

OPPENHEIMER HOLDINGS INC

Form 10-Q/A

June 15, 2005

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

**FORM 10-Q/A**

**AMENDMENT NO. 1**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the Quarterly Period ended **September 30, 2004**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-12043

**OPPENHEIMER HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

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 M4R 1K8  
(Address of principal executive offices)  
(Zip Code)

416-322-1515  
(Registrant's telephone number, including area code)

None  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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 October 29, 2004 was 13,276,561 and 99,680 shares, respectively.

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### EXPLANATORY NOTE

This Amendment No. 1 to the Company's Quarterly Report on Form 10-Q is being filed to amend and reflect the restatement of its Condensed Consolidated Financial Statements as of and for the three and nine months ended September 30, 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 Securities and Exchange Commission (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 2004 financial statements, including its financial statements for the 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 quarters ended March 31, 2004, June 30, 2004 and September 30, 2004, as well as the year ended December 31, 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/A for the year ended December 31, 2004, the Company had recorded an immaterial cumulative net adjustment in the fourth quarter of \$355,000. With the restatement of the 2004 quarters, the Company has chosen to record 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 Condensed Consolidated Balance Sheets as at September 30, 2004, as well as its Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Cash Flows and Condensed Consolidated Statements of Shareholders' Equity as well as notes 2, 4, 5, 7 and 12 of Notes to Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2004 to reflect the restatement described above.

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, and reductions of \$1,185,000, \$142,000 and \$179,000, respectively, for the quarters ended March 31, June 30 and September 30, 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 was recorded in the first quarter of 2004.

Accordingly, this Form 10-Q/A should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the original Form 10-Q. In accordance with the rules of the SEC, the affected items of the Form 10-Q, Items 1, 2 and 4 of Part I are being amended and restated in their entirety. Except as described above, no other amendments are being made to the Quarterly Report on Form 10-Q. This Form 10-Q/A does not reflect events occurring after November 3, 2004 or substantively modify or update the disclosure contained in the Form 10-Q in any way other than as required to reflect the amendments described above.

OPPENHEIMER HOLDINGS INC.  
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**PART 1**  
**FINANCIAL INFORMATION**

**Item. 1 Financial Statements**

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	Restated September 30, 2004	December 31, 2003
<i>Expressed in thousands of U.S. dollars</i>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24,868	\$ 34,478
Restricted deposits	13,682	14,466
Deposits with clearing organizations	16,220	17,858
Receivable from brokers and clearing organizations	426,311	278,521
Receivable from customers	851,863	906,487
Securities owned including amounts pledged of \$2,469 (\$1,427 in 2003), at market value	74,771	95,223
Notes receivable	76,161	97,919
Other assets	51,808	63,973
Stock exchange seats (approximate market value \$4,220; \$4,968 in 2003)	2,994	2,994
Property, plant and equipment, net of accumulated depreciation of \$39,225; \$32,150 in 2003	25,214	23,807
Intangible assets, net of amortization	35,314	35,865
Goodwill	137,889	137,889
	<b>\$ 1,737,095</b>	<b>\$ 1,709,480</b>

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

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	Restated September 30, 2004	December 31, 2003
<i>Expressed in thousands of U.S. dollars</i>		
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Drafts payable	\$ 41,505	\$ 68,148
Bank call loans	4,200	91,500
Payable to brokers and clearing organizations	638,774	467,966
Payable to customers	372,123	406,137
Securities sold, but not yet purchased, at market value	13,272	10,687
Accrued compensation	66,049	88,864
Accounts payable and other liabilities	59,294	35,450
Income taxes payable	1,730	67
Bank loans payable	28,872	39,655
Long term debt	39,110	50,875
Exchangeable debentures	160,822	160,822
Deferred tax liability	12,407	9,473
	1,438,158	1,429,644
 <b>Shareholders equity</b>		
<b>Share capital</b>		
13,254,761 Class A non-voting shares (2003 12,819,520 shares)	48,844	41,520
99,680 Class B voting shares	133	133
	48,977	41,653
<b>Contributed capital</b>	8,708	5,966
<b>Retained earnings</b>	241,252	232,217
	298,937	279,836
	\$ 1,737,095	\$ 1,709,480

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

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

	Three Months ended September 30, Restated 2004		Nine Months ended September 30, Restated 2004	
	2003	2004	2003	2004
Expressed in thousands of U.S. dollars, except per share amounts				
<b>REVENUE:</b>				
Commissions	\$ 70,804	\$ 85,762	\$ 241,394	\$ 232,916
Principal transactions, net	22,331	35,822	82,385	102,029
Interest	11,026	10,570	32,185	31,736
Underwriting fees	9,476	12,948	34,082	40,343
Advisory fees	23,503	25,211	75,983	54,971
Arbitration awards	1,200		3,900	21,750
Other	3,981	6,091	12,903	17,907
	142,321	176,404	482,832	501,652
<b>EXPENSES:</b>				
Compensation and related expenses	95,117	114,499	319,083	313,462
Clearing and exchange fees	3,82	3,544	11,593	16,266
Communications	16,821	14,442	42,131	43,649
Occupancy costs	8,254	13,674	38,302	37,859
Interest	4,975	3,973	13,539	11,465
Other	10,845	14,974	36,760	41,155
	139,836	165,106	461,408	463,856
Profit before income taxes	2,485	11,298	21,424	37,796
Income tax provision	1,068	4,682	8,765	15,774
<b>NET PROFIT FOR PERIOD</b>	<b>\$ 1,417</b>	<b>\$ 6,616</b>	<b>\$ 12,659</b>	<b>\$ 22,022</b>
Basic earnings per share	\$ 0.11	\$ 0.52	\$ 0.95	\$ 1.74
Diluted earnings per share	\$ 0.11	\$ 0.36	\$ 0.76	\$ 1.21
Dividends declared per share	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27

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



OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months ended September 30, Restated		Nine Months ended September 30, Restated	
	2004	2003	2004	2003
Expressed in thousands of U.S. dollars				
Cash flows from operating activities:				
Net profit for the period	\$ 1,417	\$ 6,616	\$ 12,659	\$ 22,022
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:				
Non-cash items included in net profit:				
Depreciation and amortization	2,574	2,686	7,627	7,027
Deferred tax liability	3,570	882	2,934	3,346
Tax benefit from employee stock options exercised	34	150	2,742	905
Decrease (increase) in operating assets, net of the effect of acquisitions:				
Restricted deposits	1,637	(37,756)	784	(41,094)
Deposits with clearing organizations	153	(2,219)	1,638	(9,264)
Receivable from brokers and clearing organizations	(95,862)	334,627	(147,790)	180,444
Receivable from customers	32,615	5,497	54,624	(545,346)
Securities owned	7,739	7,896	20,452	(21,591)
Notes receivable	5,926	(11,647)	21,758	(23,241)
Other assets	(6,828)	5,191	12,165	(13,769)
Increase (decrease) in operating liabilities, net of the effect of acquisitions:				
Drafts payable	(6,290)	(21,316)	(26,643)	16,848
Payable to brokers and clearing organizations	64,558	(242,388)	170,808	(118,928)
Payable to customers	65,157	(53,870)	(34,014)	367,309
Securities sold, but not yet purchased	(16,834)	2,132	2,585	5,410
Accrued compensation	(1,440)	28,125	(22,815)	48,304
Accounts payable and other liabilities	10,804	(18,899)	23,842	(5,404)
Income taxes payable	1,730	285	1,663	3,673
Cash (used in) provided by operating activities	70,660	5,992	105,019	(123,349)
Cash flows from investing activities:				
Purchase of the Oppenheimer & Co. divisions				(16,690)
Purchase of fixed assets	(4,114)	(3,993)	(8,481)	(9,106)
Cash used in investing activities	(4,114)	(3,993)	(8,481)	(25,796)

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS    CONTINUED

	Three Months ended September 30, Restated		Nine Months ended September 30, Restated	
	2004	2003	2004	2003
Cash flows from financing activities:				
Cash dividends paid on Class A non-voting and Class B shares	(1,212)	(1,155)	(3,624)	(3,455)
Issuance of Class A non-voting shares	91	870	10,415	7,095
Repurchase of Class A non-voting shares for cancellation	(3,091)		(3,091)	(585)
Zero coupon promissory note repayments	(3,825)	(3,616)	(11,765)	(10,961)
Proceeds from issuance of bank loans		25,000		50,000
Bank loan repayments	(2,564)	(3,389)	(10,783)	(6,246)
(Decrease) increase in bank loans	(61,699)	2,025	(87,300)	153,900
Cash provided by (used in) financing activities	(72,300)	19,735	(106,148)	189,748
Net increase (decrease) in cash and cash equivalents	(5,754)	21,734	(9,610)	40,603
Cash and cash equivalents, beginning of period	30,622	34,984	34,478	16,115
Cash and cash equivalents, end of period	\$ 24,868	\$ 56,718	\$ 24,868	\$ 56,718

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

OPPENHEIMER HOLDINGS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF  
 CHANGES IN SHAREHOLDERS EQUITY (unaudited)

	Three Months ended September 30, Restated		Nine Months ended September 30, Restated	
	2004	2003	2004	2003
Expressed in thousands of U.S. dollars				
<b>Share capital</b>				
Balance at beginning of period	\$ 51,977	\$ 40,111	\$ 41,653	\$ 34,471
Issue of Class A non-voting shares	91	870	10,415	7,095
Repurchase of Class A non-voting shares for cancellation	(3,091)		(3,091)	(585)
Balance at end of period	\$ 48,977	\$ 40,981	\$ 48,977	\$ 40,981
<b>Contributed capital</b>				
Balance at beginning of period	\$ 8,674	\$ 5,783	\$ 5,966	\$ 5,028
Tax benefit from employee stock options exercised	34	150	2,742	905
Balance at end of period	\$ 8,708	\$ 5,933	\$ 8,708	\$ 5,933
<b>Retained earnings</b>				
Balance at beginning of period	\$ 241,047	\$ 221,243	\$ 232,217	\$ 208,137
Net profit for the period	1,417	6,616	12,659	22,022
Dividends	(1,212)	(1,155)	(3,62)	(3,455)
Balance at end of period	\$ 241,252	\$ 226,704	\$ 241,252	\$ 226,704
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>\$ 298,937</b>	<b>\$ 273,618</b>	<b>\$ 298,937</b>	<b>\$ 273,618</b>

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

OPPENHEIMER HOLDINGS INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

**1. Summary of significant accounting policies**

The condensed consolidated financial statements include the accounts of Oppenheimer Holdings Inc. (formerly Fahnstock Viner Holdings Inc.) ( OPY ) and its subsidiaries (together, the Company ). The principal subsidiaries of OPY are Oppenheimer & Co. Inc. (formerly Fahnstock & Co. Inc.) ( Oppenheimer ), a registered broker-dealer in securities, and Oppenheimer Asset Management Inc. ( OAM ), a registered investment advisor under the Investment Advisors Act of 1940. Oppenheimer operates as Fahnstock & Co. Inc. in Latin America. Oppenheimer owns Freedom Investments, Inc. ( Freedom ), a registered broker dealer in securities, which operates its BUY and HOLD division, offering online discount brokerage and dollar-based investing services. 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 s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These accounting principles are set out in the notes to the Company s consolidated financial statements for the year ended December 31, 2003 included in its Annual Report on Form 10-K/A for the year ended December 31, 2003. Disclosures reflected in these condensed consolidated financial statements comply in all material respects with those required pursuant to the rules and regulations of the United States Securities and Exchange Commission ( SEC ) with respect to quarterly financial reporting.

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

Certain prior period amounts in the statement of operations have been reclassified to conform to the current year presentation.

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

**2. Restatements of Prior Period Financial Statements**

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 2004 financial statements, including its financial statements for the 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 quarters ended March 31, 2004, June 30, 2004 and September 30, 2004, as well as the year ended December 31, 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/A for the year ended December 31, 2004, the Company had recorded an immaterial cumulative net adjustment in the fourth quarter of \$355,000. With the restatement of the 2004 quarters, the Company has chosen to record 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 Condensed Consolidated Balance Sheets as at September 30, 2004, as well as its Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Cash Flows and Condensed Consolidated Statements of Shareholders' Equity as well as notes 2, 4, 5, 7 and 12 of Notes to Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2004 to reflect the restatement described above.

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, and reductions of \$1,185,000, \$142,000 and \$179,000, respectively, for the quarters ended March 31, June 30 and September 30, 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 was recorded in the first quarter of 2004.

Unrelated to the restatement of the 2004 financial statements, the Company has reclassified communications and technology expense and occupancy costs for the three and nine months ended September 30, 2004 to conform with current presentation.

The following tables isolate each of the restated amounts in the Company's condensed consolidated financial statements for the three and nine months ended September 30, 2004. The restated amounts also reflect the effect of the restatement of the 2003 financial statements on February 28, 2005, as well as the effect of the matters described above. See the Company's Annual Report on Form 10-K/A for the year ended December 31, 2003 for full details (available on the Company's web site [www.opco.com](http://www.opco.com) on the Investor Relations page).

	September 30, 2004	
	Restated	As originally reported
Condensed Consolidated Balance Sheets:		
Other assets	\$ 51,808	\$ 51,469
Property, plant and equipment, net	\$ 25,214	\$ 21,852
Total assets	\$ 1,737,095	\$ 1,733,394
Accounts payable and other liabilities	\$ 59,294	\$ 51,195
Deferred income tax, net	\$ 12,407	\$ 14,070
Total liabilities	\$ 1,438,158	\$ 1,431,857



	September 30, 2004	
	Restated	As originally reported
Retained earnings	\$ 241,252	\$ 243,852
Total shareholders' equity	\$ 298,937	\$ 301,537
Total liabilities and shareholders' equity	\$ 1,737,095	\$ 1,733,394

	Three months ended September 30, 2004		Nine months ended September 30, 2004	
	Restated	As originally reported	Restated	As originally reported
Condensed Consolidated Statements of Operations:				
Occupancy costs	\$ 8,254	\$ 13,987	\$ 38,302	\$ 42,154
Interest	\$ 4,975	\$ 4,769	\$ 13,539	\$ 12,927
Total expenses	\$ 139,835	\$ 139,527	\$ 461,408	\$ 458,812
Profit before income taxes	\$ 2,485	\$ 2,794	\$ 21,424	\$ 24,020
Income tax provision	\$ 1,068	\$ 1,198	\$ 8,765	\$ 9,856
Net profit for period	\$ 1,417	\$ 1,596	\$ 12,659	\$ 14,164
Basic earnings per share	\$ 0.11	\$ 0.12	\$ 0.95	\$ 1.06
Diluted earnings per share	\$ 0.11	\$ 0.12	\$ 0.76	\$ 0.83

Condensed Consolidated Statements of Changes in Shareholders' Equity:

Net profit for period	\$ 1,417	\$ 1,596	\$ 12,659	\$ 14,164
Retained earnings, end of period	\$ 241,252	\$ 243,852	\$ 241,252	\$ 243,852
Total shareholders' equity	\$ 298,937	\$ 301,537	\$ 298,937	\$ 301,537

	Three months ended September 30, 2004		Nine months ended September 30, 2004	
	Restated	As originally reported	Restated	As originally reported
Condensed Consolidated Statements of Cash Flows:				
Net profit for period	\$ 1,417	\$ 1,596	\$ 12,659	\$ 14,164
Depreciation and amortization	\$ 2,574	\$ 2,478	\$ 7,627	\$ 7,368
Deferred tax liability, net	\$ 3,570	\$ 3,699	\$ 2,934	\$ 4,597
Other assets	\$ (6,828)	\$ (6,603)	\$ 12,165	\$ 12,141
Accounts payable and other liabilities	\$ 10,805	\$ 7,735	\$ 23,843	\$ 17,338
Cash provided by (used in) operating activities	\$ 70,660	\$ 68,028	\$ 105,019	\$ 101,400
Purchase of fixed assets	\$ (4,113)	\$ (1,482)	\$ (8,481)	\$ (4,862)
Cash used in investing activities	\$ (4,113)	\$ (1,482)	\$ (8,481)	\$ (4,862)

### 3. Recent Accounting Pronouncements

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. 46R, 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 did not have a material impact on its consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

The Company has reviewed SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, and has adopted the disclosure provisions, but does not intend to adopt the other provisions of this standard at this time.



#### 4. Stock based compensation

The following presents the pro forma income and earnings per share impact, using a fair-value-based calculation, of the Company's stock-based compensation. Amounts are expressed in thousands of U.S. dollars except per share amounts.

	Three Months ended September 30, Restated		Nine Months ended September 30, Restated	
	2004	2003	2004	2003
Net profit, as reported	\$ 1,417,000	\$ 6,616,000	\$ 12,659,000	\$ 22,022,000
Stock-based employee compensation expense included in reported net income				
Additional compensation expense	390,000	455,000	1,171,000	1,352,000
Pro forma net profit	\$ 1,027,000	\$ 6,161,000	\$ 11,488,000	\$ 20,670,000
Basic profit per share, as reported	\$ 0.11	\$ 0.52	\$ 0.95	\$ 1.74
Diluted profit per share, as reported	\$ 0.11	\$ 0.36	\$ 0.76	\$ 1.21
Pro forma basic profit per share	\$ 0.08	\$ 0.48	\$ 0.86	\$ 1.63
Pro forma diluted profit per share	\$ 0.08	\$ 0.34	\$ 0.70	\$ 1.14

For purposes of the pro forma presentation, the Company determined fair value using the Black-Scholes option pricing model. The weighted average fair value of options granted during the three and nine months ended September 30, 2004 and 2003, respectively, was nil and \$121,000, respectively and \$2,309,000 and \$1,239,000, respectively. The fair value is being amortized over five years on an after-tax basis, where applicable, for purposes of pro forma presentation. Stock options generally expire five years after the date of grant or three months after the date of retirement, if earlier. Stock options generally vest over a five year period with 0% vesting in year one, 25% of the shares becoming exercisable on each of the next three anniversaries of the grant date and the balance vesting in the last six months of the option life. The vesting period is at the discretion of the Compensation and Stock Option Committee and is determined at the time of grant.

#### 5. Earnings per share

Earnings per share was computed by dividing net profit by the weighted average number of Class A non-voting shares ( Class A Shares ) and Class B voting shares ( Class B Shares ) outstanding. Diluted earnings per share includes the weighted average Class A and Class B Shares outstanding and the effects of exchangeable debentures using the if converted method and Class A Share options using the treasury stock method.

Earnings per share has been calculated as follows:

	Three Months ended September 30,		Nine Months ended September 30,	
	Restated 2004	2003	Restated 2004	2003
<b>Basic weighted average number of shares outstanding</b>	13,442,014	12,835,795	13,384,113	12,690,313
<b>Net effect, if converted method (1)</b>		6,932,000	6,932,000	6,932,000
<b>Net effect, treasury method</b>	84,328	333,199	204,690	262,339
<b>Diluted common shares (2)</b>	13,526,342	20,100,994	20,520,804	19,884,651
<b>Net profit for the period, as reported</b>	\$ 1,417,000	\$ 6,616,000	\$ 12,659,000	\$ 22,022,000
<b>Effect of dilutive exchangeable debentures</b>		680,000	2,840,000	2,040,000
<b>Net profit available to shareholders and assumed conversions</b>	\$ 1,417,000	\$ 7,296,000	\$ 15,499,000	\$ 24,062,000
<b>Basic earnings per share</b>	\$ 0.11	\$ 0.52	\$ 0.95	\$ 1.74
<b>Diluted earnings per share</b>	\$ 0.11	\$ 0.36	\$ 0.76	\$ 1.21

(1) As part of the consideration for the 2003 acquisition of the Oppenheimer divisions, the Company issued First and Second Variable Rate Exchangeable Debentures which are exchangeable for approximately 6.9 million Class A Shares of the Company at the rate of \$23.20 per share (approximately 35% of the outstanding Class A Shares, if exchanged). In the three months ended September 30, 2004, the net effect of the if converted method is anti-dilutive and has therefore not been reflected in the calculation of diluted earnings per share for the quarter.

(2) The diluted EPS computations do not include the antidilutive effect of the following options:

	Three Months ended September 30,		Nine Months ended September 30,	
	2004	2003	2004	2003
Number of antidilutive options, for the period	904,000	298,000	506,000	333,000

**6. Securities owned and securities sold, but not yet purchased (at fair market value)**

	September 30, 2004	December 31, 2003
Securities owned consist of:		
Corporate equities	\$ 32,388,000	\$ 34,877,000
Corporate and sovereign debt	16,048,000	24,962,000
U.S. government and agency and state and municipal government obligations	23,198,000	32,070,000
Money market funds and other	3,137,000	3,314,000
	\$ 74,771,000	\$ 95,223,000
	September 30, 2004	December 31, 2003
Securities sold, but not yet purchased consist of:		
Corporate equities	\$ 8,012,000	\$ 3,128,000
Corporate debt	3,296,000	5,115,000
U.S. government and agency and state and municipal government obligations and other	1,964,000	2,444,000
	\$ 13,272,000	\$ 10,687,000

Securities owned and securities sold, but not yet purchased, consist of trading securities at fair market values. Included in securities owned at September 30, 2004 are securities with fair market values of approximately \$15,398,000 (\$15,781,000 at December 31, 2003), which are related to deferred compensation liabilities to employees of the U.S. Private Client and Asset Management Divisions of CIBC World Markets acquired by the Company in 2003 (the Oppenheimer divisions ). At September 30, 2004, the Company has pledged securities owned of approximately \$2,469,000 (\$1,427,000 at December 31, 2003) as collateral to counterparties for stock loan transactions, which can be sold or repledged.

**7. Long term debt and exchangeable debentures**

Issued	Maturity Date	Interest Rate	September 30, 2004
Bank loans (a)	1/2/2008	6.5%	\$ 28,872,000
Less current portion			10,119,000
Long term portion of bank loans			\$ 18,753,000
Zero Coupon Promissory Note, issued January 2, 2003 (b)		0%	\$ 39,110,000
Less current portion			11,900,000
Long term portion of long-term debt			\$ 27,210,000
First and Second Variable Rate Exchangeable Debenture, issued January 6, 2003 (c)	1/2/2013	4.5%	\$ 160,822,000

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(a) Bank loans are subject to a credit arrangement with Canadian Imperial Bank of Commerce ( CIBC ) dated January 2, 2003 in the aggregate amount of \$50 million dollars, and bear interest at the U.S. base rate plus 2% per annum. The minimum annual principal repayment under the agreement is approximately \$10,119,000. The principal repayments are tied to certain employee notes receivable issued during 2003 and repayments above the minimum level are triggered by the termination of employment of these employees. 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. As at September 30, 2004, the Company was in compliance with the covenants. Interest expense on bank loans was \$518,000 and \$665,000, respectively, and \$1,624,000 and \$1,346,000, respectively, for the three and nine months ended September 30, 2004 and 2003, respectively.

(b) The Zero Coupon Promissory Note is repayable as related employee notes receivable, which are assigned to Oppenheimer, become due or are forgiven. Such payments are to be made notwithstanding whether any of the employees loans default.

(c) The First and Second Variable Rate Exchangeable Debentures are exchangeable for approximately 6.9 million Class A Shares of the Company at the rate of \$23.20 per share. The annual interest rate is 3% in 2003, 4% in 2004 2006, and 5% in 2007 through maturity. The First and Second Variable Rate Exchangeable Debentures, which mature on January 2, 2013, contain a retraction clause, which may be activated by the holder for a period of 120 days at the end of year seven. Interest is payable semi-annually in June and December. Under the interest method, the effective annual interest rate over the life of the first and second variable rate exchangeable debentures is 4.5%. The interest method was adopted in the fourth quarter of 2003. Interest expense on the First and Second Variable Rate Exchangeable Debentures was \$1,849,000 and \$1,173,000,

respectively, and \$5,508,000 and \$3,518,000, respectively, for the three and nine months ended September 30, 2004 and 2003, respectively.

## **8. Net Capital Requirements**

The Company's major subsidiaries, Oppenheimer and Freedom, are subject to the uniform net capital requirements of the SEC under Rule 15c3-1 (the "Rule"). Oppenheimer computes its net capital requirements under the alternative method provided for in the Rule which requires that Oppenheimer maintain net capital equal to two percent of aggregate customer-related debit items, as defined in SEC Rule 15c3-3. At September 30, 2004, the net capital of Oppenheimer as calculated under the Rule was \$193,087,000 or 19.1% of Oppenheimer's aggregate debit items. This was \$172,876,000 in excess of the minimum required net capital. Freedom computes its net capital requirement under the basic method provided for in the Rule, which requires that Freedom maintain net capital equal to the greater of \$250,000 or 6 2/3% of aggregate indebtedness, as defined. At September 30, 2004, Freedom had net capital of \$4,757,000, which was \$4,507,000 in excess of the \$250,000 required to be maintained at that date.

## **9. Securities lending activities**

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received.

Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. The Company receives cash or collateral in an amount generally in excess of the market value of securities loaned.

The Company monitors the market value of securities borrowed and loaned on a daily basis and may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Included in receivable from brokers and clearing organizations are deposits paid for securities borrowed of \$334,576,000 (at December 31, 2003 - \$237,329,000). Included in payable to brokers and clearing organizations are deposits received for securities loaned of \$601,817,000 (at December 31, 2003 - \$444,977,000).

## **10. Financial instruments with off-balance sheet risk and concentration of credit risk**

In the normal course of business, the Company's securities activities involve execution, settlement and financing of various securities transactions. These activities may expose the Company to risk in the event customers, other brokers and dealers, banks, depositories or clearing organizations are unable to fulfill their contractual obligations.

The Company is exposed to off-balance sheet risk of loss on unsettled transactions in the event customers and other counterparties are unable to fulfill their contractual obligations. It is the Company's policy to periodically review, as necessary, the credit standing of each counterparty with which it conducts business.

Securities sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and thereby create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk, as the Company's

ultimate obligation to satisfy the sale of securities sold, but not yet purchased may exceed the amount recognized on the balance sheet. Securities positions are monitored on a daily basis.

The Company's customer financing and securities lending activities require the Company to pledge customer securities as collateral for various financing sources such as bank loans and securities lending. At September 30, 2004, the Company had approximately \$1.3 billion of customer securities under customer margin loans that are available to be pledged of which the Company has repledged approximately \$358,734,000 under securities loan agreements. In addition, the Company has received collateral of approximately \$324,126,000 under securities borrow agreements of which the Company has repledged approximately \$240,589,000 as collateral under securities loan agreements. Included in receivable from brokers and clearing organizations are receivables from four major U.S. broker-dealers totaling \$196,078,000.

The Company monitors the market value of collateral held and the market value of securities receivable from others. It is the Company's policy to request and obtain additional collateral when exposure to loss exists. In the event the counterparty is unable to meet its contractual obligation to return the securities, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices.

At September 30, 2004, the Company had outstanding commitments to buy of \$1,269,000 primarily of mortgage-backed securities on a when issued basis. These commitments have off-balance sheet risks similar to those described above.

The Company has a clearing arrangement with Pershing LLC to clear certain transactions in foreign securities. Accordingly, the Company has credit exposures with this clearing broker. The clearing broker can rehypothecate the securities held on behalf of the Company. The clearing broker has the right to charge the Company for losses that result from a client's failure to fulfill its contractual obligations. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. At September 30, 2004, the Company had recorded no liabilities with regard to this right. The Company's policy is to monitor the credit standing of this clearing broker, all counterparties and all clients with which it conducts business.

## **11. Related Party Transactions**

The Company had notes and accounts receivable from employees, net of reserves, of approximately \$76,161,000 at September 30, 2004, which are recorded at face value net of accumulated amortization. These amounts will be forgiven over a service period from the initial date of the loan or based on productivity levels of employees with respect to certain of these notes receivable and are contingent on the employee's continued employment with the Company. The unforgiven portion of the notes become due and payable on demand in the event the employee departs during the service period.

The Company does not make loans to its officers and directors except under normal commercial terms pursuant to client margin account agreements. These loans are fully collateralized by such employee-owned securities.

**12. Segment Information**

The table below presents information about the reported operating income of the Company for the periods noted, in accordance with the method described in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The Company's business is conducted primarily in the United States. Asset information by reportable segment is not reported, since the Company does not produce such information for internal use.

	Three Months ended September 30, Restated		Nine Months ended September 30, Restated	
	2004	2003	2004	2003
Expressed in thousands of dollars				
Revenue:				
Private Client	\$ 106,985	\$ 133,530	\$ 371,368	\$ 386,000
Capital Markets	22,025	27,707	70,129	96,472
Asset Management	12,816	13,923	38,026	15,965
Other	495	1,244	3,309	3,215
Total	\$ 142,321	\$ 176,404	\$ 482,832	\$ 501,652
Operating Income:				
Private Client	\$ 2,733	\$ 3,707	\$ 23,313	\$ 1,259
Capital Markets	4,109	5,388	13,358	16,992
Asset Management	864	2,028	638	2,404
Other *	(5,221)	175	(15,885)	17,141
Total	\$ 2,485	\$ 11,298	\$ 21,424	\$ 37,796

\* Losses in the Other segment in 2004 reflect the increasing burden of compliance in today's regulatory environment, the costs of financing long-term debt, as well as ongoing litigation settlement costs relating to past acquisitions. The Other segment in the nine months ended September 30, 2003 includes the impact of the favorable arbitration award received in January 2003.

## **Item 2. 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. Reference is also made to the Company's consolidated financial statements and notes thereto found in its Annual Report on Form 10-K/A for the year ended December 31, 2003. The Company has restated its 2004 financial statements. See Note 2 of the Notes to the Condensed 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 83 offices in 22 states located throughout the United States. The Company conducts business in South America through local broker-dealers. Client assets entrusted to the Company as at September 30, 2004 totaled approximately \$45.6 billion. The Company provides investment advisory services through Oppenheimer Asset Management Inc. and Fahnstock Asset Management, operating 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 BUY and HOLD, a division of Freedom. At September 30, 2004, client assets under management by the asset management groups totaled \$9.3 billion. At September 30, 2004, the Company employed approximately 2,900 people, of whom 1,542 were financial consultants.

### **Critical Accounting Policies**

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

During the nine months ended September 30, 2004, there were no material changes to matters discussed under the heading "Critical Accounting Policies" in Part II, Item 7 of the Company's Annual Report on Form 10-K/A for the year ended December 31, 2003.

### **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 difficult market conditions in the third quarter of 2004, compared with the same period of 2003, with commission business, principal trading and net interest revenue in the third quarter of 2004 lagging the prior year. While the U.S. economy has continued to expand, the lack of significant new job creation, the record trade and budget deficits, and the troubled geopolitical environment have placed a pall over securities markets during the first nine months of 2004. The third quarter of 2004 was marked by one of the slowest summer periods in recent years, depressed market sentiment and low activity levels. Investors' focus on the presidential election, rapidly rising oil prices and interest rate concerns led to lower commission revenues, lower proprietary trading profits, as well as reduced underwriting revenue and advisory fee income compared to the same period in 2003. The Company's expenses in the three and nine months ended September 30, 2004 are lower compared to the same periods of 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. The three and nine months of 2004 produced higher rates and a less favorable rate environment compared to the falling interest rate environment in the same periods of 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 environments.

The Company is focused on growing its private client and asset management businesses through strategic additions of experienced financial consultants in its existing branch system and employment of experienced money management personnel in its asset management business. In addition, the Company is committed to improvement of its technology capability to support client service and the expansion of its capital markets capabilities.

#### 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 and onerous 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 has conducted its own investigation and is continuing to cooperate with the investing entities.

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.

### Results of Operations

Net profit for the three and nine months ended September 30, 2004 (restated) was \$1,417,000 or \$0.11 per share and \$12,659,000 or \$0.95 per share, respectively, a decrease of 79% and 43%, respectively, when compared to \$6,616,000 or \$0.52 per share and \$22,022,000 or \$1.74 per share, respectively, in the same periods of 2003. Revenue for the three and nine months ended September 30, 2004 was \$142,321,000 and \$482,832,000, respectively, a decrease of 19% and 4%, respectively, compared to revenue of \$176,404,000 and \$501,652,000, respectively, in the same periods of 2003. Expenses decreased by 16% and 1%, respectively, in the three and nine months ended September 30, 2004 compared to the same periods of 2003, primarily reflecting decreased volume-related compensation expense, which varies with the level of commission revenue.

It is important to note when comparing the results of the nine months ended September 30, 2004 (restated) and 2003, 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, litigation costs from cases involving firms acquired in 2001 of approximately \$5 million, and write-downs of approximately \$1.2 million (netting to approximately \$15.5 million). In addition, during the first five months of 2003, the Company's results were impacted by higher expenses paid to CIBC for clearing and other services for the U.S. private client business, which was acquired from them in January 2003. The business was transferred to the Company's platform and facilities at the end of May 2003.

The following table and discussion summarizes the changes in the major revenue and expense categories for the periods presented (in thousands of dollars):

	Period to Period Change Increase (Decrease)			
	Three Months ended September 30, 2004 (Restated) versus 2003		Nine Months ended September 30, 2004 (Restated) versus 2003	
	Amount	Percentage	Amount	Percentage
Revenue -				
Commissions	\$ (14,958)	-17.4%	\$ 8,478	3.6%
Principal transactions, net	(13,491)	-37.7%	(19,644)	-19.3%
Interest	456	4.3%	449	1.4%
Underwriting fees	(3,472)	-26.8%	(6,261)	-15.5%
Advisory fees	(1,708)	-6.8%	21,012	38.2%
Arbitration awards	1,200	100.0%	(17,850)	-82.1%
Other	(2,110)	-34.7%	(5,004)	-27.9%
Total revenue	(34,083)	-19.3%	(18,820)	-3.8%
Expenses -				
Compensation	(19,382)	-16.9%	5,621	1.8%
Clearing and exchanges fees	279	7.9%	(4,673)	-28.7%
Communications	2,379	16.5%	(1,518)	-3.5%
Occupancy costs	(5,420)	-39.6%	443	1.2%
Interest	1,002	25.2%	2,074	18.1%
Other	(4,129)	-27.6%	(4,395)	-10.7%
Total expenses	(25,271)	-15.3%	2,448)	-0.5%
Profit before taxes	(8,813)	-78.0%	(16,372)	-43.3%
Income taxes	(3,614)	-77.2%	(7,009)	-44.4%
Net profit	\$ (5,199)	-78.6%	\$ (9,363)	-42.5%
<i>Revenue, other than interest</i>				

Commission income and, to a large extent, income from principal transactions depend on investor participation in the markets. In the three months ended September 30, 2004, commission revenue decreased by 17% compared to the same period of 2003 primarily as a result of decreased investor activity in the markets. In the nine months ended September 30, 2004, commission revenue increased by 4% compared to the same period of 2003 due to a reasonably strong first quarter in 2004. However, investor activity in the markets fell dramatically in the second and third quarters of 2004. Net revenue from principal transactions decreased by 38% and 19%, respectively, in the three and nine months ended September 30, 2004 compared to the comparable periods of 2003 due to the lack of volatility in the equity and fixed income markets as well as lower trading volumes in 2004 compared to 2003. Investment banking revenues decreased 27% and 16%, respectively, in the three and nine months ended September 30, 2004 compared with the same periods of 2003 due to the drop in new issue and secondary issuance in 2004 compared to 2003. Advisory fees decreased by 7% for the three months ended September 30, 2004 but increased by 38% for the nine months

ended September 30, 2004 compared to the same periods of 2003. The third quarter of 2004's results reflected current listless market conditions compared to the comparable period of 2003. The nine months ending September 30, 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 \$9.3 billion at September 30, 2004 and 2003.

### *Interest*

Net interest revenue (interest revenue less interest expense) decreased by 8% in the three and nine months ended September 30, 2004 (restated). Interest revenue, which primarily relates to revenue from customer margin balances and securities lending activities, remained relatively unchanged in 2004 as in 2003. Interest expense includes the interest cost relating to the variable rate exchangeable debentures, which bear an effective annual interest rate of 4.5%. In the three and nine months ended September 30, 2003, the interest expense on the debentures was expensed at the actual rate of 3%. A cumulative net adjustment of \$1,095,000 was recorded in the fourth quarter of 2003 to record the 2003 expense based on the effective annual interest rate.

### *Expenses, other than interest*

Compensation expense decreased by 17% in the three months ended September 30, 2004 and increased by 2% for the nine months ended September 30, 2004 compared to the comparable periods of 2003. Compensation expense has volume-related components and, therefore, decreased with the decreased level of commission business conducted in the three months ended September 30, 2004, compared to the comparable period of 2003. The amortization of forgivable loans to brokers is included in compensation expense and contributed to the increase in compensation expense in the nine months ended September 30, 2004, compared to the comparable period in 2003. 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 increased by 8% in the three months ended September 30, 2004 and decreased by 29% in the nine months ended September 30, 2004, compared to the comparable periods of 2003. The change in the year to date comparison is primarily due to the elimination of higher costs associated with the clearing of Oppenheimer private client division customer accounts by CIBC World Markets during the transition period through May 27, 2003; 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 increased by 17% in the three months ended September 30, 2004 and decreased by 4%, respectively, in the nine months ended September 30, 2004, compared to the comparable periods of 2003 due to the costs associated with upgrading the technology base across the firm after the conversion of the Oppenheimer private client division accounts in May 2003. Occupancy costs decreased by 40% in the three months ended September 30, 2004 and increased by 1% in the nine months ended September 30, 2004 compared to the same periods of 2003. On the year to date comparison, the change is primarily due to the additional cost of space placed under lease to house new employees added to support services for the larger business entity, beginning in June 2003. On the three month comparison, occupancy costs have been aggressively addressed and previously underutilized space has been refitted and occupied and overlapping offices have been integrated, resulting in a reduction in occupancy-related expenses in

2004 compared to 2003. Other expenses continue to be affected by litigation settlement costs, although to a lesser degree in the third quarter of 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.

#### Liquidity and Capital Resources

Total assets at September 30, 2004 (restated) increased by approximately 1% from December 31, 2003 with increases in receivable from brokers and clearing organizations being offset by decreases in every other liquid asset category. 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 as well as bonded debt. 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 September 30, 2004, \$4,200,000 of such borrowings were outstanding, a decrease of 95% compared to outstanding borrowings at December 31, 2003. At September 30, 2004, the Company had available collateralized and uncollateralized letters of credit of \$132,000,000.

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 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 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 retention 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 September 30, 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.

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).

In the third quarter of 2004, the Company purchased 130,800 Class A Shares pursuant to a Normal Course Issuer Bid (which commenced on July 22, 2004, and will terminate on July 21, 2005) at an average cost per share of \$23.63.

On August 20, 2004, the Company paid cash dividends of U.S.\$0.09 per Class A and Class B Share totaling \$1,212,000 from available cash on hand.

On October 25, 2004, the Board of Directors declared a regular quarterly cash dividend of U.S. \$0.09 per Class A and Class B Share payable on November 19, 2004, to shareholders of record on November 5, 2004.

The book value of the Company's Class A and Class B Shares was \$22.38 at September 30, 2004 (restated) compared to \$21.24 at September 30, 2003, an increase of approximately 5%, based on total outstanding shares of 13,354,441 and 12,880,020, respectively.

#### 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 Josephthal & Co. Inc.

The following table sets forth these contractual and contingent commitments as at June 30, 2004:

#### Contractual Obligations (In millions of dollars)

	2004	2005	2006	2007	Thereafter	Total
Minimum rentals	\$ 6	\$ 22	\$ 22	\$ 20	\$ 89	\$ 159
Supplemental Executive Retirement Plan	1					1
Assumed Josephthal notes	1	1				2
Bank loans	3	10	10	6		29
Debentures					161	161
Zero coupon notes	3	12	12	12		39
Total	14	45	44	38	250	391

### Newly Issued Accounting Standards

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. 46R, 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 did not have a material impact on its consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

The Company has reviewed SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, and has adopted the disclosure provisions, but does not intend to adopt the other provisions of this standard at this time.

### Factors Affecting Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements relate to anticipated financial performance, future revenues or earnings, the results of litigation, business prospects and anticipated market performance of the Company. 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 and manner 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 or economic developments affecting the litigation experience of the securities industry or the Company, (x) changes in federal and state tax laws which could affect the popularity of products and services 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.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

During the three months ended September 30, 2004, there were no material changes to the information contained in Part II, Item 7A of the Company's Annual Report on Form 10-K/A for the year ended December 31, 2003.

### **ITEM 4. Controls and Procedures (as restated)**

The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15e of the Securities Exchange Act of 1934, as amended (the Exchange Act). That evaluation included a review of the Company's real estate lease accounting procedures and resulted in the discovery of accounting errors by the Company which required the restatement of its 2004 financial statements. As a result of the discovery of these errors, the Company, after consultation with the Audit Committee, decided 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. In connection with this restatement, which is described in Note 2 to the financial statements, management has concluded the material weakness described below existed as of the end of such period and that its disclosure controls and procedures were ineffective as of that date. However, as of the date of filing, the Company has done a comprehensive review of existing leases and believes that amounts are recorded properly.

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 September 30, 2004, management has concluded that the Company's controls over its accounting policies related to rent escalations and landlord incentives were ineffective to ensure that such transactions were recorded in accordance with accounting principles generally accepted in the United States of America. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

The Company has addressed the material weakness in internal control over financial reporting and the ineffectiveness of its disclosure controls and procedures by conducting a review of accounting related to real estate leases and establishing new procedures (none of which the Company considers material) to ensure that new leases and landlord incentives are properly handled by the accounting department. Existing leases and landlord incentives have been identified and scheduled to ensure that the correct amounts are expensed each month.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or its internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations



include, but are not limited to, the realities that judgments in decision making can be faulty and that break-downs can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

During the quarter ended September 30, 2004, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**PART II  
OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The Company's subsidiaries are parties to legal proceedings incidental to their respective businesses. In management's opinion, there are no legal proceedings to which the Company or its subsidiaries are parties or to which any of their respective properties are subject which are material to the Company's financial position. The total number of cases in which the Company is involved and the related claims have increased due to acquisitions made by the Company since 2001. The potential significance of legal matters on 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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable

**ITEM 3. Defaults Upon Senior Securities**

Not applicable

**ITEM 4. Submission of Matters to a Vote of Security-Holders**

None

**ITEM 5. Other Information**

Not applicable

**ITEM 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

31.1 Certification of Albert G. Lowenthal

31.2 Certification of Elaine K. Roberts

32.1 Certification of Albert G. Lowenthal and Elaine K. Roberts

(b) Reports on Form 8-K

1.1 Form 8-K/A, Amendment No. 3, filed August 9, 2004 reporting pursuant to Item 7 of such Form the audited historical financial statements of the businesses acquired.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized, in the City of Toronto, Ontario, Canada on this 13th day of June, 2005.

OPPENHEIMER HOLDINGS INC.

By: A.G. Lowenthal  
A.G. Lowenthal, Chairman and Chief  
Executive Officer  
(Principal Executive Officer)

By: E.K. Roberts  
E.K. Roberts, President, Treasurer and Chief  
Financial Officer  
(Principal Financial Officer)