OPPENHEIMER HOLDINGS INC
Form 10-Q
August 06, 2008

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, 2008**

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

for the transition period from ___to___

Commission File Number: 1-12043

OPPENHEIMER HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Canada

98-0080034

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

P.O. Box 2015, Suite 1110

20 Eglinton Avenue West

Toronto, Ontario, Canada M4R 1K8

(Address of principal executive offices)

(Zip Code)

416-322-1515

(Registrant s telephone number, including area code)

None

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

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

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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

The number of shares of the Company s Class A non-voting shares and Class B voting shares (being the only classes of common stock of the Company) outstanding on July 31, 2008 was 13,240,414 and 99,680 shares, respectively.

OPPENHEIMER HOLDINGS INC.

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PART I

FINANCIAL INFORMATION

Item. 1 Financial Statements

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	June 30, 2008	December 31, 2007
	(Expressed in thousands of dollars)	
ASSETS		
Cash and cash equivalents	$58,811	$27,702
Cash and securities segregated for regulatory and other purposes	78,764	67,562
Deposits with clearing organizations	52,306	16,402
Receivable from brokers and clearing organizations	496,936	672,282
Receivable from customers, net of allowance for doubtful accounts of $579 ($628 in 2007)	1,061,826	879,732
Income taxes receivable	6,150	-
Securities owned, including amounts pledged of $2.0 million ($1.3 million in 2007), at fair value	224,014	128,495
Notes receivable, net	53,570	44,923
Office facilities, net	25,819	18,340
Intangible assets, net	54,778	32,925
Goodwill	132,472	132,472
Other	82,615	117,406
	$2,328,061	$2,138,241

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

OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	June 30, 2008	December 31, 2007
	(Expressed in thousands of dollars)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Drafts payable	$36,920	$56,925
Bank call loans	156,300	29,000
Payable to brokers and clearing organizations	667,472	809,025
Payable to customers	491,104	446,299
Securities sold, but not yet purchased, at fair value	46,789	9,413
Accrued compensation	153,572	153,786
Accounts payable and other liabilities	165,577	82,912
Income taxes payable	-	11,020
Senior secured credit note	62,950	83,325
Subordinated note	100,000	-
Deferred income tax, net	6,301	12,556
Excess of fair value of acquired assets over cost	1,652	-
	1,888,637	1,694,261
Shareholders' equity		
Share capital		
Class A non-voting shares		
(2008 13,240,414 shares issued and outstanding		
2007 13,266,596 shares issued and outstanding)	51,268	52,921
99,680 Class B voting shares issued and outstanding	133	133
	51,401	53,054
Contributed capital	30,744	16,760
Retained earnings	357,675	375,137
Accumulated other comprehensive loss	(396)	(971)
	439,424	443,980
	$2,328,061	$2,138,241

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

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

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Expressed in thousands of dollars, except per share amounts				
REVENUE:				
Commissions	$119,390	$89,923	$243,938	$177,483
Principal transactions, net	19,228	11,996	29,107	20,512
Interest	17,126	28,112	35,146	57,170
Investment banking	43,488	41,307	66,451	74,698
Advisory fees	51,480	50,044	106,584	99,481
Other	5,529	5,368	6,890	11,522
	256,241	226,750	488,116	440,866
EXPENSES:				
Compensation and related expenses	168,313	134,777	340,709	259,406
Clearing and exchange fees	8,473	4,047	16,241	7,629
Communications and technology	18,488	12,247	35,459	25,750
Occupancy and equipment costs	17,880	12,343	34,554	24,609
Interest	11,528	14,783	23,670	29,631
Other	29,374	20,667	62,086	37,773
	254,056	198,864	512,719	384,798
Profit (loss) before income taxes	2,185	27,886	(24,603)	56,068
Income tax provision (benefit)	539	12,120	(10,135)	23,512
Net profit (loss) for the period	**$1,646**	**$15,766**	**$(14,468)**	**$32,556**
Earnings (loss) per share:				
Basic	$0.12	$1.19	$(1.07)	$2.48
Diluted	$0.12	$1.16	$(1.07)	$2.43
Dividends declared per share	$0.11	$0.10	$0.22	$0.20

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

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Expressed in thousands of dollars, except per share amounts				
Net profit (loss) for the period	$1,646	$15,766	$(14,468)	$32,556
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	494	-	511	-
Change in cash flow hedges	659	377	64	(139)
Comprehensive income (loss) for the period	$2,799	$16,143	$(13,893)	$32,417

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

OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Six months ended June 30,	
	2008	2007
Expressed in thousands of dollars		
Cash flows from operating activities:		
Net profit (loss) for the period	$(14,468)	$32,556
Adjustments to reconcile net profit (loss) to net cash (used in) provided by operating activities:		
Non-cash items included in net profit (loss):		
Depreciation and amortization	5,584	4,761
Deferred income tax	(6,238)	(11,230)
Amortization of notes receivable	8,144	9,223
Amortization of debt issuance costs	690	598
Amortization of intangibles	2,527	367
Provision for doubtful accounts	26	(75)
Share-based compensation	(1,637)	9,765
Decrease (increase) in operating assets, net of the effect of acquisitions:		
Cash and securities segregated under federal and other regulations	(11,202)	(13,149)
Deposits with clearing organizations	(35,904)	(2,263)
Receivable from brokers and clearing organizations	175,346	(81,256)
Receivable from customers	(182,120)	11,547
Income taxes receivable	(6,150)	-
Securities owned	(14,917)	20,409
Notes receivable	(16,791)	(5,774)
Other assets	35,276	16,572
Increase (decrease) in operating liabilities, net of the effect of acquisitions:		
Drafts payable	(20,005)	(13,252)
Payable to brokers and clearing organizations	(140,978)	83,523
Payable to customers	44,805	(15,663)
Securities sold, but not yet purchased	5,002	6,609
Accrued compensation	3,961	(26,565)
Accounts payable and other liabilities	68,530	11,726
Income taxes payable	(11,020)	632
Cash (used in) provided by operating activities	(111,539)	39,061

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OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) -Continued

	Six months ended June 30,	
Expressed in thousands of dollars	2008	2007
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(50,335)	-
Purchase of office facilities	(7,947)	(4,873)
Cash used in investing activities	(58,282)	(4,873)
Cash flows from financing activities:		
Cash dividends paid on Class A non-voting and Class B shares	(2,994)	(2,639)
Issuance of Class A non-voting shares	5,738	6,185
Repurchase of Class A non-voting shares for cancellation	(9,437)	-
Tax benefit from employee stock options exercised	698	752
Issuance of subordinated note	100,000	-
Senior secured credit note repayments	(20,375)	(25,625)
Zero coupon promissory note repayments	-	(2,530)
Increase in bank call loans, net	127,300	6,000
Cash provided by (used in) financing activities	200,930	(17,857)
Net increase (decrease) in cash and cash equivalents	31,109	16,331
Cash and cash equivalents, beginning of period	27,702	23,542
Cash and cash equivalents, end of period	$58,811	$39,873
Schedule of non-cash investing and financing activities:		
Warrants issued	$10,487	-
Employee share plan issuance	$2,046	$2,409
Supplemental disclosure of cash flow information:		
Cash paid during the periods for interest	$16,446	$27,884
Cash paid during the periods for income taxes	$8,865	$27,333

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

OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES

IN SHAREHOLDERS EQUITY (unaudited)

	Six months ended June 30,	
Expressed in thousands of dollars	2008	2007
Share capital		
Balance at beginning of period	$53,054	$41,226
Issuance of Class A non-voting shares	7,784	8,594
Repurchase of Class A Shares for cancellation	(9,437)	-
Balance at end of period	$51,401	$49,820
Contributed capital		
Balance at beginning of period	$16,760	$11,662
Issuance of warrant to purchase 1 million Class A Shares	10,487	-
Vested employee share plan awards	(355)	-
Tax benefit from share-based awards	698	752
Share-based expense	3,154	1,972
Balance at end of period	$30,744	$14,386
Retained earnings		
Balance at beginning of period	$375,137	$306,153
Cumulative effect of an accounting change	-	(823)
Net profit (loss) for the period	(14,468)	32,556
Dividends ($0.22 per share in 2008; $0.21 per share in 2007)	(2,994)	(2,639)
Balance at end of period	$357,675	$335,247
Accumulated other comprehensive loss		
Balance at beginning of period	$(971)	-
Currency translation adjustment, net of tax	511	-
Change in cash flow hedges, net of tax	64	$(139)
Balance at end of period	$(396)	$(139)
Shareholders equity	$439,424	$399,314

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

OPPENHEIMER HOLDINGS INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of significant accounting policies

Oppenheimer Holdings Inc. (OPY") is incorporated under the laws of Canada. The condensed consolidated financial statements include the accounts of OPY and its subsidiaries (together, the Company). The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker dealer in securities, Oppenheimer Asset Management Inc. (OAM) and its wholly owned subsidiary, Oppenheimer Investment Management Inc. (OIM), both registered investment advisors under the Investment Advisors Act of 1940, Oppenheimer Trust Company, a limited purpose trust company chartered by the State of New Jersey to provide fiduciary services such as trust and estate administration and investment management, Evanston Financial Corporation (Evanston), which is engaged in mortgage brokerage and servicing, OPY Credit Corp., which offers syndication as well as trading of issued corporate loans, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel as a local broker dealer. Oppenheimer operates as Fahnestock & Co. Inc. in Latin America. Oppenheimer owns Freedom Investments, Inc. (Freedom), a registered broker dealer in securities, which also operates as the BUYandHOLD division of Freedom, offering on-line discount brokerage and dollar-based investing services. Oppenheimer holds a trading permit on the New York Stock Exchange, and is a member of the American Stock Exchange and several other regional exchanges in the United States.

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

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

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

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

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

2. New Accounting Pronouncements

Recently Adopted

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

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

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

Recently Issued

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses, including those sometimes referred to as true mergers or mergers of equals and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after December 1, 2009.

In December 2007, FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS 160), which changes the accounting and reporting of non-controlling (or minority) interests in the consolidated financial statements. SFAS 160 requires 1) ownership interests in subsidiaries held by entities other than the parent be displayed as a separate component of equity in the consolidated statement of financial condition and separate from the parent; 2) after control is obtained, a change in ownership interests not resulting in a loss of control should be accounted for as an equity transaction; and 3) when a subsidiary is deconsolidated any retained non-controlling equity investment should be initially measured at fair value. This standard is effective for fiscal years beginning after December 15, 2008. The Company is evaluating the impact of ad