F5 NETWORKS INC
Form 10-Q
August 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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 000-26041

F5 NETWORKS, INC.

(Exact name of registrant as specified in its charter)

WASHINGTON	**91-1714307**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

401 Elliott Avenue West

Seattle, Washington 98119

(Address of principal executive offices and zip code)

(206) 272-5555

(Registrant s telephone number, including area code)

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 ¨

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

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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the registrant s common stock as of August 2, 2012 was 79,027,542.

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F5 NETWORKS, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended June 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

F5 NETWORKS, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited, in thousands)

	June 30, 2012	September 30, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 195,607	$ 216,784
Short-term investments	324,050	325,766
Accounts receivable, net of allowances of $3,016 and $2,898	193,705	165,676
Inventories	17,038	17,149
Deferred tax assets	8,702	8,391
Other current assets	43,785	29,907
Total current assets	782,887	763,673
Property and equipment, net	54,257	47,998
Long-term investments	587,342	470,203
Deferred tax assets	34,942	34,762
Goodwill	347,901	234,691
Other assets, net	30,737	17,222
Total assets	$ 1,838,066	$ 1,568,549
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 32,007	$ 33,525
Accrued liabilities	69,708	67,902
Deferred revenue	344,925	270,880
Total current liabilities	446,640	372,307
Other long-term liabilities	20,314	18,388
Deferred revenue, long-term	88,944	72,418
Total long-term liabilities	109,258	90,806
Commitments and contingencies (Note 5)		
Shareholders equity		
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding		
Common stock, no par value; 200,000 shares authorized, 79,013 and 79,145 shares issued and outstanding	349,411	380,737
Accumulated other comprehensive loss	(5,833)	(6,422)
Retained earnings	938,590	731,121
Total shareholders equity	1,282,168	1,105,436

Total liabilities and shareholders equity	$ 1,838,066	$ 1,568,549

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

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F5 NETWORKS, INC.

CONSOLIDATED INCOME STATEMENTS

(unaudited, in thousands, except per share data)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Nine months ended June 30, 2012	Nine months ended June 30, 2011
Net revenues				
Products	$ 207,118	$ 179,327	$ 608,837	$ 524,529
Services	145,516	111,386	405,851	312,690
Total	352,634	290,713	1,014,688	837,219
Cost of net revenues				
Products	34,482	31,803	101,350	94,840
Services	25,805	20,645	72,137	57,244
Total	60,287	52,448	173,487	152,084
Gross profit	292,347	238,265	841,201	685,135
Operating expenses				
Sales and marketing	112,064	93,633	329,297	269,790
Research and development	46,985	35,245	129,675	102,358
General and administrative	23,298	21,126	67,760	61,656
Total	182,347	150,004	526,732	433,804
Income from operations	110,000	88,261	314,469	251,331
Other income, net	1,713	1,889	5,002	6,002
Income before income taxes	111,713	90,150	319,471	257,333
Provision for income taxes	39,377	27,601	112,002	83,546
Net income	$ 72,336	$ 62,549	$ 207,469	$ 173,787
Net income per share basic	$ 0.91	$ 0.77	$ 2.62	$ 2.15
Weighted average shares basic	79,135	80,866	79,188	80,773
Net income per share diluted	$ 0.91	$ 0.77	$ 2.60	$ 2.13
Weighted average shares diluted	79,655	81,497	79,834	81,655

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

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F5 NETWORKS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY AND

COMPREHENSIVE INCOME

(unaudited, in thousands)

	Nine months ended June 30, 2012				
	Common Stock		Accumulated Other Comprehensive	Retained	Total Shareholders
	Shares	Amount	Income/(Loss)	Earnings	Equity
Balance, September 30, 2011	79,145	$ 380,737	$ (6,422)	$ 731,121	$ 1,105,436
Exercise of employee stock options	99	901			901
Issuance of stock under employee stock purchase plan	281	24,044			24,044
Issuance of restricted stock	637				
Repurchase of common stock	(1,149)	(134,776)			(134,776)
Tax benefit from employee stock transactions		9,500			9,500
Stock-based compensation		69,005			69,005
Comprehensive income:					
Net income				207,469	
Foreign currency translation adjustment			(460)		
Unrealized gain on securities, net of tax			1,049		
Comprehensive income					208,058
Balance, June 30, 2012	79,013	$ 349,411	$ (5,833)	$ 938,590	$ 1,282,168

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

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F5 NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Nine months ended June 30, 2012	Nine months ended June 30, 2011
Operating activities		
Net income	$ 207,469	$ 173,787
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized loss (gain) on disposition of assets and investments	552	(203)
Stock-based compensation	69,005	67,613
Provisions for doubtful accounts and sales returns	1,061	453
Depreciation and amortization	24,987	15,715
Deferred income taxes	(1,057)	(387)
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	(28,229)	(43,062)
Inventories	111	874
Other current assets	(13,852)	8,452
Other assets	(244)	(365)
Accounts payable and accrued liabilities	(3,089)	10,086
Deferred revenue	90,168	62,481
Net cash provided by operating activities	346,882	295,444
Investing activities		
Purchases of investments	(780,493)	(692,812)
Maturities of investments	636,010	548,789
Sales of investments	24,519	80,977
Increase in restricted cash	(30)	(406)
Acquisition of intangible assets	(250)	(80)
Acquisition of businesses, net of cash acquired	(128,335)	
Purchases of property and equipment	(18,544)	(20,544)
Net cash used in investing activities	(267,123)	(84,076)
Financing activities		
Excess tax benefit from stock-based compensation	9,426	20,221
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	24,942	21,131
Repurchase of common stock	(134,776)	(121,526)
Net cash used in financing activities	(100,408)	(80,174)
Net (decrease) increase in cash and cash equivalents	(20,649)	131,194
Effect of exchange rate changes on cash and cash equivalents	(528)	(144)
Cash and cash equivalents, beginning of period	216,784	168,754
Cash and cash equivalents, end of period	$ 195,607	$ 299,804

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

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F5 NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Summary of Significant Accounting Policies

Description of Business

F5 Networks, Inc. (the Company) provides products and services to help companies manage their Internet Protocol (IP) traffic and file storage infrastructure efficiently and securely. The Company s application delivery networking products improve the performance, availability and security of applications on Internet-based networks. Internet traffic between network-based applications and clients passes through these devices where the content is inspected to ensure that it is safe and modified as necessary to ensure that it is delivered securely and in a way that optimizes the performance of both the network and the applications. The Company s storage virtualization products simplify and reduce the cost of managing files and file storage devices, and ensure fast, secure, easy access to files for users and applications. With the purchase of Traffix Communication Systems Ltd. (Traffix Systems) in February 2012, the Company acquired a line of Diameter signaling products that enable full connectivity, enhanced scalability, and comprehensive control for telecommunications operators. These products enable operators to control their signaling networks effectively in the migration to next-generation networks and in future expansion of their subscriber bases and service portfolios. The Company also offers a broad range of services that include consulting, training, maintenance and other technical support services.

Basis of Presentation

The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, the unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for their fair statement in conformity with accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission. The information included in this Form 10-Q should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Certain reclassifications have been made to the prior year s financial statements to conform to the fiscal year 2012 presentation. Such reclassifications did not affect total revenues, operating income or net income.

Revenue Recognition

The Company sells products through distributors, resellers, and directly to end users. Revenue is recognized provided that all of the following criteria have been met:

- Persuasive evidence of an arrangement exists. Evidence of an arrangement generally consists of a purchase order issued pursuant to the terms and conditions of a distributor, reseller or end user agreement.

- Delivery has occurred. The Company uses shipping or related documents, or written evidence of customer acceptance, when applicable, to verify delivery or completion of any performance terms.

- The sales price is fixed or determinable. The Company assesses whether the sales price is fixed or determinable based on payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.

Collectability is reasonably assured. The Company assesses collectability primarily based on the creditworthiness of the customer as determined by credit checks and related analysis, as well as the Customer s payment history.

In certain regions where the Company does not have the ability to reasonably estimate returns, the Company defers revenue on sales to its distributors until they have received information from the channel partner indicating that the product has been sold to the end-user customer. Payment terms to domestic customers are generally net 30 days to net 45 days. Payment terms to international customers range from net 30 days to net 120 days based on normal and customary trade practices in the individual markets. The Company offers extended payment terms to certain customers, in which case, revenue is recognized when payments are due.

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Whenever product, training services and post-contract customer support (PCS) elements are sold together, a portion of the sales price is allocated to each element based on their respective fair values as determined when the individual elements are sold separately. Revenue from the sale of products is recognized when the product has been shipped and the customer is obligated to pay for the product. When rights of return are present and the Company cannot estimate returns, it recognizes revenue when such rights of return lapse. Revenues for PCS are recognized on a straight-line basis over the service contract term. PCS includes a limited period of telephone support updates, repair or replacement of any failed product or component that fails during the term of the agreement, bug fixes and rights to upgrades, when and if available. Consulting services are customarily billed at fixed hourly rates, plus out-of-pocket expenses, and revenues are recognized when the consulting has been completed. Training revenue is recognized when the training has been completed.

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for revenue recognition to remove from the scope of industry-specific software revenue recognition guidance any tangible products containing software components and non-software components that operate together to deliver the products essential functionality. In addition, the FASB amended the accounting standards for certain multiple element revenue arrangements to:

Provide updated guidance on whether multiple elements exist, how the elements in an arrangement should be separated, and how the arrangement consideration should be allocated to the separate elements;

Require an entity to allocate arrangement consideration to each element based on a selling price hierarchy, where the selling price for an element is based on vendor-specific objective evidence (VSOE), if available, third-party evidence (TPE), if available and VSOE is not available; or the best estimate of selling price (BESP), if neither VSOE or TPE is available; and

Eliminate the use of the residual method and require an entity to allocate arrangement consideration using the selling price hierarchy.

The majority of the Company s products are hardware appliances which contain software essential to the overall functionality of the products. Accordingly, the Company no longer recognizes revenue on sales of these products in accordance with the industry-specific software revenue recognition guidance.

For all transactions entered into prior to the first quarter of fiscal year 2011 and for sales of nonessential and stand-alone software after October 1, 2010, the Company allocates revenue for arrangements with multiple elements based on the software revenue recognition guidance. Software revenue recognition guidance requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of those elements. The fair value of an element must be based on VSOE. Where fair value of certain elements is not available, revenue is recognized on the residual method based on the fair value of undelivered elements. If evidence of the fair value of one or more undelivered elements does not exist, all revenue is deferred and recognized at the earlier of the delivery of those elements or the establishment of fair value of the remaining undelivered elements.

For transactions entered into subsequent to the adoption of the amended revenue recognition standards that are multiple-element arrangements, the arrangement consideration is allocated to each element based on the relative selling prices of all of the elements in the arrangement using the fair value hierarchy in the amended revenue recognition guidance.

Consistent with the methodology used under the previous accounting guidance, the Company establishes VSOE for its products, training services, PCS and consulting services based on the sales price charged for each element when sold separately. The sales price is discounted from the applicable list price based on various factors including the type of customer, volume of sales, geographic region and program level. The Company s list prices are generally not fair value as discounts may be given based on the factors enumerated above. The Company believes that the fair value of its consulting services is represented by the billable consulting rate per hour, based on the rates they charge customers when they purchase standalone consulting services. The price of consulting services is not based on the type of customer, volume of sales, geographic region or program level.

The Company uses historical sales transactions to determine whether VSOE can be established for each of the elements. In most instances, VSOE of fair value is the sales price of actual standalone (unbundled) transactions within the past 12 month period that are priced within a reasonable range, which the Company has determined to be plus or minus 15% of the median sales price of each respective price list.

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VSOE of PCS is based on standalone sales since the Company does not provide stated renewal rates to its customers. In accordance with the Company s PCS pricing practice (supported by standalone renewal sales), renewal contracts are priced as a percentage of the undiscounted product list price. The PCS renewal percentages may vary, depending on the type and length of PCS purchased. The Company offers standard and premium PCS, and the term generally ranges from one to three years. The Company employs a bell-shaped-curve approach in evaluating VSOE of fair value of PCS. Under this approach, the Company considers VSOE of the fair value of PCS to exist when a substantial majority of its standalone PCS sales fall within a narrow range of pricing.

The Company is typically not able to determine TPE for its products or services. TPE is determined based on competitor prices for similar elements when sold separately. Generally, the Company s go-to-market strategy differs from that of other competitive products or services in its markets and the Company s offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine the selling prices on a stand-alone basis of similar products offered by its competitors.

When the Company is unable to establish selling price of its non-software elements using VSOE or TPE, the Company uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company is generally not able to establish VSOE for non-software product sales. Under software revenue recognition guidance, these product sales were accounted for utilizing the residual method. With the adoption of the new revenue recognition guidance, the Company has been able to establish BESP for non-software product sales through the list price, less a discount deemed appropriate to maintain a reasonable gross margin. Management regularly reviews the gross margin information. Non-software product BESP is determined through our review of historical sales transactions within the past 12 month period. Additional factors considered in determining an appropriate BESP include, but are not limited to, cost of products, pricing practices, geographies, customer classes, and distribution channels.

The Company has established and regularly validates the VSOE of fair value and BESP for elements in its multiple element arrangements. The Company accounts for taxes collected from customers and remitted to governmental authorities on a net basis and excluded from revenues.

Goodwill

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. The Company tests goodwill for impairment on an annual basis and between annual tests when impairment indicators are identified, and goodwill is written down when impaired. Goodwill was recorded in connection with the acquisition of Traffix Systems in fiscal year 2012, Acopia Networks, Inc. in fiscal year 2007, Swan Labs, Inc. in fiscal year 2006, MagniFire Websystems, Inc. in fiscal year 2004 and uRoam, Inc. in fiscal year 2003. The Company performs its annual goodwill impairment test during the second fiscal quarter.

In September 2011, the FASB approved changes to the goodwill impairment guidance which are intended to reduce the cost and complexity of the annual impairment test. The changes provide entities the option to perform a qualitative assessment to determine whether further impairment testing is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.

The revised guidance includes examples of events and circumstances that might indicate that a reporting unit s fair value is less than its carrying amount. These include macro-economic conditions such as deterioration in the entity s operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers.

The changes are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, earlier adoption is permitted. The Company opted to early adopt this guidance for its annual goodwill impairment test performed in the second quarter of fiscal 2012.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the provisions of authoritative guidance require that the Company perform a two-step impairment test on goodwill. The first step of the test identifies whether potential impairment may have occurred, while the second step of the test measures the amount of the impairment, if any. Impairment is recognized when the carrying amount of goodwill exceeds its fair value. For its annual goodwill impairment analysis, the Company operates under one reporting unit and determines the fair value of its

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reporting unit based on the Company s enterprise value. In March 2012, the Company completed a qualitative assessment of potential impairment indicators and concluded that it was more-likely-than-not that the fair value of its reporting unit exceeded its carrying amount.

Stock-Based Compensation

The Company accounts for stock-based compensation using the straight-line attribution method for recognizing compensation expense. The Company recognized $23.5 million and $22.9 million of stock-based compensation expense for the three months ended June 30, 2012 and 2011, respectively, and $69.0 million and $67.6 million for the nine months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, there was $83.9 million of total unrecognized stock-based compensation cost, the majority of which will be recognized over the next two years. Going forward, stock-based compensation expenses may increase as the Company issues additional equity-based awards to continue to attract and retain key employees.

The Company issues incentive awards to its employees through stock-based compensation consisting of restricted stock units (RSUs). On July 30, 2012, the Company s Compensation Committee approved 789,225 RSUs to non-executive officer employees pursuant to the Company s annual equity awards program. The value of RSUs is determined using the fair value method, which in this case, is based on the number of shares granted and the quoted price of the Company s common stock on the date of grant.

The Company recognizes compensation expense for only the portion of restricted stock units that are expected to vest. Therefore, the Company applies estimated forfeiture rates that are derived from historical employee termination behavior. Based on historical differences with forfeitures of stock-based awards granted to the Company s executive officers and Board of Directors versus grants awarded to all other employees, the Company has developed separate forfeiture expectations for these two groups. The Company s estimated forfeiture rate in the third quarter of fiscal year 2012 is 6.2% for grants awarded to the Company s executive officers and Board of Directors, and 8.7% for grants awarded to all other employees. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

In November 2011, as part of the annual review of executive compensation by the Compensation Committee of the Board of Directors and a change in the grant date for the Company s annual equity awards program for the executive officers, the Company granted 82,968 RSUs to certain current executive officers. Fifty percent of the aggregate number of RSUs vest in equal quarterly increments over three years, until such portion of the grant is fully vested on November 1, 2014. One-sixth of the RSU grant, or a portion thereof, is subject to the Company achieving specified quarterly revenue and EBITDA goals during fiscal year 2012. In each case, 50% of the quarterly performance stock grant is based on achieving at least 80% of the quarterly revenue goal and the other 50% is based on achieving at least 80% of the quarterly EBITDA goal. The quarterly performance stock grant is paid linearly above 80% of the targeted goals. At least 100% of both goals must be attained in order for the quarterly performance stock grant to be awarded over 100%. Each goal is evaluated individually and subject to the 80% achievement threshold and 100% over-achievement threshold. The remaining 33.33% of this annual equity awards RSU grant shall be subject to quarterly performance based vesting for fiscal years 2013 and 2014 (16.66% in each period). The Compensation Committee of the Board of Directors will set applicable performance targets and vesting formulas for each of these periods.

In August 2011, the Company granted 170,390 RSUs to certain current executive officers as part of the annual equity awards program. Fifty percent of the aggregate number of RSUs granted as part of the annual equity awards program vest in equal quarterly increments over three years, until such portion of the grant is fully vested on August 1, 2014. One-sixth of the annual equity awards RSU grant, or a portion thereof, was subject to the Company achieving specified quarterly revenue and EBITDA goals during the period beginning in the fourth quarter of fiscal year 2011 through the third quarter of fiscal year 2012. In each case, 50% of the quarterly performance stock grant is based on achieving at least 80% of the quarterly revenue goal and the other 50% is based on achieving at least 80% of the quarterly EBITDA goal. The quarterly performance stock grant is paid linearly above 80% of the targeted goals. At least 100% of both goals must be attained in order for the quarterly performance stock grant to be awarded over 100%. Each goal is evaluated individually and subject to the 80% achievement threshold and 100% over-achievement threshold. The remaining 33.33% of this annual equity awards RSU grant shall be subject to performance based vesting for each of the four quarter periods beginning with the fourth quarters of fiscal years 2012 and 2013 (16.66% in each period). The Compensation Committee of the Board of Directors will set applicable performance targets and vesting formulas for each of these periods.

In August 2010, the Company granted 181,334 and 83,000 RSUs to certain current executive officers as part of the annual equity and retention awards programs, respectively. Fifty percent of the aggregate number of RSUs granted as part of the annual equity awards program vest in equal quarterly increments over three years, until such portion of the grant is fully vested on August 1, 2013. One-sixth of the annual equity awards RSU grant, or a portion thereof, was subject to the Company achieving specified quarterly revenue and EBITDA goals during the period beginning in the fourth quarter of fiscal year 2010 through the third quarter of fiscal year 2011. In each case, 50% of the quarterly performance stock grant is based on achieving at least 80% of the quarterly revenue goal and the other 50% is based on achieving at least 80% of the quarterly EBITDA goal. The quarterly performance stock grant is paid linearly above 80% of the targeted goals. At least 100% of both goals must be attained in order for the quarterly performance stock grant to be awarded over 100%. Each goal is evaluated individually and subject to the 80% achievement threshold and 100% over-achievement threshold. The remaining 33.33% of this annual equity awards RSU grant shall be subject to performance based vesting for each of the four quarter periods beginning with the fourth quarters of fiscal years 2011 and 2012 (16.66% in each period). The Compensation Committee of the Board of Directors will set applicable performance targets and vesting formulas for each of these periods. All RSUs granted as part of the retention awards program fully vest on August 1, 2013.

The Company recognizes compensation costs for awards with performance conditions when it concludes it is probable that the performance condition will be achieved. The Company reassesses the probability of vesting at each balance sheet date and adjusts compensation costs based on the probability assessment.

Common Stock Repurchase

On October 25, 2011, the Company announced that its Board of Directors authorized an additional $200 million for its common stock share repurchase program. This new authorization is incremental to the existing $400 million program, initially approved in October 2010 and expanded in August 2011. Acquisitions for the share repurchase programs will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time. As of August 2, 2012, the Company had repurchased and retired 8,725,125 shares at an average price of $65.74 per share and the Company had $226.0 million remaining to purchase shares as part of its repurchase programs.

Earnings Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common and dilutive common stock equivalent shares outstanding during the period. The Company s nonvested restricted stock awards and restricted stock units do not have nonforfeitable rights to dividends or dividend equivalents.

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share data):

	Three months ended June 30,		Nine months ended June 30,	
	2012	**2011**	**2012**	**2011**
Numerator				
Net income	$ 72,336	$ 62,549	$ 207,469	$ 173,787
Denominator				
Weighted average shares outstanding basic	79,135	80,866	79,188	80,773
Dilutive effect of common shares from stock options and restricted stock units	520	631	646	882
Weighted average shares outstanding diluted	79,655	81,497	79,834	81,655
Basic net income per share	$ 0.91	$ 0.77	$ 2.62	$ 2.15
Diluted net income per share	$ 0.91	$ 0.77	$ 2.60	$ 2.13

An immaterial amount of common shares potentially issuable from stock options for the three and nine months ended June 30, 2012 and 2011, are excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of common stock for the respective period.

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Comprehensive Income

Comprehensive income includes certain changes in equity that are excluded from net income. Specifically, unrealized gains (losses) on securities and foreign currency translation adjustments are included in accumulated other comprehensive loss. Comprehensive income and its components were as follows (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Net Income	$ 72,336	$ 62,549	$ 207,469	$ 173,787
Unrealized gain on securities, net of tax	516	1,273	1,049	310
Foreign currency translation adjustment	(287)	(101)	(460)	(529)
Total comprehensive income	$ 72,565	$ 63,721	$ 208,058	$ 173,568

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU 2011-04), which amends current fair value measurement and disclosure guidance to converge with International Financial Reporting Standards (IFRS) and provides increased transparency around valuation inputs and investment categorization. The Company adopted ASU 2011-04 in the second quarter of fiscal 2012. The adoption of ASU 2011-04 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income, Presentation of Comprehensive Income* (ASU 2011-05), which eliminates the option of presenting other comprehensive income as part of the statement of changes in stockholders equity and instead requires the entity to present other comprehensive income as either a single statement of comprehensive income combined with net income or as two separate but continuous statements. The amendments in this standard are to be applied retrospectively and are effective for fiscal years, and interim periods within those years beginning after December 15, 2011. The Company will adopt ASU 2011-05 in the first quarter of fiscal 2013 and does not expect the adoption of this standard to have an impact on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12), which defers the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to other comprehensive income. No other requirements in ASU 2011-05 are affected by this deferral. Similar to ASU 2011-05, the Company will adopt ASU 2011-12 in the first quarter of fiscal 2013 and does not expect the adoption of this standard to have an impact on its consolidated financial statements.

2. Fair Value Measurements

In accordance with the authoritative guidance on fair value measurements and disclosure under GAAP, the Company determines fair value using a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity, and the reporting entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances and expands disclosure about fair value measurements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date, essentially the exit price.

The levels of fair value hierarchy are:

Level 1: Quoted prices in active markets for identical assets and liabilities at the measurement date.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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Level 3: Unobservable inputs for which there is little or no market data available. These inputs reflect management s assumptions of what market participants would use in pricing the asset or liability.

Level 1 investments are valued based on quoted market prices in active markets and include the Company s cash equivalent investments. Level 2 investments, which include investments that are valued based on quoted prices in markets that are not active, broker or dealer quotations, actual trade data, benchmark yields or alternative pricing sources with reasonable levels of price transparency, include the Company s certificates of deposit, corporate bonds and notes, municipal bonds and notes, U.S. government securities and U.S. government agency securities. Fair values for the Company s level 2 investments are based on similar assets without applying significant judgments. In addition, all of the Company s level 2 investments have a sufficient level of trading volume to demonstrate that the fair values used are appropriate for these investments.

A financial instrument s level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable requires significant judgment by the Company. The Company considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Company s financial assets measured at fair value on a recurring basis subject to the disclosure requirements at June 30, 2012, were as follows (in thousands):

		Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Securities (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value at June 30, 2012**
Cash equivalents		$ 30,135	$	$	$ 30,135
Short-term investments					
Available-for-sale securities	certificates of deposit		3,536		3,536
Available-for-sale securities	corporate bonds and notes		175,658		175,658
Available-for-sale securities	municipal bonds and notes		53,227		53,227
Available-for-sale securities	U.S. government agency securities		91,629		91,629
Long-term investments					
Available-for-sale securities	corporate bonds and notes		173,580		173,580
Available-for-sale securities	municipal bonds and notes		35,185		35,185
Available-for-sale securities	U.S. government securities		4,978		4,978
Available-for-sale securities	U.S. government agency securities		364,492		364,492
Available-for-sale securities	auction rate securities			9,107	9,107
Total		$ 30,135	$ 902,285	$ 9,107	$ 941,527

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The Company s financial assets measured at fair value on a recurring basis subject to the disclosure requirements at September 30, 2011, were as follows (in thousands):

		Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2011
Cash equivalents		$ 33,740	$	$	$ 33,740
Short-term investments					
Available-for-sale securities	corporate bonds and notes		137,156		137,156
Available-for-sale securities	municipal bonds and notes		82,715		82,715
Available-for-sale securities	U.S. government securities		799		799
Available-for-sale securities	U.S. government agency securities		105,096		105,096
Long-term investments					
Available-for-sale securities	corporate bonds and notes		141,150		141,150
Available-for-sale securities	municipal bonds and notes		30,714		30,714
Available-for-sale securities	U.S. government agency securities		285,329		285,329
Available-for-sale securities	auction rate securities			13,010	13,010
Total		$ 33,740	$ 782,959	$ 13,010	$ 829,709

Due to the auction failures of the Company s auction rate securities (ARS) that began in the second quarter of fiscal year 2008, there are still no quoted prices in active markets for similar assets as of June 30, 2012. Therefore, the Company has classified its ARS as level 3 financial assets. The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3) (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 13,193	$ 16,380	$ 13,010	$ 16,043
Total gains realized or unrealized:				
Included in other comprehensive income	914	610	1,097	947
Settlements	(5,000)	(4,000)	(5,000)	(4,000)
Balance, end of period	$ 9,107	$ 12,990	$ 9,107	$ 12,990
Unrealized gains attributable to assets still held as of end of period	914	610	1,097	947

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable or there is limited market activity such that the determination of fair value requires significant judgment or estimation. Level 3 investment securities primarily include certain ARS for which there was a decrease in the observation of market pricing. At June 30, 2012, the values of these securities were estimated primarily using discounted cash flow analysis that incorporated transaction details such as contractual terms, maturity, timing and amount of future cash flows, as well as assumptions about liquidity and credit valuation adjustments of marketplace participants at June 30, 2012. Significant fluctuations in any of these inputs in isolation would result in changes in the fair value of the Company s ARS.

The Company uses the fair value hierarchy for financial assets and liabilities. The Company s non-financial assets and liabilities, which include goodwill, intangible assets, and long-lived assets, are not required to be carried at fair value on a recurring basis. These non-financial assets and liabilities are measured at fair value on a non-recurring basis when there is an indicator of impairment, and they are recorded at fair value only when impairment is recognized. The Company reviews goodwill and intangible assets for impairment annually, during the second quarter of each fiscal year, or as circumstances indicate the possibility of impairment. The

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Company monitors the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate its carrying amount may not be recoverable. During the three and nine months ended June 30, 2012, the Company did not recognize any impairment charges related to goodwill, intangible assets, or long-lived assets.

3. Short-Term and Long-Term Investments

Short-term investments consist of the following (in thousands):

June 30, 2012	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 3,543	$	$ (7)	$ 3,536
Corporate bonds and notes	175,279	419	(40)	175,658
Municipal bonds and notes	53,167	68	(8)	53,227
U.S. government agency securities	91,617	20	(8)	91,629
	$ 323,606	$ 507	$ (63)	$ 324,050

September 30, 2011	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 137,087	$ 251	$ (182)	$ 137,156
Municipal bonds and notes	82,687	62	(34)	82,715
U.S. government securities	799			799
U.S. government agency securities	105,050	55	(9)	105,096
	$ 325,623	$ 368	$ (225)	$ 325,766

Long-term investments consist of the following (in thousands):

June 30, 2012	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 173,466	$ 401	$ (287)	$ 173,580
Municipal bonds and notes	35,050	140	(5)	35,185
Auction rate securities	10,000		(893)	9,107
U.S. government securities	4,981		(3)	4,978
U.S. government agency securities	364,509	109	(126)	364,492
	$ 588,006	$ 650	$ (1,314)	$ 587,342

September 30, 2011	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and notes	$ 141,315	$ 415	$ (580)	$ 141,150
Municipal bonds and notes	30,575	151	(12)	30,714
Auction rate securities	15,000		(1,990)	13,010

U.S. government agency securities	285,334	164	(169)	285,329
	$ 472,224	$ 730	$ (2,751)	$ 470,203

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The amortized cost and fair value of fixed maturities at June 30, 2012, by contractual years-to-maturity, are presented below (in thousands):

	Cost or Amortized Cost	Fair Value
One year or less	$ 323,606	$ 324,050
Over one year	588,006	587,342
	$ 911,612	$ 911,392

The cost or amortized cost values of the Company s fixed maturities include $10.0 million and $15.0 million of available-for-sale ARS as of June 30, 2012 and September 30, 2011, respectively.

The following table summarizes investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of June 30, 2012 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
June 30, 2012	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Certificates of deposit	$ 3,536	$ (7)	$	$	$ 3,536	$ (7)
Corporate bonds and notes	119,914	(272)	12,221	(55)	132,135	(327)
Municipal bonds and notes	13,020	(13)			13,020	(13)
Auction rate securities			9,107	(893)	9,107	(893)
U.S. government securities	4,978	(3)			4,978	(3)
U.S. government agency securities	236,738	(134)			236,738	(134)

Total $14,050 $(3,711) $24,204 $(28,314)

13. Subsequent events

On October 30, 2009, the Company announced a cash dividend of $0.11 per share (totaling $1.4 million) payable on November 27, 2009 to Class A and Class B shareholders of record on November 13, 2009.

The Company has performed an evaluation of subsequent events through November 5, 2009, the filing date of this Quarterly Report on Form 10-Q.

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

The Company s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Reference is also made to the Company s consolidated financial statements and notes thereto found in its Annual Report on Form 10-K for the year ended December 31, 2008.

Oppenheimer Holdings Inc. (the Company) engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public), research, market-making, securities lending activities, trust services and investment advisory and asset management services. Its principal subsidiaries are Oppenheimer & Co. Inc. (Oppenheimer) and Oppenheimer Asset Management (OAM). As at September 30, 2009, the Company provided its services from 94 offices in 26 states located throughout the United States, offices in Tel Aviv, Israel, Hong Kong, China, and London, England and in two offices in Latin America through local broker-dealers. Client assets entrusted to the Company as at September 30, 2009 totaled approximately $64.0 billion. The Company provides investment advisory services through OAM and Oppenheimer Investment Management (OIM) and Oppenheimer s Fahnestock Asset Management and OMEGA Group divisions. The Company provides trust services and products through Oppenheimer Trust Company. The Company provides discount brokerage services through Freedom and through BUYandHOLD, a division of Freedom Investments, Inc. Through OPY Credit Corp., the Company offers syndication as well as trading of issued corporate loans. Evanston Financial Corporation is engaged in mortgage brokerage and servicing. At September 30, 2009, client assets under management by the asset management groups totaled $15.4 billion. At September 30, 2009, the Company employed 3,631 employees (3,563 full time and 68 part time), including approximately 1,481 financial advisers.

Critical Accounting Policies

The Company s accounting policies are essential to understanding and interpreting the financial results reported in the condensed consolidated financial statements. The significant accounting policies used in the preparation of the Company s condensed consolidated financial statements are summarized in notes 1 and 2 to the Company s consolidated financial statements and notes thereto found in its Annual Report on Form 10-K for the year ended December 31, 2008. Certain of those policies are considered to be particularly important to the presentation of the Company s financial results because they require management to make difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain.

During the three months ended September 30, 2009, there were no material changes to matters discussed under the heading Critical Accounting Policies in Part II, Item 7 of the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Business Environment

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

The U.S economy began to emerge from recession during the third quarter of 2009. While employment continued to deteriorate (albeit at lower rates of decline) other indicators showed improvement including: increased manufacturing activity, higher commodity prices and higher end sales to consumers and businesses and the fact that housing prices appear to be stabilizing. These factors are likely to lead to a sustainable recovery. The markets continued to respond to these improved conditions with equities showing gains of over 50% since the March 2009 lows.

These improving market conditions as well as greater investor confidence have led to overall revenue improvements for the Company in each successive quarter of 2009. Revenue from commissions and principal transactions in the three and nine months ended September 30, 2009 surpassed levels achieved in comparable periods in 2008 as a result of the effects of rising equity prices and the credit markets recovery from the distressed levels of 2008 and the early months of 2009. Revenue from investment banking activities continues at a slow pace as many mid-sized companies continue to face restricted access to the capital markets. Net interest revenue for the company, as well as fees derived from money funds and FDIC insured deposits of clients, have been adversely affected by the low interest rate policies that have been designed to stimulate the economy. Asset management advisory fees declined in the third quarter when compared to the prior year based on the lower value of underlying assets at the commencement of the period.

It is possible that the conditions described in the immediately preceding two paragraphs will continue to affect issuance, pricing and activity levels of the leveraged loan market which in turn will affect merger and acquisition activity, and security issuance by corporations and public issuers and may hamper investment banking activity and negatively impact the business of the Company, although such conditions appear to be easing.

As previously reported, the Company acquired a major part of CIBC World Markets U.S. Capital Markets Businesses on January 14, 2008, including U.S. Investment Banking, Corporate Syndicate, Institutional Sales and Trading, Equity Research, Options Trading, Convertible Bond Trading, Loan Syndication, High Yield Origination and Trading as well as related Israeli and United Kingdom equities business and Hong Kong investment banking businesses (the New Capital Markets Business). The New Capital Markets Business, including the international operations acquired, along with the Company s existing Investment Banking, Corporate Syndicate, Institutional Sales and Trading and Equities Research divisions, were combined to form the Oppenheimer Investment Banking Division (OIB Division) within the Capital Markets business segment. The results of the OIB Division will be tracked for the five years following the acquisition for purposes of determining payments due to CIBC as part of the purchase price.

The Company is not involved in the origination of sub-prime mortgages, Commercial Mortgage Backed Securities (CMBS), or Credit Default Swaps (CDS) but does, on a limited basis, participate in the secondary trading of these financial instruments.

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

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agent for ARS nor does it have a significant exposure in its proprietary accounts. Overall, approximately 50% of outstanding ARS have been redeemed at par (100% of issue value) plus accrued dividends by their issuers thus reducing the scope of the issue for clients and the Company. There is no way to predict the pace of future redemptions or whether all of these securities will be redeemed by their issuers. There has been pressure by regulators for financial services firms to redeem ARS held by clients. Large firms who were underwriters and auction agents for failed ARS (as well as some smaller firms that were not underwriters or auction agents) have made settlements with regulators generally involving the redemption of ARS with their own funds for some classes of firm clients. A number of other firms, such as the Company, who were not underwriters or auction agents, have not made settlements and their clients continue to hold ARS where they have not been redeemed by the issuers of the securities. A small number of firms have been the subject of ongoing lawsuits or regulatory proceedings by various regulators (including the Company by the Massachusetts Securities Division as discussed below) brought to compel the repurchase of client ARS. The Company is not aware of any ARS contested regulatory proceeding where a final determination has been rendered.

The Company s clients held at Oppenheimer approximately $692 million of ARS at October 31, 2009, exclusive of amounts that 1) were owned by Qualified Institutional Buyers (QIBs), 2) were transferred into the Company by clients from other custodians, 3) were purchased by clients after February 2008, or 4) were transferred by clients from the Company to other custodians after February 2008. This represents a decrease of $48 million from amounts that our clients held as of July 31, 2009 as a result of redemptions and refinancings of such securities by the issuers of ARS. Overall, including clients enumerated in 1), 2) and 3) above, approximately $1.1 billion of ARS were held in client accounts at Oppenheimer at October 31, 2009. The Company has no method of determining the amount currently held by clients that were transferred to other custodians.

The Company continues to review this situation and explore options to help bring liquidity to the Company s clients holding ARS. The Company is reviewing various programs initiated by the U.S. government to restore liquidity to the markets. The Company has taken or is considering taking various actions to facilitate the purchase of client-held ARS including filing an amendment to the charter of Oppenheimer Trust Company to become a depository bank eligible for FDIC insurance as well as to obtain access to the US Federal Reserve Discount Window; filing an application with the FDIC for Oppenheimer Trust Company to obtain deposit insurance; filing an application with the Federal Reserve for the Company to become a bank holding company; and filing applications on behalf of Oppenheimer Trust Company and Oppenheimer Holdings to participate in the US Treasury Capital Purchase Program.

Based on presently available information, the Company believes that becoming a commercial bank is of limited value in providing a liquidity solution to a large group of the Company s clients. Accordingly, the Company is seeking a more extensive solution and is exploring various means of accessing federal lending facilities, including facilities accessible by primary dealers in U.S. Government & Agency securities as well as other lending facilities. In addition, the Company has urged legislative and Treasury Department officials to include ARS as an eligible asset for inclusion in the Trouble Asset Lending Facility. The Company is actively engaged in a process to utilize one or more of these facilities to solve the ARS issue to the extent these facilities become accessible. However, these facilities are currently not accessible by the Company and there is no guarantee that these federal lending facilities will remain in existence or that the Company will be able to access any of these facilities in the future in order to resolve the ARS liquidity issue. Officials of the Executive branch of the U.S. Government and of the Federal Reserve Board have announced their intention to limit or close down the operation of various emergency facilities and programs that were instituted over the past 14 months to address the emergency conditions

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brought on by the recent global recession and credit market illiquidity. Any pre-mature closing of the facilities described above would significantly affect the Company s ability to access liquidity sources for the redemption of client held ARS. The Company has no view as to the likelihood of this occurring.

On May 8, 2009, the Company s shareholders voted to move the Company s jurisdiction of incorporation from Canada to the State of Delaware (U.S.A.). The move was effective on May 11, 2009. The Company believes that this change may, among other things, potentially allow the Company to avail itself of various programs sponsored by the U.S. Treasury and the FDIC which may be available only to U.S.-based companies. As noted above, however, despite this change, the Company has not been able to access any federal lending facility or program that would provide an extensive solution to its clients ARS illiquidity and there is no guarantee it will be able to do so in the future.

Although the Company has not been able to access any federal funding facility or program, the Company still believes that one or more of these programs might in the future under certain circumstances provide the liquidity necessary to permit the Company to redeem ARS from its clients. If the Company were to purchase all of the ARS held by former or current clients who purchased such securities prior to the market s failure in February 2008, these purchases would have a material adverse effect on the Company s financial condition including its cash position. Therefore, before purchasing any of these securities, the Company would need to assess whether it had sufficient regulatory capital or borrowing capacity to do so; at present the Company does not have such capacity. The Company does not currently believe that it is obligated to make any such purchases. See RISK FACTORS The Company may be adversely affected by the failure of the Auction Rate Securities Market appearing in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 and Factors Affecting Forward-Looking Statements .

The Company is focused on growing its private client and asset management businesses through strategic additions of experienced financial advisors in its existing branch system and employment of experienced money management personnel in its asset management business. The Company has also taken advantage of the current market environment to add experienced professionals across its Capital Markets businesses and intends to continue doing so as conditions permit. In addition, the Company is committed to the improvement of its technology capability to support client service and the expansion of its capital markets capabilities while addressing the issue of managing its expenses to better align them with the current investment environment.

Regulatory Environment

The brokerage business is subject to regulation by, among others, the SEC and FINRA (formerly the NYSE and NASD) in the United States, the Financial Services Authority (FSA) in the United Kingdom, the Israeli Securities Authority (ISA) in Israel and various state securities regulators. Events in recent years surrounding corporate accounting and other activities leading to investor losses resulted in the enactment of the Sarbanes-Oxley Act and have caused increased regulation of public companies. The events of the past two years relating to risk have resulted in proposals for further increased regulation of public companies. New regulations and new interpretations and enforcement of existing regulations are creating increased costs of compliance and increased investment in systems and procedures to comply with these more complex and onerous requirements. Increasingly, the various states are imposing their own regulations that make the uniformity of regulation a thing of the past, and make compliance more difficult and more expensive to monitor. FINRA has recently completed the unification and codification of its legacy NYSE and NASD rules. Recent events connected to the worldwide credit crisis, has made it highly likely the

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self-regulatory framework for financial institutions will be changed in the United States. The changes are likely to significantly reduce leverage available to financial institutions and increase the transparency of risks taken by such institutions to regulators and investors. It is impossible to presently predict the nature of such rulemaking, but, when enacted, such regulations will likely reduce returns earned by financial service providers.

In addition, the Federal Reserve (in connection with its regulatory oversight over banks) and the Pay Czar appointed by the U.S. Treasury with respect to institutions receiving extraordinary assistance from U.S. taxpayers, have announced programs to institute pay reforms for financial institutions that will limit cash compensation and extend payment periods for employee bonuses including the payment of equity based compensation in lieu of cash. Several members of the U.S. Congress have announced their intention to adopt similar forms of executive pay limitations on all publicly traded companies. At present none of the programs announced will affect the Company, but widespread programs affecting publicly traded companies could impact the Company s ability to retain key employees or affect shareholders through dilution created by the issuance of additional shares to employees in lieu of cash.

The impact of the rules and requirements that were created by the passage of the Patriot Act, and the anti-money laundering regulations (AML) in the U.S. and similar laws in other countries that are related thereto have created significant costs of compliance and can be expected to continue to do so. Intervention by governments and monetary authorities around the world as a result of the current credit market dislocations will most likely result in new regulations around the world that will significantly reduce the availability of leverage to the balance sheets of financial institutions. It is impossible to predict the impact or costs associated with these yet to be announced programs and regulations.

Pursuant to FINRA Rule 3130 (formerly NASD Rule 3013 and NYSE Rule 342), the chief executive officers (CEOs) of regulated broker-dealers are required to certify that their companies have processes in place to establish and test policies and procedures reasonably designed to achieve compliance with federal securities laws and regulations, including applicable regulations of self-regulatory organizations. The CEO of the Company is required to make such a certification on an annual basis and did so on March 18, 2009.

Other Regulatory Matters

Oppenheimer has been responding to the SEC, FINRA and several state regulators as part of an industry-wide review of the marketing and sale of auction rate securities (ARS). The Company has answered several document requests and subpoenas and there have been on-the-record interviews of Company personnel. The Company is continuing to cooperate with the investigating entities. On November 18, 2008, the Massachusetts Securities Division filed an Administrative Complaint (the Complaint), captioned *In the Matter of Oppenheimer & Co. Inc., Albert Lowenthal, Robert Lowenthal and Greg White*, Docket No. 2008-0080, alleging violations of the Massachusetts General Law, the Massachusetts Uniform Securities Act and regulations thereunder with respect to the sale by Oppenheimer of ARS to its clients. The Complaint alleges, inter alia, that Oppenheimer improperly misrepresented the nature of ARS and the overall stability and health of the ARS market. The Complaint also alleges that key Oppenheimer executives and Auction Rate Department personnel sold their personal ARS holdings while in possession of information that the entire ARS market was in danger of failing and that those individuals failed to disclose this information to investors. The Massachusetts Securities Division seeks various forms of relief including an order requiring Oppenheimer to offer rescission to residents of Massachusetts of sales of ARS at par and requiring Oppenheimer to make full restitution to investors who have already sold their ARS below par. The Division also seeks an order revoking the Massachusetts registration of the Chairman of

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Oppenheimer as a broker-dealer agent and requiring Oppenheimer and the named executives and other personnel to pay an administrative fine in an amount to be determined. Oppenheimer and all individual respondents have filed an answer to the Complaint denying that the allegations in the Complaint have any basis in fact or law. The matter is scheduled for hearings in November 2009. All respondents intend to vigorously defend against the allegations in the Complaint.

Other Matters

A subsidiary of the Company was the administrative agent for two closed-end funds until December 5, 2005. The Company has been advised by the current administrative agent for these two funds that the Internal Revenue Service may file a claim for interest and penalties for one of these funds with respect to the 2004 tax year as a result of an alleged failure of such subsidiary to take certain actions. The Company will continue to monitor developments in this matter.

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

As part of its ongoing business, the Company records reserves for legal expenses, judgments, fines and/or awards attributable to litigation and regulatory matters. In connection therewith, the Company has maintained its legal reserves at levels it believes will resolve outstanding matters, but may increase or decrease such reserves as matters warrant.

Business Continuity

The Company is committed to an on-going investment in its technology and communications infrastructure including extensive business continuity planning and investment. These costs are on-going and the Company believes that current and future costs will exceed historic levels due to business and regulatory requirements. This investment increased as a result of the Company s need to build out its platform to accommodate the New Capital Markets Business but such expansion has been completed. The Company believes that internally-generated funds from operations are sufficient to finance its expenditure program.

Results of Operations

Oppenheimer Holdings Inc. reported a net profit of $7.9 million or $0.60 per share for the third quarter of 2009, compared to a net loss of $2.5 million or $0.18 per share in the third quarter of 2008. Revenue for the third quarter of

2009 was $262.1 million, compared to revenue of $222.2 million in the third quarter of 2008, an increase of 18%.

The net profit for the nine months ended September 30, 2009 was $13.0 million or $1.00 per share compared to a net loss of $16.9 million or $1.26 per share for the nine months ended September 30, 2008. Revenue for the nine months ended September 30, 2009 was $718.1 million, compared to revenue of $710.3 million for the same period in 2008.

The following table and discussion summarizes the changes in the major revenue and expense categories for the periods presented:

Dollar amounts are expressed in thousands.

	Three months ended September 30, 2009 versus 2008		Nine months ended September 30, 2009 versus 2008	
	Period to Period Change	Percentage Change	Period to Period Change	Percentage Change
Revenue -				
Commissions	$12,898	10%	$21,569	6%
Principal transactions, net	30,640	n/a	56,475	200%
Interest	(6,942)	-43%	(25,898)	-51%
Investment banking	8,911	55%	(13,139)	-19%
Advisory fees	(12,389)	-24%	(47,698)	-30%
Other	6,762	109%	16,444	125%
Total revenue	39,880	18%	7,753	1%
Expenses -				
Compensation and related expenses	34,161	24%	2,016	0%
Clearing and exchanges fees	(2)	0%	(3,770)	-16%
Communications and technology	(6,444)	-32%	(7,622)	-14%
Occupancy and equipment costs	1,274	7%	3,236	6%
Interest	(5,546)	-53%	(18,630)	-55%
Other	(1,324)	-5%	(19,995)	-22%
Total expenses	22,119	10%	(44,765)	-6%
Profit (loss) before income taxes	17,761	n/a	52,518	n/a
Income tax provision (benefit)	7,376	n/a	22,549	n/a
Net profit (loss)	$10,385	n/a	$29,969	n/a

Revenue

Revenue from commissions and principal trading increased in the three and nine months ended September 30, 2009 compared to the same periods in 2008 as a result of the addition of experienced financial advisors and traders as well as improved investor confidence during the third quarter of 2009. Commissions increased 10% and 6%, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008. Principal transactions increased by $30.6 million and $56.5 million, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008. These gains resulted from the contribution of new and existing institutional fixed income sales and trading professionals amid higher activity levels from institutional investors as credit conditions continued to improve. Fixed income trading contributed $26.2 million in the third quarter 2009 (versus $4.4 million in the third quarter 2008). Results for the three and nine months ended September 30, 2008 included losses sustained in the convertible bond arbitrage business in the third quarter of 2008.

Investment banking revenue increased 55% to $25.1 million in the third quarter of 2009 versus $16.2 million in the third quarter of 2008 due to the market s renewed appetite for equity issuances. Investment banking revenue decreased 19% to $55.6 million in the nine months ended September

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30, 2009 versus $68.7 million in the same period in 2008 due to lower M&A and equity capital markets activity.

Advisory fees declined 24% and 30%, respectively, and interest income declined 43% and 51%, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008. Advisory fees were $38.7 million in the third quarter of 2009 compared to $51.1 million in the third quarter of 2008 as a result of a decrease in assets under management of 17% as well as a decrease of $6.2 million in fees derived from money market funds. Assets under fee-based programs were $13.6 billion at June 30, 2009 (which forms a basis for fees earned in the third quarter of 2009) compared to $16.4 billion at June 30, 2008, reflecting market losses sustained. Assets under fee-based programs at September 30, 2009 were $15.4 billion reflecting improving markets. The September 30th market value of fee-based client assets forms the basis for fees earned in the fourth quarter. Advisory fees were $109.9 million in the nine months ended September 30, 2009 compared to $157.6 million in the same period in 2008 as a result of a decrease in assets under management during the period of 26% as well as a decrease of $14.8 million in fees derived from money market funds. Lower interest bearing balances coupled with a decline in interest rates resulted in lower margin interest revenues of $4.9 million and $18.5 million, respectively, in the three and nine months ended September 30, 2009 over last year s comparable periods. Clients continued to pay down debt resulting in lower average customer debit balances which decreased by 28% and 36%, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008.

Other revenue increased by 109% and 125%, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008. The increase is partially attributable to increases in the cash surrender value of company-owned life insurance polices that support the Company s deferred compensation programs (offset by similar increases in related compensation expense), representing 76% and 55%, respectively, of the increase in other revenue in the three and nine months ended September 30, 2009 compared to the same periods in 2008. The increase in other revenue was also impacted by increased fees of $3.0 million and $4.8 million, respectively, generated by the Company s mortgage brokerage business compared to the same periods in 2008. Offsetting these increases, fees derived from FDIC insured bank deposits of clients declined by $2.5 million and $1.2 million, respectively, in the three and nine months ended September 30, 2009

Expenses

Expenses increased by 10% and decreased by 6% in the three and nine months ended September 30, 2009 compared to the same periods in 2008.

Overall compensation and related expenses increased by 24% for the three months ended September 30, 2009 and were flat for the nine months ended September 30, 2009 compared to the same periods in 2008. In the three and nine months ended September 30, 2009, production and incentive-related compensation increased $29.9 million and $7.9 million, respectively, deferred compensation costs increased $6.6 million and $10.4 million, respectively, and share-based compensation, directly related to an increased share price during the respective periods, increased $1.9 million and $10.5 million, respectively, compared to the same periods in 2008. These increases were partially offset by a decrease of $8.6 million and $31.7 million, respectively, in the three and nine months ended September 30, 2009 for expenses related to deferred compensation obligations to former CIBC employees compared to the same periods in 2008.

The decline of 16% in clearing and exchange fees for the nine months ended September 30, 2009 compared to the same period in 2008 primarily reflects the economies of transitioning the acquired businesses to the Company s platform. For the three months ended September 30, 2009, clearing and exchange fees were flat compared to the same period in 2008.

The Company s occupancy costs increased 7% and 6%, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008 due to escalation provisions increasing rental costs in New York, as well as the opening of new branch offices around the country. Communications and technology costs decreased 32% and 14%, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008, as a result of a reduction, or elimination, of many costs associated with the January 2008 acquisition of a major part of CIBC World Markets U.S. Capital Markets Businesses.

Interest expense decreased 53% and 55% for the three and nine months ended September 30, 2009 compared to the same periods of 2008 due to declining interest rates as well as a decrease in both average stock loan balances (32% and 55%, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008) and average bank loan balances (59% and 55%, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008).

Other expenses decreased 5% and 22%, respectively, for the three and nine months ended September 30, 2009 compared to the same periods in 2008. The three and nine months ended September 30, 2008 included substantial transition costs related to the acquisition of the acquired businesses which have terminated, as described above. Such transition costs amounted to $7.3 million and $32.3 million, respectively, in other expenses in the three and nine months ended September 30, 2008. Included in other expenses for the nine months ended September 30, 2009 is the approximately $2 million departure tax payable to the government of Canada in connection with the move of the domicile of the corporation from Canada to the U.S. on May 11, 2009. In addition, legal costs have increased by approximately $5.3 million and $9.9 million, respectively, in the three and nine months ended September 30, 2009 compared to the same periods in 2008. As a result of the regulatory environment stemming from recent economic conditions and the ARS matters discussed above, the Company expects legal costs to remain at high levels in the coming periods.

Liquidity and Capital Resources

Total assets at September 30, 2009 increased by 52% from December 31, 2008 levels which is primarily a result of the Company significantly expanding it government trading operations beginning in June 2009 leading to higher securities owned and deposits with clearing organization balances as well as new balances for securities purchased under agreement to resell. The Company began facilitating those operations through the use of securities sold under agreement to repurchase (repurchase agreements) and securities purchased under agreement to resell (reverse repurchase agreements). In addition, receivables from customers and receivables from brokers and clearing organizations increased.

The market environment that developed in 2008 continued in 2009 in the wake of the failure of financial institutions and seizures in the credit markets resulting in declining markets around the world and higher levels of risk. Concerns about risks to the financial system appear to have eased somewhat in the wake of improving market and liquidity conditions in the second and third quarters of 2009.

The Company satisfies its need for short-term funds from internally generated funds and collateralized borrowings, consisting primarily of bank loans, stock loans, repurchase agreements and uncommitted lines of credit. The Company s longer term capital needs have been met through the issuance of the Senior Secured Credit Note and the Subordinated Note. The amount of the Company's bank borrowings fluctuates in response to changes in the level of the Company's

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securities inventories and customer margin debt, changes in stock loan and repurchase agreement balances and changes in notes receivable from employees. The Company believes that such availability will continue going forward. At September 30, 2009, $107.2 million of such borrowings were outstanding compared to outstanding borrowings of $6.5 million at

December 31, 2008. At September 30, 2009, the Company had available collateralized and uncollateralized letters of credit of $197.2 million.

The unprecedented volatility of the financial markets, accompanied by a severe deterioration of economic conditions worldwide, has had a pronounced adverse affect on the availability of credit through traditional sources. As a result of concern about the ability of markets generally and the strength of counterparties specifically, many lenders have reduced and, in some cases, ceased to provide funding to the Company on an unsecured basis. Further, the current environment is not conducive to most new financing, and renegotiation of existing loans has become expensive and problematic. The infusion of significant government assistance to the banks and other financial institutions, which may be ending shortly, has aimed to mitigate these issues and there are indications that the availability of credit has begun to ease. The Company believes that funds from operations, together with available credit facilities, are sufficient for the Company s liquidity needs in the foreseeable future.

In 2006, the Company issued a Senior Secured Credit Note in the amount of $125.0 million at a variable interest rate based on LIBOR with a seven-year term to a syndicate led by Morgan Stanley Senior Funding Inc., as agent. In accordance with the Senior Secured Credit Note, the Company has provided certain covenants to the lenders with respect to the maintenance of a minimum fixed charge ratio and maximum leverage ratio and minimum net capital requirements with respect to Oppenheimer.

On December 22, 2008, certain terms of the Senior Secured Credit Note were amended, including (1) revised financial covenant levels that require that (i) the Company maintain a maximum leverage ratio (total long-term debt divided by EBITDA) of 4.30 at September 30, 2009 and (ii) the Company maintain a minimum fixed charge ratio (EBITDA adjusted for capital expenditures and income taxes divided by the sum of principal and interest payments on long-term debt) of 1.50 at September 30, 2009; (2) an increase in scheduled principal payments as follows: 2009 - $400,000 per quarter plus $4.0 million on September 30, 2009, and 2010 - $500,000 per quarter plus $8.0 million on September 30, 2010; (3) an increase in the interest rate to LIBOR plus 450 basis points (an increase of 150 basis points); and (4) a pay-down of principal equal to the cost of any share repurchases made pursuant to the Normal Course Issuer Bid. In the Company s view, the maximum leverage ratio and minimum fixed charge ratio represent the most restrictive covenants. At September 30, 2009, the Company was in compliance with all of its covenants.

The effective interest rate on the Senior Secured Credit Note for the three months ended September 30, 2009 was 5.10%. Interest expense, as well as interest paid on a cash basis for the three and nine months ended September 30, 2009, on the Senior Secured Credit Note was $486,200 and $1.7 million, respectively ($1.3 million and $4.3 million, respectively for the three and nine months ended September 30, 2008). On September 30, 2009, the Company made a scheduled repayment of principal in the amount of $4.4 million bringing the outstanding balance to $32.9 million. Of the $32.9 million principal amount outstanding at September 30, 2009, $10.9 million of principal is expected to be paid within 12 months.

The obligations under the Senior Secured Credit Note are guaranteed by certain of the Company s subsidiaries, other than broker-dealer subsidiaries, with certain exceptions, and are collateralized by a lien on substantially all of the assets of each guarantor, including a pledge of the ownership interests

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in each first-tier broker-dealer subsidiary held by a guarantor, with certain exceptions.

On January 14, 2008, in connection with the acquisition of certain capital markets businesses from CIBC (the New Capital Markets Business), CIBC made a loan in the amount of $100.0 million and the Company issued a Subordinated Note to CIBC in the amount of $100.0 million at a variable interest rate based on LIBOR. The Subordinated Note is due and payable on January 31, 2014 with interest payable on a quarterly basis. The purpose of this note is to support the capital requirements of the New Capital Markets Business. In accordance with the Subordinated Note, the Company has provided certain covenants to CIBC with respect to the maintenance of a minimum fixed charge ratio and maximum leverage ratio and minimum net capital requirements with respect to Oppenheimer.

Effective December 23, 2008, certain terms of the Subordinated Note were amended, including (1) revised financial covenant levels that require that (i) the Company maintain a maximum leverage ratio of 5.05 at September 30, 2009 and (ii) the Company maintain a minimum fixed charge ratio of 1.25 at September 30, 2009; and (2) an increase in the interest rate to LIBOR plus 525 basis points (an increase of 150 basis points). In the Company s view, the maximum leverage ratio and minimum fixed charge ratio represent the most restrictive covenants. At September 30, 2009, the Company was in compliance with all of its covenants.

The effective interest rate on the Subordinated Note for the three months ended September 30, 2009 was 5.85%. Interest expense, as well as interest paid on a cash basis for the three and nine months ended September 30, 2009, on the Subordinated Note was $1.5 million and $4.8 million, respectively ($1.7 million and $4.9 million, respectively, for the three and nine months ended September 30, 2008).

Funding Risk

Dollar amounts are expressed in thousands.

	For the nine months ended September 30,	
	2009	2008
Cash used in operating activities	$(71,464)	$(258,965)
Cash used in investing activities	(10,250)	(62,014)
Cash provided by financing activities	82,890	354,732
Net increase in cash and cash equivalents	$1,176	$33,753

Management believes that funds from operations, combined with the Company's capital base and available credit facilities, are sufficient for the Company's liquidity needs in the foreseeable future. (See Factors Affecting Forward-Looking Statements).

Other Matters

During the third quarter of 2009, the Company purchased no Class A Shares pursuant to the Normal Course Issuer Bid. On May 27, 2009, the Company announced its intention to purchase up to 600,000 shares of its Class A non-voting common stock commencing June 2, 2009 and ending December 31, 2009. The Company will undertake repurchases only if market conditions warrant such repurchases.

During the third quarter of 2009, the Company issued 85,236 Class A Shares pursuant to the Company s share-based compensation programs.

On August 28, 2009, the Company paid cash dividends of $0.11 per Class A and Class B Share totaling approximately $1.4 million from available cash on hand.

On October 29, 2009, the Board of Directors declared a regular quarterly cash dividend of $0.11 per Class A and Class B Share payable on November 27, 2009 to shareholders of record on November 13, 2009.

The book value of the Company s Class A and Class B Shares was $33.68 at September 30, 2009 compared to $32.75 at December 31, 2008 and $32.87 at September 30, 2008, based on total outstanding shares of 13,155,983, 12,999,145 and 13,172,669, respectively.

The diluted weighted average number of Class A and Class B Shares outstanding for the three months ended September 30, 2009 was 13,500,842 compared to 13,476,365 outstanding for the same period in 2008.

Off-Balance Sheet Arrangements

Information concerning the Company s off-balance sheet arrangements is included in Note 5 of the notes to the condensed consolidated financial statements. Such information is hereby incorporated by reference.

Contractual and Contingent Obligations

The Company has contractual obligations to make future payments in connection with non-cancelable lease obligations and debt assumed upon the acquisition of the New Capital Markets Business as well as debt issued in 2006. The Company also has contractual obligations in connection with the acquisition of the New Capital Markets Business to make payments to CIBC in connection with deferred compensation earned by former CIBC employees as well as the earn-out to be paid in 2013.

The following table sets forth these contractual and contingent commitments as at September 30, 2009.

Dollar amounts are expressed in thousands.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Minimum rentals	$168	$10	$77	$46	$35
Committed capital	4	4	-	-	-
Earn-out	25	-	-	25	-
Deferred compensation commitments (1)	43	13	30	-	-
Senior Secured Credit Note	33	11	22	-	-
Subordinated Note	100	-	-	100	-
Total	$373	$38	$129	$171	$35

(1) Represents payments to be made to CIBC in relation to deferred incentive compensation to former CIBC employees for awards made by CIBC prior to the January 14, 2008 acquisition by the Company.

New Accounting Pronouncements

See Note 2 to the condensed consolidated financial statements. Such information is hereby incorporated by reference.

Factors Affecting Forward-Looking Statements

From time to time, the Company may publish Forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act or make oral statements that constitute forward-looking statements. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products, anticipated market performance, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company cautions readers that a variety of factors could cause the Company s actual results to differ materially from the anticipated results or other expectations expressed in the Company s forward-looking statements. These risks and uncertainties, many of which are beyond the Company s control, include, but are not limited to: (i) transaction volume in the securities markets, (ii) the volatility of the securities markets, (iii) fluctuations in interest rates, (iv) changes in regulatory requirements which could affect the cost and method of doing business, (v) fluctuations in currency rates, (vi) general economic conditions, both domestic and international, (vii) changes in the rate of inflation and the related impact on the securities markets, (viii) competition from existing financial institutions and other participants in the securities markets, (ix) legal developments affecting the litigation experience of the securities industry and the Company, including developments arising from the failure of the Auction Rate Securities markets, (x) changes in federal and state tax laws which could affect the popularity of products sold by the Company, (xi) the effectiveness of efforts to reduce costs and eliminate overlap, (xii) war and nuclear confrontation, (xiii) the Company s ability to achieve its business plan, (xiv) corporate governance issues, (xv) the impact of the credit crisis on business operations, (xvi) the effect of bailout and related legislation, (xvii) the consolidation of the banking and financial services industry, (xviii) the effects of the economy on the Company s ability to find and maintain financing options and liquidity; (xix) credit, operations, legal and regulatory risks; and (xx) risks related to foreign operations. There can be no assurance that the Company has correctly or completely identified and assessed all of the factors affecting the Company s business. The Company does not undertake any obligation to publicly update or revise any forward-looking statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

During the three months ended September 30, 2009, there were no material changes to the information contained in Part II, Item 7A of the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 4. Controls and Procedures

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

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

The Company confirms that its management, including its Chief Executive Officer and its Chief Financial Officer, concluded that the Company s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in its reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Changes in Internal Control over Financial Reporting

There have been no significant changes in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the three months ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. Legal Proceedings

Many aspects of the Company s business involve substantial risks of liability. In the normal course of business, the Company has been the subject of customer complaints and has been named as a defendant or co-defendant in various lawsuits creating substantial exposure. The Company is also involved from time to time in certain governmental and self-regulatory agency investigations and proceedings. These proceedings arise primarily from securities brokerage, asset management and investment banking activities. There has been an increased incidence of regulatory investigations in the financial services industry in recent years, including customer claims, seeking in total substantial damages.

While the ultimate resolution of routine pending litigation and other matters cannot be currently determined, in the opinion of management, after consultation with legal counsel, the Company has no reason to believe that the resolution of these matters will have a material adverse effect on its financial condition. However, the Company s results of operations could be materially affected during any period if liabilities in that period differ from prior estimates. In addition, an adverse result in any of the matters set forth below, each of which are at a preliminary stage, would have a material adverse effect on the Company s financial condition, including its cash position. The materiality of legal matters to the Company s future operating results depends on the level of future results of operations as well as the timing and ultimate outcome of such legal matters. See Risk Factors The Company may be adversely affected by the failure of the Auction Rate Securities Market in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, Factors Affecting Forward-Looking Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations Regulatory Environment.

Auction Rate Securities Matters

For a number of years, the Company offered Auction Rate Securities (ARS) to its clients. A significant portion of the market in auction rate securities failed in February 2008 due to credit market conditions, and dealers were no longer willing or able to purchase the imbalance between supply and demand for auction rate securities. See Management s Discussion and Analysis of Financial Condition and Results of Operations Regulatory Environment.

On April 11, 2008, Oppenheimer (and a number of its affiliates) was named as a defendant in a proposed class action complaint captioned *Bette M. Grossman vs. Oppenheimer & Co. Inc. et. al.* in the United States District Court for the Southern District of New York. The complaint alleges, among other things, that Oppenheimer violated Section 10 (b) of the Securities Exchange Act of 1934 (as well as other provisions of the Federal securities laws) by making material misstatements and omissions and engaging in deceptive activities in the offer and sale of ARS. Oppenheimer filed an answer to the complaint denying the allegations. Oppenheimer believes it has meritorious defenses to the claims raised in the lawsuit and intends to defend against these claims vigorously. On February 20, 2009 this action was consolidated with the Vining action described below.

On May 12, 2008, Oppenheimer (and a number of its affiliates) was named as a defendant in a proposed class action complaint captioned *David T. Vining vs. Oppenheimer & Co. Inc. et. al.* in the United States District Court for the Southern District of New York. The complaint alleges, among other things, that Oppenheimer violated Section 10 (b) of the Securities Exchange Act of 1934 (as well as other provisions of the Federal securities laws) by making material misstatements and omissions and engaging in deceptive activities in the offer and sale of ARS. Oppenheimer filed an answer to the complaint denying the allegations. Oppenheimer believes it has meritorious defenses to the claims raised in the lawsuit and intends to defend against these claims vigorously. On February 20, 2009 the Grossman action discussed above was consolidated with this action. The action requests relief in the form of compensatory damages in an amount to be proven at trial as well as costs and expenses. Oppenheimer (and a number of its affiliates) have moved to dismiss this consolidated action.

Oppenheimer has been responding to inquiries from the SEC, FINRA and several state regulators as part of an industry-wide review of the marketing and sale of ARS. On November 18, 2008, the Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts filed an administrative complaint against Oppenheimer and certain of its executives and employees alleging various causes of action with respect to the sale by Oppenheimer of ARS to its clients. The matter is scheduled for hearings in November 2009, which management expects will continue into 2010. See Management s Discussion and Analysis of Financial Condition and Results of Operations Regulatory Environment Other Regulatory Matters.

Oppenheimer offered ARS to its clients in the same manner as dozens of other downstream firms in the ARS marketplace - as an available cash management option for clients seeking to increase their yields on short-term investments similar to a money market fund. The Company believes that Oppenheimer s participation therefore differs dramatically from that of the larger broker-dealers who entered into settlements with state and federal regulators, agreeing to purchase billions of dollars of their clients ARS holdings. Unlike these other broker-dealers, Oppenheimer did not act as the lead or sole lead managing underwriter or dealer in any ARS auctions during the relevant time period, did not enter support bids to ensure that any ARS auctions cleared, and played no role in any decision by the lead underwriters or broker-dealers to discontinue entering support bids and allowing auctions to fail.

In February 2009, Oppenheimer received notification of a filing of an arbitration claim before FINRA captioned *U.S. Airways v. Oppenheimer & Co. Inc., et al.* seeking an award compelling Oppenheimer to repurchase approximately $250 million in ARS previously purchased by U.S. Airways through Oppenheimer or, alternatively, an award rescinding such sale. In April 2009, Oppenheimer was served with a complaint in the United States District Court, Eastern District of Kentucky captioned *Ashland, Inc. and Ash Three, LLC v. Oppenheimer & Co. Inc.* seeking compensatory and consequential damages as a result of plaintiff s purchase of approximately $194 million in ARS. In each of these cases, plaintiffs seek an award of punitive damages from Oppenheimer as well as interest on such award. Each plaintiff in these cases bases its claim on numerous causes of action including, but not limited to, fraud, gross negligence, misrepresentation and suitability. Oppenheimer intends to vigorously defend against any such claims and has filed a motion to dismiss the claim in the Ashland action. Each of U.S. Airways and Ashland is a publicly-traded corporation that bought and sold ARS for many years through several broker dealers, not just Oppenheimer. Each is also a Qualified Institutional Buyer (as defined in Rule 144A of the Securities Exchange Act of 1934) and purchased ARS for cash management purposes.

On July 10, 2009, in the arbitration noted above captioned *U.S. Airways v. Oppenheimer & Co. Inc. et. al.* Oppenheimer asserted a third party statement of claim against Deutsche Bank Securities, Inc. and Deutsche Bank A.G. (the Deutsche Entities). At the same time Oppenheimer filed its answer denying any liability to U.S. Airways. To the extent there is a determination by an arbitration panel that U.S. Airways has been harmed, Oppenheimer s third party statement of claim against the Deutsche Entities alleges that the Deutsche Entities are liable to U.S. Airways because of their role in the process of creating, marketing and procuring ratings for certain auction rate credit-link notes.

In February 2009, the Company was served with an arbitration claim before FINRA captioned *Hansen Beverage Company v. Oppenheimer & Co. Inc., et al (Respondents).* Hansen demands that its investments in approximately $60 million in ARS, which are currently illiquid and which Hansen purchased from Oppenheimer, be rescinded. The claim alleges that Oppenheimer misrepresented liquidity and market risks in the ARS market when recommending ARS to Hansen. The Company has filed its response to the claim and also filed motions to dismiss Respondents Oppenheimer Holdings and Oppenheimer Asset Management as parties improperly named in the arbitration. The arbitration has been scheduled to commence in April 2010. Further, as of this date, approximately $16 million of the $60 million Hansen held in ARS have been redeemed by their issuers. Hansen is also a Qualified Institutional Buyer (as defined in Rule 144A of the Securities Exchange Act of 1934) and purchased ARS for cash management purposes.

In August 2009, Oppenheimer received notification of the filing of an arbitration claim before FINRA captioned *Investec Trustee (Jersey) Limited as Trustee for The St. Paul s Trust v. Oppenheimer & Co. Inc. et al*. seeking an award ordering Oppenheimer s repurchase of approximately $80 million in ARS previously purchased by Investec as Trustee for the St. Paul s Trust, and seeking additional damages of $7,537,250 as a result of claimant s liquidation of certain ARS positions in a private securities transaction. At the same time Oppenheimer filed its answer denying any liability to the claimant, Oppenheimer asserted a counter-claim against Investec as Trustee for the Trust, alleging that Investec, and not Oppenheimer or its representatives, owed a fiduciary duty to the St. Paul s Trust and violated that duty. Also, at the same time Oppenheimer filed its answer, Oppenheimer asserted third party claims against the underwriters of the ARS still held by claimant. Oppenheimer urged in its third party claim that those underwriters are liable to claimant because of their role in the processing, trading, marketing and in appropriately supporting the ARS still held by claimant, and for other actions by the underwriters which lead to the interruption in the ARS market. Oppenheimer intends to vigorously defend itself against these allegations.

Between April 2008 and September 30, 2009, Oppenheimer & Co. Inc. and certain affiliated parties have been served with approximately 16 arbitration claims before FINRA, by individuals and entities who purchased ARS through Oppenheimer in amounts ranging from $25,000 to $25 million, seeking awards compelling Oppenheimer to repurchase such ARS or, alternatively, awards rescinding such sales, based on a variety of causes of action similar to those described above. The Company has filed, or is in the process of filing, its responses to such claims and is awaiting hearings regarding such claims before FINRA. Oppenheimer believes it has meritorious defenses to these claims and intends to vigorously defend against these claims. Oppenheimer may also implead third parties, including underwriters, where it believes such action is appropriate. It is possible that other individuals or entities that purchased ARS from Oppenheimer may bring additional claims against Oppenheimer in the future for repurchase or recission.

ITEM 1A. Risk Factors

During the three months ended September 30, 2009, there were no material changes to the information contained in Part I, Item 1A of the Company s Annual Report on Form 10-K for the year ended December 31, 2008, except as described in Part I, Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Business Environment .

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2009, the Company did not repurchase any Class A Shares pursuant to its Normal Course Issuer Bid. On May 27, 2009, the Company announced its intention to purchase up to 600,000 shares of its Class A non-voting common stock commencing June 2, 2009 and ending December 31, 2009. The Company will undertake repurchases only if market conditions warrant such repurchases.

ITEM 3. Defaults Upon Senior Securities

Not applicable

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibits

31.1	Certification of Albert G. Lowenthal
31.2	Certification of Elaine K. Roberts
32	Certification of Albert G. Lowenthal and Elaine K. Roberts

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized, in the City of New York, New York on this 5th day of November, 2009.

OPPENHEIMER HOLDINGS INC.

By: A.G. Lowenthal

A.G. Lowenthal, Chairman and Chief Executive Officer

(Principal Executive Officer)

By: E.K. Roberts

E.K. Roberts, President, Treasurer and Chief Financial Officer

(Principal Financial and Accounting Officer)