OPPENHEIMER HOLDINGS INC
Form 10-K
March 01, 2019
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As filed with the U.S. Securities and Exchange Commission on March 1, 2019

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-12043

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

Delaware	98-0080034
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
85 Broad Street, New York, NY	10004
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone number, including area code: (212) 668-8000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A non-voting common stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Not Applicable
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the voting stock of the Company held by non-affiliates of the Company cannot be calculated in a meaningful way because there is only limited trading in the class of voting stock of the Company. The aggregate market value of the Class A non-voting common stock held by non-affiliates of the Company at June 29, 2018 was $368.4 million based on the per share closing price of the Class A non-voting common stock on the New York Stock Exchange on June 29, 2018 of $28.00.

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 February 28, 2019 was 12,946,841 and 99,665 shares, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's definitive Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed by the Company pursuant to Regulation 14A is incorporated into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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Throughout this annual report, we refer to Oppenheimer Holdings Inc., collectively with its subsidiaries, as the "Company." We refer to the directly and indirectly owned subsidiaries of Oppenheimer Holdings Inc. collectively as the "Operating Subsidiaries."

PART I

Item 1. BUSINESS

OVERVIEW

Oppenheimer Holdings Inc. ("OPY" or the "Parent"), through its Operating Subsidiaries, is a leading middle-market investment bank and full service broker-dealer. With roots tracing back to 1881, the Company is engaged in a broad range of activities in the financial services industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), equity & fixed income research, market-making, trust services and investment advisory and asset management services. The Company owns, directly or through subsidiaries, Oppenheimer & Co. Inc. ("Oppenheimer"), a New York-based securities broker-dealer and investment adviser, Oppenheimer Asset Management Inc. and its subsidiary advisers ("OAM"), a New York-based investment adviser, Freedom Investments, Inc. ("Freedom"), a discount securities broker-dealer based in New Jersey, Oppenheimer Trust Company ("Oppenheimer Trust"), a Delaware limited purpose bank, and OPY Credit Corp. ("OPY Credit"), a New York corporation organized to trade and clear syndicated corporate loans. The Company's international businesses are carried on through Oppenheimer Europe Ltd. (United Kingdom with offices in the Isle of Jersey, Germany and Switzerland), Oppenheimer Investments Asia Limited (Hong Kong), and Oppenheimer Israel (OPCO) Ltd. (Israel).

Oppenheimer Holdings Inc. was originally incorporated under the laws of British Columbia. Pursuant to its Certificate and Articles of Incorporation, effective on May 11, 2005, the Company's legal existence was continued under the Canada Business Corporations Act. Effective May 11, 2009, the Company changed its jurisdiction of incorporation from the federal jurisdiction of Canada to the State of Delaware in the United States with the approval of its shareholders.

PRIVATE CLIENT

Through its Private Client Division, Oppenheimer provides a comprehensive array of financial services through a network of 1,073 financial advisers in 92 offices located throughout the United States. Clients include high-net-worth individuals and families, corporate executives, and public and private businesses. Clients may choose a variety of ways to establish a relationship and conduct business including brokerage accounts with transaction-based pricing and/or investment advisory accounts with asset-based fee pricing. As of December 31, 2018, the Company held client assets under administration of $80.1 billion. Oppenheimer provides the following private client services:

Full-Service Brokerage — Oppenheimer offers full-service brokerage covering investment alternatives including exchange-traded and over-the-counter corporate equity and debt securities, money market instruments, exchange-traded options and futures contracts, municipal bonds, mutual funds, and unit investment trusts. A portion of Oppenheimer's revenue is derived from commissions from private clients through accounts with transaction-based pricing. Brokerage commissions are charged on investment products in accordance with a schedule which Oppenheimer has formulated. Discounts are available to and can be negotiated with customers based on transaction size and volume as well as a number of other factors. In recent years, an increasing number of clients have chosen to do business through fee-based accounts.

Wealth Planning — Oppenheimer also offers financial and wealth planning services which include asset management, individual and corporate retirement solutions, including insurance and annuity products, IRAs and 401(k) plans, U.S. stock plan services to corporate executives and businesses, education savings programs, and trust and fiduciary services to individual and corporate clients.

Margin Lending — Oppenheimer extends credit to its customers, collateralized by securities and cash in the customer's account, for a portion of the purchase price, and receives income from interest charged on such extensions of credit. The customer is charged for such margin financing at interest rates derived from Oppenheimer's rate.

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ASSET MANAGEMENT

OAM is responsible for the Company's advisory programs and alternative investments businesses. The business includes discretionary and non-discretionary fee-based programs sponsored by Oppenheimer, OAM, Oppenheimer Investment Advisers ("OIA"), a division of OAM and Oppenheimer Investment Management LLC ("OIM"), as well as alternative investments sponsored through Advantage Advisers Multi Manager LLC, Advantage Advisers Management, LLC and Oppenheimer Alternative Investment Management LLC.

OAM offers tailored investment management solutions and services to high-net-worth private clients, institutions and investment advisers. These include, but are not limited to, portfolio management, manager research and due diligence, asset allocation advice and financial planning. OAM offers proprietary and third party investment management capabilities through separately managed accounts, alternative investments and discretionary and non-discretionary portfolio management programs as well as managed portfolios of mutual funds. Platform support functions include sales and marketing along with administrative services such as trade execution, client services, records management and client reporting and custody through Oppenheimer.

At December 31, 2018, the Company had $26.7 billion of client assets under management ("AUM") in fee-based programs. Revenues for OAM are generated by investment advisory and transactional fees for advisory services and revenue from sharing arrangements with registered and private alternative investment vehicles. OAM earns investment advisory fees on all assets held in discretionary and non-discretionary asset-based programs. These fees are typically billed quarterly, in advance, and are calculated based on all fee based AUM balances at the end of the prior quarter. Revenue sharing arrangements for management and incentive fees in alternative investments are calculated on a pre-determined basis with registered and private investment companies.

The Company's asset management services include:

Separately Managed Accounts - The Company provides clients with two fee-based programs: (i) a Unified Managed Account which allows multiple investment managers, mutual funds and exchange-traded funds to be combined in a single custodial account; and (ii) a Strategic Asset Review dual contract program designed for clients seeking a direct contractual relationship with investment managers.

Mutual Fund Managed Accounts - The Company offers two fee-based mutual fund managed account programs through Portfolio Advisory Services ("PAS"): (i) PAS, a non-discretionary advisory program where clients choose mutual funds approved by the Company to create strategic asset allocations; and (ii) PAS Directed, a discretionary advisory program where an Oppenheimer adviser chooses the mutual funds to create the asset allocation and portfolio construction.

Discretionary Advisory Accounts - Oppenheimer offers three discretionary portfolio management programs. Through its Omega and Fahnestock Asset Management programs, Oppenheimer offers client-focused discretionary fee-based investment programs managed by Oppenheimer advisers.

Non-Discretionary Advisory Accounts - Under Oppenheimer's Preference Program, Oppenheimer provides fee-based non-discretionary investment advisory services and consultation to clients.

Alternative Investments - The Company offers high-net-worth and institutional investors the opportunity to participate in a wide range of non-traditional investment strategies. Strategies include single manager hedge funds, fund of funds, diversified private equity funds and single investment late stage private equity funds. For proprietary funds, the Company, through its subsidiaries, acts as a general partner.

Portfolio Enhancement Program - The Company offers qualified option investors the opportunity to participate in the Portfolio Enhancement Program which sells uncovered, out-of-the-money puts and calls on the S&P 500 Index. The program is funded and supported through special memorandum account releases from the collateral in an account owned by the investor.

Oppenheimer Investment Advisers - OIA provides taxable and non-taxable fixed income portfolios and strategies managed by internal portfolio managers.

Oppenheimer Investment Management LLC - OIM provides institutional taxable fixed income portfolio management strategies and solutions to Taft-Hartley funds, public pension funds, corporate pension funds, insurance companies, foundations and endowments.

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CAPITAL MARKETS

Investment Banking

Oppenheimer employs approximately 100 investment banking professionals in the United States, the United Kingdom, Germany and Israel. Oppenheimer's investment banking division provides strategic advisory services and capital markets products to emerging growth and middle market businesses as well as financial sponsors. The investment banking industry coverage groups focus on the consumer, energy, financial institutions, healthcare, rental services, technology and transportation and logistics sectors. Oppenheimer's industry coverage teams partner with Oppenheimer's Mergers and Acquisitions practice as well as Equities and Fixed Income platforms to provide its clients with tailored advice and access to capital markets.

Mergers and Acquisitions — Oppenheimer advises buyers and sellers on sales, divestitures, mergers, acquisitions, tender offers, privatizations, restructurings, spin-offs and joint ventures. Oppenheimer provides dedicated senior banker focus to clients throughout the financial advisory process, which combines our structuring and negotiating expertise with our industry knowledge, extensive relationships, and capital markets capabilities.

Equities Capital Markets — Oppenheimer provides capital raising solutions for corporate clients through initial public offerings, follow-on offerings, equity-linked offerings, private investments in public entities, and private placements. Oppenheimer focuses on emerging companies in growth industries, including consumer, energy, financial institutions, healthcare, rental services, technology and transportation and logistics.

Debt Capital Markets — Oppenheimer offers a full range of debt capital markets solutions for emerging growth and middle market companies and financial sponsors. Oppenheimer focuses on structuring and distributing public and private debt through finance transactions, including leveraged buyouts, acquisitions, growth capital financings, recapitalizations and Chapter 11 exit financings. Oppenheimer also participates in high yield debt and fixed and floating-rate senior and subordinated debt offerings. In addition, Oppenheimer advises on and acts as underwriter or placement agent on bond financings for both sovereign and corporate emerging market issuers.

Equities Division

Oppenheimer employs 32 senior analysts covering over 500 equity securities, primarily listed in the U.S. and over 75 dedicated equity sales and trading professionals in offices throughout the U.S., in the EU (London and Geneva), and in Asia (Hong Kong). Oppenheimer provides fundamental equity research, execution services and access to all major U.S. equity exchanges and alternative execution venues, in addition to capital markets/origination, various arbitrage strategies, portfolio and electronic trading. Oppenheimer offers a suite of quantitative and algorithmic trading solutions to access liquidity in global markets. Oppenheimer's clients include domestic and international investors such as investment advisers, banks, mutual funds, insurance companies, hedge funds, and pension and profit sharing plans, attracted by the research product, insights and market intelligence provided by sales and trading staff as well as by the quality of execution (measured by volume, timing, price and other factors), and competitive negotiated commission rates.

Institutional Equity Sales and Trading — Oppenheimer acts as both principal and agent in the execution of its customers' orders. Oppenheimer buys, sells and maintains an inventory in order to "make a market". In executing customer orders for securities in which it does not make a market, Oppenheimer generally charges a commission and acts as agent, or will act as principal by marking the security up or down in a riskless transaction. When an order is in a security in which Oppenheimer makes a market, Oppenheimer normally acts as principal and purchases from or sells to its brokerage customers at a price which is approximately equal to the current inter-dealer market price plus or minus a mark-up or mark-down. The stocks in which Oppenheimer makes a market may also include those of issuers which are followed by Oppenheimer's research department.

Equity Research — Oppenheimer provides regular research reports, notes and earnings updates and also sponsors research conferences where the management of covered companies can meet with investors in a group format as well as in one-on-one meetings. Oppenheimer arranges for company managements to meet with interested investors through arranged meetings wherein management representatives travel to various sites to meet with Oppenheimer representatives and with investors. Oppenheimer's analysts use a variety of quantitative and qualitative tools, integrating field analysis, proprietary channel checks and ongoing dialogue with the managements of the companies they cover in order to produce reports and studies on individual companies and industry developments.

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Equity Derivatives and Index Options — Oppenheimer offers listed equity and index options strategies for investors seeking to manage risk and optimize returns within the equities market. Oppenheimer's experienced professionals have expertise in many listed derivative products designed to serve the diverse needs of its institutional, corporate and private client base.

Convertible Bonds — Oppenheimer offers expertise in the sales, trading and analysis of U.S. domestic convertible bonds, convertible preferred shares and warrants, with a focus on minimizing transaction costs and maximizing liquidity. In addition Oppenheimer offers hedged (typically long convertible bonds and short equities) positions to its clients on an integrated trade basis.

Event Driven Sales and Trading — Oppenheimer has a dedicated team focused on providing specialized advice and trade execution expertise to institutional clients with an interest in investment strategies such as: risk / merger arbitrage, Dutch tender offers, splits and spin-offs, recapitalizations, corporate reorganizations, and other event-driven trading strategies.

Taxable Fixed Income

Oppenheimer employs over 85 dedicated fixed income sales and trading professionals in offices in the U.S., the European Union ("EU") (London and Isle of Jersey) and Asia (Hong Kong). Oppenheimer offers capabilities in trading and sales in highly rated ("investment grade") and non-highly rated ("non-investment grade") corporate bonds, mortgage-backed securities, U.S. government and agency bonds and the sovereign and corporate debt of industrialized and emerging market countries, which may be denominated in currencies other than U.S. dollars. Oppenheimer also publishes desk analysis with respect to a number of such securities. Risk of loss upon default by the borrower is significantly greater with respect to unrated or non-investment grade securities than with investment grade securities. These securities are generally unsecured and are often subordinated to other creditors of the issuer. These issuers usually have high levels of indebtedness and are more sensitive to adverse economic conditions, such as recession or increasing interest rates, than are investment grade issuers. Oppenheimer also participates in auctions for U.S. government securities conducted by the Federal Reserve Bank of New York on behalf of the U.S. Treasury Department.

Institutional Fixed Income Sales and Trading - Oppenheimer trades and holds positions in public and private debt (including sovereign debt) securities, including investment and non-investment grade, distressed and convertible corporate securities as well as municipal securities. There may be a limited market for some of these securities and market quotes may be available from only a small number of dealers or inter-dealer brokers. While Oppenheimer normally holds such securities for a short period of time in order to facilitate client transactions, there is a risk of loss upon default by the borrower or from a change in interest rates affecting the value of the security. These issuers may have high levels of indebtedness and be sensitive to adverse economic conditions, such as recession or increasing interest rates.

Fixed Income Research - Oppenheimer has a total of eight fixed income research professionals. There are two dedicated research analysts covering companies that have issued high yield bonds in the United States. Oppenheimer's high yield corporate bond research effort is designed to identify debt issues that provide a combination of high yield plus capital appreciation over the short to medium term. One mortgage backed securities analyst focuses on the detailed analysis of individual agency and non-agency mortgage backed securities. Three professionals cover emerging markets fixed income issuers, including a publishing research analyst focused exclusively on sovereign bonds and a strategist providing commentary on emerging market corporate bond issuers. Two municipal bond research analysts are dedicated on the tax-exempt municipal bond market.

Public Finance and Municipal Trading

Public Finance - Oppenheimer's public finance group advises and raises capital for state and local governments, public agencies, private developers and other borrowers. The group assists its clients by developing and executing capital financing plans that meet our clients' objectives and by maintaining strong national institutional and retail securities distribution capabilities. Public finance bankers have expertise in specific areas, including local governments and municipalities, primary and secondary schools, post-secondary and private schools, state and local transportation entities, health care institutions, senior-living facilities, public utility providers and project financing. In addition to underwriting longer-term municipal securities, Oppenheimer also provides advice to municipal issuers with respect to the timing and issuance of short-term municipal notes, which Oppenheimer then underwrites and distributes as well as short-term notes for bridge financing of real estate projects.

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Municipal Trading - Oppenheimer has regionally based municipal bond trading desks serving retail financial advisers and clients within their regions. The desks serve Oppenheimer's financial advisers in supporting their high-net-worth clients' needs for taxable and non-taxable municipal securities. The firm also maintains a dedicated institutional municipal bond sales and trading effort focused on serving mid-tier and national institutional accounts. The institutional desks assist in underwriting municipal securities originated by the Public Finance Department.

Proprietary Trading and Investment Activities

In the regular course of its business, Oppenheimer takes securities positions as a market maker and/or principal to facilitate customer transactions and for investment purposes. In making markets and when trading for its own account, Oppenheimer exposes its own capital to the risk of fluctuations in market value. In 2010, Congress enacted the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") that prohibits proprietary trading by certain financial institutions (the "Volcker Rule") except where facilitating customer trades. The Volcker Rule went into effect in July 2015 and does not impact the Company's business or operations as it applies to banks and other subsidiaries of bank holding companies only.

The size of Oppenheimer's securities positions vary substantially based upon economic and market conditions, allocations of capital, underwriting commitments and trading volume. Also, the aggregate value of inventories of securities which Oppenheimer may carry is limited by the Net Capital Rule. See "Regulatory Capital Requirements" herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" in Item 7.

The Company, through its subsidiaries, holds investments as general partner in a range of investment partnerships (hedge funds, fund of funds, private equity partnerships and real estate partnerships) which are offered to Oppenheimer hedge fund-qualified clients and on a limited basis to qualified clients of other broker-dealers.

Repurchase Agreements

Additionally, through the use of securities sold under agreements to repurchase and securities purchased under agreements to resell, the Company acts as an intermediary between borrowers and lenders of short-term funds and provides funding for various inventory positions.

Securities Lending

In connection with both its trading and brokerage activities, Oppenheimer borrows securities to cover short sales and to complete transactions in which customers have failed to deliver securities by the required settlement date and lends securities to other brokers and dealers for similar purposes. Oppenheimer earns interest on its cash collateral provided and pays interest on the cash collateral received less a rebate earned for lending securities.

CONSOLIDATED SUBSIDIARIES

Oppenheimer & Co. Inc.

Oppenheimer is registered as a broker-dealer in securities with the U.S. Securities Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 and an investment adviser under the Investment Adviser Act of 1940, as amended (the "Adviser Act") and transacts business on various exchanges. Oppenheimer engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking and underwritings (both corporate and public finance), research, market-making, and investment advisory and asset management services. Oppenheimer provides its services from offices located in the United States.

Oppenheimer Asset Management Inc.

OAM is registered as an investment adviser with the SEC under the Advisers Act. OAM provides investment advice to clients through separate accounts and wrap fee programs.

OPY Credit Corp.

OPY Credit was formed in order to facilitate leveraged loan transactions on behalf of investment banking clients seeking such services.

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Oppenheimer Trust Company of Delaware Inc.

Oppenheimer Trust offers a wide variety of trust services to clients of Oppenheimer. This includes custody services, advisory services and specialized servicing options for clients. At December 31, 2018, Oppenheimer Trust held custodial assets of $290.4 million. See "Other Requirements" herein.

Freedom Investments, Inc.

Freedom presently offers discount services to a small number of individual clients. The Company is exploring expanding its services to offer a full spectrum of services to independent advisers and Registered Investment Advisers ("RIAs") clearing through Oppenheimer. The Company is currently developing the technology platform that would potentially support such a service offering.

ADMINISTRATION AND OPERATIONS

Administration and operations personnel are responsible for the processing of securities transactions; the receipt, identification and delivery of funds and securities; the maintenance of internal financial controls; accounting functions; custody of customers' securities; the handling of margin accounts for Oppenheimer and its correspondents; and general office services.

Oppenheimer executes its own and certain of its correspondents' securities transactions on all United States exchanges as well as many non-U.S. exchanges and in the over-the-counter market. Oppenheimer clears all of its securities transactions (i.e., it delivers securities that it has sold, receives securities that it has purchased and transfers related funds) through its own facilities and through memberships in various clearing corporations and accounts with custodian banks in the United States as well as non-U.S. securities through EuroClear. The Company clears its non-U.S. international equities business in securities traded on European exchanges, carried on by Oppenheimer Europe Ltd. through Global Prime Partners Ltd. Oppenheimer has a multi-currency platform which enables it to facilitate client trades in securities denominated in foreign currencies. Oppenheimer operates as an introducing broker and introduces its clients' commodities transactions through a correspondent firm on a fully disclosed basis. Through this arrangement, Oppenheimer offers full commodity services on all commodity exchanges.

EMPLOYEES

At December 31, 2018, the Company employed 2,976 employees (2,918 full-time and 58 part-time), of whom 1,073 were financial advisers.

COMPETITION

Oppenheimer encounters intense competition in all aspects of the securities business and competes directly with other securities firms, a significant number of which have substantially greater resources and offer a wider range of financial services. In addition, there has been increasing competition from other sources, such as commercial banks, insurance companies, private equity and financial sponsors and certain major corporations that have entered the securities industry through acquisition, and from other entities. Additionally, foreign-based securities firms and commercial banks regularly offer their services in performing a variety of investment banking functions including mergers and acquisitions advice, leveraged buy-out financing, merchant banking, and bridge financing, all in direct competition with U.S. broker-dealers.

Several key market events drastically altered the landscape for financial institutions since the financial crisis of 2008-9. Voluntary and involuntary consolidations as well as government assistance provided to U.S. financial institutions led to a greater concentration of capital and market share among large financial institutions. This, coupled with the ability of these financial institutions to finance their securities businesses with capital from other businesses, such as commercial banking deposits, as such institutions derive an aura of stability in the mind of the public ("too big to fail") and may put the Company at a significant competitive disadvantage.

We also compete with companies that offer web-based financial services and discount brokerage services, usually with lower levels of service, to individual clients. We also compete with advisers holding themselves out as "independent" and who are registered investment advisers or RIAs. We compete principally on the basis of the quality of our advisers, services, product selection, location and reputation in local markets. Our ability to compete effectively in these businesses is substantially dependent on our continuing ability to attract, retain and motivate qualified professionals, including successful financial advisers, research analysts, investment bankers, trading professionals, portfolio managers and other revenue producing or specialized personnel.

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The Company believes that the principal factors affecting competition in the securities and investment banking industries are the quality and ability of professional personnel and relative prices of services and products offered. In some instances, competition within the industry can be impacted by the credit ratings assigned to the firm offering services when potential clients are making a determination of acceptable counterparties. The ability of securities industry participants to offer credit facilities to potential investment banking clients may affect the assignment of individual transactions. The Company's ability to compete depends substantially on its ability to attract and retain qualified employees while managing compensation and other costs. Oppenheimer and its competitors employ advertising and direct solicitation of potential customers in order to increase business and furnish investment research publications in an effort to retain existing and attract potential clients. Many of Oppenheimer's competitors engage in these programs more extensively than Oppenheimer. Increasingly, securities firms are providing automated investment advisory services that employ algorithms to determine recommended portfolio allocations at a much lower price point. This model is in early stage and it is not yet clear whether this type of investment advisory service will provide meaningful competition to the full service investment model.

BUSINESS CONTINUITY PLAN

The Company has a business continuity plan in place which is designed to enable it to continue to operate and provide services to its clients under a variety of circumstances in which one or more events may make one or more firm operating locations unavailable due to a local, regional or national emergency, or due to the failure of one or more systems that the Company relies upon to provide the services that it routinely provides to its clients, employees and various business partners and counterparties. The plan covers all business areas of the Company and provides contingency plans for technology, staffing, equipment, and communication to employees, clients and counterparties. While the plan is intended to address many types of business continuity issues, there could be certain occurrences which, by their very nature are unpredictable, and can occur in a manner that is outside of our planning guidelines and could render the Company's estimates of timing for recovery inaccurate. Under all circumstances, it is the Company's intention to remain in business and to provide ongoing investment services as if no disruption had occurred.

Oppenheimer maintains its headquarters and principal operating locations in New York City. In order to provide continuity for these services, the Company operates a primary data center as well as maintains back-up facilities (information technology, operations and data processing) in sites with requisite communications back-up systems. In addition, the Company occupies significant office facilities in locations around the United States which could, in an emergency, house dislocated staff members for a short or intermediate time frame. Oppenheimer relies on public utilities for power and phone services, industry specific entities for ultimate custody of client securities and market operations, and various industry vendors for services that are significant and important to its business for the execution, clearance and custody of client holdings, for the pricing and valuing of client holdings, and for permitting our Company's employees to communicate on an efficient basis. The Company's headquarters and the primary location for its technology infrastructure are both supported by emergency electric generator back-up. All of these service providers have assured the Company that they have made plans for providing continued service in the case of an unexpected event that might disrupt their services.

CYBERSECURITY

Cybersecurity presents significant challenges to the business community in general, as well as to the financial services industry. Increasingly, bad actors, both domestically and internationally, attempt to steal personal data and/or interrupt the normal functioning of businesses through accessing individuals' and companies' files and equipment connected to the internet. Recent incidents have reflected the increasing sophistication of intruders and their intent to steal personally identifiable information as well as funds and securities. These intruders sometimes use instructions seemingly from authorized parties but in fact from parties intent on attempting to steal. In other instances these intruders attempt to bypass normal safeguards and disrupt or steal significant amounts of information and then either release it to the internet or hold it for ransom. Regulators are increasingly requiring companies to provide increased levels of sophisticated defenses. The Company maintains vigilance and ongoing planning and systems to prevent any such attack from disrupting its services to clients as well as to prevent any loss of data concerning its clients, their financial affairs, as well as Company privileged information. The Company has implemented new systems to detect and defend from such attacks and has appointed a Corporate Information Security Officer and put in place a department of dedicated staff to provide ongoing development and oversight of the Company's systems and defenses. See "Risk Factors — The Company may be exposed to damage to its business or its reputation by cybersecurity incidents" in Item 1A.

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REGULATION

Self-Regulatory Organization Membership — Oppenheimer is a member firm of the following self-regulatory organizations ("SROs"): the Financial Industry Regulatory Authority ("FINRA"), the Intercontinental Exchange, Inc., known as ICE Futures U.S., and the National Futures Association ("NFA"). In addition, Oppenheimer has satisfied the requirements of the Municipal Securities Rulemaking Board ("MSRB") for effecting customer transactions in municipal securities. Freedom is also a member of FINRA. Oppenheimer Europe Ltd. is regulated by the Financial Conduct Authority ("FCA") in the United Kingdom and the Jersey Financial Services Commission ("JFSC") in the Isle of Jersey. Oppenheimer Investments Asia Limited is regulated by the Securities and Futures Commission ("SFC") in Hong Kong. Oppenheimer is also a member of the Securities Industry and Financial Markets Association ("SIFMA"), a non-profit organization that represents the shared interests of participants in the United States financial markets. The Company has access to a number of regional and national markets and is required to adhere to their applicable rules and regulations.

Securities Regulation — The securities industry in the United States is subject to extensive regulation under both federal and state laws. The SEC is the Federal agency charged with administration of the Federal securities laws. The Commodities Futures Trading Commission ("CFTC") is the federal agency charged with administration of the federal laws governing commodities and future trading. Much of the regulation of broker-dealers has been delegated to SROs such as FINRA and the NFA. FINRA has been designated as the primary regulator of Oppenheimer and Freedom with respect to securities and option trading activities and the NFA has been designated as Oppenheimer's primary regulator with respect to commodities activities. SROs adopt rules (subject to approval by the SEC or the CFTC, as the case may be) governing the industry and conduct periodic examinations of Oppenheimer's and Freedom's operations. In recent years, the SEC has increased its programs for examinations of registrants, even where such examinations overlap with examinations conducted by other entities. Securities firms are also subject to regulation by state securities commissions in the states in which they do business. Oppenheimer and Freedom are each registered as a broker-dealer in the 50 states and the District of Columbia and Puerto Rico.

Broker-dealer Regulation — The regulations to which broker-dealers are subject cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, the use and safekeeping of customers' funds and securities, capital structure of securities firms, record keeping and the conduct of directors, officers and employees. The SEC has adopted rules requiring underwriters to ensure that municipal securities issuers provide current financial information and imposing limitations on political contributions to municipal issuers by brokers, dealers and other municipal finance professionals. Additional legislation, changes in rules promulgated by the SEC, the CFTC and by SROs, or changes in the interpretation or enforcement of existing laws and rules may directly affect the method of operation and profitability of broker-dealers. The SEC, SROs (including FINRA) and state securities commissions may conduct administrative proceedings which can result in censure, fine, issuance of cease and desist orders or suspension or expulsion of a broker-dealer (for all or part of its activities), its officers, or employees. These administrative proceedings, whether or not resulting in adverse findings, can require substantial expenditures of time and money and can have an adverse impact on the reputation of a broker-dealer. The principal purpose of regulating and disciplining broker-dealers is to protect customers and the securities markets rather than to protect creditors and shareholders.

Regulation NMS and Regulation SHO have substantially affected the trading of equity securities. These regulations were intended to increase transparency in the markets and have acted to further reduce spreads and, with competition from electronic marketplaces, to reduce commission rates paid by institutional investors. These rules have also reduced liquidity in some markets under some circumstances.

Oppenheimer and certain of its affiliates are also subject to regulation by the SEC and under certain state laws in connection with its business as an investment adviser. The SEC has announced its intention to place additional oversight and scrutiny over dual registrants such as the Company, where the registrant conducts business as a broker-dealer and investment adviser.

Margin lending by Oppenheimer is subject to the margin rules of the Board of Governors of the Federal Reserve System and FINRA. Under such rules, Oppenheimer is limited in the amount it may lend in connection with certain purchases of securities and is also required to impose certain maintenance requirements on the amount of securities and cash held in margin accounts. In addition, Oppenheimer may (and currently does) impose more restrictive margin requirements than required by such rules.

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The Sarbanes-Oxley Act of 2002 — The Sarbanes-Oxley Act effected significant changes to corporate governance, auditing requirements and corporate reporting. This law generally applies to all companies, including the Company, with equity or debt securities registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company has taken numerous actions, and incurred substantial expenses, since the passage of the legislation to comply with the Sarbanes-Oxley Act, related regulations promulgated by the SEC and other corporate governance requirements of the NYSE. On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released an updated version of its Internal Control - Integrated Framework (the "2013 Framework"), which supersedes the original framework that was developed in 1992. The Company adopted the 2013 Framework on December 15, 2014 as a basis for their compliance with the Sarbanes-Oxley Act of 2002. Management has determined that the Company's internal control over financial reporting as of December 31, 2018 was effective. See "Management's Report on Internal Control over Financial Reporting."

Wall Street Reform & Consumer Protection Act (the "Dodd-Frank Act") — In July 2010, Congress enacted extensive legislation entitled the Dodd-Frank Act in which it mandated that the SEC and other regulators conduct comprehensive studies and issue new regulations based on their findings to control the activities of financial institutions in order to protect the financial system, the investing public and consumers from issues and failures that occurred in the 2008-9 financial crisis. This effort has extensively impacted the regulation and practices of financial institutions including the Company. The changes have significantly reduced leverage available to financial institutions and increased transparency to regulators and investors of risks taken by such institutions. In addition, new rules have been adopted to regulate and/or prohibit proprietary trading for certain deposit taking institutions, control the amount and timing of compensation to "highly paid" employees, create new regulations around financial transactions with retirement plans due to the adoption of a uniform fiduciary standard of care of broker-dealers and investment advisers providing personalized investment advice about securities to such plans, increase the disclosures provided to clients, and in some European jurisdictions create a tax on securities transactions. The Consumer Financial Protection Bureau also implemented new rules affecting the interaction between financial institutions and consumers.

Under rules issued by the SEC regarding registration of municipal advisers, certain activities will be covered by the fiduciary duty of a municipal adviser to its government clients imposed by the Dodd-Frank Act, and may result in the need for new written representations by issuers. They may also limit the manner in which we, in our capacity as an underwriter or in our other professional roles, interact with municipal issuers. Oppenheimer registered as a municipal adviser and by virtue of such registration is now subject to additional regulation and oversight in respect of its municipal finance business. These rules impact the nature of Oppenheimer's interactions with public finance clients, and may have a negative impact on the volume of public finance transactions in which we maybe engaged.

Section 956 of the Dodd-Frank Act required the SEC, Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Housing Finance Agency and National Credit Union Administration (the "agencies") to jointly prescribe regulations or guidelines related to the prohibition of incentive-based compensation arrangements that encourage inappropriate risks at certain financial institutions. The agencies have released a proposed rule that would prohibit certain forms of incentive-based compensation arrangements for financial institutions with greater than $1 billion in total assets (the "Incentive-Based Compensation Proposal"). Much of the Incentive-Based Compensation Proposal would apply to financial institutions categorized as either "Level 1" institutions (assets of $250 billion or more) or "Level 2" institutions (assets of $50 billion to $250 billion), while "Level 3" institutions (assets of $1 billion to $50 billion) would be subject to less extensive obligations. All covered financial institutions would be required to, among other requirements: (i) annually document the structure of their incentive-based compensation arrangements; (ii) retain records of such annual documentation for at least seven years; and (iii) comply with general prohibitions on incentive-based compensation arrangements that could encourage inappropriate risk-taking. Should the Incentive-Based Compensation Proposal be adopted, we would be subject to the rule's requirements as a "Level 3" financial institution, which would require us to incur additional legal and compliance costs, as well as subject us to increased legal risks.

Bank Secrecy Act and USA PATRIOT Act of 2001— The Bank Secrecy Act and the USA PATRIOT Act of 2001 (“Patriot Act”) and requirements administered by the Financial Crimes Enforcement Network (“FinCEN”) require financial institutions, among other things, to implement a risk-based program reasonably designed to prevent money laundering and to combat the financing of terrorism, including through suspicious activity and currency transaction reporting, compliance, record-keeping and initial and on-going due diligence on customers. The Patriot Act also contains financial transparency laws and enhanced information collection tools and enforcement mechanisms for the U.S. government, including: due diligence and record-keeping requirements for private banking and correspondent accounts; standards for obtaining and verifying customer identification at account opening; rules to produce certain records upon request of a regulator or law enforcement and to promote cooperation among financial institutions, regulators, and law enforcement in identifying parties that may be involved

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in terrorism, money laundering and other crimes. In May 2016, FinCEN issued a new rule that, since May 2018, has required certain financial institutions, including U.S. banks and broker-dealers, to obtain certain beneficial ownership information from legal entity clients. Failure to meet the requirements of the Bank Secrecy Act, the Patriot Act or FinCEN can lead to regulatory actions including significant fines and penalties.

Markets in Financial Instruments Directive (known as "MiFID II") — MiFID II became effective on January 3, 2018 in the United Kingdom and all of Europe. The Directive is intended to strengthen investor protection and improve the functioning of financial markets making them more efficient, resilient and transparent. MiFID II sets out: (i) conduct of business and organizational requirements for investment firms; (ii) authorization requirements for regulated markets; (iii) regulatory reporting to avoid market abuse; (iv) trade transparency obligation for shares; and (v) rules on the admission of financial instruments to trading. The new rulemaking has and will fundamentally alter the provision of research to financial institutions as well as require the registration of all market participants. It is anticipated that this rulemaking will negatively impact the overall availability of commission revenue in payment for equity research and possibly negatively impact the liquidity of markets for equities and fixed income securities in Europe. It is possible that these new business practices may be adopted in the U.S. although there is currently no such regulatory requirement in the U.S.

Fiduciary Standard — Rulemaking by the U.S. Department of Labor and SEC— In April 2016, the U.S. Department of Labor ("DOL") finalized its definition of fiduciary under the Employee Retirement Income Security Act ("ERISA") through the release of new rules and changes to interpretations of six prohibited transaction exemptions which together set a new standard for the treatment and effects of advice given to retirement investors. Under this new rule, investment advice given to an employee benefit plan or an individual retirement account ("IRA") is considered fiduciary advice. In March 2018, the U.S. 5th Circuit Court of Appeals found that the DOL did not have the jurisdiction to adopt the aforementioned rules and vacated the DOL Fiduciary Rules effective in June 2018.

On April 18, 2018, the SEC announced its proposed "Regulation Best Interest," a package of rulemakings and interpretations that address customers' relationships with investment advisers and broker-dealers. Regulation Best Interest would create an intermediate standard requiring advisers and broker-dealers to act in the clients' "best interest" at all times. The proposal did not provide a definition of "best interest'. The proposed rules would require substantially greater record keeping than is currently the case. The rules would be applicable to all customers of broker-dealers and investment advisers. The public comment period applicable to Regulation Best Interest expired on August 7, 2018. The SEC has indicated its intention to move forward with a final rule proposal in 2019. It is too soon to predict whether and in what form the SEC will adopt Regulation Best Interest, the effect it may have on broker-dealers and investment advisers generally, the specific effect it will have on the Company's broker-dealer and investment management businesses, and the effect it will have on the Company’s competitive position in the financial services industry. During 2017, the Company reviewed its business and operating models in light of the DOL Fiduciary Rules and made structural and operational changes to the Company's broker-dealer and investment management businesses. The changes have had a negative impact on revenues derived from retirement accounts and the desirability of servicing such accounts, except when they are participating in fixed fee based programs. The Company is reviewing its business and operating models in light of the 5th Circuit ruling and the proposed Regulation Best Interest and may make further structural and operational changes in light of the vacated DOL Fiduciary Rules and in anticipation of the SEC adopting a version of the proposed Regulation Best Interest.

The Company believes new regulations generally increase the associated costs of doing business and put further pressure on conventional agency commission business conducted by broker-dealers.

Privacy — U.S. federal law establishes minimum federal standards for financial privacy by, among other provisions, requiring financial institutions to adopt and disclose privacy policies with respect to consumer information and setting forth certain limitations on disclosure to third parties of consumer information. U.S. state law and regulations adopted under U.S. federal law impose obligations on Oppenheimer and its subsidiaries for protecting the security, confidentiality and integrity of client information, and require notice of data breaches to certain U.S. regulators, and in some cases, to clients. The General Data Protection Regulation (“GDPR”) imposes additional requirements for companies that collect or store personal data of European Union residents. GDPR expands the scope of the EU data protection law to all foreign companies processing personal data of EU residents, imposes a strict data protection compliance regime, and includes new rights. Oppenheimer has adopted and disseminated privacy policies, and communicates required information relating to financial privacy and data security, in accordance with applicable law.

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Money Market Funds — In July 2014, the SEC adopted amendments to the rules that govern money market mutual funds. The amendments make structural and operational reforms to address risks of excessive withdrawals over relatively short time frames by investors from money market funds, while preserving the benefits of the funds. Oppenheimer does not sponsor any money market funds. Oppenheimer utilizes such funds to a small extent for its own investment purposes and, as a result of the new rules, has extensively limited the availability of money market funds to its clients. Instead the Company now offers FDIC short-term bank deposits alternatives as cash sweep investments. The SEC has recently announced its intention to review the programs under which broker-dealers offer FDIC-insured accounts to clients and their potential impact on the financial system.

Consolidated Audit Trail — The SEC approved Rule 613 on October 1, 2012 which introduced the requirement for a Consolidated Audit Trail ("CAT"), a central repository for all U.S. securities transactions that is to be utilized for monitoring of markets and for regulatory purposes by SROs and the SEC. The rule was issued as a response to Wall Street's May 6, 2010 "Flash Crash", during which the market sustained a significant decline without any underlying news or economic rationale. The CAT will be utilized to identify the beneficiary owner of every securities transaction and to correlate that information across market participants. In February 2015, the SROs submitted the CAT National Market System ("NMS") Plan to create the CAT and to announce the requirements for market participants. On November 15, 2016, the NMS Plan was unanimously approved by the SEC. The NMS Plan outlines the reporting requirements for industry participants, as well as the requirements for the Plan Processor, the entity that will hold and protect the data, while making it available to authorized users.

When CAT goes into operation, all U.S. broker-dealers and SROs will be required to report all equity and options life cycle events to the repository on a daily basis. In addition, U.S. broker-dealers will be required to submit customer account information to the repository. This will make CAT the world's largest repository of securities transactions, receiving an estimated 58 billion records per day. The SROs will have 12 months to submit equity and options life cycle events to the CAT. Large broker-dealers, which includes Oppenheimer, will be required to begin reporting within 24 months, and small broker-dealers will be required to report within 36 months. It is anticipated that there will be duplicative reporting by the SROs and the industry, however, the CAT NMS Plan requires SROs to define plans to eliminate duplicative reporting.

The Company anticipates that the requirements of the CAT will be expensive to implement, require significant amounts of planning and will present potential privacy issues that may not be protected under existing rule-making and may make the Company liable for improper disclosure or cybersecurity hacking of the CAT database.

Trust Company Regulation — Oppenheimer Trust is a limited purpose trust company organized under the laws of Delaware and is regulated by the Office of the State Banking Commissioner.

The impact of any of, or more than one of, the foregoing could have a material adverse effect on our business, financial condition and results of operations. Certain of the rulemaking described above remains under consideration and has been subject to numerous changes and postponements in both the requirements and implementation date(s).

REGULATORY CAPITAL REQUIREMENTS

As registered broker-dealers and member firms regulated by FINRA, Oppenheimer and Freedom are subject to certain net capital requirements pursuant to Rule 15c3-1 (the "Net Capital Rule") promulgated under the Exchange Act. The Net Capital Rule, which specifies minimum net capital requirements for registered brokers and dealers, is designed to measure the general financial integrity and liquidity of a broker-dealer and requires that at least a minimum part of its assets be kept in liquid form.

Oppenheimer elects to compute net capital under the alternative method of calculation permitted by the Net Capital Rule. (Freedom computes net capital under the basic formula as provided by the Net Capital Rule.) Under the alternative method, Oppenheimer is required to maintain a minimum "net capital", as defined in the Net Capital Rule, at least equal to 2% of the amount of its "aggregate debit items" computed in accordance with the Formula for Determination of Reserve Requirements for Brokers and Dealers (Exhibit A to Rule 15c3-3 under the Exchange Act) or $1.5 million, whichever is greater. "Aggregate debit items" are assets that have as their source transactions with customers, primarily margin loans. Failure to maintain the required net capital may subject a firm to suspension or expulsion by FINRA, the SEC and other regulatory bodies and ultimately may require the firm's liquidation. The Net Capital Rule also prohibits payments of dividends, redemption of stock and the prepayment of subordinated indebtedness if net capital thereafter would be less than 5% of aggregate debit items (or 7% of the funds required to be segregated pursuant to the Commodity Exchange Act and the regulations thereunder, if greater) and payments in respect of principal of subordinated indebtedness if net capital thereafter would be less than 5% of aggregate

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debit items (or 6% of the funds required to be segregated pursuant to the Commodity Exchange Act and the regulations thereunder, if greater). The Net Capital Rule also provides that the total outstanding principal amounts of a broker-dealer's indebtedness under certain subordination agreements (the proceeds of which are included in its net capital) may not exceed 70% of the sum of the outstanding principal amounts of all subordinated indebtedness included in net capital, par or stated value of capital stock, paid-in capital in excess of par, retained earnings and other capital accounts for a period in excess of 90 days.

Net capital is essentially defined in the Net Capital Rule as net worth (assets minus liabilities), plus qualifying subordinated borrowings minus certain mandatory deductions that result from excluding assets that are not readily convertible into cash and deductions for certain operating charges. The Net Capital Rule values certain other assets, such as a firm's positions in securities, conservatively. Among these deductions are adjustments (referred to as "haircuts") in the market value of securities to reflect the possibility of a market decline prior to disposition.

Compliance with the Net Capital Rule could limit those operations of the brokerage subsidiaries of the Company that require the intensive use of capital, such as underwriting and trading activities and the financing of customer account balances, and also could restrict the Company's ability to withdraw capital from its brokerage subsidiaries, which in turn could limit the Company's ability to pay dividends, repay debt and redeem or purchase shares of its outstanding capital stock. Under the Net Capital Rule, broker-dealers are required to maintain certain records and provide the SEC with quarterly reports with respect to, among other things, significant movements of capital, including transfers to a holding company parent or other affiliate. The SEC and/or SROs may in certain circumstances restrict the Company's brokerage subsidiaries' ability to withdraw excess net capital and transfer it to the Company or to other Operating Subsidiaries or to expand the Company's business.

Oppenheimer Europe Ltd. is authorized by the FCA of the United Kingdom to provide investment services under MiFID II. New Basel III requirements being implemented in the European Union have changed how capital adequacy is reported under the Capital Requirements Directive ("CRD IV"), effective January 1, 2014, for Oppenheimer Europe Ltd. There are three capital ratios Oppenheimer Europe Ltd. must meet: 1) Common Equity Tier 1 ratio of 4.5%; 2) Tier 1 Capital ratio of 6.0%; and 3) Total Capital ratio of 8.0%. Under MiFID II, Oppenheimer Europe has applied for and received increased permissions, effective January 1, 2018, to be treated as a liquidity provider and as such may trade as principal with its institutional counter-parties in fixed income securities. This registration will require that Oppenheimer Europe Ltd. dedicate increased capital to its European business.

Oppenheimer Investments Asia Limited was approved by the SFC to provide institutional fixed income and equities brokerage services to institutional investors and corporate finance advisory services to Hong Kong institutional clients. Oppenheimer Investments Asia Limited is required to maintain Required Liquid Capital of the greater of HKD 3.0 million or 5% of Adjusted Liabilities as defined by the Hong Kong Securities and Futures Financial Resources Rules.

See note 17 to the consolidated financial statements appearing in Item 8 for further information on the Company's regulatory capital requirements.

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OTHER REQUIREMENTS

Senior Secured Notes

On June 23, 2017, the Parent issued in a private offering $200.0 million aggregate principal amount of 6.75% Senior Secured Notes due 2022 (the "Unregistered Notes") under an indenture at an issue price of 100% of the principal amount. On September 19, 2017, the Parent completed an exchange offer in which the Parent exchanged 99.8% of its Unregistered Notes for a like principal amount of notes with identical terms except that such new notes have been registered under the Securities Act of 1933, as amended (the "Notes"). The Parent did not receive any proceeds in the exchange offer. The interest on the Notes is payable semi-annually on January 1st and July 1st, beginning January 1, 2018. See note 11 to the consolidated financial statements appearing in Item 8 for further discussion.

The indenture governing the Notes contains covenants which place restrictions on the incurrence of indebtedness, the payment of dividends, the repurchase of equity, the sale of assets, mergers and acquisitions and the granting of liens. The Notes provide for events of default including, among other things, nonpayment, breach of covenants and bankruptcy. The Parent's obligations under the Notes are guaranteed by certain of the Parent's subsidiaries and are secured by a first-priority security interest in substantially all of the assets of the Parent and the subsidiary's guarantors. These guarantees and the collateral may be shared, on a pari passu basis, under certain circumstances, with debt incurred. As of December 31, 2018, the Parent was in compliance with all of its covenants.

Securities Investor Protection Corporation ("SIPC")

Oppenheimer and Freedom are each members of the SIPC, which provides, in the event of the liquidation of a broker-dealer, protection for customers' accounts (including the customer accounts of other securities firms when it acts on their behalf as a clearing broker) held by the firm of up to $500,000 for each customer, subject to a limitation of $250,000 for claims for cash balances. SIPC is funded through assessments on registered broker-dealers. In addition, Oppenheimer has purchased additional "excess of SIPC" policy protection from certain underwriters at Lloyd's of London of an additional $99.5 million (and $900,000 for claims for cash balances) per customer. The "excess of SIPC" policy has an overall aggregate limit of liability of $300.0 million. The Company has entered into an indemnity agreement with Lloyd's of London pursuant to which the Company has agreed to indemnify Lloyd's of London for losses incurred by Lloyd's under the policy.

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AVAILABLE INFORMATION

The Company's principal place of business is at 85 Broad Street, New York, NY 10004 and its telephone number is (212) 668-8000. The Company's internet address is http://www.oppenheimer.com. The Company makes available free of charge through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy and information statements and other SEC filings and all amendments to those reports within 24 hours of such material being electronically filed with or furnished to the SEC.

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Item 1A. RISK FACTORS

The Company's business and operations are subject to numerous risks. The material risks and uncertainties that management believes affect the Company are described below. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business operations. If any of the following risks actually occur, the Company's financial condition and results of operations may be materially and adversely affected.

The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market.

In February 2008, the market for auction rate securities ("ARS") began experiencing disruptions due to the failure of auctions for preferred stocks issued to leverage closed end funds, municipal bonds backed by tax exempt issuers, and student loans backed by pools of student loans guaranteed by U.S. government agencies. The failure of the ARS market prevented clients of the Company from liquidating holdings in these positions or, in many cases, posting these securities as collateral for loans. The Company had operated in an agency capacity in this market and held and continues to hold ARS in its proprietary accounts and, as a result of this and the Company's ongoing repurchases from customers discussed below, is exposed to these liquidity issues as well. While a significant number of clients have had their ARS redeemed, there is no guarantee that any future ARS issuer redemptions will occur and, if so, that the Company's clients' ARS, or ARS held by the Company will be redeemed.

In February 2010, Oppenheimer finalized settlements with each of the New York Attorney General's office ("NYAG") and the Massachusetts Securities Division ("MSD" and, together with the NYAG, the "Regulators") concluding investigations and administrative proceedings concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. If the ARS market remains frozen, the Company may likely be further subject to claims by its clients. There can be no guarantee that the Company will be successful in defending any future actions against it. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment — Other Regulatory Matters", Legal Proceedings in Item 3 and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Off-Balance Sheet Arrangements" in Item 7 for additional details.

Damage to our reputation could damage our businesses.

Maintaining our reputation is critical to our attracting and maintaining customers, investors and employees. If we fail to deal with, or appear to fail to deal with, various issues that may give rise to reputational risk, we could significantly harm our business prospects. These issues include, but are not limited to, any of the risks discussed in this section, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, employee misconduct, ethical issues, money-laundering, privacy, record keeping, cybersecurity protections, sales and trading practices, failure to sell securities we have underwritten at the anticipated price levels, and the proper identification of the legal, reputational, credit, liquidity, and market risks inherent in our products. A failure to deliver appropriate standards of service and quality, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Further, negative publicity regarding us, whether or not true, may also result in harm to our prospects. Increasingly, the internet, through investor blogs or other sites, is being used to publish information that is untrue, significantly skewed or in some cases slanderous about companies and individuals that are published anonymously and are difficult to refute. Such stories can negatively impact the reputation of companies that are the subject of such attacks. See "The precautions the Company takes to prevent and detect employee misconduct may not be effective and the Company could be exposed to unknown and unmanaged risks or losses" herein.

The Company is subject to extensive securities regulation and the failure to comply with these regulations could subject it to monetary penalties or sanctions.

The securities industry and the Company's business are subject to extensive regulation by the SEC, state securities regulators, other governmental regulatory authorities and industry self-regulatory organizations. The Company may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations or by new or revised legislation or regulations imposed by them.

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As a result of the financial crisis there was a call by politicians, commentators and various sections of the public for more stringent legislation and regulation in the United States and abroad. The Dodd-Frank Act of 2010 enacted sweeping changes and an unprecedented increase in the supervision and regulation of the financial services industry (see "Business — Regulation" in Item 1). The ultimate impact that the Dodd-Frank Act of 2010 and implementing regulations will have on us, the financial industry and the economy at large cannot be quantified until all of the implementing regulations called for under the legislation have been finalized and fully implemented. We are evaluating the impact of the proposed "Regulation Best Interest" on our business (see "Business — Regulation — Fiduciary Standard — Rulemaking by the U.S. Department of Labor and SEC" in Item 1). The implementation of this proposed rule may negatively impact our business.

Oppenheimer is a broker-dealer and investment adviser registered with the SEC and is primarily regulated by FINRA. Broker-dealers are subject to regulations which cover all aspects of the securities business, including, without limitation:

- sales methods and supervision;
- trading practices among broker-dealers;
- emerging standards concerning fees and charges imposed on clients for fee-based programs;
- use and safekeeping of customers' funds and securities;
- anti-money laundering and the USA Patriot Act (the "Patriot Act") compliance;
- capital structure of securities firms;
- trade and regulatory reporting;
- cybersecurity;
- pricing of services;
- compliance with DOL rules and regulations for retirement accounts;
- compliance with lending practices (Regulation T);
- record keeping; and
- the conduct of directors, officers and employees.

Compliance with many of the regulations applicable to the Company involves a number of risks, particularly in areas where applicable regulations may be subject to varying interpretation. The requirements imposed by these regulations are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with the Company. New regulations may result in enhanced standards of duty on broker-dealers in their dealings with their clients (fiduciary standards). Consequently, these regulations often serve to limit the Company's activities, including through net capital, customer protection and market conduct requirements, including those relating to principal trading. Much of the regulation of broker-dealers has been delegated to self-regulatory organizations, principally FINRA. FINRA adopts rules, subject to approval by the SEC, which govern its members and conducts periodic examinations of member firms' operations.

The SEC has passed a requirement for custodians of securities on behalf of investment advisers, such as the Company, to conduct an annual "surprise audit", in addition to the annual audit, and to issue an annual controls report to its clients, issued by a qualified accounting firm, describing its processes and controls affecting custody operations. A failure to conduct such an audit or issue the report with favorable findings could adversely affect a sizable portion of the Company's businesses.

If the Company is found to have violated any applicable regulations, formal administrative or judicial proceedings may be initiated against it that may result in:

- censure;
- fine;
- civil penalties, including treble damages in the case of insider trading violations;
- the issuance of cease-and-desist orders;
- the deregistration or suspension of our broker-dealer activities;
- the suspension or disqualification of our officers or employees; or
- other adverse consequences.

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The imposition of any of the above or other penalties could have a material adverse effect on our operating results and financial condition.

For a more detailed description of the regulatory scheme under which the Company operates, see "Business — Regulation" in Item 1 and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment" in Item 7.

Financial services firms have been subject to increased regulatory scrutiny over the last several years, increasing the risk of financial liability and reputational harm resulting from adverse regulatory actions.

Firms in the financial services industry have been operating in an onerous regulatory environment, which has become even more stringent in light of well-publicized fraud or "Ponzi" schemes. The industry has experienced increased scrutiny from a variety of regulators, including the SEC and FINRA as well as state regulators. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and SROs. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many different aspects of financial services, including, but not limited to, the authority to fine us and to grant, cancel, restrict or otherwise impose conditions on the right to continue operating particular businesses. For example, the failure to comply with the obligations imposed by the Exchange Act on broker-dealers and the Advisers Act on investment advisers, including recordkeeping, registration, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act of 1940 (the "1940 Act"), could result in investigations, sanctions and reputational damage. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or SROs (e.g., FINRA) that supervise the financial markets. Substantial legal liability or significant regulatory action taken against us could have a material adverse effect on our business prospects including our cash position.

Changes in regulations resulting from either the Dodd-Frank Act or any new regulations or laws may affect our businesses.

The market and economic conditions in the period after the financial crisis have directly led to a demand by the public for changes in the way the financial services industry is regulated, including a call for more stringent legislation and regulation in the United States and abroad. The Dodd-Frank Act enacted sweeping changes and an unprecedented increase in the supervision and regulation of the financial services industry (see "Business — Regulation" in Item 1 for a discussion of such changes, including the Volcker Rule). The Dodd-Frank Act impacts the manner in which we market our products and services, manage our business and operations, and interact with regulators, all of which could materially impact our results of operations, financial condition and liquidity. Certain provisions of the Dodd-Frank Act or other legislation that have or may impact our businesses include: the establishment of a fiduciary standard for broker-dealers; regulatory oversight of incentive compensation; the imposition of capital requirements on financial holding companies and to a lesser extent, greater oversight over derivatives trading; and restrictions on proprietary trading. To the extent the Dodd-Frank Act or other legislation impacts the operations, financial condition, liquidity and capital requirements of unaffiliated financial institutions with whom we transact business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us.

Numerous regulatory changes, and enhanced regulatory and enforcement activity, relating to the asset management business may increase our compliance and legal costs and otherwise adversely affect our business.

The SEC has proposed certain measures that would establish a new framework to replace the requirements of Rule 12b-1 under the 1940 Act with respect to how mutual funds pay fees to cover the costs of selling and marketing their shares. The staff of the SEC's Office of Compliance, Inspections and Examinations has indicated that it is reviewing the use of fund assets to pay for fees to sub-transfer agents and sub-administrators for services that may be deemed to be distribution-related. As these measures are neither final nor undergoing implementation throughout the financial services industry, their impact cannot be fully ascertained at this time. As this regulatory trend continues, it could adversely affect our operations and, in turn, our financial results.

Asset management businesses have experienced a number of highly publicized regulatory inquiries, which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisers and broker-dealers. As some of our wholly owned subsidiaries are registered as investment advisers with the SEC, increased regulatory scrutiny and rulemaking initiatives may result in augmented operational and compliance costs or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities.

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It is not possible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Conformance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business. In 2018, the SEC has proposed Regulation Best Interest which many expect to result in a heightened standard of fiduciary conduct for broker-dealers. Any such standard, if mandated, would likely require us to review our product and service offerings and implement certain changes, as well as require that we incur additional regulatory costs in order to ensure compliance. see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment" in Item 7.

In addition, U.S. and foreign governments have taken regulatory actions impacting the investment management industry, and may continue to take further actions, including expanding current (or enacting new) standards, requirements and rules that may be applicable to us and our subsidiaries. For example, the SEC and several states and municipalities in the United States have adopted "pay-to-play" rules, which could limit our ability to charge advisory fees. Such "pay-to-play" rules could affect the profitability of that portion of our business. Additionally, the use of "soft dollars," where a portion of commissions paid to broker-dealers in connection with the execution of trades also pays for research and other services provided to advisers, is periodically reexamined and may be limited or modified in the future. In Europe, the recent effectiveness of MiFID II has eliminated the use of securities transactions to pay for research (see "Business — Regulation" in Item 1). Furthermore, new regulations regarding the management of hedge funds and the use of certain investment products may impact our investment management business and result in increased costs. For example, many regulators around the world adopted disclosure and reporting requirements relating to the hedge fund business.

Legislation has and may continue to result in changes to rules and regulations applicable to our business, which may negatively impact our business and financial results.

The securities industry is subject to extensive and constantly changing regulation. Broker-dealers and investment advisors are subject to regulations covering all aspects of the securities business. Any violation of these laws or regulations could subject us to the following events, any of which could have a material adverse effect on our business, financial condition and prospects: civil and criminal liability; sanctions, which could include the revocation of our subsidiaries' registrations as investment advisors or broker-dealers; the revocation of the licenses of our financial advisors; censures; fines; or a temporary suspension or permanent bar from conducting business.

The SEC announced its proposed "Regulation Best Interest," a package of rulemakings and interpretations that address customers' relationships with investment advisers and broker-dealers. Regulation Best Interest would enact an intermediate standard requiring advisers and broker-dealers to act in the clients' "best interest" at all times. The proposed rules would require substantially greater record keeping than is currently the case. The rules would be applicable to all customers of broker-dealers and investment advisers. Additional rulemaking or legislative action could negatively impact the Company's business and financial results. It is difficult to determine what impact "Regulation Best Interest" will have on our compliance costs, business, operations and profitability, although it appears likely to increase the cost of compliance.

Failure to comply with capital requirements could subject the Company to suspension or revocation by the SEC or suspension or expulsion by FINRA, the FCA and the SFC.

Oppenheimer and Freedom are subject to the SEC's Net Capital Rule which requires the maintenance of minimum net capital. For a more detailed description of the regulatory scheme under which the Company operates, see "Business — Regulatory
Capital Requirements" in Item 1. Failure to comply with net capital requirements could subject the Company to suspension or revocation by the SEC or suspension or expulsion by FINRA.

In addition, Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited are regulated by the FCA of the United Kingdom and the SFC in Hong Kong, respectively. Failure of these entities to comply with capital requirements could subject those entities to suspension or expulsion by their respective regulators.

Developments in market and economic conditions have adversely affected, and may in the future adversely affect, the Company's business and profitability.

Performance in the financial services industry is heavily influenced by the overall strength of economic conditions and financial market activity, which generally have a direct and material impact on the Company's results of operations and financial condition. These conditions are a product of many factors, which are mostly unpredictable and beyond the Company's control, and may affect the decisions made by financial market participants.

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Changes in economic and political conditions, including economic output levels, interest and inflation rates, employment levels, prices of commodities including oil and gas, consumer confidence levels, and fiscal and monetary policy can affect market conditions. For example, the Federal Reserve's policies determine, in large part, the cost of funds for lending and investing and the return earned on those loans and investments. The market impact from such policies also can decrease materially the value of certain of our financial assets, most notably debt securities. Changes in the Federal Reserve's policies are beyond our control and, consequently, the impact of these changes on our activities and results of our operations are difficult to predict. While global financial markets have shown signs of improvement in recent years, uncertainty remains. A period of sustained downturns and/or volatility in the securities markets, prolonged levels increasing short-term interest rates, could lead to a return to increased credit market dislocations, reductions in the value of real estate, and other negative market factors could significantly impair our revenues and profitability.

U.S. markets may also be impacted by political and civil unrest occurring in the Middle East, Eastern Europe, Russia, Venezuela and Asia. Concerns about the European Union ("EU"), including Britain's anticipated exit from the EU ("Brexit"), and the stability of the EU's sovereign debt, has caused uncertainty and disruption for financial markets globally. Continued uncertainties loom over the outcome of the EU's financial support programs. It is possible that other EU member states may choose to follow Britain's lead and leave the EU. Any negative impact on economic conditions and global markets from these developments could adversely affect our business, financial condition and liquidity.

Uncertain or unfavorable market or economic conditions could result in reduced transaction volumes, reduced revenue and reduced profitability in any or all of the Company's principal businesses. For example:

- The Company's investment banking revenue, in the form of underwriting, placement and financial advisory fees, is directly related to the volume and value of transactions as well as the Company's role in these transactions. In an environment of uncertain or unfavorable market or economic conditions such as we have observed in recent years, the volume and size of capital-raising transactions and acquisitions and dispositions typically decreases, thereby reducing the demand for the Company's investment banking services and increasing price competition among financial services companies seeking such engagements. The completion of anticipated investment banking transactions in the Company's pipeline is uncertain and beyond its control, and its investment banking revenue is typically earned upon the successful completion of a transaction. In most cases, the Company receives little or no payment for investment banking engagements that do not result in the successful completion of a transaction. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client's or counterparty's business. If the parties fail to complete a transaction on which the Company is advising or an offering in which it is participating, the Company will earn little or no revenue from the transaction but may incur expenses including, but not limited, to legal fees. The Company may perform services subject to an engagement agreement and the client may refuse to pay fees due under such agreement, requiring the Company to re-negotiate fees or commence legal action for collection of such earned fees. Accordingly, the Company's business is highly dependent on market conditions, the decisions and actions of its clients and interested third parties. The number of engagements the Company has at any given time is subject to change and may not necessarily result in future revenues.
- A portion of the Company's revenues are derived from fees generated from its asset management business segment. Asset management fees often are primarily comprised of base management and performance (or incentive) fees. Management fees are primarily based on assets under management. Assets under management balances are impacted by net inflow/outflow of client assets and changes in market values. Poor investment performance by the Company's funds and portfolio managers could result in a loss of managed accounts and could result in reputational damage that might make it more difficult to attract new investors and thus further impact the Company's business and financial condition. If the Company experiences losses of managed accounts, fee revenue will decline. In addition, in periods of declining market values, the values under management may ultimately decline, which would negatively impact fee revenues.
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In the past decade, passively managed index funds have seen greater investor interest, and this trend has become more prevalent in recent years. This has led to a decline in the revenue the Company generates from commissions on the execution of trading transactions as turnover in client account diminishes. A continued lessening of investor interest in active investing and continued increase in passive investing may lead to a continued decline in the revenue the Company generates from commissions on the execution of trading transactions and, in respect of its market-making activities, a reduction in the value of its trading positions and commissions and spreads.

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- Financial markets are susceptible to severe events such as dislocations which may lead to reduced liquidity. Under these extreme conditions, the Company's risk management strategies may not be as effective as they might otherwise be under normal market conditions.
- Liquidity is essential to the Company's businesses. The Company's liquidity could be negatively affected by an inability to obtain funding on a regular basis either in the short term market through bank borrowings or in the long term market through senior and subordinated borrowings. Such illiquidity could arise through a lowering of the Company's credit rating or through market disruptions unrelated to the Company. The availability of unsecured financing is largely dependent on our credit rating which is largely determined by factors such as the level and quality of our earnings, capital adequacy, risk management, asset quality and business mix. As noted above, the Company has purchased, and will continue to purchase, auction rate securities from its clients which will reduce liquidity available to the Company for other purposes. The failure to secure the liquidity necessary for the Company to operate and grow could have a material adverse effect on the Company's financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" in Item 7.
- Changes in interest rates (especially if such changes are rapid), sustained low or high interest rates or uncertainty regarding the future direction of interest rates, may create a less favorable environment for certain of the Company's businesses, particularly its fixed income business, resulting in reduced business volume and reduced revenue.
- The reduction of interest rates substantially reduced the interest profits available to the Company through its margin lending and also reduced profit contributions from cash sweep products such as the FDIC-insured Bank Deposit program. If interest rates remain at low levels, despite the recent moves upward by the Federal Reserve, the Company's profitability will be negatively impacted.
- The Company expects to continue to commit its own capital to engage in proprietary trading, investing and similar activities, and uncertain or unfavorable market or economic conditions may reduce the value of its positions, resulting in reduced revenue.

The cyclical nature of the economy and the financial services industry leads to volatility in the Company's operating margins, due to the fixed nature of a portion of compensation expenses and many non-compensation expenses, as well as the possibility that the Company will be unable to scale back other costs at an appropriate time to match any decreases in revenue relating to changes in market and economic conditions. As a result, the Company's financial performance may vary significantly from quarter to quarter and year to year.

Markets have experienced, and may continue to experience, periods of high volatility accompanied by reduced liquidity and periods of low volatility resulting in a reduction in trading volumes which may have an adverse effect on our revenues.

Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be effective. Severe market events have historically been difficult to predict, and significant losses could be realized in the wake of such events. The "Flash Crash" on May 6, 2010 was driven not by external economic events but by internal market dynamics and automated systems. Such events cannot be predicted nor can anyone, including the Company, predict the effectiveness of controls put in place to prevent such incidents. Increasingly, threats of terrorism and terrorist acts have disrupted markets and increased the perception of risk to the worldwide economy. Any such act or threat may impact markets, and consequently the Company's business, in an adverse manner.

The Company has experienced significant pricing pressure in areas of its business, which may impair its revenues and profitability.

In recent years the Company has experienced, and continues to experience, significant pricing pressures on trading margins and commissions in debt and equity trading. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins. In the equity market, the Company has experienced increased pricing pressure from institutional clients to reduce commissions, and this pressure has been augmented by the increased use of electronic and direct market access trading, which has created additional downward pressure on trading margins. The trend toward using alternative trading systems is continuing to grow, which may result in decreased commission and trading revenue, reduce the Company's participation in the trading markets and its ability to access market information, and lead to the creation of new and stronger competitors. Institutional clients also have pressured financial services firms to alter "soft dollar" practices under which brokerage firms bundle the cost of trade execution with research products and services. Some institutions are entering into arrangements that separate (or "unbundle") payments for research products or services from sales commissions. Institutions subject to MiFID II, which the Company does business with primarily through its European based subsidiary, were required to unbundle such payments commencing January 3, 2018. These arrangements have increased the competitive pressures on sales commissions and have affected the value the Company's clients place on high-quality research. Moreover, the Company's inability to reach agreement regarding the terms of unbundling arrangements with institutional clients who are actively seeking such arrangements could result in the loss of those clients, which would likely reduce the level of institutional commissions. The Company believes that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions or margins. Additional pressure on sales and trading revenue may impair the profitability of the Company's business.

The ability to attract, develop and retain highly skilled and productive employees, particularly qualified financial advisers, is critical to the success of the Company's business.

The Company faces intense competition for qualified employees from other businesses in the financial services industry, and the performance of its business may suffer to the extent it is unable to attract and retain employees effectively, particularly given the relatively small size of the Company and its employee base compared to some of its competitors. The primary sources of revenue in each of the Company's business lines are commissions and fees earned on advisory and underwriting transactions and customer accounts managed by its employees, who are regularly recruited by other firms and in certain cases are able to take their client relationships with them when they change firms. Experienced employees are regularly offered financial inducements by larger competitors to change employers, and thus competitors can de-stabilize the Company's relationship with valued employees. Some specialized areas of the Company's business are operated by a relatively small number of employees, the loss of any of whom could jeopardize the continuation of that business following the employee's departure.

Turnover in the financial services industry is high. The cost of retaining skilled professionals in the financial services industry has escalated considerably. Financial industry employers are increasingly offering guaranteed contracts, upfront payments, and increased compensation. These can be important factors in a current employee's decision to leave us as well as in a prospective employee's decision to join us. As competition for skilled professionals in the industry remains intense, we may have to devote significant resources to attracting and retaining qualified personnel. To the extent we have compensation targets, we may not be able to retain our employees, which could result in increased recruiting expense or result in our recruiting additional employees at compensation levels that are not within our target range. In particular, our financial results may be adversely affected by the costs we incur in connection with any upfront loans or other incentives we may offer to newly recruited financial advisers and other key personnel. If we were to lose the services of any of our investment bankers, senior equity research, sales and trading

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professionals, asset managers, or executive officers to a competitor or otherwise, we may not be able to retain valuable relationships and some of our clients could choose to use the services of a competitor instead of our services. If we are unable to retain our senior professionals or recruit additional professionals, our reputation, business, results of operations and financial condition could be adversely affected. Further, new business initiatives and efforts to expand existing businesses generally require that we incur compensation and benefits expense before generating additional revenues. Moreover, companies in our industry whose employees accept positions with competitors frequently claim that those competitors have engaged in unfair hiring practices. We have been subject to such claims and may be subject to additional claims in the future as we seek to hire qualified personnel, some of whom may work for our competitors. Some of these claims may result in material litigation. We could incur substantial costs in defending against these claims, regardless of their merits. Such claims could also discourage potential employees who work for our competitors from joining us. Recent actions by some larger competitors to reject the "Recruiting Protocol", an industry adopted set of practices permitting financial advisers to port their client relationships to a new firm under strict rules, is likely to increase the likelihood of litigation among competitors surrounding the employment of new advisers and their solicitation of their clients and may act as a new barrier to recruitment of financial advisers.

The Company depends on its senior employees and the loss of their services could harm its business.

The Company's success is dependent in large part upon the services of its senior executives and employees. Any loss of service of the chief executive officer ("CEO") may adversely affect the business and operations of the Company. The Company maintains key man insurance on the life of its CEO. Over 96% of the Class B voting shares are held by Phase II Financial Inc. ("Phase II"), a Delaware corporation controlled by Mr. Albert Lowenthal, the Chairman and CEO of the Company. In the event of Mr. Lowenthal's death or incapacity, control of Phase II would pass to Mr. Lowenthal's spouse. If the Company's senior executives or employees terminate their employment and the Company is unable to find suitable replacements in relatively short periods of time, its operations may be materially and adversely affected.

Underwriting and market-making activities may place capital at risk.

The Company may incur losses and be subject to reputational harm to the extent that, for any reason, it is unable to sell securities it purchased as an underwriter at the anticipated price levels. As an underwriter, the Company is subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings it underwrites. Any such misstatement or omission could subject the Company to enforcement action by the SEC and claims of investors, either of which could have a material adverse impact on the Company's results of operations, financial condition and reputation. As a market maker, the Company may own large positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if the Company's holdings were more diversified.

Increases in capital commitments in our proprietary trading, investing and similar activities increase the potential for significant losses.

The Company's results of operations for a given period may be affected by the nature and scope of these activities and such activities will subject the Company to market fluctuations and volatility that may adversely affect the value of its positions, which could result in significant losses and reduce its revenues and profits. In addition, increased commitment of capital will expose the Company to the risk that a counterparty will be unable to meet its obligations, which could lead to financial losses that could adversely affect the Company's results of operations. These activities may lead to a greater concentration of risk, which may cause the Company to suffer losses even when business conditions are generally favorable for others in the industry.

If the Company is unable to repay its outstanding indebtedness when due, its operations may be materially adversely effected.

At December 31, 2018, the Company had liabilities of $1.7 billion, a significant portion of which is collateralized by highly liquid and marketable government securities as well as marketable securities owned by customers. The Company cannot assure that its operations will generate funds sufficient to repay its existing debt obligations as they come due. The Company's failure to repay its indebtedness and make interest payments as required by its debt obligations could have a material adverse effect on its results of operations and financial condition, including the acceleration of the payment of debt.

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The Company may make strategic acquisitions of businesses, engage in joint ventures or divest or exit existing businesses, which could result in unforeseen expenses or disruptive effects on its business.

From time to time, the Company may consider acquisitions of other businesses or joint ventures with other businesses. Any acquisition or joint venture that the Company determines to pursue will be accompanied by a number of risks. After the announcement or completion of an acquisition or joint venture, the Company's share price could decline if investors view the transaction as too costly or unlikely to improve the Company's competitive position. Costs or difficulties relating to such a transaction, including integration of products, employees, offices, technology systems, accounting systems and management controls, may be difficult to predict accurately and be greater than expected causing the Company's estimates to differ from actual results. The Company may be unable to retain key personnel after the transaction, and the transaction may impair relationships with customers and business partners. In addition, the Company may be unable to achieve anticipated benefits and synergies from the transaction as fully as expected or within the expected time frame. Divestitures or elimination of existing businesses or products could have similar effects, including the loss of earnings of the divested business or operation. These difficulties could disrupt the Company's ongoing business, increase its expenses and adversely affect its operating results and financial condition.

If the Company violates the securities laws, or is involved in litigation in connection with a violation, the Company's reputation and results of operations may be adversely affected.

Many aspects of the Company's business involve substantial risks of liability. An underwriter is exposed to substantial liability under federal and state securities laws, other federal and state laws, and court decisions, including decisions with respect to underwriters' liability and limitations on indemnification of underwriters by issuers. For example, a firm that acts as an underwriter may be held liable for material misstatements or omissions of fact in a prospectus used in connection with the securities being offered or for statements made by its securities analysts or other personnel.The Company's underwriting activities will usually involve offerings of the securities of smaller companies, which often involve a higher degree of risk and are more volatile than the securities of more established companies. In comparison with more established companies, smaller companies are also more likely to be the subject of securities class actions, to carry directors and officers liability insurance policies with lower limits or not at all, and to become insolvent. In addition, in market downturns, claims tend to increase. Each of these factors increases the likelihood that an underwriter may be required to contribute to an adverse judgment or settlement of a securities lawsuit.

In the normal course of business, the operating subsidiaries have been and continue to be the subject of numerous civil actions and arbitrations arising out of customer complaints relating to our activities as a broker-dealer, as an employer and as a result of other business activities. If the Company misjudged the amount of damages that may be assessed against it from pending or threatened claims, or if the Company is unable to adequately estimate the amount of damages that will be assessed against it from claims that arise in the future and reserve accordingly, its financial condition and results of operations may be materially adversely affected. See "The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" herein, "Legal Proceedings" in Item 3 and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment — Other Regulatory Matters" in Item 7.

The preparation of the consolidated financial statements requires the use of estimates that may vary from actual results.

If actual experience differs from management's estimates used in the preparation of financial statements, the Company's consolidated results of operations or financial condition could be adversely affected. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the application of accounting policies that often involve a significant degree of judgment. Such estimates and assumptions may require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. The Company's accounting policies that are most dependent on the application of estimates and assumptions, and therefore viewed by the Company as critical accounting estimates, are those described in note 2 to the consolidated financial statements appearing in Item 8. These accounting estimates require the use of assumptions, some of which are highly uncertain at the time of estimation. These estimates, by their nature, are based on judgment and current facts and circumstances. Accordingly, actual results could differ from these estimates, possibly in the near term, and could have a material adverse effect on the consolidated financial statements.

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The value of the Company's goodwill and intangible assets may become impaired.

A portion of the Company's assets arise from goodwill and intangibles recorded as a result of business acquisitions it has made. The Company is required to perform a test for impairment of such goodwill and intangible assets, at least annually. To the extent that there are continued declines in the markets and general economy, impairment may become more likely. If the test resulted in a write-down of goodwill and/or intangible assets, the Company would incur a significant loss. For further discussion of this risk, see note 18 to the consolidated financial statements appearing in Item 8.

The Company's risk management policies and procedures may leave it exposed to unidentified risks or an unanticipated level of risk.

The policies and procedures the Company employs to identify, monitor and manage risks may not be fully effective. Some methods of risk management are based on the use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend on evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible. This information may not be accurate, complete or up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. The Company cannot give assurances that its policies and procedures will effectively and accurately record and verify this information.

The Company seeks to monitor and control its risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. The Company believes that it effectively evaluates and manages the market, credit and other risks to which it is exposed. Nonetheless, the effectiveness of the Company's ability to manage risk exposure can never be completely or accurately predicted or fully assured, and there can be no guarantee that the Company's risk management will be successful. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments can have a material adverse effect on the Company's financial condition and results of operations. The consequences of these developments can include losses due to adverse changes in securities values, decreases in the liquidity of trading positions, higher volatility in earnings, increases in the Company's credit risk to customers as well as to third parties and increases in general systemic risk. Certain of the Company's risk management systems are subject to regulatory review and may be found to be insufficient by the Company's regulators potentially leading to regulatory sanctions. The Company over the past several years has increased its systems of surveillance over the various risks facing its business and has instituted standing committees to regularly review both the risks themselves as well as the adequacy of the systems providing information. There can be no guarantee that the operation of these systems will allow the Company to prevent or mitigate the various risks faced by its businesses. Regulators regularly review companies' risk control practices, and, if found inadequate, bring enforcement actions and sanctions against such firms.

Credit risk may expose the Company to losses caused by the inability of borrowers or other third parties to satisfy their obligations.

The Company is exposed to the risk that third parties that owe it money, securities or other assets will not perform their obligations. These parties include:

- trading counterparties;
- customers;
- clearing agents;
- exchanges;
- clearing houses; and
- other financial intermediaries as well as issuers whose securities we hold.

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These parties may default on their obligations owed to the Company due to bankruptcy, lack of liquidity, operational failure or other reasons. This default risk may arise, for example, from:

- holding securities of third parties;
- executing securities trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries; and
- extending credit to clients through bridge or margin loans or other arrangements.

Significant failures by third parties to perform their obligations owed to the Company could adversely affect the Company's revenue and its ability to borrow in the credit markets.

Risks related to insurance programs.

The Company's operations and financial results are subject to risks and uncertainties related to the use of a combination of insurance, self-insured retention and self-insurance for a number of risks, including most significantly property and casualty, general liability, cyber crime, workers' compensation, and the portion of employee-related health care benefits plans funded by the Company, and certain errors and omissions liability, among others.

While the Company endeavors to purchase insurance coverage that is appropriate to its assessment of risk, it is unable to predict with certainty the frequency, nature or magnitude of claims for direct or consequential damages. The Company's business may be negatively affected if in the future its insurance proves to be inadequate or unavailable. In addition, insurance claims may divert management resources away from operating the business.

The precautions the Company takes to prevent and detect employee misconduct may not be effective and the Company could be exposed to unknown and unmanaged risks or losses.

The Company runs the risk that employee misconduct could occur. Misconduct by employees could include:

- employees binding the Company to transactions that exceed authorized limits or present unacceptable risks to the Company (rogue trading);
- employee theft and improper use of Company or client property;
- employees conspiring with other employees or third parties to defraud the Company;
- employees hiding unauthorized or unsuccessful activities from the Company, including outside business activities that are undisclosed and may result in liability to the Company;
- employees steering or soliciting their clients into investments which have not been sponsored by the Company and without the proper diligence;
- the improper use of confidential information; or
- employee conduct outside of acceptable norms including harassment.

These types of misconduct could result in unknown and unmanaged risks or losses to the Company including regulatory sanctions and serious harm to its reputation. The precautions the Company takes to prevent and detect these activities may not be effective. If employee misconduct does occur, the Company's business operations could be materially adversely affected.

There have been a number of highly-publicized cases involving fraud or other misconduct by employees in the financial services industry, and the Company has experienced such cases in the past and there is a risk that our employees could engage in misconduct in the future that adversely affects our business. The Company has experienced employee misconduct which has led to regulatory sanctions and legal liability that has adversely affected our results and could continue to adversely affect our results in the future. We remain subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. In addition, our financial advisers may act in a fiduciary capacity, providing financial planning, investment advice and discretionary asset management. The violation of these obligations and standards by any of our employees could adversely affect our clients and us. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. If our employees engage in misconduct, our business could be materially adversely affected including our cash position.

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Defaults by another large financial institution could adversely affect financial markets generally.

In the fourth quarter of 2008, Lehman Brothers filed for bankruptcy protection and financial institutions including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, Citigroup Inc., Bank of America Corporation, and American International Group, Inc. needed to accept substantial funding from the Federal government. In the fourth quarter of 2011, MF Global Holding Ltd. filed for bankruptcy protection. In August 2012, Peregrine Financial Group, Inc. was declared bankrupt and placed in receivership. The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing, or other relationships between these institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses, or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Company interacts on a daily basis, and therefore could adversely affect the Company.

The failure of guarantors could adversely affect the pricing of securities and their trading markets.

Monoline insurance companies, commercial banks and other insurers regularly issue credit enhancements to issuers in order to permit them to receive higher credit ratings than would otherwise be available to them. As a result, the failure of any of these guarantors could and would suddenly and immediately result in the depreciation in the price of the securities that have been guaranteed or enhanced by such entity. This failure could adversely affect the markets in general and the liquidity of the securities that are so affected. This disruption could create losses for holders of affected securities including the Company. In addition, rating agency downgrades of the debt or deposit or claims-paying ability of these guarantors could result in a reduction in the prices of securities held by the Company which are guaranteed by such guarantors.

The Company's information systems may experience an interruption or breach in security.

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. Recent disclosures of such incursions by foreign and domestic unauthorized agents aimed at large financial institutions reflect higher risks for all such institutions. The occurrence of any failures, interruptions or security breaches of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

Our businesses rely extensively on data processing and communications systems. In addition to better serving clients, the effective use of technology increases efficiency and enables us to reduce costs. Adapting or developing our technology systems to meet new regulatory requirements, client needs, and competitive demands is critical for our business. Introduction of new technology presents challenges on a regular basis. There are significant technical and financial costs and risks in the development of new or enhanced applications, including the risk that we might be unable to effectively use new technologies or adapt our applications to emerging industry standards. Our continued success depends, in part, upon our ability to: (i) successfully maintain and upgrade the capability of our technology systems; (ii) address the needs of our clients by using technology to provide products and services that satisfy their demands; and (iii) retain skilled information technology employees. Failure of our technology systems, which could result from events beyond our control, or an inability to effectively upgrade those systems or implement new technology-driven products or services, could result in financial losses, liability to clients, and violations of applicable privacy and other applicable laws and regulatory sanctions.

Security breaches of our technology systems, or those of our clients or other third-party vendors we rely on, could subject us to significant liability and harm our reputation.

The expectations of sound operational and informational security practices have risen among our clients and vendors, the public at large and regulators. Our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, cyber-attacks and breakdowns. Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although cybersecurity incidents among financial services firms are on the rise, we have not experienced any material losses relating to cyber-attacks or other information security breaches. However, there can be no assurance that we will not suffer such losses in the future. Despite our implementation of protective measures and endeavoring to modify them as circumstances warrant, our computer systems,

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software and networks may be vulnerable to human error, natural disasters, power loss, spam attacks, unauthorized access, distributed denial of service attacks, computer viruses and other malicious code and other events that could have an impact on the security and stability of our operations. Notwithstanding the precautions we take, if one or more of these events were to occur, this could jeopardize the information we confidentially maintain, including that of our clients and counterparties, which is processed, stored in and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our clients and counterparties. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications or disclosures. We may also be subject to litigation and financial losses that are neither insured nor covered under any of our current insurance policies. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to potential disciplinary action by regulators. In providing services to clients, we may manage, utilize and store sensitive or confidential client or employee data, including personal data. As a result, we may be subject to numerous laws and regulations designed to protect this information, such as U.S. federal and state laws governing the protection of personally identifiable information and international laws. These laws and regulations are increasing in complexity and number. If any person, including any of our associates, negligently disregards or intentionally breaches our established controls with respect to client or employee data, or otherwise mismanages or misappropriates such data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution. In addition, unauthorized disclosure of sensitive or confidential client or employee data, whether through system failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients and related revenue. Potential liability in the event of a security breach of client data could be significant. Depending on the circumstances giving rise to the breach, this liability may not be subject to a contractual limit or an exclusion of consequential or indirect damages.

The Company may be exposed to damage to its business or its reputation by cybersecurity incidents.

As the world becomes more interconnected through the use of the internet and users rely more extensively on the internet and the cloud for the transmission and storage of data, such information becomes more susceptible to incursion by hackers and other parties intent on stealing or destroying data on which the Company or our clients rely. We face an evolving landscape of cybersecurity threats in which hackers use a complex array of means to perpetrate cyber-attacks, including the use of stolen access credentials, malware, ransomware, phishing, structured query language injection attacks, and distributed denial-of-service attacks, among other means. These cybersecurity incidents have increased in number and severity and it is expected that these trends will continue. Should the Company be affected by such an incident, we may incur substantial costs and suffer other negative consequences, which may include:

- remediation costs, such as liability for stolen assets or information, repairs of system damage, and incentives to customers or business partners in an effort to maintain relationships after an attack;
- increased cybersecurity protection costs, which may include the costs of making organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants;
- lost revenues resulting from the unauthorized use of proprietary information or the failure to retain or attract customers following an attack;
- litigation and legal risks, including regulatory actions by state and federal regulators; and
- loss of reputation.

Increasingly, intruders attempt to steal significant amounts of data, including personally identifiable data and either hold such data for ransom or release it onto the internet, exposing our clients to financial or other harm and thereby significantly increasing the liability of the Company in such cases. Our regulators have introduced programs to review our protections against such incidents which, if they determined that our systems do not reasonably protect our clients assets and their data, could result in enforcement activity and sanctions.

The Company has and continues to introduce systems and software to prevent any such incidents and increasingly reviews and increases its defenses to such issues through the use of various services, programs and outside vendors. The Company also continually reviews and revises its cybersecurity policy to ensure that it remains up to date. In the event that the Company experiences a material cybersecurity incident or identifies a material cybersecurity threat, the Company will make all reasonable efforts to properly disclose it in a timely fashion. It is impossible, however, for the Company to know when or if such incidents may arise or the business impact of any such incident.

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As a result of such risks, the Company has and is likely to incur significant costs in preparing its infrastructure and maintaining it to resist any such attacks. In addition to personnel dedicated to overseeing the infrastructure and systems to defend against cybersecurity incidents, senior management is regularly briefed on issues, preparedness and any incidents requiring response. At its regularly scheduled meetings, the Audit Committee of the Board of Directors and the Board of Directors are briefed and brought up to date on cybersecurity.

The Company continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services, driven by the emergence of the Fintech industry. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

The business operations that are conducted outside of the United States subject the Company to unique risks and potential loss.

To the extent the Company conducts business outside the United States, it is subject to risks including, without limitation, the risk that it will be unable to provide effective operational support to these business activities, the risk of non-compliance with foreign laws and regulations, the general economic and political conditions in countries where it conducts business and currency fluctuations. The Company operates in Israel, the United Kingdom, the Isle of Jersey, Germany, Switzerland and Hong Kong. If the Company is unable to manage these risks relating to its foreign operations effectively, its reputation and results of operations could be harmed.

We may face exposure for environmental liabilities including in Canada.

The Company has received two notices, the latter of which was a claim filed in court in British Columbia, Canada, from the current owners of two separate rural mountainous properties in Canada claiming that the Company may be liable for environmental claims with respect to such properties and designating the Company a potentially responsible party in remedial activities for the cleanup of waste sites under applicable statutes. The Company is believed to have held title to and also to have operated various properties in British Columbia, Canada from October 1942 through August 1969 and to have engaged in mining and milling operations for some part of that period. The Company was originally incorporated in British Columbia, Canada in 1933, under the name Sheep Creek Gold Mines Limited. The Company underwent a series of name changes and continuances, including from British Columbia to Ontario, from Ontario to Canadian federal jurisdiction and then, in May 2009, from Canada to Delaware.

The Company currently believes that future environmental claims, if any, that may be asserted will not be material and that its potential liability for known environmental matters is not material, however, there can be no guarantee that this is the case. Environmental statutes generally are far reaching in scope and seek to obtain jurisdiction over any company or individual involved in or related to a particular piece of land, no matter how tenuous that connection might be. Environmental and related remediation costs are difficult to quantify. Applicable law may impose joint and several liabilities on each potentially responsible party for the cleanup. See "Legal Proceedings" in Item 3.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Company's business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. Although, management has established a disaster recovery plan, there is no guarantee that such plan will allow the Company to operate without disruption if such an event was to occur and the occurrence of any such event could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations. The Company maintains disaster recovery sites to aid it in reacting to circumstances such as those described above. The fourth quarter of 2012 was impacted by Superstorm Sandy which occurred on October 29th causing the Company to vacate its two principal offices in downtown Manhattan and displaced 800 of the Company's employees including substantially all of its capital markets, operations and headquarters staff for in excess of 30 days.

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The plans and preparations for such eventualities, including the sites themselves, may not be adequate or effective for their intended purpose. Recent weather-related incidents in parts of the United States have resulted in the need to close certain branch offices for short periods of time but have not affected our ability to service our clients in those parts of the country. These experiences lead us to believe that such occurrences will increase in number and severity in the future due to changing weather patterns.

Our conflicts of interest policies and procedures may leave us exposed to unidentified or unanticipated risk.

Our risk management processes include addressing potential conflicts of interest that arise in our business. Management of potential conflicts of interest has become increasingly complex as we expand our business activities. A perceived or actual failure to address conflicts of interest adequately could affect our reputation, the willingness of clients to transact business with us or give rise to litigation or regulatory actions. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could result in material harm to our business and financial condition.

The effect of climate changes on the Company cannot be predicted with certainty.

The Company is not directly affected by changes in environmental legislation, regulation or international treaties and the Company is not involved in an industry which is significantly impacted by climate changes except as such changes may affect the general economy of the United States and the rest of the world. In addition, severe weather conditions such as storms, snowfall, and other climatic events may affect one or more offices of the Company. In October 2012, Superstorm Sandy caused dislocation and disruption of the Company's operations. Any such event may materially impact the operations or finances of the Company. The Company maintains disaster recovery plans and property insurance for such emergencies. A significant change in the climate of the world could affect the general growth in the economy, and population growth and create other issues which will over time affect returns on financial instruments and thus the financial markets in general. It is impossible to predict such effects on the Company's business and operations.

The downgrade of U.S. long term sovereign debt obligations and issues affecting the sovereign debt of European nations may adversely affect markets and other business.

On August 5, 2011, S&P lowered its long term sovereign credit rating on the United States of America from AAA to AA+. Credit agencies have also reduced the credit ratings of various sovereign nations, including Greece, Italy, France and China. While the ultimate impact of such actions is inherently unpredictable, these downgrades could have a material adverse impact on financial markets and economic conditions throughout the world, including, specifically, the United States. Moreover, the market's anticipation of these impacts could have a material adverse effect on our business, financial condition and liquidity. Various types of financial markets, including, but not limited to, money markets, long-term or short-term fixed income markets, foreign exchange markets, commodities markets and equity markets may be adversely affected by these impacts. In addition, the cost and availability of funding and certain impacts, such as increased spreads in money market and other short term rates, have been experienced already as the market anticipated the downgrade.

The negative impact that may result from this downgrade or any future downgrade could adversely affect our credit ratings, as well as those of our clients and/or counterparties, and could require us to post additional collateral on loans collateralized by U.S. Treasury securities. The unprecedented nature of this and any future negative credit rating actions with respect to U.S. government obligations will make any impact on our business, financial condition and liquidity unpredictable. In addition, any such impact may not be immediately apparent.

In addition, global markets and economic conditions have been negatively impacted by the ability of certain EU member states to service their sovereign debt obligations. The continued uncertainty over the outcome of the EU governments' financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets and may negatively impact our business, financial condition and liquidity.

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The Company's stock price can be volatile.
Stock price volatility may make it difficult for an investor to resell shares of the Company's Class A non-voting common stock (the "Class A Stock") at the times and at the prices desired. The price of the Class A Stock can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding the Company and/or its competitors;
- new technology used, or services offered, by competitors;
- regulatory issues involving the Company or its competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- a downturn in the overall economy or the equity markets in particular;
- failure to effectively integrate acquisitions or realize anticipated benefits from acquisitions; and
- the occurrence of any of the other events described in these Risk Factors.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company's stock price to decrease regardless of operating results.
The trading volume in the Company's Class A Stock is less than that of larger financial services companies.
Although the Company's Class A Stock is listed for trading on the NYSE, the trading volume in its Class A Stock is less than that of larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's Class A Stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company's Class A Stock, significant sales of shares of the Company's Class A Stock, or the expectation of these sales, could cause the Company's stock price to fall and increase the volatility of the Class A Stock generally.
The holders of Class A Stock do not have the ability to vote on most corporate matters which limits the influence that these holders have over the Company.
The Company issues two classes of shares, Class A Stock and Class B voting common stock (the "Class B Stock"). At December 31, 2018, there were 99,665 shares of Class B Stock outstanding compared to 12,941,809 shares of Class A Stock. The voting power associated with the Class B Stock allows holders of Class B Stock to effectively exercise control over all matters requiring stockholder approval, including the election of all directors and approval of significant corporate transactions, and other matters affecting the Company. Over 96% of the Class B voting shares are held by an entity controlled by Mr. Albert Lowenthal, the Chairman and CEO of the Company. Due to the lack of voting power, the Class A Stockholders have limited influence on corporate matters.
The Company's Chairman and CEO owns a significant portion of the Company's Class B Stock and therefore can exercise significant control over the corporate governance and affairs of the Company.
An entity controlled by the Company's Chairman and CEO, Mr. Albert Lowenthal, owns over 96% of the Class B voting shares. As a result, Mr. Lowenthal can exercise substantial influence over the outcome of most, if not of all corporate actions requiring approval of our stockholders, including the election of directors and approval of significant corporate transactions, which may result in corporate action with which other stockholders do not agree. This Class B voting power may have the effect of delaying or preventing a change in control of the Company or may result in the receipt of a "control premium" by the controlling stockholder which premium would not be received by the holders of the Class A Stock. The controlling stockholder may have potential conflicts of interest with other stockholders including the ability to determine the impact of "say on pay" provisions at the Company.

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Possible additional issuances of the Company's stock will cause dilution.

At December 31, 2018, the Company had 12,941,809 shares of Class A Stock outstanding, outstanding employee stock options to purchase a total of 15,573 shares of Class A Stock, as well as outstanding unvested restricted stock awards granted for an additional 1,289,224 shares of Class A Stock. The Company is further authorized to issue up to 811,937 shares of Class A Stock under share-based compensation plans for which stockholder approval has already been obtained. As the Company issues additional shares, stockholders' holdings will be diluted, perhaps significantly. The issuance of any additional shares of Class A Stock or securities convertible into or exchangeable for Class A Stock or that represent the right to receive Class A Stock, or the exercise of such securities, could be substantially dilutive to holders of our Class A Stock. Holders of our Class A Stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to the Company's stockholders. The market price of the Company's Class A Stock could decline as a result of sales or issuance of shares of Class A Stock or securities convertible into or exchangeable for Class A Stock.

The Tax Cuts and Jobs Act may impact our business in unforeseen ways.

The enactment of the Tax Cuts and Jobs Act (the "TCJA") on December 22, 2017 will significantly impact the manner in which we determine our federal income tax and may have unforeseen consequences. The TCJA is the first major overhaul of U.S. corporate taxation in almost 20 years with both positive and negative impacts on our business. The positive impacts include reducing the federal corporate income tax rate from 35% to 21% and accelerating the recovery period of the Company’s fixed assets. These positive impacts are offset by new tax provisions intended to expand the federal tax base by disallowing certain expenses that were previously deductible (i.e. 50% of entertainment expenses, deductions for certain senior management compensation, etc.). Changes in taxation on non-U.S earned income may impact our operation of those businesses and our employment practices may need to change in view of the new law.

The impact of the TCJA may also have significant impact on our clients and their future behavior in light of the new tax rates applicable to individuals, trusts and unincorporated businesses. The limitation on the deductibility of state and local taxes and real estate taxes for individuals may result in clients moving to lower tax states where we do not have operations.

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company and Oppenheimer maintain offices at their headquarters at 85 Broad Street, New York, New York which houses their executive management team and many administrative functions for the firm as well as their research, trading, investment banking, and asset management divisions. Generally, the offices outside of 85 Broad Street serve as bases for sales representatives who process trades and provide other brokerage services in co-operation with Oppenheimer's New York offices using the data processing facilities located there. The Company maintains an office in Troy, Michigan, which among other things, houses its payroll and human resources departments. Oppenheimer Trust is based in Wilmington, Delaware. Freedom conducts its business from its offices located in Edison, New Jersey. Management believes that its present facilities are adequate for the purposes for which they are used and have adequate capacity to provide for presently contemplated future uses. In addition, the Company has offices in London, England, St. Helier, Jersey, Geneva, Switzerland, Frankfurt, Germany, Tel Aviv, Israel and Hong Kong, China.

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Item 3. 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 or arbitrations 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 since the financial crisis of 2008, including investigations by multiple regulators of matters involving the same or similar underlying facts, and seeking substantial penalties, fines or other monetary relief.

While the ultimate resolution of routine pending litigation, regulatory and other matters cannot be currently determined, in the opinion of management, after consultation with legal counsel, the Company does not believe that the resolution of these matters will have a material adverse effect on its consolidated balance sheet and statement of cash flow. However, the Company's results of operations could be materially affected during any period if liabilities in that period differ from prior estimates.

Notwithstanding the foregoing, an adverse result in any of the matters set forth below or multiple adverse results in arbitrations, litigations or regulatory proceedings currently filed or to be filed against the Company, could have a material adverse effect on the Company's results of operations and financial condition, including its cash position.

The materiality of legal and regulatory 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 and regulatory matters. See "Risk Factors — The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Item 1A as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment — Other Regulatory Matters" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting 'Forward-Looking Statements'" in Item 7.

In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. When loss contingencies are not both probable and reasonably estimable, the Company does not establish reserves. In some of the matters described below, loss contingencies are not probable and reasonably estimable in the view of management and, accordingly, the Company has not established reserves for those matters. For legal or regulatory proceedings where there is at least a reasonable possibility that a loss or an additional loss may be incurred, the Company estimates a range of aggregate loss in excess of amounts accrued of $0 to approximately $30.0 million. This estimated aggregate range is based upon currently available information for those legal proceedings in which the Company is involved, where an estimate for such losses can be made. For certain cases, the Company does not believe that it can make an estimate. The foregoing estimate is based on various factors, including the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the numerous yet-unresolved issues in many of the proceedings and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate.

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 ARS '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 ARS. See "Risk Factors — The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Item 1A as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment — Other Regulatory Matters" in Item 7 for additional details.

As previously disclosed, Oppenheimer, without admitting or denying liability, entered into a Consent Order (the "Order") with the Massachusetts Securities Division (the "MSD") on February 26, 2010 and an Assurance of Discontinuance ("AOD") with the New York Attorney General ("NYAG" and together with the MSD, the "Regulators") on February 23, 2010, each in connection with Oppenheimer's sales of ARS to retail and other investors in the Commonwealth of Massachusetts and the State of New York.

Pursuant to the terms of the Order and AOD, the Company commenced and closed seventeen offers to purchase ARS from customer accounts when the Company's latest offer to purchase expired on October 8, 2018. The Company's purchases of ARS from clients have continued and will, subject to the terms and conditions of the AOD, continue on a periodic basis. Accounts were, and will continue to be, aggregated on a "household" basis for purposes of these offers. As of December 31, 2018, the Company had purchased and holds (net of redemptions) $40.7 million of ARS pursuant to settlements with the Regulators and legal settlements and awards.

Oppenheimer has agreed with the NYAG that it will offer to purchase Eligible ARS from Eligible Investors who did not receive an initial purchase offer, periodically, as excess funds become available to Oppenheimer after giving effect to the financial and regulatory capital constraints applicable to Oppenheimer, until Oppenheimer has extended a purchase offer to all Eligible Investors. Such offers will remain open for a period of 75 days from the date on which each such offer to purchase is sent. The ultimate amount of ARS to be repurchased by the Company cannot be predicted with any certainty and will be impacted by redemptions by issuers and client actions during the period, which also cannot be predicted.

In addition, pursuant to the Order, Oppenheimer agreed to offer margin loans against eligible collateral for other Massachusetts clients not covered by the offers to purchase. As of December 31, 2018, Oppenheimer had extended margin loans to four holders of Eligible ARS from Massachusetts.

Further, Oppenheimer has agreed to (1) no later than 75 days after Oppenheimer has completed extending a purchase offer to all Eligible Investors (as defined in the AOD), use its best efforts to identify any Eligible Investor who purchased Eligible ARS (as defined in the AOD) and subsequently sold those securities below par between February 13, 2008 and February 23, 2010 and pay the investor the difference between par and the price at which the Eligible Investor sold the Eligible ARS, plus reasonable interest thereon; (2) no later than 75 days after Oppenheimer has completed extending a Purchase Offer to all Eligible Investors, use its best efforts to identify Eligible Investors who took out loans from Oppenheimer after February 13, 2008 that were secured by Eligible ARS that were not successfully auctioning at the time the loan was taken out from Oppenheimer and who paid interest associated with the ARS-based portion of those loans in excess of the total interest and dividends received on the Eligible ARS during the duration of the loan (the "Loan Cost Excess") and reimburse such investors for the Loan Cost Excess, plus reasonable interest thereon; (3) upon providing liquidity to all Eligible Investors, participate in a special arbitration process for the exclusive purpose of arbitrating any Eligible Investor's claim for consequential damages against Oppenheimer related to the investor's inability to sell Eligible ARS; and (4) work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors not within the definition of Small Businesses and Institutions (as defined in the AOD) that held ARS in Oppenheimer brokerage accounts on February 13, 2008. Oppenheimer believes that because Items (1) through (3) above will occur only after it has provided liquidity to all Eligible Investors, it will take an extended period of time before the requirements of Items (1) through (3) will take effect.

If Oppenheimer fails to comply with any of the terms set forth in the Order, the MSD may institute an action to have the Order declared null and void and reinstitute the previously pending administrative proceedings. If Oppenheimer defaults on any obligation under the AOD, the NYAG may terminate the AOD, at his sole discretion, upon 10 days written notice to Oppenheimer.

Reference is made to the Order and the AOD, each as described in Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and attached thereto as Exhibits 10.24 and 10.22 respectively, as well as the subsequent disclosures related thereto in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 through September 30, 2018 and in the Company's Annual Reports on Form 10-K for the years ended December 31, 2010 through and including 2018, for additional details of the agreements with the MSD and NYAG.

The Company is continuing to cooperate with investigating entities from states other than Massachusetts and New York.

As of December 31, 2018, there were no pending ARS-related cases against Oppenheimer. As of December 31, 2018, eleven ARS matters were concluded in either court or arbitration with Oppenheimer prevailing in four of those matters and the claimants prevailing in seven of those matters. The Company has purchased approximately $7.6 million in ARS from the prevailing claimants in those seven actions. In addition, the Company has made cash payments of approximately $12.7 million as a result of legal settlements with clients. It is possible, however, that other individuals or entities that purchased ARS from Oppenheimer may bring additional claims against Oppenheimer in the future for repurchase or rescission.

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See "Risk Factors — The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Item 1A and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment — Other Regulatory Matters" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Off-Balance Sheet Arrangements" in Item 7.

Other Pending Matters

On or about March 13, 2008, Oppenheimer was served in a matter pending in the United States Bankruptcy Court, Northern District of Georgia, captioned William Perkins, Trustee for International Management Associates v. Lehman Brothers, Oppenheimer & Co. Inc., JB Oxford & Co., Bank of America Securities LLC and TD Ameritrade Inc. The Trustee seeks to set aside as fraudulent transfers in excess of $25.0 million in funds embezzled by the sole portfolio manager for International Management Associates, a hedge fund. The portfolio manager purportedly used the broker-dealer defendants, including Oppenheimer, as conduits for his embezzlement. Oppenheimer filed its answer to the complaint on June 18, 2010. Oppenheimer filed a motion for summary judgment, which was argued on March 31, 2011. Immediately thereafter, the Bankruptcy Court dismissed all of the Trustee's claims against all defendants including Oppenheimer. In June 2011, the Trustee filed an appeal with the United States District Court for the Northern District of Georgia ("U.S.N.D. GA"). In addition, on June 10, 2011, the Trustee filed a petition for permission to appeal the dismissal to the United States Court of Appeals for the Eleventh Circuit (the "Court of Appeals"). On July 27, 2011, the Court of Appeals denied the Trustee's Petition. The Trustee then appealed to the U.S.N.D. GA. On March 30, 2012, the U.S.N.D. GA affirmed in part and reversed in part the ruling from the Bankruptcy Court and remanded the matter to the Bankruptcy Court. Discovery has closed and Oppenheimer filed a motion for summary judgment at the end of February 2014. On January 10, 2017, Oppenheimer's motion for summary judgment was granted in full, and judgment was entered in Oppenheimer's favor and the court dismissed the case. On January 24, 2017, the Trustee appealed the summary judgment order to the U.S.N.D. GA. On February 12, 2018, the U.S.N.D. GA issued an order (the "District Court Order") reversing the Bankruptcy Court's summary judgment order and remanding the proceedings to the Bankruptcy Court. In March 2018, Oppenheimer moved to certify the District Court Order for interlocutory appeal. The Trustee opposed the motion for interlocutory appeal. On June 28, 2018, the Eleventh Circuit dismissed the direct appeal. On February 27, 2019, Oppenheimer's motion for interlocutory appeal before the U.S.N.D. GA was denied. The U.S.N.D. GA will set a date for trial to commence sometime in 2019. Oppenheimer believes it has meritorious defenses and intends to defend the claims vigorously.

On June 24, 2011, Oppenheimer was served with a petition in a matter pending in state court in Collin County, Texas captioned Jerry Lancaster, Providence Holdings, Inc., Falcon Holdings, LLC and Derek Lancaster v. Oppenheimer & Co., Inc., Oppenheimer Trust Company, Charles Antonuicci, Alan Reichman, John Carley, Park Avenue Insurance, LLC and Park Avenue Bank. The action requests unspecified damages, including exemplary damages, for Oppenheimer's alleged breach of fiduciary duty, negligent hiring, fraud, conversion, conspiracy, breach of contract, unjust enrichment and violation of the Texas Business and Commerce Code. The first amended petition alleges that Oppenheimer held itself out as having expertise in the insurance industry generally and managing insurance companies' investment portfolios but inappropriately allowed plaintiffs' bond portfolios to be used by Park Avenue Insurance Company to secure the sale of Providence Property and Casualty Insurance Company to Park Avenue Insurance Company. Following removal to the United States District Court for the Eastern District of Texas, Sherman Division, Providence Holdings, Inc. filed a new action in that court against Oppenheimer, Oppenheimer Trust Company, and two individuals, re-asserting basically the same claims as above. On March 18, 2013, the Texas court approved the parties' stipulation to stay the action pending resolution of all claims among the parties in the action pending in Oklahoma styled State of Oklahoma ex rel. Holland v. Providence Holdings, Inc., described below. On April 15, 2011, in an action styled State of Oklahoma ex rel. Holland v. Providence Holdings, Inc., et al. in the Oklahoma County District Court, Providence Holdings, Inc. asserted cross-claims against Oppenheimer Holdings Inc., Oppenheimer Asset Management Inc., Oppenheimer Investment Management LLC, and Oppenheimer Trust Company of Delaware Inc. related to the same facts at issue in the Texas litigation discussed above. These cross-claims included claims for breach of fiduciary duty, various theories of fraud, violation of Texas commercial statutes, breach of contract, interference with prospective business advantage, and loss of business opportunity and sought undisclosed damages. That case is in fact discovery. On September 12, 2016, the Texas court administratively closed the 2012 TX Case pending resolution of the aforementioned Oklahoma action. Oppenheimer believes it has meritorious defenses to the claims raised and intends to defend against these claims vigorously, including pursuing dismissal of the claims against it.

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In June 2012, a claim was filed in the Circuit Court, 11th Judicial Circuit in Miami-Dade County Florida, Probate Division (which was subsequently transferred in 2014 to the Civil Division ("Trial Court") where it remains), in a matter captioned Estate of Idelle Stern, by and through the court ordered limited ad litem, Rochelle Kevelson, Tikvah Lyons, and Joyce Genauer v. Oppenheimer Trust Company of Delaware Inc., Oppenheimer & Co. Inc., Oppenheimer Asset Management Inc., Eli Molallen, James P. Carley Jr., and Theron Hunting Worth Defendants. Plaintiffs allege that defendants failed properly to communicate with certain beneficiaries of the Stern Survivors Trust, Stern Marital Trust, and Stern Credit Shelter Trust (collectively, the "Stern Trusts") established by Idelle Stern prior to her death; that defendants failed to adequately communicate with Ms. Stern, who was the co-trustee of the Stern Trusts, during her lifetime; and that defendants failed to provide trust accountings to all qualified beneficiaries. There are other causes of action based on alleged Florida Blue Sky violations, elder abuse, breach of trust, constructive fraud and conspiracy. Plaintiffs sought damages of approximately $8 million, as well as treble damages under the applicable Florida elder abuse statute. On April 20, 2018, the Trial Court entered its Jury Trial Order, setting forth a new pre-trial schedule and providing for the trial to commence on February 4, 2019. In January 2019, Oppenheimer, on behalf of the defendants, reached an agreement in principle to settle the case pursuant to which Oppenheimer agreed to pay $1.8 million in exchange for plaintiffs' dismissing all claims against defendants with prejudice.

In January 2017, Oppenheimer received a Notice of Civil Claim in the Supreme Court of British Columbia, Canada by Teck Metals Ltd. against Oppenheimer Holdings Inc. as well as co-defendants Western Forest Products Inc., Xylem Canada Company/Societe Xylem Canada, JRM Financial Services Ltd. and Glencore Corporation Canada. The civil claim seeks damages and/or the cost of environmental clean-up for property purportedly managed during the period 1965-66 by a predecessor company of Oppenheimer Holdings Inc. The underlying claim involves alleged adverse environmental impact at the Sunro Mine, located in British Columbia, which properties are now owned by plaintiff and seeks unspecified damages from defendants. To date, the plaintiff has not actively prosecuted the claim. The other defendants have various alleged historical connections to the property, which plaintiff contends allows plaintiff to assert claims against those defendants, as well as Oppenheimer Holdings Inc. Oppenheimer believes it has meritorious defenses to the claims and intends to defend itself vigorously.

See also "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment — Other Regulatory Matters" in Item 7.

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Item 4. MINE SAFETY DISCLOSURES
Not applicable.

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PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) The Company's Class A Stock is listed and traded on the NYSE (trading symbol "OPY"). The Class B Stock is not traded on any stock exchange and, as a consequence, there is only limited trading in the Class B Stock. The Company does not presently contemplate listing the Class B Stock in the United States on any national or regional stock exchange or on NASDAQ.

As of December 31, 2018, there were 1,304,797 shares of Class A Stock underlying outstanding options and restricted share awards. Class A Stock underlying all vested options, if exercised, and restricted shares could be sold pursuant to Rule 144 or effective registration statements on Form S-8.

(b) The following table sets forth information about the stockholders of the Company as of February 28, 2019 as set forth in the records of the Company's transfer agent and registrar:

	Number of Shares	Number of Stockholders of Record
Class A Stock	12,946,841	81
Class B Stock	99,665	38

(c) Share-Based Compensation Plans

The Company has a 2006 Equity Incentive Plan, adopted December 11, 2006 and amended in December 2011, and had a 1996 Equity Incentive Plan, as amended March 10, 2005, which expired on April 18, 2006 (together "EIP"), under which the Compensation Committee of the Board of Directors of the Company has granted options to purchase Class A Stock, restricted Class A Stock awards and Class A Stock awards to officers and key employees of the Company and its subsidiaries. From 2011 through 2013, restricted Class A Stock awards were granted to the Company's non-employee directors as approved by a committee formed for that purpose. With the adoption of the OIP (as defined below), the amount and terms of such grants are determined by the Compensation Committee of the Company's Board of Directors.

Oppenheimer has an Employee Share Plan ("ESP") under which the Compensation Committee of the Board of Directors of the Company has granted stock awards and restricted stock awards to key management employees of the Company and its subsidiaries.

On February 26, 2014, the Company adopted the Oppenheimer Holdings Inc. 2014 Incentive Plan (the "OIP") which pursuant to its terms amends and restates each of the EIP and ESP and incorporates each of the EIP and ESP into the OIP.

The Company's share-based compensation plans are described in note 15 to the consolidated financial statements appearing in Item 8.

(d) Share Performance Graph

The following graph shows changes over the past five year period of U.S. $100 invested in (1) the Company's Class A Stock, (2) the Standard & Poor's 500 Index (S&P 500), and (3) the Standard & Poor's 500 Diversified Financial Index (S&P 500 / Diversified Financials – S5DIVF):

As of December 31,	2013	2014	2015	2016	2017	2018
Oppenheimer Class A Stock	100	96	72	77	110	105
S&P 500	100	111	111	121	145	136
S&P 500 / Diversified Financials	100	115	103	123	151	135

Stock Buy-Back

On May 5, 2017, the Company announced that its board of directors approved a share repurchase program that authorizes the
Company to purchase up to 650,000 shares of the Company's Class A Stock, representing approximately 5% of its 13,178,571
then issued and outstanding shares of Class A Stock. This authorization supplemented the 40,734 shares that remained authorized and available under the Company's previous share repurchase program covering up to 665,000 shares of the Company's Class A Stock, which was announced on September 15, 2015, for a total of 690,734 shares authorized and available for repurchase. As of January 1, 2018, 508,906 shares were available to be purchased under this program.

During the year ended December 31, 2018, the Company purchased and canceled an aggregate of 236,122 shares of Class A Stock for a total consideration of $5.9 million ($24.96 per share). As of December 31, 2018, 272,784 shares were available to be purchased under this program.

Any such share purchases will be made by the Company from time to time in the open market at the prevailing open market price using cash on hand, in compliance with the applicable rules and regulations of the New York Stock Exchange and federal and state securities laws and the terms of the Company's senior secured debt. The Company will cancel all of the shares repurchased. The Company expects to continue the share repurchase program indefinitely. The Company will base the timing and amounts of any purchases on market conditions and other factors including price, regulatory requirements and capital availability. The share repurchase program does not obligate the Company to repurchase any dollar amount or number of share of Class A Stock. Depending on market conditions and other factors, the Company may commence or suspend repurchases from time to time without notice.

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Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial information derived from the consolidated financial statements of the Company for each of the five years in the period ended December 31, 2018:

(Expressed in thousands, except number of shares and per share amounts)

	2018	2017	2016	2015	2014
Revenue	$958,154	$920,338	$857,779	$897,801	$981,135
Net income (loss) from continuing operations	28,876	21,870	(9,630)	(2,834)	5,056
Net income from discontinued operations	—	1,130	10,121	5,732	4,505
Net income	28,876	23,000	491	2,898	9,561
Net income (loss) attributable to non-controlling interest, net of tax	(16)	184	1,652	936	735
Net income (loss) attributable to Oppenheimer Holdings Inc.	$28,892	$22,816	$(1,161)	$1,962	$8,826
Basic net income (loss) per share attributable to Oppenheimer Holdings Inc. (1)					
Continuing operations	$2.18	$1.65	$(0.72)	$(0.21)	$0.37
Discontinued operations	—	0.07	0.63	0.35	0.28
Net income (loss) per share	$2.18	$1.72	$(0.09)	$0.14	$0.65
Diluted net income (loss) per share attributable to Oppenheimer Holdings Inc. (1)					
Continuing operations	$2.05	$1.60	$(0.72)	$(0.21)	$0.36
Discontinued operations	—	0.07	0.63	0.35	0.26
Net income (loss) per share	$2.05	$1.67	$(0.09)	$0.14	$0.62
Total assets	$2,240,314	$2,438,517	$2,236,930	$2,698,004	$2,791,479
Long term debt	$199,096	$198,837	$149,352	$148,868	$148,383
Total liabilities	$1,694,992	$1,914,606	$1,723,596	$2,172,922	$2,257,747
Cash dividends per share of Class A and Class B Stock	$0.44	$0.44	$0.44	$0.44	$0.44
Total Oppenheimer Holdings Inc. stockholders' equity	$545,322	$523,550	$510,703	$518,058	$527,644
Book value per share attributable to Oppenheimer Holdings Inc. (1)	$41.81	$39.55	$38.22	$38.84	$38.71
Number of shares of capital stock outstanding (1)	13,041,474	13,238,868	13,360,760	13,338,166	13,630,368

(1) The Class A Stock and Class B Stock are combined because they are of equal rank for purposes of dividends and in the event of a distribution of assets upon liquidation, dissolution or winding up.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto which appear elsewhere in this annual report.

The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, market-making, research, investment banking (both corporate and public finance), investment advisory and asset management services and trust services. Its principal subsidiaries are Oppenheimer & Co. Inc. ("Oppenheimer") and Oppenheimer Asset Management Inc. ("OAM"). As of December 31, 2018, the Company provided its services from 92 offices in 24 states located throughout the United States, offices in Tel Aviv, Israel, Hong Kong, China, London, England, St. Helier, Isle of Jersey, Frankfurt, Germany and Geneva, Switzerland. Client assets administered by the Company as of December 31, 2018 totaled $80.1 billion. The Company provides investment advisory services through OAM and Oppenheimer Investment Management LLC ("OIM") and Oppenheimer's financial adviser direct programs. At December 31, 2018, client assets under management ("AUM") totaled $26.7 billion. The Company provides trust services and products through Oppenheimer Trust Company of Delaware. The Company provides discount brokerage services through Freedom Investments, Inc. ("Freedom"). Through OPY Credit Corp., the Company offers syndication as well as trading of issued syndicated corporate loans. At December 31, 2018, the Company employed 2,976 employees (2,918 full-time and 58 part-time), of whom 1,073 were financial advisers.

Critical Accounting Policies

The Company's accounting policies are essential to understanding and interpreting the financial results reported on the consolidated financial statements. The significant accounting policies used in the preparation of the Company's consolidated financial statements are summarized in note 2 to those statements. 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. The following is a discussion of these policies:

Fair Value Measurements

The accounting guidance for the fair value measurement of financial assets, which defines fair value, establishes a framework for measuring fair value, establishes a fair value measurement hierarchy, and expands fair value measurement disclosures. Fair value, as defined by the accounting guidance, is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy established by this accounting guidance prioritizes the inputs used in valuation techniques into the following three categories (highest to lowest priority):

Level 1:	Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;
Level 2:	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
Level 3:	Unobservable inputs that are significant to the overall fair value measurement.

The Company's financial instruments that are recorded at fair value generally are classified within Level 1 or Level 2 within the fair value hierarchy using quoted market prices or quotes from market makers or broker-dealers. Financial instruments classified within Level 1 are valued based on quoted market prices in active markets and consist of U.S. Treasury and Agency securities, corporate equities, and certain money market instruments. Level 2 financial instruments primarily consist of investment grade and high-yield corporate debt, convertible bonds, mortgage and asset-backed securities, and municipal obligations. Financial instruments classified as Level 2 are valued based on quoted prices for similar assets and liabilities in active markets and quoted prices for identical or similar assets and liabilities in markets that are not active. Some financial instruments are classified within Level 3 within the fair value hierarchy as observable pricing inputs are not available due to limited market activity for the asset or liability. Such financial instruments include certain distressed municipal securities, auction rate securities ("ARS") and investments in hedge funds and private equity funds where the Company, through its subsidiaries, is general partner.

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Legal and Regulatory Reserves

The Company records reserves related to legal and regulatory proceedings in accounts payable and other liabilities. The determination of the amounts of these reserves requires significant judgment on the part of management. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters where available information indicates that it is probable a liability had been incurred at the date of the consolidated financial statements and the Company can reasonably estimate the amount of that loss. When loss contingencies are not probable and cannot be reasonably estimated, the Company does not establish reserves.

When determining whether to record a reserve, management considers many factors including, but not limited to, the amount of the claim; the stage and forum of the proceeding, the sophistication of the claimant, the amount of the loss, if any, in the client's account and the possibility of wrongdoing, if any, on the part of an employee of the Company; the basis and validity of the claim; previous results in similar cases; and applicable legal precedents and case law. Each legal and regulatory proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Any change in the reserve amount is recorded in the results of that period. The assumptions of management in determining the estimates of reserves may be incorrect and the actual disposition of a legal or regulatory proceeding could be greater or less than the reserve amount.

Goodwill

The Company defines a reporting unit as an operating segment. The Company's goodwill resides in its Private Client Division ("PCD") reporting unit. Goodwill of a reporting unit is subject to at least an annual test for impairment to determine if the estimated fair value of a reporting unit is less than its carrying amount. Goodwill of a reporting unit is required to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to the volatility in the financial services sector and equity markets in general, determining whether an impairment of goodwill has occurred is increasingly difficult and requires management to exercise significant judgment. The Company's annual goodwill impairment analysis performed at December 31, 2018 applied the same valuation methodologies with consistent inputs as that performed at December 31, 2017, as follows:

In estimating the fair value of the PCD reporting unit, the Company uses traditional standard valuation methods, including the market comparable approach and income approach. The market comparable approach is based on comparisons of the subject company to public companies whose stocks are actively traded ("Price Multiples") or to similar companies engaged in an actual merger or acquisition ("Precedent Transactions"). As part of this process, multiples of value relative to financial variables, such as earnings or stockholders' equity, are developed and applied to the appropriate financial variables of the subject company to indicate its value. The income approach involves estimating the present value of the subject company's future cash flows by using projections of the cash flows that the business is expected to generate, and discounting these cash flows at a given rate of return ("Discounted Cash Flow" or "DCF"). Each of these standard valuation methodologies requires the use of management estimates and assumptions.

In its Price Multiples valuation analysis, the Company uses various operating metrics of comparable companies, including revenues, after-tax earnings, EBITDA as well as price-to-book value ratios at a point in time. The Company analyzes prices paid in Precedent Transactions that are comparable to the business conducted in the PCD. The DCF analysis includes the Company's assumptions regarding discount rate, growth rates of the PCD's revenues, expenses, EBITDA, and capital expenditures, adjusted for current economic conditions and expectations. The Company weighs each of the three valuation methods equally in its overall valuation. Given the subjectivity involved in selecting which valuation method to use, the corresponding weightings, and the input variables for use in the analyses, it is possible that a different valuation model and the selection of different input variables could produce a materially different estimate of the fair value of the PCD reporting unit.

At each annual goodwill impairment testing date, the PCD reporting unit had a fair value that was substantially in excess of its carrying value. See note 18 to the consolidated financial statements appearing in Item 8 for further discussion.

Intangible Assets

Indefinite intangible assets are comprised of trademarks, trade names and an Internet domain name. These intangible assets carried at $32.1 million, which are not amortized, are subject to at least an annual test for impairment to determine if the estimated fair value is less than their carrying amount. The fair value of the trademarks and trade names was substantially in excess of its carrying value at December 31, 2018. See note 18 to the consolidated financial statements appearing in Item 8 for further discussion.

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Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and the results of recent operations.

The Company records uncertain tax positions in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, "Income Taxes" on the basis of a two-step process whereby it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and, for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company records interest and penalties accruing on unrecognized tax benefits in income (loss) before income taxes as interest expense and other expense, respectively, in its consolidated statement of operations.

The Company permanently reinvests eligible earnings of its foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated.

To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but the company is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA. The Company determined that there were no material changes from the 2017 provisional estimate.

New Accounting Pronouncements

Recently issued accounting pronouncements are described in note 2 to the consolidated financial statements appearing in Item 8.

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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 confidence, 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 and interest income as well as on liquidity. Substantial fluctuations can occur in revenue and net income due to these and other factors.

The Company is focused on growing its private client and asset management businesses through strategic additions of experienced financial advisers in its existing branch system and employment of experienced money management personnel in its asset management business as well as deploying its capital for expansion through targeted acquisitions. 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.
Regulatory and Legal Environment
The Company's brokerage business is subject to regulation by, among others, the Securities and Exchange Commission (the "SEC"), the Commodities Futures Trading Commission, the National Futures Association, the Municipal Securities Rulemaking Board and the Financial Industry Regulatory Authority ("FINRA") in the United States, the Financial Conduct Authority ("FCA") in the United Kingdom, the Jersey Financial Services Commission in the Isle of Jersey, the Securities and Futures Commission in Hong Kong, and various state securities regulators in the United States. In addition, Oppenheimer Israel (OPCO) Ltd. operates under the supervision of the Israel Securities Authority. Past events surrounding corporate accounting and other activities leading to investor losses caused increased regulation of public companies. Certain legislators continue to publicly advocate that the SEC has not taken adequate enforcement action against firms and individuals. Various states are imposing their own regulations that make compliance more difficult and more expensive to monitor.

In July 2010, Congress enacted extensive legislation entitled the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in which it mandated that the SEC and other regulators conduct comprehensive studies and issue new regulations based on their findings to control the activities of financial institutions in order to protect the financial system, the investing public and consumers from issues and failures that occurred in the 2008-9 financial crisis.

Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds (the "Volcker Rule") was published by the U.S. Federal Reserve Board as required by the Dodd-Frank Act in 2011. The Volcker Rule is not applicable to the Company. Recent changes have narrowed the application of the Volcker Rule to fewer institutions and broadened the ability of banks to service their clients through the use of their balance sheet.

In April 2016, the DOL finalized its definition of fiduciary under the Employee Retirement Income Security Act through the release of new rules and changes to interpretations of six prohibited transaction exemptions which together set a new standard for the treatment and effects of advice given to retirement investors ("DOL Fiduciary Rules"). Under this rule, investment advice given to an employee benefit plan or an individual retirement account ("IRA") would be considered fiduciary advice.

In March 2018, the U.S. 5th Circuit Court of Appeals found that the DOL did not have the jurisdiction to adopt the aforementioned rules and vacated the DOL Fiduciary Rules effective in June 2018. On April 18, 2018, the SEC announced its proposed "Regulation Best Interest," a package of rulemakings and interpretations that address customers' relationships with investment advisers and broker-dealers. Regulation Best Interest would enact an intermediate standard requiring advisers and broker-dealers to act in the clients' "best interest" at all times. The proposed rules would require substantially greater record keeping than is currently the case. The rules would be applicable to all customers of broker-dealers and investment advisers. The public comment period applicable to Regulation Best Interest expired on August 7, 2018. The SEC has indicated its intention to move forward with a final rule proposal in 2019. It is too soon to predict whether and in what form the SEC will adopt Regulation Best Interest, the effect it may have on broker-dealers and investment advisers generally, the specific effect it will have on the Company's broker-dealer and investment management businesses, and the effect it will have on the Company’s competitive position in the financial services industry.

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During 2017, the Company reviewed its business and operating models in light of the DOL Fiduciary Rules and made significant structural and operational changes to the Company's broker-dealer and investment management businesses. The changes have had a negative impact on revenues derived from retirement accounts and the desirability of servicing such accounts except when they are participating in fixed fee based programs. The Company is reviewing its business and operating models in light of the 5th Circuit ruling and the proposed Regulation Best Interest and may make further structural and operational changes in light of the vacated DOL Fiduciary Rules and in anticipation of the SEC adopting a version of the proposed Regulation Best Interest.

The European Commission recently adopted several acts under the revised Markets in Financial Instruments Directive (known as "MiFID II") that prevent broker-dealers operating in the European Union ("EU") from "bundling" the cost of research together with trading commissions. These rules became effective on January 3, 2018. The ability of the Company to be compensated for equity research activities has been reduced and institutional clients are required to make payments for research through cash payments rather than transaction based commissions. MiFID II is already having an impact on the manner in which business is being conducted in the United Kingdom and in Europe with a noticeable reduction in the availability of equity research particularly in relation to smaller issuers. The long term effects of these changes on global securities markets and on competition in the EU and UK are impossible to predict.

In June 2016, in a referendum to consider the United Kingdom's continued participation in the EU, the United Kingdom voted in favor of withdrawing from the EU ("Brexit"). The British government instituted Rule 50 on March 30, 2017 thereby beginning a two-year period during which Great Britain and the EU will define their relationship effective with Great Britain's departure from the EU. Brexit has created significant uncertainty in both the United Kingdom and in the other member states around its economic impact and the operating requirements for businesses located in the United Kingdom after the effective date. The Company has a London-based business and the ability for it to passport its employees to conduct a financial services business in the EU post-Brexit is in considerable doubt. In addition, a number of its London-based employees do not hold British passports, although a number have applied for and received the right to continue to be employed in the United Kingdom. To date, there has been no discernible progress on the post-Brexit relationship between the EU and the UK. Failing the implementation of an agreed extension, the UK will leave the EU in March 2019 under a "hard" Brexit, leaving considerable uncertainty as to the ongoing relationship and a likely negative impact on all parties. Given the lack of clarity on the ultimate post-Brexit relationship between Great Britain and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its operations, both inside and outside the United Kingdom. The Company has opened an office in Frankfurt, Germany in the EU for its investment banking business and it will be available in the eventuality that it is needed in order to continue to conduct a securities business in the EU post-Brexit.

The anti-money laundering ("AML") rules and requirements that were created by the passage of the USA Patriot Act in the U.S. and similar laws in other countries have created significant costs of compliance and can be expected to continue to do so. The U.S. Financial Crimes Enforcement Network ("FinCEN") has heightened its review of the activities of broker-dealers. This increased focus is likely to lead to significantly higher levels of enforcement and higher fines and penalties on broker-dealers. Regulators have expanded their views of the requirements of the USA Patriot Act, as well as their views of the enforcement of the provisions of the Bank Secrecy Act and the Foreign Corrupt Practices Act with respect to the amount of diligence and on-going monitoring required by financial institutions of both their foreign and domestic clients and their activities. As a result, the Company has significantly increased its AML staffing, made additional investments in its due diligence systems, upgraded its monitoring systems and significantly revised its AML policies and procedures. In May 2016, FinCEN's proposed rule on customer due diligence ("CDD Rule") was finalized and became effective on May 11, 2018. FINRA has recently announced the expansion of AML regulations to include the collection and analysis of other types of client activity. The CDD and associated rules are significantly more intrusive on the activities of U.S.-based clients and will have the effect of increasing the costs associated with opening new accounts and creating new business relationships.

The Trump Administration has announced its intention to ease the regulatory burden on businesses. There can be no assurance that such easing will in fact take place, that it will have a favorable impact on financial service providers such as the Company, or that it will have a positive effect on the Company's business.

Pursuant to FINRA Rule 3130, the chief executive officers ("CEOs") of member broker-dealers (including the CEO of Oppenheimer) are required to certify that their companies have processes in place to establish and test supervisory 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 in March 2018.

In September 2015, FINRA released Regulatory Notice 15-33 which provides guidance on effective liquidity risk management strategies. Based on the guidelines, broker-dealers are expected to rigorously evaluate their potential liquidity needs related to both market wide stress and idiosyncratic stresses, devote sufficient resources to measuring risks applicable to their businesses and report the results of such measurement to senior management. The reporting requirement includes a review of risks that are based on historical events and stresses that could occur but have not yet been observed. Additionally, based on the guidelines, every broker-dealer must consider developing contingency plans for addressing those risks so that the firm will have sufficient liquidity to operate after the stress occurs while continuing to protect customer assets. It must also conduct stress tests and other reviews to evaluate the effectiveness of the contingency plans, have a training plan for its staff and have tested the processes on which it intends to rely if such stresses occur. The Company has enhanced its liquidity risk management practices in light of these requirements.
On January 8, 2018, FINRA released for comment Regulatory Notice 18-02 "Liquidity Reporting and Notification" which would require member firms to notify FINRA no more than 48 hours after specified events that may signal an adverse change in liquidity risk. This notice would also require members to file a new Supplemental Liquidity Schedule ("SLS") detailing the largest customer and counterparty exposures as a supplement to the FOCUS Report. On the new SLS, member firms would report information related to specified financing transactions and other sources or uses of liquidity. The information would include among other things, financing terms, collateral types and the identity of large counterparties. The comment period has ended without the publication of final rules.

Other Regulatory Matters

On January 27, 2015, the SEC approved an Offer of Settlement from Oppenheimer and issued an Order Instituting Administrative and Cease and Desist Proceedings (the "SEC Order"). Pursuant to the SEC Order, Oppenheimer was ordered to, amongst other things, retain an independent consultant to review Oppenheimer's policies and procedures relating to anti-money laundering and Section 5 of the Securities Act of 1933.

On February 19, 2015, the board of directors formed a Special Committee (later replaced by the Compliance Committee) in order to engage an independent law firm to conduct the review set forth above. On April 22, 2015, the Special Committee agreed to retain Kalorama Partners, LLP ("Kalorama") to act as the independent law firm. In July 2015, the Company created a Compliance Committee made up of independent directors to oversee the Company's compliance with applicable rules and regulations.

On December 15, 2016, the Company's agreement with Kalorama expired by its terms. In May and June 2017, Kalorama delivered to the Company reports in connection with the January 2015 SEC Order, and another report in connection with the SEC's Municipalities Continuing Disclosure Cooperation "MCDC Initiative " (collectively, the "Required Reports"). Each of the reports has been reviewed by the Company and the Compliance Committee. In June 2018, the SEC began an examination of the Company to review the Company's assertions with respect to its fulfillment of Kalorama's recommendations in the Required Reports. That examination concluded in November of 2018. On October 29, 2018, Kalorama resigned as the independent law firm. On February 1, 2019 the Company engaged Locke Lord and Exiger LLC as successor independent consultants (“Successor IC’s”) to complete the review of the implementation of the recommendations made in the Required Reports. The Company expects to work with the Successor IC’s to finalize the implementation the remaining recommendations highlighted by the SEC exam staff during the examination.

Since August 2014, Oppenheimer has been responding to information requests from the SEC regarding the supervision of one of its former financial advisers who was indicted and convicted of insider trading. Oppenheimer is continuing to cooperate with the SEC inquiry.

Since September 2016, Oppenheimer has been responding to information requests from FINRA (including FINRA's Enforcement Division) regarding the supervision of Oppenheimer’s sale of unit investment trusts from 2011 to 2015. The Company understands that the inquiry is part of a larger targeted examination or "sweep" examination involving many other brokerage firms. Oppenheimer is continuing to cooperate with the FINRA inquiry.

On February 12, 2018, the SEC Division of Enforcement ("Enforcement Division") announced the Share Class Selection Disclosure Initiative ("SCSD Initiative") pursuant to which investment advisers were encouraged to self-report possible securities laws violations relating to the failure to make certain disclosures concerning mutual fund share class selection. On June 11, 2018, Oppenheimer and OAM notified the Enforcement Division that it intended to participate in the SCSD Initiative. Oppenheimer and OAM filed the information required by the SCSD Initiative on September 19, 2018. On February 7, 2019, Oppenheimer (and its affiliate Oppenheimer Asset Management, collectively “Oppenheimer”) filed an Offer of Settlement with the SEC (the “Offer”) pursuant to which Oppenheimer offered to disgorge approximately $3.5 million (the “Disgorgement Amo unt”) (including pre-judgment interest) of 12b-1 fees and agree to certain undertakings including the following: (i) within 30 days of the entry of an SEC Order, review and correct as necessary all relevant disclosure documents concerning mutual fund share class selection and 12b-1 fees; (ii) within 30 days of the entry of an SEC Order, evaluate whether existing clients should be moved to a lower-cost share class and move clients as necessary; (iii) within 30 days of the entry of an SEC Order, evaluate, update (if necessary), and review for the effectiveness of their implementation, Oppenheimer’s policies and procedures so that they are reasonably designed to prevent violations of the Investment Advisers Act in connection with disclosures regarding mutual fund share class selection; (iv) within 30 days of the entry of an SEC Order, notify affected investors (i.e., those former and current clients who, during the relevant period of inadequate disclosure, purchased or held 12b-1 fee paying share class mutual funds when a lower-cost share class of the same fund was available to the client) of the settlement terms of the Order in a clear and conspicuous fashion; and (v) within 40 days of the entry of an SEC Order, certify, in writing, compliance with the undertaking(s) set forth above. Oppenheimer is awaiting the entry of an SEC Order consistent with the above.

For a number of years, the Company offered auction rate securities ("ARS") to its clients. A significant portion of the market in ARS 'failed' because, in the tight credit market in and subsequent to 2008, dealers were no longer willing or able to purchase the imbalance between supply and demand for ARS. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Certain clients of the Company continue to hold ARS in their individual or corporate accounts. Issuer redemptions and tender offers, combined with purchases by the Company, have reduced client holdings by approximately 99%.

In February 2010, Oppenheimer finalized settlements with the Regulators concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client related legal settlements and awards to purchase ARS, as of December 31, 2018, the Company purchased and holds (net of redemptions) approximately $40.7 million in ARS from its clients. As of December 31, 2018, the Company had no outstanding ARS purchase commitments related to the settlements with the Regulators. In addition, the Company is committed to purchase another $7.3 million from clients through 2020 under legal settlements and awards.

The Company's clients held at Oppenheimer approximately $22.4 million of ARS at December 31, 2018 exclusive of amounts that 1) were owned by Qualified Institutional Buyers ("QIBs"), 2) were transferred to the Company after February 2008, 3) were purchased by clients after February 2008, or 4) were transferred from the Company to other securities firms after February 2008. See "Off-Balance Sheet Arrangements" herein for additional details.

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. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. When loss contingencies are not both probable and reasonably estimable, the Company does not establish reserves. See "Legal Proceedings" in Item 3 and note 16 to the consolidated financial statements appearing in Item 8.

Other Matters

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. In particular, many states have become more aggressive and have imposed larger fines in connection with state registration violations than was previously the case.

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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. The Company maintains a data center which is housed in a different location in New York City from its headquarters. The Company continues to review the adequacy of its remote data center and anticipates that, over the next few years, it may make a determination to move the center to a more remote location than where it currently resides. There is no guarantee that in the event of a significant business disruption that the Company's business continuity plans will be successful in restoring operations in a timely manner.

Cybersecurity

For many years, the Company has sought to maintain the security of its clients' data, limit access to its data processing environment, and protect its data processing facilities. See "Risk Factors — The Company may be exposed to damage to its business or its reputation by cybersecurity incidents" in Item 1A. Recent examples of vulnerabilities by other companies and the government that have resulted in loss of client data and fraudulent activities by both domestic and foreign actors have caused the Company continually to review its security policies and procedures and to take additional actions to protect its network and its information.

Given the importance of the protection of client data, regulators have developed increased oversight of cybersecurity planning and protections that broker-dealers and other financial service providers have implemented. Such planning and protection are subject to the SEC's and FINRA's oversight and examination on a periodic or targeted basis. The Company expects that regulatory oversight will intensify, as a result of publicly announced data breaches by other organizations involving tens of millions of items of personally identifiable information. The Company continues to implement protections and adopt procedures to address the risks posed by the current information technology environment. The Company has significantly increased the resources dedicated to this effort and believes that further increases may be required in the future, in anticipation of increases in the sophistication and persistency of such attacks. There can be no guarantee that the Company's cybersecurity efforts will be successful in discovering or preventing a security breach.

Outlook

The Company recognizes the importance of compliance with applicable regulatory requirements and has committed to performing rigorous and ongoing assessments of its compliance and risk management efforts, to investing in people and programs, and to providing a platform with first class investment ideas and services. The Company is committed to continuing to improve its technology capabilities to ensure compliance with industry regulations, support client service and expand its wealth management and capital markets capabilities. The Company's long-term growth plan is to continue to expand existing offices by hiring experienced professionals as well as expand through the purchase of operating branch offices from other broker-dealers or the opening of new branch offices in attractive locations, and to continue to grow and develop the existing trading, investment banking, investment advisory and other divisions.

The Company is also reviewing its full service business model to determine the opportunities available to build or acquire closely related businesses in areas where competitors have shown some success. Equally important is the search for viable acquisition candidates. The Company's long-term intention is to pursue growth by acquisition where it can find a comfortable match in terms of corporate goals and personnel at a price that would provide the Company's stockholders with incremental value. The Company reviews potential acquisition opportunities from time to time, while evaluating and managing its existing businesses. The Company may use all or a portion of the net proceeds of its June 2017 refinancing for the acquisition of related businesses.

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Results of Operations

The Company reported net income attributable to Oppenheimer Holdings Inc. of $28.9 million or $2.18 basic net income per share for the year ended December 31, 2018 compared with net income of $22.8 million or $1.72 basic net income per share for the year ended December 31, 2017. Income before income taxes from continuing operations for the year ended December 31, 2018 was $44.9 million compared with income before income taxes from continuing operations of $19.7 million for the year ended December 31, 2017. Revenue from continuing operations for the year ended December 31, 2018 was $958.2 million, an increase of 4.1% compared with revenue from continuing operations of $920.3 million for the year ended December 31, 2017.

The Company recorded an after-tax benefit of $9.0 million during the year ended December 31, 2017 primarily related to re-measuring deferred tax assets and deferred tax liabilities as a result of the enactment of the TCJA. There was no such after-tax adjustment made to the year end December 31, 2018; however, the Company did benefit from a lower marginal tax rate. Incentive fees earned during the year ended December 31, 2017 totaled $27.5 million as a result of the return on assets under management from alternative investments exceeding certain benchmark returns over a 12-month period. Incentive fees earned during the year ended December 31, 2018 totaled $0.8 million due to the volatility and significant decline in the valuation of assets held by alternative investment funds sponsored by the Company during 2018.

The following table sets forth the amount and percentage of the Company's revenue from each principal source for each of the following years ended December 31:

Expressed in thousands)

	2018			2017			2016		
	Amount	Percentage		Amount	Percentage		Amount	Percentage	
Commissions	$329,668	34	%	$336,620	37	%	$377,317	44	%
Advisory fees	314,349	33	%	320,746	35	%	269,119	31	%
Investment banking	115,353	12	%	78,215	8	%	81,011	10	%
Bank deposit sweep income	116,052	12	%	76,839	8	%	36,316	4	%
Interest	52,484	5	%	48,498	5	%	47,649	6	%
Principal transactions, net	14,461	2	%	23,273	3	%	20,481	2	%
Other	15,787	2	%	36,147	4	%	25,886	3	%
Total revenue	$958,154	100	%	$920,338	100	%	$857,779	100	%

The Company derives most of its revenue from the operations of its principal subsidiaries, Oppenheimer and OAM. Although maintained as separate entities, the operations of the Company's brokerage subsidiaries both in the U.S. and other countries are closely related because Oppenheimer acts as clearing broker in transactions initiated by these subsidiaries.

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The following table and discussion summarizes the changes in the major revenue and expense categories for the past two years:
(Expressed in thousands)

	2018 versus 2017		2017 versus 2016	
	Amount Change	% Change	Amount Change	% Change
Revenue				
Commissions	$(6,952)	(2.1)	$(40,697)	(10.8)
Advisory fees	(6,397)	(2.0)	51,627	19.2
Investment banking	37,138	47.5	(2,796)	(3.5)
Bank deposit sweep income	39,213	51.0	40,523	111.6
Interest	3,986	8.2	849	1.8
Principal transactions, net	(8,812)	(37.9)	2,792	13.6
Other	(20,360)	(56.3)	10,261	39.6
Total revenue	37,816	4.1	62,559	7.3
Expenses				
Compensation and related expenses	5,054	0.8	17,428	3.0
Communications and technology	2,501	3.5	1,588	2.3
Occupancy and equipment costs	7	—	373	0.6
Clearing and exchange fees	(560)	(2.4)	(1,581)	(6.3)
Interest	18,042	63.6	8,917	45.9
Other	(12,345)	(10.9)	(5,794)	(4.9)
Total expenses	12,699	1.4	20,931	2.4
Income before income taxes from continuing operations	25,117	127.3	41,628	(190.2)
Income taxes	18,111	(848.7)	10,128	(82.6)
Net income from continuing operations	7,006	32.0	31,500	*
Discontinued operations				
Income from discontinued operations	(2,071)	(100.0)	(15,268)	(88.1)
Income taxes	(941)	(100.0)	(6,277)	(87.0)
Net income from discontinued operations	(1,130)	(100.0)	(8,991)	(88.8)
Net income	5,876	25.5	22,509	4,584.3
Less net income attributable to non-controlling interest, net of tax	(200)	(108.7)	(1,468)	(88.9)
Net income attributable to Oppenheimer Holdings Inc.	$6,076	26.6	$23,977	*

* Percentage not meaningful.

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Fiscal 2018 compared to Fiscal 2017

Revenue

Commission revenue was $329.7 million for the year ended December 31, 2018, a decrease of 2.1% compared with $336.6 million for the year ended December 31, 2017 due to lower retail and institutional fixed income commission revenue partially offset by higher institutional equities commission revenue during the 2018 year.

Advisory fees were $314.3 million for the year ended December 31, 2018, an decrease of 2.0% compared with $320.7 million for the year ended December 31, 2017 due to higher management fee income partially offset by lower incentive fee income.

Investment banking revenue was $115.4 million for the year ended December 31, 2018, an increase of 47.5% compared with $78.2 million for the year ended December 31, 2017 due to higher equity underwriting fees as well as higher merger and acquisition advisory fees during the 2018 year.

Bank deposit sweep income was $116.1 million for the year ended December 31, 2018, an increase of 51.0% compared with $76.8 million for the year ended December 31, 2017 due to higher short-term interest rates during the 2018 year.

Interest revenue was $52.5 million for the year ended December 31, 2018, an increase of 8.2% compared with $48.5 million in 2017 due primarily to an increase in interest revenue on margin extended to customers during the 2018 year.

Principal transactions revenue was $14.5 million for the year ended December 31, 2018, a decrease of 37.9% compared with $23.3 million for the year ended December 31, 2017 primarily due to recognized losses resulting from participating in tender offers of ARS during the 2018 year.

Other revenue was $15.8 million for the year ended December 31, 2018, a decrease of 56.3% compared to $36.1 million for the year ended December 31, 2017 primarily due to a decrease in the cash surrender value of Company-owned life insurance during the 2018 year and a favorable arbitration award during the 2018 year.

Expenses

Compensation and related expenses totaled $607.2 million during the year ended December 31, 2018, an increase of 0.8% compared with the year ended December 31, 2017. The increase was due to higher salaries, producer, and incentive compensation expenses partially offset by lower share-based and deferred compensation expenses during the year ended December 31, 2018. Compensation and related expenses as a percentage of revenue was 63.4% during the year ended December 31, 2018 compared with 65.4% during the year ended December 31, 2017.

Non-compensation expenses were $306.1 million during the year ended December 31, 2018, an increase of 2.6% compared with $298.5 million during the year ended December 31, 2017 due primarily to higher interest costs, legal and regulatory costs, and communication and technology costs partially offset by lower external portfolio manager costs during the year ended December 31, 2018 and the charge of $6.4 million associated with the settlement with the Israeli VAT Authority in the first quarter of 2017.

The effective income tax rate from continuing operations for the year ended December 31, 2018 was 35.6% compared with 10.8% (benefit) for the year ended December 31, 2017. The effective tax rate for the year ended December 31, 2018 benefited due to the Federal tax rate of 21% (versus 35% in prior years) as a result of the enactment of the TCJA in December 2017 offset by a detriment from the establishment of a valuation allowance for the deferred tax asset related to net operating losses of the Company's operations in Europe as well as larger non-deductible expenses related to items such as entertainment, fringe benefits, regulatory fines and penalties, and limitations around the deductibility of executive compensation under the TCJA. The effective income tax rate for the year ended December 31, 2017 was positively impacted by the estimated impact of the TCJA which resulted in a net discrete after-tax benefit of $9.0 million.

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Fiscal 2017 compared to Fiscal 2016

Revenue

Commission revenue was $336.6 million for the year ended December 31, 2017, a decrease of 10.8% compared with $377.3 million for the year ended December 31, 2016 due to reduced transaction volumes from retail and institutional investors as well as lower financial adviser headcount during the 2017 year.

Advisory fees were $320.7 million for the year ended December 31, 2017, an increase of 19.2% compared with $269.1 million for the year ended December 31, 2016 due to increases in advisory fees on traditional managed products and incentive fees on alternative managed products.

Investment banking revenue was $78.2 million for the year ended December 31, 2017, a decrease of 3.5% compared with $81.0 million for the year ended December 31, 2016 due to lower fees from mergers and acquisition activity and debt capital market transactions partially offset by higher fees from equities underwriting transactions during the 2017 year.

Bank deposit sweep income was $76.8 million for the year ended December 31, 2017, an increase of 111.6% compared with $36.3 million for the year ended December 31, 2016 due to higher short-term interest rates during the 2017 year.

Interest revenue was $48.5 million for the year ended December 31, 2017, an increase of 1.8% compared with $47.6 million in 2016.

Principal transactions revenue was $23.3 million for the year ended December 31, 2017, an increase of 13.6% compared with $20.5 million for the year ended December 31, 2016 due primarily to increases in the valuation of firm investments during the 2017 year.

Other revenue was $36.1 million for the year ended December 31, 2017, an increase of 39.6% compared to $25.9 million for the year ended December 31, 2016 due to positive changes in the cash surrender value of Company-owned life insurance and a favorable arbitration award during the during the 2017 year.

Expenses

Compensation and related expenses (including salaries, production and incentive compensation, share-based compensation, deferred compensation, and other benefit-related items) totaled $602.1 million during the year ended December 31, 2017, an increase of 3.0% compared with the year ended December 31, 2016. The increase was due to higher producer, incentive, share-based, and deferred compensation expenses partially offset by lower salary and healthcare expenses during the year ended December 31, 2017. Compensation and related expenses as a percentage of revenue was 65.4% during the year ended December 31, 2017 compared with 68.2% during the year ended December 31, 2016.

Non-compensation expenses were $298.5 million during the year ended December 31, 2017, an increase of 1.2% compared with $295.0 million during the year ended December 31, 2016 due primarily to higher interest costs and the charge of $6.4 million associated with the settlement with the Israeli VAT Authority in the first quarter of 2017 partially offset by lower legal and regulatory costs during the year ended December 31, 2017.

The effective income tax rate from continuing operations for the year ended December 31, 2017 was 10.8% (benefit) compared with 56.0% (benefit) for the year ended December 31, 2016. The effective income tax rate for the year ended December 31, 2017 was positively impacted by the estimated impact of the TCJA which resulted in a net discrete after-tax benefit of $9.0 million in the fourth quarter of 2017. The effective income tax rate for the year ended December 31, 2016 was positively impacted by income tax provision to tax return true-ups and higher nontaxable benefits received with respect to Company-owned life insurance partially offset by the valuation allowance established on deferred tax assets related to net operating losses of a foreign subsidiary.

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The table below presents information about the reported revenue and income (loss) before income taxes from continuing operations of the Company's reportable business segments for the years ended December 31, 2018 and 2017:

(Expressed in thousands)

	For the Year Ended December 31,		
	2018	2017	% Change
Revenue			
Private Client	$617,871	$592,753	4.2
Asset Management	71,696	89,896	(20.2)
Capital Markets	272,719	231,632	17.7
Corporate/Other	(4,132)	6,057	(168.2)
	958,154	920,338	4.1
Income (Loss) before income taxes			
Private Client	149,097	128,840	15.7
Asset Management	18,590	26,685	(30.3)
Capital Markets	(13,416)	(39,978)	(66.4)
Corporate/Other	(109,418)	(95,811)	14.2
	$44,853	$19,736	127.3

Private Client

Private Client reported revenue of $617.9 million for the year ended December 31, 2018, 4.2% higher than the year ended December 31, 2017 due to higher management fees, bank deposit sweep income and margin revenue partially offset by decreases in incentive fees, commissions and the cash surrender value of the Company-owned life insurance during the year ended December 31, 2018. Income before income taxes was $149.1 million for the year ended December 31, 2018, an increase of 15.7% compared with the year ended December 31, 2017 due to the foregoing partially offset by higher legal and regulatory costs during the year ended December 31, 2018.

- Retail commissions were $196.7 million for the year ended December 31, 2018, a decrease of 3.2% from the year ended December 31, 2017.
- Advisory fee revenue on traditional and alternative managed products was $243.5 million for the year ended December 31, 2018, an increase of 4.8% compared with the year ended December 31, 2017. The increase in advisory fees was due to the increase in management fees partially offset by a decrease in incentive fees earned from alternative investments.
- Bank deposit sweep income was $116.1 million for the year ended December 31, 2018, an increase of 51.0% compared with $76.8 million for the year ended December 31, 2017 due to higher short-term interest rates during the year ended December 31, 2018.

Asset Management

Asset Management reported revenue of $71.7 million for the year ended December 31, 2018, 20.2% lower than the year ended December 31, 2017 due to lower incentive fees and a change in the method of reporting alternative investment management fees earned through an investment adviser that was adopted during the first quarter of 2018. The decrease for the year ended December 31, 2018 was partially offset by higher management fees from traditional products. Income before income taxes was $18.6 million for the year ended December 31, 2018, a decrease of 30.3% compared with the year ended December 31, 2017.

- Advisory fee revenue on traditional and alternative managed products was $70.8 million for the year ended December 31, 2018, a decrease of 19.9% compared with the year ended December 31, 2017 primarily due to lower incentive fees and the change in the method of reporting management fees from alternative investments referred to above partially offset by higher management fees earned from traditional products during the year ended December 31, 2018.
- AUM decreased 5.6% to $26.7 billion at December 31, 2018 compared with $28.3 billion at December 31, 2017, which is the basis for advisory fee billings for the first quarter of 2019. The decrease in AUM was comprised of asset

depreciation of $2.2 billion and a positive net contribution of assets of $0.6 billion.

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The following table provides a breakdown of the change in assets under management for the year ended December 31, 2018:

(Expressed in millions)

	For the Year Ended December 31, 2018				
Fund Type	Beginning Balance	Contributions	Redemptions	Appreciation (Depreciation)	Ending Balance
Traditional [1]	$24,290	$ 4,738	$ (4,107)	$ (2,026)	$22,895
Institutional Fixed Income [2]	695	47	(45)	3	700
Alternative Investments:					
Hedge funds [3]	2,590	350	(291)	(233)	2,416
Private Equity Funds [4]	185	—	—	35	220
Portfolio Enhancement Program [5]	521	6	(28)	(1)	498
	$28,281	$ 5,141	$ (4,471)	$ (2,222)	$26,729

(1) Traditional investments include third party advisory programs, Oppenheimer financial adviser managed and advisory programs, and Oppenheimer Asset Management taxable and tax-exempt portfolio management strategies.

(2) Institutional fixed income provides solutions to institutional investors including: Taft-Hartley Funds, Public Pension Funds, Corporate Pension Funds, and Foundations and Endowments.

(3) Hedge funds represent single manager hedge fund strategies in areas including hedged equity, technology and financial services, and multi-manager and multi-strategy fund of funds.

(4) Private equity funds represent private equity fund of funds including portfolios focused on natural resources and related assets.

(5) The portfolio enhancement program sells uncovered, far out-of-money puts and calls on the S&P 500 Index. The program is market neutral and uncorrelated to the index. Valuation is based on collateral requirements for a series of contracts representing the investment strategy.

Capital Markets

Capital Markets reported revenue of $272.7 million for the year ended December 31, 2018, 17.7% higher than the year ended December 31, 2017 due to higher fees from mergers and acquisitions activity and equities underwriting transactions partially offset by lower debt capital market transactions during the year ended December 31, 2018. Loss before income taxes was $13.4 million for the year ended December 31, 2018 compared with a loss before income taxes of $40.0 million for the year ended December 31, 2017. Results for this segment continue to be impacted by elevated compensation costs as the Company continues to re-position its business.

- Institutional equities commissions increased 1.2% to $96.2 million for the year ended December 31, 2018 compared with the year ended December 31, 2017 due to higher client participation in the equities markets during the year ended December 31, 2018.
- Advisory fees earned from investment banking activities increased 45.2% to $42.8 million for the year ended December 31, 2018 compared with the year ended December 31, 2017 due to an increase in mergers and acquisitions activity during the year ended December 31, 2018.
- Equities underwriting fees increased 106.1% to $50.4 million for the year ended December 31, 2018 compared with the year ended December 31, 2017 due to increased capital raising activity during the year ended December 31, 2018.
- Revenue from Global Fixed Income increased 1.2% to $74.5 million for the year ended December 31, 2018 compared with the year ended December 31, 2017 due to higher trading profits in government trading offset by lower institutional commissions and trading profits in municipal bonds during the year ended December 31, 2018.

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Liquidity and Capital Resources

At December 31, 2018, total assets decreased by 8.1% from December 31, 2017. The Company satisfies its need for short-term financing from internally generated funds and collateralized and uncollateralized borrowings, consisting primarily of bank call loans, stock loans, and uncommitted lines of credit. The Company finances its trading in government securities through the use of securities sold under agreements to repurchase ("repurchase agreements"). The Company has met its longer-term capital needs through the issuance of the 6.75% Senior Secured Notes due 2022 (the "Notes") (see "Refinancing" below). Oppenheimer has arrangements with banks for borrowings on a fully-collateralized basis. The amount of Oppenheimer's bank borrowings fluctuates in response to changes in the level of the Company's securities inventories and customer margin debt, changes in notes receivable from employees, investment in furniture, equipment and leasehold improvements, and changes in stock loan balances and financing through repurchase agreements. At December 31, 2018, the Company had $15.0 million of such borrowings outstanding compared to outstanding borrowings of $118.3 million at December 31, 2017. The Company also has some availability of short-term bank financing on an unsecured basis.

The Company's overseas subsidiaries, Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited, are subject to local regulatory capital requirements that restrict the Company's ability to utilize their capital for other purposes. The regulatory capital requirements for Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited were $4.3 million and $383,000, respectively, at December 31, 2018. In December 2017, Oppenheimer Europe Ltd. received approval from the FCA for a variation of permission to remove the limitation of "matched principal business" from the firm's scope of permitted businesses and become a "Full-Scope Prudential Sourcebook for Investment Firms (IFPRU) €730K" firm, effective in January 2018. In December 2017, the Company contributed additional capital of $7.0 million to Oppenheimer Europe Ltd. in order to facilitate this new permissioning. See note 17 to the consolidated financial statements appearing in Item 8 for further details. The liquid assets at Oppenheimer Europe Ltd. are primarily comprised of cash deposits in bank accounts. The liquid assets at Oppenheimer Investments Asia Limited are primarily comprised of investments in U.S. Treasuries and cash deposits in bank accounts. Any restrictions on transfer of these liquid assets from Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited to the Company or its other subsidiaries would be limited by the regulatory capital requirements.

The Company permanently reinvests eligible earnings of its foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if these earnings were repatriated. The unrecognized deferred tax liability associated with the outside basis difference of its foreign subsidiaries is estimated at $2.9 million for those subsidiaries. The Company has continued to reinvest permanently the excess earnings of Oppenheimer Israel (OPCO) Ltd. in its own business and in the businesses in Europe and Asia to support business initiatives in those regions. With the passage of the TCJA, the Company will continue to review its historical treatment of these earnings to determine whether its historical practice will continue or whether a change is warranted.

In February 2010, Oppenheimer finalized settlements with the Regulators concluding investigations and administrative proceedings concerning Oppenheimer's marketing and sale of ARS. Pursuant to those settlements and legal settlements and awards, the Company has purchased and will, subject to the terms and conditions of the settlements, continue to purchase ARS on a periodic basis. See "Off-Balance Sheet Arrangements" herein. Additional fines, penalties and settlements of regulatory matters could have an adverse effect on the Company's liquidity depending on the size and composition of any such settlement.

Refinancing

On June 23, 2017, the Parent issued in a private offering $200.0 million aggregate principal amount of 6.75% Senior Secured Notes due 2022 (the "Unregistered Notes") under an indenture at an issue price of 100% of the principal amount. On September 19, 2017, the Parent completed an exchange offer in which the Parent exchanged 99.8% of its Unregistered Notes for a like principal amount of notes with identical terms except that such new notes have been registered under the Securities Act of 1933, as amended (the "Notes"). The Parent did not receive any proceeds in the exchange offer. The interest on the Notes is payable semi-annually on January 1st and July 1st, beginning January 1, 2018. The Parent used a portion of the net proceeds from the offering of the Unregistered Notes to redeem in full its 8.75% Senior Secured Notes due April 15, 2018 in the principal amount of $120.0 million, and pay all related fees and

expenses related thereto. See note 11 to the consolidated financial statements appearing in Item 8 for further discussion.
On December 13, 2018, Moody's Corporation affirmed the Company's 'B2' Corporate Family rating and 'B1' rating on the Notes and affirmed its stable outlook. On August 24, 2018, S&P affirmed the Company's 'B+' Corporate Family rating and 'B+' rating on the Notes and affirmed its stable outlook.

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Liquidity

For the most part, the Company's assets consist of cash and cash equivalents and assets that it can readily convert into cash. The receivable from brokers, dealers and clearing organizations represents deposits for securities borrowed transactions, margin deposits or current transactions awaiting settlement. The receivable from customers represents margin balances and amounts due on transactions awaiting settlement. The Company's receivables are, for the most part, collateralized by marketable securities. The Company's collateral maintenance policies and procedures are designed to limit the Company's exposure to credit risk. Securities owned, with the exception of the ARS, are mainly comprised of actively trading, readily marketable securities. The Company advanced $18.5 million in forgivable notes (which are inherently illiquid) to employees for the year ended December 31, 2018 ($23.2 million for the year ended December 31, 2017) as upfront or backend inducements to continue employment. The amount of funds allocated to such inducements will vary with hiring activity.

The Company satisfies its need for short-term liquidity from internally generated funds, collateralized and uncollateralized bank borrowings, stock loans and repurchase agreements and warehouse facilities. Bank borrowings are, in most cases, collateralized by firm and customer securities.

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates. At December 31, 2018, bank call loans were $15.0 million ($118.3 million at December 31, 2017). The average daily bank loan outstanding for the year ended December 31, 2018 was $53.3 million ($123.9 million for the year ended December 31, 2017). The largest daily bank loan outstanding for the year ended December 31, 2018 was $516.5 million ($247.6 million for the year ended December 31, 2017). The average weighted interest rate on bank call loans applicable on December 31, 2018 was 3.43%.

At December 31, 2018, securities loan balances totaled $146.8 million ($180.3 million at December 31, 2017). The average daily securities loan balance for the year ended December 31, 2018 was $209.8 million ($179.4 million for the year ended December 31, 2017). The largest daily stock loan balance for the year ended December 31, 2018 was $274.6 million ($279.5 million for the year ended December 31, 2017).

The Company finances its government trading operations through the use of securities purchased under agreements to resell ("reverse repurchase agreements") and repurchase agreements. Except as described below, 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 repurchase and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, the securities underlying the repurchase and reverse repurchase agreements exist in "book entry" form and certain other requirements are met. Certain of the Company's repurchase agreements and reverse repurchase agreements are carried at fair value as a result of the Company's fair value option election. The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At December 31, 2018, the Company did not have any repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date.

At December 31, 2018, the gross balances of reverse repurchase agreements and repurchase agreements were $82.4 million and $566.4 million, respectively. The average daily balance of reverse repurchase agreements and repurchase agreements on a gross basis for the year ended December 31, 2018 was $142.4 million and $729.0 million, respectively ($267.1 million and $708.5 million, respectively, for the year ended December 31, 2017). The largest amount of reverse repurchase agreements and repurchase agreements outstanding on a gross basis during the year ended December 31, 2018 was $394.8 million and $1.1 billion, respectively ($661.4 million and $1.0 billion, respectively, for the year ended December 31, 2017).

During the year 2018, the Company obtained additional liquidity on its ARS owned of $66.1 million through ARS issuer redemptions and tender offers, net of additional client buybacks.

At December 31, 2018, the gross leverage ratio was 4.1

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Liquidity Management

The Company manages its need for liquidity on a daily basis to ensure compliance with regulatory requirements. The Company's liquidity needs may be affected by market conditions, increased inventory positions, business expansion and other unanticipated occurrences. In the event that existing financial resources do not satisfy the Company's needs, the Company may have to seek additional external financing. The availability of such additional external financing may depend on market factors outside the Company's control.

The Company regularly reviews its sources of liquidity and financing and conducts internal stress analysis to determine the impact on the Company of events that could remove sources of liquidity or financing and to plan actions the Company could take in the case of such an eventuality. The Company's reviews have resulted in plans that the Company believes would result in a reduction of assets through liquidation that would significantly reduce the Company's need for external financing.

Funding Risk

(Expressed in thousands)

	For the Year Ended December 31,	
	2018	2017
Cash provided by (used in) operating activities	$168,570	$(16,136)
Cash used in investing activities	(8,191)	(3,867)
Cash (used in) provided by financing activities	(117,858)	3,244
Net increase (decrease) in cash and cash equivalents	$42,521	$(16,759)

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. Changes in capital requirements under international standards that will impact the costs and relative returns on loans may cause banks including those with whom the Company relies to back away from providing funding to the securities industry. Such a development might impact the Company's ability to finance its day-to-day activities or increase the costs to acquire funding. The Company may or may not be able to pass such increased funding costs on to its clients. See "Factors Affecting 'Forward-Looking Statements'" herein.

Other Matters

On November 23, 2018, the Company paid a cash dividend of $0.11 per share of Class A and Class B Stock totaling approximately $1.5 million from available cash on hand.

On February 28, 2019, the Company paid a cash dividend of $0.11 per share of Class A and Class B Stock totaling approximately $1.4 million from available cash on hand.

The book value of the Company's Class A and Class B Stock was $41.81 at December 31, 2018 compared to $39.55 at December 31, 2017, based on total outstanding shares of 13,041,474 and 13,238,868, respectively.

The diluted weighted average number of shares of Class A and Class B Stock outstanding for the year ended December 31, 2018 was 14,061,369 compared to 13,673,361 outstanding on December 31, 2017.

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Off-Balance Sheet Arrangements

In February 2010, Oppenheimer finalized settlements with the Regulators concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions more fully described below. As of December 31, 2018, the Company had no outstanding ARS purchase commitments related to the settlements with the Regulators. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client related legal settlements and awards to purchase ARS, as of December 31, 2018, the Company purchased and holds (net of redemptions) approximately $40.7 million in ARS from its clients. In addition, the Company is committed to purchase another $7.3 million in ARS from clients through 2020 under legal settlements and awards.

The Company's purchases of ARS from its clients holding ARS eligible for repurchase will, subject to the terms and conditions of the settlements with the Regulators, continue on a periodic basis. Pursuant to these terms and conditions, the Company is required to conduct a financial review every six months, until the Company has extended Purchase Offers to all Eligible Investors (as defined), to determine whether it has funds available, after giving effect to the financial and regulatory capital constraints applicable to the Company, to extend additional Purchase Offers. The financial review is based on the Company's operating results, regulatory net capital, liquidity, and other ARS purchase commitments outstanding under legal settlements and awards (described below). There are no predetermined quantitative thresholds or formulas used for determining the final agreed upon amount for the Purchase Offers. Upon completion of the financial review, the Company first meets with its primary regulator, FINRA, and then with representatives of the NYAG and other regulators to present the results of the review and to finalize the amount of the next Purchase Offer. Various offer scenarios are discussed in terms of which Eligible Investors should receive a Purchase Offer. The primary criteria to date in terms of determining which Eligible Investors should receive a Purchase Offer has been the amount of household account equity each Eligible Investor had with the Company in February 2008. Once various Purchase Offer scenarios have been discussed, the regulators, not the Company, make the final determination of which Purchase Offer scenario to implement. The terms of the settlements provide that the amount of ARS to be purchased during any period shall not risk placing the Company in violation of regulatory requirements.

Outside of the settlements with the Regulators, the Company has also reached various legal settlements with clients and received unfavorable legal awards requiring it to purchase ARS. The terms and conditions including the ARS amounts committed to be purchased under legal settlements are based on the specific facts and circumstances of each legal proceeding. In most instances, the purchase commitments are in increments and extend over a period of time. At December 31, 2018, no ARS purchase commitments related to legal settlements extended past 2020. To the extent the Company receives an unfavorable award, the Company usually must purchase the ARS provided for by the award within 30 days of the rendering of the award.

The ARS positions that the Company owns and is committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans. At December 31, 2018, the amount of ARS held by the Company that was below investment grade was $75,000 and the amount of ARS that was unrated was $nil.

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(Expressed in thousands)
Auction Rate Securities Owned and Committed to Purchase at December 31, 2018

Product	Principal	Valuation Adjustment	Fair Value
Auction Rate Securities ("ARS") Owned [(1)]	$40,650	$ 2,698	$37,952
ARS Commitments to Purchase Pursuant to: [(2)(3)]			
Settlements with the Regulators [(4)]	—	—	—
Legal Settlements and Awards [(5)]	7,305	1,096	6,209
Total	$47,955	$ 3,794	$44,161

(1) Principal amount represents the par value of the ARS and is included in securities owned on the consolidated balance sheet at December 31, 2018. The valuation adjustment amount is included as a reduction to securities owned on the consolidated balance sheet at December 31, 2018.

(2) Principal amount represents the present value of the ARS par value that the Company is committed to purchase at a future date. This principal amount is presented as an off-balance sheet item. The valuation adjustment is included in accounts payable and other liabilities on the consolidated balance sheet at December 31, 2018.

(3) Specific ARS to be purchased under ARS Purchase Commitments are unknown until the beneficial owner selects the individual ARS to be purchased.

(4) Commitments to purchase under settlements with the Regulators at at December 31, 2018. Eligible Investors for future buybacks under the settlements with Regulators held approximately $7.5 million of ARS as of December 31, 2018.

(5) Commitments to purchase under various legal settlements and awards with clients through 2020.

Per the above table, the Company has recorded a valuation adjustment on its ARS owned and ARS purchase commitments of $3.8 million as of December 31, 2018. The valuation adjustment is comprised of $2.7 million which represents the difference between the principal value and the fair value of the ARS the Company owned as of December 31, 2018 and $1.1 million which represents the difference between the principal value and the fair value of the ARS the Company is committed to purchase under legal settlements and awards. As of December 31, 2018, the Company had no outstanding ARS purchase commitments related to the settlements with the Regulators. Eligible Investors for future buybacks under the settlements with the Regulators held approximately $7.5 million of ARS as of December 31, 2018. Since the Company was not committed to purchase this amount as of December 31, 2018, there were no valuation adjustments booked to recognize the difference between the principal value and the fair value for this remaining amount.

Additional information concerning the Company's off-balance sheet arrangements is included in note 6 to the consolidated financial statements appearing in Item 8. Such information is hereby incorporated by reference. Also, see "Risk Factors — The Company may continue to be significantly affected by the failure of the Auction Rate Securities Market" in Item 1A as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations — Business Environment — Other Regulatory Matters" in Item 7 for additional details.

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Contractual Obligations

The following table sets forth the Company's contractual obligations as of December 31, 2018:

(Expressed in thousands)

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligations (1)	$280,609	$ 39,684	$69,709	$56,960	$ 114,256
Committed Capital (1)	1,399	1,399	—	—	—
Senior Secured Notes (2)(3)	247,288	13,500	27,000	206,788	—
ARS Purchase Commitments (1)	7,305	—	7,305	—	—
Total	$536,601	$ 54,583	$104,014	$263,748	$ 114,256

(1) See note 16 to the consolidated financial statements appearing in Item 8 for additional information.
(2) See note 11 to the consolidated financial statements appearing in Item 8 for additional information.
(3) Includes interest payable of $47.3 million through maturity.

Inflation

Because the assets of the Company's brokerage subsidiaries are highly liquid, and because securities inventories are carried at current market values, the impact of inflation generally is reflected in the financial statements. However, the rate of inflation affects the Company's costs relating to employee compensation, rent, communications and certain other operating costs, and such costs may not be recoverable in the level of commissions or fees charged. To the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect the Company's financial position and results of operations.

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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, earnings, liabilities or expenses, 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 remain within 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 that could affect the cost and method of doing business and reduce returns, (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, new entrants and other participants in the securities markets and financial services industry, (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, the trading of low-priced securities, stepped up enforcement efforts by the SEC, FinCEN, FINRA and other regulators and the results of pending litigation and regulatory proceedings involving the Company, (x) changes in foreign, federal and state tax laws that could affect the popularity of products sold by the Company or impose taxes on securities transactions, (xi) the adoption and implementation of the SEC's proposed "Regulation Best Interest" and other regulations in recent years, (xii) the effectiveness of the Company's efforts to reduce costs and manage compensation expense, (xiii) war, international police actions, terrorist acts and nuclear confrontation as well as political unrest and regime changes, health epidemics and economic crises in foreign countries, (xiv) the Company's ability to achieve its business plan, (xv) corporate governance issues, (xvi) the consolidation of the banking and financial services industry, (xvii) the effects of the economy on the Company's ability to find and maintain financing options and liquidity, (xviii) credit, operational, legal and regulatory risks, (xix) risks related to foreign operations, including those in the United Kingdom which may be affected by Britain's June 23, 2016 referendum to exit the EU beginning in March 2019 ("Brexit"), (xx) risks related to the downgrade of U.S. long-term sovereign debt obligations and the sovereign debt of European nations, (xxi) potential cybersecurity threats, (xxii) the effect of technological innovation on the financial services industry and business, (xxiii) risks related to the changes by S&P Global Ratings ("S&P") or Moody's Investor Service, Inc. ("Moody's") of its rating on the Company and on the Company's long-term debt, (xxiv) risks related to elections results, Congressional gridlock, government shutdowns and investigations, changes in or uncertainty surrounding regulations and threats of default by the federal government, (xxv) risks relate to trade wars, and (xxvi) risks related to changes in capital requirements under international standards that may cause banks to back away from providing funding to the securities industry. 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. See "Risk Factors" in Item 1A.

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Risk Management
The Company's principal business activities by their nature involve significant market, credit and other risks. The Company's effectiveness in managing these risks is critical to its success and stability.
As part of its normal business operations, the Company engages in the trading of both fixed income and equity securities in both a proprietary and market-making capacity. The Company makes markets in over-the-counter equities in order to facilitate order flow and accommodate its institutional and retail customers. The Company also makes markets in municipal bonds, mortgage-backed securities, government bonds and high yield bonds and short term fixed income securities and loans issued by various corporations.
Market Risk. Market risk generally means the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest and currency exchange rates and in equity and commodity prices. Market risk is inherent in all types of financial instruments, including both derivatives and non-derivatives. The Company's exposure to market risk arises from its role as a financial intermediary for its customers' transactions and from its proprietary trading and arbitrage activities.
Oppenheimer monitors market risks through daily profit and loss statements and position reports. Each trading department adheres to internal position limits determined by senior management and regularly reviews the age and composition of its proprietary accounts. Positions and profits and losses for each trading department are reported to senior management on a daily basis.
In its market-making activities, Oppenheimer must provide liquidity in the equities for which it makes markets. As a result of this, Oppenheimer has risk containment policies in place, which limit position size and monitor transactions on a minute-to-minute basis.
Credit Risk. Credit risk represents the loss that the Company would incur if a client, counterparty or issuer of securities or other instruments held by the Company fails to perform its contractual obligations. The Company follows industry practice to reduce credit risk related to various investing and financing activities by obtaining and maintaining collateral wherever possible. The Company adjusts margin requirements if it believes the risk exposure is not appropriate based on market conditions. When Oppenheimer advances funds or securities to a counterparty in a principal transaction or to a customer in a brokered transaction, it is subject to the risk that the counterparty or customer will not repay such advances. If the market price of the securities purchased or loaned has declined or increased, respectively, Oppenheimer may be unable to recover some or all of the value of the amount advanced. A similar risk is also present where a customer is unable to respond to a margin call and the market price of the collateral has dropped. In addition, Oppenheimer's securities positions are subject to fluctuations in market value and liquidity.
In addition to monitoring the credit-worthiness of its customers, Oppenheimer imposes more conservative margin requirements than those of the FINRA Rule 4210. Generally, Oppenheimer limits customer loans to an amount not greater than 65% of the value of the securities (or lower if the securities in the account are concentrated in a limited number of issues). Particular attention and more restrictive requirements are placed on more highly volatile securities traded in the NASDAQ market. In comparison, the FINRA Rule 4210 permits loans of up to 75% of the value of the equity securities in a customer's account. Further discussion of credit risk appears in note 7 to the Company's consolidated financial statements appearing in Item 8.
Operational Risk. Operational risk generally refers to the risk of loss resulting from the Company's operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in its operating systems, business disruptions and inadequacies or breaches in its internal control processes. The Company operates in diverse markets and it is reliant on the ability of its employees and systems to process high numbers of transactions often within short time frames. In the event of a breakdown or improper operation of systems, human error or improper action by employees, the Company could suffer financial loss, regulatory sanctions or damage to its reputation. In order to mitigate and control operational risk, the Company has developed and continues to enhance policies and procedures (including the maintenance of disaster recovery facilities and procedures related thereto) that are designed to identify and manage operational risk at appropriate levels. With respect to its trading activities, the Company has procedures designed to ensure that all transactions are accurately recorded and properly reflected on the Company's books on a timely basis. With respect to client activities, the

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Company operates a system of internal controls designed to ensure that transactions and other account activity (new account solicitation, transaction authorization, transaction processing, billing and collection) are properly approved, processed, recorded and reconciled. The Company has procedures designed to assess and monitor counterparty risk.
Legal and Regulatory Risk. Legal and regulatory risk includes the risk of non-compliance with applicable legal and regulatory requirements, client claims and the possibility of sizeable adverse legal judgments. The Company is subject to extensive regulation in the different jurisdictions in which it conducts its activities. Regulatory oversight of the securities industry has become increasingly intense over the past few years and the Company, as well as others in the industry, has been directly affected by this increased regulatory scrutiny. Timely and accurate compliance with the increased volume of regulatory requests has become increasingly problematic within the industry, and regulators have tended to bring enforcement proceedings in relation to such matters. See further discussion of these risks in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment" in Item 7.
The Company has comprehensive procedures for addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds and securities, granting of credit, collection activities, money laundering, and record keeping. The Company has designated Anti-Money Laundering Compliance Officers who monitor compliance with regulations under the U.S. Patriot Act. See further discussion of the Company's reserve policy in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" in Item 7, "Legal Proceedings" in Item 3 and "Business — Regulation" in Item 1.
Off-Balance Sheet Arrangements. In certain limited instances, the Company utilizes off-balance sheet arrangements to manage risk. See further discussion in note 6 to the consolidated financial statements appearing in Item 8.
Value-at-Risk. Value-at-risk is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. In response to the SEC's market risk disclosure requirements, the Company has performed a value-at-risk analysis of its trading of financial instruments and derivatives. The value-at-risk calculation uses standard statistical techniques to measure the potential loss in fair value based upon a one-day holding period and a 95% confidence level of loss. The calculation is based upon a variance-covariance methodology, which assumes a normal distribution of changes in portfolio value. The forecasts of variances and co-variances used to construct the model for the market factors relevant to the portfolio were generated from historical data. Although value-at-risk models are sophisticated tools, their use can be limited as historical data is not always an accurate predictor of future conditions. The Company attempts to manage its market exposure using other methods, including trading authorization limits and concentration limits.
At December 31, 2018 and 2017, the Company's value-at-risk for each component of market risk was as follows:
(Expressed in thousands)

	VAR for Fiscal 2018			VAR for Fiscal 2017		
	High	Low	Average	High	Low	Average
Equity price risk	$507	$42	$ 181	$554	$152	$ 410
Interest rate risk	5,050	617	2,011	1,628	1,112	1,353
Commodity price risk	94	78	86	90	62	75
Diversification benefit	(4,808)	(443)	(1,783)	(951)	(1,234)	(1,103)
Total	$843	$294	$ 495	$1,321	$92	$ 735

(Expressed in thousands)

	VAR at December 31,	
	2018	2017
Equity price risk	$ 54	$ 554
Interest rate risk	5,050	1,112
Commodity price risk	85	62
Diversification benefit	(4,808)	(1,226)
Total	$ 381	$ 502

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The potential future loss presented by the total value-at-risk generally falls within predetermined levels of loss that should not be material to the Company's results of operations, financial condition or cash flows. The changes in the value-at-risk amounts reported in 2018 from those reported in 2017 reflect changes in the size and composition of the Company's trading portfolio at December 31, 2018 compared to December 31, 2017. The Company's portfolio as of December 31, 2018 includes approximately $15.1 million ($16.2 million in 2017) in corporate equities, which are related to deferred compensation liabilities and which do not bear any value-at-risk to the Company. Further discussion of risk management appears in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 1A, "Risk Factors."

The value-at-risk estimate has limitations that should be considered in evaluating the Company's potential future losses based on the year-end portfolio positions. Recent market conditions, including increased volatility, may result in statistical relationships that result in higher value-at-risk than would be estimated from the same portfolio under different market conditions. Likewise, the converse may be true. Critical risk management strategy involves the active management of portfolio levels to reduce market risk. The Company's market risk exposure is continuously monitored as the portfolio risks and market conditions change.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Oppenheimer Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2018, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management has concluded that the Company's internal control over financial reporting as of December 31, 2018 was effective.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets and provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

The Company's internal control over financial reporting as of December 31, 2018 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report included herein, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Oppenheimer Holdings Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Oppenheimer Holdings Inc. and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018 of the Company and our report dated March 1, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
New York, NY
March 1, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareholders and the Board of Directors of Oppenheimer Holdings Inc.

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Oppenheimer Holdings Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.
Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP
New York, NY
March 1, 2019
We have served as the Company's auditor since 2013.

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OPPENHEIMER HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31,

(Expressed in thousands, except number of shares and per share amounts)	2018	2017
ASSETS		
Cash and cash equivalents	$90,675	$48,154
Deposits with clearing organizations	67,678	42,222
Receivable from brokers, dealers and clearing organizations	166,493	187,115
Receivable from customers, net of allowance for credit losses of $886 ($769 in 2017)	720,777	848,226
Income tax receivable	1,014	2,939
Securities purchased under agreements to resell	290	658
Securities owned, including amounts pledged of $517,951 ($655,683 in 2017), at fair value	837,584	926,597
Notes receivable, net of accumulated amortization and allowance for uncollectibles of $25,109 and $6,800, respectively ($24,705 and $7,975, respectively, in 2017)	44,058	40,520
Furniture, equipment and leasehold improvements, net of accumulated depreciation of $89,182 ($82,826 in 2017)	28,988	27,187
Intangible assets	32,100	31,700
Goodwill	137,889	137,889
Other assets	112,768	145,310
Total assets	$2,240,314	$2,438,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Drafts payable	$16,348	$42,412
Bank call loans	15,000	118,300
Payable to brokers, dealers and clearing organizations	289,207	211,483
Payable to customers	336,616	385,907
Securities sold under agreements to repurchase	484,218	586,478
Securities sold but not yet purchased, at fair value	85,446	94,486
Accrued compensation	167,348	173,116
Accounts payable and other liabilities	87,630	92,495
Senior secured notes, net of debt issuance costs of $904 ($1,163 in 2017)	199,096	198,837
Deferred tax liabilities, net of deferred tax assets of $41,722 ($46,247 in 2017)	14,083	11,092
Total liabilities	1,694,992	1,914,606
Commitments and contingencies (note 16)		
Stockholders' equity		
Share capital		
Class A non-voting common stock, par value $0.001 per share, 50,000,000 shares authorized, 12,941,809 and 13,139,203 shares issued and outstanding as of December 31, 2018 and 2017, respectively	53,259	58,359
Class B voting common stock, par value $0.001 per share, 99,665 shares authorized, issued and outstanding	133	133
	53,392	58,492
Contributed capital	41,776	36,546
Retained earnings	449,989	426,930
Accumulated other comprehensive income	165	1,582
Total Oppenheimer Holdings Inc. stockholders' equity	545,322	523,550
Non-controlling interest	—	361
Total stockholders' equity	545,322	523,911
Total liabilities and stockholders' equity	$2,240,314	$2,438,517

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

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OPPENHEIMER HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE YEARS ENDED DECEMBER 31,

(Expressed in thousands, except number of shares and per share amounts)	2018	2017	2016
REVENUE			
Commissions	$329,668	$336,620	$377,317
Advisory fees	314,349	320,746	269,119
Investment banking	115,353	78,215	81,011
Bank deposit sweep income	116,052	76,839	36,316
Interest	52,484	48,498	47,649
Principal transactions, net	14,461	23,273	20,481
Other	15,787	36,147	25,886
Total revenue	958,154	920,338	857,779
EXPENSES			
Compensation and related expenses	607,192	602,138	584,710
Communications and technology	74,479	71,978	70,390
Occupancy and equipment costs	61,171	61,164	60,791
Clearing and exchange fees	22,985	23,545	25,126
Interest	46,396	28,354	19,437
Other	101,078	113,423	119,217
Total expenses	913,301	900,602	879,671
Income (Loss) before income taxes from continuing operations	44,853	19,736	(21,892)
Income taxes expenses (benefits)	15,977	(2,134)	(12,262)
Net income (loss) from continuing operations	28,876	21,870	(9,630)
Discontinued operations			
Income from discontinued operations	—	2,071	17,339
Income taxes expenses (benefits)	—	941	7,218
Net income from discontinued operations	—	1,130	10,121
Net income	28,876	23,000	491
Less net income (loss) attributable to non-controlling interest, net of tax	(16)	184	1,652
Net income (loss) attributable to Oppenheimer Holdings Inc.	$28,892	$22,816	$(1,161)
Basic net income (loss) per share attributable to Oppenheimer Holdings Inc.			
Continuing operations	$2.18	$1.65	$(0.72)
Discontinued operations	—	0.07	0.63
Net income (loss) per share	$2.18	$1.72	$(0.09)
Diluted net income (loss) per share attributable to Oppenheimer Holdings Inc.			
Continuing operations	$2.05	$1.60	$(0.72)
Discontinued operations	—	0.07	0.63
Net income (loss) per share	$2.05	$1.67	$(0.09)
Dividends declared per share	$0.44	$0.44	$0.44
Weighted average shares			
Basic	13,248,876	13,246,423	13,368,768
Diluted	14,061,369	13,673,361	13,368,768

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

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OPPENHEIMER HOLDINGS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE YEARS ENDED DECEMBER 31,

(Expressed in thousands)	2018	2017	2016
Net income	$28,876	$23,000	$491
Other comprehensive income (loss), net of tax			
Currency translation adjustment	(1,417)	2,263	220
Comprehensive income	27,459	25,263	711
Net income (loss) attributable to non-controlling interest, net of tax	(16)	184	1,652
Comprehensive income (loss) attributable to Oppenheimer Holdings Inc.	$27,475	$25,079	$(941)

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

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OPPENHEIMER HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31,

(Expressed in thousands)	2018	2017	2016
Share capital			
Balance at beginning of year	$58,492	$59,361	$57,520
Issuance of Class A non-voting common stock	794	6,595	5,776
Repurchase of Class A non-voting common stock for cancellation	(5,894)	(7,464)	(3,935)
Balance at end of year	53,392	58,492	59,361
Contributed capital			
Balance at beginning of year	36,546	41,765	44,438
Tax deficiency from share-based awards	—	—	(740)
Share-based expense	6,061	5,583	5,184
Vested employee share plan awards	(831)	(11,227)	(7,117)
Cumulative-effect adjustment from adoption of new accounting update of employee share-based accounting	—	425	—
Balance at end of year	41,776	36,546	41,765
Retained earnings			
Balance at beginning of year	426,930	410,258	417,001
Net income (loss) attributable to Oppenheimer Holdings Inc.	28,892	22,816	(1,161)
Dividends paid ($0.44 per share)	(5,833)	(5,836)	(5,887)
Dividends received from non-controlling interest	—	6	305
Cumulative-effect adjustment from adoption of new accounting update of employee share-based accounting	—	(314)	—
Balance at end of year	449,989	426,930	410,258
Accumulated other comprehensive income (loss)			
Balance at beginning of year	1,582	(681)	(901)
Currency translation adjustment	(1,417)	2,263	220
Balance at end of year	165	1,582	(681)
Total Oppenheimer Holdings Inc. stockholders' equity	545,322	523,550	510,703
Non-controlling interest			
Balance at beginning of year	361	2,631	7,024
Net income attributable to non-controlling interest, net of tax	(16)	184	1,652
Dividends paid to non-controlling interest	(345)	(2,448)	(5,740)
Dividends paid to parent	—	(6)	(305)
Balance at end of year	—	361	2,631
Total stockholders' equity	$545,322	$523,911	$513,334

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

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OPPENHEIMER HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE YEARS ENDED DECEMBER 31,

(Expressed in thousands)	2018	2017	2016
Cash flows from operating activities			
Net income	$28,876	$23,000	$491
Adjustments to reconcile net income to net cash used in operating activities			
Non-cash items included in net income:			
Depreciation and amortization of furniture, equipment and leasehold improvements	6,871	5,657	6,788
Deferred income taxes	2,773	(2,045)	(2,941)
Amortization of notes receivable	12,540	11,791	12,960
Amortization of debt issuance costs	259	353	484
Write-off of debt issuance costs	—	430	—
Amortization of mortgage servicing rights	—	—	1,286
Provision for (reversal of) credit losses	117	(25)	(1,751)
Share-based compensation	6,710	12,573	6,203
Tax deficiency from share-based awards	—	—	(740)
Gain on sale of assets	—	—	(16,475)
Decrease (increase) in operating assets:			
Deposits with clearing organizations	(25,456)	(4,037)	11,305
Receivable from brokers, dealers and clearing organizations	20,622	27,819	145,882
Receivable from customers	127,332	(815)	(5,280)
Income tax receivable	1,925	2,877	5,104
Securities purchased under agreements to resell	368	23,348	182,493
Securities owned	89,013	(219,489)	24,725
Notes receivable	(16,078)	(22,212)	(10,210)
Loans held for sale	—	—	60,234
Mortgage servicing rights	—	—	(1,300)
Other assets	30,272	(37,130)	2,368
Increase (decrease) in operating liabilities:			
Drafts payable	(26,064)	3,184	(8,783)
Payable to brokers, dealers and clearing organizations	77,724	(9,906)	56,843
Payable to customers	(49,291)	(64,039)	(144,887)
Securities sold under agreements to repurchase	(102,260)	208,394	(273,361)
Securities sold but not yet purchased	(9,040)	9,436	(41,443)
Accrued compensation	(6,418)	21,184	(6,864)
Accounts payable and other liabilities	(2,225)	(6,484)	(69,996)
Cash provided by (used in) operating activities	168,570	(16,136)	(66,865)
Cash flows from investing activities			
Purchase of furniture, equipment and leasehold improvements	(8,672)	(5,611)	(5,731)
Purchase of intangible assets	(400)	—	—
Proceeds from sale of assets	—	—	45,448
Proceeds from the settlement of Company-owned life insurance	881	1,744	—
Cash (used in) provided by investing activities	(8,191)	(3,867)	39,717
Cash flows from financing activities			
Cash dividends paid on Class A non-voting and Class B voting common stock	(5,833)	(5,836)	(5,887)
Cash dividends paid to non-controlling interest	(372)	(2,448)	(5,740)
Issuance of Class A non-voting common stock	70	26	—
Repurchase of Class A non-voting common stock for cancellation	(5,894)	(7,464)	(3,935)

Payments for employee taxes withheld related to vested share-based awards	(2,529)	(2,237)	(1,341)
Issuance of senior secured notes	—	200,000	—
Redemption of senior secured notes	—	(150,000)	—
Debt issuance costs	—	(1,297)	—
(Decrease) increase in bank call loans, net	(103,300)	(27,500)	45,600
Cash (used in) provided by financing activities	(117,858)	3,244	28,697
Net increase (decrease) in cash and cash equivalents	42,521	(16,759)	1,549
Cash and cash equivalents, beginning of year	48,154	64,913	63,364
Cash and cash equivalents, end of year	$90,675	$48,154	$64,913
Schedule of non-cash financing activities			
Employee share plan issuance	$724	$6,569	$5,776
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$53,559	$23,899	$19,705
Cash paid (received) during the year for income taxes, net	$11,520	$(2,378)	$(5,009)

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

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OPPENHEIMER HOLDINGS INC.
Notes to Consolidated Financial Statements

1. Organization

Oppenheimer Holdings Inc. ("OPY" or the "Parent") is incorporated under the laws of the State of Delaware. The consolidated financial statements include the accounts of OPY and its consolidated subsidiaries (together, the "Company"). The Company engages in a broad range of activities in the financial services industry, including retail securities brokerage, institutional sales and trading, market-making, research, investment banking (both corporate and public finance), investment advisory and asset management services and trust services.

The Company has 92 retail branch offices in the United States and has institutional businesses located in London, Tel Aviv, and Hong Kong. The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker-dealer in securities and investment adviser under the Investment Advisers Act of 1940; Oppenheimer Asset Management Inc. ("OAM") and its wholly-owned subsidiary, Oppenheimer Investment Management LLC, both registered investment advisers under the Investment Advisers Act of 1940; Oppenheimer Trust Company of Delaware ("Oppenheimer Trust"), a limited purpose trust company that provides fiduciary services such as trust and estate administration and investment management; OPY Credit Corp., which offers syndication as well as trading of issued corporate loans; Oppenheimer Europe Ltd., based in the United Kingdom, with offices in the Isle of Jersey, Germany and Switzerland, which provides institutional equities and fixed income brokerage and corporate finance and is regulated by the Financial Conduct Authority; Oppenheimer Investments Asia Limited, based in Hong Kong, China, which provides fixed income and equities brokerage services to institutional investors and is regulated by the Securities and Futures Commission; and Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHHF") which was formerly engaged in Federal Housing Administration ("FHA")-insured commercial mortgage origination and servicing. During 2016, the Company sold substantially all of the assets of OMHHF and ceased its operations. Oppenheimer owns Freedom Investments, Inc. ("Freedom"), a registered broker dealer in securities, which provides discount brokerage services, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel. Oppenheimer holds a trading permit on the New York Stock Exchange and is a member of several other regional exchanges in the United States.

2. Summary of significant accounting policies and estimates

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Intercompany transactions and balances have been eliminated in the preparation of the consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods.

In presenting the consolidated financial statements, management makes estimates regarding valuations of financial instruments, loans and allowances for credit losses, the outcome of legal and regulatory matters, goodwill and other intangible assets, share-based compensation plans and income taxes. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could be materially different from these estimates. A discussion of certain critical accounting policies in which estimates are a significant component of the amounts reported on the consolidated financial statements follows.

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OPPENHEIMER HOLDINGS INC.
Notes to Consolidated Financial Statements

Financial Instruments and Fair Value

Financial Instruments

Securities owned, 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.

Fair Value Measurements

Accounting guidance for the fair value measurement of financial assets, which defines fair value, establishes a framework for measuring fair value, establishes a fair value measurement hierarchy, and expands fair value measurement disclosures. Fair value, as defined by the accounting guidance, is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy established by this accounting guidance prioritizes the inputs used in valuation techniques into the following three categories (highest to lowest priority):

Level 1:	Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;
Level 2:	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
Level 3:	Unobservable inputs that are significant to the overall fair value measurement.

The Company's financial instruments that are recorded at fair value generally are classified within Level 1 or Level 2 within the fair value hierarchy using quoted market prices or quotes from market makers or broker-dealers. Financial instruments classified within Level 1 are valued based on quoted market prices in active markets and consist of U.S. Treasury and Agency securities, corporate equities, and certain money market instruments. Level 2 financial instruments primarily consist of investment grade and high-yield corporate debt, convertible bonds, mortgage and asset-backed securities, and municipal obligations. Financial instruments classified as Level 2 are valued based on quoted prices for similar assets and liabilities in active markets and quoted prices for identical or similar assets and liabilities in markets that are not active. Some financial instruments are classified within Level 3 within the fair value hierarchy as observable pricing inputs are not available due to limited market activity for the asset or liability. Such financial instruments include certain distressed municipal securities, auction rate securities ("ARS") and investments in hedge funds and private equity funds where the Company, through its subsidiaries, is general partner.

Fair Value Option

The Company has the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The Company may make a fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

Consolidation

The Company consolidates all subsidiaries in which it has a controlling financial interest, as well as any variable interest entities ("VIEs") where the Company is deemed to be the primary beneficiary, when it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb significant losses or the right to receive benefits that could potentially be significant to the VIE. The Company reviews factors, including the rights of the equity holders at risk and obligations of equity holders to absorb losses or receive expected residual returns, to determine if the entity is a VIE. In evaluating whether the Company is the primary beneficiary, the Company evaluates its economic interests in the entity held either directly or indirectly by the Company. Under Accounting Standards Update ("ASU") 2015-02, a general partner will not consolidate a partnership or similar entity under the voting interest model. See note 8 for further details.

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OPPENHEIMER HOLDINGS INC.
Notes to Consolidated Financial Statements

Financing Receivables

The Company's financing receivables include customer margin loans, securities purchased under agreements to resell ("reverse repurchase agreements"), and securities borrowed transactions. The Company uses financing receivables to extend margin loans to customers, meet trade settlement requirements, and facilitate its matched-book arrangements and inventory requirements.

The Company's financing receivables are secured by collateral received from clients and counterparties. In many cases, the Company is permitted to sell or re-pledge securities held as collateral. These securities may be used to collateralize repurchase agreements, to enter into securities lending agreements, to cover short positions or fulfill the obligation of securities fails to deliver. The Company monitors the market value of the collateral received on a daily basis and may require clients and counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Customer receivables, primarily consisting of customer margin loans collateralized by customer-owned securities, are stated net of allowance for credit losses. The Company reviews large customer accounts that do not comply with the Company's margin requirements on a case-by-case basis to determine the likelihood of collection and records an allowance for credit loss following that process. For small customer accounts that do not comply with the Company's margin requirements, the allowance for credit loss is generally recorded as the amount of unsecured or partially secured receivables.

The Company also makes loans to financial advisers as part of its hiring process. These loans are recorded as notes receivable on its consolidated balance sheet. Allowances are established on these loans if the financial adviser is no longer associated with the Company and the loan has not been promptly repaid.

Legal and Regulatory Reserves

The Company records reserves related to legal and regulatory proceedings in accounts payable and other liabilities. The determination of the amounts of these reserves requires significant judgment on the part of management. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters where available information indicates that it is probable a liability had been incurred and the Company can reasonably estimate the amount of that loss. When loss contingencies are not probable or cannot be reasonably estimated, the Company does not establish reserves.

When determining whether to record a reserve, management considers many factors including, but not limited to, the amount of the claim; the stage and forum of the proceeding, the sophistication of the claimant, the amount of the loss, if any, in the client's account and the possibility of wrongdoing, if any, on the part of an employee of the Company; the basis and validity of the claim; previous results in similar cases; and applicable legal precedents and case law. Each legal and regulatory proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Any change in the reserve amount is recorded in the results of that period. The assumptions of management in determining the estimates of reserves may be incorrect and the actual disposition of a legal or regulatory proceeding could be greater or less than the reserve amount.

Goodwill

The Company defines a reporting unit as an operating segment. The Company's goodwill resides in its Private Client Division ("PCD") reporting unit. Goodwill of a reporting unit is subject to at least an annual test for impairment to determine if the estimated fair value of a reporting unit is less than its carrying amount. Goodwill of a reporting unit is required to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to the volatility in the financial services sector and equity markets in general, determining whether an impairment of goodwill has occurred is increasingly difficult and requires management to exercise significant judgment. The Company's annual goodwill impairment analysis performed as of December 31, 2018 applied the same valuation methodologies with consistent inputs as that performed as of December 31, 2017, as follows:

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OPPENHEIMER HOLDINGS INC.
Notes to Consolidated Financial Statements

In estimating the fair value of the PCD reporting unit, the Company uses traditional standard valuation methods, including the market comparable approach and income approach. The market comparable approach is based on comparisons of the subject company to public companies whose stocks are actively traded ("Price Multiples") or to similar companies engaged in an actual merger or acquisition ("Precedent Transactions"). As part of this process, multiples of value relative to financial variables, such as earnings or stockholders' equity, are developed and applied to the appropriate financial variables of the subject company to indicate its value. The income approach involves estimating the present value of the subject company's future cash flows by using projections of the cash flows that the business is expected to generate, and discounting these cash flows at a given rate of return ("Discounted Cash Flow" or "DCF"). Each of these standard valuation methodologies requires the use of management estimates and assumptions.

In its Price Multiples valuation analysis, the Company uses various operating metrics of comparable companies, including revenues, after-tax earnings, and EBITDA as well as price-to-book value ratios at a point in time. The Company analyzes prices paid in Precedent Transactions that are comparable to the business conducted in the PCD. The DCF analysis includes the Company's assumptions regarding discount rate, growth rates of the PCD's revenues, expenses, EBITDA, and capital expenditures, adjusted for current economic conditions and expectations. The Company weighs each of the three valuation methods equally in its overall valuation. Given the subjectivity involved in selecting which valuation method to use, the corresponding weightings, and the input variables for use in the analyses, it is possible that a different valuation model and the selection of different input variables could produce a materially different estimate of the fair value of the PCD reporting unit.

Intangible Assets

Indefinite intangible assets are comprised of trademarks, trade names and an Internet domain name. These intangible assets carried at $32.1 million, which are not amortized, are subject to at least an annual test for impairment to determine if the estimated fair value is less than their carrying amount. The fair value of the trademarks and trade names was substantially in excess of its carrying value as of December 31, 2018.

Share-Based Compensation Plans

As part of the compensation to employees and directors, the Company uses stock-based compensation, consisting of restricted stock, stock options and stock appreciation rights. In accordance with ASC Topic 718, "Compensation - Stock Compensation," the Company classifies the stock options and restricted stock awards as equity awards, which requires the compensation cost to be recognized in the consolidated statement of operations over the requisite service period of the award at grant date fair value and adjust for actual forfeitures. The fair value of restricted stock awards is determined based on the grant date closing price of the Company's Class A non-voting common stock ("Class A Stock") adjusted for the present value of the dividend to be received upon vesting. The fair value of stock options is determined using the Black-Scholes model. Key assumptions used to estimate the fair value include the expected term and the expected volatility of the Company's Class A Stock over the term of the award, the risk-free interest rate over the expected term, and the Company's expected annual dividend yield. The Company classifies stock appreciation rights ("OARs") as liability awards, which requires the fair value to be remeasured at each reporting period until the award vests. The fair value of OARs is also determined using the Black-Scholes model at the end of each reporting period. The compensation cost is adjusted each reporting period for changes in fair value prorated for the portion of the requisite service period rendered.

Revenue Recognition

Brokerage

Customers' securities and commodities transactions are reported on a settlement date basis, which is generally two business days after trade date for securities transactions and one day for commodities transactions. Related commission income and expense is recorded on a trade date basis.

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Principal Transactions
Transactions in proprietary securities and related revenue and expenses are recorded on a trade date basis. Securities owned and securities sold but not yet purchased are reported at fair value generally based upon quoted prices. Realized and unrealized changes in fair value are recognized in principal transactions, net in the period in which the change occurs.
Investment Banking Fees
Advisory fees from mergers, acquisitions and restructuring transactions are recorded when services for the transactions are completed and income is reasonably determinable, generally as set forth under the terms of the engagement. Retainer fees and engagement fees are recognized ratably over the service period.
Underwriting fees are recorded when the transactions are completed. Transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment banking transaction revenue. Underwriting revenues and the related expenses are presented gross on the consolidated statement of operations.
Interest
Interest revenue represents interest earned on margin debit balances, securities borrowed transactions, reverse repurchase agreements, fixed income securities, firm investments, and cash and cash equivalents. Interest revenue is recognized in the period earned based upon average or daily asset balances, contractual cash flows, and interest rates.
Asset Management
Asset management fees are generally recognized over the period the related service is provided based on the account value at the valuation date per the respective asset management agreements. In certain circumstances, OAM is entitled to receive performance (or incentive) fees when the return on assets under management ("AUM") exceeds certain benchmark returns or other performance targets. Performance fees are generally based on investment performance over a 12-month period and are not subject to adjustment once the measurement period ends. Such fees are computed as of the fund's year-end when the measurement period ends and generally are recorded as earned in the fourth quarter of the Company's fiscal year. Asset management fees and performance fees are included in advisory fees in the consolidated statement of operations. Assets under management are not included as assets of the Company.
Bank Deposit Sweep Income
Bank deposit sweep income consists of revenues earned from the Advantage Bank Deposit Program. Under this program, client funds are swept into deposit accounts at participating banks and are eligible for FDIC deposit insurance up to FDIC standard maximum deposit insurance amounts. The Company earns the fee paid on these deposits after administrative fees are paid to the administrator of the program. The fee earned in the period is recorded in bank deposit sweep income and the portion of interest credited to clients is recorded in interest expense in the consolidated statement of operations.
Balance Sheet
Cash and Cash Equivalents
The Company defines cash equivalents as highly liquid investments with original maturities of less than 90 days that are not held for sale in the ordinary course of business.
Receivables from / Payables to Brokers, Dealers and Clearing Organizations

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. The Company receives cash or collateral in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis and may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

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Securities failed to deliver and receive represent the contract value of securities which have not been delivered or received, respectively, by settlement date.

Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase

Reverse repurchase agreements and securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. The resulting interest income and expense for these arrangements are included in interest income and interest expense in the consolidated statement of operations. Additionally, the Company elected the fair value option for repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. The Company can present the reverse repurchase and repurchase transactions on a net-by-counterparty basis when the specific offsetting requirements are satisfied.

Notes Receivable

Notes receivable represent recruiting and retention payments generally in the form of upfront loans to financial advisers and key revenue producers as part of the Company's overall growth strategy. These notes generally amortize over a service period of 3 to 9 years from the initial date of the note or based on productivity levels of employees. All such notes are contingent on
the employees' continued employment with the Company. The unforgiven portion of the notes becomes due on demand in the event the employee departs during the service period. Amortization of notes receivable is included in the consolidated statement of operations in compensation and related expenses.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation of furniture, fixtures, and equipment is provided on a straight-line basis generally over 3-7 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the life of the improvement or the remaining term of the lease. Leases with escalating rents are expensed on a straight-line basis over the life of the lease. Landlord incentives are recorded as deferred rent and amortized, as reductions to lease expense, on a straight-line basis over the life of the applicable lease. Deferred rent is included in accounts payable and other liabilities on the consolidated balance sheet.

Drafts Payable

Drafts payable represent amounts drawn by the Company against a bank.

Bank Call Loans

Bank call loans are generally payable on demand and bear interest at various rates, such loans were collateralized by firm and/or customer securities.

Foreign Currency Translations

Foreign currency balances have been translated into U.S. dollars as follows: monetary assets and liabilities at exchange rates prevailing at period end; revenue and expenses at average rates for the period; and non-monetary assets and stockholders' equity at historical rates. The functional currency of the overseas operations is the local currency in each location except for Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited which have the U.S. dollar as their functional currency.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

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The Company recognizes deferred tax assets to the extent it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and the results of recent operations.

The Company records uncertain tax positions in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, "Income Taxes" on the basis of a two-step process whereby it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company records interest and penalties accruing on unrecognized tax benefits in income before income taxes as interest expense and other expense, respectively, in its consolidated statement of operations.

The Company permanently reinvests eligible earnings of its foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated.

On December 22, 2017, the Federal government enacted Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to: (1) reducing the U.S. Federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) a new provision designed to tax global intangible low-taxed income ("GILTI"), which allows for the possibility of using foreign tax credits ("FTCs") and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); (5) limitations on the use of FTCs to reduce the U.S. income tax liability; (6) eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized; (7) creating the base erosion anti-abuse tax, a new minimum tax; (8) limitations on the deductibility of certain executive compensation; (9) creating a new limitation on deductible interest expense; (10) eliminating the deductibility of entertainment expenses; and (11) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”) which provides guidance on accounting for the impact of the Tax Cuts and Jobs Act (the “TCJA”). SAB 118 provides a measurement period, not to exceed 12 months from the date of enactment to complete, the accounting associated with the TCJA. Under SAB 118, for matters for which the accounting related to the TCJA had not yet been completed, the Company recognized provisional amounts to the extent that they were reasonably estimable. The Company has completed its accounting of the impact of the TJCA in the current period and there were no significant changes to the provisional amounts previously recorded in accordance with SAB 118. See note 14, Income taxes.

New Accounting Pronouncements

Recently Issued

In February 2016, the FASB issued ASU 2016-02, "Leases." The ASU requires the recognition of a right-of-use asset and lease liability on the balance sheet by lessees for those leases classified as operating leases under previous guidance. The ASU is effective for fiscal years beginning after December 15, 2018. The Company evaluated the impact of adopting this ASU which will have a significant impact on its consolidated financial statements. Since the Company has operating leases in over 100 locations, equipment leases and embedded leases, the Company expects to recognize a significant right-of use asset and lease liability on its consolidated balance sheet upon adoption of this ASU. As of December 31, 2018, the Company estimates that it will record right-of-use assets between $170.0 million to $215.0 million and lease liabilities within the same range on the consolidated balance sheet upon the adoption of this standard, which predominately relates to real estate leases. The Company has elected the modified retrospective method and will include any cumulative-effect adjustment as of the date of adoption.

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In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," which amends the FASB's guidance on the impairment of financial instruments. The ASU adds to U.S. GAAP an impairment model ("current expected credit loss model"). Under this new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The ASU is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact, if any, that the ASU will have on the Company; the adoption of the ASU is not currently expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other, Simplifying the Test for Goodwill Impairment," which simplifies the subsequent measurement of goodwill. The Company is no longer required to perform its Step 2 goodwill impairment test; instead, the Company should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The ASU is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, of the ASU on the Company; the adoption of the ASU is not currently expected to have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities," which amends the hedge accounting recognition and presentation requirements. The ASU improves the transparency and understandability of information conveyed to financial statement users by better aligning companies' hedging relationships to their existing risk management strategies, simplifies the application of hedge accounting and increases transparency regarding the scope and

results of the hedging program. The ASU is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, of the ASU on the Company; the adoption of the ASU is not currently expected to have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement - Disclosure Framework - Changes to the Disclosure Requirements for the Fair Value Measurement," which modifies the disclosure requirements related to fair value measurement. The ASU is effective for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, of the ASU on the Company's disclosure.

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3. Discontinued operations

OMHHF historically was engaged in the business of originating and servicing FHA-insured multifamily and healthcare facility loans and securitizing these loans into GNMA mortgage backed securities. OMHHF offered mortgage services to developers of commercial properties including apartments, elderly housing and nursing homes that satisfied FHA criteria. During 2016, the Company sold substantially all of the assets of OMHHF and ceased it operations.

The Company determined that the sale of the assets of OMHHF met the criteria to be classified within discontinued operations, and the results of OMHHF are reported as discontinued operations in the consolidated statements of operations. The following is a summary of revenue and expenses of OMHHF for the years ended December 31, 2018, 2017 and 2016:

(Expressed in thousands)

	For the Years Ended December 31,		
	2018	2017	2016
REVENUE			
Interest	$—	$8	$943
Principal transactions, net	—	—	(9,022)
Gain on sale of assets	—	—	16,475
Other [1]	—	2,165	16,917
Total revenue	—	2,173	25,313
EXPENSES			
Compensation and related expenses	—	18	4,311
Communications and technology	—	27	221
Occupancy and equipment costs	—	—	415
Interest	—	12	408
Other	—	45	2,619
Total expenses	—	102	7,974
Income before income taxes	$—	$2,071	$17,339
Income attributable to non-controlling interest before income taxes	$—	$338	$2,830

(1) Other revenue for the year ended December 31, 2017 was primarily due to an earn-out from the sale of OMHHF's pipeline business in 2016.

The following is a summary of cash flows of OMHHF for the years ended December 31, 2018, 2017 and 2016:

(Expressed in thousands)

	For the Years Ended December 31,		
	2018	2017	2016
Cash provided by (used in) operating activities	$—	$5,721	$(14,097)

Cash provided by investing activities	—	—	45,448
Cash used in financing activities (1) (2)	(372)	(20,035)	(35,421)
Net decrease in cash and cash equivalents	$(372)	$(14,314)	$(4,070)

(1) Includes cash dividends paid to OMHHF's parent (E.A. Viner International Co.) and non-controlling interest of $nil and $345,000, respectively, for the year ended December 31, 2018 ($12.6 million and $2.4 million, respectively, for the year ended December 31, 2017).

(2) Includes $5.0 million paid to OMHHF's parent due to redemption of the parent's outstanding preferred stock for the year ended December 31, 2017.

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4. Revenues from contracts with customers

In the first quarter of 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers." The Company has elected the modified retrospective method which did not result in a cumulative-effect adjustment at the date of adoption. The implementation of this new standard had no material impact on the Company's consolidated financial statements for the year ended December 31, 2018.

Revenue from contracts with customers is recognized when, or as, the Company satisfies its performance obligations by transferring the promised goods or services to customers. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring the Company's progress in satisfying the performance obligation in a manner that depicts the transfer of the goods or services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for those promised goods or services (i.e., the "transaction price"). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, the Company considers the range of possible outcomes, the predictive value of our past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of the Company's influence, such as market volatility or the judgment and actions of third parties.

The Company earns revenue from contracts with customers and other sources (principal transactions, interest and other). The following provides detailed information on the recognition of the Company's revenue from contracts with customers:

Commissions

Commissions from Sales and Trading — The Company earns commission revenue by executing, settling and clearing transactions with clients primarily in exchange-traded and over-the-counter corporate equity and debt securities, money market instruments and exchange-traded options and futures contracts. A substantial portion of Company's revenue is derived from commissions from private clients through accounts with transaction-based pricing. Trade execution and clearing services, when provided together, represent a single performance obligation as the services are not separately identifiable in the context of the contract. Commission revenue associated with combined trade execution and clearing services, as well as trade execution services on a standalone basis, is recognized at a point in time on trade date when the performance obligation is satisfied.

Commission revenue is generally paid on settlement date, which is generally two business days after trade date for equity securities and corporate bond transactions and one day for government securities and commodities transactions. The Company records a receivable on the trade date and receives a payment on settlement date.

Mutual Fund Income — The Company earns mutual fund income for sales and distribution of mutual fund shares. Many mutual fund companies pay distribution fees to intermediaries, such as broker-dealers, for selling their shares. The fees are operational expenses of the mutual fund and are included in its expense ratio. The Company recognizes mutual fund income at a point in time on trade date when the performance obligation is satisfied which is when the mutual fund interest is sold to the investor. Mutual fund income is generally received within 90 days.

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Advisory Fees

The Company earns management and performance (or incentive) fees in connection with the advisory and asset management services it provides to various types of funds and investment vehicles through its subsidiaries. Management fees are generally based on the account value at the valuation date per the respective asset management agreements and are recognized over time as the customer receives the benefits of the services evenly throughout the term of the contract. Performance fees are recognized when the return on client AUM exceeds a specified benchmark return or other performance targets over a 12-month measurement period. Performance fees are considered variable as they are subject to fluctuation and/or are contingent on a future event over the measurement period and are not subject to adjustment once the measurement period ends. Such fees are computed as of the fund's year-end when the measurement period ends and generally are recorded as earned in the fourth quarter of the Company's fiscal year. Both management and performance fees are generally received within 90 days.

Investment Banking

The Company earns underwriting revenues by providing capital raising solutions for corporate clients through initial public offerings, follow-on offerings, equity-linked offerings, private investments in public entities, and private placements. Underwriting revenues are recognized at a point in time on trade date, as the client obtains the control and benefit of the capital markets offering at that point. These fees are generally received within 90 days after the transactions are completed. Transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment banking transaction revenue. Underwriting revenues and related expenses are presented gross on the consolidated statement of operations.

Revenue from financial advisory services includes fees generated in connection with mergers, acquisitions and restructuring transactions and such revenue and fees are primarily recorded at a point in time when services for the transactions are completed and income is reasonably determinable, generally as set forth under the terms of the engagement. Payment for advisory services is generally due upon a completion of the transaction or milestone. Retainer fees and fees earned from certain advisory services are recognized ratably over the service period as the customer receives the benefit of the services throughout the term of the contracts, and such fees are collected based on the terms of the contracts.

Bank Deposit Sweep Income

Bank deposit sweep income consists of revenue earned from the FDIC-insured bank deposit program. Under this program, client funds are swept into deposit accounts at participating banks and are eligible for FDIC deposit insurance up to FDIC standard maximum deposit insurance amounts. Fees are earned over time and are generally received within 30 days.

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Disaggregation of Revenue

The following presents the Company's revenue from contracts with customers disaggregated by major business activity and other sources of revenue for the year ended December 31, 2018:

(Expressed in thousands)	For the Year Ended December 31, 2018				
	Reportable Segments				
	Private Client	Asset Management	Capital Markets	Corporate/Other	Total
Revenues from contracts with customers:					
Commissions from sales and trading	$154,167	$ —	$131,955	$ 89	$286,211
Mutual fund income	42,514	908	13	22	43,457
Advisory fees	243,474	70,775	67	33	314,349
Investment banking - capital markets	13,284	—	56,474	—	69,758
Investment banking - advisory	—	—	45,595	—	45,595
Bank deposit sweep income	116,052	—	—	—	116,052
Other	14,745	13	1,054	352	16,164
Total revenues from contracts with customers	584,236	71,696	235,158	496	891,586
Other sources of revenue:					
Interest	37,581	—	13,739	1,164	52,484
Principal transactions, net	(1,125)	—	23,378	(7,792)	14,461
Other	(2,821)	—	444	2,000	(377)
Total other sources of revenue	33,635	—	37,561	(4,628)	66,568
Total revenue	$617,871	$ 71,696	$272,719	$ (4,132)	$958,154

Contract Balances

The timing of the Company's revenue recognition may differ from the timing of payment by its customers. The Company records receivables when revenue is recognized prior to payment and it has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied.

The Company had receivables related to revenue from contracts with customers of $23.7 million and $21.0 million at December 31, 2018 and January 1, 2018, respectively. The Company had no significant impairments related to these receivables during the year ended December 31, 2018.

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The following presents the Company's contract assets and deferred revenue balances from contracts with customers, which are included in other assets and other liabilities, respectively, on the consolidated balance sheet:
(Expressed in thousands)

	Ending Balance at December 31, 2018	Opening Balance at January 1, 2018
Contract assets (receivables):		
Commission (1)	$ 3,738	$ 2,007
Mutual fund income (2)	7,241	7,779
Advisory fees (3)	1,214	1,460
Bank deposit sweep income (4)	4,622	3,459
Investment banking fees (5)	3,996	3,926
Other	2,869	2,398
Total contract assets	$ 23,680	$ 21,029
Deferred revenue (payables):		
Investment banking fees (6)	$ 318	$—
Total deferred revenue	$ 318	$—

(1) Commission recorded on trade date but not yet settled.
(2) Mutual fund income earned but not yet received.
(3) Management and performance fees earned but not yet received.
(4) Fees earned from FDIC-insured bank deposit program but not yet received.
(5) Underwriting revenue and advisory fee earned but not yet received.
(6) Retainer fees and fees earned from certain advisory transactions where the performance obligations have not yet been satisfied.

Contract Costs

The Company incurs incremental transaction-related costs to obtain and/or fulfill contracts associated with investment banking and advisory engagements where the revenue is recognized at a point in time and the costs are determined to be recoverable. As of December 31, 2018, the contract costs were $1.6 million. There were no significant charges recognized in relation to these costs for year ended December 31, 2018.

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5. Receivable from and payable to brokers, dealers and clearing organizations
(Expressed in thousands)

	As of December 31,	
	2018	2017
Receivable from brokers, dealers and clearing organizations consists of:		
Securities borrowed	$108,144	$132,368
Receivable from brokers	20,140	19,298
Securities failed to deliver	7,021	9,442
Clearing organizations	28,777	24,361
Other	2,411	1,646
Total	$166,493	$187,115
Payable to brokers, dealers and clearing organizations consists of:		
Securities loaned	$146,815	$180,270
Payable to brokers	158	1,567
Securities failed to receive	27,799	17,559
Other	114,435	12,087
Total	$289,207	$211,483

6. Fair value measurements
Securities owned, 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.
Valuation Techniques
A description of the valuation techniques applied and inputs used in measuring the fair value of the Company's financial instruments is as follows:
U.S. Government Obligations
U.S. Treasury securities are valued using quoted market prices obtained from active market makers and inter-dealer brokers.
U.S. Agency Obligations
U.S. agency securities consist of agency issued debt securities and mortgage pass-through securities. Non-callable agency issued debt securities are generally valued using quoted market prices. Callable agency issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of mortgage pass-through securities are model driven with respect to spreads of the comparable to-be-announced ("TBA") security.
Sovereign Obligations
The fair value of sovereign obligations is determined based on quoted market prices when available or a valuation model that generally utilizes interest rate yield curves and credit spreads as inputs.
Corporate Debt and Other Obligations

The fair value of corporate bonds is estimated using recent transactions, broker quotations and bond spread information.

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Mortgage and Other Asset-Backed Securities
The Company values non-agency securities collateralized by home equity and various other types of collateral based on external pricing and spread data provided by independent pricing services. When specific external pricing is not observable, the valuation is based on yields and spreads for comparable bonds.
Municipal Obligations
The fair value of municipal obligations is estimated using recently executed transactions, broker quotations, and bond spread information.
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.
Corporate Equities
Equity securities and options are generally valued based on quoted prices from the exchange or market where traded. To the extent quoted prices are not available, fair values are generally derived using bid/ask spreads.
Auction Rate Securities ("ARS")
In February 2010, Oppenheimer finalized settlements with each of the New York Attorney General's office ("NYAG") and the Massachusetts Securities Division ("MSD" and, together with the NYAG, the "Regulators") concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions more fully described below. As of December 31, 2018, the Company had no outstanding ARS purchase commitments related to the settlements with the Regulators. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client-related legal settlements and awards to purchase ARS, as of December 31, 2018, the Company purchased and holds (net of redemptions) approximately $40.7 million in ARS from its clients. In addition, the Company is committed to purchase another $7.3 million in ARS from clients through 2020 under legal settlements and awards.
The ARS positions that the Company owns and is committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities that are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities that are asset-backed securities backed by student loans.
Interest rates on ARS typically reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARS have historically been classified as Level 1 of the fair value hierarchy. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Once the auctions failed, the ARS could no longer be valued using observable prices set in the auctions. The Company has used less observable determinants of the fair value of ARS, including the strength in the underlying credits, announced issuer redemptions, completed issuer redemptions, and announcements from issuers regarding their intentions with respect to their outstanding ARS. The Company has also developed an internal methodology to discount for the lack

of liquidity and non-performance risk of the failed auctions. Due to liquidity problems associated with the ARS market, ARS that lack liquidity are setting their interest rates according to a maximum rate formula. For example, an auction rate preferred security maximum rate may be set at 200% of a short-term index such as LIBOR or U.S. Treasury yield. For fair value purposes, the Company has determined that the maximum spread would be an adequate risk premium to account for illiquidity in the market. Accordingly, the Company applies a spread to the short-term index for each asset class to derive the discount rate. The Company uses short-term U.S. Treasury yields as its benchmark short-term index. The risk of non-performance is typically reflected in the prices of ARS positions where the fair value is derived from recent trades in the secondary market.

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The ARS purchase commitment, or derivative asset or liability, arises from both the settlements with the Regulators and legal settlements and awards. The ARS purchase commitment represents the difference between the principal value and the fair value of the ARS the Company is committed to purchase. The Company utilizes the same valuation methodology for the ARS purchase commitment as it does for the ARS it owns. Additionally, the present value of the future principal value of ARS purchase commitments under legal settlements and awards is used in the discounted valuation model to reflect the time value of money over the period of time that the commitments are outstanding. The amount of the ARS purchase commitment only becomes determinable once the Company has met with its primary regulator and the NYAG and agreed upon a buyback amount, commenced the ARS buyback offer to clients, and received notice from its clients which ARS they are tendering. As a result, it is not possible to observe the current yields actually paid on the ARS until all of these events have happened which is typically very close to the time that the Company actually purchases the ARS. For ARS purchase commitments pursuant to legal settlements and awards, the criteria for purchasing ARS from clients is based on the nature of the settlement or award which will stipulate a time period and amount for each repurchase. The Company will not know which ARS will be tendered by the client until the stipulated time for repurchase is reached. Therefore, the Company uses the current yields of ARS owned in its discounted valuation model to determine a fair value of ARS purchase commitments. The Company also uses these current yields by asset class (i.e., auction rate preferred securities, municipal auction rate securities, and student loan auction rate securities) in its discounted valuation model to determine the fair value of ARS purchase commitments. In addition, the Company uses the discount rate and duration of ARS owned, by asset class, as a proxy for the duration of ARS purchase commitments.

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Additional information regarding the valuation technique and inputs for ARS used is as follows:
(Expressed in thousands)
Quantitative Information about ARS Level 3 Fair Value Measurements as of December 31, 2018

Product	Principal	Valuation Adjustment	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Auction Rate Securities Owned [1]							
Auction Rate Preferred Securities	$21,350	$ 1	$21,349	Discounted Cash Flow	Discount Rate [2]	2.86% to 3.89%	3.88%
			—		Duration	1 Year	1 Year
					Current Yield [3]	2.69% to 4.05%	4.03%
Auction Rate Preferred Securities	18,950	2,697	16,253	Tender Offer [4]	N/A	N/A	N/A
Municipal Auction Rate Securities	75	—	75	Discounted Cash Flow	Discount Rate [5]	4.35%	4.35%
					Duration	2 years	2 years
					Current Yield [3]	5.51%	5.51%
Student Loan Auction Rate Securities	275	—	275	Discounted Cash Flow	Discount Rate [6]	3.68%	3.68%
					Duration	4.0 Years	4.0 Years
					Current Yield [3]	3.64%	3.64%
	$40,650	$ 2,698	$37,952				
Auction Rate Securities Commitments to Purchase [7]							
Auction Rate Preferred Securities	7,305	1,096	6,209	Tender Offer [4]	N/A	N/A	N/A
	$7,305	$ 1,096	$6,209				
Total	$47,955	$ 3,794	$44,161				

(1) Principal amount represents the par value of the ARS and is included in securities owned on the consolidated balance sheet as of December 31, 2018. The valuation adjustment amount is included as a reduction to securities owned on the consolidated balance sheet as of December 31, 2018.
(2) Derived by applying a multiple to a spread between 110% to 150% to the U.S. Treasury rate of 2.60%.

(3) Based on current yields for ARS positions owned.

(4) Residual ARS amounts owned and ARS commitments to purchase that were subject to tender offers were priced at the tender offer price. Included in Level 2 of the fair value hierarchy.

(5) Derived by applying the sum of the spread of 175% to the U.S. Treasury rate of 2.49%.

(6) Derived by applying the sum of the spread of 1.20% to the U.S. Treasury rate of 2.48%.

(7) Principal amount represents the present value of the ARS par value that the Company is committed to purchase at a future date. This principal amount is presented as an off-balance sheet item. The valuation adjustment amount is included in accounts payable and other liabilities on the consolidated balance sheet as of December 31, 2018.

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The fair value of ARS and ARS purchase commitments is particularly sensitive to movements in interest rates. Increases in short-term interest rates would increase the discount rate input used in the ARS valuation and thus reduce the fair value of the ARS (increase the valuation adjustment). Conversely, decreases in short-term interest rates would decrease the discount rate and thus increase the fair value of ARS (decrease the valuation adjustment). However, an increase (decrease) in the discount rate input would be partially mitigated by an increase (decrease) in the current yield earned on the underlying ARS asset increasing the cash flows and thus the fair value. Furthermore, movements in short term interest rates would likely impact the ARS duration (i.e., sensitivity of the price to a change in interest rates), which would also have a mitigating effect on interest rate movements. For example, as interest rates increase, issuers of ARS have an incentive to redeem outstanding securities as servicing the interest payments gets prohibitively expensive which would lower the duration assumption thereby increasing the ARS fair value. Alternatively, ARS issuers are less likely to redeem ARS in a lower interest rate environment as it is a relatively inexpensive source of financing which would increase the duration assumption thereby decreasing the ARS fair value. For example, see the following sensitivities:

- The impact of a 25 basis point increase in the discount rate at December 31, 2018 would result in a decrease in the fair value of $22,000 (does not consider a corresponding reduction in duration as discussed above).
- The impact of a 50 basis point increase in the discount rate at December 31, 2018 would result in a decrease in the fair value of $76,000 (does not consider a corresponding reduction in duration as discussed above).

These sensitivities are hypothetical and are based on scenarios where they are "stressed" and should be used with caution. These estimates do not include all of the interplay among assumptions and are estimated as a portfolio rather than as individual assets.

Due to the less observable nature of these inputs, ARS are primarily categorized in Level 3 of the fair value hierarchy. As of December 31, 2018, the Company had a valuation adjustment (unrealized loss) of $2.7 million for ARS owned which is included as a reduction to securities owned on the consolidated balance sheet. As of December 31, 2018, the Company also had a valuation adjustment of $1.1 million on ARS purchase commitments from legal settlements and awards which is included in accounts payable and other liabilities on the consolidated balance sheet. The total valuation adjustment was $3.8 million as of December 31, 2018. The valuation adjustment represents the difference between the principal value and the fair value of the ARS owned and ARS purchase commitments.

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Investments

In its role as general partner in certain hedge funds and private equity funds, the Company, through its subsidiaries, holds direct investments in such funds. The Company uses the net asset value of the underlying fund as a basis for estimating the fair value of its investment.

The following table provides information about the Company's investments in Company-sponsored funds as of December 31, 2018:

(Expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds (1)	$ 1,596	$ —	Quarterly - Annually	30 - 120 Days
Private equity funds (2)	4,908	1,399	N/A	N/A
	$ 6,504	$ 1,399		

(1) Includes investments in hedge funds and hedge fund of funds that pursue long/short, event-driven, and activist strategies. Each hedge fund has various restrictions regarding redemption; no investment is locked-up for a period greater than one year.

(2) Includes private equity funds and private equity fund of funds with a focus on diversified portfolios, real estate and global natural resources. Due to the illiquid nature of these funds, investors are not permitted to make withdrawals without the consent of the general partner. The lock-up period of the private equity funds can extend to 10 years.

Valuation Process

The Company's Finance & Accounting ("F&A") group is responsible for the Company's fair value policies, processes and procedures. F&A is independent from the business units and trading desks and is headed by the Company's Chief Financial Officer ("CFO"), who has final authority over the valuation of the Company's financial instruments. The Finance Control Group ("FCG") within F&A is responsible for daily profit and loss reporting, front-end trading system position reconciliations, monthly profit and loss reporting, and independent price verification procedures.

For financial instruments categorized in Levels 1 and 2 of the fair value hierarchy, the FCG performs a monthly independent price verification to determine the reasonableness of the prices provided by the Company's independent pricing vendor. The FCG uses its third-party pricing vendor, executed transactions, and broker-dealer quotes for validating the fair values of financial instruments.

For financial instruments categorized in Level 3 of the fair value hierarchy measured on a recurring basis, primarily for ARS, a group comprised of the CFO, the Controller, and an Operations Director are responsible for the ARS valuation model and resulting fair valuations. Procedures performed include aggregating all ARS owned by type from firm inventory accounts and ARS purchase commitments from regulatory and legal settlements and awards provided by the Legal Department. Observable and unobservable inputs are aggregated from various sources and entered into the ARS valuation model. For unobservable inputs, the group reviews the appropriateness of the inputs to ensure consistency with how a market participant would arrive at the unobservable input. For example, for the duration assumption, the group would consider recent policy statements regarding short-term interest rates by the Federal Reserve and recent ARS issuer redemptions and announcements for future redemptions. The model output is reviewed for reasonableness and consistency. Where available, comparisons are performed between ARS owned or committed to purchase with ARS that are trading in the secondary market.

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Assets and Liabilities Measured at Fair Value
The Company's assets and liabilities, recorded at fair value on a recurring basis as of December 31, 2018 and 2017, 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 December 31, 2018
(Expressed in thousands)

	Fair Value Measurements as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$10,500	$—	$—	$10,500
Deposits with clearing organizations	34,599	—	—	34,599
Securities owned:				
U.S. Treasury securities	657,208	—	—	657,208
U.S. Agency securities	812	6,494	—	7,306
Sovereign obligations	—	214	—	214
Corporate debt and other obligations	—	20,665	—	20,665
Mortgage and other asset-backed securities	—	2,486	—	2,486
Municipal obligations	—	52,261	—	52,261
Convertible bonds	—	31,270	—	31,270
Corporate equities	28,215	—	—	28,215
Money markets	7	—	—	7
Auction rate securities	—	16,253	21,699	37,952
Securities owned, at fair value	686,242	129,643	21,699	837,584
Investments (1)	—	—	101	101
Derivative contracts:				
TBAs	—	4,873	—	4,873
Total	$731,341	$134,516	$21,800	$887,657
Liabilities				
Securities sold but not yet purchased:				
U.S. Treasury securities	$53,646	$—	$—	$53,646
U.S. Agency securities	—	3	—	3
Sovereign obligations	—	78	—	78
Corporate debt and other obligations	—	7,236	—	7,236
Convertible bonds	—	9,709	—	9,709
Corporate equities	14,774	—	—	14,774
Securities sold but not yet purchased, at fair value	68,420	17,026	—	85,446
Derivative contracts:				
Futures	807	—	—	807

Foreign exchange forward contracts	4	—	—	4
TBAs	—	4,873	—	4,873
ARS purchase commitments	—	1,096	—	1,096
Derivative contracts, total	811	5,969	—	6,780
Total	$69,231	$22,995	$—	$92,226

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

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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017
(Expressed in thousands)

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$10,490	$—	$—	$10,490
Deposits with clearing organizations	34,293	—	—	34,293
Securities owned:				
U.S. Treasury securities	640,337	—	—	640,337
U.S. Agency securities	3,011	6,894	—	9,905
Sovereign obligations	—	608	—	608
Corporate debt and other obligations	—	12,538	—	12,538
Mortgage and other asset-backed securities	—	4,037	—	4,037
Municipal obligations	—	89,618	35	89,653
Convertible bonds	—	23,216	—	23,216
Corporate equities	34,067	—	—	34,067
Money markets	383	—	—	383
Auction rate securities	—	24,455	87,398	111,853
Securities owned, at fair value	677,798	161,366	87,433	926,597
Investments [(1)]	—	—	169	169
Derivative contracts:				
TBAs	—	716	—	716
Total	$722,581	$162,082	$87,602	$972,265
Liabilities				
Securities sold but not yet purchased:				
U.S. Treasury securities	$53,425	$—	$—	$53,425
U.S. Agency securities	—	13	—	13
Sovereign obligations	—	1,179	—	1,179
Corporate debt and other obligations	—	4,357	—	4,357
Mortgage and other asset-backed securities	—	10	—	10
Convertible bonds	—	10,109	—	10,109
Corporate equities	25,393	—	—	25,393
Securities sold but not yet purchased, at fair value	78,818	15,668	—	94,486
Derivative contracts:				
Futures	766	—	—	766
TBAs	—	614	—	614
ARS purchase commitments	—	—	8	8

Derivative contracts, total	766	614	8	1,388
Total	$79,584	$16,282	$8	$95,874

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

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The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2018 and 2017:

(Expressed in thousands)

	Level 3 Assets and Liabilities For the Year Ended December 31, 2018					
	Beginning Balance	Total Realized and Unrealized Gains (Losses) (3)(4)	Purchases and Issuances	Sales and Settlements	Transfers In / Out	Ending Balance
Assets						
Municipal obligations	$35	$ 14	$ 76	$ (125)	$ —	$ —
Auction rate securities [1] [5]	87,398	1,351	6,300	(35,675)	(37,675)	21,699
Investments	169	(8)	—	—	(60)	101
Liabilities						
ARS purchase commitments [2] [5]	8	(1,088)	—	—	1,096	—

(1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
(2) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
(3) Included in principal transactions in the consolidated statement of operations, except for gains (losses) from investments which are included in other income in the consolidated statement of operations.
(4) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.
(5) Represents transfers from Level 3 to Level 2 of the fair value hierarchy. Transfers were due to tender offers by issuers of ARS.

(Expressed in thousands)

	Level 3 Assets and Liabilities For the Year Ended December 31, 2017					
	Beginning Balance	Total Realized and Unrealized Gains (Losses) (3)(4)	Purchases and Issuances	Sales and Settlements	Transfers In / Out	Ending Balance

Assets						
Municipal obligations	$44	$ (9)	$ —	$ —	$ —	$ 35
Auction rate securities (1)	84,926	1,177	27,225	(1,475)	(24,455)	87,398
Investments	158	11	—	—	—	169
ARS purchase commitments (2)	849	(849)	—	—	—	—
Liabilities						
ARS purchase commitments (2)	645	637	—	—	—	8

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

(2) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.

(3) Included in principal transactions in the consolidated statement of operations, except for gains (losses) from investments which are included in other income in the consolidated statement of operations.

(4) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

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Financial Instruments Not Measured at Fair Value

The table below presents the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value on the consolidated balance sheets. The table below excludes non-financial assets and liabilities (e.g., furniture, equipment and leasehold improvements and accrued compensation). The carrying value of financial instruments not measured at fair value categorized in the fair value hierarchy as Level 1 or Level 2 (e.g., cash and receivables from customers) approximates fair value because of the relatively short term nature of the underlying assets. The fair value of the Company's senior secured notes, categorized in Level 2 of the fair value hierarchy, is based on quoted prices from the market in which the notes trade.

Assets and liabilities not measured at fair value as of December 31, 2018

(Expressed in thousands)		Fair Value Measurement: Assets			
	Carrying Value	Level 1	Level 2	Level 3	Total
Cash	$ 80,175	$80,175	$ —	$ —	$80,175
Deposits with clearing organization	33,079	33,079	—	—	33,079
Receivable from brokers, dealers and clearing organizations:					
Securities borrowed	108,144	—	108,144	—	108,144
Receivables from brokers	20,140	—	20,140	—	20,140
Securities failed to deliver	7,021	—	7,021	—	7,021
Clearing organizations	28,777	—	28,777	—	28,777
Other	2,411	—	2,411	—	2,411
	166,493	—	166,493	—	166,493
Receivable from customers	720,777	—	720,777	—	720,777
Securities purchased under agreements to resell	290		290	—	290
Notes receivable, net	44,058		44,058	—	44,058
Investments [(1)]	59,765	—	59,765	—	59,765

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

(Expressed in thousands)		Fair Value Measurement: Liabilities			
	Carrying Value	Level 1	Level 2	Level 3	Total
Drafts payable	$ 16,348	$16,348	$ —	$ —	$16,348
Bank call loans	15,000	—	15,000	—	15,000
Payables to brokers, dealers and clearing organizations:					
Securities loaned	146,815	—	146,815	—	146,815
Payable to brokers	158	—	158	—	158
Securities failed to receive	27,799	—	27,799	—	27,799
Other	113,628	—	113,628	—	113,628
	288,400	—	288,400	—	288,400

Payables to customers	336,616	—	336,616	—	336,616
Securities sold under agreements to repurchase	484,218	—	484,218	—	484,218
Senior secured notes	200,000	—	199,722	—	199,722

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Assets and liabilities not measured at fair value as of December 31, 2017

(Expressed in thousands)		Fair Value Measurement: Assets			
	Carrying Value	Level 1	Level 2	Level 3	Total
Cash	$ 37,664	$37,664	$ —	$ —	$37,664
Deposits with clearing organization	7,929	7,929	—	—	7,929
Receivable from brokers, dealers and clearing organizations:					
Securities borrowed	132,368	—	132,368	—	132,368
Receivables from brokers	19,298	—	19,298	—	19,298
Securities failed to deliver	9,442	—	9,442	—	9,442
Clearing organizations	24,361	—	24,361	—	24,361
Other	930	—	930	—	930
	186,399	—	186,399	—	186,399
Receivable from customers	848,226	—	848,226	—	848,226
Securities purchased under agreements to resell	658	—	658	—	658
Notes receivable, net	40,520	—	40,520		40,520
Investments [1]	65,404	—	65,404	—	65,404

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

(Expressed in thousands)		Fair Value Measurement: Liabilities			
	Carrying Value	Level 1	Level 2	Level 3	Total
Drafts payable	$ 42,212	$42,212	$ —	$ —	$42,212
Bank call loans	118,300	—	118,300	—	118,300
Payables to brokers, dealers and clearing organizations:					
Securities loaned	180,270	—	180,270	—	180,270
Payable to brokers	1,567	—	1,567	—	1,567
Securities failed to receive	17,559	—	17,559	—	17,559
Other	10,707	—	10,707	—	10,707
	210,103	—	210,103	—	210,103
Payables to customers	385,907	—	385,907	—	385,907
Securities sold under agreements to repurchase	586,478	—	586,478	—	586,478
Senior secured notes	200,000	—	206,380	—	206,380

Fair Value Option

The Company elected the fair value option for securities sold under agreements to repurchase ("repurchase agreements") and securities purchased under agreements to resell ("reverse repurchase agreements") that do not settle overnight or have an open settlement date. The Company has elected the fair value option for these instruments to reflect more accurately market and economic events in its earnings and to mitigate a potential mismatch in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. As of December 31, 2018, the Company did not have any repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date.

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Derivative Instruments and Hedging Activities

The Company transacts, on a limited basis, in exchange traded and over-the-counter derivatives for both asset and liability management as well as for trading and investment purposes. Risks managed using derivative instruments include interest rate risk and, to a lesser extent, foreign exchange risk. All derivative instruments are measured at fair value and are recognized as either assets or liabilities on the consolidated balance sheet.

Foreign exchange hedges

From time to time, the Company also utilizes forward and options contracts to hedge the foreign currency risk associated with compensation obligations to Oppenheimer Israel (OPCO) Ltd. employees denominated in New Israeli Shekel ("NIS"). Such hedges have not been designated as accounting hedges. Unrealized gains and losses on foreign exchange forward contracts are recorded in other assets on the consolidated balance sheet and other income in the consolidated statement of operations.

Derivatives used for trading and investment purposes

Futures contracts represent commitments to purchase or sell securities or other commodities at a future date and at a specified price. Market risk exists with respect to these instruments. Notional or contractual amounts are used to express the volume of these transactions and do not represent the amounts potentially subject to market risk. The Company uses futures contracts, including U.S. Treasury notes, Federal Funds, General Collateral futures and Eurodollar contracts primarily as an economic hedge of interest rate risk associated with government trading activities. Unrealized gains and losses on futures contracts are recorded on the consolidated balance sheet in payable to brokers, dealers and clearing organizations and in the consolidated statement of operations as principal transactions revenue, net.

To-be-announced securities

The Company also transacts in pass-through mortgage-backed securities eligible to be sold in the TBA market as economic hedges against mortgage-backed securities that it owns or has sold but not yet purchased. TBAs provide for the forward or delayed delivery of the underlying instrument with settlement up to 180 days. The contractual or notional amounts related to these financial instruments reflect the volume of activity and do not reflect the amounts at risk. Net unrealized gains and losses on TBAs are recorded on the consolidated balance sheet in receivable from brokers, dealers and clearing organizations or payable to brokers, dealers and clearing organizations and in the consolidated statement of operations as principal transactions revenue, net.

The notional amounts and fair values of the Company's derivatives as of December 31, 2018 and 2017 by product were as follows:

(Expressed in thousands)

	Fair Value of Derivative Instruments as of December 31, 2018		
	Description	Notional	Fair Value
Assets:			
Derivatives not designated as hedging instruments [1]			
Other contracts	TBAs	$729,500	$ 4,873
		$729,500	$ 4,873

Liabilities:			
Derivatives not designated as hedging instruments [1]			
Commodity contracts	Futures	$4,580,800	$ 807
Other contracts	Foreign exchange forward contracts	200	4
	TBAs	729,500	4,873
	ARS purchase commitments	7,305	1,096
		$5,317,805	$ 6,780

(1) See "Derivative Instruments and Hedging Activities" above for a description of derivative financial instruments. Such derivate instruments are not subject to master netting agreements, thus the related amounts are not offset.

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(Expressed in thousands)

	Fair Value of Derivative Instruments as of December 31, 2017		
	Description	Notional	Fair Value
Assets:			
Derivatives not designated as hedging instruments [1]			
Other contracts	TBAs	$26,000	$ 22
	Other TBAs [2]	39,576	694
		$65,576	$ 716
Liabilities:			
Derivatives not designated as hedging instruments [1]			
Commodity contracts	Futures	$5,844,000	$ 766
Other contracts	TBAs	26,000	22
	Other TBAs [2]	39,576	592
	ARS purchase commitments	10,992	8
		$5,920,568	$ 1,388

(1) See "Derivative Instruments and Hedging Activities" above for a description of derivative financial instruments. Such derivate instruments are not subject to master netting agreements, thus the related amounts are not offset.
(2) Represents TBA purchase and sale contracts related to the legacy OMHHF business.

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect in the consolidated statements of operations for the years ended December 31, 2018 and 2017:

(Expressed in thousands)

	The Effect of Derivative Instruments in the Statement of Operations For the Year Ended December 31, 2018		
		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Net Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	$ 592
Other contracts	Foreign exchange forward contracts	Other revenue	(7)
	TBAs	Principal transactions revenue	371
	ARS purchase commitments	Principal transactions revenue	(1,088)
			$ (132)

(Expressed in thousands)

The Effect of Derivative Instruments in the Statement of Operations
For the Year Ended December 31, 2017

		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Net Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	$ 987
Other contracts	Foreign exchange forward contracts	Other revenue	12
	TBAs	Principal transactions revenue	(167)
	Other TBAs	Other revenue	(338)
	ARS purchase commitments	Principal transactions revenue	(212)
			$ 282

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7. Collateralized transactions

The Company enters into collateralized borrowing and lending transactions in order to meet customers' needs and earn interest rate spreads, obtain securities for settlement and finance trading inventory positions. Under these transactions, the Company either receives or provides collateral, including U.S. Government and Agency, asset-backed, corporate debt, equity, and non-U.S. Government and Agency securities.

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates. As of December 31, 2018, bank call loans were $15.0 million ($118.3 million as of December 31, 2017). As of December 31, 2018, such loans were collateralized by firm and/or customer securities with market values of approximately $18.6 million and $1.6 million, respectively, with commercial banks.

As of December 31, 2018, the Company had approximately $1.0 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has re-pledged approximately $112.6 million under securities loan agreements.

As of December 31, 2018, the Company had pledged $460.2 million of customer securities directly with the Options Clearing Corporation to secure obligations and margin requirements under option contracts written by customers.

As of December 31, 2018, the Company had no outstanding letters of credit.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Company's inventory positions. Except as described below, repurchase and reverse repurchase agreements, principally involving U.S. Government and Agency securities, are carried at amounts at which the securities subsequently will be resold or reacquired as specified in the respective agreements and include accrued interest. Repurchase agreements and reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase agreements and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, the securities underlying the repurchase agreements and reverse repurchase agreements exist in "book entry" form and certain other requirements are met.

The following table presents a disaggregation of the gross obligation by the class of collateral pledged and the remaining contractual maturity of the repurchase agreements and securities loaned transactions as of December 31, 2018:

(Expressed in thousands)

	Overnight and Open
Repurchase agreements:	
U.S. Government and Agency securities	$566,357
Securities loaned:	
Equity securities	146,815
Gross amount of recognized liabilities for repurchase agreements and securities loaned	$713,172

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OPPENHEIMER HOLDINGS INC.
Notes to Consolidated Financial Statements

The following tables present the gross amounts and the offsetting amounts of reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions as of December 31, 2018 and 2017:
As of December 31, 2018
(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
Reverse repurchase agreements	$ 82,429	$ (82,139)	$ 290	$ —	$ —	$ 290
Securities borrowed [(1)]	108,144	—	108,144	(105,960)	—	2,184
Total	$ 190,573	$ (82,139)	$ 108,434	$ (105,960)	$ —	$ 2,474

(1) Included in receivable from brokers, dealers and clearing organizations on the consolidated balance sheet.

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements	$ 566,357	$(82,139)	$ 484,218	$ (480,322)	$ —	$ 3,896
Securities loaned [(2)]	146,815	—	146,815	(139,232)	—	7,583
Total	$ 713,172	$(82,139)	$ 631,033	$ (619,554)	$ —	$ 11,479

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

As of December 31, 2017
(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount

		Sheet				
Reverse repurchase agreements	$ 200,712	$(200,054)	$ 658	$ —	$ —	$ 658
Securities borrowed (1)	132,368	—	132,368	(128,575)	—	3,793
Total	$ 333,080	$(200,054)	$ 133,026	$ (128,575)	$ —	$ 4,451

(1) Included in receivable from brokers, dealers and clearing organizations on the consolidated balance sheet.

				Gross Amounts Not Offset on the Balance Sheet		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements	$ 786,532	$(200,054)	$ 586,478	$ (585,289)	$ —	$ 1,189
Securities loaned (2)	180,270	—	180,270	(170,176)	—	10,094
Total	$ 966,802	$(200,054)	$ 766,748	$ (755,465)	$ —	$ 11,283

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

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The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. As of December 31, 2018, the Company did not have any repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date.
The Company receives collateral in connection with securities borrowed and reverse repurchase agreement transactions and customer margin loans. Under many agreements, the Company is permitted to sell or re-pledge the securities received (e.g., use the securities to enter into securities lending transactions, or deliver to counterparties to cover short positions). As of December 31, 2018, the fair value of securities received as collateral under securities borrowed transactions and reverse repurchase agreements was $104.9 million ($127.2 million as of December 31, 2017) and $83.0 million ($221.6 million as of December 31, 2017), respectively, of which the Company has sold and re-pledged approximately $27.6 million ($30.9 million as of December 31, 2017) under securities loaned transactions and $83.0 million under repurchase agreements ($221.6 million as of December 31, 2017).
The Company pledges certain of its securities owned for securities lending and repurchase agreements and to collateralize bank call loan transactions. The carrying value of pledged securities owned that can be sold or re-pledged by the counterparty was $518.0 million, as presented on the face of the consolidated balance sheet as of December 31, 2018 ($655.7 million as of December 31, 2017). The carrying value of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or re-pledge the collateral was $20.2 million as of December 31, 2018 ($97.2 million as of December 31, 2017).
The Company manages credit exposure arising from repurchase and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate securities and the right to offset a counterparty's rights and obligations. The Company manages market risk of repurchase agreements and securities loaned by monitoring the market value of collateral held and the market value of securities receivable from others. It is the Company's policy to request and obtain additional collateral when exposure to loss exists. In the event the counterparty is unable to meet its contractual obligation to return the securities, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices.

Credit Concentrations

Credit concentrations may arise from trading, investing, underwriting and financing activities and may be impacted by changes in economic, industry or political factors. In the normal course of business, the Company may be exposed to credit risk in the event customers, counterparties including other brokers and dealers, issuers, banks, depositories or clearing organizations are unable to fulfill their contractual obligations. The Company seeks to mitigate these risks by actively monitoring exposures and obtaining collateral as deemed appropriate. Included in receivable from brokers, dealers and clearing organizations as of December 31, 2018 are receivables from five major U.S. broker-dealers totaling approximately $86.2 million.
The Company is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to the Company. Clients are required to complete their transactions on the settlement date, generally one to two business days after the trade date. If clients do not fulfill their contractual obligations, the Company may incur losses. The Company has clearing/participating arrangements with the National Securities Clearing Corporation, the Fixed Income Clearing Corporation ("FICC"), R.J. O'Brien & Associates (commodities

transactions), Mortgage-Backed Securities Division (a division of FICC) and others. With respect to its business in reverse repurchase and repurchase agreements, substantially all open contracts as of December 31, 2018 are with the FICC. In addition, the Company clears its non-U.S. international equities business carried on by Oppenheimer Europe Ltd. through Global Prime Partners, Ltd. The clearing organizations have the right to charge the Company for losses that result from a client's failure to fulfill its contractual obligations. Accordingly, the Company has credit exposures with these clearing brokers. The clearing brokers can re-hypothecate the securities held on behalf of the Company. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing brokers, the Company believes there is no maximum amount assignable to this right. As of December 31, 2018, the Company had recorded no liabilities with regard to this right. The Company's policy is to monitor the credit standing of the clearing brokers and banks with which it conducts business.

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8. Variable interest entities

The Company's policy is to consolidate all subsidiaries in which it has a controlling financial interest, as well as any VIEs where the Company is deemed to be the primary beneficiary, when it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb significant losses or the right to receive benefits that could potentially be significant to the VIE.

For funds that the Company has concluded are not VIEs, the Company then evaluates whether the fund is a partnership or similar entity. If the fund is a partnership or similar entity, the Company evaluates the fund under the partnership consolidation guidance. Pursuant to that guidance, the Company consolidates funds in which it is the general partner, unless presumption of control by the Company can be overcome. This presumption is overcome only when unrelated investors in the fund have the substantive ability to liquidate the fund or otherwise remove the Company as the general partner without cause, based on a simple majority vote of unaffiliated investors, or have other substantive participating rights. If the presumption of control can be overcome, the Company accounts for its interest in the fund pursuant to the equity method of accounting.

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

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

The following tables set forth the total VIE assets, the carrying value of the subsidiaries' variable interests, and the Company's maximum exposure to loss in Company-sponsored non-consolidated VIEs in which the Company holds variable interests and other non-consolidated VIEs in which the Company holds variable interests as of December 31, 2018 and 2017:

(Expressed in thousands)

	As of December 31, 2018				
	Total VIE Assets (1)	Carrying Value of the Company's Variable Interest		Capital Commitments	Maximum Exposure to Loss in Non-consolidated VIEs
		Assets (2)	Liabilities		
Hedge funds	$291,200	$ 337	$ —	$ —	$ 337
Private equity funds	7,454	8	—	—	8

Total	$298,654	$ 345	$ —	$ —	$ 345

(1) Represents the total assets of the VIEs and does not represent the Company's interests in the VIEs.

(2) Represents the Company's interests in the VIEs and is included in other assets on the consolidated balance sheet.

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(Expressed in thousands)

	As of December 31, 2017				
	Total VIE Assets (1)	Carrying Value of the Company's Variable Interest Assets (2)	Carrying Value of the Company's Variable Interest Liabilities	Capital Commitments	Maximum Exposure to Loss in Non-consolidated VIEs
Hedge funds	$328,172	$ 713	$ —	$ —	$ 713
Private equity funds	15,668	12	—	2	14
Total	$343,840	$ 725	$ —	$ 2	$ 727

(1) Represents the total assets of the VIEs and does not represent the Company's interests in the VIEs.
(2) Represents the Company's interests in the VIEs and is included in other assets on the consolidated balance sheet.

9. Furniture, equipment and leasehold improvements
(Expressed in thousands)

	For the Years Ended December 31, 2018	2017
Furniture, fixtures and equipment	$57,482	$53,260
Leasehold improvements	60,688	56,753
Total	118,170	110,013
Less accumulated depreciation	(89,182)	(82,826)
Total	$28,988	$27,187

Depreciation and amortization expense, included in occupancy and equipment costs in the consolidated statements of operations, was $6.9 million, $5.7 million and $6.8 million in the years ended December 31, 2018, 2017 and 2016, respectively.

10. Bank call loans
Bank call loans, primarily payable on demand, bear interest at various rates but not exceeding the broker call rate, which was 4.25% at December 31, 2018 (3.25% at December 31, 2017). Details of the bank call loans are as follows:
(Expressed in thousands, except percentages)

	2018	2017
Year-end balance	$15,000	$118,300
Weighted interest rate (at end of year)	3.43 %	2.25 %
Maximum balance (at any month-end)	161,800	230,400

Average amount outstanding (during the year)	53,271	123,918
Average interest rate (during the year)	2.66 %	2.08 %

Interest expense for the year ended December 31, 2018 on bank call loans was $1.4 million ($2.6 million in 2017 and $1.7 million in 2016).

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11. Long-term debt

(Expressed in thousands)

Issued	Maturity Date	December 31, 2018	December 31, 2017
6.75% Senior Secured Notes	7/1/2022	$200,000	$200,000
Unamortized Debt Issuance Cost		(904)	(1,163)
		$199,096	$198,837

6.75% Senior Secured Notes
On June 23, 2017, the Parent issued in a private offering $200.0 million aggregate principal amount of 6.75% Senior Secured Notes due 2022 (the "Unregistered Notes") under an indenture at an issue price of 100% of the principal amount. On September 19, 2017, the Parent completed an exchange offer in which the Parent exchanged 99.8% of its Unregistered Notes for a like principal amount of notes with identical terms except that such new notes have been registered under the Securities Act of 1933, as amended (the "Notes"). The Parent did not receive any proceeds in the exchange offer. Interest on the Notes is payable semi-annually on January 1st and July 1st, beginning January 1, 2018.
On June 23, 2017, the Parent used a portion of the net proceeds from the offering of the Unregistered Notes to redeem in full its 8.75% Senior Secured Notes due April 15, 2018 (the "Old Notes") in the principal amount of $120.0 million, and pay all fees and expenses related thereto. The cost to issue the Notes was $4.3 million, of which $3.0 million was paid to its subsidiary, Oppenheimer, who served as the initial purchaser of the offering, and was eliminated in consolidation. The Company capitalized the remaining $1.3 million and will amortize it over the term of the Notes.
The indenture governing the Notes contains covenants that place restrictions on the incurrence of indebtedness, the payment of dividends, the repurchase of equity, the sale of assets, mergers and acquisitions and the granting of liens. Pursuant to the indenture governing the Notes, the Parent is restricted from paying any dividend or making any payment or distribution on account of its equity interests unless, among other things, (i) the dividend, payment or distribution (together with all other such dividends, payments or distributions made since July 1, 2017) is less than an amount calculated based in part on the Consolidated Adjusted Net Income (as defined in the indenture governing the Notes) of the Parent and its restricted and regulated subsidiaries since July 1, 2017, or (ii) the dividend, payment or distribution fits within one or more exceptions, including:

- it is less than $20 million in any fiscal year; or

- when combined with all other Restricted Payments (as defined in the indenture governing the Notes) that rely upon this exception, it does not exceed $10 million.

The Notes provide for events of default including, among other things, nonpayment, breach of covenants and bankruptcy. The Parent's obligations under the Notes are guaranteed by certain of the Parent's subsidiaries and are secured by a first-priority security interest in substantially all of the assets of the Parent and the subsidiary's guarantors. These guarantees and the collateral may be shared, on a pari passu basis, under certain circumstances, with debt incurred. As of December 31, 2018, the Parent was in compliance with all of its covenants.

Interest expense for the year ended December 31, 2018 and 2017 on the Notes was $13.5 million and $7.0 million, respectively. Interest paid on the Notes for the year ended December 31, 2018 was $13.8 million ($nil in 2017).
8.75% Senior Secured Notes
On April 12, 2011, the Parent issued in a private offering $200.0 million in aggregate principal amount of Old Notes at an issue price of 100% of the principal amount. Interest on the Old Notes was payable semi-annually on April 15th and October 15th. On April 15, 2014, the Parent retired early $50.0 million of the Old Notes.

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The indenture for the Old Notes contained covenants, with which the Company was in compliance during 2017.
On April 15, 2017, the Parent used the net proceeds from the asset sales of OMHHF to finance the redemption of $30.0 million aggregate principal amount of the Old Notes at a redemption price equal to 100% of the principal, plus accrued and unpaid interest.
On June 23, 2017, the Parent used a portion of the net proceeds from the offering of the Notes to redeem in full its Old Notes in the principal amount of $120.0 million and to satisfy and discharge all of its obligations under the indenture governing the Old Notes (the "8.75% Notes Indenture").
In connection with the satisfaction and discharge of the 8.75% Notes Indenture, all of the obligations of the Parent and the subsidiary guarantors (other than certain customary provisions of the 8.75% Notes Indenture, including those relating to the compensation and indemnification of the trustee that expressly survive pursuant to the terms of the 8.75% Notes Indenture) were discharged and the guarantees of the subsidiary guarantors and the liens on the collateral securing the Old Notes were released on June 23, 2017.
Interest expense for the year ended December 31, 2017 on the Old Notes was $6.7 million ($13.1 million in 2016).
Interest paid on the Old Notes for the year ended December 31, 2017 was $9.4 million ($13.1 million in 2016).

12. Share capital

The Company's authorized share capital consists of (a) 50,000,000 shares of Preferred Stock, par value $0.001 per share; (b) 50,000,000 shares of Class A Stock, par value $0.001 per share; and (c) 99,665 shares of Class B Stock, par value $0.001 per share. No Preferred Stock has been issued. 99,665 shares of Class B Stock have been issued and are outstanding.
The Class A Stock and the Class B Stock are equal in all respects except that the Class A Stock is non-voting.
The following table reflects changes in the number of shares of Class A Stock outstanding for the years indicated:

	2018	2017
Class A Stock outstanding, beginning of year	13,139,203	13,261,095
Issued pursuant to share-based compensation plans (note 15)	38,728	328,458
Repurchased and canceled pursuant to the stock buy-back	(236,122)	(450,350)
Class A Stock outstanding, end of year	12,941,809	13,139,203

Stock buy-back

On May 5, 2017, the Company announced that its board of directors approved a share repurchase program that authorizes the Company to purchase up to 650,000 shares of the Company's Class A Stock, representing approximately 5% of its 13,178,571 then issued and outstanding shares of Class A Stock. This authorization supplemented the 40,734 shares that remained authorized and available under the Company's previous share repurchase program covering up to 665,000 shares of the Company's Class A Stock, which was announced on September 15, 2015, for a total of 690,734 shares authorized and available for repurchase. As of January 1, 2018, 508,906 shares were available to be purchased under this program.
During the year ended December 31, 2018, the Company purchased and canceled an aggregate of 236,122 shares of Class A Stock for a total consideration of $5.9 million ($24.96 per share). As of December 31, 2018, 272,784 shares remained available to be purchased under this program.

Any such share repurchases will be made by the Company from time to time in the open market at the prevailing open market price using cash on hand, in compliance with the applicable rules and regulations of the New York Stock Exchange and federal and state securities laws and the terms of the Company's senior secured debt. The Company will cancel all of the shares repurchased.

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The Company expects to continue the share repurchase program indefinitely. The Company will base the timing and amounts of any purchases on market conditions and other factors including price, regulatory requirements and capital availability. The share repurchase program does not obligate the Company to repurchase any dollar amount or number of shares of Class A Stock. Depending on market conditions and other factors, the Company may commence or suspend repurchases from time to time without notice.

Dividends

The Company paid cash dividends of $0.44 per share to holders of Class A and Class B Stock in 2018, 2017 and 2016.

13. Earnings per share

Basic earnings per share is computed by dividing net income attributable to Oppenheimer Holdings Inc. by the weighted average number of shares of Class A Stock and Class B Stock outstanding. Diluted earnings per share includes the weighted average number of shares of Class A Stock and Class B Stock outstanding and options to purchase the Class A Stock and unvested restricted stock awards of Class A Stock using the treasury stock method. Earnings per share have been calculated as follows:

(Expressed in thousands, except number of shares and per share amounts)

	For the Year Ended December 31,		
	2018	2017	2016
Basic weighted average number of shares outstanding	13,248,876	13,246,423	13,368,768
Net dilutive effect of share-based awards, treasury method [1]	812,493	426,938	—
Diluted weighted average number of shares outstanding	14,061,369	13,673,361	13,368,768
Net income (loss) from continuing operations	$28,876	$ 21,870	$ (9,630)
Net income from discontinued operations	—	1,130	10,121
Net income	28,876	23,000	491
Net income (loss) attributable to non-controlling interest, net of tax	(16)	184	1,652
Net income (loss) attributable to Oppenheimer Holdings Inc.	$28,892	$ 22,816	$ (1,161)

Basic net income (loss) per share attributable to Oppenheimer Holdings Inc.