OPPENHEIMER HOLDINGS INC
Form 10-K/A
May 17, 2005

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

FORM 10-K/A
Amendment No. 1

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

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)

Ontario, Canada (State or other jurisdiction of incorporation or organization)	98-0080034 (I.R.S. Employer Identification No.)
P.O. Box 2015, Suite 1110 20 Eglinton Avenue West Toronto, Ontario, Canada (Address of principal executive offices)	M4R 1K8 (Zip Code)

Registrant s Telephone number, including area code: (416) 322-1515

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 shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

Not Applicable

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 þ 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. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes þ No o

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 shares held by non-affiliates of the Company at June 30, 2004 was $371,701,000 based on the closing price of the Class A non-voting shares on the New York Stock Exchange as at June 30, 2004 of $27.78.

The number of shares of the Company s Class A non-voting shares and Class B voting shares (being the only classes of common stock of the Company) outstanding on March 10, 2005 was 13,297,671 and 99,680 shares, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

The Company s definitive proxy statement 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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EXPLANATORY NOTE

This Amendment No. 1 to the Company s Annual Report on Form 10-K is being filed to amend and reflect the restatement of its Consolidated Financial Statements as of and for the year ended December 31, 2004. Subsequent to the issuance of its financial statements for the year ended December 31, 2004, considering the open letter to the American Institute of Certified Public Accountants from the Chief Accountant of the SEC dated February 7, 2005, the Company undertook a review of its real estate lease accounting policies and is correcting its method of accounting for certain leases by restating its financial statements for the year ended December 31, 2004. The Company is also restating its financial statements for its fiscal quarters ended March 31, 2004, June 30, 2004 and September 30, 2004 with respect to the same issue. The error resulted in the understatement of property, plant and equipment, net and liabilities and the overstatement of profit before taxes and net profit for the year ended December 31, 2004 as well as for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004.

The correction involves recording expense for leases with escalating rents on a straight-line basis over the lease term, rather than as paid, and correctly accounting for landlord incentives, to record leasehold amortization expense and deferred incentive amortization. The Company had previously either not recorded the landlord incentives, or recorded them as a reduction to leasehold improvements, rather than as a rental incentive.

In addition, the Company s interest expense on its variable rate exchangeable debentures is being adjusted amongst the four quarters of 2004. In its Annual Report on Form 10-K for the year ended December 31, 2004, the Company had booked an immaterial cumulative net adjustment in the fourth quarter of $355,000 . With the restatement of the 2004 quarters, the Company has chosen to reflect the applicable interest expense in each quarter rather than record the impact of the matter of the interest method as a fourth quarter adjustment. There is no impact on net profit for the year ended December 31, 2004 of the interest method matter. The Company has restated its Consolidated Balance Sheets as at December 31, 2004, as well as its Consolidated Statements of Operations, Consolidated Statements of Cash Flows and Consolidated Statements of Shareholders Equity as well as notes 1, 5, 10, 11, 13, 16 and 19 of Notes to Consolidated Financial Statements for the year ended December 31, 2004 to reflect the restatement for the matters described above. See Note 1(s) of Notes to Consolidated Financial Statements for further discussion.

The impact of the restatement on net profit is a reduction in net profit of $1,424,000 for the year ended December 31, 2004, reductions of $1,185,000, $142,000 and $179,000, respectively, for the quarters ended March 31, June 30 and September 30, 2004, and an increase of $82,000 for the quarter ended December 31, 2004. The impact of the error on the quarters and years prior to 2004 was immaterial. Consequently, the cumulative net effect of the error of $779,000 as of December 31, 2003 has been recorded in the first quarter of 2004.

Based on the Public Company Accounting Oversight Board s definition of material weakness, restatement of financial statements in prior filings with the SEC is a strong indicator of the existence of a material weakness in the design or operation of internal control over financial reporting. The restatement of the Company s financial statements for the periods noted above as a result of errors in its policies over accounting for certain real estate leases has led management to conclude that a material weakness existed in the Company s internal control over financial reporting as at December 31, 2004, and that Management s Report on Internal Control over Financial Reporting as of December 31, 2004 should be restated. The Company has disclosed this to the Audit Committee, the Board of Directors and the Company s independent registered public accounting firm. In accordance with the rules of the Securities and Exchange Commission, the affected items of the Form 10-K, Items 6, 7, 8 and 9A of Part II, are being amended and restated in their entirety. Except as described above, no other amendments are being made to the Annual Report on Form 10-K. This Form 10-K/A does not reflect events occurring after May 16, 2005 or substantively modify or update the disclosure contained in the Form 10-K in any way other than as required to reflect the amendments discussed above.

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PART I

Item 1. BUSINESS

Oppenheimer Holdings Inc., formerly called Fahnestock Viner Holdings Inc., prior to that called E.A. Viner Holdings Limited and immediately prior to that called Goldale Investments Limited (the Company), maintains its registered office and principal place of business at 20 Eglinton Avenue West, Suite 1110, Toronto, Ontario Canada M4R 1K8 and its telephone number is (416) 322-1515.

The Company was originally incorporated under the laws of British Columbia. Pursuant to its Certificate and Articles of Continuation effective October 12, 1977, the Company s legal existence was continued under the Business Corporation Act (Ontario) as if it had been incorporated as an Ontario corporation.

The Company is a holding company and carries on no active business. It owns, directly or through intermediate subsidiaries, Oppenheimer & Co. Inc. (formerly called Fahnestock & Co. Inc. and prior to that called Edward A. Viner & Co., Inc.), a New York corporation (Oppenheimer); Freedom Investments, Inc., a Delaware corporation (Freedom); Oppenheimer Asset Management Inc. (formerly called Hudson Capital Advisors Inc.), a New York corporation (OAM); Evanston Financial, Inc., a New York corporation (Evanston); since September 17, 2001, Josephthal & Co. Inc., a New York corporation (Josephthal); and since November 9, 2001, Prime Charter, Ltd., a Delaware corporation (Prime). Oppenheimer, OAM and Freedom are sometimes collectively referred to as the Operating Subsidiaries . Through the Operating Subsidiaries, the Company is engaged in the securities brokerage and trading business and offers investment advisory and other related financial services. Oppenheimer and OAM are the principal Operating Subsidiaries. Oppenheimer is engaged in the securities brokerage business in the United States, operates in Toronto, Canada as an International Dealer and, through the agency of local licensed broker-dealers, operates offices in Buenos Aires, Argentina and Caracas, Venezuela. OAM is engaged in the investment advisory business in the United States. In addition, Oppenheimer conducts investment advisory business under the name Fahnestock Asset Management, a division of Oppenheimer. The business formerly conducted by Josephthal and Prime is now conducted by Oppenheimer. The private client business acquired from CIBC World Markets Inc. in January 2003 discussed below is being conducted by Oppenheimer. The asset management business acquired from CIBC World Markets in June 2003 discussed below is being conducted by OAM. The Company operates a discount brokerage business through Freedom.

In March 2002, through Freedom, the Company purchased the business of BUYandHOLD Securities Corporation and affiliates for cash consideration of $2,297,000. BUYandHOLD is an on-line brokerage business headquartered in Edison, NJ. The combination of the Freedom and BUYandHOLD technology platforms provides clients with a comprehensive and diversified suite of online financial services. BUYandHOLD operates as a division of Freedom. The acquisition was accounted for by the purchase method.

In May 2002, Oppenheimer Trust Company received a charter as a limited purpose bank domiciled in New Jersey. Oppenheimer Trust Company offers trust services to the clients of Oppenheimer and OAM.

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On January 3, 2003, the Company acquired the U.S. Private Client Division of CIBC World Markets and on June 4, 2003 acquired the U.S. Asset Management Division of CIBC World Markets (the Oppenheimer divisions) for a total consideration of approximately $242 million, of which approximately $16 million was paid in cash at closing from cash on hand and the balance was paid from the proceeds of the issuance of debt instruments. The private client business is being operated by Oppenheimer and added approximately 620 account executives in 18 branches located in the major financial centers of the United States to its business at the closing date. Client assets of the Private Client Division were approximately $30 billion at the closing date. Assets under management in the Asset Management Division were approximately $8.5 billion at the acquisition date. The asset management business is being operated by OAM. The acquisition was accounted for by the purchase method. This transaction more than doubled the Company s retail exposure and asset base.

At December 31, 2004, Oppenheimer employed approximately 1,667 full-time registered representatives and approximately 1,187 other employees in trading, research, investment banking, investment advisory services, public finance and support positions in the United States for Oppenheimer, OAM and Freedom, for a total of approximately 2,854 full-time employees.

Oppenheimer and Freedom are broker-dealers registered with the Securities and Exchange Commission (the SEC) and in all other jurisdictions where their respective businesses require registration. Oppenheimer, in addition to its United States operations, has two additional offices: it conducts business in Caracas and Buenos Aires through local broker-dealers who are licensed under the laws of Venezuela and Argentina, respectively.

The Operating Subsidiaries are collectively engaged in a broad range of activities in the securities brokerage business, including retail securities brokerage, institutional sales, bond trading and investment banking offering both corporate and public finance services, underwriting, research, market making and investment advisory and asset management services. No material part of the Company s revenues, taken as a whole, are derived from a single customer or group of customers.

Oppenheimer is a member of the New York Stock Exchange, Inc. (NYSE), the National Association of Securities Dealers, Inc. (NASD), the American Stock Exchange, Inc. (AMEX), the Chicago Stock Exchange Incorporated (CSE), the Chicago Board Options Exchange, Inc. (CBOE), the New York Futures Exchange, Inc. (NYFE), the National Futures Association (NFA) and the Securities Industry Association (SIA). In addition, Oppenheimer has satisfied the requirements of the Municipal Securities Rulemaking Board (MSRB) for effecting customer transactions in municipal securities. Freedom is a member of the NASD.

Oppenheimer, which acts as a clearing broker for Freedom and carries an omnibus account for the BUYandHOLD Division of Freedom, which is itself a self-clearing firm, is also a member of the Securities Investor Protection Corporation (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 $100,000 for claims for cash balances. SIPC is funded through assessments on

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registered broker-dealers, which may not exceed 1% of a broker-dealer s gross revenues (as defined); SIPC assessments were a flat fee of $150 in 2004, 2003 and 2002. In addition, Oppenheimer has purchased an additional excess SIPC policy protection from Lloyds of London of an additional $74,500,000 (and $900,000 for claims for cash balances) per customer. The excess SIPC policy has an aggregate limit of liability of $400,000,000. The Company has entered into an indemnity agreement with Lloyds of London pursuant to which the Company has agreed to indemnify Lloyd s of London for losses incurred by Lloyd s under the policy.

The Company s internet address is www.opco.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, 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.

SOURCES OF REVENUE:

The Company derives most of its revenues from the operations of its principal subsidiaries, Oppenheimer and OAM. Although maintained as separate entities, the operations of the Company s brokerage subsidiaries are closely related because Oppenheimer acts as clearing broker and omnibus in transactions initiated by Freedom. Except as expressly otherwise stated, the discussion below pertains to the operations of Oppenheimer.

COMMISSIONS

A significant portion of Oppenheimer s revenues is derived from commissions from retail and, to a lesser extent, institutional customers on brokerage transactions in exchange-listed and over-the-counter corporate equity and debt securities. Brokerage commissions are charged on both exchange and over-the-counter transactions in accordance with a schedule, which Oppenheimer has formulated. Often, discounts are granted to customers, generally on large trades or to active customers. Oppenheimer also provides a range of services in other financial products to retail and institutional customers, including the purchase and sale of options on the CBOE, the AMEX and other stock exchanges as well as futures on indexes listed on various exchanges.

Commission business relies heavily on the services of financial consultants with good sales production records and good reputations. Competition among securities firms for such personnel is intense. Retail clients accounts are serviced by retail financial advisors (excluding the institutional financial consultants referred to below) in Oppenheimer s offices. Oppenheimer s institutional clients, which include mutual funds, banks, insurance companies, hedge funds, and pension and profit-sharing funds, are serviced by institutional financial advisors. (For a discussion of regulatory matters, see Regulation .) The institutional department is supported by the equity research department which provides coverage of a number of commercial and industrial as well as emerging growth companies and special situation investments.

Securities Clearance Activities

Oppenheimer provides a full range of securities clearance services to two non-affiliated securities firms on a fully-disclosed basis. In addition to commissions and service charges,

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Oppenheimer derives substantial interest revenue from its securities clearing activities. See Interest Securities Borrowed And Loaned. Oppenheimer provides margin financing for the clients of the securities firms for which it clears, with the securities firms guaranteeing the accounts of their clients. Oppenheimer also extends margin credit directly to its correspondent firms to the extent that such firms hold securities positions for their own account. Because Oppenheimer must rely on the guarantees and general credit of its correspondent firms, Oppenheimer may be exposed to significant risks of loss if any of its correspondents or its correspondents customers are unable to meet their respective financial commitments. See Risk Management.

Commodities

Oppenheimer is a futures commission merchant and clears commodities transactions on a number of commodities exchanges for its clients that trade commodities through a correspondent firm on an omnibus basis. Such client commodity accounts contain significant leverage and thus have a greater than average likelihood of becoming unsecured or for clients incurring substantial losses, that ultimately could result in a loss to the Company.

PRINCIPAL TRANSACTIONS

In the regular course of its business, Oppenheimer takes securities positions as a market maker 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.

Oppenheimer monitors its risk by maintaining its securities positions at or below certain pre-established levels. These levels reduce certain opportunities to realize profits in the event that the values of such securities increase. However, they also reduce the risk of loss in the event of decreases in such values and result in controlled interest costs incurred on funds provided to maintain such positions. Oppenheimer also attempts to minimize risk with respect to its principal transactions by re-selling (or buying) to offset its positions quickly after establishing positions, thereby reducing the need to hold securities inventory positions for even short periods of time.

Trading profits or losses depend on (i) the skills of those employees engaged in market-making activities, (ii) the capital allocated to holding positions in securities and (iii) the general trend of prices in the securities markets. Trading as principal requires the commitment of capital and creates an opportunity for profits or an exposure to risk of loss due to market fluctuations. Oppenheimer takes both long and short positions in those securities in which it makes a market.

Equities. Oppenheimer acts as both principal and agent in the execution of its customers orders in the over-the-counter market. Oppenheimer buys, sells and maintains an inventory of a security in order to make a market in that security. (To make a market in a security is to maintain firm bid and offer prices by standing ready to buy or sell round lots at publicly quoted prices. In order to make a market, it is necessary to commit capital to buy, sell and maintain an inventory of a security.) In executing customer orders for over-the-counter 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, working with another firm which is a market-maker acting as principal. However, when the buy or sell order is in a security in which Oppenheimer makes a market, Oppenheimer normally acts as principal and purchases from or sells to its 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 also may include those of issuers which are followed by Oppenheimer s research department. Oppenheimer makes markets in over 800 over-the-counter equity securities, and trades securities for its own account, as well as to facilitate customer transactions. As a result of the move to decimal trading in the NASDAQ, which began for all stocks in April 2001, narrowing bid-ask spreads and smaller price increments are being experienced and are resulting in a decrease in trading revenue earned from the Company s market making operations. Oppenheimer also trades in OTC Bulletin Board and pink sheet securities. These securities are typically more illiquid, have smaller capitalizations and may involve more risk than NASDAQ-traded securities.

High Yield. Oppenheimer also trades and positions non-investment grade public and private debt securities, as well as distressed securities. Risk of loss upon default by the borrower is significantly greater with respect to unrated or less than investment grade corporate debt securities than with other corporate debt 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. There is a limited market for some of these securities and market quotes are available only from a small number of dealers.

Other Trading and Investment Activities

Oppenheimer holds positions in its trading accounts in over-the-counter securities and in exchange-listed securities in which it does not make a market and may engage from time to time in other types of principal transactions in securities. Oppenheimer has several trading departments including: a convertible bond department, a risk arbitrage department, a corporate bond dealer department, a municipal bond department, a government/mortgage backed securities department, and a department that underwrites and trades U.S. government agency issues, taxable corporate bonds, and UIT s. These departments continually purchase and sell securities and make markets in order to make a profit on the inter-dealer spread. Although Oppenheimer from time to time holds an inventory of securities, more typically, it seeks to match customer buy and sell orders. In addition, Oppenheimer or OAM hold proprietary positions in equity or fixed income securities in which it may not act as a dealer.

The size of its securities positions on any one day may not be representative of Oppenheimer s exposure on any other day because 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 stocks which Oppenheimer may carry is limited by the Net Capital Rule. See Net Capital Requirements and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

In the case of OAM, it holds investments as general partner in a range of investment

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partnerships (hedge funds), which are offered to Oppenheimer hedge fund qualified clients as well as qualified clients of other broker-dealers.

Investment Income

Principal transactions with customers as well as market-making and other trading and investment activities, dividends and interest earned on securities held in inventory, cash and cash equivalents and cash and securities held in segregated accounts are treated as investment income.

The Company s investment activities primarily include investing in equity and equity-related securities and limited partnerships as well as general partnership interests in connection with private investment transactions, either for the accounts of Company-sponsored private equity partnerships, real estate partnerships or special purpose partnerships or for its own account. These activities include mutual fund investments, insurance vehicles with investment options, including those made in connection with its deferred compensation plans, venture capital investments, and investments in portfolio and operating companies. The fair value of these investments is subject to a higher degree of volatility and may include significant risks of loss while attempting to obtain higher returns than those available from publicly traded securities.

INTEREST

Oppenheimer derives a substantial portion of its interest revenue, and incurs a substantial portion of its interest expense, in connection with its securities borrowed/securities loaned activity. Oppenheimer also earns interest on its securities portfolio, on its operating and segregated balances, on its margin lending activity and on certain of its investments. Oppenheimer also incurs interest expense on its long-term debt, bank loans and free credit balances in the accounts of customers.

Securities Borrowed/Securities Loaned. 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 has an active securities borrowed and lending matched book business (Matched Book), in which Oppenheimer borrows securities from one party and lends them to another party. When Oppenheimer borrows securities, Oppenheimer provides cash to the lender as collateral, which is reflected in the Company s financial statements as receivable from brokers and dealers. OPCO earns interest revenues on this cash collateral. Similarly, when Oppenheimer lends securities to another party, that party provides cash to Oppenheimer as collateral, which is reflected in the Company s financial statements as payable to brokers and dealers. Oppenheimer pays interest expense on the cash collateral received from the party borrowing the securities.

Margin Lending. Customers transactions are executed on either a cash or margin basis. In a margin transaction, Oppenheimer extends credit to the customer, 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. Margin lending by Oppenheimer is subject to the margin rules of the Board of Governors of

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the Federal Reserve System, NYSE margin requirements and Oppenheimer s internal policies.

The primary source of funds to finance customers margin account borrowings are collateralized and uncollateralized bank borrowings, funds generated by lending securities on a cash collateral basis in excess of the amount of securities borrowed and free credit balances in customers accounts. Free credit balances in customers accounts, to the extent not required to be segregated pursuant to SEC rules, may be used in the conduct of Oppenheimer s business, including the extension of margin credit. Subject to applicable regulations, interest is paid by Oppenheimer on most, but not all, of such free credit balances awaiting reinvestment by customers. The customer is charged for such margin financing at interest rates derived from the company s base rate as defined, as well as the brokers loan rate, and LIBOR, to which is added an additional amount of up to 2%. To the extent that the use of free credit balances reduces borrowings, interest expense is reduced.

In permitting a customer to purchase securities on margin, Oppenheimer is subject to the risk that a market decline could reduce the value of its collateral below the amount of the customer s indebtedness and that the customer might otherwise be unable to repay the indebtedness.

In addition to monitoring the creditworthiness of its customers, Oppenheimer also considers the trading liquidity and volatility of the securities it accepts as collateral for its margin loans. Trading liquidity and volatility may be dependent, in part, upon the market in which the security is traded, the number of outstanding shares of the issuer, events affecting the issuer and/or securities markets in general, and whether or not there are any legal restrictions on the sale of the securities. Oppenheimer considers all of these factors at the time it agrees to extend credit to customers and continues to review its extensions of credit on an ongoing basis.

The majority of Oppenheimer s margin loans are made to United States citizens or to corporations which are domiciled in the United States. Oppenheimer may extend credit to investors or corporations who are citizens of foreign countries or who may reside outside the United States. Oppenheimer believes that should such foreign investors default upon their loans and should the collateral for those loans be insufficient to satisfy the investors obligations, it may be more difficult to collect such investors outstanding indebtedness than would be the case if investors were citizens or residents of the United States.

Although Oppenheimer attempts to minimize the risk associated with the extension of credit in margin accounts, there is no assurance that the assumptions on which Oppenheimer bases its decisions will be correct or that it is in a position to predict factors or events which will have an adverse impact on any individual customer or issuer, or the securities markets in general.

INVESTMENT BANKING BUSINESS

Oppenheimer offers corporations (primarily middle-market growth companies) a full range of financial advisory services as well as debt, equity, and convertible financing

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services. Products include acquisition financing, private placements and public offerings of debt and equity securities, debt refinancings, restructuring, merger and acquisition and exclusive sales advice, structured financings and securitizations. Investment banking activity involves both economic and regulatory risks. An underwriter may incur losses if it is unable to sell the securities it is committed to purchase or if it is forced to liquidate its commitments at less than the agreed upon purchase price. In addition, under the Securities Act and other laws and court decisions with respect to underwriters liability and limitations on indemnification of underwriters by issuers, an underwriter is subject to substantial potential liability for material misstatements or omissions in prospectuses and other communications with respect to underwritten offerings. Further, underwriting commitments constitute a charge against net capital and Oppenheimer s underwriting commitments may be limited by the requirement that it must, at all times, be in compliance with the Uniform Net Capital Rule 15c3-1 of the SEC.

Oppenheimer intends to continue to pursue opportunities to provide services for its corporate customers, which may require it to finance and/or underwrite the issuance of securities. Under circumstances where Oppenheimer is required to act as an underwriter or to take a position in the securities of its customers, Oppenheimer may assume greater risk than would normally be assumed in its normal trading activity. Oppenheimer also participates as an underwriter in the syndication of issues managed by other securities firms.

INVESTMENT ADVISORY BUSINESS

Oppenheimer (through its Fahnestock Asset Management and OMEGA Group divisions) and OAM provide investment advisory services for a fee to its clients. These equity and debt management service fees are based on the value of the portfolio under management. In addition to the management fee, transactions executed for such accounts may be effected at standard rates of commission or at discounts from Oppenheimer s customary commission schedule.

At December 31, 2004, Oppenheimer and OAM had approximately $10.3 billion under management. The agreements under which the portfolios are managed on behalf of institutions and other investors generally provide for termination by either party at any time.

OAM is a broad-based advisory platform that includes: Investment Advisory Services (IAS), Strategic Asset Review (STAR), and Portfolio Advisory Services (PAS), collectively the consulting services; Oppenheimer Investment Advisors (OIA), core internally managed client accounts; and Alternative Investments Group, non-traditional investment strategies within SEC-registered funds.

Fahnestock Asset Management and OMEGA Group (financial advisor discretionary fee-based advisory accounts) provide customized discretionary investment management services and products to high net worth individuals and families, endowments and foundations and institutions. They seek to provide portfolio management, client service and other financial services in a disciplined manner that is tailored to meet their clients particular needs and objectives.

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Oppenheimer Institutional Management is a newly formed division to offer investment management services to a class of clients that includes corporate pension plans, Taft-Hartley Plans, endowments, and the pension plans of municipal and governmental units. The division is still in formation and has not yet begun offering services. (See Importance of Investment Performance).

Importance of Investment Performance.

The Company believes that investment performance is one of the most important factors for the growth of assets under management for a company in the asset management business. Poor investment performance could impair growth of the Company s asset management business because existing clients might withdraw funds and the Company s ability to attract funds from existing and new clients might diminish.

Investment advisory and administrative contracts are generally terminable at will or upon relatively short notice. Institutional and individual clients can terminate their relationships with an asset manager, reduce the aggregate amount of assets under management, or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, loss of key investment management personnel and financial market performance. In a declining stock market, the withdrawal of assets from accounts could accelerate.

Other Business

The Company operates a mortgage banking business through Evanston Financial Corporation. Evanston is an approved MAP/FHA lender and also a Ginnie Mae approved Multifamily Issuer. Evanston directly provides all aspects of mortgage banking: origination, processing, underwriting, closing, securitizing and servicing of FHA mortgage loans.

RISK MANAGEMENT

For a discussion of risk management, see Item 7A, Quantitative and Qualitative Disclosures about Market Risk .

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 employs approximately 395 persons in its administration and operations departments at its head office, approximately 65 persons in its administration and operations departments in Detroit and over 200 administrative and operations persons located in its branch offices.

There is considerable fluctuation during any year and from year to year in the volume of transactions Oppenheimer must process. Oppenheimer records transactions and posts its

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books on a daily basis. Operations personnel monitor day-to-day operations to assure compliance with applicable laws, rules and regulations. Failure to keep current and accurate books and records can render Oppenheimer liable for disciplinary action by governmental and self-regulatory organizations.

Oppenheimer executes its own and certain of its correspondents securities transactions on all United States exchanges of which it is a member 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 custodian banks.

Oppenheimer believes that its internal controls and safeguards are adequate, although fraud and misconduct by customers and employees and the possibility of theft of securities are risks inherent in the securities industry. As required by the NYSE and certain other authorities, Oppenheimer carries an insurance policy (a broker s blanket bond) covering loss or theft of securities, forgery of checks and drafts, embezzlement, fraud and misplacement of securities. This bond provides coverage of up to an aggregate of $15,000,000 with a self-insurance retention of $1,000,000. Our businesses entail the inherent risk of liability related to litigation from clients or third party vendors and actions taken by regulatory agencies. To help protect against these potential liabilities, we purchase insurance in amounts, and against risks, that we consider appropriate. There can be no assurance, however, that a claim or claims will be covered by insurance or, if covered, will not exceed the limits of available insurance coverage, that any insurer will remain solvent and will meet its obligations to provide us with coverage or that insurance coverage will continue to be available with sufficient limits at a reasonable cost. Over the last several years, insurance expenses have increased and we expect further increases to be significant going forward. In addition, certain insurance coverage may not be available or may only be available at prohibitive costs. Renewals of insurance policies may expose Oppenheimer to additional costs through higher premiums or the assumption of higher deductibles or co-insurance liability.

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 recently been increasing competition from other sources, such as commercial banks, insurance companies 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: merger and acquisition advice, leveraged buy-out financing, merchant banking, and bridge financing, all in direct competition with U.S. broker-dealers. These developments have led to the creation of a greater number of integrated financial services firms that may be able to compete more effectively than Oppenheimer for investment funds by offering a greater range of financial services.

Oppenheimer believes that the principal factors affecting competition in the securities industry are the quality and ability of professional personnel and relative prices of services and products offered. 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 does Oppenheimer.

There is substantial commission discounting by broker-dealers competing for institutional and retail brokerage business. Recently, full service firms have begun offering on-line trading services to their clients at substantial discounts to their regular pricing. Oppenheimer intends to compete in this area, but it is likely to reduce profitability per transaction, unless offset by higher transaction volume. The continuation of such discounting and an increase in the incidence thereof could adversely affect Oppenheimer. However, an increase in the use of discount brokerages could be beneficial to Freedom.

DISASTER RECOVERY

The events of September 11, 2001 heightened the need for comprehensive disaster recovery plans. Disaster recovery plans exist for the Company s critical systems, and redundancies are built into the systems as deemed appropriate. The Company believes that its disaster recovery program, including off-site back-up technology and operational facilities, is adequate to handle a reasonable business disruption. However, there can be no assurances that a disaster directly affecting the Company s headquarters or its operations center would not have a material adverse impact on the Company. Insurance and other safeguards might only partially reimburse the Company for its losses. The Company also uses periodic self-assessments, internal audit reviews and independent consultants as a further check on operational risk and exposure.

The Company maintains disaster recovery procedures and a site remote from its main operations at which it houses back-up facilities to its main operations in New York City. Subsequent to 9/11/01, the Company has substantially upgraded its investment in such procedures and facilities, but there remains substantial risk and uncertainty with respect to the efficacy of such planning due to the complications of moving its personnel and business to any such facility.

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. Much of the regulation of broker-dealers has been delegated to self-regulatory organizations (SROs) such as the NASD and national securities exchanges such as the NYSE and the National Futures Association. The NYSE has been designated Oppenheimer s primary regulator with respect to securities activities and the National Futures Association has been designated Oppenheimer s primary regulator with respect to commodities activities. The CBOE has been designated Oppenheimer s primary regulator with respect to options trading activities. The NASD has been designated Freedom s primary regulator with respect to securities activities. These self-regulatory organizations adopt rules (subject to approval by the SEC or the Commodities Futures Trading Commission (CFTC), as the case may be) governing the industry and conduct periodic examinations of Oppenheimer s and Freedom s operations. 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 Puerto Rico. Oppenheimer is also registered as an International Dealer in Canada.

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 self-regulatory organizations, 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, self-regulatory organizations (including the NYSE) 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, its officers, or employees. These administrative proceedings, whether or not resulting in adverse findings, can require substantial expenditures 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 of broker-dealers.

During the last year, abuses by certain participants in the mutual fund industry, including activities relating to market timing, late trading and selective disclosure of portfolio holdings, prompted legislative and regulatory scrutiny of a wide range of fund-related activities. This scrutiny resulted in the adoption of new rules and a number of legislative and regulatory proposals relating to fund practices. In this regard, the SEC proposed rules designed to strengthen existing prohibitions relating to late trading and adopted rules to enhance required disclosure of market timing and pricing policies. The SEC also adopted and proposed additional rules requiring corporate governance changes including the adoption of compliance policies and the requirement that funds and investment advisors designate a chief compliance officer.

Oppenheimer is also subject to regulation by the SEC and under certain state laws in connection with its business as an investment advisor and in connection with its research department activities.

Margin lending by Oppenheimer is subject to the margin rules of the Board of Governors of the Federal Reserve System and the NYSE. 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. See Customer Lending.

Financial scandals have led to insecurity and uncertainty in the financial markets. In response to these scandals, the Sarbanes-Oxley Act of 2002 effected significant changes to corporate governance, accounting requirements and corporate reporting. This law generally applies to all companies, including us, with equity or debt securities

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registered under the Securities Exchange Act of 1934, as amended (the Exchange Act). We have taken numerous actions, and incurred substantial expenses, over the last year and a half to comply with the Sarbanes-Oxley Act, related regulations promulgated by the SEC and other corporate governance requirements of the NYSE.

NET CAPITAL REQUIREMENTS

As registered broker-dealers and member firms of the NYSE (Oppenheimer) or the NASD (Freedom), the Operating Subsidiaries 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 relatively liquid form.

Oppenheimer elects to compute net capital under an 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 this 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 $250,000, 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 the NYSE, the SEC and other regulatory bodies and ultimately may require its 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 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 (called 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

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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 the 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 of the Operating Subsidiaries or to expand the Company s business.

Item 2. PROPERTIES

The Company maintains offices at 20 Eglinton Avenue West, Toronto, Ontario, Canada for general administrative activities. Most day-to-day management functions are conducted at the executive offices of Oppenheimer at 125 Broad Street, New York, New York. This office also serves as the base for most of Oppenheimer s research, operations and trading and investment banking activities, though other offices also have employees who work in these areas. Investment advisory services are offered from the Company s office at 200 Park Avenue, New York, New York, although other offices also have employees who work in this area. Generally, the offices outside of 125 Broad Street, New York serve as bases for sales representatives who process trades and provide other brokerage services in co-operation with Oppenheimer s New York office using the data processing facilities located there. Freedom conducts its business from its offices located in Edison, N.J., where the Company also maintains its disaster recovery site. 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.

The Company and its subsidiaries own no real property, but at December 31, 2004, occupied office space totaling approximately 930,000 square feet in 84 locations under standard commercial terms expiring between 2005 and 2015. If any leases are not renewed, the Company believes it could obtain comparable space elsewhere on commercially reasonable rental terms.

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 named as defendant or co-defendant in lawsuits creating substantial exposure. The Company is also involved from time to time in governmental and self-regulatory agency investigations and proceedings. There has been an increased incidence of litigation and regulatory investigations in the financial services industry in recent years, including customer claims seeking, in total, substantial damages.

The Company is the subject of customer complaints, has been named as defendant or codefendant in various lawsuits seeking, in total, substantial damages and is involved in certain governmental and self-regulatory agency investigations and proceedings. These proceedings arise primarily from securities brokerage, asset management and investment banking activities. While the ultimate resolution of pending litigation and other matters cannot be currently determined, in the opinion of management, after consultation with legal counsel, the Company has no reason to believe that the resolution of these matters will have a material adverse effect on its financial condition. However, the Company s results of operations could be materially affected during any period if liabilities in that period differ from prior estimates. The materiality of legal matters to the Company s future operating results depends on the level of future results of operations as well as the timing and ultimate outcome of such legal matters.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Class B voting shares (the Class B Shares), the Company s only class of voting securities, are not registered under the Exchange Act and are not required to be registered. The Class B Shares are owned by fewer than 500 shareholders of record. Consequently, the Company is not required under Section 14 of the Exchange Act to furnish proxy soliciting material or an information statement to holders of the Class B Shares. However, the Company is required under applicable Canadian securities laws to provide proxy soliciting material, including a management information circular, to the holders of its Class B Shares.

Pursuant to the Company s Articles of Incorporation, holders of Class A non-voting shares (the Class A Shares), although not entitled to vote thereat, are entitled to receive notices of shareholders meetings and to receive all informational documents required by law or otherwise to be provided to holders of Class B Shares. In addition, holders of Class A Shares are entitled to attend and speak at all meetings of shareholders, except class meetings not including the Class A Shares.

In the event of either a take-over bid or an issuer bid (as those terms are defined in the Securities Act (Ontario)) being made for the Class B Shares and no corresponding offer being made to purchase Class A Shares, the holders of Class A Shares would have no right under the Articles of Incorporation of the Company or under any applicable statute to require that a similar offer be made to them to purchase their Class A Shares.

No matters were submitted to the Company s shareholders during the fourth quarter of the Company s 2004 fiscal year.

PART II

Item 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company s Class A Shares are listed and traded on The New York Stock Exchange (the NYSE) and The Toronto Stock Exchange (the TSX) (trading symbol OPY). The Class B Shares are not traded on any stock exchange in Canada or the United States and, as a consequence, there is only limited trading in the Class B shares. The Company does not presently contemplate listing the Class B Shares in the United States on any national or

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regional stock exchange or on Nasdaq.

The following tables set forth the high and low sales prices of the Class A Shares on the TSX and on the NYSE. Prices provided are in Canadian dollars or U.S. dollars as indicated and are based on data provided by the TSX and the NYSE.

Class A Shares:

	TSX		NYSE	
	HIGH	LOW	HIGH	LOW
	(Cdn. Dollars)		(U.S. dollars)	
2004 1st Quarter	$45.10	$40.90	$34.40	$30.96
2nd Quarter	$42.75	$35.80	$32.22	$26.23
3rd Quarter	$36.75	$30.15	$27.80	$22.70
4th Quarter	$30.00	$27.00	$27.00	$21.25
2003 1st Quarter	$39.20	$33.64	$25.24	$22.06
2nd Quarter	$39.75	$32.90	$29.85	$22.25
3rd Quarter	$40.35	$35.65	$29.30	$25.50
4th Quarter	$46.11	$39.00	$35.10	$29.15

The following table sets forth information about the shareholders of the Company as at December 31, 2004 as set forth in the records of the Company s transfer agent and registrar:

Class A Shares:

Shareholders of record having addresses in:	Number of shares	Percentage	Number of shareholders
Canada	5,115,458	38%	157
United States	8,180,804	62%	170
Other	614		6
Total issued and outstanding	13,296,876	100%	333

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Class B Shares

Shareholders of record having addresses in:	Number of shares	Percentage	Number of shareholders
Canada (1)	97,813	98%	112
United States	1,739	2%	67
Other	128		3
Total issued and outstanding	99,680	100%	182

(1) The Company has been informed that 50,975 Class B shares held by Phase II Financial Limited, an Ontario corporation, are beneficially owned by A.G. Lowenthal, Chairman, CEO and a Director of the Company, a U.S. citizen and resident. See Item 12, Security Ownership of Certain Beneficial Owners and Management .

Dividends

The following table sets forth the frequency and amount of any cash dividends declared on the Company s Class A and Class B Shares for the fiscal years ended December 31, 2004 and 2003 and the first quarter of 2005.

Type	Declaration date	Record date	Payment date	Amount per share
Quarterly	January 24, 2003	February 14, 2003	February 28, 2003	$ 0.09
Quarterly	April 24, 2003	May 9, 2003	May 23, 2003	$ 0.09
Quarterly	July 24, 2003	August 8, 2003	August 22, 2003	$ 0.09
Quarterly	October 24, 2003	November 7, 2003	November 21, 2003	$ 0.09
Quarterly	January 27, 2004	February 6, 2004	February 20, 2004	$ 0.09
Quarterly	April 26, 2004	May 7, 2004	May 21, 2004	$ 0.09
Quarterly	July 27, 2004	August 6, 2004	August 20, 2004	$ 0.09
Quarterly	October 25, 2004	November 5, 2004	November 19, 2004	$ 0.09
Quarterly	January 28, 2005	February 11, 2005	February 25, 2005	$ 0.09

Future dividend policy will depend upon the earnings and financial condition of the Operating Subsidiaries, the Company s need for funds and other factors. Dividends may be paid to holders of Class A Shares and Class B Shares (pari passu), as and when declared by the Company s Board of Directors, from funds legally available therefor.

CERTAIN TAX MATTERS

The following paragraphs summarize certain United States and Canadian federal income tax considerations in connection with the receipt of dividends paid on the Class A and Class B Shares of the Company. These tax considerations are stated in brief and general terms and are based on United States and Canadian law currently in effect. There are other potentially significant United States and Canadian federal income tax considerations and state, provincial or local income tax considerations with respect to ownership and disposition of the Class A and Class B Shares which are not discussed herein. The tax considerations relative to ownership and disposition of the Class A and Class B Shares may vary from taxpayer to taxpayer depending on the taxpayer s particular status. Accordingly, prospective purchasers should consult with their tax advisors regarding tax

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considerations, which may apply to the particular situation.

United States Federal Income Tax Considerations

Dividends on Class A and Class B Shares paid to citizens or residents of the U.S. or to U.S. corporations (including any Canadian federal income tax withheld) will be subject to U.S. federal income taxation as qualified dividends to the extent paid out of the Company s earnings and profits, determined under U.S. tax principles, subject to tax at 15%. Such dividends will not be eligible for the deduction for dividends received by corporations (unless such corporation owns by vote and value at least 10% of the stock of the Company, in which case a portion of such dividend may be eligible for such exclusion).

U.S. corporations, U.S. citizens and U.S. residents will generally be entitled, subject to certain limitations, to a credit against their U.S. federal income tax for Canadian federal income taxes withheld from such dividends. Taxpayers may claim a deduction for such taxes if they do not elect to claim such tax credit. No deduction for foreign taxes may be claimed by an individual taxpayer who does not itemize deductions. Because the application of the foreign tax credit depends upon the particular circumstances of each shareholder, shareholders are urged to consult their own tax advisors in this regard.

Canadian Federal Income Tax Considerations

Dividends paid on Class A and Class B Shares held by non-residents of Canada will generally be subject to Canadian withholding tax. This withholding tax is levied at the basic rate of 25%, although this rate may be reduced by the terms of any applicable tax treaty. The Canada U.S. tax treaty provides that the withholding rate on dividends paid to U.S. residents on Class A and Class B Shares is generally 15%.

Normal Course Issuer Bid

On July 16, 2004, the Company announced that during the year commencing July 22, 2004 it intended to purchase up to 669,000 Class A Shares by way of a Normal Course Issuer Bid through the facilities of the TSX and/or the NYSE, representing approximately 5% of the outstanding Class A Shares. During the fourth quarter of 2004, the Company purchased 1,300 Class A Shares for $22.50 per share in the month of November. The Company purchased 132,100 Class A Shares in 2004 at an average price of $23.62 per share under the current Normal Course Issuer Bid. Any shares purchased by the Company pursuant to the Normal Course Issuer Bid are cancelled. The Company may, at its option, apply to extend the program for an additional year.

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Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial information derived from the audited consolidated financial statements of the Company for the five years ended December 31, 2004. The selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements and notes thereto included elsewhere in this report. In 2003, the Company purchased the U.S. private client and asset management divisions of CIBC World Markets. The 2003 amounts include the assets and liabilities and operating results of the private client division for the entire year and the assets and liabilities and operating results of the asset management division as of and subsequent to June 4, 2003. In 2002, the Company purchased the business of BUYandHOLD Securities Corporation. The 2002 amounts include the assets and liabilities and operating results of BUYandHOLD as of and subsequent to the period after March 12, 2002. In 2001, the Company purchased Josephthal and Prime. The 2001 amounts include the assets and liabilities and operating results of Josephthal and Prime as of and subsequent to the period after September 17, 2001 and November 9, 2001, respectively. See also Item 1, Business and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations . The Company has restated its 2004 financial statements. See Note 1(s) of Notes to Consolidated Financial Statements for further discussion.

	Restated 2004	2003	2002	2001	2000
	(In thousands of U.S. dollars except per share and share amounts)				
Revenue	$ 655,140	$ 689,993	$ 283,333	$ 261,261	$ 316,499
Net profit	$ 21,077	28,696	$ 9,321	$ 19,150	$ 40,901
Net profit per share (1)					
- basic	$ 1.58	$ 2.26	$ 0.75	$ 1.55	$ 3.38
- diluted	$ 1.24	$ 1.65	$ 0.73	$ 1.50	$ 3.29
Total assets	$ 1,806,199	$ 1,701,213	$ 1,031,226	$ 710,275	$ 697,482
Total liabilities	$ 1,499,316	$ 1,421,377	$ 783,590	$ 468,580	$ 475,682
Cash dividends per Class A Share and Class B share	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.31
Shareholders equity	$ 306,883	$ 279,836	$ 247,636	$ 241,695	$ 221,800
Book value per share (1)	$ 22.91	$ 21.66	$ 19.82	$ 19.43	$ 18.34
Number of shares of capital stock outstanding	13,396,556	12,919,200	12,496,687	12,436,765	12,090,649

(1) The Class A Shares and Class B Shares 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.

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

The Company s 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 has restated its 2004 financial statements. See Note 1(s) of Notes to Consolidated Financial Statements for further discussion.

The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, and investment advisory and asset management services. The Company provides its services from 81 offices in 21 states located throughout the United States. The Company conducts business in 2 offices in Latin America through local broker-dealers. Client assets entrusted to the Company as at December 31, 2004 totaled approximately $48 billion. The Company provides investment advisory services through Oppenheimer Asset Management Inc. and Fahnestock Asset Management and OMEGA Group, each of which operates as a division of Oppenheimer. The Company provides trust services and products through Oppenheimer Trust Company. The Company provides discount brokerage services through Freedom Investments Inc. and through BUYandHOLD, a division of Freedom. At December 31, 2004, client assets under management by the asset management groups totaled $10.3 billion. At December 31, 2004, the Company employed approximately 2,854 people full time, of whom 1,667 were financial advisors.

Critical Accounting Policies

The Company s accounting policies are essential to understanding and interpreting the financial results reported in the consolidated financial statements. The significant accounting policies used in the preparation of the Company s consolidated financial statements are summarized in note 1 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.

Valuation of Securities and Other Assets

Substantially all financial instruments are reflected in the consolidated financial statements at fair value or amounts that approximate fair value. These include cash equivalents; deposits with clearing organizations; securities owned; and securities sold but not yet purchased. Where available, the Company uses prices from independent sources such as listed market prices, or broker or dealer price quotations. In addition, even where the value of a security is derived from an independent market price or broker or dealer quote, certain assumptions may be required to determine the fair value. For instance, the Company generally assumes that the size of positions in securities that the Company holds would not be large enough to affect the quoted price of the

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securities if the Company were to sell them, and that any such sale would happen in an orderly manner. However, these assumptions may be incorrect and the actual value realized upon disposition could be different from the current carrying value.

Intangible Assets and Goodwill

Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. SFAS No. 142, Goodwill and Other Intangible Assets, provides that goodwill is no longer amortized and the value of identifiable intangible assets must be amortized over their useful lives, unless the asset is determined to have an indefinite useful life. Goodwill relates to the acquisitions of Oppenheimer, First of Michigan Capital Corporation, Grand Charter Group Incorporated, Josephthal & Co. Inc. and the Oppenheimer divisions and has been allocated to the private client reporting unit pursuant to SFAS No. 142. The Company obtained an independent valuation of assets acquired and liabilities assumed with respect to the acquisition of the Oppenheimer division in 2003. This valuation involved significant estimates, which were based on historical data, revenue projections and industry experience. The Company has identified intangible assets relating to customer relationships, which it is amortizing over their useful lives, and trademarks and trade names, which are being evaluated for impairment on at least an annual basis. The excess cost of the Oppenheimer division is being allocated to goodwill.

The Company reviews its goodwill on at least an annual basis in order to determine whether its value is impaired. Goodwill is impaired when the carrying amount of the reporting unit exceeds the implied fair value of the reporting unit. In estimating the fair value of the reporting unit, the Company uses valuation techniques based on multiples of revenues, earnings, book value and discounted cash flows similar to models employed in analyzing the purchase price of an acquisition target. If the value of the goodwill is impaired, the difference between the value of the goodwill reflected on the financial statements and its current fair value is recognized as an expense in the period in which the impairment occurs.

Reserves

The Company records reserves related to legal proceedings in other payables and accrued expenses . The determination of the amounts of these reserves requires significant judgment on the part of management. Management considers many factors including, but not limited to: the amount of the claim; the amount of the loss in the client s account; the basis and validity of the claim; the possibility of wrongdoing, if any, on the part of an employee of the Company; previous results in similar cases; and legal precedents and case law as well as the timing of the resolution of such matters. Each legal 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 as a charge to results in that period. The assumptions of management in determining the estimates of reserves may be incorrect and the actual disposition of a legal proceeding could be greater or less than the reserve amount.

The Company also records reserves or allowances for doubtful accounts related to receivables from clients and financial consultants. Client loans are collateralized by securities; however, if there is a decline in the value of the collateral and the Company cannot obtain additional collateral or collect on the loan, a reserve is established. The Company also makes loans or pays advances to financial advisors as part of its hiring process. Reserves are established on these receivables if the financial advisor is no longer associated with the Company and the receivable has not been promptly repaid or if it is determined that it is probable the amount will not be collected.

The Company also estimates taxes payable and records income tax reserves. These reserves are based on historic experience and may not reflect the ultimate liability. The Company monitors and adjusts these reserves as necessary.

Asset Management Operations

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, the firm is entitled to receive incentive fees when the return on assets under management exceeds certain benchmark returns or other performance targets. Incentive fees are generally based on investment performance over a 12-month period and are not subject to adjustment once the measurement period ends. Accordingly, incentive fees are recognized in the consolidated statements of earnings when the measurement period ends. Asset management fees and incentive fees are included in Advisory fees in the consolidated statements of earnings. Assets under management are not included as assets of the Company.

Business Environment

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

The Company faced poor market conditions in the second and third quarters of 2004, compared with the same period of 2003, resulting in lower commission business and principal trading revenue in fiscal 2004 compared to fiscal 2003. The Company s expenses in fiscal 2004 are lower compared to fiscal 2003 due primarily to lower variable compensation costs although there has been an increased burden of compliance and regulatory expenses.

Interest rate changes also impact the Company s fixed income businesses as well as its cost of borrowed funds. Fiscal 2004 produced rising rates and a less favorable rate environment compared to the falling interest rate environment in fiscal 2003. Investor interest in fixed income securities is driven by attractiveness of published rates, the direction of rates and economic expectations. Volatility in bond prices also impacts opportunities for profits in fixed income proprietary trading. Management constantly monitors its exposure to interest rate fluctuations to mitigate risk of loss in volatile

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environments.

Regulatory Environment

The brokerage business is subject to regulation by the SEC, the NYSE, the NASD and various state securities regulators. Events in recent years surrounding corporate accounting and other activities leading to investor losses resulted in the enactment of the Sarbanes-Oxley Act and have caused increased surveillance of public companies. New regulations and new interpretations and enforcement of existing regulations are creating increased costs of compliance and increased investment in systems and procedures to comply with these more complex requirements. Investigations by the SEC and state regulators into mutual fund trading practices are another indication of the regulators heightened commitment to enforcement actions. Increasingly, the various states are imposing their own regulations that make the uniformity of regulation a thing of the past, and make compliance more difficult and more expensive to monitor. This regulatory environment has resulted in increased costs of compliance with rules and regulations**,** in particular, the impact of the rules and requirements that were created by the passage of the Patriot Act, and the anti-money laundering regulations (AML) that are related thereto. The Company s increased exposure to regulatory actions could potentially lead to the elimination of, or material changes to, certain lines of business. The expectation is that the increased costs of compliance in today s regulatory environment are not temporary.

Mutual Fund Inquiry
Since the third quarter of 2003, Oppenheimer has been responding to the SEC, the NY State Attorney General and other regulators as part of an industry-wide review of market timing, late trading and other activities involving mutual funds. The Company has answered several document requests and subpoenas and there have been on-the-record interviews of Company personnel. The inquiries have centered on Oppenheimer s activities as a broker/dealer and as a clearing firm. The Company is continuing to cooperate with the governmental and regulatory authorities.

The Company believes that a limited number of its financial advisors may have engaged in activities that are the subject of the SEC s inquiry. There is no evidence that either the Company or its employees were engaged in late trading . The Company continues to closely monitor its mutual fund activities and the activities of its employees. The Company has determined that there is no need to set up any reserves with respect to these inquiries at this time.

Outlook

The Company s long-term plan is to continue to expand existing offices by hiring experienced professionals as well as through the purchase of operating branch offices from other broker dealers, thus maximizing the potential of each office and the development of existing trading, investment banking, investment advisory and other activities. Equally important is the search for viable acquisition candidates. As opportunities are presented, it is the long-term intention of the Company to pursue growth by acquisition where a comfortable match can be found in terms of corporate goals and personnel and at a price

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that would provide the Company s shareholders with incremental value. In the near term, the Company will not be seeking additional significant acquisitions, but will continue to focus its attention on the management of recent acquisitions. In addition, the Company is committed to improving its technology capabilities to support client service and the expansion of its capital markets capabilities.

Results of Operations

The results of the year ended December 31, 2004, compared to the same period of 2003, reflect the comparatively unfavorable market conditions in 2004 compared to 2003 as well as the impact on the 2003 results of transition costs described below.

On January 3, 2003 the Company acquired the U.S. private client business of CIBC World Markets and then on June 4, 2003 acquired the U.S. asset management business of CIBC World Markets (together, the Oppenheimer divisions). The Company began self-clearing substantially all of the private client business at the end of May 2003. Until that time, CIBC provided operational and administrative services to the Company on a transition basis. That arrangement precluded the attainment of certain operating efficiencies and cost savings that became available to the Company post-conversion of the client accounts to the Company s clearing platform.

The U.S. economy has continued to pick up momentum as reflected in growth in fourth quarter GNP. For much of 2004 factors including the Iraq war, the U.S. Presidential election, a slow U.S. economic recovery and the prospect of increasing interest rates kept investor participation in the markets at low levels. After the election, the equity markets experienced a rally that allowed all of the major indexes to close up for the year. The weakness in the U.S. dollar impacted money flows including foreign investment in U.S. markets. It is expected, however, to help corporate earnings for many U.S. corporations with foreign operations. The level of the dollar in relation to other currencies, oil prices and the U.S. deficits will be significant factors in determining the direction of markets in the coming months.

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

	2004	%	2003	%	2002	%
		(Dollars in thousands, except percentages)				
Commissions	$ 327,040	50%	$ 325,071	47%	$ 135,747	48%
Principal transactions, net	112,277	17%	136,672	20%	58,227	21%
Interest	45,418	7%	42,600	6%	27,622	10%
Investment banking	44,804	7%	50,623	7%	22,760	8%
Advisory fees	102,531	16%	80,550	12%	26,365	9%
Arbitration awards	3,900		21,750	3%		
Other	19,170	3%	32,727	5%	12,612	4%
Total revenues	$ 655,140	100%	$ 689,993	100%	$ 283,333	100%

The Company derives most of its revenues from the operations of its principal subsidiaries,

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Oppenheimer and OAM. Although maintained as separate entities, the operations of the Company s brokerage subsidiaries are closely related because Oppenheimer acts as clearing broker and omnibus clearing agent in transactions initiated by Freedom. Except as expressly otherwise stated, the discussion below pertains to the operations of Oppenheimer.

It is important to note when comparing the results of the year ended December 31, 2004, 2003 and 2002, that the 2003 first quarter results were substantially impacted by non-operating items resulting from a favorable arbitration award in the amount of $21,750,000,

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

	Period to Period Change Increase (Decrease)			
	Restated 2004 versus 2003		2003 versus 2002	
	Amount	Percentage	Amount	Percentage
Revenue				
Commissions	$ 1,969	+1%	$ 189,324	+139%
Principal transactions, net	(24,395)	18%	78,445	+135%
Interest	2,818	+7%	14,978	+54%
Underwriting fees	(5,819)	11%	27,863	+122%
Advisory fees	21,981	+27%	54,185	+206%
Arbitration awards	(17,850)	82%	21,750	+100%
Other	(13,557)	41%	20,115	+159%
Total revenue	(34,853)	-5%	406,660	+144%
Expenses				
Compensation	(6,778)	2%	265,215	+156%
Clearing and exchanges fees	(5,188)	25%	11,127	+116%
Communications and data processing	(4,381)	7%	26,425	+80%
Occupancy costs	1,712	+4%	21,868	+82%
Interest	3,045	+18%	8,512	+102%
Other	(10,456)	17%	37,715	+166%
Total expenses	(22,046)	4%	370,862	+137%
Profit before taxes	(12,807)	26%	35,798	+277%
Income taxes	(5,188)	26%	14,649	+273%
Net profit	$ (7,619)	27%	$ 21,149	+280%

Fiscal 2004 (restated) compared to Fiscal 2003

Revenue, other than interest

Commission income and, to a large extent, income from principal transactions depend on investor participation in the markets. In the year ended December 31, 2004, commission revenue increased by 1% compared to fiscal 2003 primarily as a result of overall investor activity in the markets. The markets were relatively robust in the first quarter of 2004, however, investor activity in the markets fell dramatically in the second and third quarters of 2004 only picking up again after the U.S. Presidential election was over. Net revenue from principal transactions decreased by 18% in the year ended December 31, 2004 compared to fiscal 2003 due to the lack of volatility in the equity and fixed income markets as well as lower trading volumes for much of 2004 compared to 2003. Investment banking revenues decreased 11% in the year ended December 31, 2004 compared with fiscal 2003 due to the drop in new issue and secondary issuance in 2004 compared to 2003. Advisory fees increased by 27% for the year ended December 31, 2004 compared to fiscal 2003. The year ended December 31, 2004 includes the operations of Oppenheimer Asset Management Inc. for the full period, while the 2003 comparative period includes results following its acquisition on June 4, 2003. Assets under management by the asset management group were $10.3 billion at December 31, 2004 compared to $9.6 billion at December 31, 2003. Other revenue decreased by 41% in the year ended December 31, 2004 compared to fiscal 2003 due to incentive fees received with respect to 2003 in the amount of $10.7 million compared to approximately $1.4 million in 2004.

Interest

Net interest revenue (interest revenue less interest expense) remained relatively unchanged in the year ended December 31, 2004 compared to fiscal 2003. Interest revenue, which primarily relates to revenue from customer margin balances and securities lending activities, remained relatively unchanged in 2004 from 2003.

Expenses, other than interest

Compensation expense decreased by 2% in the year ended December 31, 2004 compared to fiscal 2003. Compensation expense has volume-related components and, therefore, will increase with the increased level of commission business conducted in the year ended December 31, 2004, compared to fiscal 2003. The amortization of forgivable loans to financial advisors is included in compensation expense. This expense is relatively fixed and is not influenced by increases or decreases in revenue levels. The Company s notes receivable balance peaked in July 2003 as a result of the acquisition of the Oppenheimer divisions, resulting in higher amortization levels beginning in the third quarter of 2003, which will continue through most of 2006. The cost of clearing and exchange fees decreased by 25% in the year ended December 31, 2004 compared to fiscal 2003. The change in the year to year comparison is primarily due to the elimination of clearing costs of approximately $9.4 million associated with the clearing of Oppenheimer private client division customer accounts by CIBC World Markets during the transition period from the January 3, 2003 acquisition date through the May 27, 2003 conversion of client accounts; however, the Company s employment costs and associated expenses for self-clearing this additional business increased when compared to the same periods of 2003. The cost of communications and technology decreased 7% in the year ended December 31, 2004, compared to fiscal 2003 due to costs associated with upgrading the technology base across the firm after the conversion of the Oppenheimer private client division accounts in May 2003. The level of investment tapered off in 2004. Occupancy costs increased by 4% in the year ended December 31, 2004 compared to fiscal 2003. Occupancy costs remained relatively flat in 2004 compared to 2003, without the effect of the restatement.

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The effect of the cumulative impact of the change in accounting for leases with rent escalation clauses and landlord incentives of $2,454,000 (of which $779,000 represents the cumulative effect of the error as at December 31, 2003) was booked in the restated results for the year ended December 31, 2004, resulting in the net increase in occupancy costs compared to the same period in 2003. Other expenses decreased by 17% for the year ended December 31, 2004 compared to fiscal 2003. Included in other expenses in 2004 is approximately $14 million of fee expense paid to third party money managers by OAM ($8 million in 2003); approximately $3.8 million of solicitor fee expense paid to third parties by Oppenheimer for introduced business ($4 million in 2003); approximately $6 million in litigation and legal costs ($15 million in 2003); approximately $2.6 million in audit and accounting fees ($1.7 million in 2003); and a credit of approximately $1 million with respect to bad debt expense ($4.5 million charge in 2003). The Company continued to be affected by litigation settlement costs. Much of the Company s unfavorable litigation experience in the past several years arose from its acquisitions of Josephthal Group Inc. and Prime Charter Inc. in 2001. These matters were substantially resolved by the end of fiscal 2004. The Company may face additional unfavorable judgments in future quarters. The Company has used its best estimate to provide adequate reserves to cover potential litigation losses.

Fiscal 2003 compared to Fiscal 2002

The results of the year ended December 31, 2003, compared to the same period of 2002, reflect the changed face of the Company after the acquisition by the Company on January 3, 2003 and June 4, 2003 of the Oppenheimer divisions. This acquisition more than doubled the Company s private client presence, adding approximately 620 financial advisors in 18 offices, at the date of closing. The number of financial advisors increased to 1,704 at December 31, 2003 compared to 1,102 at December 31, 2002. Client assets entrusted to the Company were approximately $46 billion at December 31, 2003 compared to approximately $17.8 billion at December 31, 2002. The acquisition on June 4, 2003 of the U.S. Asset Management business of CIBC World Markets added new business lines and increased managed assets from approximately $869 million at December 31, 2002 to approximately $9.6 billion at December 31, 2003.

Revenue, other than interest

Commission income (income realized in securities transactions for which Oppenheimer acts as agent) increased by 139% for the year ended December 31, 2003 compared to fiscal 2002. This increase was primarily the result of the additional business generated by the acquired Oppenheimer branches, as well as improved market conditions. Revenues from principal transactions (revenues from transactions in which Oppenheimer acts as principal in the secondary market trading of over-the-counter equities and municipal, corporate and government bonds) increased by 135% for the year ended December 31, 2003 compared to fiscal 2002 due to the business generated by the acquired divisions and stronger activity in the trading of fixed income securities as a result of lower interest rates and higher bond prices in 2003 compared to 2002. Investment banking revenues increased by 122% for the year ended December 31, 2003 compared to fiscal 2002, related to increased participation in the issuance of closed-end funds and debt securities, particularly as a result of the impact of the acquired Oppenheimer divisions. Advisory fees increased

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by 206% for the year ended December 31, 2003 compared to fiscal 2002 primarily as a result of the acquisition of the U.S. Asset Management business of CIBC World Markets in June 2003. In January 2003, the Company was awarded $21,750,000 in an arbitration award in connection with a raiding case involving the sales force of First of Michigan Corporation, a company acquired by the Company in 1997. Other revenue increased by 159% for the year ended December 31, 2003 compared to fiscal 2002 due to incentive fees of $10.7 million in 2003 derived from the OAM business acquired in June 2003.

Interest

Net interest revenue (interest revenue less interest expense) increased by 36% in the year ended December 31, 2003 compared to fiscal 2002 due to an increase in average customer margin balances due to the conversion of the customer accounts of the acquired Oppenheimer branches in May 2003 and lower interest rates in 2003 compared to 2002 and partially offset by interest expense of $7,217,000 on the variable rate exchangeable debentures issued in January 2003 as part of the purchase price of the Oppenheimer divisions.

Expenses, other than interest

Compensation and related expenses in 2003 increased by 156% from 2002. Compensation expense has volume-related components and increased with the increase in commission business conducted in 2003 compared to 2002. In addition, the increase in compensation expense reflects increased retention and severance costs and a general increase in staff levels in both acquired branch offices and in head office departments which were required to handle the business volume of the larger entity. Retention costs relate to the amortization of broker notes acquired and new broker notes issued in January and July as part of the acquisition of the Oppenheimer divisions. Amortization costs of notes receivable amounted to $31.4 million in 2003 compared to $6.3 million in 2002. Clearing and exchange fees in 2003 increased by 116% compared to 2002 due to increased volume generated by the larger post-acquisition sales force. In addition, until May 2003, the business generated from the acquired Oppenheimer branches was being cleared by a third party. The cost of third party clearing is higher than the cost of clearing trades in-house. Transition costs related to clearing amounted to approximately $9.4 million in 2003. Communications and data processing expenses in 2003 increased by 80% compared to 2002 reflecting additional costs of a larger branch system, after the acquisition of the Oppenheimer divisions. Occupancy costs in 2003 increased by 82% compared to 2002 as a result of the increased size of the organization with the acquisition of the Oppenheimer divisions. The increase in communications, technology and occupancy expenses reflects the additional costs associated with connecting and housing approximately 55% more financial consultants in 16 more branch offices in 2003 compared to December 31, 2002, before the acquisitions of the Oppenheimer divisions. During 2003, the Company was able to utilize previously underutilized space and was able to reassign employees to maximize the usage of space. Other expenses increased by 166% in 2003 compared to 2002. The increase relates primarily to increased levels of general and administrative expense due to the larger organization size. Included in other expenses in 2003 is approximately $8 million of fee expense paid to third party money managers by OAM (nil in 2002); approximately $4 million of solicitor fee expense paid by Oppenheimer for introduced business ($nil in 2002); approximately $15 million in litigation and legal costs ($6 million in 2002); approximately $1.7 million in audit and accounting fees ($900,000 in 2002); and approximately $4.5 million with respect to bad debt expense

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($3.3 million in 2002). Over 50% of the legal expenses relate to the Josephthal acquisition which was made in September 2001.

Liquidity and Capital Resources

Total assets at December 31, 2004 increased by approximately 6% from December 31, 2003 due primarily to an increase in receivables from brokers and clearing organizations and partly offset by decreases in receivable from customers, securities owned and notes receivable.

The Company satisfies its need for funds from its own cash resources, internally generated funds, collateralized and uncollateralized borrowings, consisting primarily of bank loans, and uncommitted lines of credit. 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 stock loan balances and changes in notes receivable from employees. Oppenheimer has arrangements with banks for borrowings on an unsecured and on a fully collateralized basis. At December 31, 2004, $2,373,000 of such borrowings were outstanding, a decrease of 97% compared to outstanding borrowings at December 31, 2003. At December 31, 2004, the Company had available collateralized and uncollateralized letters of credit of $124,000,000

In connection with the acquisition of the Oppenheimer divisions, the Company issued debentures in the amount of approximately $161 million and a zero coupon promissory note in the amount of approximately $66 million. The notes to the consolidated financial statements contain a description of these instruments. The debentures, if exchanged, would represent the addition of approximately 35% of the then-issued Class A Shares of the Company. The interest due on the debentures is payable semi-annually and is being financed from internally-generated funds. The principal payments on the zero coupon promissory note are also being financed from internally-generated funds. The Company believes that the necessary internally-generated funds will be available to service these obligations from funds generated by normal operations, including funds generated by the acquired business.

In connection with the acquisition of the Oppenheimer divisions, the Company has arranged a credit facility in the amount of $50 million with CIBC. In January 2003, the Company borrowed $25 million under this facility and borrowed the balance in July 2003. The borrowings were used to finance broker notes and are repayable, together with interest, at the CIBC U.S. base rate plus 2%, over five years or earlier if any broker notes become due earlier. The interest and principal repayments are being made out of internally-generated funds and the Company believes that the cash flow from funds generated by normal operations, including funds generated by the acquired business, will be adequate to enable the Company to meet its obligations. In accordance with the credit arrangement, the Company has provided certain covenants to CIBC with respect to the maintenance of minimum debt/equity ratios and net capital of Oppenheimer. In the Company s view, the most restrictive of the covenants requires that Oppenheimer maintain minimum excess net capital of $100 million. As at December 31, 2004, the Company was in compliance with the covenants. The Company does not foresee any difficulties in complying with the covenants.

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 believes that internally-generated funds from operations are sufficient to finance its expenditure program.

Funding Risk

The following table summarizes the Company s cash flows for the years ended December 31, 2004, 2003 and 2002.

	2004	2003	2002
Cash provided by (used in) operations	$ 125,611	$ (56,693)	$ (3,240)
Cash used in investing activities	$ (10,219)	$ (27,826)	$ (3,633)
Cash provided by (used in) financing activities	$ (116,480)	$ 102,882	$ (1,229)
Net increase (decrease) in cash and cash equivalents	$ (1,088)	$ 18,363	$ (8,102)

The Company was successful in achieving strong cash inflows from operations in 2004 after the major acquisition it undertook in 2003 with the purchase of the Oppenheimer divisions. With this cash flow, in 2004 the Company was able to significantly reduce bank call loans as well as paying down approximately $30 million of long-term debt.

In 2003 the Company experienced large cash out-flows from operations despite strong earnings as it adjusted to the larger size of the post-acquisition business. These out-flows as well as the cash portion of the purchase price of the Oppenheimer divisions were covered by increases in both short and long-term bank borrowings.

Management believes that funds from operations, combined with the Company s capital base and available credit facilities, are sufficient for the Company s liquidity needs in the foreseeable future. (See factors affecting forward-looking statements). However, there is no guarantee that the Company will continue to be able to meet its debt repayment and other obligations.

Other Matters

The Company paid cash dividends to its shareholders totaling $4,828,000, during 2004, from internally-generated cash.

During 2004, the Company purchased a total of 132,100 of its Class A non-voting shares at an average cost of $23.62 per share through the facilities of the New York and Toronto Stock Exchanges by way of a Normal Course Issuer Bid, using internally generated cash. The Company has expressed an intention to purchase up to 669,000 of its shares from time to time between July 22, 2004 and July 21, 2005 from internally generated funds.

Because of the Company s strong financial condition, size and earnings history, management believes adequate sources of credit would be available to finance higher trading volumes, branch expansion, and major capital expenditures, as needed. See

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factors affecting forward-looking statements .

The book value of the Company s Class A and Class B Shares was $22.91 (restated) at December 31, 2004, an increase of approximately 6% compared to book value of $21.66 at December 31, 2003, based on total outstanding shares of 13,396,556 and 12,919,200, respectively.

Off-Balance Sheet Arrangements

Information concerning the Company s off balance sheet arrangements is included in note 15 of the Notes to the Consolidated Financial Statements. Such information is hereby incorporated by reference.

Contractual and Contingent Obligations

The Company has contractual obligations to make future payments in connection with non-cancelable lease obligations, certain retirement plans and debt assumed upon the acquisition of the Oppenheimer divisions.

The following table sets forth these contractual and contingent commitments as at December 31, 2004.

Contractual Obligations	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(In millions of dollars)				
Minimum rentals	$ 160	$ 23	$ 44	$ 35	$ 58
Supplemental Executive Retirement Plan	1			1	
Bank loans	25	10	15		
Debentures	161				161
Zero coupon notes	35	13	14	8	
Total	$ 382	$ 46	$ 73	$ 44	$ 219

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 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.

Newly Issued Accounting Standards

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The Financial Accounting Standards Board issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others , FIN No. 46-R, Consolidation of Variable Interest Entities , SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities , and SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . The Company has adopted these statements and interpretations and their adoption has not had a material impact on its financial results.

In December 2004, the FASB issued a revision to SFAS No. 123, Accounting for Stock-Based Compensation , SFAS No. 123-R, Share-Based Payment . SFAS No. 123-R focuses primarily on transactions in which an entity exchanges its equity instruments for employee services and generally establishes standards for accounting for transactions in which an entity obtains goods or services in share-based transactions. The implementation date for SFAS No. 123-R has recently been extended. Consequently, the Company will commence expensing stock-based compensation awards on January 1, 2006 using the modified prospective method . The Company anticipates that the impact of the adoption of SFAS No. 123-R may be material to its statement of operations.

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 of 1933, as amended (the Act), and Section 21E of the Exchange Act or make oral statements that constitute forward-looking statements. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products, anticipated market performance, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company cautions readers that a variety of factors could cause the Company s actual results to differ materially from the anticipated results or other expectations expressed in the Company s forward-looking statements. These risks and uncertainties, many of which are beyond the Company s control, include, but are not limited to: (i) transaction volume in the securities markets, (ii) the volatility of the securities markets, (iii) fluctuations in interest rates, (iv) changes in regulatory requirements which could affect the cost of doing business, (v) fluctuations in currency rates, (vi) general economic conditions, both domestic and international, (vii) changes in the rate of inflation and the related impact on the securities markets, (viii) competition from existing financial institutions and other new participants in the securities markets, (ix) legal developments affecting the litigation experience of the securities industry, (x) changes in federal and state tax laws which could affect the popularity of products sold by the Company,(xi) the effectiveness of efforts to reduce costs and eliminate overlap, (xii) war and nuclear confrontation, (xiii) the Company s ability to achieve its business plan, and (xiv) corporate governance issues. 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.

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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.

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. 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 NYSE. Generally, Oppenheimer limits customer loans to an amount not greater than 65% of the value of the securities (or

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50% 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 NYSE 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 Item 8, Notes to the Consolidated Financial Statements .

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 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 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. For a discussion of funding risk, see Item 7, Liquidity and Capital Resources .

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.

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.A. Patriot Act. See further discussion on the Company s reserve policy under Item 7, Critical Accounting Policies , Item 3, Legal Proceedings and Item 1, Regulation .

Off-Balance Sheet Arrangements. The Company does not rely on off-balance sheet arrangements or transactions with unconsolidated, special purpose or limited purpose entities to manage risk.

Value-at-Risk

Value-at-risk is a statistical measure of the potential loss in the fair value of a portfolio due

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to adverse movements in underlying risk factors. In response to the Securities and Exchange Commission s market risk disclosure requirements, the Company has performed a value-at-risk analysis of its trading 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. 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, 2004 and 2003, the Company s value-at-risk for each component of market risk was as follows (in thousands of U.S. dollars):

	Fiscal 2004			As at December 31,	
	High	Low	Average	2004	2003
Interest rate risk	$ 147	$ 158	$ 145	$ 158	$ 168
Equity price risk	585	236	368	236	412
Diversification benefit	(167)	(105)	(49)	(105)	(169)
Total	$ 565	$ 289	$ 464	$ 289	$ 411

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 2004 from those reported in 2003 reflect changes in the size and composition of the Company s trading portfolio at December 31, 2004 compared to December 31, 2003, which include a larger position in equities on an overall portfolio which is 18% less than at December 31, 2003. The Company s portfolio as at December 31, 2004 includes approximately $15,097,000 ($15,781,000 in 2003) in corporate equities, which are co-related to deferred compensation liabilities and which do not bear any value-at-risk to the Company. The Company did not use derivative financial instruments to hedge market risk in fiscal 2004 and 2003. Further discussion of risk management appears in Item 7, Management s Discussion and Analysis of the Results of Operations and Item 1, Risk Management .

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.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
OPPENHEIMER HOLDINGS INC.

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Management s Report on Internal Control over Financial Reporting (as restated)

Management of Oppenheimer Holdings Inc. (the Company), is responsible for establishing and maintaining adequate 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.

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; provide reasonable assurance 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.

As of December 31, 2004, 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). Subsequent to filing the Annual Report on Form 10-K for the year ended December 31, 2004, management became aware of errors in the Company s accounting for leases. As a result of the discovery of these errors, the Company, after consultation with the Audit Committee, determined that the audited financial statements included in the Company s Form 10-K for the year ended December 31, 2004 and its unaudited financial statements included in the Form 10-Q s for the quarters ended March 31, June 30 and September 30, 2004 should be restated to correct the errors.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 31, 2004, management has concluded that the Company did not maintain effective controls over the selection and application of its accounting policies related to rent escalations, leasehold improvements and landlord incentives to ensure that such transactions were recorded in accordance with accounting principles generally accepted in the United States of America. Specifically, the deficiency in the Company s controls over the selection and application of its accounting policies failed to identify misstatements in property and equipment, deferred rent liability, rent expense and amortization expense, which resulted in restatements of the Company s 2004 consolidated financial statements and the interim condensed consolidated financial statements for the quarters ended March 31, June 30 and September 30, 2004 as described in Note 1(s) to the consolidated financial statements. Additionally, this control deficiency could result in a misstatement of property and equipment, deferred rent liability, rent expense and amortization expense that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

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Management previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2004. In connection with the restatement described above, management has determined that the material weakness described above existed as of December 31, 2004. Because of this material weakness, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2004 based on the criteria established in *Internal Control Integrated Framework* issued by the COSO. Accordingly, management has restated this report on internal control over financial reporting.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on page 40.

A.G. Lowenthal ,
Chairman of the Board
And Chief Executive Officer

E.K. Roberts ,
President and Treasurer

May 16, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Oppenheimer Holdings Inc.:

We have completed an integrated audit of Oppenheimer Holdings Inc. s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholders equity and cash flows present fairly, in all material respects, the financial position of Oppenheimer Holdings Inc. (the Company) and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1(g), in 2002 the Company adopted the goodwill provisions of Statement of Accounting Standards No. 142, Goodwill and Other Intangibles .

As discussed in Note 1(s), the Company has restated its 2004 financial statements to correct its method of accounting for rent escalations, leasehold improvements, and landlord incentives.

Internal control over financial reporting

Also, we have audited management s assessment, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A, that Oppenheimer Holdings Inc. did not maintain effective internal control over financial reporting as of December 31, 2004, because the Company did not maintain effective controls over the accounting for rent escalations, leasehold improvements, and landlord incentives in accordance with generally accepted accounting principles, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. An

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audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) 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 (iii) 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.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management s assessment. As of December 31, 2004, management has concluded that the Company did not maintain effective controls over the selection and application of accounting policies related to rent escalations, leasehold improvements and landlord incentives to ensure that such transactions were recorded in accordance with accounting principles generally accepted in the United States of America. Specifically, the deficiency in the Company s controls over the selection and application of its accounting policies failed to identify misstatements in property and equipment, deferred rent liability, rent expense and amortization expense, which resulted in the restatements of the 2004 consolidated financial statements and the interim condensed consolidated financial statements for the quarters ended March 31, June 30 and September 30, 2004 as described in Note 1(s) to the consolidated financial statements. Additionally, this control deficiency could result in a misstatement of property and equipment, deferred rent liability, rent expense and amortization expense that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Management and we previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2004. In connection with the restatement of the Company s consolidated financial statements described in Note 1(s) to the consolidated financial statements, management has determined that the material weakness described above existed as of December 31, 2004. Accordingly, Management s Report on Internal Control Over Financial Reporting has been restated and our present opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report.

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In our opinion, management s assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2004 is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Also, in our opinion, because of the effects of the material weakness resulting from the restatement of its financial statements, the Company has not maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

PricewaterhouseCoopers LLP
New York, New York

March 10, 2005, except for the restatement described in Note 1(s) to the consolidated financial statements and the matter described in the fourth and fifth paragraphs of Management s Report on Internal Control Over Financial Reporting, as to which the date is May 16, 2005

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

	Restated 2004	2003
	(Expressed in thousands of U.S. dollars)	
ASSETS		
Cash and cash equivalents	$ 33,390	$ 34,478
Restricted deposits	15,291	14,466
Deposits with clearing organizations	17,006	17,858
Receivable from brokers and clearing organizations	474,523	278,521
Receivable from customers	864,304	906,487
Securities owned, including amounts pledged, at market value	78,445	95,223
Notes receivable	70,070	97,919
Other	53,612	55,706
Stock exchange seats (approximate market value $3,643; $4,968 in 2003)	2,994	2,994
Property, plant and equipment, net	23,545	23,807
Intangible assets, net of amortization	35,130	35,865
Goodwill	137,889	137,889
	$ 1,806,199	$ 1,701,213

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

	Restated 2004	2003
	(Expressed in thousands of U.S. dollars)	
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Drafts payable	$ 59,239	$ 68,148
Bank call loans	2,373	91,500
Payable to brokers and clearing organizations	671,953	467,966
Payable to customers	383,700	406,137
Securities sold, but not yet purchased, at market value	10,536	10,687
Accrued compensation	73,086	88,864
Accounts payable and other liabilities	66,659	35,450
Income taxes payable	2,399	67
Bank loans	24,643	39,655
Long term debt	35,378	50,875
Exchangeable debentures	160,822	160,822
Deferred income tax, net	8,528	1,206
	1,499,316	1,421,377