Risk Factors Comparison 2024-03-01 to 2023-02-28 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

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 are presently unknown, 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. FINANCIAL RISKS Market Risk Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio owned by us. Our results of operations may be materially affected by market fluctuations and by global and economic conditions and other factors, including changes in asset values. Our results of operations have been, in the past, and may, in the future, be materially affected by market fluctuations due to global financial markets, economic conditions **, public health epidemics** , changes to global trade policies, tax legislation and tariffs and other factors, including the level and volatility of equity, fixed income and commodity prices, the level and term structure of interest rates, inflation and currency values, and the level of other market indices. The results of our Capital Markets business segment, particularly results relating to our involvement in primary and secondary markets for all types of financial products, are subject to substantial market fluctuations due to a variety of factors that we cannot control or predict with great certainty. These fluctuations impact results by causing variations in business flows and activity and in the fair value of securities and other financial products. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from our principal investments. The Company may incur losses and be subject to reputational harm to the extent that, for any reason, it is unable to sell at anticipated price levels securities it purchased as an underwriter. 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 and dealer, 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. During periods of unfavorable market or economic conditions, the level of individual investor participation in the global markets, as well as the level of client assets, may also decrease, which would negatively impact the results of our Private Client and Asset Management business segments. Substantial market fluctuations could also cause variations in the value of our investments in our funds, the flow of investment capital into or from Assets Under Management (" AUM"), and the way customers allocate capital among money market, equity, fixed income or other investment alternatives, which could negatively impact our Private Client and Asset Management business segments. The value of our financial instruments may be materially affected by market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets may make it extremely difficult to value and monetize certain of our financial instruments, particularly during periods of market displacement. Subsequent valuations in future periods, in light of factors then prevailing, may result in significant changes in the values of these instruments and may adversely impact historical or prospective fees and performance- based fees (also known as incentive fees, which include carried interest) in respect of certain businesses. In addition, at the time of any sales and settlements of these financial instruments, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could cause a decline in the value of our financial instruments, which may have an adverse effect on our results of operations in future periods. In addition, 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 as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale. Our risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. However, severe market events have historically been difficult to predict and we could realize significant losses if extreme market events were to occur. Holding large and concentrated positions may expose us to losses. Concentration of risk may reduce revenues or result in losses in our market- making, investing, underwriting, including block trading, and lending businesses in the event of unfavorable market movements, or when market conditions are more favorable for our competitors. 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. Prior to the Federal Reserve increasing the federal funds rate ~~by 425 basis points~~ during **its** 2022 **and 2023 monetary tightening cycle** , the historical low interest rate environment 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 decrease ~~from current levels~~ **in immediate future periods, which appears highly probable,** and / or balances within our cash sweep products decrease, the Company' s profitability will be negatively impacted. Credit Risk 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. The Company is exposed to credit risk related to third parties such as trading counterparties **, depository institutions** , customers, clearing agents, exchanges, clearing houses, and other financial intermediaries as well as issuers whose securities we hold. 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. **A substantial majority of our cash is held with a large, global systemically important bank, often in balances that exceed the current FDIC insurance limits. If the banks we hold our deposits with enter receivership or become insolvent, we may be prevented from accessing our cash and cash equivalents in excess of FDIC insured limits.** 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. In addition, as a clearing member of several central counterparties, we are responsible for the defaults or misconduct of our customers and could incur financial losses in the event of default by other clearing members. Although we regularly review our credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee. ~~We~~ **Furthermore, we** also incur credit risk in our Private Client business segment lending to mainly individual investors related to margin loans collateralized by securities. Defaults by another large financial institution could adversely affect financial markets generally. The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing, or other relationships between these institutions. **During 2023, several large regional banks failed and their operations were assumed by other institutions. During this period of uncertainty, markets were negatively impacted and clients, redeployed their cash deposits to institutions deemed to be " safer ".** 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 development and use of digital currencies may create additional credit risks. Recent failures of enterprises central to the functioning of ~~that~~ **the digital currency** market have created uncertainty as to the impact of this market on currency markets and the general economy. Liquidity Risk Liquidity risk refers to the risk that we will be unable to finance our operations due to a loss of access to the capital markets or difficulty in liquidating our assets. Liquidity risk also encompasses our ability (or perceived ability) to meet our financial obligations without experiencing significant business disruption or reputational damage that may threaten our viability as a going concern as well as the associated funding risks triggered by the market or idiosyncratic stress events that may negatively affect our liquidity and may impact our ability to raise new funding. Liquidity is essential to our businesses and we rely on external sources to finance a significant portion of our operations. Our liquidity could be negatively affected by our inability to raise funding in the long- term or short- term debt capital markets, our inability to access the secured lending markets, or unanticipated outflows of cash or collateral by customers or clients. Factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, including concerns regarding fiscal matters in the U. S. and other geographic areas, could impair our ability to raise funding. In addition, our ability to raise funding could be impaired if investors or lenders develop a negative perception of our long- term or short- term financial prospects due to factors such as an incurrence of large trading **or operational** losses, a downgrade by the rating agencies, or a decline in the level of our business activity, if regulatory authorities take significant action against us or our industry, or we discover significant employee misconduct or illegal activity. If we are unable to raise funding using the methods described above, we would likely need to finance or liquidate unencumbered assets, such as our investment portfolios ~~or~~ **,** trading assets **or corporate- owned life insurance policies** , to meet maturing liabilities or other obligations. We may be unable to sell some of our assets or we may have to sell assets at a discount to market value, either of which could adversely affect our results of operations, cash flows and financial condition. Our borrowing costs and access to the debt capital markets depend on our credit ratings. The rating agencies continue to monitor certain company- specific and industry- wide factors that are important to the determination of our credit ratings. These include governance, the level and quality of earnings, capital adequacy, liquidity and funding, risk appetite and management, asset quality, strategic direction, business mix, regulatory ~~or~~ **and** legislative changes, macroeconomic environment, and perceived levels of support. It is possible that the rating agencies could downgrade our ratings and those of similar institutions. Our long- term borrowing costs will continue to remain high given the Company' s current rating levels. Any future downgrades would increase these borrowing costs and may impact our ability to access the debt capital markets in future periods. If the Company is unable to repay its outstanding indebtedness when due, its operations may be materially adversely affected. 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 our debt obligations could have a material adverse effect on our results of operations and financial condition, including the acceleration of the payment of debt. ~~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.~~ Operational Risk Operational risk refers to the risk of loss, or of damage to our reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (e. g., fraud, theft, legal and compliance risks, cyber- attacks or damage to physical assets). We may incur operational risk across the full scope of our business activities, including revenue- generating activities (e. g., sales and trading) and support and control groups (e. g., information technology and trade processing). We are subject to operational risks, including a failure, breach or other disruption of our operations or security systems or those of our third parties (or third parties thereof), as well as human error or malfeasance, which could adversely affect our businesses or reputation. Our businesses are highly dependent on our ability to process and report, on a daily basis, a large number of transactions across numerous markets. We may introduce new products or services or change processes or reporting, including in connection with new regulatory requirements, resulting in new operational ~~risk~~ **risks** that we may not fully appreciate or identify **, including the requirement to implement shortened settlement cycles** . The trend toward direct access to automated, electronic markets and the move to more automated trading platforms has resulted in the use of increasingly complex technology that relies on the continued effectiveness of the programming code and integrity of the data to process the trades. We rely on the ability of our employees, consultants, and internal systems to operate our different businesses and process a high volume of transactions. Additionally, we are subject to complex and evolving laws and regulations governing cybersecurity, privacy and data protection, which may differ and potentially conflict, in various jurisdictions. As a participant in the global capital markets, we face the risk of incorrect valuation or risk management of our trading positions due to flaws in data, models, electronic trading systems or processes or due to fraud or cyber- attack. The adoption of shortened settlement cycles in the execution and settlement of securities transactions places increased burdens on participants including the adoption of new processes and procedures to facilitate such settlement. A failure to successfully adopt such procedures and technology within the mandated adoption period could negatively impact our business, our clients and our reputation. We also face the risk of operational failure or disruption of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our lending and securities transactions. In the event of a breakdown or improper operation of our or a direct or indirect third party' s systems (or third parties thereof) or processes or improper or unauthorized action by third parties, including consultants and subcontractors or our employees, we could suffer financial loss, an impairment to our liquidity position, a disruption of our businesses, regulatory sanctions or damage to our reputation. In addition, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industry- wide operational failure that could materially impact our ability to conduct business. Furthermore, the concentration of Company and personal information held by a handful of third parties increases the risk that a breach at a key third party may cause an industry- wide data breach that could significantly increase the cost and risk of conducting business. There can be no assurance that our business contingency and security response plans fully mitigate all potential risks to us. Our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our businesses and the communities where we are located. This may include a disruption involving physical site access; cybersecurity incidents; terrorist activities; political unrest; disease pandemics; catastrophic events; climate- related incidents and natural disasters (such as earthquakes, tornadoes, hurricanes and wildfires); electrical outages; environmental hazards; computer servers; communications or other services we use; and our employees or third parties with whom we conduct business. Although we employ backup systems for our data, those backup systems may be unavailable following a disruption, the affected data may not have been backed up or may not be recoverable from the backup, or the backup data may be costly to recover, which could adversely affect our business. Notwithstanding evolving technology and technology- based risk and control systems, our businesses ultimately rely on people, including our employees and those of third parties with which we conduct business. As a result of human error or engagement in violations of applicable policies, laws, rules or procedures, certain errors or violations are not always discovered immediately by our technological processes or by our controls and other procedures, which are intended to prevent and detect such errors or violations. These can include calculation errors, mistakes in addressing emails or other communications, errors in software or model development or implementation, or errors in judgment, as well as intentional efforts to disregard or circumvent applicable policies, laws, rules or procedures. Human errors and malfeasance, even if promptly discovered and remediated, can result in material losses and liabilities for us. We conduct business in jurisdictions outside the U. S., including jurisdictions that may not have comparable levels of protection for their corporate assets such as intellectual property, trademarks, trade secrets, know-how and customer information and records. The protection afforded in those jurisdictions may be less established and / or predictable than in the U. S. or other jurisdictions in which we operate. As a result, there may also be heightened risks associated with the potential theft of their data, technology and intellectual property in those jurisdictions by domestic or foreign actors, including private parties and those affiliated with or controlled by state actors. Any theft of data, technology or intellectual property may negatively impact our operations and reputation, including disrupting the business activities of our subsidiaries, affiliates, joint ventures or clients conducting business in those jurisdictions. 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, regulatory or other reporting, 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. ~~Cybersecurity-~~ Security breaches of our technology systems, or those of our clients or other third- party vendors we rely on, may expose 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, 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. 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. 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 and international laws governing the protection of personally identifiable information. 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 federally mandated Consolidated Audit Trail (" CAT") program which requires that client personally identifiable information be submitted to a database not controlled by us may expose us to liability for breaches of that data base not under our control. See " Business – ~~--~~REGULATION – Consolidated Audit Trail " in Part I, Item 1. As a result of the foregoing, 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 their 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. There is risk associated with the sufficiency of coverage under the Company' s insurance policies . 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. Climate change concerns could disrupt our businesses, adversely affect client activity levels, adversely affect the creditworthiness of our counterparties and damage our reputation. Climate change may cause extreme weather events that, among other things, could damage our facilities and equipment, injure our employees, disrupt operations at one or more of our primary locations, negatively affect our ability to service and interact with our clients, and adversely affect the value of our investments. Any of these events may increase our costs, including our costs to insure against these events. Additionally, climate change may pose longer- terms risks that could impact the broader economy, necessitating our reassessment of asset values, reliability of cash flows and business continuity. Climate change may also have a negative impact on the financial condition of our clients, which may decrease revenues from those clients and increase the credit exposures to those clients. Additionally, our reputation and client relationships may be damaged as a result of our involvement, or our clients' involvement, in certain industries associated with causing or exacerbating, or alleged to cause or exacerbate, climate change. Reporting requirements in connection with climate change may place an increased burden on our business including adopting processes and procedures at increased cost to meet the data reporting measures that may be required. We also may be negatively impacted by any decisions we make to continue to conduct or change our activities in response to considerations relating to climate change. New regulations or guidance relating to climate change, as well as the perspectives of shareholders, employees and other stakeholders regarding climate change, may affect whether and on what terms and conditions we engage in certain activities or offer certain products. ~~Environmental, Social and Governance (ESG) Risks-~~ We are subject to risks relating to environmental, social, and governance (" ESG ") matters that could adversely affect our reputation, business, financial condition, and results of operations, as well as the price of our common stock. Increasingly, our society and our business are faced with challenges associated with the implementation of policies and practices that are supportive of concerns related to environmental, social and governance (ESG) issues. We continue to explore implementing ESG considerations across our business practices and operations, a task complicated by the lack of consensus around a defining standard of ESG. We continue to focus on improving the resilience of our operations, fostering an inclusive workforce and maintaining a system of good corporate governance. However, our efforts in this regard may be insufficient and may expose the Company to reputational risk from entities purporting to" grade" ESG platforms, reductions in business with certain clients demanding greater ESG efforts or to regulatory expectation and enforcement if such practices become the subject of rule- making by regulators to whom we are subject. We are subject to risks, including reputational risk, associated with ESG issues. The public holds diverse and often conflicting views on ESG topics. As a financial institution, we have multiple stakeholders, including our shareholders, clients, associates, federal ~~and~~ **,** state **and other** regulatory authorities, as well as the communities in which we operate, and these stakeholders will often have differing priorities and expectations regarding ESG issues. If we take action in conflict with one or another of those stakeholders' expectations, we could experience an increase in client complaints, a loss of business, or reputational harm. We could also face negative publicity or reputational harm based on the identity of those with whom we choose to do business. Any adverse publicity in connection with ESG issues could damage our reputation, and negatively impact our ability to attract and retain clients and associates, compete effectively, and grow our business. In addition, proxy advisory firms and certain institutional investors who manage investments in public companies are increasingly integrating ESG factors into their investment analysis. The consideration of ESG factors in making investment and voting decisions is relatively new. Accordingly, the frameworks and methods for assessing ESG policies are not fully developed, vary considerably among the investment community, and will likely continue to evolve over time. Moreover, the subjective nature of methods used by various stakeholders to assess a company with respect to ESG criteria could result in erroneous perceptions or a misrepresentation of our actual ESG policies and practices. Organizations that provide ratings information to investors on ESG matters may also assign unfavorable ratings to us. Certain of our clients might also require that we implement additional ESG procedures or standards in order to continue to do business with them. If we fail to comply with specific ESG- related investor or client expectations and standards, or to provide the disclosure relating to ESG issues that any third parties may believe is necessary or appropriate (regardless of whether there is a legal requirement to do so), our reputation, business, financial condition, and / or results of operations, as well as the price of our common stock could be negatively impacted. Moreover, there has been increased regulatory focus on ESG- related practices of investment managers. A growing interest on the part of investors and regulators in ESG factors, and increased demand for, and scrutiny of, ESG- related disclosures by asset managers has likewise increased the risk that we could be perceived as, or accused of, making inaccurate or misleading statements regarding the investment strategies offered to our clients or of our ESG efforts or initiatives, commonly referred to as " greenwashing. " Such perceptions or accusations could damage our reputation, result in litigation or regulatory enforcement actions, and adversely affect our business. REGULATORY AND COMPLIANCE RISKS 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 new or revised legislation or regulations or changes in the interpretation or enforcement of existing laws and rules by these governmental **regulatory** authorities and self- regulatory organizations. 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, underwriting, 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~~ **PATRIOT** Act **o 2001** (the" Patriot Act") compliance, capital structure of securities firms, trade and regulatory reporting, cybersecurity, pricing of services, compliance with **Department of Labor ("** 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. If the Company is found to have violated any applicable laws, rules or regulations, formal administrative or judicial proceedings may be initiated against it that may result in censure, fine, civil or criminal penalties, including treble damages in the case of insider trading violations, the issuance of cease- and- desist orders, the suspension or termination of our broker- dealer or investment advisory activities, the suspension or disqualification of our officers or employees; or other adverse consequences. The imposition of any of the above or other penalties could have a material adverse effect on our operating results and financial condition. Financial services firms have been subject to increased regulatory scrutiny 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. The industry has experienced increased scrutiny from a variety of regulators, including the SEC **, CFTC** and FINRA as well as state regulators. Penalties and fines sought by regulatory authorities have increased substantially. 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, as amended (the" 1940 Act"), **or** could result in investigations, sanctions and reputational damage. Increasingly, regulators have instituted a practice of" regulation by enforcement" where new interpretations of existing regulations are introduced by bringing enforcement actions against securities firms for activities that occurred in the past but were not then thought to be problematic. 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~~ **financial condition and results of operations** . 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. 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, particularly those subsidiaries that are SEC registered investment advisers. 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~~ **the advisory** 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 advisors has been mostly prohibited in Europe and, is periodically reexamined in the U. S. and may be limited or modified in the future The use of various mutual fund share classes has **also** come under significant regulatory scrutiny. The SEC found in conjunction with its Mutual Fund Share Class Disclosure Initiative that the firm' s investment management disclosure relating to 12b- 1 fees was deficient resulting in restitution of fees to investment management clients. 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. On June 5, 2019, the SEC adopted Regulation Best Interest (“ Reg BI ”) as Rule 15l- 1 under the Exchange Act. Reg BI imposes a new federal standard of conduct on registered broker- dealers and their associated persons when dealing with retail clients and requires that a broker- dealer and its representatives act in the best interest of such client and not place its own interests ahead of the customer’ s interests. The effective compliance date for Reg BI was June 30, 2020. The new rules and processes related thereto will likely limit revenue and ~~most~~ **have increased, and will** likely ~~involve~~ **continue to** ~~increased~~ **increase** costs, including, but not limited to, compliance costs associated with new or enhanced technology as well as increased litigation costs. (see “ Business – Regulation – Fiduciary Standard – Rulemaking by the U. S. Department of Labor and SEC ” in Part I, Item 1). It is not possible to determine the extent of the impact of any new laws, regulations or initiatives that may be imposed, or whether any existing 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. 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. The Company is exposed to litigation and arbitration risks, which may adversely affect our reputation, financial position and results of operations. 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 and investment adviser, as an employer and as a result of other business activities. The risks associated with litigation, claims and assessments are oftentimes difficult to quantify. 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. RISK MANAGEMENT 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, liquidity 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. Various regulators periodically review the companies' risk control practices, and, if found inadequate, bring enforcement actions and **seek** sanctions against such firms. RISKS ASSOCIATED WITH THE COMPANY' S COMMON STOCK 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 non- voting common stock (the " Class A Stock") and Class B voting common stock (the" Class B Stock"). At December 31, ~~2022~~ **2023**, there were 99, 665 shares of Class B Stock outstanding compared to 10, ~~868~~ **186**, ~~556~~ **783** 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. Approximately 98 % of the Class B Stock is held by an entity controlled by Mr. Albert Lowenthal, the Chairman and CEO of the Company, which allows Mr. Lowenthal to control all matters requiring stockholder approval. Due to the lack of voting power, the holders of the Class A Stock have limited influence on corporate matters. The voting power of the holders of Class B Stock may have the effect of depressing the price of the Company' s Class A Stock, **and** delaying or preventing a change in control of the Company or ~~may result~~ **resulting** 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 outcome of" say on pay" votes at **the Company. The presence of Class B voting shares may also result in the Company receiving low " ESG scores " by some parties having unforeseeable consequences on** the Company. 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 the 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~~ **company** ' s **common** ~~Class A Stock~~ **stock** at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the ~~Company~~ **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 Class A Stock price to fall and increase the volatility of the Class A Stock generally. ~~We may be removed from market indices. Our Class A Stock is listed on the New York Stock Exchange and is included as a component in various market indices. At any given time, a company may be added, dropped, or retained as a component of a market index. The factors governing whether a company is added, dropped, or retained as a component of a market index may be unique to that index, and may change over time. Because certain funds track market indices, changes in constituent components of a tracked index will necessitate purchase or divestitures of shares of the company being added or dropped from the index. Consequently, any removal of us from an index of which we are currently a constituent component may result in the sale of our Class A Stock by these funds which may negatively impact the liquidity of our Class A stock. We are currently a constituent component of, among others, the Russell 3000 index. We have been informed that because voting rights are exclusively associated with our Class B Stock, which does not publically trade, we will be removed from this index in or about May, 2023.~~ The Company is the holding company of several operating subsidiaries, and is reliant on dividends and other sources of funding from those subsidiaries to pay dividends to holders of Class A Stock and meet our debt service and other obligations. As a holding company, we are dependent on dividends and other sources of liquidity from our various operating subsidiaries in order to meet our debt service obligations, make dividend payments to holders of Class A Stock once declared by our Board of Directors and meet our other obligations. Some of our operating subsidiaries are subject to laws and regulations that may restrict the timing and / or amount of dividends that can be distributed to the Company, or provide the regulators such as the SEC or FINRA with the ability to prohibit or reduce the amount of any planned dividend distributions to the Parent. Such restrictions could adversely impact the price of the Company' s Class A Stock and / or could impair our ability to pay dividends to holders of Class A Stock. Our ability to pay future dividends to holders of Class A Stock is subject to the Board of Directors' discretion and may be impacted by our financial and operating results. Our Board of Directors declared cash dividends of $ 0. 15 per share each quarter in ~~2022~~ **2023** to holders of Class A and Class B Stock and also authorized the Company to repurchase shares of its Class A Stock. The declaration and payment of future cash dividends and authorization of future share repurchases is subject to the Board of Director' s discretion and may be impacted by a number of factors, including but not limited to our net income levels, ability to generate positive operating cash flows, compliance with the Indenture for our **5. 50 %** Senior Secured Notes, subsidiary capital requirements and general financial and business conditions. GENERAL BUSINESS AND ECONOMIC RISKS Preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that may differ from actual results. Additionally, new accounting standards adopted by the relevant standard-setting authorities could impact future reported results. The preparation of our 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 and may require management to make difficult, subjective and / or complex judgments. If management' s estimates and assumptions are inaccurate, our financial position and results **of operations** could be materially and adversely impacted. At times, the Financial Accounting Standards Board (the " FASB ") and the SEC may amend or introduce new accounting standards or interpretive guidance that could impact the preparation of our financial statements. The nature and timing of these changes can be difficult to predict and can have a material impact on our financial statements. In some cases, the new or revised accounting standard may require retrospective application, which would result in us restating prior- period financial statements. ~~The effects of the outbreak of the novel coronavirus (COVID- 19) have negatively affected the global economy, the United States economy and the global financial markets, and may disrupt our operations and our clients' operations, which could have an adverse effect on our business, financial condition and results of operations. The ongoing COVID- 19 global and national health emergency has caused significant disruption in the international and United States economies and financial markets. The spread of COVID- 19 has caused widespread illness and death, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, unemployment, labor shortages, supply chain interruptions and overall economic and financial market instability in the United States. Similar impacts have been experienced in every country in which we do business. Impacts to our business could be widespread and global, and material impacts may be possible, including key employees contracting COVID- 19, reductions in our operating effectiveness as our employees work from home or disaster-recovery locations, unavailability of key personnel necessary to conduct our business activities, an economic environment which may have significant accounting and financial reporting implications, unprecedented volatility in global financial markets, reductions in revenue across our operating businesses, delay in planned entry into, or expansion of, investments or projects in foreign jurisdictions, closure of our offices or the offices of our clients, and de- globalization. We are taking precautions to protect the safety and well- being of our employees and customers. However, no assurance can be given that the steps being taken will be deemed to be adequate or appropriate, nor can we predict the level of disruption which will occur to our employees' ability to provide customer support and service. We implemented certain elements of our business continuity plan in response to the pandemic, and we continue to rely on the related processes and technologies that were established. While these plans have been effective, if COVID- 19 or another highly infectious or contagious disease continues to spread, if the response to contain it is unsuccessful, or if there are adverse changes in political conditions or social unrest as a result of the response, we may experience adverse effects on our business, financial condition, liquidity, and / or results of operations.~~ 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. Changes in economic and political conditions, including economic output levels, interest and inflation rates, employment levels, prices of commodities including oil and gas, exogenous market events, consumer confidence levels, **public health emergencies** 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 many 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, and / or prolonged levels of increasing interest rates, could lead to a return to increased credit market dislocations, reductions in the value of real estate, and other negative market factors which 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 ~~recent~~ **January 2020** exit from the EU (" Brexit"), and the stability of the EU' s sovereign debt, has caused uncertainty and disruption for financial markets globally. Hostilities between Russia and Ukraine **and** ~~have created uncertainties~~

~~around the spread of~~ the conflict **between Israel and Hamas** ~~, the use of nuclear weapons~~ as well as **related disruptions of shipping routes in** ~~its impact on global supply chains impacting energy supplies and food supplies throughout~~ the ~~world. These issues~~ **Red Sea and related military action** could have unforeseen and negative impacts upon the markets and the Company and its operations. 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, 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. ~~During~~ **Underwriting activity remained weak in** ~~2022~~ **2023** ~~, assignments related to special purpose acquisition companies (" SPACs") decreased significantly from the prior year. We cannot assure that the volume of transactions for SPACs~~ and **may continue so in the immediate future** ~~corresponding fees will return to prior year' s record levels~~ . Additionally, our investments in SPACs, may be subject to forfeiture, potential regulatory scrutiny and litigation that could negatively affect our financial results. • 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 of assets under management may ultimately decline, which would negatively impact fee revenues. • 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 accounts 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. 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~~ **as so** of our competitors seek to obtain market share by reducing fees, commissions or margins. The announcement by several large securities firms as well as a similar “ no commission ” offering by retail firms utilizing the internet and electronic trading ~~has~~ **have** proven popular among retail clients both new to securities markets as well as some experienced investors and will only add to this pricing pressure, especially on the firms likes ours that cater to retail investors. Additional pressure on sales and trading revenue may impair the profitability of the Company' s business. 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. Operating losses emanating from any such acquired business will be reflected in the Company' s reported** 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. As the costs of doing business increase, the Company may not be able to continue to grow its revenues through " organic " growth (the growth attendant to hiring one employee at a time or through expanding into a new business line through a limited investment in technology and employment). In lieu of organic growth, it becomes increasingly necessary to grow through the acquisition of a business or businesses that fulfill the Company' s strategic decisions for growth. However, due to competition or the cost of such acquisitions, such expansion may not be available on a profitable basis and may threaten the Company' s ongoing ability to expand its business. 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. The United Kingdom' s exit from the EU could impact our overseas operations. In June 2016, the UK held a referendum in which voters approved an exit from the EU, commonly referred to as " Brexit, " and the UK exited the EU in January 2020. The withdrawal, among other outcomes, has disrupted the free movement of goods, services and people between the UK and the EU, undermined bilateral cooperation in key policy areas and significantly disrupted trade between the UK and the EU. The UK exited the EU without a continuing agreement covering many aspects of its relationship, at least as that relates to financial services, which has been disruptive to the economies of both ~~parties~~ **the UK and the EU** and has negatively affected our business conducted in the EU. We may also face new regulatory costs and challenges as a result of Brexit that could have a negative effect on our operations. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Given the lack of comparable precedent, it is unclear what financial, regulatory, trade and legal implications the withdrawal of the UK from the EU will continue to have and how such withdrawal will continue to affect us. The Company has reviewed various strategies to be able to continue its relationships with clients within the EU, including becoming domiciled in one or more EU countries and becoming subject to their respective regulations. We ~~presently plan to~~ have an EU office in Portugal to be able to continue to service various constituencies operating inside the EU. There is no assurance that this strategy will be successful or effective. It is possible that the level of economic activity in the UK and the rest of Europe will be adversely impacted and that we will face increased regulatory and legal complexities, including those related to tax, trade, security and employee relations as a result of Brexit. Such changes could be costly and potentially disruptive to our operations and business relationships in affected regions. The ability to attract, develop and retain highly skilled and productive employees, particularly qualified financial advisors 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 advisors and other key personnel. If we were to lose the services of any of our investment bankers, senior equity research, sales and trading 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 advisors 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 advisors and their solicitation of their clients and may act as a new barrier to recruitment of financial advisors. 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. Approximately 98 % of the shares of Class B Stock 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. 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; employee conduct outside of acceptable norms including harassment; **employees posting offensive or inappropriate content on social or other internet media;** or employees engaging in " hacking " or breaching our cybersecurity safeguards. 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 advisors 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. Employee misconduct, including harassment in the workplace, has come under increasing scrutiny in the national media. While the Company has adopted a Code of Conduct and instituted training for its employees, it is difficult to predict when an employee may deviate from acceptable practices and open the Company to liability either from actions taken by other employees or by authorities.