black-Scholes model, respectively, using observable interest rate inputs and are categorized in Level 2 of the fair value hierarchy.

As described below in "Credit Concentrations", the Company participates in loan syndications and operates as an underwriting agent in leveraged financing transactions where it utilizes a warehouse facility provided by a commercial bank to extend financing commitments to third-party borrowers identified by the Company. The Company uses broker quotations on loans trading in the secondary market as a proxy to determine the fair value of the underlying loan commitment which is categorized in Level 3 of the fair value hierarchy. The Company also purchases and sells loans in its proprietary trading book. The Company uses broker quotations to determine the fair value of loan positions held which are categorized in Level 2 of the fair value hierarchy.

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, 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 a financial analyst 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.

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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 & CEO, OMHHF CFO, OMHHF COO, 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 CFO 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, 2014 and December 31, 2013, have been categorized based upon the above fair value hierarchy as follows:

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Assets and liabilities measured at fair value on a recurring basis as of June 30, 2014
(Expressed in thousands)

	Fair Value Measurements at June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$28,364	$—	$—	$28,364
Deposits with clearing organizations	16,091	—	—	16,091
Securities owned:				—
U.S Treasury securities	614,757	—	—	614,757
U.S. Agency securities	—	26,167	—	26,167
Sovereign obligations	—	1,201	—	1,201
Corporate debt and other obligations	—	23,791	—	23,791
Mortgage and other asset-backed securities	—	4,914	—	4,914
Municipal obligations	—	63,895	52	63,947
Convertible bonds	—	59,870	—	59,870
Corporate equities	54,629	—	—	54,629
Money markets	2,647	—	—	2,647
Auction rate securities	—	—	92,548	92,548
Securities owned, at fair value	672,033	179,838	92,600	944,471
Investments (1)	408	50,026	8,779	59,213
Loans held for sale	—	15,806	—	15,806
Securities purchased under agreements to resell (2)	—	250,000	—	250,000
Derivative contracts:				
TBAs	—	1,895	—	1,895
Interest rate lock commitments	—	—	10,528	10,528
Derivative contracts, total	—	1,895	10,528	12,423
Total	$716,896	$497,565	$111,907	$1,326,368
Liabilities				
Securities sold, but not yet purchased:				
U.S Treasury securities	$71,693	$—	$—	$71,693
U.S. Agency securities	—	35	—	35
Sovereign obligations	—	599	—	599
Corporate debt and other obligations	—	477	—	477
Municipal obligations	—	73	—	73
Convertible bonds	—	7,073	—	7,073
Corporate equities	46,116	—	—	46,116
Money markets	26	—	—	26
Securities sold, but not yet purchased at fair value	117,835	8,257	—	126,092
Investments	136	—	—	136
Derivative contracts:				
U.S. treasury futures	188	—	—	188
Federal funds futures	—	43		43
Euro dollars futures	—	88	—	88
TBAs	—	181	—	181
Interest rate lock commitments	—	—	3,833	3,833
ARS purchase commitments	—	—	1,514	1,514
Derivative contracts, total	188	312	5,347	5,847
Total	$118,159	$8,569	$5,347	$132,075

(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.

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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013
(Expressed in thousands)

	Fair Value Measurements at December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$60,268	$—	$—	$60,268
Securities segregated for regulatory and other purposes	11,495	—	—	11,495
Deposits with clearing organizations	10,492	—	—	10,492
Securities owned:				
U.S Treasury securities	566,346	—	—	566,346
U.S. Agency securities	—	29,448	—	29,448
Sovereign obligations	—	320	—	320
Corporate debt and other obligations	—	14,673	—	14,673
Mortgage and other asset-backed securities	—	3,395	—	3,395
Municipal obligations	—	39,930	236	40,166
Convertible bonds	—	53,719	—	53,719
Corporate equities	61,634	—	—	61,634
Money markets	1,263	—	—	1,263
Auction rate securities	—	—	85,124	85,124
Securities owned, at fair value	629,243	141,485	85,360	856,088
Investments (1)	10,775	47,726	5,946	64,447
Loans held for sale	—	75,989	—	75,989
Securities purchased under agreements to resell (2)	—	184,000	—	184,000
Derivative contracts:				
TBAs	—	2,155	—	2,155
Interest rate lock commitments	—	—	2,375	2,375
Derivative contracts, total	—	2,155	2,375	4,530
Total	$722,273	$451,355	$93,681	$1,267,309
Liabilities				
Securities sold, but not yet purchased:				
U.S Treasury securities	$11,837	$—	$—	$11,837
U.S. Agency securities	—	52	—	52
Corporate debt and other obligations	—	4,847	—	4,847
Mortgage and other asset-backed securities	—	7	—	7
Municipal obligations	—	72	—	72
Convertible bonds	—	13,922	—	13,922
Corporate equities	45,336	—	—	45,336
Money markets	241	—	—	241
Securities sold, but not yet purchased at fair value	57,414	18,900	—	76,314
Investments	648	—	—	648
Derivative contracts:				
U.S. treasury futures	186	—	—	186
Federal funds futures	—	18	—	18
Euro dollars futures	—	44	—	44
TBAs	—	73	—	73
Interest rate lock commitments	—	—	3,653	3,653
ARS purchase commitments	—	—	2,600	2,600
Derivative contracts, total	186	135	6,253	6,574

Total	$58,248	$19,035	$6,253	$83,536

(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.

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There were no transfers between Level 1 and Level 2 assets and liabilities in the three months ended June 30, 2014.

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, 2014 and 2013:
(Expressed in thousands)

	Level 3 Assets and Liabilities For the Three Months Ended June 30, 2014					
	Beginning Balance	Total Realized and Unrealized Gains (Losses) [5][6]	Purchases and Issuances [7]	Sales and Settlements [8]	Transfers In (Out)	Ending Balance
Assets						
Municipals	$70	$ (18)	$ —	$ —	$—	$52
Auction rate securities [1]	85,025	(327)	10,975	(3,125)	—	92,548
Interest rate lock commitments [2]	3,038	7,490	—	—	—	10,528
Investments [3]	8,706	82	115	(124)	—	8,779
Liabilities						
Interest rate lock commitments [2]	4,402	569	—	—	—	3,833
ARS purchase commitments [4]	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 is recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. This commitment asset and 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.

(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.

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(Expressed in thousands)

	Level 3 Assets and Liabilities For the Three Months Ended June 30, 2013					
	Beginning Balance	Total Realized and Unrealized Gains (Losses) [5][6]	Purchases and Issuances [7]	Sales and Settlements [8]	Transfers In (Out)	Ending Balance
Assets						
Mortgage and other asset-backed securities [1]	$52	$ 7	$ 50	$ (36)	$(6)	$67
Municipals	239	(3)	—	—	—	236
Auction rate securities [2]	72,553	498	6,175	(1,150)	—	78,076
Investments [3]	12,779	—	292	2	(99)	12,974
Liabilities						
Auction rate securities [2]	100	—	100	—	—	—
ARS purchase commitments [4]	2,094	(235)	—	—	—	2,329

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

(2) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.

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

(4) 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.

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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, 2014 and 2013:
(Expressed in thousands)

	Level 3 Assets and Liabilities For the Six Months Ended June 30, 2014					
	Beginning Balance	Total Realized and Unrealized Gains (Losses) [5][6]	Purchases and Issuances [7]	Sales and Settlements [8]	Transfers In (Out)	Ending Balance
Assets						
Municipals	$236	$(184)	$ —	$ —	$—	$52
Auction rate securities [1]	85,124	(326)	14,175	(6,425)	—	92,548
Interest rate lock commitments [2]	2,375	8,153	—	—	—	10,528
Investments [3]	5,946	(87)	4,167	(627)	(620)	8,779
Liabilities						
Interest rate lock commitments [2]	3,653	(180)	—	—	—	3,833
ARS purchase commitments [4]	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 is recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. This commitment asset and 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.

(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.

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(Expressed in thousands)

Level 3 Assets and Liabilities
For the Six Months Ended June 30, 2013

	Beginning Balance	Total Realized and Unrealized Gains (Losses) [5][6]	Purchases and Issuances [7]	Sales and Settlements [8]	Transfers In (Out)	Ending Balance
Assets						
Mortgage and other asset-backed securities [1]	$40	$ 14	$ 73	$ (54)	$(6)	$67
Municipals	239	(3)	—	—	—	236
Auction rate securities [2]	72,118	(192)	10,425	(4,275)	—	78,076
Investments [3]	12,954	623	125	(728)	—	12,974
Liabilities						
Auction rate securities [2]	100	—	100	—	—	—
ARS purchase commitments [4]	2,647	318	—	—	—	2,329

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

(2) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.

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

(4) 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.

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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. The fair value of MSRs is based on a discounted cash flow valuation methodology on a loan level basis that determines the present value of future cash flows expected to be realized. The fair value considers estimated future servicing fees and ancillary revenue, offset by the estimated costs to service the loans. The discounted cash flow model considers portfolio characteristics, contractually specified servicing fees, prepayment speed assumptions, delinquency rates, costs to service, late charges, and other ancillary revenue, and other economic factors such as interest rates. The fair value of MSRs is sensitive to changes in interest rates, including the effect on prepayment speeds. MSRs typically decrease in value when interest rates decline as declining interest rates tend to increase prepayments and therefore reduce the expected life of the net servicing cash flows that make up the MSR asset.

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Assets and liabilities not measured at fair value on a recurring basis as of June 30, 2014
(Expressed in thousands)

	As of June 30, 2014		Fair Value Measurement: Assets As of June 30, 2014			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Cash	$36,810	$36,810	$36,810	$—	$—	$36,810
Cash segregated for regulatory and other purposes	19,117	19,117	19,117	—	—	19,117
Deposits with clearing organization	16,094	16,094	16,094	—	—	16,094
Receivable from brokers, dealers and clearing organizations						
Securities borrowed	245,206	245,206	—	245,206	—	245,206
Receivables from brokers	23,086	23,086	—	23,086	—	23,086
Securities failed to deliver	51,432	51,432	—	51,432	—	51,432
Clearing organizations	22,820	22,820	—	22,820	—	22,820
Other	8,773	8,773	—	8,773	—	8,773
	351,317	351,317	—	351,317	—	351,317
Receivable from customers	951,015	951,015	—	951,015	—	951,015
Mortgage servicing rights (“MSRs”)	29,115	40,662	—	—	40,662	40,662
Escrow deposit [(1)]	25,007	25,007	25,007	—	—	25,007

(1) Included in other assets on the condensed consolidated balance sheet. Represents escrow monies deposited with a commercial bank. Corresponds with payable to third party in accounts payable and other liabilities on the condensed consolidated balance sheet (see note 3 below).

(Expressed in thousands)

	As of June 30, 2014		Fair Value Measurement: Liabilities As of June 30, 2014			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Drafts payable	$32,913	$32,913	$32,913	$—	$—	$32,913
Bank call loans	147,200	147,200	147,200	—	—	147,200
Payables to brokers, dealers and clearing organizations						
Securities loaned	203,585	203,585	—	203,585	—	203,585
Securities failed to receive	37,910	37,910	—	37,910	—	37,910
Clearing organizations and other	13,937	13,937	—	13,937	—	13,937
	255,432	255,432	—	255,432	—	255,432
Payables to customers	684,884	684,884	—	684,884	—	684,884
Securities sold under agreements to repurchase	816,606	816,606	—	816,606	—	816,606
Accounts payable and other liabilities						
Warehouse payable [(2)]	14,297	14,297	—	14,297	—	14,297
Payable to third party [(3)]	25,007	25,007	25,007	—	—	25,007
Senior secured notes	150,000	160,125	—	160,125	—	160,125

(2) Warehouse payable represents loans outstanding under a warehouse facility provided by a commercial bank but prior to GNMA securitization. The borrowing rate on the warehouse facility is based upon a variable interest rate of 1 month LIBOR plus a spread. The carrying amounts approximate fair value because of the short maturity of

these instruments. Used to fund loans held for sale in other assets on the condensed consolidated balance sheet.

(3) Corresponds with escrow deposit in other assets on the condensed consolidated balance sheet (see note 1 above).

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Assets and liabilities not measured at fair value on a recurring basis as of December 31, 2013
(Expressed in thousands)

	As of December 31, 2013		Fair Value Measurement: Assets As of December 31, 2013			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Cash	$38,026	$38,026	$38,026	$—	$—	$38,026
Cash segregated for regulatory and other purposes	24,828	24,828	24,828	—	—	24,828
Deposits with clearing organization	13,187	13,187	13,187	—	—	13,187
Receivable from brokers, dealers and clearing organizations						
Deposits paid for securities borrowed	274,127	274,127	—	274,127	—	274,127
Receivables from brokers	49,803	49,803	—	49,803	—	49,803
Securities failed to deliver	9,628	9,628	—	9,628	—	9,628
Clearing organizations	27	27	—	27	—	27
Omnibus accounts	18,086	18,086	—	18,086	—	18,086
Other	13,202	13,202	—	13,202	—	13,202
	364,873	364,873	—	364,873	—	364,873
Receivable from customers	868,869	868,869	—	868,869	—	868,869
Securities purchased under agreements to resell	825	825	825	—	—	825
Mortgage servicing rights (“MSRs”)	28,879	40,084	—	—	40,084	40,084
Escrow deposit [1]	25,006	25,006	25,006	—	—	25,006

(1) Included in other assets on the condensed consolidated balance sheet. Represents escrow monies deposited with a commercial bank. Corresponds with payable to third party in accounts payable and other liabilities on the condensed consolidated balance sheet (see note 3 below).

(Expressed in thousands)

	As of December 31, 2013		Fair Value Measurement: Liabilities As of December 31, 2013			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Drafts payable	$48,198	$48,198	$48,198	$—	$—	$48,198
Bank call loans	118,200	118,200	118,200	—	—	118,200
Payables to brokers, dealers and clearing organizations						
Deposits received for securities loaned	211,621	211,621	—	211,621	—	211,621
Securities failed to receive	5,346	5,346	—	5,346	—	5,346
Clearing organizations and other	6,348	6,348	—	6,348	—	6,348
	223,315	223,315	—	223,315	—	223,315
Payables to customers	626,564	626,564	—	626,564	—	626,564
Securities sold under agreements to repurchase	757,491	757,491	—	757,491	—	757,491
Accounts payable and other liabilities						
Warehouse payable [2]	54,614	54,614	—	54,614	—	54,614
Payable to third party [3]	25,006	25,006	25,006	—	—	25,006
Senior secured notes	195,000	208,529	—	208,529	—	208,529

(2) Warehouse payable represents loans outstanding under a warehouse facility provided by a commercial bank but prior to GNMA securitization. The borrowing rate on the warehouse facility is based upon a variable interest rate of 1 month LIBOR plus a spread. The carrying amounts approximate fair value because of the short maturity of these instruments. Used to fund loans held for sale in other assets on the condensed consolidated balance sheet.

(3) Corresponds with escrow deposit in other assets on the consolidated balance sheet (see note 1 above).

Fair Value Option

The Company has the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The Company may make a fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company has elected to apply the fair value option to its loan trading portfolio which resides in OPY Credit Corp. and is included in other assets on the condensed consolidated balance sheet. Management has elected this treatment as it is consistent with the manner in which the business is managed as well as the way that financial instruments in other parts of the business are recorded. There were no loan positions held in the secondary loan trading portfolio at June 30, 2014 or December 31, 2013.

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 imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At June 30, 2014, the fair value of the reverse repurchase agreements and repurchase agreements were $250.0 million and $nil, respectively.

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, 2014, the Company did not carry any loans held for sale for a period longer than 90 days. At June 30, 2014, the book value and fair value of loans held for sale was $16.0 million and $15.8 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. At June 30, 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. At June 30, 2014, there were no forward or option contracts outstanding.

Derivatives used for trading and investment purposes

Futures contracts represent commitments to purchase or sell securities or other commodities at a future date and at a specified price. Market risk exists with respect to these instruments. Notional or contractual amounts are used to express the volume of these transactions and do not represent the amounts potentially subject to market risk. The futures contracts the Company used include U.S. Treasury notes, Federal Funds and Eurodollar contracts. At June 30, 2014, the Company had 500 open short contracts for 10-year U.S. Treasury notes with a fair value of $188,000 used primarily as an economic hedge of interest rate risk associated with a portfolio of fixed income investments. At June 30, 2014, the Company had 839 open contracts for Federal Funds futures with a fair value of approximately $43,000 used primarily as an economic hedge of interest rate risk associated with government trading activities.

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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. 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.

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The notional amounts and fair values of the Company's derivatives at June 30, 2014 and December 31, 2013 by product were as follows:
(Expressed in thousands)

	Fair Value of Derivative Instruments at June 30, 2014		
	Description	Notional	Fair Value
Assets:			
Derivatives not designated as hedging instruments [1]			
Other contracts	TBAs	$44,515	$144
	TBA sale contracts	239,078	1,750
	Interest rate lock commitments	170,715	10,528
		$454,308	$12,422
Liabilities:			
Derivatives not designated as hedging instruments [1]			
Commodity contracts [2]	U.S. Treasury futures	$80,000	$188
	Federal funds futures	4,195,000	43
	Euro dollars futures	285,000	88
Other contracts	TBAs	34,412	181
	Interest rate lock commitments	49,182	3,833
	ARS purchase commitments [3]	20,212	1,514
		$4,663,806	$5,847

(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.
(3) Included in accounts payable and other liabilities on the condensed consolidated balance sheet.

(Expressed in thousands)

	Fair Value of Derivative Instruments at December 31, 2013		
	Description	Notional	Fair Value
Assets:			
Derivatives not designated as hedging instruments [1]			
Other contracts	TBAs	$25,262	$134
	TBA sale contracts	266,415	2,021
	Interest rate lock commitments	115,569	2,375
		$407,246	$4,530
Liabilities:			
Derivatives not designated as hedging instruments [1]			
Commodity contracts [2]	U.S. Treasury futures	$60,000	$186
	Federal funds futures	6,155,000	18
	Euro dollars futures	347,000	44
Other contracts	TBAs	14,547	73
	Interest rate lock commitments	76,604	3,653
		506,000	—

Forward start repurchase agreements		
ARS purchase commitments (3)	29,056	2,600
	$7,188,207	$6,574

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(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.
(3) Included in accounts payable and other liabilities on the condensed consolidated balance sheet.

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect on the condensed consolidated statements of income for the three months ended June 30, 2014 and 2013:

(Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations For the Three Months Ended June 30, 2014			
		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Gain (Loss)
Commodity contracts	U.S. Treasury futures	Principal transaction revenue	$(637)
	Federal funds futures	Principal transaction revenue	7
	Euro dollars futures	Principal transaction revenue	(27)
Other contracts	TBAs	Principal transaction revenue	(60)
	TBAs sale contracts	Other	4,596
	Interest rate lock commitments	Other	8,059
	ARS purchase commitments	Principal transaction revenue	691
			$12,629

(Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations For the Three Months Ended June 30, 2013			
		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Gain (Loss)
Commodity contracts	U.S. Treasury futures	Principal transaction revenue	$921
	Federal funds futures	Principal transaction revenue	(107)
Other contracts	TBAs	Principal transaction revenue	173
	TBA sale contracts	Other	692
	ARS purchase commitments	Principal transaction revenue	535
			$2,214

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 income for the six months ended June 30, 2014 and 2013:

(Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations For the Six Months Ended June 30, 2014			
		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Gain (Loss)
Commodity contracts	U.S. Treasury futures	Principal transaction revenue	$(1,060)
	Federal funds futures	Principal transaction revenue	(153)
	Euro dollars futures	Principal transaction revenue	(116)
Other contracts	TBAs	Principal transaction revenue	(24)
	TBAs sale contracts	Other	(3,771)
	Interest rate lock commitments	Other	7,973
	ARS purchase commitments	Principal transaction revenue	1,086

$3,935

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(Expressed in thousands)

	The Effect of Derivative Instruments on the Statement of Operations For the Six Months Ended June 30, 2013		
		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Gain (Loss)
Commodity contracts	U.S. Treasury futures	Principal transaction revenue	$801
	Federal funds futures	Principal transaction revenue	(52)
	Euro dollars futures	Principal transaction revenue	72
Other contracts	TBAs	Principal transaction revenue	256
	TBA sale contracts	Other	592
	ARS purchase commitments	Principal transaction revenue	2,329
			$3,998

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, 2014, bank call loans were $147.2 million ($118.2 million at December 31, 2013).

At June 30, 2014, the Company had collateralized loans, collateralized by firm and customer securities with market values of approximately $105.0 million and $258.5 million, respectively, with commercial banks. At June 30, 2014, the Company had approximately $1.4 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has re-pledged approximately $169.5 million under securities loan agreements.

At June 30, 2014, the Company had deposited $349.2 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, 2014, 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.

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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, 2014 and December 31, 2013:

As of June 30, 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	$314,796	$ (64,796)	$250,000	$ (250,000)	$ —	$—
Securities borrowed [1]	245,206	—	245,206	(239,762)	—	5,444
Total	$560,002	$ (64,796)	$495,206	$ (489,762)	$ —	$5,444

(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	$881,402	$ (64,796)	$816,606	$ (811,335)	$ —	$5,271
Securities loaned [2]	203,585	—	203,585	(196,335)	—	7,250
Total	$1,084,987	$ (64,796)	$1,020,191	$ (1,007,670)	$ —	$12,521

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

As of December 31, 2013
(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	$389,439	$ (204,614)	$184,825	$ (183,305)	$ —	$1,520
Securities borrowed [1]	274,127	—	274,127	(265,936)	—	8,191
Total	$663,566	$ (204,614)	$458,952	$ (449,241)	$ —	$9,711

(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		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Repurchase agreements	$962,105	$(204,614)	$757,491	$(753,003)	$—	$4,488
Securities loaned [(2)]	211,621	—	211,621	(204,971)	—	6,650
Total	$1,173,726	$(204,614)	$969,112	$(957,974)	$—	$11,138

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

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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, 2014, the fair value of the reverse repurchase agreements and repurchase agreements was $250 million and $nil, respectively.

The Company receives collateral in connection with securities borrowed and reverse repurchase agreement transactions and customer margin loans. Under many agreements, the Company is permitted to sell or 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, 2014, the fair value of securities received as collateral under securities borrowed transactions and reverse repurchase agreements was $239.1 million ($265.3 million at December 31, 2013) and $314.8 million ($385.5 million at December 31, 2013), respectively, of which the Company has sold and re-pledged approximately $27.2 million ($11.0 million at December 31, 2013) under securities loaned transactions and $314.8 million under repurchase agreements ($385.5 million at December 31, 2013).

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 $664.7 million, as presented on the face of the condensed consolidated balance sheet at June 30, 2014 ($586.6 million at December 31, 2013). 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 $125.9 million at June 30, 2014 ($126.8 million at December 31, 2013).

The Company manages credit exposure arising from repurchase and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate and the right to offset a counterparty’s rights and obligations. The Company also monitors the market value of collateral held and the market value of securities receivable from others. It is the Company’s policy to request and obtain additional collateral when exposure to loss exists. In the event the counterparty is unable to meet its contractual obligation to return the securities, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices.

As of December 31, 2011, the interest in securities formerly held by one of the Company’s funds which utilized Lehman Brothers International (Europe) as a prime broker was transferred to an investment trust. On September 26, 2013, the 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 subsequent distribution in the amount of $600,000 was received by the trust and distributed to its members. The 2014 payment substantially completes the Company’s claim on the Lehman Brothers Estate.

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, 2014 are receivables from three major U.S. broker-dealers totaling approximately $157.8 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

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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, 2014, 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) and others. With respect to its business in reverse repurchase and repurchase agreements, substantially all open contracts at June 30, 2014 are with the FICC. In addition, the Company began clearing its non-U.S. international equities business carried on by Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited through BNP Paribas Securities Services and Oppenheimer through BNP Securities Corp. The clearing corporations have the right to charge the Company for losses that result from a client's failure to fulfill its contractual obligations. Accordingly, the Company has credit exposures with these clearing brokers. The clearing brokers can re-hypothecate the securities held on behalf of the Company. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing brokers, the Company believes there is no maximum amount assignable to this right. At June 30, 2014, 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. 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, 2014, OMHHF had $14.3 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, 2014 was $74,800 and $225,400, respectively ($149,200 and $291,300, respectively, for the three and six months ended June 30, 2013). The Company's ability to originate mortgage loans depends upon our ability to secure and maintain these types of short-term financings on acceptable terms.

As discussed in Note 5, Financial instruments, 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. The Company reviews factors, including the rights of the equity holders and obligations of equity holders to absorb losses or receive expected residual returns, to determine if the investee is a VIE. In evaluating whether the Company is the primary beneficiary, the Company evaluates its economic interests in the entity held either directly or indirectly by the Company. The consolidation analysis is generally performed qualitatively. This analysis, which requires judgment, is performed at each reporting date. ASU No. 2010-10, "Amendments for Certain Investment Funds," defers the application of the revised

consolidation rules for a reporting entity's interest in an entity if certain conditions are met. An entity that qualifies for the deferral will continue to be assessed for consolidation under the overall guidance on VIEs, before its amendment, and other applicable consolidation guidance. Generally, the Company would consolidate those entities when it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of the entities.

For entities 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.

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

The Company assesses whether it is the primary beneficiary of the hedge funds and private equity funds in which it holds a variable interest in the form of the total general and limited partner interests held in these funds by all parties. In each instance, the Company has determined that it is not the primary beneficiary and therefore need not consolidate the hedge funds or private equity funds. The subsidiaries' general partnership interests, additional capital commitments, and management fees receivable represent its maximum exposure to loss. The subsidiaries' general partnership interests and management fees receivable are included in other assets on the condensed consolidated balance sheet.

The following tables set forth the total VIE assets, the carrying value of the subsidiaries' variable interests, and the Company's maximum exposure to loss in Company-sponsored non-consolidated VIEs in which the Company holds variable interests and other non-consolidated VIEs in which the Company holds variable interests at June 30, 2014 and December 31, 2013:

(Expressed in thousands)

	June 30, 2014				
	Total	Carrying Value of the Company's Variable Interest		Capital	Maximum Exposure to Loss in
	VIE Assets [1]	Assets [2]	Liabilities	Commitments	Non-consolidated VIEs
Hedge funds	$1,984,234	$1,369	$—	$—	$ 1,369
Private equity funds	72,400	31	—	3	34
Total	$2,056,634	$1,400	$—	$3	$ 1,403

(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)

	December 31, 2013				
	Total	Carrying Value of the Company's Variable Interest		Capital	Maximum Exposure to Loss in
	VIE Assets [1]	Assets [2]	Liabilities	Commitments	Non-consolidated VIEs
Hedge funds	$2,282,144	$738	$—	$—	$ 738
Private equity funds	64,475	29	—	5	34
Total	$2,346,619	$767	$—	$5	$ 772

(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.

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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% non-controlling interest belongs to one related third party who is the President and Chief Executive Officer of OMHHF.

Loan Origination Fees

OMHHF receives origination fees and incurs other direct origination costs when it originates mortgage loans. Due to the nature of its business and pre-selling loans to third parties, OMHHF recognizes origination fees and other direct origination costs at the time of the origination.

In accordance with HUD guidelines, OMHHF will, with approval and for certain loan programs, apply the GNMA trade premium toward the payment of prepayment costs that customers will incur on their prior mortgage. These costs are netted with revenues from GNMA trade premiums that are otherwise earned from these loan refinancings or modifications. Prepayment costs recorded as contra-revenue against GNMA premium were $1.5 million and $1.8 million for the three and six months ended June 30, 2014, respectively ($7.7 million and $10.7 million for the three and six months ended June 30, 2013, 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 through its affiliate, Oppenheimer, with counterparties to offset its exposures related to these funding commitments. See Note 5, Financial instruments, 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. To the extent funds were advanced from its own cash reserves, the cash balance is reduced in an equal amount. To the extent funds were financed through the warehouse facility, a liability for the warehouse facility payable is recorded in other liabilities on the condensed consolidated balance sheet. Loans held for sale are recorded at fair value through earnings.

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Escrows Held in Trust

Custodial escrow accounts relating to loans serviced by OMHHF totaled $251.6 million at June 30, 2014 ($251.4 million at December 31, 2013). 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, 2014 was approximately $154.0 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, 2014	As of December 31, 2013
Unpaid principal balance of loans	3,985,594	$3,885,437

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. See Note 5, Financial instruments, for more information. OMHHF uses the amortization method for subsequent measurement, subject to annual impairment. The Company reviews the capitalized MSRs for impairment quarterly by comparing the aggregate carrying value of the MSR portfolio to the aggregate estimated fair value of the portfolio.

The fair value of our MSRs is subject to market risk. Changes in interest rates influence a variety of assumptions included in the valuation of MSRs, including prepayment speeds, expected returns, the value of escrow balances and other servicing valuation elements. A decline in interest rates generally increases the payment rate of the servicing portfolio and therefore reduces the estimated fair value of MSRs.

The fair value of the servicing rights on the loan portfolio was $40.7 million and $40.1 million at June 30, 2014 and December 31, 2013, respectively (carrying value of $29.1 million and $28.9 million at June 30, 2014 and December 31, 2013, respectively). The following table summarizes the changes in carrying value of MSRs for the six months ended June 30, 2014 and 2013:
(Expressed in thousands)

	Six Months Ended June 30,	
	2014	2013
Balance at beginning of period	$28,879	$26,983
Originations [1]	2,474	4,638
Purchases	52	1,165
Disposals [1]	(776)	(4,583)
Amortization expense	(1,514)	(538)
Balance at end of period	$29,115	$27,665

(1) Includes refinancings.

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Servicing rights are amortized using the straight-line method over 10 years. Future amortization expense is as follows:
(Expressed in thousands)

	Originated MSRs	Purchased MSRs	Total MSRs
2014	$1,452	$704	$2,156
2015	2,905	1,407	4,312
2016	2,895	1,393	4,288
2017	2,868	1,364	4,232
2018	2,768	1,339	4,107
Thereafter	7,376	2,644	10,020
	$20,264	$8,851	$29,115

The Company receives fees during the course of servicing the mortgage loans. The amount of these fees for the three and six months ended June 30, 2014 and 2013 were as follows:
(Expressed in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Servicing fees	$1,376	$1,244	$2,720	$2,452
Late fees	5	12	5	75
Ancillary fees	75	64	168	121
Total MSR fees	$1,456	$1,320	$2,893	$2,648

9. Long-term debt

(Expressed in thousands)

Issued	Maturity Date	At June 30, 2014	At December 31, 2013
Senior Secured Notes	4/15/2018	$150,000	$195,000

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. Proceeds from the private placement were used to retire the Senior Secured Credit Note due 2013 ($22.4 million) and the Subordinated Note due 2014 ($100.0 million) and for other general corporate purposes. The private placement resulted in the fixing of the interest rate over the term of the Notes compared to the variable rate debt that was retired and an extension of the debt maturity dates as described above. The Notes were non-callable until April 2014. The cost to issue the Notes was approximately $4.6 million which was capitalized in the second quarter of 2011 and is amortized over the period of the Notes.

The indenture for the Notes contains covenants which place restrictions on the incurrence of indebtedness, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. The Notes provide for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. The Company’s obligations under the Notes are guaranteed, subject to certain limitations, by the same subsidiaries that guaranteed the obligations under the Senior Secured Credit Note and the Subordinated Note which were retired. These guarantees may be shared, on a senior basis, under certain circumstances, with newly incurred debt outstanding in the future. At June 30, 2014, the Company was in compliance with all of its covenants.

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

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

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

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amount of the Notes remains outstanding. The retirement of the Notes will reduce 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, 2014 on the Notes was $3.4 million and $7.7 million, respectively ($4.3 million and $8.5 million, respectively, for the three and six months ended June 30, 2013).

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Class A Stock outstanding, beginning of period	13,516,626	13,508,318	13,377,967	13,508,318
Issued pursuant to shared-based compensation plans	2,500	—	141,159	—
Repurchased and cancelled pursuant to the stock buy-back	—	(11,535)	—	(11,535)
Class A Stock outstanding, end of period	13,519,126	13,496,783	13,519,126	13,496,783

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 Senior Secured Notes. 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 cancelled. The repurchase program is expected to continue indefinitely. The repurchase program does not obligate the Company to repurchase any dollar amount or number of shares of Class A Stock. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice.

In the six months ended June 30, 2014, the Company did not buy back any stock under this program. As of June 30, 2014, 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 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.

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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 $30 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, 2014, the Company purchased and holds (net of redemptions) approximately $99.4 million in ARS from its clients. In addition, the Company is committed to purchase another $20.2 million in ARS from clients through 2016 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, 2014, the Company did not have any outstanding ARS purchase commitments related to the settlements with the Regulators. Eligible Investors for future buybacks continued to hold approximately $110.6 million of principal value of ARS as of June 30, 2014. 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

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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, 2014, no ARS purchase commitments related to legal settlements extended past 2016. 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 is also 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 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 June 23, 2011, Oppenheimer received notice of an investigation by the SEC pursuant to which the SEC requested information from the Company regarding the sale of a number of low-priced securities effected primarily through several former Oppenheimer financial advisers and purchases and sales of low-priced securities through one Oppenheimer customer account. The issues and facts surrounding this investigation are, in the Company's view, largely duplicative of a matter that was settled by Oppenheimer with FINRA in August of 2013. On July 16, 2013, Oppenheimer received a "Wells Notice" from the SEC requesting that Oppenheimer make a written submission to the SEC to explain why Oppenheimer should not be charged with violations of the Securities Exchange Act of 1934 (the "Exchange Act") in relation to its sales of low-priced securities on behalf of former customers of the firm. The Company submitted a Wells response on August 19, 2013.

In October 2010, Oppenheimer received notice of an investigation by the SEC related to the trading of low-priced securities by one former financial advisor in one of Oppenheimer's branch offices and the supervision related thereto. Both branch and headquarters personnel, including members of senior management, have provided on-the-record testimony in connection with the investigation.

In February, 2014, Oppenheimer received notice of an investigation by, and a request for information from, a division of the United States Department of the Treasury ("FinCEN") relating to potential violations of the Bank Secrecy Act and the regulations promulgated thereunder related primarily to, in the Company's view, the FINRA and SEC matters discussed immediately above. Oppenheimer provided information it believes is responsive to the FinCEN request for information in March of 2014.

The Company believes that the SEC and FinCEN may file one or more enforcement actions against Oppenheimer in connection with the two immediately preceding paragraphs.

The Company recorded a $12.0 million charge against earnings in the second quarter of 2014 related to the aforementioned SEC and FinCEN matters. As of June 30, 2014, the Company believes it is fully reserved against

potential liability arising out of the SEC and FinCEN matters.

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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, 2014, the net capital of Oppenheimer as calculated under the Rule was $157.4 million or 11.2% of Oppenheimer's aggregate debit items. This was $129.3 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, 2014, Freedom had net capital of $4.6 million, which was $4.3 million in excess of the $250,000 required to be maintained at that date.

In accordance with the SEC's No-Action Letter dated November 3, 1998, the Company has computed a reserve requirement for the proprietary accounts of introducing firms as of June 30, 2014. The Company had no deposit requirements as of June 30, 2014.

At June 30, 2014, Freedom had $18.3 million in cash and U.S. Treasury securities segregated under Federal and other regulations.

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, 2014, the capital required and held under CRD IV was as follows:

- Common Equity Tier 1 ratio 9.54% (required 4.5%);
- Tier 1 Capital ratio 9.54% (required 6.0%); and
- Total Capital ratio 11.02% (required 8.0%).

At June 30, 2014, 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.

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13. Related party transactions

The Company does not make loans to its officers and directors except under normal commercial terms pursuant to client margin account agreements. These loans are fully collateralized by employee-owned securities.

14. 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.

Due to the growth in the Company’s commercial loan origination and servicing business operated out of OMHHF, the Company has presented separately the results of this business in a reportable segment titled “Commercial Mortgage Banking.” This reportable segment engages in business activities in which it earns revenues and incurs expenses that are distinct from the Company’s other reportable segments, its operating results are reviewed by the Company’s Chief Executive Officer who makes decisions about resources to be allocated to this business, and separate financial information is available for the legal entity from which it operates. The Commercial Mortgage Banking reportable segment not only meets these qualitative criteria but, as a result of its recent growth, also meets one of the quantitative thresholds for segment reporting. Previously reported segment information has been revised to reflect this new reportable segment.

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. The Company has added this business segment due to the significant growth and profitability of this line of business over the last several quarters. In prior periods, this business had been part of the Capital Markets business segment.

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 include, for example, compensation and benefits, rent expense, information technology, legal and professional.

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, 2014 and 2013. Asset information by reportable segment is not reported, since the Company does not produce such information for internal use by the chief operating decision maker.

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(Expressed in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue				
Private client *	$145,344	$143,278	$293,164	$286,647
Asset management *	25,032	22,006	49,642	42,962
Capital markets	72,217	67,904	150,098	133,035
Commercial mortgage banking	6,958	9,477	11,830	17,543
Corporate/Other	138	1,165	123	2,789
Total	$249,689	$243,830	$504,857	$482,976
Income (loss) before income taxes				
Private client *	$7,560	$15,698	$17,868	$33,025
Asset management *	8,353	7,402	16,036	13,945
Capital markets	7,082	972	18,266	4,505
Commercial mortgage banking	3,605	2,276	5,454	5,154
Corporate/Other	(26,464)	(20,674)	(52,379)	(44,242)
Total	$136	$5,674	$5,245	$12,387

* Asset management fees are allocated 22.5% to the Asset Management and 77.5% to the Private Client Divisions.

Revenue, classified by the major geographic areas in which it was earned for the three and six months ended June 30, 2014 and 2013, was as follows:

(Expressed in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
United States	$236,440	$232,781	$476,352	$461,474
Europe/Middle East	10,040	9,317	23,877	17,720
Asia	2,765	709	3,768	1,534
South America	444	1,023	860	2,248
Total	$249,689	$243,830	$504,857	$482,976

15. Subsequent events

On August 1, 2014, the Company announced a quarterly dividend in the amount of $0.11 per share, payable on August 29, 2014 to holders of Class A Stock and Class B Stock of record on August 15, 2014.

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16. 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 consolidating financial statements present the financial position, results of operations and cash flows of the Company (referred to as "Parent" for purposes of this note only), the Guarantor subsidiaries, the Non-Guarantor subsidiaries and elimination entries necessary to consolidate the Company. Investments in subsidiaries are accounted for using the equity method for purposes of the consolidated presentation.

Each Guarantor will be automatically and unconditionally released and discharged upon: the sale, exchange or transfer of the capital stock of a Guarantor and the Guarantor 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 debenture 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.

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OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2014

(Expressed in thousands)	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$1,198	$6,560	$ 57,416	$—	$65,174
Cash and securities segregated for regulatory and other purposes	—	—	19,117	—	19,117
Deposits with clearing organizations	—	—	32,185	—	32,185
Receivable from brokers, dealers and clearing organizations	—	—	351,317	—	351,317
Receivable from customers, net of allowance for credit losses of $2,436	—	—	951,015	—	951,015
Income tax receivable	24,593	27,611	(696)	(38,268)	13,240
Securities purchased under agreements to resell	—	—	250,000	—	250,000
Securities owned, including amounts pledged of $664,654, at fair value	—	5,669	938,802	—	944,471
Subordinated loan receivable	—	112,558	—	(112,558)	—
Notes receivable, net	—	—	37,816	—	37,816
Office facilities, net	—	20,529	10,733	—	31,262
Deferred tax assets, net	213	309	23,943	(24,465)	—
Intangible assets	—	—	31,700	—	31,700
Goodwill	—	—	137,889	—	137,889
Loans held for sale	—	—	15,806	—	15,806
Mortgage servicing rights	—	—	29,115	—	29,115
Other assets	1,950	27,034	105,867	—	134,851
Investment in subsidiaries	556,732	873,235	(180,475)	(1,249,492)	—
Intercompany receivables	94,333	(21,472)	(10,160)	(62,701)	—
Total assets	$679,019	$1,052,033	$ 2,801,390	$(1,487,484)	$3,044,958
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities					
Drafts payable	$—	$—	$ 32,913	$—	$32,913
Bank call loans	—	—	147,200	—	147,200
Payable to brokers, dealers and clearing organizations	—	—	255,432	—	255,432
Payable to customers	—	—	684,884	—	684,884
Securities sold under agreements to repurchase	—	—	816,606	—	816,606
Securities sold, but not yet purchased, at fair value	—	—	126,092	—	126,092
Accrued compensation	—	—	122,210	—	122,210
Accounts payable and other liabilities	2,822	58,483	104,314	—	165,619
Income tax payable	2,440	22,189	13,639	(38,268)	—
Senior secured notes	150,000	—	—	—	150,000
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred tax liabilities, net	—	60	38,800	(24,465)	14,395
Intercompany payables	—	62,701	—	(62,701)	—
Total liabilities	155,262	143,433	2,454,648	(237,992)	2,515,351

Stockholders' equity					
Stockholders' equity attributable to Oppenheimer Holdings Inc.	523,757	908,600	340,892	(1,249,492)	523,757
Non-controlling interest	—	—	5,850	—	5,850
Total stockholders' equity	523,757	908,600	346,742	(1,249,492)	529,607
Total liabilities and stockholders' equity	$679,019	$1,052,033	$ 2,801,390	$(1,487,484)	$3,044,958

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OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2013

(Expressed in thousands)	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$448	$30,901	$ 66,945	$—	$98,294
Cash and securities segregated for regulatory and other purposes	—	—	36,323	—	36,323
Deposits with clearing organizations	—	—	23,679	—	23,679
Receivable from brokers, dealers and clearing organizations	—	—	364,873	—	364,873
Receivable from customers, net of allowance for credit losses of $2,423	—	—	868,869	—	868,869
Income tax receivable	19,494	27,589	(817)	(39,704)	6,562
Securities purchased under agreements to resell	—	—	184,825	—	184,825
Securities owned, including amounts pledged of $586,625, at fair value	—	2,225	853,863	—	856,088
Subordinated loan receivable	—	112,558	—	(112,558)	—
Notes receivable, net	—	—	40,751	—	40,751
Office facilities, net	—	21,250	11,689	—	32,939
Deferred tax assets, net	678	309	29,496	(30,483)	—
Intangible assets	—	—	31,700	—	31,700
Goodwill	—	—	137,889	—	137,889
Loans held for sale	—	—	75,989	—	75,989
Mortgage servicing rights	—	—	28,879	—	28,879
Other assets	2,797	27,113	135,150	—	165,060
Investment in subsidiaries	546,755	910,230	(182,625)	(1,274,360)	—
Intercompany receivables	153,528	(68,920)	(20,107)	(64,501)	—
Total assets	$723,700	$1,063,255	$ 2,687,371	$(1,521,606)	$2,952,720
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities					
Drafts payable	$—	$—	$ 48,198	$—	$48,198
Bank call loans	—	—	118,200	—	118,200
Payable to brokers, dealers and clearing organizations	—	—	223,315	—	223,315
Payable to customers	—	—	626,564	—	626,564
Securities sold under agreements to repurchase	—	—	757,491	—	757,491
Securities sold, but not yet purchased, at fair value	—	—	76,314	—	76,314
Accrued compensation	—	—	180,119	—	180,119
Accounts payable and other liabilities	3,742	59,289	129,609	(88)	192,552
Income tax payable	2,440	22,189	15,075	(39,704)	—
Senior secured notes	195,000	—	—	—	195,000
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred tax liabilities, net	—	—	37,579	(30,483)	7,096
Intercompany payables	—	64,501	—	(64,501)	—
Total liabilities	201,182	145,979	2,325,022	(247,334)	2,424,849

Stockholders' equity					
Stockholders' equity attributable to Oppenheimer Holdings Inc.	522,518	917,276	356,996	(1,274,272)	522,518
Non-controlling interest	—	—	5,353	—	5,353
Total stockholders' equity	522,518	917,276	362,349	(1,274,272)	527,871
Total liabilities and stockholders' equity	$723,700	$1,063,255	$ 2,687,371	$(1,521,606)	$2,952,720

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

(Expressed in thousands)	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES					
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
EXPENSES					
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 taxes	(7,628)	2,782	4,982	—	136
Income tax provision (benefit)	(2,723)	1,269	2,843	—	1,389
Net income (loss) for the period	(4,905)	1,513	2,139	—	(1,253)
Less net income attributable to non-controlling interest, net of tax	—	—	301	—	301
Equity in subsidiaries	3,350	—	—	(3,350)	—
Net income (loss) attributable to Oppenheimer Holdings Inc.	(1,555)	1,513	1,838	(3,350)	(1,554)
Other comprehensive income	—	—	339	—	339
Total comprehensive income (loss)	$(1,555)	$1,513	$ 2,177	$(3,350)	$(1,215)

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

(Expressed in thousands)	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES					
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
EXPENSES					
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 taxes	(12,689)	5,769	12,165	—	5,245
Income tax provision (benefit)	(4,634)	1,131	6,581	—	3,078
Net income (loss) for the period	(8,055)	4,638	5,584	—	2,167
Less net income attributable to non-controlling interest, net of tax	—	—	497	—	497
Equity in subsidiaries	9,724	—	—	(9,724)	—
Net income attributable to Oppenheimer Holdings Inc.	1,669	4,638	5,087	(9,724)	1,670
Other comprehensive income	—	—	252	—	252
Total comprehensive income	$1,669	$4,638	$ 5,339	$(9,724)	$1,922

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OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2013

(Expressed in thousands)	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES					
Commissions	$—	$—	$ 124,440	$—	$124,440
Advisory fees	—	—	61,127	(547)	60,580
Investment banking	—	—	22,567	—	22,567
Principal transactions, net	—	(61)	7,593	—	7,532
Interest	—	2,805	13,018	(2,717)	13,106
Other	—	42	15,605	(42)	15,605
Total revenue	—	2,786	244,350	(3,306)	243,830
EXPENSES					
Compensation and related expenses	254	—	159,752	—	160,006
Occupancy and equipment costs	—	—	17,183	(42)	17,141
Communications and technology	35	—	15,983	—	16,018
Interest	4,375	—	5,485	(2,717)	7,143
Clearing and exchange fees	—	—	6,293	—	6,293
Other	323	16	31,763	(547)	31,555
Total expenses	4,987	16	236,459	(3,306)	238,156
Income (loss) before income taxes	(4,987)	2,770	7,891	—	5,674
Income tax provision (benefit)	(1,899)	1,215	3,292	—	2,608
Net income (loss) for the period	(3,088)	1,555	4,599	—	3,066
Less net income attributable to non-controlling interest, net of tax	—	—	218	—	218
Equity in subsidiaries	5,936	—	—	(5,936)	—
Net income attributable to Oppenheimer Holdings Inc.	2,848	1,555	4,381	(5,936)	2,848
Other comprehensive income (loss)	(3)	—	52	—	49
Total comprehensive income	$2,845	$1,555	$ 4,433	$(5,936)	$2,897

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OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2013

(Expressed in thousands)	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES					
Commissions	$—	$—	$ 244,020	$—	$244,020
Advisory fees	—	—	118,487	(1,187)	117,300
Investment banking	—	—	41,015	—	41,015
Principal transactions, net	—	12	23,237	—	23,249
Interest	5	5,593	25,314	(5,435)	25,477
Other	—	84	31,915	(84)	31,915
Total revenue	5	5,689	483,988	(6,706)	482,976
EXPENSES					
Compensation and related expenses	695	—	318,520	—	319,215
Occupancy and equipment costs	—	—	34,790	(84)	34,706
Communications and technology	58	—	31,824	—	31,882
Interest	8,750	—	10,690	(5,435)	14,005
Clearing and exchange fees	—	—	12,335	—	12,335
Other	760	19	58,854	(1,187)	58,446
Total expenses	10,263	19	467,013	(6,706)	470,589
Income (loss) before income taxes	(10,258)	5,670	16,975	—	12,387
Income tax provision (benefit)	(3,931)	1,894	7,465	—	5,428
Net income (loss) for the period	(6,327)	3,776	9,510	—	6,959
Less net income attributable to non-controlling interest, net of tax	—	—	448	—	448
Equity in subsidiaries	12,838	—	—	(12,838)	—
Net income attributable to Oppenheimer Holdings Inc.	6,511	3,776	9,062	(12,838)	6,511
Other comprehensive income (loss)	(3)	—	503	—	500
Total comprehensive income	$6,508	$3,776	$ 9,565	$(12,838)	$7,011

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OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2014
(Expressed in thousands) Parent