OPPENHEIMER HOLDINGS INC
Form 10-K
March 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

(Mark One)

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

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)

Canada

98-0080034

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

P.O. Box 2015, Suite 1110

20 Eglinton Avenue West

Toronto, Ontario, Canada

M4R 1K8

(Address of principal executive offices)

(Zip Code)

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

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

Name of each exchange

Title of each class

on which registered

Class A non-voting shares

New York Stock Exchange

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

Title of class

Not Applicable

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

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

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

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

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

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

The aggregate market value of the voting stock of the Company held by non-affiliates of the Company cannot be calculated in a meaningful way because there is only limited trading in the class of voting stock of the Company. The aggregate market value of the Class A non-voting shares held by non-affiliates of the Company at June 30, 2006 was $341,246,000 based on the closing price of the Class A non-voting shares on the New York Stock Exchange as at June 30, 2006 of $26.80.

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 February 28, 2007 was 13,077,074 and 99,680 shares, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

The Company s definitive Proxy Statement for the 2007 Annual Meeting of Shareholders (to be held on May 14, 2007) 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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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. Further, pursuant to its Certificate and Articles of Continuation effective May 11, 2005, the Company s legal existence was continued under the Canada Business Corporations Act.

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 and, through the agency of local licensed broker-dealers, operates offices in Buenos Aires, Argentina and Caracas, Venezuela. OAM and its subsidiary, Oppenheimer Investment Management (OIM), are engaged in the investment advisory business in the United States. In addition, Oppenheimer conducts an investment advisory business under the names Fahnestock Asset Management and Omega Group, divisions 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 Inc. in June 2003 discussed below is being conducted by OAM. The Company operates a discount brokerage business through Freedom. Oppenheimer Trust Company, a limited purpose trust company chartered by the State of New Jersey, provides fiduciary services such as trust and estate administration and investment management. Evanston is engaged in mortgage brokerage and servicing.

On January 3, 2003, the Company acquired the U.S. Private Client Division of CIBC World Markets Inc. and on June 4, 2003 acquired the U.S. Asset Management Division of CIBC World Markets Inc. (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 financial advisors 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

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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 high net worth exposure and asset base.

At December 31, 2006, Oppenheimer employed approximately 1,980 full-time registered personnel, of whom approximately 1,231 were financial advisors and approximately 1,013 other employees in trading, research, investment banking, investment advisory services, public finance and support positions in the United States for Oppenheimer, OAM, OIM and Freedom, for a total of approximately 2,993 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 firm 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 and Financial Markets Association ("SIFMA"). 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 is registered in Ontario, Canada as an International Dealer.

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 thousand for each customer, subject to a limitation of $100 thousand for claims for cash balances. SIPC is funded through assessments on registered broker-dealers, which assessments may not exceed 1% of a broker-dealer's gross revenues (as defined); SIPC assessments were a flat fee of $150 in 2006, 2005 and 2004. In addition, Oppenheimer has purchased additional excess SIPC policy protection from Lloyds of London of an additional $74.5 million (and $500 thousand for claims for cash balances) per customer. The excess SIPC policy has an aggregate limit of liability of $400.0 million. The Company has entered into an indemnity agreement with Lloyds of London pursuant to which the Company has agreed to indemnify Lloyds of London for losses incurred by Lloyds 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 revenue 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 clearing agent in transactions initiated by Freedom. Except as expressly otherwise stated, the discussion below pertains to the operations of Oppenheimer.

COMMISSIONS AND FEE-BASED REVENUE

A significant portion of Oppenheimer's revenue 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. An increasing number of clients are electing asset-based alternatives instead of the traditional commission structure. 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 contacts on indexes and/or commodities contracts listed on various exchanges.

Commission business relies heavily on the services of financial advisors 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 plans, are serviced by institutional financial advisors. Equity Capital Markets is supported by the equity research department which provides coverage of a number of seasoned companies 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, Oppenheimer derives substantial interest revenue from its securities clearing activities. See "INTEREST - Securities Borrowed / Securities 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 700 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. Recent rule-making by the SEC may further reduce the Company s ability to trade as principal with its clients if the Company has performed financial planning services on behalf of those clients. 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.

Regulation NMS (effective March 2007) may further change the trading of equity securities between securities exchanges (listed), NASDAQ (OTC), Electronic

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Communications Networks (ECN s) and internally traded securities (19c3-1). It is anticipated that the impact of this rule will further reduce spreads (difference between bid and ask) and increase the percentage of transactions executed electronically.

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.

Proprietary 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, preferred shares and Unit Investment Trusts and short term debt instruments (auction rate securities, certificates of deposit, and variable rate demand notes). 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 securities 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 and Oppenheimer, it holds investments as general partner in a range of investment partnerships (hedge funds , fund of funds, private equity partnerships and real estate partnerships), which are offered to Oppenheimer hedge fund-qualified clients 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 include investing in equity and equity-related securities, fixed income 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 as seed investments for portfolio managers who are establishing an investment record 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 business, 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. Oppenheimer earns interest revenue 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. Oppenheimer also permits its customers to incur margin indebtedness not in connection with the purchase of a security. Clients use their securities as collateral in connection with their borrowing to fund credit card purchases, checking activity or other needs unrelated to the purchase of securities. Margin lending by Oppenheimer is subject to the margin rules of the Board of Governors of 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 as well as the Company s own funds. 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 increasingly has extended 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 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 of 1933 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

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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 (including OIM) 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 or for no additional transaction fee.

At December 31, 2006, Oppenheimer and OAM (including OIM) had approximately $15.5 billion of client assets 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.

OIM offers 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. At December 31, 2006, OIM had $830 million under management. (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. Evanston is an approved MAP/FHA lender and also a Ginnie Mae approved Multifamily issuer.

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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 400 persons in its administration and operations departments at its head office, approximately 50 persons in its administration and operations departments in Detroit and approximately 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 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 $15.0 million with self-insurance retention of $1.0 million. The Company s 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, the Company purchases insurance in amounts, and against risks, that the Company considers 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 the Company 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. 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. Full service firms offer (to a limited degree) on-line trading services to their clients at substantial discounts to their regular pricing and these services are widely available through broker-dealers specializing in discount services (Discounters). 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. In recent years, 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 NASD 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 NASD and NYSE Regulation have agreed to merge their activities by the end of 2007. The intent of this merger is to unify the regulations applicable to U.S. broker dealers and reduce the costs associated with over-lapping and duplicative regulations. There can be no assurance that such an outcome will result from this merger.

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 NASD) 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. Effective April 1, 2006, rules adopted by the NYSE (Rule 342) and NASD (Rules 3012 and 3013) require that the CEO certify annually that there is a process in place to monitor the effectiveness of the Company s adherence to rules and procedures related to the operation of its business.

Regulation NMS and Regulation SHO, passed in recent years, by the SEC and expected to be fully effective in 2007 will substantially effect the trading of equity securities and may impact the Company s business. These regulations are intended to increase transparency in the markets and are likely to further reduce spreads and with competition from electronic marketplaces to reduce commission rates paid by institutional investors.

In prior years, 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 implemented rules designed to strengthen existing prohibitions relating to late trading and 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 "INTEREST - Margin Lending."

The Sarbanes-Oxley Act of 2002 effected significant changes to corporate governance, auditing requirements and corporate reporting. This law generally applies to all companies, including the Company, with equity or debt securities registered under the Securities Exchange Act of 1934, as amended (the Exchange Act). The Company has taken numerous actions, and incurred substantial expenses, in recent years to comply with the Sarbanes-Oxley Act, related regulations promulgated by the SEC and other corporate governance requirements of the NYSE. Management has determined that the Company s internal control over financial reporting as of December 31, 2006 was effective. See Item 8, under the caption Management s Report on Internal Control over Financial Reporting .

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 thousand, 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 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 industry self-regulatory organizations (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.

OTHER REQUIREMENTS

On July 31, 2006, the Company issued a Senior Secured Credit Note in the amount of $125.0 million at a variable interest rate based on the London Interbank Offering Rate (LIBOR) with a seven-year term to a syndicate led by Morgan Stanley Senior Funding Inc, as agent. Minimum principal repayments equal 0.25% per quarter are required plus prepayments of principal based on a portion of the Company s excess cash flow, the net cash proceeds of asset sales, tax refunds over certain limits, awards over certain limits in connection with legal actions or takings , and debt issuances or other liability financings. In accordance with the Senior Secured Credit Note, the Company has provided certain covenants to the lenders with respect to the maintenance of a minimum fixed charge ratio and maximum leverage ratio driven from EBITDA and minimum net capital requirements with respect to Oppenheimer. In the Company s view, the most restrictive of the covenants requires that the Company maintain a maximum leverage ratio of 2.30 (total long-term debt divided by EBITDA). At December 31, 2006, the Company was in compliance with the covenants. The effective interest rate on the Senior Secured Credit Note for the five months ended December 31, 2006 was 8.15%.

In accordance with the Senior Secured Credit Note, the Company and virtually all of its non-broker-dealer subsidiaries have provided guarantees to the lending group. These guarantees are supported by liens on substantially all of the assets of these non-broker-dealer subsidiaries.

In connection with the retirement of its Variable Rate Exchangeable Debentures (the Debentures), the Company has agreed to make a contingent payment to CIBC if, prior to December 31, 2007, the Company enters into an agreement for the sale of the majority of the Company s Class A and Class B Shares. The amount of the contingent payment would be based on the price per share realized by the Company s shareholders in any such transaction. The Company has made an estimate of the fair value of this contingent payment and will revalue it at the end of each reporting period. See note 7 to the consolidated financial statements, included in Item 8.

Item 1A. RISK FACTORS

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

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

At December 31, 2006, the Company had an aggregate of approximately $1.8 billion of indebtedness. The Company cannot assure that its operations will generate funds sufficient to repay its existing debt obligations as they come due. The Company s failure to repay its indebtedness and make interest payments as required by its debt obligations could have a material adverse affect on its operations.

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

The securities industry and the Company s business are subject to extensive regulation by the SEC, state securities regulators and other governmental regulatory authorities. The Company is also regulated by industry self-regulatory organizations, including the NYSE, the NASD and the MSRB. The regulatory environment is also subject to change and the Company may be adversely affected as a result of new or revised legislation or regulations imposed by the

SEC, other federal or state governmental regulatory authorities, or self-regulatory organizations. The Company also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations.

Oppenheimer is a registered broker-dealer with the SEC and a member firm of the NYSE. Broker-dealers are subject to regulations which cover all aspects of the securities business, including:

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sales methods and supervision;

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trading practices among broker-dealers;

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use and safekeeping of customers funds and securities;

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anti-money laundering and Patriot Act compliance;

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capital structure of securities firms;

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compliance with lending practices (Regulation T);

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record keeping; and

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the conduct of directors, officers and employees.

Compliance with many of the regulations applicable to the Company involves a number of risks, particularly in areas where applicable regulations may be subject to varying interpretation. The requirements imposed by these regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with the Company. Consequently, these regulations often serve to limit the Company s activities, including through net capital, customer protection and market conduct requirements. Much of the regulation of broker-dealers has been delegated to self-regulatory organizations, principally NASD Regulation, Inc., the regulatory arm of the NASD, and NYSE Regulation Inc., which are the Company s primary regulatory agencies. NASD Regulation, Inc. and NYSE Regulation Inc. adopt rules, subject to approval by the SEC, which govern their members and conduct periodic examinations of member firms operations.

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

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censure;

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fine;

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civil penalties, including treble damages in the case of insider trading violations;

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the issuance of cease-and-desist orders;

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the deregistration or suspension of our broker-dealer activities;

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the suspension or disqualification of our officers or employees; or

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other adverse consequences.

The imposition of any of these or other penalties could have a material adverse effect on our operating results and financial condition. See Item 1, under the caption REGULATION and Item 7, Managements Discussion and Analysis of Financial Condition and Results of Operations - Regulation .

The Company may incur significant losses from trading and investment activities due to market fluctuations and volatility.

The Company generally maintains trading and investment positions in the equity and debt markets. To the extent that the Company owns equity assets, i.e., has long positions in those markets, a downturn in those markets could result in losses from a decline in the value of those long positions. Conversely, to the extent that the Company has sold assets that it does not own, i.e., has short positions in any of those markets, an upturn in those markets could expose the Company to potentially unlimited losses as it attempts to cover its short positions by acquiring assets in a rising market.

In addition, the Company maintains trading positions that can be adversely affected by the level of volatility in the financial markets, i.e., the degree to which trading prices fluctuate over a particular period, in a particular market, regardless of market levels.

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

A substantial portion of the Company s assets arise from goodwill and intangibles recorded as a result of business acquisitions it has made. The Company is required to perform a test for impairment of such goodwill and intangible assets, at least annually. If the test resulted in a write-down of goodwill and/or intangible assets, the Company would incur a significant loss.

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

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Company s ability to conduct business. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Company s business, which, in turn, could have a material adverse effect on the Company s financial condition and results of operations. The Company maintains a disaster recovery site to aid it in reacting to circumstances such as those described above. The plans and preparations for such eventualities including the site itself may not be adequate or effective for their intended purpose.

The Company s revenue may decline in adverse market or economic conditions.

During periods of unfavorable financial and economic conditions the number and size of the transactions in which the Company provides underwriting services, merger and acquisition consulting and other services are reduced. The Company s investment banking revenues, in the form of financial advisory and underwriting fees, are directly related to the number and size of the transactions in which it participates and therefore may be adversely affected by a sustained downturn in the securities markets. Additionally, a downturn in market conditions may lead to a decline in the volume of transactions that the Company executes for its customers and, therefore, to a decline in the revenue the Company receives from commissions and principal transactions. If these adverse financial and economic conditions were to persist, the Company would incur a further decline in transactions and revenue that it receives from commissions and principal transactions. Management fees associated with the Company s advisory business will decline with a decline in security prices.

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

The Company s success is dependent in large part upon the services of its senior executives and employees. Any loss of service of the CEO may adversely affect the business and operations of the Company. The Company maintains key man insurance on the life of its CEO. If the Company s senior executives or employees terminate their employment with it and the Company is unable to find suitable replacements in relatively short periods of time, its operations may be materially and adversely affected. The Company does not currently have employment agreements or non-competition agreements with any of its senior officers.

The Company faces significant competition for professional employees.

From time to time, individuals the Company employs may choose to leave to pursue other opportunities. The Company has experienced losses of financial advisors, and trading and investment banking professionals in the past, and the level of competition for key personnel remains intense. The Company cannot give assurances that the loss of key personnel will not occur again in the future. The loss of a financial adviser or a trading or investment banking professional, particularly a senior professional with a broad range of contacts in an industry, could materially and adversely affect the Company s operating results.

The Company is subject to various risks associated with the securities industry.

As a securities broker-dealer, Oppenheimer is subject to uncertainties that are common in the securities industry. These uncertainties include:

- the volatility of domestic and international financial, bond and stock markets;
- extensive governmental regulation;
- litigation;
- intense competition;
- substantial fluctuations in the volume and price level of securities; and
- dependence on the solvency of various third parties.

As a result, revenue and earnings may vary significantly from quarter to quarter and from year to year. In periods of low volume, profitability is impaired because certain expenses remain relatively fixed. Oppenheimer is smaller and has less capital than many of its competitors in the securities industry. In the event of a market downturn, the Company s business could be adversely affected in many ways. The Company s revenue is likely to decline in such circumstances and, if the Company is unable to reduce expenses at the same pace, its profit margins would erode.

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

The policies and procedures the Company employs to identify, monitor and manage risks may not be fully effective. Some methods of risk management are based on the use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend on evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by the Company. This information may not be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. The Company cannot give assurances that its policies and procedures will effectively and accurately record and verify this information. See Item 7A, Quantitative and Qualitative Disclosures About Market Risk .

The Company seeks to monitor and control its risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. The Company believes that it effectively evaluates and manages the market, credit and other risks to which it is exposed. Nonetheless, the effectiveness of the Company s ability to manage risk exposure can never be completely or accurately predicted or fully assured. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments can have a material adverse effect on the Company s financial statements. The consequences of these developments can include losses due to adverse changes in securities values, decreases in the liquidity of trading positions, higher volatility in earnings, increases in the Company s credit risk to customers as well as to third parties and increases in general systemic risk.

Credit risk exposes the Company to losses caused by financial or other problems experienced by third parties.

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

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trading counterparties;

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customers;

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clearing agents;

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exchanges;

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clearing houses; and

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other financial intermediaries as well as issuers whose securities we hold.

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

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holding securities of third parties;

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executing securities trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries; and

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extending credit to clients through bridge or margin loans or other arrangements.

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

Intense competition from existing and new entities may adversely affect the Company s revenue and profitability.

The securities industry is rapidly evolving, intensely competitive and has few barriers to entry. The Company expects competition to continue and intensify in the future. Many of the Company s competitors have significantly greater financial, technical, marketing and other resources than the Company does. Some of the Company s competitors also offer a wider range of services and financial products than the Company does and have greater name recognition and a larger client base. These competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. They may also be able to undertake more extensive promotional activities, offer more attractive terms to clients, and adopt more aggressive pricing policies. The Company may not be able to compete effectively with current or future competitors and competitive pressures faced by it may harm its business.

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

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

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employees binding the Company to transactions that exceed authorized limits or present unacceptable risks to the Company;

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employee theft and improper use of Company property;

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employees hiding unauthorized or unsuccessful activities from the Company; or

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the improper use of confidential information.

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

Failure to comply with net capital requirements could subject the Company to suspension or revocation by the SEC or suspension or expulsion by the NASD and the NYSE.

Oppenheimer and Freedom are subject to the SEC s Net Capital Rule which requires the maintenance of minimum net capital. 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 15c3-1. At December 31, 2006, Oppenheimer had net capital of $161.3 million, which was $137.2 million in excess of the $24.1 million required to be maintained at that date. 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 thousand or 6 2/3% of aggregate indebtedness, as defined. At December 31, 2006, Freedom had net capital of $8.4 million, which was $8.1 million in excess of the $250 thousand required to be maintained at that date. The Net Capital Rule is designed to measure the general financial integrity and liquidity of a broker-dealer. In computing net capital, various adjustments are made to net worth which exclude assets not readily convertible into cash. Additionally, the regulations require that certain assets, such as a broker-dealer s position in securities, be valued in a conservative manner so as to avoid over-inflation of the broker-dealer s net capital. The net capital rule requires that a broker-dealer maintain a certain minimum level of net capital. The particular levels vary in application depending upon the nature of the activity undertaken by a firm. Compliance with the Net Capital Rule limits those operations of broker-dealers which require the intensive use of their capital, such as underwriting commitments and principal trading activities. The rule also limits the ability of securities firms to pay dividends or make payments on certain indebtedness such as subordinated debt as it matures. A significant operating loss or any charge against net capital could adversely affect the ability of a broker-dealer to expand or, depending on the magnitude of the loss or charge, maintain its then present level of business. The NASD and the NYSE may enter the offices of a broker-dealer at any time, without notice, and calculate the firm s net capital. If the calculation reveals a deficiency in net capital, the NYSE or NASD may immediately restrict or suspend certain or all of the activities of a broker-dealer, including its ability to make markets.

Risk of losses associated with securities laws violations and litigation.

Many aspects of the Company s business involve substantial risks of liability. An underwriter is exposed to substantial liability under federal and state securities laws, other federal and state laws, and court decisions, including decisions with respect to underwriters liability and limitations on indemnification of underwriters by issuers. For example, a firm that acts as an underwriter may be held liable for material misstatements or omissions of fact in a prospectus used in connection with the securities being offered or for statements made by its securities analysts or other personnel. In recent years, there has been an increasing incidence of litigation involving the securities industry, including class actions that seek substantial damages. The Company s underwriting activities will usually involve offerings of the securities of smaller companies, which often involve a higher degree of risk and are more volatile than the securities of more established companies. In comparison with more established companies, smaller companies are also more likely to be the subject of securities class actions, to carry directors and officers liability insurance policies with lower limits or not at all, and to

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become insolvent. Each of these factors increases the likelihood that an underwriter may be required to contribute to an adverse judgment or settlement of a securities lawsuit.

In the normal course of business, the Operating Subsidiaries have been and continue to be the subject of numerous civil actions and arbitrations arising out of customer complaints relating to our activities as a broker-dealer, as an employer and as a result of other business activities. In general, cases may involve various allegations that employees mishandled customer accounts. The Company believes that, based on our historical experience and the reserves established by the Company, the resolution of the claims presently pending will not have a material adverse effect on the Company s financial condition. However, although the Company typically reserves an amount it believes will be sufficient to cover any damages assessed against it, the Company has in the past been assessed damages that exceeded its reserves. If the Company misjudged the amount of damages that may be assessed against it from pending or threatened claims, or if the Company is unable to adequately estimate the amount of damages that will be assessed against it from claims that arise in the future and reserve accordingly, its financial statements may be materially adversely affected.

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

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

The Company continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company s future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company s operations. Many of the Company s competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company s business and, in turn, the Company s financial condition and results of operations.

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Risks associated with the Company s stock.

The Company s stock price can be volatile.

Stock price volatility may make it difficult for an investor to resell the Company s Class A non-voting shares (the Class A Shares) when wanted and at prices deemed attractive. The Company s stock price can fluctuate significantly in response to a variety of factors including, among other things:

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Actual or anticipated variations in quarterly results of operations;

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Recommendations by securities analysts;

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Operating and stock price performance of other companies that investors deem comparable to the Company;

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News reports relating to trends, concerns and other issues in the financial services industry;

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Perceptions in the marketplace regarding the Company and/or its competitors;

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New technology used, or services offered, by competitors;

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Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;

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Failure to integrate acquisitions or realize anticipated benefits from acquisitions; and

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The occurrence of any of the other events described in these Risk Factors.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company s stock price to decrease regardless of operating results.

The Trading Volume In The Company s Class A Shares Is Less Than That of Larger Financial Services Companies.

Although the Company s Class A Shares are listed for trading on the NYSE and the Toronto Stock Exchange (the TSX), the trading volume in its Class A Shares is less than that of larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company s Class A Shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company s Class A Shares, significant sales of the Company s Class A Shares, or the expectation of these sales, could cause the Company s stock price to fall.

The Company issues two classes of stock.

The Company issues two classes of shares, Class A Shares and Class B voting shares. At December 31, 2006, there were 99,680 Class B voting shares outstanding compared to 12,834,682 Class A Shares. The voting power associated with the Class B voting shares will be effectively able to exercise control over all matters requiring shareholder approval, including the election of all directors and approval of significant corporate transactions, and other matters affecting the Company. This voting power may have the effect of delaying or preventing a change in control of the Company. The controlling shareholder(s) may have potential conflicts of interest with other shareholders. See Item 4, Submission of Matters to a Vote of Security Holders .

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Possible additional issuances will cause dilution

At December 31, 2006, the Company had 12,834,682 Class A Shares outstanding, outstanding employee stock options to purchase a total of 1,168,392 Class A Shares, as well as outstanding unvested stock awards granted for 104,264 Class A Shares. The Company is further authorized to issue up to 1,095,589 Class A Shares under share-based compensation plans, for which shareholder approval has already been obtained. If the Company issues additional shares, its other shareholders may find their holdings drastically diluted, which if it occurs, means that they will own a smaller percentage of the Company.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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, although 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. The Company maintains an office in Detroit, Michigan, which among other things, houses its human resources department. Freedom conducts its business from its offices located in Edison, N.J. 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, 2006, occupied office space totaling approximately 992,000 square feet in 84 locations under standard commercial terms expiring between 2007 and 2019. 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. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations - Regulatory Environment".

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 proxy circular, to the holders of its Class B Shares.

Pursuant to the Company's Articles of Incorporation, holders of 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 2006 fiscal year.

The Company s next Annual Meeting of Shareholders is scheduled to be held on Monday, May 14, 2007 in Toronto, Ontario, Canada.

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PART II

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

(a) The Company's Class A Shares are listed and traded on the NYSE and 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 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)	
2006	1st Quarter	$25.25	$22.75	$21.70	$19.71
	2nd Quarter	$33.91	$24.15	$30.50	$20.74
	3rd Quarter	$36.00	$26.92	$31.50	$23.61
	4th Quarter	$40.50	$30.27	$36.24	$26.99
2005	1st Quarter	$31.25	$26.75	$25.50	$22.02
	2nd Quarter	$29.02	$23.50	$23.45	$19.28
	3rd Quarter	$26.57	$23.10	$21.67	$19.26
	4th Quarter	$24.48	$21.50	$20.19	$18.30

As at December 31, 2006, there were 1,272,656 Class A Shares underlying outstanding options and restricted share awards. Class A Shares underlying all vested options and restricted shares could be sold pursuant to Rule 144 or effective registration statements on Form S-8.

(b) The following table sets forth information about the shareholders of the Company as at December 31, 2006 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 of record (1)
Canada	4,195,238	33%	151
United States	8,638,830	67%	182
Other	614	-	6
Total issued and outstanding	12,834,682	100%	339

(1)

The majority of Class A Shares are held by depositories and intermediaries.

Class B Shares

Shareholders of record having addresses in:	Number of shares	Percentage	Number of shareholders of record (1)
Canada (1)	97,821	98%	111
United States	1,731	2%	65
Other	128	-	3
Total issued and outstanding	99,680	100%	179

(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 and Related Stockholder Matters".

(c) 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, 2006 and 2005 and the first quarter of 2007.

Type	Declaration date	Record date	Payment date	Amount per share
Quarterly	January 27, 2005	February 11, 2005	February 25, 2005	$0.09
Quarterly	May 3, 2005	May 6, 2005	May 20, 2005	$0.09
Quarterly	July 26, 2005	August 19, 2005	August 19, 2005	$0.09
Quarterly	October 28, 2005	November 11, 2005	November 25, 2005	$0.09
Quarterly	January 26, 2006	February 10, 2006	February 24, 2006	$0.10
Quarterly	April 27, 2006	May 5, 2006	May 19, 2006	$0.10
Quarterly	July 27, 2006	August 4, 2006	August 18, 2006	$0.10
Quarterly	October 31, 2006	November 10, 2006	November 24, 2006	$0.10
Quarterly	January 25, 2007	February 9, 2007	February 23, 2007	$0.10

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 therefore.

(d) Share-Based Compensation Plans

The Company has a 2006 Equity Incentive Plan, adopted December 11, 2006 and a 1996 Equity Incentive Plan, as amended March 10, 2005 (together EIP), under which the compensation and stock option committee of the board of directors of the Company may grant options to purchase Class A Shares to officers and key employees of the Company and its subsidiaries. Grants of options are made to the Company s non-employee directors on a formula basis.

The Company has an Employee Share Plan (ESP), under which the compensation and stock option committee of the board of directors of the Company may grant stock awards and restricted stock awards to key management employees of the Company and its subsidiaries resident in the U.S.A.

The Company s share-based compensation plans are described in note 12 to the consolidated financial statements appearing in Item 8.

(e) Share Performance Graph

The following graph shows changes over the past five year period of U.S. $100 invested in (1) the Company s Class A Shares, (2) the Standard & Poors 500 Index, and (3) the Standard & Poors / Toronto Stock Exchange Composite Index.

	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Oppenheimer	100	90	136	76	80	169
S&P 500	100	77	126	109	103	114
S&P / TSX Composite	100	86	124	112	122	115

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 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 27, 2006, the Company announced that during the year commencing August 9, 2006 it intended to purchase up to 632,000 of its 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 2006, the Company did not purchase any shares. The Company purchased 110,700 Class A Shares in fiscal 2006 at an average price of $20.37 per share pursuant to the current Normal Course Issuer Bid as well as pursuant to a Normal Course Issuer Bid that commenced on July 22, 2005 and terminated on July 21, 2006. All shares purchased by the Company pursuant to Normal Course Issuer Bids are cancelled. The Company may, at its option, apply to extend the program for an additional year.

The following table describes the purchases in fiscal 2006 of Class A Shares made by the Company pursuant to Normal Course Issuer Bids in effect from July 22, 2005 through July 21, 2006 for a maximum of 644,000 shares and then from August 9, 2006 through August 8, 2007 for a maximum of 632,000 shares.

Period	Total Number of Class A Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
February 2006	30,100	$20.31	30,100	183,100
March 2006	76,000	$20.35	106,100	153,000
April 2006	4,600	$21.17	110,700	148,400
August 2006	-	-	-	632,000

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, 2006. 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 annual report. In 2003, the Company purchased the Oppenheimer Divisions. 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. See also Item 1, BUSINESS and Item 7, "Management s Discussion and Analysis of Financial Condition and Results of Operations".

	2006	2005	2004	2003	2002
Revenue	$800,823	$679,746	$655,140	$689,993	$283,333
Net profit	$44,577	$22,916	$21,077	$28,696	$9,321

Net profit per share (1)					
- basic	$3.50	$1.76	$1.58	$2.26	$0.75
- diluted	$2.76	$1.36	$1.24	$1.65	$0.73
Total assets	$2,160,090	$2,184,467	$1,806,199	$1,701,213	$1,031,226
Total liabilities	$1,801,049	$1,876,344	$1,499,316	$1,421,377	$783,590
Cash dividends per Class A					
Share and Class B share	$0.40	$0.36	$0.36	$0.36	$0.36
Shareholders' equity	$359,041	$308,123	$306,883	$279,836	$247,636
Book value per share (1)	$27.76	$24.46	$22.91	$21.66	$19.82
Number of shares of capital stock outstanding	12,934,362	12,595,821	13,396,556	12,919,200	12,496,687

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

The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, 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 21 states located throughout the United States and conducts business in 2 offices in Latin America through local broker-dealers. Client assets entrusted to the Company as at December 31, 2006 totaled approximately $58.7 billion. The Company provides investment advisory services through OAM and OIM and Oppenheimer s Fahnestock Asset Management and OMEGA Group divisions. The Company provides trust services and products through Oppenheimer Trust Company. The Company provides discount brokerage services through Freedom and through BUYandHOLD, a division of Freedom. Evanston Financial Corporation is engaged in mortgage brokerage and servicing. At December 31, 2006, client assets under management by the asset management groups totaled $15.5 billion. At December 31, 2006, the Company employed approximately 2,993 people full time, of whom approximately 1,980 were registered personnel, including approximately 1,231 financial advisors.

Critical Accounting Estimates

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 Financial Instruments

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 brokers and clearing organizations; securities owned; securities sold but not yet purchased; and stock loan / stock borrow balances. 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 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. The Company's remaining financial instruments are generally short-term in nature, and their carrying values approximate fair value, with the exception of notes receivable from employees, which are carried at cost.

Securities owned, including those pledged and securities sold, but not yet purchased are recorded at estimated fair value on the consolidated balance sheet using quoted market or dealer prices, where available, or third-party pricing services. Gains and losses are recorded in principal transaction revenue on the consolidated statements of income.

Investments, included in securities owned, which have a ready market are valued using quoted market or dealer prices. Investments with no ready market value are stated at fair value as determined in good faith by management. Factors considered in valuing individual investments include available market prices, type of security, purchase price, purchases of the same or similar securities by other investors, marketability, restrictions on disposition, current financial position and operating results of the issuer, and other pertinent information. Management uses its best judgment in estimating the fair value of these investments. There are inherent limitations in any estimation technique. The fair value estimates presented herein are not necessarily indicative of an amount that the Company could realize in a current transaction. Because of inherent uncertainty of valuation, these estimated fair values do not necessarily represent amounts that might be ultimately realized, since such amounts depend on future circumstances and the differences could be material.

Financial instruments used for asset and liabilities management are recorded on the consolidated balance sheets at fair value based upon dealer quotes and third-party pricing services. The Company utilizes interest rate swap agreements to manage interest rate risk of its variable-rate Senior Secured Credit Note. These swaps have been designated as cash flow hedges under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities . Changes in the fair value of the swap hedges are expected to be highly effective in offsetting changes in the interest payments due to changes in 3-Month LIBOR.

Loans and Allowances for Doubtful Accounts

Customer receivables, primarily consisting of margin loans collateralized by customer-owned securities, are charged interest at rates similar to other such loans made throughout the industry. Customer receivables are stated net of allowance for doubtful accounts (unsecured or partially secured receivables) from customers and are fully reserved.

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.

Legal and Regulatory Reserves

The Company records reserves related to legal and regulatory proceedings in accounts payable and other liabilities. The determination of the amounts of these reserves requires significant judgment on the part of management. Management considers many factors including, but not limited to: the amount of the claim; specifically in the case of client litigation, the amount of the loss in the client's account and the possibility of wrongdoing, if any, on the part of an employee of the Company; the basis and validity of the claim; previous results in similar cases; and legal precedents and case law as well as the timing of the resolution of such matters. Each legal and regulatory proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Any change in the reserve amount is recorded 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 or regulatory

proceeding could be greater or less than the reserve amount.

Intangible Assets

Intangible assets arose upon the acquisition of the U.S. Private Client and Asset Management Divisions of CIBC World Markets Inc. (the Oppenheimer Divisions) and are comprised of customer relationships and trademarks and trade names. Customer relationships are carried at $2.0 million (which is net of accumulated amortization of $2.9 million) and are being amortized on a straight-line basis over 80 months commencing in January 2003. Trademarks and trade names, carried at $31.7 million, which are not amortized, are subject to at least an annual test for impairment to determine if the fair value is less than their carrying amount. Trademarks and trade names recorded as at December 31, 2006 have been tested for impairment and it has been determined that no impairment has occurred.

Goodwill

Goodwill arose upon the acquisitions of Oppenheimer, Old Michigan Corp. (formerly First of Michigan Capital Corporation), Josephthal & Co. Inc., Grand Charter Group Incorporated and the Oppenheimer Divisions. Goodwill is subject to at least an annual test for impairment to determine if the fair value of goodwill of a reporting unit is less than its carrying amount. Goodwill recorded as at December 31, 2006 has been tested for impairment and it has been determined that no impairment has occurred.

Stock-Based Compensation Plans

The Company estimates the fair value of share-based awards using the Black-Scholes option-pricing model and applies to it a forfeiture rate based on historical experience. Key input assumptions used to estimate the fair value of share-based awards include the exercise price of the award, the expected term, the expected volatility of the Company s Class A Shares over the term of the award, the risk-free interest rate over the expected term, and the Company s expected annual dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive share-based awards.

Income Taxes

The Company 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.

Changes in Accounting Policies

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) 123(R), Share-Based Payment . The Company recorded additional compensation expense for the year ended December 31, 2006 of $3.3 million with respect to its equity incentive plan. In prior years, the cost of stock options was presented on a pro forma basis in the notes to the consolidated financial statements. The Company has always recorded compensation expense with respect to its other share-based plans, although the method of computation of the expense has changed with the adoption of SFAS 123(R).

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New Accounting Pronouncements

Recently adopted

In June 2005, the FASB ratified the consensus reached in Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights which requires a general partner(s) (or managing member(s) in the case of limited liability companies) to consolidate its partnerships or to provide limited partners with rights to remove the general partner(s) or to terminate the partnership. The Company serves as a general partner for a number of asset management limited partnerships through OAM and, therefore, was required to adopt the provisions of EITF Issue No. 04-5 immediately for partnerships formed or modified after June 29, 2005. For partnerships formed on or before June 29, 2005 that were not modified, the Company was required to adopt EITF Issue No. 04-5 on January 1, 2006. The adoption of EITF Issue No. 04-5 did not have a material impact on the Company s consolidated financial statements.

Recently Issued

In June 2006, the FASB issued Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes.* This Interpretation requires that a tax position be recognized only if it is more likely than not to be sustained upon examination, including resolution of related appeals or litigation processes, based solely on its technical merits, as of the reporting date. A tax position that meets the more-likely-than-not criterion shall be measured at the largest amount of benefit that is more than fifty percent likely of being realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has evaluated the impact of adopting this guidance and expects that it will not have a significant impact on the Company s consolidated balance sheet, results of operations and cash flows. The Company has estimated that a cumulative effect adjustment of approximately $500 thousand to $1.0 million will be recorded as a reduction to opening retained earnings to increase reserves related to uncertain tax positions, which is subject to revision as management completes its analysis.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*, which provides expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. In addition, SFAS 157 prohibits recognition of block discounts for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available in an active market. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact this guidance will have on the consolidated financial statements.

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 U.S. economy continued to perform well during the year as financial conditions supported continued economic growth. Consumer spending and a strong labor market supported a 3.4% growth in GNP. However the economy s rate of growth moderated as it approached the end of the year reflecting continued softness in the housing market and higher short-term interest rates. Financial markets responded positively to significant declines in oil and other commodity prices and modest improvements in the U.S. trade deficit. Despite weakness in the dollar against other currencies, the anticipation of continued strong earnings by corporations and an expectation of stable interest rates provided the impetus for strong equity gains in the final months of 2006.

The New York Stock Exchange (NYSE)/Archipelago merger (collectively referred to as NYSE Group), which took place in March 2006, had a significant impact on the Company s financial results for the year ended December 31, 2006. Oppenheimer had been a member of the NYSE since 1880 and was the beneficial owner of three memberships (seats) carried at a cost of $2.2 million. Pursuant to the plan of merger between NYSE and Archipelago, Oppenheimer surrendered its memberships in exchange for approximately $809 thousand in cash and 241,901 NYSE Group common shares, par value $0.01 per share, in the aggregate. In lieu of the rights conferred by membership, Oppenheimer purchased the rights to an annual renewable trading license. This license allows Oppenheimer continued physical and electronic access to the NYSE trading facilities. The NYSE Group common shares are subject to a three-year restriction on transfer, which were scheduled to expire in equal one-third installments in March 2007, 2008, and 2009.

On May 4, 2006, the Company sold 156,588 shares of NYSE Group (consisting of 80,635 and 75,953 NYSE Group common shares that were originally restricted until March 2007 and March 2008, respectively) at a price of $61.50 per share (before commission) as part of a secondary offering by NYSE Group shareholders. The Company s pre-tax profit for the year ended December 31, 2006 reflect a net gain of approximately $13.7 million included in other revenue on the consolidated statement of income for the year ended December 31, 2006, related to the exchange of seats for cash and NYSE Group common shares. At December 31, 2006, the estimated fair value of the remaining NYSE Group common shares was approximately $6 million, net of valuation adjustment, which is included in securities owned on the consolidated balance sheet.

The Company s pre-tax profit for the year ended December 31, 2006 includes a net gain of $4.1 million on the extinguishment of its variable rate exchangeable debentures (the Debentures). The Company retired $140.8 million of the Debentures on July 31, 2006 and the remaining $20.0 million on October 23, 2006. For the most part, this gain represents the difference between interest expensed by the Company since the issuance of the Debentures on January 6, 2003 at a 4.5% interest rate (the annual effective interest rate over the life of the Debentures) compared to the actual interest costs of 3% in 2003 and 4% thereafter until October 23, 2006.

Excluding the gains from both the NYSE Group common shares and the debt extinguishment, described above, the Company s revenue for the year ended December 31, 2006 increased by 15% compared to revenue for the same period of 2005. The revenue increase for the year ended December 31, 2006 compared to the same period of 2005 came from higher transactional revenue from both private client and capital markets and increased fees from fee-based programs. Interest income for the full year

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was impacted by higher rates on customer debit balances and increased activity in the securities lending business. The Company s performance for the year ended December 31, 2006 was positively impacted by its participation as general partner in various alternative investments that had significantly better performance in 2006 compared to 2005.

The Company s expenses increased by approximately 13% for the year ended December 31, 2006 compared to the same period in 2005 primarily due to increased compensation and related costs as well as higher interest expense. Compensation expense tracks the trend in transactional revenue and includes the impact of the expensing of stock options since January 1, 2006. Interest expense tracks the increase in interest revenue and is the result of higher interest rates, increased stock loan activity in 2006 and higher debt carrying costs compared to 2005. As previously mentioned, on July 31, 2006, to retire the Debentures, the Company issued a Senior Secured Credit Note in the amount of $125 million at a variable interest rate based on the London Interbank Offering Rate (LIBOR) with a seven-year term to a syndicate led by Morgan Stanley Senior Funding Inc., as agent. Minimum principal repayments equal 0.25% per quarter and there are required prepayments of principal based on a portion of the Company s excess cash flow, the net cash proceeds of asset sales, tax refunds over certain limits, awards over certain limits in connection with legal actions or takings , and debt issuances or other liability financings. The Company utilizes interest rate swap agreements to manage interest rate risk of its variable-rate Senior Secured Credit Note. These swaps have been designated as cash flow hedges under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities . Changes in the fair value of the swap hedges are expected to be highly effective in offsetting changes in the interest payments due to changes in 3-Month LIBOR. For the five months ended December 31, 2006, the effective interest rate on the Senior Secured Credit Note was 8.15% (compared to 4.5% on the retired Debentures).

Net profit and earnings per share for the years ended December 31, 2006 and 2005 include increased income tax provisions, which raised the effective tax rate to 44.6% and 45.0%, respectively, because of reserves established for matters identified during tax examinations dating back to 2003.

Interest rate changes impact the Company s costs associated with carrying proprietary fixed income and equity inventories as well as its cost of borrowed funds. Interest rates were higher in the year ended December 31, 2006 compared to 2005. 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 monitors its exposure to interest rate fluctuations to mitigate risk of loss in volatile environments.

The Company s focus continues to be the expansion and building of its business, through the attraction of new clients, investment in experienced professionals throughout the Company and continued improvement in its technology platform.

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 regulation 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. 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 expectation is that the increased costs of compliance in today s regulatory environment are not temporary.

New rules relating to supervisory control processes (NASD (Rule 3013) and NYSE (Rule 342)) became effective during 2006. On March 31, 2006, the chief executive officers (CEOs) of regulated broker-dealers (including the CEO of Oppenheimer) were required to certify that their companies have processes to establish and test policies and procedures reasonably designed to achieve compliance with federal securities laws and regulations, including applicable regulations of self-regulatory organizations. The CEO of the Company will be required to make such a certification on an annual basis.

Mutual Fund Inquiry

Since the third quarter of 2003, Oppenheimer has been responding to the SEC, the NY State Attorney General (the NYAG), the NYSE, the NASD 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. On June 5, 2006, Oppenheimer received an invitation from the NYSE to make a Wells Submission (a formal response to a request from a regulator that describes why an action should not be brought) with respect to its activities as a broker-dealer and as a clearing firm in connection with allegedly improper market timing (not late trading) of mutual funds by several former employees. Oppenheimer has filed a response with the NYSE.

A few of its former financial advisors, working from a single branch office, engaged in activities that are the subject of the SEC's inquiry largely during the period before the Company acquired the U.S. Private Client Division of CIBC World Markets on January 3, 2003.

On January 31, 2007, the SEC instituted administrative proceedings against three former employees and a current employee who had a supervisory role with respect to those employees. The former financial advisors were charged with, among other things, violating the antifraud provisions of the securities laws. The current employee, a senior employee of Oppenheimer, was charged with aiding these violations and of failure to supervise the former financial advisors. The Company was not charged in these proceedings and continues to cooperate in the investigation of market timing activity by the NYSE discussed above. The Company has set aside reserves that it believes should address its financial exposure with respect to these matters. The Company continues to closely monitor its mutual fund activities and the activities of its employees.

Other Regulatory Matters

The Company has been the subject of various regulatory investigations with respect to its operations up to and including 2005. Most of these matters revolve around the period when the Company was transferring the business and client accounts of various acquisitions it has made to a common systems platform between September 2001 and June 2003. During that period of time, the Company absorbed approximately 35 branch offices and 1,000 financial advisors, and transitioned more than 250,000 client accounts from four separate and distinct companies, each of which utilized a different technology platform. The Company's business doubled during this period. As previously reported, certain of the Company s operations were impacted beginning in June 2003 and the Company experienced client service issues, which were subsequently corrected. The new businesses undertaken by the Company and the effect on the Company s operations for the period described above has resulted in investigations by the SEC, the NYSE, and the NASD. With the exception of the mutual funds timing matter described above, the Company has settled substantially all outstanding matters with the NYSE. With the exception of the matters described below, the Company has settled substantially all outstanding matters with the NASD.

On January 9, 2006, the NASD filed an action against Oppenheimer and its Chairman and CEO (the 2006 Complaint) for alleged violations with respect to the Company s filing of the NASD mutual fund breakpoint survey in 2003. This action could result in, among other things, monetary penalty, censure, suspension and/or other remedial sanctions. As previously disclosed, Oppenheimer had previously informed the NASD of certain limitations within its system relative to selecting out and generating data in the form requested by the NASD, and the NASD had stated that no extensions to file would be granted to any firm. As a result, just prior to the deadline, Oppenheimer submitted the data it then had available. The NASD informed Oppenheimer within two days that its submission was deficient. The Company and Mr. Lowenthal, the Chairman and CEO, maintain that the assignment of overall responsibility for the response to the 2003 survey was properly delegated by the CEO to individuals who had the requisite experience and background to complete and file the survey with the NASD. The Company and Mr. Lowenthal believe that they have strong defenses for the action brought against them because of these issues and intend to vigorously defend the action. As the NASD itself notes, the issuance of a disciplinary complaint represents the initiation of a formal proceeding by the NASD in which the allegations have not been heard or determined and does not represent a decision as to any of the allegations contained in the complaint.

Prior to the filing of the 2006 Complaint, the Company advised the NASD that it had reviewed the actual breakpoints applied for the period 2001 through 2005, a period longer than required by the NASD of similar member firms. The Company has returned to customers approximately $800,000 in breakpoint credits and revised and enhanced its procedures for determining applicable breakpoints. All amounts due to customers have been refunded. The Company believes that the breakpoint survey matter was an industry-wide problem and that the Company has appropriately addressed in all respects the breakpoint issue with its clients.

The Company and Mr. Lowenthal are cooperating, have been cooperating and intend to continue to cooperate with all regulators and hope to reach a fair resolution of all outstanding regulatory issues. The Company has and continues to request an expedited adjudication of the matters in dispute.

In connection with a claim made by a client of the Company, on August 2, 2006, the Massachusetts Securities Division (the MSD) filed an administrative complaint against the Company's main operating subsidiary, Oppenheimer & Co. Inc., as well as a financial advisor formerly employed by Oppenheimer alleging that Oppenheimer violated the Massachusetts Uniform Securities Act by failing to provide reasonable supervision of the former financial advisor thereby allowing the former financial advisor to engage in unlawful activity in the State of Massachusetts. The Company has filed an answer to the complaint and believes its supervision was reasonable and in accordance with industry standards. The Company recently settled the client claim noted above.

In connection with the above matter, the MSD requested that Oppenheimer review and produce emails with respect to the former financial advisor and Oppenheimer s supervision thereof. As a result of this request, the MSD commenced an investigation into the responses made to it in connection with the retention and retrieval of emails. That investigation involves written responses by Oppenheimer provided to the MSD stating in substance that, at all times relevant to the underlying investigation, Oppenheimer had in place adequate systems to retain and preserve emails. Oppenheimer subsequently informed the MSD that, during the relevant period, one of its legacy email systems did not retain email in the required format and therefore some email may not have been retained. The MSD has stated in a letter to Oppenheimer that the investigation involves the false and/or misleading nature of the initial responses. The MSD has also informed Oppenheimer that it believes Oppenheimer has not been cooperating with the MSD s investigation, a position with which Oppenheimer disagrees. The investigation, which is ongoing, also involves the supervision of the initial responses by senior management. It is possible that in addition to seeking monetary penalties, the MSD may seek to bring charges against individuals. While the Company continues to hope to reach a fair resolution of issues arising from this investigation and the pending administrative proceeding, there can be no assurance that it will be able to do so.

On October 4, 2006, the Company reached settlement with the NASD over matters (initially alleged on May 3, 2005) relating to inaccuracies in its reporting to the Municipal Securities Rulemaking Board (MSRB) in May and June 2003, its failure to maintain electronic communications in a manner prescribed under SEC rules from July 2002 through the first quarter of 2004, as well as its policies and procedures related to these matters. The settlement required payment of a fine in the amount of $800,000 (which had been fully reserved in prior periods) and the review, modification and enhancement of certain supervisory procedures.

As part of its ongoing business, the Company records reserves for legal expenses, judgments, fines and/or awards attributable to litigation and regulatory matters. In connection therewith, the Company has maintained its legal reserves at levels it believes will resolve outstanding matters, but may increase or decrease such reserves as matters warrant.

Business Continuity

The Company is committed to an on-going investment in its technology and communications infrastructure including extensive business continuity planning and investment. These costs are on-going and the Company believes that current and future costs will exceed historic levels due to business and regulatory requirements. The Company believes that internally-generated funds from operations are sufficient to finance its expenditure program.

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 that would provide the Company's shareholders with incremental value. The Company may review additional acquisitions, and will continue to focus its attention on the management of its existing business. 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 year ended December 31, 2006 was the most successful year in the Company s history measured by revenue, net profit, earnings per share and book value. Markets were strong throughout the year, producing record revenues from transactional business from both private client and capital markets and increased fees from fee-based programs. Interest income for 2006 was impacted by higher rates on customer debit balances and increased activity in the securities lending business. In addition, the Company s performance was positively impacted by its participation as general partner in various alternative investments that had significantly better performance in 2006 compared to 2005.

The following table sets forth the amount and percentage of the Company's revenue from each principal source for each of the following years ended December 31. Amounts are expressed in thousands of dollars.

	2006	%	2005	%	2004	%
Commissions	$370,866	46%	$324,227	48%	$327,040	50%
Principal transactions, net	114,192	14%	101,016	15%	112,277	17%
Interest	108,336	14%	76,805	11%	45,418	7%
Investment banking	52,994	7%	49,533	7%	44,804	7%
Advisory fees	113,316	14%	111,946	16%	102,531	16%
Arbitration awards	-	-	-	-	3,900	-
Other	41,119	5%	16,219	2%	19,170	3%
Total revenue	$800,823	100%	$679,746	100%	$655,140	100%

The Company derives most of its revenue from the operations of its principal subsidiaries, Oppenheimer and OAM. Although maintained as separate entities, the operations of the Company's brokerage subsidiaries 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.

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

	Period to Period Change Increase (Decrease)			
	2006 versus 2005		2005 versus 2004	
	Amount	Percentage	Amount	Percentage
Revenue -				
Commissions	$46,639	+14%	$(2,813)	-1%
Principal transactions, net	13,176	+13%	(11,261)	-10%
Interest	31,531	+41%	31,387	+69%
Investment banking	3,461	+7%	4,729	+11%
Advisory fees	1,370	+1%	9,415	+9%
Arbitration awards	-	-	(3,900)	-100%
Other	24,900	+154%	(2,951)	-15%
Total revenue	121,077	+18%	24,606	+4%

	Period to Period Change Increase (Decrease)			
	2006 versus 2005		2005 versus 2004	
	Amount	Percentage	Amount	Percentage
Expenses -				
Compensation and related expenses	52,298	+12%	(7,195)	-2%
Clearing and exchange fees	(1,278)	-7%	1,814	+12%
Communications and technology	3,335	+7%	(4,507)	-8%
Occupancy and equipment costs	1,904	+4%	(1,583)	-3%
Interest	23,131	+58%	19,800	+99%
Other	2,926	+5%	10,496	+21%
Total expenses	82,316	+13%	18,825	+3%
Profit before taxes	38,761	+93%	5,781	+16%
Income taxes	17,100	+91%	3,942	+27%
Net profit	$21,661	+95%	$1,839	+9%

Fiscal 2006 compared to Fiscal 2005

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, 2006, commission revenue increased by 14% compared to fiscal 2005 primarily as a result of strong investor activity in the markets throughout 2006. Included in commission income is that portion of fee-based revenue and performance fees generated within OAM that is allocated to Oppenheimer s private client division to reflect that the Oppenheimer financial advisors provided the point of sale. Net revenue from principal transactions increased by 13% in the year ended December 31, 2006 compared to fiscal 2005 due to higher trading volumes in 2006 compared to 2005. Investment banking revenues increased 7% in the year ended December

31, 2006 compared with fiscal 2005 due to an increase in new issue and secondary issuance in 2006 compared to 2005 and the increase in the Company s investment banking effort. Advisory fees increased by 1% for the year ended December 31, 2006 compared to fiscal 2005. Assets under management by the asset management group were $15.5 billion at December 31, 2006, compared to $11.0 billion at December 31, 2005, net of the December 5, 2005 expiration of the advisory contracts for the Asia Tigers Fund and India Fund. These two advisory contracts represented approximately $1.2 billion of assets managed at December 5, 2005. Performance fees earned by OAM as a result of participation as general partner in various alternative investments produced revenue of $7.3 million in 2006 compared to $2.2 million in 2005. Other revenue increased by 154% in the year ended December 31, 2006 compared to fiscal 2005 and includes $13.7 million relating to the NYSE Group transactions and $4.1 million relating to the gain on extinguishment of the Debentures. Both of these transactions are described above under Business Environment.

Interest

Net interest revenue (interest revenue less interest expense) increased 23% in the year ended December 31, 2006 compared to fiscal 2005. Interest expense tracks the increase in interest revenue and is the result of higher interest rates, increased stock loan activity and higher debt carrying costs in 2006 compared to 2005. As discussed above, to retire the Debentures, the Company issued a Senior Secured Credit Note in the amount of $125.0 million at a variable interest rate based on the London Interbank Offering Rate (LIBOR) with a seven-year term to a syndicate led by Morgan Stanley Senior Funding Inc., as agent. The Company utilizes interest rate swap agreements to manage interest rate risk of its variable-rate Senior Secured Credit Note. These swaps have been designated as cash flow hedges under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities . Changes in the fair value of the swap hedges are expected to be highly effective in offsetting changes in the interest payments due to changes in 3-Month LIBOR. For the five months ended December 31, 2006, the effective interest rate on the Senior Secured Credit Note was 8.15% (compared to 4.5% on the retired Debentures).

Expenses, other than interest

Compensation and related expense increased by 12% in the year ended December 31, 2006 compared to fiscal 2005. Compensation expense has volume-related components and, therefore, will increase with the increased level of underlying business conducted in the year ended December 31, 2006, compared to fiscal 2005. 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. As a result of attrition, the amortization expense in fiscal 2006 was approximately $21.0 million compared to approximately $23.0 million in fiscal 2005. As of January 1, 2006, the Company adopted SFAS 123 (R), resulting in approximately $3.3 million of compensation expense for the year ended December 31, 2006 relating to the expensing of employee stock options. In prior periods, the Company provided pro forma disclosure of the impact of employee stock options in the notes to the consolidated financial statements. The cost of clearing and exchange fees decreased by 7% in the year ended December 31, 2006 compared to fiscal 2005. Part of the decrease can be attributed to the NYSE lowering its rates in August 2006. The cost of communications and technology increased 7% in the year ended December 31, 2006 compared to fiscal 2005. The increase is driven largely by the increased costs of external data services employed to support the increased level of business in 2006 compared to 2005. Occupancy and equipment costs increased 4% in fiscal 2006 compared to fiscal 2005. During 2006, the Company acquired new space and closed several branch locations. The rising costs of heat, light and power and maintenance were a factor in the comparative increase year over year. Other expenses increased by 5% for the year ended December 31, 2006 compared to fiscal 2005. Included in other expense is approximately $5.0 million of solicitor fee expense paid to third parties by Oppenheimer for introduced business ($4.0 million in 2005). General expenses, such as insurance costs, postage and out-of-town travel costs, increased in 2006 compared to 2005. Bad debt expense was unchanged in 2006 from the prior year. Legal and settlement costs decreased by approximately $2.6 million (16%) in the year ended December 31, 2006 compared to 2005 reflecting a general reduction in legal and regulatory matters facing the Company and the level of reserves set up in prior years. The Company may incur additional such expenses in future quarters. The Company has used its best estimate to provide adequate reserves to cover potential regulatory and litigation costs.

Fiscal 2005 compared to Fiscal 2004

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, 2005, commission revenue decreased by 1% compared to fiscal 2004 primarily as a result of overall investor activity in the markets. Markets were relatively robust in the last two quarters of 2005, however, commission income for fiscal 2005 did not quite rise to the level achieved in 2004. Net revenue from principal transactions decreased by 10% in the year ended December 31, 2005 compared to fiscal 2004 due to the lack of volatility in the equity and fixed income markets as well as lower trading volumes for much of 2005 compared to 2004. Investment banking revenues increased 11% in the year ended December 31, 2005 compared with fiscal 2004 due to an increase in new issue and secondary issuance in 2005 compared to 2004 and the increased size of the Company s investment banking effort. Advisory fees increased by 9% for the year ended December 31, 2005 compared to fiscal 2004. Assets under management by the asset management group were $11.0 billion at December 31, 2005, an increase from $10.3 billion at December 31, 2004, net of the December 5, 2005 expiration of the advisory contracts for the Asia Tigers Fund and India Fund. These two advisory contracts represented approximately $1.2 billion of assets managed at December 5, 2005. Other revenue decreased by 15% in the year ended December 31, 2005 compared to fiscal 2004.

Interest

Net interest revenue (interest revenue less interest expense) increased significantly in the year ended December 31, 2005 compared to fiscal 2004 as a result of higher interest rates in 2005 combined with higher customer debit balances. Higher customer debit balances flowed from improved market conditions in the fourth quarter of 2005 as well as the Company s larger customer base in 2005 compared to 2004.

Expenses, other than interest

Compensation expense decreased by 2% in the year ended December 31, 2005 compared to fiscal 2004. Compensation expense has volume-related components and, therefore, will decrease with the decreased level of commission business conducted in the year ended December 31, 2005, compared to fiscal 2004. 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 are expected to continue through most of 2006. That said, due to attrition, the amortization expense in fiscal 2005 was approximately $23.0 million compared to approximately $29.0 million in fiscal 2004. The cost of clearing and exchange fees increased by 12% in the year ended December 31, 2005 compared to fiscal 2004. The Company finds itself processing a larger number of trades due to the general growth of its business and the fractionalization of executions as a result of changes in the equity markets, incurring higher overall clearing and exchange fees in fiscal 2005 compared to fiscal 2004. The cost of communications and technology decreased 8% in the year ended December 31, 2005, compared to fiscal 2004. The level of investment in technology declined in 2005. The new contracts with vendors have reduced communications cost in fiscal 2005 compared to fiscal 2004. Occupancy costs decreased 3% in fiscal 2005 compared to fiscal 2004. The Company has continued to address its occupancy costs and has been successful in negotiating favorable leases resulting in reduced costs in fiscal 2005 compared to fiscal 2004. Other expenses increased by 21% for the year ended December 31, 2005 compared to fiscal 2004. Included in other expenses in 2005 is approximately $17.0 million of fee expense paid to third party money managers by OAM ($14.0 million in 2004); approximately $4.0 million of solicitor fee expense paid to third parties by Oppenheimer for introduced business ($3.8 million in 2004); approximately $17.0 million in regulatory settlement, litigation and legal costs ($6.0 million in 2004); a credit of approximately $400 thousand with respect to bad debt expense ($1.0 million credit in 2004) and a reduction in audit and accounting fees primarily due to the Company s ability in 2005 to self-administer its Sarbanes-Oxley

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processes and procedures ($1.7 million in 2005 compared to $2.6 million in 2004). The Company continued to be affected by litigation and regulatory settlement costs in 2005. Much of the Company s unfavorable litigation experience in the past several years arose from its acquisitions of Josephthal and Prime Charter in 2001. As stated above, the Company has been affected by regulatory settlement expenses in 2005 which primarily arose from the period in 2003 after the conversion of customer accounts following the acquisition of the private client business of CIBC World Markets Inc. The Company may incur additional such expenses 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 December 31, 2006 decreased by less than 1% from December 31, 2005 levels. 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, 2006, $79.5 million of such borrowings were outstanding compared to outstanding borrowings of $139.7 million at

December 31, 2005. At December 31, 2006, the Company had available collateralized and uncollateralized letters of credit of $185.2 million.

In connection with the acquisition of the Oppenheimer Divisions from CIBC World Markets in January 2003, the Company arranged a credit facility in the amount of $50.0 million with CIBC. In January 2003, the Company borrowed $25.0 million under this facility and borrowed the balance in July 2003. The borrowings were used to finance broker retention notes and were 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 Company fully retired this credit facility in January 2006 out of internally generated funds and an increase in bank call loans.

Also in connection with the acquisition of the Oppenheimer Divisions from CIBC World Markets in January 2003, the Company issued a zero coupon promissory note in the amount of approximately $65.5 million. Note 7 to the consolidated financial statements contains a description of these instruments. 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 businesses.

In connection with the acquisition of the Oppenheimer Divisions from CIBC World Markets in January 2003, the Company issued Debentures in the amount of approximately $161.8 million. Note 7 to the consolidated financial statements contains a description of these instruments. As discussed above, the Debentures were retired ($140.8 million on July 31, 2006 and the remaining $20.0 million on October 23, 2006). In order to finance the retirement of the Debentures, the Company issued a Senior Secured Credit Note to a syndicate led by Morgan Stanley Senior Funding Inc., as agent, in the amount of $125.0 million, employed internally available funds and increased bank call loans. The Senior Secured Credit Note has a term of seven years with minimum principal repayments of 0.25% per quarter and required prepayments based on a portion of the Company s excess cash flow, the net cash proceeds of asset sales, tax refunds over certain limits, awards over certain limits in connection with legal actions or takings , and debt issuances or other liability financings, and pays interest at a variable rate based on LIBOR (London Interbank Offering Rate). The Company utilizes interest rate swap agreements to manage interest rate risk of its variable-rate Senior Secured Credit Note. These swaps have been designated as cash flow hedges under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities . Changes in the fair value of the swap hedges are expected to be highly effective in offsetting changes in the interest payments due to changes in 3-Month LIBOR. The Company estimates that, in April 2007, it will pay down principal of approximately $10.0 million pursuant to the excess cash flow computation. In accordance with the Senior Secured Credit Note, the Company has provided certain covenants to the lenders with respect to the maintenance of a minimum fixed charge ratio and maximum leverage ratio driven from EBITDA and minimum net capital requirements with respect to Oppenheimer. In the Company s view, the most restrictive of the covenants requires that the Company maintain a maximum leverage ratio of 2.30 (total long-term debt divided by EBITDA). At December 31, 2006, the Company was in compliance with the covenants.

The obligations under the Senior Secured Credit Note are guaranteed by certain of the Company s subsidiaries, other than broker-dealer subsidiaries, with certain exceptions, and are secured by a lien on substantially all of the assets of each guarantor, including a pledge of the ownership interests in each first-tier broker-dealer subsidiary held by a guarantor, with certain exceptions.

The Company has agreed to make a contingent payment to CIBC if, prior to December 31, 2007, the Company enters into an agreement for the sale of the majority of the Company s Class A and Class B Shares. The amount of the contingent payment would be based on the price per share realized by the Company s shareholders in any such transaction. The Company has made an estimate of the fair value of this contingent payment and will revalue it at the end of each reporting period.

Funding Risk

Amounts are expressed in thousands of dollars.

	Year ended December 31,	
	2006	2005
Cash provided by (used in) operations	$118,449	$(89,734)
Cash used in investing activities	(7,272)	(4,589)
Cash (used in) provided by financing activities	(119,648)	92,946
Net (decrease) in cash and cash equivalents	$(8,471)	$(1,377)

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).

Other Matters

During the fourth quarter of 2006, the Company did not purchase any Class A Shares pursuant to the Normal Course Issuer Bid.

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During the fourth quarter of 2006, the Company issued 122,160 Class A Shares for a total consideration of $3.3 million related to employee exercises of options under the Company s equity incentive plan.

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On November 24, 2006, the Company paid cash dividends of U.S. $0.10 per Class A and Class B Share totaling $1.3 million from available cash on hand.

On January 25, 2007, the Board of Directors declared a regular quarterly cash dividend of U.S. $0.10 per Class A and Class B Share payable on February 23, 2007 to shareholders of record on February 9, 2007.

The book value of the Company s Class A and Class B Shares was $27.76 at December 31, 2006 compared to $24.46 at December 31, 2005, an increase of approximately 13%, based on total outstanding shares of 12,934,362 and 12,595,821, respectively.

The diluted weighted average number of Class A non-voting and Class B Shares outstanding for the year ended December, 2006 was 17,039,842 compared to 19,952,341 outstanding for the year ended December 31, 2005, a net decrease of 15% primarily due to the redemption, on July 31, 2006, of $140.8 million and on October 23, 2006, of the remaining $20.0 million, of the Company s Debentures. The Debentures were exchangeable into approximately 6.9 million Class A Shares. The fourth quarter of 2006 represents the last quarterly period in which the Debentures had a dilutive impact on earnings per share.

Off-Balance Sheet Arrangements

Information concerning the Company s off-balance sheet arrangements is included in note 16 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 and debt assumed upon the 2003 acquisition of the Oppenheimer Divisions from CIBC World Markets, as well as debt assumed in 2006 to refinance the Debentures which were issued in 2003.

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The following table sets forth these contractual and contingent commitments as at December 31, 2006. Amounts are expressed in millions of dollars.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Minimum rentals	$153	$29	$50	$38	$36
Senior Secured Credit Note	124	12	2	2	108
Zero coupon promissory notes	15	4	4	2	5
Total	$292	$45	$56	$42	$149

Inflation

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

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Factors Affecting Forward-Looking Statements

From time to time, the Company may publish Forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act or make oral statements that constitute forward-looking statements. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues 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. See Item 1A Risk Factors.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

The Company s principal business activities by their nature involve significant market, credit and other risks. The Company s effectiveness in managing these risks is critical to its success and stability.

As part of its normal business operations, the Company engages in the trading of both fixed income and equity securities in both a proprietary and market-making capacity. The Company makes markets in over-the-counter equities in order to facilitate order flow and accommodate its institutional and retail customers. The Company also makes markets in municipal bonds, mortgage-backed securities, government bonds and high yield bonds and short term fixed income securities.

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 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, under the caption   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 (including the maintenance of disaster recovery facilities and procedures related thereto) that are designed to identify and manage operational risk at appropriate levels. With respect to its trading activities, the

Company has procedures designed to ensure that all transactions are accurately recorded and properly reflected on the Company s books on a timely basis. With respect to client activities, the 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

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and monitor counterparty risk. For a discussion of funding risk, see Item 7, under the caption 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. Timely and accurate compliance with regulatory requests has become increasingly problematic, and regulators have tended to bring enforcement proceedings in relation to such matters. See further discussion in Item 7, under the caption Regulatory Environment .

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 in Item 7, under the caption 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 to adverse movements in underlying risk factors. In response to the SEC s market risk disclosure requirements, the Company has performed a value-at-risk analysis of its trading of financial instruments and derivatives. The value-at-risk calculation uses standard statistical techniques to measure the potential loss in fair value based upon a one-day holding period and a 95% confidence level. 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, 2006 and 2005, the Company s value-at-risk for each component of market risk was as follows (in thousands of dollars):

	-------------Fiscal 2006-------------			As at December 31,	
	High	Low	Average	2006	2005
Equity price risk	$503	$267	$315	$308	$279
Interest rate risk	435	437	403	392	285
Commodity price risk	142	65	128	133	503
Diversification benefit	(662)	(411)	(456)	(502)	(634)
Total	$418	$359	$390	$331	$433

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 2006 from those reported in 2005 reflect changes in the size and composition of the Company s trading portfolio at December 31, 2006 compared to December 31, 2005. The Company s portfolio as at December 31, 2006 includes approximately $14.9 million ($14.7 million in 2005) 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 used derivative financial instruments to hedge market risk in fiscal 2006 and 2005, including in connection with the Senior Secured Credit Note, which is described in note 16 of the Notes to the Consolidated Financial Statements. Such information is hereby incorporated by reference. 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

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Management s Report on Internal Control over Financial Reporting

Management of Oppenheimer Holdings Inc. is responsible for establishing and maintaining adequate 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 purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2006, 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). Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2006 was effective.

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

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included herein, which expresses unqualified opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting as of December 31, 2006.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Oppenheimer Holdings, Inc.:

We have completed integrated audits of Oppenheimer Holdings Inc. s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, 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 consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Oppenheimer Holdings Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 Notes 1 and 12 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page 50, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the 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 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.

PricewaterhouseCoopers LLP

New York, New York

March 7, 2007

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

	2006	2005
	(Expressed in thousands of dollars)	
ASSETS		
Cash and cash equivalents	$23,542	$32,013
Cash and securities segregated for regulatory and other purposes	45,035	31,327
Deposits with clearing organizations	11,355	14,240
Receivable from brokers and clearing organizations	643,914	527,490
Receivable from customers	979,350	1,117,214
Securities owned, including amounts pledged of $1 million ($1 million in 2005), at market value	137,092	146,645
Notes receivable, net	52,340	59,874
Other	84,852	64,593
Office facilities, net	16,478	18,787
Intangible assets, net of amortization	33,660	34,395
Goodwill	132,472	137,889
	$2,160,090	$2,184,467

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

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

	2006	2005
	(Expressed in thousands of dollars)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Drafts payable	$57,641	$46,012
Bank call loans	79,500	139,700
Payable to brokers and clearing organizations	923,556	830,478
Payable to customers	384,881	473,212
Securities sold, but not yet purchased, at market value	7,315	9,786
Accrued compensation	116,235	87,040
Accounts payable and other liabilities	74,806	80,811
Income taxes payable	13,229	6,584
Bank loans	-	14,524
Zero coupon promissory note	14,576	22,822
Exchangeable debentures	-	160,822
Senior secured credit note	124,375	-
Deferred income tax, net	4,935	4,553
	1,801,049	1,876,344
Commitments and contingencies (note 13)		
Shareholders' equity		
Share capital		
Class A non-voting shares		
(2006 - 12,834,682 shares issued	41,093	32,498
2005 12,496,141 shares issued)		
99,680 Class B voting shares issued	133	133
	41,226	32,631
Contributed capital	11,662	8,810
Retained earnings	306,153	266,682

	359,041	308,123
	$2,160,090	$2,184,467

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

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OPPENHEIMER HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31,

	2006	2005	2004
	(Expressed in thousands of dollars, except per share amounts)		
REVENUE:			
Commissions	$370,866	$324,227	$327,040
Principal transactions, net	114,192	101,016	112,277
Interest	108,336	76,805	45,418
Investment banking	52,994	49,533	44,804
Advisory fees	113,316	111,946	102,531
Arbitration awards	-	-	3,900
Other	41,119	16,219	19,170
	800,823	679,746	655,140
EXPENSES:			
Compensation and related expenses	473,350	421,052	428,247
Clearing and exchange fees	16,082	17,360	15,546
Communications and technology	54,099	50,764	55,271
Occupancy and equipment costs	50,512	48,608	50,191
Interest	62,867	39,736	19,936
Other	63,463	60,537	50,041
	720,373	638,057	619,232
Profit before income taxes	80,450	41,689	35,908
Income tax provision	35,873	18,773	14,831
NET PROFIT FOR YEAR	$44,577	$22,916	$21,077
Earnings per share			
Basic	$3.50	$1.76	$1.58
Diluted	$2.76	$1.36	$1.24

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

OPPENHEIMER HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEAR ENDED DECEMBER 31,

	2006	2005	2004
		(Expressed in thousands of dollars)	
SHARE CAPITAL			
Balance at beginning of year	$32,631	$49,637	$41,653
Issue of Class A Shares	10,850	2,629	11,104
Repurchase of Class A Shares for cancellation	(2,255)	(19,635)	(3,120)
Balance at end of year	$41,226	$32,631	$49,637
CONTRIBUTED CAPITAL			
Balance at beginning of year	$8,810	$8,780	$5,966
Tax benefit from employee stock options exercised	315	30	2,814
Stock option expense	3,250	-	-
Deferred tax benefit from stock option expense	(713)	-	-
Balance at end of year	$11,662	$8,810	$8,780
RETAINED EARNINGS			
Balance at beginning of year	$266,682	$248,466	$232,217
Net profit for year	44,577	22,916	21,077
Dividends paid ($0.40 per share; $0.36 per share in 2005 and 2004)	(5,106)	(4,700)	(4,828)
Balance at end of year	$306,153	$266,682	$248,466
Total Shareholders Equity	$359,041	$308,123	$306,883

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

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

	2006	2005	2004
		(Expressed in thousands of dollars)	
Cash flows from operating activities:			
Net profit for year	$44,577	$22,916	$21,077
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:			
Non-cash items included in net profit:			
Depreciation and amortization of fixed asset and leasehold improvements	9,583	9,347	10,482
Deferred income tax	382	(3,975)	7,322
Tax benefit from employee options exercised	-	30	2,814
Amortization of notes receivable	20,676	23,141	29,174
Amortization of debt issuance costs	352	-	-
Amortization of intangible assets	735	735	735
Change in allowance for doubtful accounts	(200)	(2,035)	(3,100)
Stock option expense, net	2,537	-	-
Decrease (increase) in operating assets:			
Cash and securities segregated for regulatory and other purposes	(13,708)	(16,036)	(825)
Deposits with clearing organizations	2,885	2,766	852
Receivable from brokers and clearing organizations	(116,424)	(52,967)	(196,002)
Receivable from customers	138,064	(248,841)	48,384
Securities owned	9,553	(68,200)	16,778
Notes receivable	(13,142)	(12,945)	(1,325)
Other assets	(16,578)	(10,022)	(1,007)
Increase (decrease) in operating liabilities:			
Drafts payable	11,629	(13,227)	(8,909)

Payable to brokers and clearing organizations	93,078	158,525	203,987
Payable to customers	(88,331)	89,512	(22,437)
Securities sold, but not yet purchased	(2,471)	(750)	(151)
Accrued compensation	29,195	13,954	(15,778)
Accounts payable and other liabilities	(6,005)	14,153	31,208
Income taxes payable	12,062	4,185	2,332
Cash provided by (used in) operating activities	118,449	(89,734)	125,611

OPPENHEIMER HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE YEAR ENDED DECEMBER 31,

	2006	2005	2004
		(Expressed in thousands of dollars)	
Cash flows from investing activities:			
Purchase of office facilities	(7,272)	(4,589)	(10,219)
Cash used in investing activities	(7,272)	(4,589)	(10,219)
Cash flows from financing activities:			
Cash dividends paid on Class A and Class B Shares	(5,106)	(4,700)	(4,828)
Issuance of Class A Shares	10,850	2,629	11,104
Tax benefit from employee stock options exercised	315	-	-
Repurchase of Class A Shares for cancellation	(2,255)	(19,635)	(3,120)
Repayments of Zero coupon promissory notes	(8,246)	(12,556)	(15,497)
Redemption of variable rate exchangeable debentures	(160,822)	-	-
Issuance of senior secured credit note	125,000	-	-
Repayments of senior secured credit note	(625)	-	-
Debt issuance costs	(4,035)	-	-
Bank loan repayments	(14,524)	(10,119)	(15,012)
Increase (decrease) in bank call loans, net	(60,200)	137,327	(89,127)
Cash provided by (used in) financing	(119,648)	92,946	(116,480)
Net decrease in cash and cash equivalents	(8,471)	(1,377)	(1,088)
Cash and cash equivalents, beginning of year	32,013	33,390	34,478
Cash and cash equivalents, end of year	$23,542	$32,013	$33,390

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

OPPENHEIMER HOLDINGS INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

December 31, 2006

1. Summary of Significant Accounting Policies

Basis of Presentation

Oppenheimer Holdings Inc. (OPY") is incorporated under the laws of Canada. The consolidated financial statements include the accounts of OPY and its subsidiaries (together, the Company). The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker dealer in securities, Oppenheimer Asset Management Inc. (OAM) and its wholly owned subsidiary, Oppenheimer Investment Management Inc. (OIM), both registered investment advisors under the Investment Advisors Act of 1940, Oppenheimer Trust Company, a limited purpose trust company chartered by the State of New Jersey to provide fiduciary services such as trust and estate administration and investment management, and Evanston Financial Corporation (Evanston), which is engaged in mortgage brokerage and servicing. Oppenheimer operates as Fahnestock & Co. Inc. in Latin America. Oppenheimer owns Freedom Investments, Inc. (Freedom), a registered broker dealer in securities, which also operates as the BUYandHOLD division of Freedom, offering on-line discount brokerage and dollar-based investing services. Oppenheimer is a member of the New York Stock Exchange, the American Stock Exchange and several other regional exchanges in the United States.

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for purpose of inclusion in the Company s annual report on Form 10-K and in its annual report to shareholders. All material intercompany transactions and balances have been eliminated in the preparation of the consolidated financial statements. Since operations are predominantly based in the United States of America, these consolidated financial statements are presented in U.S. dollars.

Description of Business

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, securities lending activities, trust services, and investment advisory and asset management services.

Use of Estimates

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

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

Financial Instruments

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 brokers and clearing organizations; securities owned; securities sold but not yet purchased; and stock borrow / stock loan balances. 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 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. The Company's remaining financial instruments are generally short-term in nature, and their carrying values approximate fair value, with the exception of notes receivable from employees, which are carried at cost.

Securities owned, including those pledged and securities sold, but not yet purchased are recorded at estimated fair value on the consolidated balance sheet using quoted market or dealer prices, where available. Gains and losses are recorded in principal transactions on the consolidated statements of income.

Investments, included in securities owned, which have a ready market are valued using quoted market or dealer prices. Investments with no ready market value are stated at fair value as determined in good faith by management. Factors considered in valuing individual investments include available market prices, type of security, purchase price, purchases of the same or similar securities by other investors, marketability, restrictions on disposition, current financial position and operating results of the issuer, and other pertinent information. Management uses its best judgment in estimating the fair value of these investments. There are inherent limitations in any estimation technique. The fair value estimates presented herein are not necessarily indicative of an amount that the Company could realize in a current transaction. Because of inherent uncertainty of valuation, these estimated fair values do not necessarily represent amounts that might be ultimately realized, since such amounts depend on future circumstances and the differences could be material.

Financial instruments used for asset and liabilities management are recorded on the consolidated balance sheets at fair value based upon dealer quotes and third-party pricing services. The Company utilizes interest rate swap agreements to manage interest rate risk of its Senior Secured Credit Note. These swaps have been designated as cash flow hedges under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities . Changes in the fair value of the swap hedges are expected to be highly effective in offsetting changes in the interest payments due to changes in 3-Month LIBOR.

Loans and Allowances for Doubtful Accounts

Customer receivables, primarily consisting of margin loans collateralized by customer-owned securities, are charged interest at rates similar to other such loans made throughout the industry. Customer receivables are stated net of allowance for doubtful accounts (unsecured or partially secured receivables) from customers and are fully reserved.

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.

Legal and Regulatory Reserves

The Company records reserves related to legal and regulatory proceedings in accounts payable and other liabilities. The determination of the amounts of these reserves requires significant judgment on the part of management. Management considers many factors including, but not limited to: the amount of the claim; specifically in the case of client litigation, the amount of the loss in the client's account and the possibility of wrongdoing, if any, on the part of an employee of the Company; the basis and validity of the claim; previous results in similar cases; and legal precedents and case law as well as the timing of the resolution of such matters. Each legal and regulatory proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Any change in the reserve amount is recorded 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 or regulatory

proceeding could be greater or less than the reserve amount.

Intangible Assets

Intangible assets arose upon the acquisition of the U.S. Private Client and Asset Management Divisions of CIBC World Markets Inc. (the Oppenheimer Divisions) and are comprised of customer relationships and trademarks and trade names. Customer relationships are carried at $2.0 million (which is net of accumulated amortization of $2.9 million) and are being amortized on a straight-line basis over 80 months commencing in January 2003. Trademarks and trade names, carried at $31.7 million, which are not amortized, are subject to at least an annual test for impairment to determine if the fair value is less than their carrying amount. Trademarks and trade names recorded as at December 31, 2006 have been tested for impairment and it has been determined that no impairment has occurred.

Goodwill

Goodwill arose upon the acquisitions of Oppenheimer, Old Michigan Corp. (formerly First of Michigan Corporation), Josephthal & Co. Inc., Grand Charter Group Incorporated and the Oppenheimer Divisions. Goodwill is subject to at least an annual test for impairment to determine if the fair value of goodwill of a reporting unit is less than its carrying amount. Goodwill recorded as at December 31, 2006 has been tested for impairment and it has been determined that no impairment has occurred. An immaterial adjustment was recorded to recognize a deferred tax asset related to the CIBC Deferred Compensation Plan that was purchased as part of the 2003 acquisition of the Oppenheimer Divisions. See further discussion in notes 10 and 12.

Stock-Based Compensation Plans

The Company estimates the fair value of share-based awards using the Black-Scholes option-pricing model and applies to it a forfeiture rate based on historical experience. Key input assumptions used to estimate the fair value of share-based awards include the exercise price of the award, the expected term, the expected volatility of the Company s Class A Shares over the term of the award, the risk-free interest rate over the expected term, and the Company s expected annual dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive share-based awards.

Income Taxes

The Company 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.

Revenue Recognition

Brokerage

Customers securities and commodities transactions are reported on a settlement date basis, which is generally three business days after trade date. Related commission income and expense is recorded on a trade date basis. Included in commission income, for the year ended December 31, 2006, are approximately $78.1 million and $7.5 million of fee-based revenue and performance fees, respectively, generated within OAM that are allocated to Oppenheimer s private client division to reflect that the Oppenheimer financial advisors provided the point of sale. The portion of these fee-based revenue and performance fees allocated to OAM of approximately $45.9 million and $7.2 million, respectively, are included in Advisory fees and Other Income, respectively.

Transactions in proprietary securities and related revenue and expenses are recorded on a trade date basis. Securities owned and securities sold, but not yet purchased, are reported at market value generally based upon quoted prices. Realized and unrealized changes in market value are recognized in principal transactions, net in the period in which the change occurs.

Investment banking fees are recorded on offering date, sales concessions on trade date and other underwriting fees at the time the transaction is substantially completed and income is reasonably determinable.

Asset Management

Asset management fees are generally recognized over the period the related service is provided based on the account value at the valuation date per the respective asset management agreements. In certain circumstances, OAM is entitled to receive performance fees when the return on assets under management exceeds certain benchmark returns or other performance targets. Performance fees are generally based on investment performance over a 12-month period and are not subject to adjustment once the measurement period ends. Accordingly, performance fees are recognized in the consolidated statements of income when the measurement period ends. Asset management fees and performance fees are included in advisory fees in the consolidated statements of income. Assets under management are not included as assets of the Company.

Balance Sheet Items

Cash and Cash Equivalents

The Company defines cash equivalents as highly liquid investments with original maturities of less than 90 days that are not held for sale in the ordinary course of business.

Receivables From/Payables To Brokers and Clearing Organizations

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

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

Notes Receivable

The Company had notes receivable from employees of approximately $52.3 million at December 31, 2006. The notes are recorded in the consolidated balance sheet at face value of approximately $110.7 million less accumulated amortization and reserves of $50.5 million and $7.9 million, respectively, at December 31, 2006. These amounts represent recruiting and retention payments generally in the form of upfront loans to financial advisors and key revenue producers as part of the Company s overall growth strategy. These loans are generally forgiven over a service period of 3-5 years from the initial date of the loan or based on productivity levels of employees and all such notes are contingent on their continued employment with the Company. The unforgiven portion of the notes becomes due on demand in the event the employee departs during the service period. Management monitors and compares individual financial advisor production to each loan issued to ensure future recoverability. Amortization of notes receivable is included in the statements of income in compensation and related expenses.

Office Facilities

Office facilities are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of furniture, fixtures, and equipment is provided on a straight-line basis generally over three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of the life of the improvement or the remaining term of the lease. Leases with escalating rents are expensed on a straight-line basis over the life of the lease. Landlord incentives are recorded as deferred rent and amortized, as reductions to lease expense, on a straight-line basis over the life of the applicable lease.

Debt Issuance Costs

Debt issuance costs, included in other assets, from the issuance of the Senior Secured Credit Note are reported in the consolidated balance sheet as deferred charges and amortized using the interest method. Debt issuance costs include underwriting and legal fees as well as other incremental expenses directly attributable to realizing the proceeds of the Senior Secured Credit Note.

Drafts Payable

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

Foreign Currency Translations

Canadian currency balances have been translated into U.S. dollars as follows: monetary assets and liabilities at exchange rates prevailing at period end; revenue and expenses at average rates for the period; and non-monetary assets and shareholders equity at historical rates. Cumulative translation adjustments are immaterial.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes . Deferred income tax assets and liabilities arise from temporary differences between the tax basis of an asset

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or liability and its reported amount in the consolidated financial statements. Deferred tax balances are determined by applying the enacted tax rates applicable to the periods in which items will reverse.

Share-Based Payments

The Company has stock-based compensation plans. In December 2004, the Financial Accounting Standards Board issued a revision to SFAS No. 123, Accounting for Stock-Based Compensation , SFAS No. 123(R), Share-Based Payment . SFAS No. 123(R) requires that share-based payments be accounted for at fair value. The Company commenced expensing stock-based compensation awards on January 1, 2006 using the modified prospective method . Under that method, the provisions of SFAS No. 123(R) are applied to remaining unvested share-based awards outstanding at December 31, 2005 as well as to share-based awards granted subsequent to adoption. The consolidated financial statements for periods prior to adoption are not restated for the effects of adopting SFAS No. 123(R).

For stock-based awards issued prior to the adoption of SFAS No. 123(R), the Company applied Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations in accounting for its stock compensation plans. Accordingly, the Company did not recognize compensation expense for outstanding stock options. Under APB 25, compensation expense was not required to be recognized in the consolidated statement of income so long as the strike price of the options granted was equal to the market value on grant date. The pro-forma and earnings per share impact, using a fair-value-based calculation, was disclosed for awards issued prior to adoption of SFAS No. 123(R).

Interest Expense

Included in interest expense is interest on bank call loans, bank loans, the Senior Secured Credit Note, and the Variable Rate Exchangeable Debentures (Debentures), securities loaned, and customer credits.

On July 31, 2006, the Company issued a Senior Secured Credit Note in the amount of $125.0 million at a variable interest rate based on the London Interbank Offering Rate (LIBOR) with a seven-year term to a syndicate led by Morgan Stanley Senior Funding Inc., as agent. The effective interest rate on the Senior Secured Credit Note for the five months ended December 31, 2006 was 8.15%. Interest expense for the five months ended December 31, 2006 was $4.3 million.

The Company redeemed $140.8 million of the Debentures on July 31, 2006 and the remaining $20.0 million on October 23, 2006. During the period the Debentures were outstanding, interest expense was computed using the interest method. The interest method requires the application of the effective interest rate over the life of increasing rate debt instruments. The effective annual interest rate under the interest method of the Debentures was 4.5% over the life of the Debentures. The Company recorded a net gain on extinguishment of the Debentures of approximately $4.1

million included in other revenue on the consolidated statement of income for the year ended December 31, 2006. For the most part, this gain represents the difference between interest expensed by the Company since the issuance of the Debentures on January 6, 2003 at a 4.5% interest rate (the annual effective interest rate over the life of the Debentures) compared to the actual interest costs of 3% in 2003 and 4% thereafter until October 23, 2006. Interest expense for the years ended December 31, 2006, 2005 and 2004 was $4.5 million, $7.4 million and $7.4 million, respectively, (of which $4.0 million, $6.5 million and $6.5 million, respectively, was paid on a cash basis).

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New Accounting Pronouncements

Recently adopted

In June 2005, the FASB ratified the consensus reached in Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights which requires a general partner(s) (or managing member(s) in the case of limited liability companies) to consolidate its partnerships or to provide limited partners with rights to remove the general partner(s) or to terminate the partnership. The Company serves as a general partner for a number of asset management limited partnerships through OAM and, therefore, was required to adopt the provisions of EITF Issue No. 04-5 immediately for partnerships formed or modified after June 29, 2005. For partnerships formed on or before June 29, 2005 that were not modified, the Company was required to adopt EITF Issue No. 04-5 on January 1, 2006. The adoption of EITF Issue No. 04-5 did not have a material impact on the Company s consolidated financial statements.

Recently Issued

In June 2006, the FASB issued Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes.* This Interpretation requires that a tax position be recognized only if it is more likely than not to be sustained upon examination, including resolution of related appeals or litigation processes, based solely on its technical merits, as of the reporting date. A tax position that meets the more-likely-than-not criterion shall be measured at the largest amount of benefit that is more than fifty percent likely of being realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has evaluated the impact of adopting this guidance and expects that it will not have a significant impact on the Company s consolidated balance sheet, results of operations and cash flows. The Company has estimated that a cumulative effect adjustment of approximately $500 thousand to $1.0 million will be recorded as a reduction to opening retained earnings to increase reserves related to uncertain tax positions, which is subject to revision as management completes its analysis.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*, which provides expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. In addition, SFAS No. 157 prohibits recognition of block discounts for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available in an active market. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with early adoption permitted. The Company does not plan to early adopt SFAS No. 157. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated financial statements but does not expect the adoption of SFAS No. 157 to be material.

2. Cash and Securities Segregated For Regulatory and Other Purposes

Deposits of $27.2 million (2005 - $23.5 million) were held at year-end in special reserve bank accounts for the exclusive benefit of customers in accordance with regulatory requirements. To the extent permitted, these deposits are invested in interest bearing accounts collateralized by qualified securities.

Evanston and Oppenheimer Trust Company had client funds held in escrow totaling $17.8 million at December 31, 2006 (2005 -$7.8 million).

3. Receivable from and Payable to Brokers and Clearing Organizations

Amounts are expressed in thousands of dollars.

	As at December 31,	
	2006	2005
Receivable from brokers and clearing organizations consist of:		
Deposits paid for securities borrowed	$529,854	$472,499
Securities failed to deliver	33,759	23,673
Omnibus accounts	18,490	16,136
Other	61,811	15,182
	$643,914	$527,490

	As at December 31,	
	2006	2005
Payable to brokers and clearing organizations consist of:		
Deposits received for securities loaned	$885,655	$794,353
Securities failed to receive	36,810	35,722
Clearing organizations and other	1,091	403
	$923,556	$830,478

4. Securities Owned and Securities Sold, but not yet Purchased (at Market Value)

Amounts are expressed in thousands of dollars.

	As at December 31,	
	2006	2005
Securities owned consist of:		
Corporate equities and warrants	$42,508	$35,895
Corporate and sovereign obligations	41,747	46,482
U.S. government and agency and state and municipal government obligations	49,974	61,590
Money market funds	1,969	2,655
Other	894	23
	$137,092	$146,645

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	As at December 31,	
	2006	2005
Securities sold, but not yet purchased consist of:		
Corporate equities and warrants	$3,609	$4,685
Corporate obligations	2,336	3,722
U.S. government and agency and state and municipal government obligations and other	1,370	1,379
	$7,315	$9,786

Securities owned and Securities sold, but not yet purchased, consist of trading and investment securities at market values. Included in securities owned at December 31, 2006 are corporate equities with market values of approximately $14.9 million ($14.7 million in 2005), which are matched to deferred compensation liabilities to certain employees. See note 12 below for further discussion. At December 31, 2006, the Company had pledged securities owned of approximately $979.0 thousand ($1.0 million in 2005) as collateral to counterparties for securities loan transactions, which can be sold or repledged.

The New York Stock Exchange (NYSE)/Archipelago (collectively referred to as NYSE Group) merger, which took place in March 2006, had a significant impact on the Company s financial results for the year ended December 31, 2006. Oppenheimer had been a member of the NYSE since 1880 and was the beneficial owner of three memberships (seats) carried at a cost of $2.2 million. Pursuant to the plan of merger between NYSE and Archipelago, Oppenheimer surrendered its memberships in exchange for approximately $809 thousand in cash and 241,901 NYSE Group common shares, par value $0.01 per share, in the aggregate. In lieu of the rights conferred by membership, Oppenheimer purchased the rights to an annual renewable trading license. This license allows Oppenheimer continued physical and electronic access to the NYSE trading facilities. The NYSE Group common shares are subject to a three-year restriction on transfer, which were scheduled to expire in equal one-third installments in March 2007, 2008, and 2009.

On May 4, 2006, the Company sold 156,588 shares of NYSE Group (consisting of 80,635 and 75,953 NYSE Group common shares that were originally restricted until March 2007 and March 2008, respectively) at a price of $61.50 per share (before commission) as part of a secondary offering by NYSE Group shareholders. The Company s pre-tax profit for the year ended December 31, 2006 reflects a net gain of $13.7 million included in other revenue on the consolidated statement of income for the year ended December 31, 2006, related to the exchange of seats for cash and NYSE Group common shares. At December 31, 2006, the estimated fair value of the remaining NYSE Group common shares was approximately $6.0 million, net of valuation adjustment, which is included in securities owned on the consolidated balance sheet.

5. Office Facilities

Amounts are expressed in thousands of dollars.

	December 31, 2006			December 31, 2005
	Cost	Accumulated depreciation/ amortization	Net book value	Net book value
Furniture, fixtures and equipment	$51,817	$43,983	$7,834	$9,591
Leasehold improvements	24,828	16,184	8,644	9,196
	$76,645	$60,167	$16,478	$18,787

Depreciation and amortization expense, included in occupancy and equipment costs, was $9.6 million, $9.3 million and $10.5 million in the years ended December 31, 2006, 2005 and 2004, respectively.

6. Bank Call Loans

Bank call loans, primarily payable on demand, bear interest at various rates but not exceeding the broker call rate, which was 7% at December 31, 2006. These loans, collateralized by firm and customer securities (with market values of approximately $36.4 million and $182.0 million, respectively), at December 31, 2006 are primarily with two U.S. money center banks. Details of the bank call loans are as follows.

Amounts are expressed in thousands of dollars.

Year ended December 31,

	2006	2005	2004
Year-end balance	$79,500	$139,700	$2,373
Weighted interest rate (at end of year)	5.703%	4.622%	2.6875%
Maximum balance (at any month end)	$238,500	$275,200	$121,700
Average amount outstanding (during the year) (1)	$131,050	$164,733	$50,083
Weighted average interest rate (during the year) (2)	5.33%	3.88%	1.59%

(1)

The average amount outstanding during the year was computed by adding amounts outstanding at the end of each month and dividing by twelve.

(2)

The weighted average interest rate during the year was computed by taking a weighted average of the daily interest rates on the last day of each month.

Interest expense in 2006 on bank call loans was $7.5 million ($9.3 million in 2005 and $3.7 million in 2004) and $9.7 million ($8.7 million in 2005 and $3.7 million in 2004) was paid on a cash basis.

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7. Long-Term Liabilities

Amounts are expressed in thousands of dollars.

Issued	Maturity Date	Interest Rate	December 31, 2006
Zero Coupon Promissory Note,			
issued January 2, 2003 **(a)**	-	0%	$14,576
Less current portion			3,975
Long term portion of zero coupon promissory note			$10,601
Senior Secured Credit Note **(b)**	7/31/2013	8.15%	$124,375
Less: Current portion			1,250
Long term portion of Senior Secured Credit Note			$123,125

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

(b) On July 31, 2006, the Company issued a Senior Secured Credit Note in the amount of $125.0 million at a variable interest rate based on the London Interbank Offering Rate (LIBOR) with a seven-year term to a syndicate led by Morgan Stanley Senior Funding Inc., as agent. Minimum principal repayments equal 0.25% per quarter are required plus prepayments of principal based on a portion of the Company s excess cash flow, the net cash proceeds of asset sales, tax refunds over certain limits, awards over certain limits in connection with legal actions or takings , and debt issuances or other liability financings. The Company estimates that, in April 2007, it will pay down principal of approximately $10 million pursuant to the excess cash flow computation. In accordance with the Senior Secured Credit Note, the Company has provided certain covenants to the lenders with respect to the maintenance of a minimum fixed charge ratio and maximum leverage ratio driven from EBITDA and minimum net capital requirements with respect to Oppenheimer. In the Company s view, the most restrictive of the covenants requires that the Company maintain a maximum leverage ratio of 2.30 (total long-term debt divided by EBITDA). At December 31, 2006, the Company was in compliance with the covenants. The effective interest rate on the Senior Secured Credit Note for the five months ended December 31, 2006 was 8.15%. Interest expense for the five months ended December 31, 2006 was $4.3 million.

In accordance with the Senior Secured Credit Note, the Company and virtually all of its non broker-dealer subsidiaries have provided guarantees to the lending group. These guarantees are supported by liens on substantially all of the assets of these non broker-dealer subsidiaries.

Other

Bank Loans

Subject to a credit arrangement with Canadian Imperial Bank of Commerce (CIBC) dated January 2, 2003, the Company had borrowed $50.0 million dollars primarily to finance certain employee retention notes issued during 2003 in connection with the acquisition of the Oppenheimer Divisions. This debt was repaid in full in January 2006. Interest expense as well as interest paid on a cash basis for the year ended December 31, 2006 was $66 thousand ($1.6 million in 2005, of which $1.7 million was paid on a cash basis and $2.1 million in 2004, of which $2.2 million was paid on a cash basis).

Variable Rate Exchangeable Debentures (the Debentures)

As partial payment for the Oppenheimer Divisions on January 6, 2003, the Company issued Debentures in the aggregate amount of $160.8 million. The Debentures were exchangeable for approximately 6.9 million Class A Shares of the Company at the rate of $23.20 per share and expired on January 2, 2013. On July 31, 2006 and October 23, 2006, the Company retired $140.8 million and $20.0 million, respectively, of the Debentures. See note 1 under the caption Interest Expense.

In connection with the retirement of the Debentures, the Company has agreed to make a contingent payment to CIBC if, prior to December 31, 2007, the Company enters into an agreement for the sale of the majority of the Company s Class A and Class B Shares. The amount of the contingent payment would be based on the price per share realized by the Company s shareholders in any such transaction. The Company has made an estimate of the fair value of this contingent payment and will revalue it at the end of each reporting period.

8. Share Capital

The Company's authorized share capital, all of which is without par value, consists of (a) an unlimited number of first preference shares issuable in series; (b) an unlimited number of Class A non-voting shares (Class A Shares); and (c) 99,680 Class B voting shares (Class B Shares).

The Class A and the Class B Shares are equal in all respects except that the Class A Shares are non-voting.

The Company's issued and outstanding share capital is as follows (no first preference shares have been issued).

Amounts are expressed in thousands of dollars.

	As at December 31,		
	2006	2005	2004
12,834,682 (12,496,141 in 2005 and 13,296,876 in 2004) Class A Shares			
	$41,093	$32,498	$49,504
99,680 Class B Shares	133	133	133
	$41,226	$32,631	$49,637

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The following table reflects changes in the number of Class A Shares outstanding for the years indicated.

	2006	2005	2004
Class A Shares outstanding, beginning of year	12,496,141	13,296,876	12,819,520
Issued to Oppenheimer & Co. Inc. 401(k) Plan	104,725	64,176	75,137
Issued pursuant to share compensation plans	344,516	51,357	534,319
Repurchased and cancelled pursuant to the issuer bid	(110,700)	(916,268)	(132,100)
Class A Shares outstanding, end of year	12,834,682	12,496,141	13,296,876

Share-based compensation plans are described in note 12.

Issuer Bid

During the 12-month period that commenced on August 9, 2006, the Company may purchase up to 632,000 Class A Shares by way of a Normal Course Issuer Bid (Issuer Bid) through the facilities of the Toronto Stock Exchange and/or the New York Stock Exchange. At December 31, 2006, the Company may purchase up to 632,000 Class A Shares under the current Issuer Bid. All shares purchased pursuant to Issuer Bids are cancelled.

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

	2006	2005	2004
Class A Shares purchased and cancelled pursuant to an Issuer Bid			

	110,700	916,268	132,100
Total consideration	$2,255	$19,635	$3,120
Average price per share	$20.37	$21.43	$23.62

Dividends

In 2006, the Company paid cash dividends to holders of Class A and Class B Shares as follows ($0.36 in 2005 and 2004):

Dividend per share

Record Date

Payment Date

$0.10

February 10, 2006

February 24, 2006

$0.10

May 5, 2006

May 19, 2006

$0.10

August 4, 2006

August 18, 2006

$0.10

November 10, 2006

November 24, 2006

9. Contributed Capital

Contributed capital represents the tax benefit on the difference between market price and exercise price on employee stock options exercised, and since January 1, 2006, includes

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the tax-effected impact of expensing stock options in accordance with SFAS 123(R). See note 12 below for further discussion.

10. Income Taxes

The income tax provision shown in the consolidated statements of income is reconciled to amounts of tax that would have been payable (recoverable) from the application of the federal tax rate to pre-tax profit as follows:

	Year ended December 31,		
	2006	2005	2004
U.S. federal statutory income tax rate	35%	35%	35%
U.S. state and local income taxes, net of U.S. federal income tax benefits	8.1%	5.6%	6.6%
Tax exempt income, including dividends	-0.6%	-1.3%	-1.0%
Business promotion and other non-deductible expenses	-	3.1%	1.6%
Other (1)	2.1%	2.6%	-0.9%
Effective income tax rate	44.6%	45.0%	41.3%

(1) In 2005 and 2006, other primarily includes the effect of tax authority audits.

Income taxes included in the consolidated statements of income represent the following:

Amounts are expressed in thousands of dollars.

	Year ended December 31,		
	2006	2005	2004

Current:			
U.S. federal tax	$25,852	$12,005	$18,263
State and local tax	9,047	2,793	5,951
	34,899	14,798	24,214
Deferred:			
U.S. federal tax	919	3,312	(7,077)
State and local tax	55	663	(2,306)
	974	3,975	(9,383)
	$35,873	$18,773	$14,831

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company s deferred tax assets and liabilities at December 31, 2006 and 2005 were as follows:

Amounts are expressed in thousands of dollars.

	December 31,	
	2006	2005
Deferred tax assets:		
Employee deferred compensation plans	$9,443	$5,927
Allowance for doubtful accounts	234	363
Reserve for litigation and legal fees	5,567	6,825
Interest method on exchangeable debentures	-	1,695
Investment in partnerships	-	1,414
Difference between book and tax depreciation	858	-
Other	4,911	1,656
Total deferred tax assets	$21,013	$17,880
Deferred tax liabilities:		
Section 197 amortization of goodwill	$16,916	$13,306
Involuntary conversion	6,891	6,891
Investment in partnerships	569	-
Gain on NYSE Group shares	1,572	-
Difference between book and tax depreciation	-	2,236
Total deferred tax liabilities	$25,948	$22,433
Deferred income tax, net	$(4,935)	$(4,553)

Goodwill arising from the acquisitions of Josephthal Group Inc. and the Oppenheimer Divisions is being amortized for tax purposes on a straight-line basis over 15 years. The difference between book and tax is recorded as a deferred tax liability.

An immaterial adjustment was recorded to recognize a deferred tax asset related to the CIBC Deferred Compensation Plan that was purchased as part of the 2003 acquisition of the Oppenheimer Divisions. The adjustment impacted the balance sheet only as a reduction to goodwill and income taxes payable in the amount of $5.4 million.

On a cash basis, the Company paid income taxes for the years ended December 31, 2006, 2005 and 2004 in the amounts of $23.4 million, $14.4 million and $10.7 million, respectively.

11. Earnings Per Share

Basic earnings per share was computed by dividing net profit by the weighted average number of Class A and Class B Shares outstanding. Diluted earnings per share includes the weighted average Class A and Class B Shares outstanding and the effects of Debentures using the if converted method and Class A Share options using the treasury stock method.

Earnings per share has been calculated as follows:

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

	2006	2005	2004
Basic weighted average number of shares outstanding	12,749,712	13,020,341	13,365,453
Net effect, if converted method	4,224,651	6,932,000	6,932,000
Net effect, treasury method	65,479	-	100,916
Diluted common shares (1)	17,039,842	19,952,341	20,398,369

	2006	2005	2004
Net profit, as reported	$44,577	$22,916	$21,077
Effect of dilutive exchangeable debentures	2,454	4,256	4,267
Net profit available to shareholders and assumed conversions	$47,031	$27,172	$25,344
Basic earnings per share	$3.50	$1.76	$1.58
Diluted earnings per share	$2.76	$1.36	$1.24

(1) The diluted earnings per share computations do not include the antidilutive effect of the following options:

	2006	2005	2004
Number of antidilutive options and restricted shares, for the period	1,024,414	1,746,475	739,116

12. Employee Compensation Plans

Share-based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment , which is a revision to SFAS No. 123, Accounting for Stock-Based Compensation . SFAS No. 123(R) requires share-based payment awards to be accounted for at fair value. Under SFAS No. 123(R), share-based compensation awards that require future service (i.e., are subject to a vesting schedule) are amortized over the relevant service period. The Company adopted SFAS No. 123(R) under the modified prospective method . Under that method, the provisions of SFAS No. 123(R) are applied to remaining unvested share-based awards outstanding at December 31, 2005 as well as to share-based awards granted subsequent to adoption. The consolidated financial statements for periods prior to adoption are not restated for the effects of adopting SFAS No. 123(R).

The Company estimates the fair value of share-based awards using the Black-Scholes option-pricing model and applies to it a forfeiture rate based on historical experience. The accuracy of this forfeiture rate is reviewed at least annually for reasonableness. Key input assumptions used to estimate the fair value of share-based awards include the exercise price of the award, the expected term, the expected volatility of the Company s Class A Shares over the term of the award, the risk-free interest rate over the expected term, and the Company s expected annual dividend yield. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating fair values of the Company s outstanding unvested share-based awards as of January 1, 2006 as well as awards granted during the year ended December 31, 2006. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive share-based awards.

The fair value of each award grant was estimated on the grant date using the Black-Scholes option- pricing model with the following assumptions:

	Grant date assumptions					
	2006	2005	2004	2003	2002	2001
Expected term (1)	5 years	5 years	5 years	5 years	5 years	5 years
Expected volatility factor (2)	26.57%	23.50%	21.08%	22.61%	27.49%	28.43%
Risk-free interest rate (3)	4.51%	3.89%	3.01%	2.92%	4.10%	4.78%
Actual dividends (4)	$0.38	$0.36	$0.36	$0.36	$0.36	$0.36

(1) The expected term was determined based on actual awards, typically five years.

(2) The volatility factor was measured using the weighted average of historical daily price changes of the Company s Class A Shares over the previous 100 days, using a 400 day annualization factor.

(3) The risk-free interest rate was based on periods equal to the expected term of the awards based on the U.S. Treasury yield curve in effect at the time of grant.

(4) Actual dividends were used to compute the expected annual dividend yield.

The Company did not recognize compensation expense for outstanding stock options during the years ended December 31, 2005 and 2004. Under APB 25, compensation expense was not required to be recognized in the consolidated statement of income so long as the strike price of the options granted was equal to the market value on grant date. 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 under SFAS No. 123 with respect to stock options granted prior to January 1, 2006. Amounts are expressed in thousands of dollars except per share amounts.

	Year ended December 31,	
	2005	2004

Net profit, as reported	$22,916	$21,077
Stock-based compensation expense that would have been reported in net profit if the fair value provisions of SFAS No. 123 (R) had been applied to all awards	1,526	1,561
Pro forma net profit	$21,390	$19,516
Basic profit per share, as reported	$1.76	$1.58
Diluted profit per share, as reported	$1.36	$1.24
Pro forma basic profit per share	$1.64	$1.46
Pro forma diluted profit per share	$1.29	$1.17

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Equity Incentive Plan

Under the Company s 2006 Equity Incentive Plan, adopted December 11, 2006 and its 1996 Equity Incentive Plan, as amended March 10, 2005 (together EIP), the compensation and stock option committee of the board of directors of the Company may grant options to purchase Class A Shares to officers and key employees of the Company and its subsidiaries. Grants of options are made to the Company s non-employee directors on a formula basis. Options are generally granted for a five-year term and generally vest at the rate of 25% of the amount granted beginning after two years and become fully vested after 4.5 years. At December 31, 2006, the number of Class A Shares available under the EIP, but not yet awarded, is 1,095,589, of which 300,000 are being allocated for future issuance to the Oppenheimer & Co. Inc. 401(k) Plan.

Stock option activity under the EIP since January 1, 2005 is summarized as follows:

	Year ended December 31, 2006		Year ended December 31, 2005	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding, beginning of period	1,775,641			