

OPPENHEIMER HOLDINGS INC
Form 10-Q
November 07, 2008

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

FORM 10-Q

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

For the Quarterly Period ended **September 30, 2008**

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)

Canada

98-0080034

Edgar Filing: OPPENHEIMER HOLDINGS INC - Form 10-Q

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

P.O. Box 2015, Suite 1110

20 Eglinton Avenue West

Toronto, Ontario, Canada M4R 1K8

(Address of principal executive offices)

(Zip Code)

416-322-1515

(Registrant's telephone number, including area code)

None

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares of the Company's Class A non-voting shares and Class B voting shares (being the only classes of common stock of the Company) outstanding on October 31, 2008 was 12,899,465 and 99,680 shares, respectively.

OPPENHEIMER HOLDINGS INC.

INDEX

		Page No.
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets	1
	as of September 30, 2008 and December 31, 2007	
	Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007	3
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2008 and 2007	4
	Condensed Consolidated Statements of Cash Flows	5
	for the nine months ended September 30, 2008 and 2007	
	Condensed Consolidated Statements of Changes in Shareholders Equity for the nine months ended September 30, 2008 and 2007	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	37
Item 4.	Controls and Procedures	37
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3.	Defaults Upon Senior Securities	40
Item 4.	Submission of Matters to a Vote of Security Holders	40
Item 5.	Other Information	40

Item 6.	Exhibits	40
	SIGNATURES	41
	Certifications	42

PART I
FINANCIAL INFORMATION

Item. 1 Financial Statements

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	September 30, 2008	December 31, 2007
	(Expressed in thousands of dollars)	
ASSETS		
Cash and cash equivalents	\$61,455	\$27,702
Cash and securities segregated for regulatory and other purposes	69,986	67,562
Deposits with clearing organizations	72,976	16,402
Receivable from brokers and clearing organizations	478,966	672,282
Receivable from customers, net of allowance for doubtful accounts of \$826 thousand (\$628 thousand in 2007)	1,004,111	879,732
Income taxes receivable	14,926	-
Securities owned, including amounts pledged of \$2.7 million (\$1.3 million in 2007), at fair value	198,194	128,495
Notes receivable, net	54,365	44,923
Office facilities, net	26,636	18,340
Intangible assets, net	54,594	32,925
Goodwill	132,472	132,472
Other	80,771	117,406
	\$2,249,452	\$2,138,241

(Continued on next page)

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

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	September 30, 2008	December 31, 2007
(Expressed in thousands of dollars)		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Drafts payable	\$51,090	\$56,925
Bank call loans	315,900	29,000
Payable to brokers and clearing organizations	377,967	809,025
Payable to customers	564,891	446,299
Securities sold, but not yet purchased, at fair value	47,045	9,413
Accrued compensation	172,943	153,786
Accounts payable and other liabilities	114,891	82,912
Income taxes payable	-	11,020
Senior secured credit note	62,788	83,325
Subordinated note	100,000	-
Deferred income tax, net	7,290	12,556
Excess of fair value of acquired assets over cost	1,652	-
	1,816,457	1,694,261
 Shareholders' equity		
Share capital		
Class A non-voting shares		
(2008 13,072,989 shares issued and outstanding		
	47,099	52,921
2007 13,266,596 shares issued and outstanding)		
99,680 Class B voting shares issued and outstanding	133	133
	47,232	53,054
Contributed capital	32,456	16,760
Retained earnings	353,732	375,137
Accumulated other comprehensive loss	(425)	(971)
	432,995	443,980
	\$2,249,452	\$2,138,241

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

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

	Three months ended		Nine months ended	
	September		September	
	2008	2007	2008	2007
<i>Expressed in thousands of dollars, except per share amounts</i>				
REVENUE:				
Commissions	\$124,526	\$91,498	\$368,464	\$268,981
Principal transactions, net	(862)	12,003	28,245	32,515
Interest	16,087	27,366	51,233	84,536
Investment banking	25,165	22,691	91,616	97,389
Advisory fees	51,057	54,918	157,641	154,399
Other	6,214	6,697	13,104	18,219
	222,187	215,173	710,303	656,039
EXPENSES:				
Compensation and related expenses	141,343	127,271	482,052	386,677
Clearing and exchange fees	7,033	4,337	23,274	11,966
Communications and technology	20,452	12,859	55,911	38,609
Occupancy and equipment costs	17,713	12,062	52,267	36,671
Interest	10,392	14,226	34,062	43,857
Other	28,965	17,397	91,051	55,170
	225,898	188,152	738,617	572,950
Profit (loss) before income taxes	(3,711)	27,021	(28,314)	83,089
Income tax provision (benefit)	(1,234)	10,747	(11,369)	34,259
Net profit (loss) for the period	\$(2,477)	\$16,274	\$(16,945)	\$48,830
Earnings (loss) per share:				
Basic	\$(0.18)	\$1.23	\$(1.26)	\$3.70
Diluted	\$(0.18)	\$1.19	\$(1.26)	\$3.61
Dividends declared per share	\$0.11	\$0.11	\$0.33	\$0.32

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

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
<i>Expressed in thousands of dollars, except per share amounts</i>				
Net profit (loss) for the period	\$(2,477)	\$16,274	\$(16,945)	\$48,830
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(142)	-	369	-
Change in cash flow hedges	113	(448)	177	(587)
Comprehensive income (loss) for the period	\$(2,506)	\$15,826	\$(16,399)	\$48,243

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

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

	Nine months ended	
	September 30,	
	2008	2007
<i>Expressed in thousands of dollars</i>		
Cash flows from operating activities:		
Net profit (loss) for the period	\$(16,945)	\$48,830
Adjustments to reconcile net profit (loss) to net cash (used in) provided by operating activities:		
Non-cash items included in net profit (loss):		
Depreciation and amortization	8,498	7,201
Deferred income tax	(5,249)	54
Amortization of notes receivable	12,188	14,215
Amortization of debt issuance costs	1,033	1,078
Amortization of intangibles	3,793	551
Provision for doubtful accounts	273	3
Share-based compensation	(989)	7,026
Decrease (increase) in operating assets, net of the effect of acquisitions:		
Cash and securities segregated for regulatory and other purposes	(2,424)	(20,345)
Deposits with clearing organizations	(56,574)	(1,543)
Receivable from brokers and clearing organizations	193,316	(69,706)
Receivable from customers	(124,652)	80,604
Income taxes receivable	(14,926)	-
Securities owned	10,904	(12,901)
Notes receivable	(21,630)	(8,110)
Other assets	35,698	19,007
Increase (decrease) in operating liabilities, net of the effect of acquisitions:		
Drafts payable	(5,835)	(12,607)
Payable to brokers and clearing organizations	(430,512)	(1,777)
Payable to customers	118,592	17,602
Securities sold, but not yet purchased	5,258	2,007
Accrued compensation	24,395	514
Accounts payable and other liabilities	17,843	14,374
Income taxes payable	(11,020)	(6,770)
Cash (used in) provided by operating activities	(258,965)	79,307

(Continued on next page)

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

	Nine months ended	
	September 30,	
	2008	2007
<i>Expressed in thousands of dollars</i>		
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(50,335)	-
Purchase of office facilities	(11,679)	(8,906)
Cash used in investing activities	(62,014)	(8,906)
Cash flows from financing activities:		
Cash dividends paid on Class A non-voting and Class B shares	(4,460)	(4,100)
Issuance of Class A non-voting shares	5,740	7,215
Repurchase of Class A non-voting shares for cancellation	(13,608)	-
Tax benefit from employee stock options exercised	698	1,108
Issuance of subordinated note	100,000	-
Senior secured credit note repayments	(20,538)	(40,837)
Zero coupon promissory note repayments	-	(4,591)
Increase (decrease) in bank call loans, net	286,900	(19,400)
Cash provided by (used in) financing activities	354,732	(60,605)
Net increase in cash and cash equivalents	33,753	9,796
Cash and cash equivalents, beginning of period	27,702	23,542
Cash and cash equivalents, end of period	\$61,455	\$33,338
Schedule of non-cash investing and financing activities:		
Warrants issued	\$10,487	-
Employee share plan issuance	\$2,046	\$2,409
Supplemental disclosure of cash flow information:		
Cash paid during the periods for interest	\$25,962	\$27,451
Cash paid during the periods for income taxes	\$12,879	\$32,744

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

OPPENHEIMER HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
 IN SHAREHOLDERS' EQUITY (unaudited)

	Nine months ended	
	September 30,	
	2008	2007
<i>Expressed in thousands of dollars</i>		
Share capital		
Balance at beginning of period	\$53,054	\$41,226
Issuance of Class A non-voting shares	7,786	9,624
Repurchase of Class A Shares for cancellation	(13,608)	-
Balance at end of period	\$47,232	\$50,850
Contributed capital		
Balance at beginning of period	\$16,760	\$11,662
Issuance of warrant to purchase 1 million Class A Shares	10,487	-
Vested employee share plan awards	(355)	-
Tax benefit from share-based awards	698	1,108
Share-based expense	4,866	2,834
Balance at end of period	\$32,456	\$15,604
Retained earnings		
Balance at beginning of period	\$375,137	\$306,153
Cumulative effect of an accounting change	-	(823)
Net profit (loss) for the period	(16,945)	48,830
Dividends (\$0.33 per share in 2008; \$0.32 per share in 2007)	(4,460)	(4,100)
Balance at end of period	\$353,732	\$350,060
Accumulated other comprehensive loss		
Balance at beginning of period	\$(971)	-
Currency translation adjustment, net of tax	369	-
Change in cash flow hedges, net of tax	177	\$(587)
Balance at end of period	\$(425)	\$(587)
Shareholders' equity	\$432,995	\$415,927

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

OPPENHEIMER HOLDINGS INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of significant accounting policies

Oppenheimer Holdings Inc. ("OPY") is incorporated under the laws of Canada. The condensed consolidated financial statements include the accounts of OPY and its subsidiaries (together, the Company). The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker dealer in securities, Oppenheimer Asset Management Inc. (OAM) and its wholly owned subsidiary, Oppenheimer Investment Management Inc. (OIM), both registered investment advisors under the Investment Advisors Act of 1940, Oppenheimer Trust Company, a limited purpose trust company chartered by the State of New Jersey to provide fiduciary services such as trust and estate administration and investment management, Evanston Financial Corporation (Evanston), which is engaged in mortgage brokerage and servicing, OPY Credit Corp., which offers syndication as well as trading of issued corporate loans, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel as a local broker dealer. Oppenheimer EU Ltd., based in the United Kingdom, provides institutional equities brokerage and corporate financial services and is regulated by the Financial Services Authority. Oppenheimer EU Ltd. began operations on September 5, 2008. Oppenheimer operates as Fahnestock & Co. Inc. in Latin America. Oppenheimer owns Freedom Investments, Inc. (Freedom), a registered broker dealer in securities, which also operates as the BUYandHOLD division of Freedom, offering on-line discount brokerage and dollar-based investing services. Oppenheimer holds a trading permit on the New York Stock Exchange, and is a member of the American Stock Exchange and several other regional exchanges in the United States. On October 1, 2008, NYSE Euronext completed its acquisition of the American Stock Exchange and, as a result, the Company received 15,336 shares of NYSE Euronext common stock and future cash consideration in exchange for its American Stock Exchange membership interests.

On January 14, 2008 the Company acquired a major part of CIBC World Market Inc.'s U.S. capital markets businesses. This acquisition is being accounted for under the purchase method in accordance with Statement of Financial Accounting Standards No. 141 ("SFAS 141"), *Business Combinations*. See note 11.

The Company s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These accounting principles are set out in the notes to the Company s consolidated financial statements for the year ended December 31, 2007 included in its Annual Report on Form 10-K for the year then ended, except for the adoption on January 1, 2008 of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*, and Statement of Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115*, as set out in Note 2.

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

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

These condensed consolidated financial statements are presented in U.S. dollars.

2. New Accounting Pronouncements

Recently Adopted

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*, which provides expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. In addition, SFAS 157 prohibits recognition of block discounts for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available in an active market. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with early adoption permitted.

On February 12, 2008, the FASB issued FASB Staff Position No. 157-2 (FAS 157-2) which delays the effective date of SFAS 157 for non financial assets and liabilities except for items that are recognized or disclosed at fair value in the condensed consolidated financial statements on a recurring basis (at least annually). As a result, the Company only partially adopted the provisions of SFAS 157 on January 1, 2008. This partial adoption did not result in any transition adjustment to opening retained earnings. The full adoption of the provisions of SFAS 157 is not expected to have a material impact on the Company's condensed consolidated financial statements. See Note 4 to the condensed consolidated financial statements for further information on SFAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115*, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 provides entities with the option to mitigate volatility in reported earnings by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. In addition, SFAS 159 allows entities to measure eligible items at fair value at specified election dates and to report unrealized gains and losses on items for which the fair value option has been elected in earnings. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with early adoption permitted provided that the entity also elects to apply the provisions of SFAS 157. The Company adopted the provisions of SFAS 159 for its loan trading portfolio effective January 1, 2008. The adoption of SFAS 159 did not result in any transition adjustment to opening retained earnings. See Note 4 to the condensed consolidated financial statements for more information on SFAS 159.

Recently Issued

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses,

including those sometimes referred to as true mergers or mergers of equals and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after December 1, 2009.

In December 2007, FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS 160), which changes the accounting and reporting of non-controlling (or minority) interests in