OPPENHEIMER HOLDINGS INC
Form 10-Q
August 06, 2009

As filed with the Securities and Exchange Commission on August 6, 2009

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, 2009**

or

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

SECURITIES EXCHANGE ACT OF 1934

for the transition period from ___to___

Commission File Number: 1-12043

OPPENHEIMER HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

98-0080034

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

125 Broad Street

New York, New York 10004

(Address of principal executive offices) (Zip Code)

(212) 668-8000

(Registrant s telephone number, including area code)

20 Eglinton Avenue West, Suite 1110, Toronto Ontario Canada M4R 1K8

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

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

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

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller reporting company [ ]

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 common stock and Class B voting common stock (being the only classes of common stock of the Company) outstanding on July 31, 2009 was 12,971,067 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, 2009	December 31, 2008
(Expressed in thousands of dollars)		
ASSETS		
Cash and cash equivalents	$48,113	$46,685
Cash and securities segregated for regulatory and		
other purposes	67,415	57,033
Deposits with clearing organizations	20,737	14,355
Receivable from brokers and clearing organizations	392,417	278,235
Receivable from customers, net of allowance for		
doubtful accounts of $2.6 million ($2.0 million in 2008)	720,341	647,486
Income taxes receivable	7,181	12,647
Securities purchased under agreement to resell	161,399	-
Securities owned, including amounts pledged of $3.6 million		
million ($1.9 million in 2008), at fair value	183,675	127,479
Notes receivable, net	63,828	53,446
Office facilities, net	24,998	27,224
Intangible assets, net	47,588	50,117
Goodwill	132,472	132,472
Other	93,856	82,405
	$1,964,020	$1,529,584

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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, 2009	December 31, 2008
(Expressed in thousands of dollars)		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Drafts payable	$29,159	$52,565
Bank call loans	86,600	6,500
Payable to brokers and clearing organizations	437,022	159,648
Payable to customers	334,085	408,303
Securities sold under agreement to repurchase	169,780	-
Securities sold, but not yet purchased, at fair value	59,648	27,454
Accrued compensation	138,771	178,983
Accounts payable and other liabilities	131,338	112,031
Senior secured credit note	37,303	47,663
Subordinated note	100,000	100,000
Deferred income tax, net	1,280	4,538
Excess of fair value of acquired assets over cost	6,173	6,173
	1,531,159	1,103,858
Shareholders' equity		
Share capital		
Class A non-voting common stock		
(2009 12,971,067 shares issued and outstanding		
2008 12,899,465 shares issued and outstanding)	44,648	43,520
Class B voting common stock		
99,680 shares issued and outstanding	133	133
	44,781	43,653
Contributed capital	38,044	34,924
Retained earnings	350,712	348,477
Accumulated other comprehensive loss	(676)	(1,328)
	432,861	425,726
	$1,964,020	$1,529,584

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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Expressed in thousands of dollars, except per share amounts				
REVENUES:				
Commissions	$142,713	$126,530	$266,509	$257,838
Principal transactions, net	30,201	19,228	54,942	29,107
Interest	8,668	17,126	16,190	35,146
Investment banking	21,909	36,348	30,501	52,551
Advisory fees	35,511	51,480	71,275	106,584
Other	11,722	5,529	16,572	6,890
	250,724	256,241	455,989	488,116
EXPENSES:				
Compensation and related expenses	167,902	168,313	308,564	340,709
Clearing and exchange fees	6,735	8,473	12,473	16,241
Communications and technology	14,530	18,488	34,281	35,459
Occupancy and equipment costs	18,283	17,880	36,516	34,554
Interest	5,043	11,528	10,586	23,670
Other	25,255	29,374	43,415	62,086
	237,748	254,056	445,835	512,719
Profit (loss) before income taxes	12,976	2,185	10,154	(24,603)
Income tax provision (benefit)	5,846	539	5,038	(10,135)
Net profit (loss) for the period	**$7,130**	**$1,646**	**$5,116**	**$(14,468)**
Profit (loss) per share:				
Basic	$0.55	$0.12	$0.39	$(1.07)
Diluted	$0.54	$0.12	$0.38	$(1.07)
Dividends declared per share	$0.11	$0.11	$0.22	$0.22

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,	
	2009	2008	2009	2008
Expressed in thousands of dollars, except per share amounts				
Net profit (loss) for the period	$7,130	$1,646	$5,116	$(14,468)
Other comprehensive income (loss):				
Currency translation adjustment	535	494	(319)	511
Change in cash flow hedges, net of tax	170	659	420	64
Change in interest rate cap, net of tax	932	-	551	-
Comprehensive income (loss) for the period	$8,767	$2,799	$5,768	$(13,893)

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,	
	2009	2008
Expressed in thousands of dollars		
Cash flows from operating activities:		
Net profit (loss) for the period	$5,116	$(14,468)
Adjustments to reconcile net profit (loss) to net cash used in operating activities:		
Non-cash items included in net profit (loss):		
Depreciation and amortization	6,381	5,584
Deferred income tax	(3,258)	(6,238)
Amortization of notes receivable	8,729	8,144
Amortization of debt issuance costs	571	690
Amortization of intangibles	2,529	2,527
Provision for doubtful accounts	539	26
Share-based compensation	6,759	(1,637)
Decrease (increase) in operating assets:		
Cash and securities segregated for regulatory and other purposes	(10,382)	(11,202)
Deposits with clearing organizations	(6,382)	(35,904)
Receivable from brokers and clearing organizations	(114,182)	175,346
Receivable from customers	(73,394)	(182,120)
Income taxes receivable	5,466	(6,150)
Securities purchased under agreement to resell	(161,399)	-
Securities owned	(56,196)	(14,917)
Notes receivable	(19,111)	(16,791)
Other	(12,341)	35,276
Increase (decrease) in operating liabilities:		
Drafts payable	(23,406)	(20,005)
Payable to brokers and clearing organizations	278,345	(140,978)
Payable to customers	(74,218)	44,805
Securities sold under agreement to repurchase	169,780	-
Securities sold, but not yet purchased	32,194	5,002
Accrued compensation	(42,137)	3,961
Accounts payable and other liabilities	19,307	68,530

Income taxes payable	-	(11,020)
Cash used in operating activities	(60,690)	(111,539)

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OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) -Continued

	Six months ended June 30,	
	2009	2008
Expressed in thousands of dollars		
Cash flows from investing activities:		
Acquisitions, net of cash acquired	-	(50,335)
Purchase of office facilities	(4,155)	(7,947)
Cash used in investing activities	(4,155)	(58,282)
Cash flows from financing activities:		
Cash dividends paid on Class A non-voting and Class B common stock	(2,881)	(2,994)
Issuance of Class A non-voting common stock	-	5,738
Repurchase of Class A non-voting common stock for cancellation	(559)	(9,437)
Tax benefit (shortfall) from share-based compensation	(27)	698
Issuance of subordinated note	-	100,000
Senior secured credit note repayments	(10,360)	(20,375)
Increase in bank call loans, net	80,100	127,300
Cash provided by financing activities	66,273	200,930
Net increase in cash and cash equivalents	1,428	31,109
Cash and cash equivalents, beginning of period	46,685	27,702
Cash and cash equivalents, end of period	$48,113	$58,811
Schedule of non-cash investing and financing activities:		
Warrants issued	-	$10,487
Employee share plan issuance	$1,687	$2,046
Supplemental disclosure of cash flow information:		
Cash paid during the periods for interest	$7,730	$16,446
Cash paid during the periods for income taxes	$3,064	$8,865

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	2009	2008
Share capital		
Balance at beginning of period	$43,653	$53,054
Issuance of Class A non-voting common stock	1,687	7,784
Repurchase of Class A non-voting common stock for cancellation	(559)	(9,437)
Balance at end of period	$44,781	$51,401
Contributed capital		
Balance at beginning of period	$34,924	$16,760
Issuance of warrant to purchase 1 million Class A non-voting common shares	-	10,487
Vested employee share plan awards	(177)	(355)
Tax benefit (shortfall) from share-based awards	(27)	698
Share-based expense	3,324	3,154
Balance at end of period	$38,044	$30,744
Retained earnings		
Balance at beginning of period	$348,477	$375,137
Net profit (loss) for the period	5,116	(14,468)
Dividends ($0.22 per share in 2009 and 2008)	(2,881)	(2,994)
Balance at end of period	$350,712	$357,675
Accumulated other comprehensive income (loss)		
Balance at beginning of period	$(1,328)	$(971)
Currency translation adjustment	(319)	511
Change in cash flow hedges, net of tax	420	64
Change in interest rate cap, net of tax	551	-
Balance at end of period	$(676)	$(396)
Shareholders equity	$432,861	$439,424

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 the State of Delaware. On May 11, 2009, the jurisdiction of incorporation of OPY was changed from Canada to Delaware. The consolidated financial statements include the accounts of OPY and its subsidiaries (together, the Company). The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker dealer in securities, Oppenheimer Asset Management Inc. (OAM) and its wholly owned subsidiary, Oppenheimer Investment Management Inc. (OIM), both registered investment advisors under the Investment Advisors Act of 1940, Oppenheimer Trust Company, 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. Oppenheimer EU Ltd., based in the United Kingdom, provides institutional equities and fixed income brokerage and corporate financial services and is regulated by the Financial Services Authority. Oppenheimer EU Ltd. began operations on September 5, 2008. Oppenheimer Investments Asia Limited, based in Hong Kong, China, provides assistance in accessing the U.S. equities markets and limited mergers and acquisitions advisory services to Asia-based companies. 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 and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel as a local broker dealer. Oppenheimer holds a trading permit on the New York Stock Exchange and is a member of several other regional exchanges in the United States.

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, 2008 included in its Annual Report on Form 10-K for the year then ended.

In June 2009, the Company significantly expanded its government trading operations and began financing those operations through the use of securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements). Repurchase and reverse repurchase agreements, principally involving government and agency securities, are carried at amounts at which securities subsequently will be resold or reacquired as specified in the respective agreements and include accrued interest. Repurchase and reverse repurchase agreements are presented on a net-by-counterparty basis, when the conditions of FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements* (FIN 41) have been met. FIN 41 permits the offsetting of amounts recognized as payables under repurchase agreements and amounts recognized as receivables under reverse repurchase agreements if the repurchase and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, securities underlying the repurchase and reverse repurchase agreements exist in book entry form and certain other requirements are met.

Certain prior period amounts in the condensed consolidated statement of operations have been reclassified to conform with current presentation. Total revenues, total expenses, profit (loss) before income taxes, income tax provision (benefit) and net profit (loss) for the period were not affected.

See note 10 for further discussion.

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.

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.

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

New Accounting Pronouncements

Recently Issued

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (SFAS 166). SFAS 166 eliminates the concept of a qualifying special-purpose entity (QSPE) and establishes a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting. In addition, SFAS 166 provides clarification and amendments to the derecognition criteria for a transfer to be accounted for as a sale and changes the amount of recognized gains or losses on transfers accounted for as a sale when beneficial interests are received by the transferor. SFAS 166 also has extensive new disclosure requirements for collateral transferred, servicing assets and liabilities, transfers accounted for as sales in securitization and asset-backed financing arrangements when the transferor has continuing involvement with the transferred assets, and transfers of financial assets accounted for as secured borrowings. The standard will be applied prospectively to new transfers of financial assets occurring in fiscal years beginning after November 15, 2009. The Company is currently evaluating the impact of adopting SFAS 166 on its financial condition, results of operations, and cash flows.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). SFAS 167 amends the consolidation guidance for variable interest entities (VIE s) by requiring enterprises to qualitatively assess the determination of the primary beneficiary of a VIE based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. SFAS 167 changes the consideration of kick-out rights in determining if an entity is a VIE, which may cause certain additional entities to now be considered VIEs. In contrast to FIN 46(R), SFAS 167 requires an ongoing reconsideration of the primary beneficiary. It also amends the events that trigger a reassessment of whether an entity is a VIE. SFAS 167 expands upon the new disclosures required by FSP No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities.* SFAS 167 is effective as of the first fiscal year that begins after November 15, 2009 with early adoption prohibited. The transition requirements of SFAS 167 stipulate that assets, liabilities, and noncontrolling interests of the VIE be measured at their carrying amounts as if the statement had been applied from the inception of the VIE with any difference reflected as a cumulative effect adjustment. The Company is currently evaluating the impact of adopting SFAS 167 on its financial condition, results of operations, and cash flows.

Recently Adopted

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, 2008.

In February 2008, the FASB issued FSP FAS No. 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (FSP No. 140-3). FSP No. 140-3 requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously or in contemplation of the initial transfer to be evaluated as a linked transaction under SFAS No. 140 unless certain criteria are met, including that the transferred asset must be readily obtainable in the marketplace. FSP No. 140-3 is effective for fiscal years beginning after November 15, 2008, and will be applied to transactions entered into after the date of adoption. Early adoption is prohibited. The Company adopted FSP No. 140-3 in the first quarter of 2009 which did not have an impact on its financial condition, results of operations or cash flows.

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* . FSP No. FAS 140-4 and FIN 46(R)-8 requires enhanced disclosures about transfers of financial assets and interests in variable interest entities. The FSP is effective for interim and annual periods ending after December 15, 2008. Since the FSP requires only additional disclosures concerning transfers of financial assets and interests in variable interest entities, adoption of the FSP did not affect the Company s financial condition, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities, and is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application encouraged. The Company has adopted SFAS No. 161. Since SFAS No. 161 requires only additional disclosures concerning derivatives and hedging activities, adoption of SFAS No. 161 did not affect the Company s financial condition, results of operations or cash flows.

On October 10, 2008, the FASB issued FSP FAS 157 3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP FAS 157 3). FSP FAS 157 3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial instrument when the market for that financial asset is not active. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP FAS 157 3 did not have a material impact on the Company s financial condition, results of operations or cash flows.

On April 9, 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements* , when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP FAS 157-4 did not affect the Company s financial condition, results of operations or cash flows.

On April 9, 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1) which amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* , to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Since FSP FAS 107-1 requires only additional disclosures about the fair value of financial instruments, the Company s adoption of FSP FAS 107-1 did not affect the Company s financial condition, results of operations or cash flows.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is based on the same principles as those that currently exist in auditing standards with the addition of some new terminology. The standard is effective for interim and annual periods ending after June 15, 2009. Since SFAS 165 requires only additional disclosure, the Company s adoption of SFAS 165 did not have an impact on its financial condition, results of operations or cash flows.

3. Earnings per share

Earnings per share was computed by dividing net profit (loss) by the weighted average number of shares of Class A non-voting common stock (Class A Shares) and Class B voting common stock (Class B Shares) outstanding. Diluted earnings per share includes the weighted average Class A and Class B Shares outstanding and the effects of warrants issued and Class A Shares granted under share-based compensation arrangements using the treasury stock method, if dilutive.

Earnings (loss) per share has been calculated as follows:

Amounts are expressed in thousands of dollars, except share and per share amounts

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Basic weighted average number of shares outstanding	13,069,014	13,508,262	13,070,547	13,567,150
Net dilutive effect of warrants, treasury method (1)	-	-	-	-
Net dilutive effect of share-based awards, treasury method (2)	214,486	140,941	365,162	-
Diluted weighted average number of shares outstanding	13,283,500	13,649,203	13,435,709	13,567,150
Net profit (loss) for the period	$7,130	$1,646	$5,116	$(14,468)
Basic earnings (loss) per share	$0.55	$0.12	$0.39	$(1.07)
Diluted earnings (loss) per share	$0.54	$0.12	$0.38	$(1.07)

(1)

As part of the consideration for the 2008 acquisition of a portion of CIBC World Markets Corp. s U.S. capital markets businesses, the Company issued a warrant to purchase 1 million Class A Shares of the Company at $48.62 per share exercisable five years from the January 14, 2008 acquisition date. For the three and six months ended June 30, 2009 and 2008, the effect of the warrants is anti-dilutive.

(2)

For the three and six months ended June 30, 2009, respectively, the diluted earnings per share computations do not include the anti-dilutive effect of 542,976 and 557,976 Class A Shares granted under share-based compensation arrangements (357,884 and 1,373,572, respectively, for the three and six months ended June 30, 2008).

During the second quarter of 2009, the Company sustained a one-time charge of approximately $2.0 million in the form of a 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. as well as approximately $1.3 million in professional fees related to this matter totaling $3.3 million on a pre-tax basis ($0.21 per share on an after tax basis), included in other expenses in the condensed consolidated statement of operations. This Canadian departure tax is not deductible for tax purposes which, as a result, negatively impacted the effective tax rate for the three and six month periods ended June 30, 2009.

4. Receivable from and payable to brokers and clearing organizations

Dollar amounts are expressed in thousands.

	June 30, 2009	December 31, 2008
Receivable from brokers and clearing organizations consist of:		
Deposits paid for securities borrowed	$277,909	$192,980
Receivable from brokers	39,292	27,517
Securities failed to deliver	27,551	17,965
Clearing organizations	20,197	14,318
Omnibus accounts	14,249	8,233
Other	13,219	17,222
	$392,417	$278,235

	June 30, 2009	December 31, 2008
Payable to brokers and clearing organizations consist of:		
Deposits received for securities loaned	$409,368	$114,919
Securities failed to receive	27,437	31,502
Clearing organizations and other	217	13,227
	$437,022	$159,648

5. Financial instruments

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

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

Amounts are expressed in thousands of dollars.

	June 30, 2009		December 31, 2008	
	Owned	Sold	Owned	Sold
U.S. Government, agency and sovereign obligations	$29,781	$15,998	$20,751	$1,212
Corporate debt and other obligations	32,379	10,486	23,667	6,370
Mortgage and other asset-backed securities	8,025	235	7,535	4
Municipal obligations	54,222	1,453	15,051	1,024
Convertible bonds	19,679	9,070	19,730	3,806
Corporate equities	32,631	22,069	33,959	14,595
Other	6,958	337	6,786	443
Total	$183,675	$59,648	$127,479	$27,454

Securities owned and securities sold, but not yet purchased, consist of trading and investment securities at fair values. Included in securities owned at June 30, 2009 are corporate equities with estimated fair values of approximately $11.4 million ($10.7 million at December 31, 2008), which are related to deferred compensation liabilities to certain employees included in accrued compensation on the condensed consolidated balance sheet.

Valuation Techniques

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

U.S. Government, Agency, & Sovereign Obligations

U.S. Government securities are valued using quoted market prices obtained from active market makers and inter-dealer brokers and, accordingly, are categorized in Level 1 of the fair value hierarchy. Agency securities primarily consist of mortgage pass-through securities issued by federal agencies and are valued based on quoted market prices when available or by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities and are categorized in Level 1 or 2 of the fair value hierarchy. The fair value of sovereign obligations is determined based on quoted market prices when available or a valuation model that generally utilizes interest rate yield curves and credit spreads as inputs. Sovereign obligations are categorized in Level 1 or 2 of the fair value hierarchy.

Corporate Debt & Other Obligations

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

Mortgage and Other Asset-Backed Securities

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

Municipal Obligations

The fair value of municipal obligations is estimated using recently executed transactions, broker quotations, and bond spread information. These obligations are generally categorized in Level 2 of the fair value hierarchy.

Convertible Bonds

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

Corporate Equities

Exchange-traded equity securities and options are generally valued based on quoted prices from the exchange and categorized as Level 1 in the fair value hierarchy.

Other

The Company holds Auction Rate Preferred Securities (ARPS) issued by closed-end funds with interest rates that reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARPS have historically been categorized as Level 1 in the fair value hierarchy. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the auction rate securities market experiencing failed auctions. Once the auctions failed, the ARPS could no longer be valued using observable prices set in the auctions. As a result, the Company has resorted to less observable determinants of the fair value of ARPS, including the strength in the underlying credits, announced issuer redemptions, completed issuer redemptions, and announcements from issuers regarding their intentions with respect to their outstanding auction rate securities. The failure of auctions has resulted in a Level 3 categorization of ARPS in the fair value hierarchy.

Investments

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

Derivative Contracts

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

As described below in Credit Concentrations , the Company participates in loan syndications and operates as underwriting agent in leveraged financing transactions where it utilizes a warehouse facility provided by Canadian Imperial Bank of Commerce (CIBC) to extend financing commitments to third-party borrowers identified by the Company. The Company uses broker quotations on loans trading in the secondary market as a proxy to determine the fair value of the underlying loan commitment which is categorized in Level 3 of the fair value hierarchy. The

Company also purchases and sells loans in its proprietary trading book where CIBC provides the financing through a loan trading facility. The Company uses broker quotations to determine the fair value of loan positions held which are categorized in Level 2 of the fair value hierarchy.

Fair Value Measurements

The Company s assets and liabilities, recorded at fair value on a recurring basis as of June 30, 2009 and December 31, 2008, have been categorized based upon the above fair value hierarchy as follows:

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2009.

Amounts are expressed in thousands of dollars.

	Fair Value Measurements As of June 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents	**$4,992**	**$-**	**$-**	**$4,992**
Securities segregated for regulatory and other purposes	**23,158**	**-**	**-**	**23,158**
Deposits with clearing organizations	**7,994**	**-**	**-**	**7,994**
Securities owned:				
U.S. Government, agency and sovereign obligations	21,902	7,879	-	29,781
Corporate debt and other obligations	-	32,379	-	32,379
Mortgage and other asset-backed securities	-	5,906	2,119	8,025
Municipal obligations	-	54,222	-	54,222
Convertible bonds	-	19,679	-	19,679
Corporate equities	29,487	3,144	-	32,631
Other	1,633	-	5,325	6,958
Securities owned, at fair value	**53,022**	**123,209**	**7,444**	**183,675**
Investments (1)	**260**	**25,816**	**13,782**	**39,858**
Derivative contracts (2)	**-**	**3,291**	**-**	**3,291**
Total	**$89,426**	**$152,316**	**$21,226**	**$262,968**

Liabilities:

Securities sold, but not yet purchased:				
U.S. Government, agency and sovereign obligations	$15,946	$52	$-	$15,998
Corporate debt and other obligations	-	10,486	-	10,486
Mortgage and other asset-backed securities	-	25	210	235
Municipal obligations	-	1,453	-	1,453
Convertible bonds	-	9,070	-	9,070
Corporate equities	15,575	6,494	-	22,069
Other	12	-	325	337
Securities sold, but not yet purchased	**31,533**	**27,580**	**535**	**59,648**
Derivative contracts (3)	**32**	**1,725**	**-**	**1,757**
Total	**$31,565**	**$29,305**	**$535**	**$61,405**

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

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

(3) Included in payables to brokers and clearing organizations on condensed consolidated balance sheet

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2008.

Amounts are expressed in thousands of dollars.

	Fair Value Measurement As of December 31, 2008			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents	**$ 8,627**	**$ -**	**$ -**	**$ 8,627**
Securities segregated for regulatory and other purposes	**11,499**	**-**	**-**	**11,499**
Deposits with clearing organizations	**8,295**	**-**	**-**	**8,295**
Securities owned:				
U.S. Government, agency and sovereign obligations	17,738	3,013	-	20,751
Corporate debt and other obligations	-	23,667	-	23,667
Mortgage and other asset-backed securities	-	5,925	1,610	7,535
Municipal obligations	-	15,051	-	15,051
Convertible bonds	-	18,915	815	19,730
Corporate equities	33,959	-	-	33,959
Other	1,461	-	5,325	6,786
Securities owned, at fair value	**53,158**	**66,571**	**7,750**	**127,479**
Investments (1)	**597**	**19,121**	**12,085**	**31,803**
Derivative contracts (2)	**-**	**71**	**-**	**71**
Total	**$ 82,176**	**$ 85,763**	**$ 19,835**	**$ 187,774**

Liabilities:

Securities sold, but not yet purchased:

U.S. Government, agency and

sovereign obligations	$	1,212	$	-	$	-	$	1,212
Corporate debt and other obligations		-		6,370		-		6,370
Mortgage and other asset-backed securities		-		4		-		4
Municipal obligations		-		1,024		-		1,024
Convertible bonds		-		3,806		-		3,806
Corporate equities		14,595		-		-		14,595
Other		68		-		375		443
Securities sold, but not yet purchased, at fair value		**15,875**		**11,204**		**375**		**27,454**
Derivative contracts (3)		**341**		**2,373**		**2,516**		**5,230**
Total	**$**	**16,216**	**$**	**13,577**	**$**	**2,891**	**$**	**32,684**

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

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

(3) Included in payable to brokers and clearing organizations (Levels 1 and 2) and accounts payable and other liabilities (Level 3) on the condensed consolidated balance sheet.

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three and six months ending June 30, 2009 and 2008.

Amounts are expressed in thousands of dollars.

Level 3 Assets and Liabilities

For the three months ended June 30, 2009

	Opening Balance	**Realized Gains (Losses)** (5)	**Unrealized Gains (Losses)** (5)	**Purchases, Sales, Issuances, Settlements**	**Transfers In / Out**	**Ending Balance**
Assets:						
Mortgage and other asset-backed securities (1)	$2,497	67	-	(445)	-	$2,119
Other(2)	5,325	-	-	-	-	5,325
Investments (3)	12,031	-	1,500	251	-	13,782
Liabilities:						
Mortgage and other asset-backed securities (1)	$-	-	(5)	(205)	-	$(210)
Other (2)	(375)	-	-	50	-	(325)
Derivative contracts (4)	(45)	-	-	45	-	-

(1) Represents non-agency securities primarily collateralized by home equity and manufactured housing.

(2) Represents auction rate preferred securities that failed in the auction rate market. Fair value approximates par due to strength in the underlying credits and the recent trend in issuer redemptions.

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

(4) Represents unrealized losses on excess retention exposure on leveraged finance underwriting activity, described below under Credit Concentrations.

(5) Included in principal transactions, net on the condensed consolidated statement of operations, except for investments which is included in other income on the condensed consolidated statement of operations.

Amounts are expressed in thousands of dollars.

Level 3 Assets and Liabilities
For the six months ended June 30, 2009

	Opening Balance	Realized Gains (Losses) (5)	Unrealized Gains (Losses) (5)	Purchases, Sales, Issuances, Settlements	Transfers In / Out	Ending Balance
Assets:						
Convertible bonds	$815	(124)	-	(691)	-	$-
Mortgage and other asset-backed securities (1)	1,610	(34)	(1)	592	(48)	2,119
Other(2)	5,325	-	-	-	-	5,325
Investments (3)	12,087	-	1,357	338	-	13,782
Liabilities:						
Mortgage and other asset-backed securities (1)	$-	-	(5)	(205)	-	$(210)
Other (2)	(375)	-	-	50	-	(325)
Derivative contracts (4)						