



Oppenheimer Holdings Inc.

First Quarter March 31, 2006

Oppenheimer Holdings Inc.

Index

	Page No.
Letter to the Shareholders	1
Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets as of March 31, 2006 and December 31, 2005	4
Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005	5
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005	6
Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2006 and 2005	8
Notes to Condensed Consolidated Financial Statements	9
Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Quantitative and Qualitative Disclosures About Market Risk	30
Controls and Procedures	30

To the Shareholders;

Oppenheimer Holdings Inc. (the "Company") reported net profit of \$17,217,000 or \$1.36 per share for the first quarter of 2006, an increase in net profit of approximately 4.5 times compared to \$3,765,000 or \$0.28 per share in the first quarter of 2005. Revenue for the first quarter of 2006 was \$201,050,000, an increase of 28% compared to revenue of \$157,246,000 in the first quarter of 2005.

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 first quarter of 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 \$809,000 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 will expire in equal one-third installments in March 2007, 2008, and 2009. The Company has estimated the fair value on these restricted shares to be approximately \$12.7 million. The Company's pre-tax results of operations for the first quarter of 2006 reflect a gain of \$11.3 million related to the exchange of seats for cash and NYSE Group common shares (\$0.52 per share).

At March 31, 2006, shareholders' equity was approximately \$326 million and book value per share was \$25.78 compared to shareholders' equity of \$308 million and book value per share of \$23.10 at March 31, 2005. Investment advisory assets under management at March 31, 2006 totaled \$12.4 billion (of which \$1.2 billion applies to a new transaction-based investment advisory program effective January 2006) compared to \$10.5 billion at March 31, 2005.

U.S. economic growth is strong and, despite a rising trend in interest rates and commodity prices, inflation continues to be remarkably low. The equity markets are reacting to strong corporate earnings fueled by the strong economy and continuing consumer demand. This positive environment resulted in stronger comparisons in our results for 2006 compared to 2005. Without including the gain on the valuation of its shares of NYSE Group, the Company's revenue in the first quarter of 2006 increased by approximately 21% compared to its revenue in the first quarter of 2005. Higher revenue from commissions, principal trading activities and interest contributed to the increase in revenue. The increase in interest revenue was due to higher rates, larger customer debit balances and increased stock borrow/stock loan activity.

The Company's expenses in the first quarter of 2006 were 14% higher compared to the same period of 2005 due primarily to higher variable compensation costs which tracks increased commission and principal trading revenue, as well as due to higher interest expense. The increase in interest expense shadows the increase in interest revenue and stems from a higher interest rate environment and increased stock borrow/stock loan activity. Communications and technology expenses and occupancy and equipment costs increased slightly in the first quarter of 2006 compared to the same period of 2005. The costs related to compliance remain at a high level both for the securities industry and for compliance with Section 404 of the Sarbanes-Oxley legislation.

As of January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") 123-R, "Share-Based Payment" (related to the Company's outstanding stock options) resulting in approximately \$1,254,000 in additional compensation expense in the first quarter of 2006. In prior periods the cost of stock options was presented on a pro forma basis in the notes to the consolidated financial statements.

The Company has continued to pay down acquisition related debt with a cumulative reduction of approximately \$95 million since January 2003 (approximately \$17 million in the first quarter of 2006). The Company has also been active in the repurchase of its shares pursuant to a normal course issuer bid, which expires on July 21, 2006. During the first quarter of 2006, the Company repurchased and cancelled 106,100 Class A non-voting shares at an average cost of \$20.34 per share. Under the current normal course issuer bid, the Company may purchase an additional 153,000 Class A non-voting shares for cancellation before the expiration date. In the past, the Company has extended the issuer bid from year-to-year upon expiration.

The weighted average number of Class A non-voting and Class B shares outstanding at March 31, 2006 was 12,679,536 compared to 13,420,231 outstanding at March 31, 2005, a decrease of approximately 6% due to the repurchase of shares pursuant to the normal course issuer bid.

The Company announced on April 27, 2006 a quarterly dividend in the amount of U.S. \$0.10 per share, payable on May 19, 2006 to holders of Class A non-voting and Class B shares of record on May 5, 2006.

The Company, through its principal subsidiaries, Oppenheimer & Co. Inc. (a U.S. broker-dealer) and Oppenheimer Asset Management Inc., offers a full range of services from 81 offices in 21 states and through local broker-dealers in 2 foreign jurisdictions. In addition, through its subsidiary, Freedom Investments, Inc. and the BUYandHOLD division of Freedom, the Company offers online discount brokerage and dollar-based investing services.

This communication may include certain “forward-looking statements” relating to anticipated future performance. For a discussion of the factors that could cause future performance to be different than anticipated, reference is made to the Company’s Annual Report on Form 10-K for the year ended December 31, 2005.

On behalf of the Board,

E.K. Roberts,
President

Toronto, Canada
May 9, 2006

Oppenheimer Holdings Inc.

Condensed Consolidated Balance Sheets (unaudited)

March 31, December 31,
2006 2005

	Expressed in thousands of U.S. dollars	
ASSETS		
Cash and cash equivalents.....	\$ 25,988	\$ 32,013
Cash and securities segregated under federal and other regulations	29,481	23,526
Deposits with clearing organizations	12,891	14,240
Receivable from brokers and clearing organizations	530,611	527,490
Receivable from customers	1,173,941	1,117,214
Securities owned including amounts pledged of \$1,575 (\$1,042 in 2004), at market value	152,637	146,645
Notes receivable	59,491	59,874
Other	49,878	72,394
Property, plant and equipment, net.....	17,687	18,787
Intangible assets, net of amortization	34,211	34,395
Goodwill	137,889	137,889
	<u>\$2,224,705</u>	<u>\$2,184,467</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Drafts payable.....	\$ 54,734	\$ 46,012
Bank call loans	238,822	139,700
Payable to brokers and clearing organizations	959,356	830,478
Payable to customers	314,755	473,212
Securities sold, but not yet purchased, at market value	8,754	9,786
Accrued compensation	60,068	87,040
Accounts payable and other liabilities	63,703	80,811
Income taxes payable	7,353	6,584
Bank loans	—	14,524
Zero coupon promissory note	20,436	22,822
Exchangeable debentures	160,822	160,822
Deferred income tax, net.....	9,720	4,553
	<u>1,898,522</u>	<u>1,876,344</u>
Shareholders' equity		
Share capital		
12,555,207 Class A non-voting shares (2005 — 12,496,141 shares)	33,703	32,498
99,680 Class B voting shares	133	133
	<u>33,836</u>	<u>32,631</u>
Contributed capital	9,724	8,810
Retained earnings.....	282,623	266,682
	<u>326,183</u>	<u>308,123</u>
	<u>\$2,224,705</u>	<u>\$2,184,467</u>

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

Oppenheimer Holdings Inc.

Condensed Consolidated Statements Of Operations (unaudited)

For the Three Months
ended March 31,
2006 2005

(Expressed in thousands of U.S. dollars,
except per share amounts)

REVENUE:		
Commissions	\$ 92,314	\$ 81,049
Principal transactions, net	31,405	20,386
Interest	26,013	14,544
Investment banking	10,400	12,300
Advisory fees	24,549	26,851
Other	16,369	2,116
	<u>201,050</u>	<u>157,246</u>
EXPENSES:		
Compensation and related expenses	113,005	103,956
Clearing and exchange fees	5,144	4,268
Communications and technology	12,928	12,606
Occupancy and equipment costs	12,465	11,912
Interest	14,327	6,741
Other	13,770	11,272
	<u>171,639</u>	<u>150,755</u>
Profit before income taxes	29,411	6,491
Income tax provision	12,194	2,726
NET PROFIT FOR THE PERIOD	<u>\$ 17,217</u>	<u>\$ 3,765</u>
Earnings per share:		
Basic	\$ 1.36	\$ 0.28
Diluted	\$ 0.93	\$ 0.24
Dividends declared per share	\$ 0.10	\$ 0.09

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

Oppenheimer Holdings Inc.

Condensed Consolidated Statements Of Cash Flows (unaudited)

For the Three Months
ended March 31,
2006 2005

(Expressed in thousands of U.S. dollars)

Cash flows from operating activities:		
Net profit for the period	\$ 17,217	\$ 3,765
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:		
Non-cash items included in net profit:		
Depreciation and amortization	2,434	2,319
Deferred income tax	5,167	2,358
Tax benefit from employee stock options exercised.....	—	30
Amortization of notes receivable	5,297	5,878
Change in allowance for doubtful accounts	24	(15)
Stock option expense, net	914	—
Decrease (increase) in operating assets:		
Cash and securities segregated under federal and other regulations	(5,955)	401
Deposits with clearing organizations	1,349	5,641
Receivable from brokers and clearing organizations	(3,121)	29,285
Receivable from customers	(56,727)	(39,301)
Securities owned.....	(5,992)	2,155
Notes receivable	(4,914)	(520)
Other assets	22,492	1,403
Increase (decrease) in operating liabilities:		
Drafts payable	8,722	(10,995)
Payable to brokers and clearing organizations	128,878	39,344
Payable to customers	(158,457)	(15,042)
Securities sold, but not yet purchased....	(1,032)	(950)
Accrued compensation	(26,972)	(21,810)
Accounts payable and other liabilities	(17,109)	(3,340)
Income taxes payable	769	(2,382)
Cash (used in) operating activities	<u>(87,016)</u>	<u>(1,776)</u>
Cash flows from investing and other activities:		
Purchase of fixed assets	<u>(1,150)</u>	<u>(518)</u>
Cash (used in) investing and other activities	<u>(1,150)</u>	<u>(518)</u>

(Continued on next page)

Oppenheimer Holdings Inc.

Condensed Consolidated Statements of Cash Flows — (unaudited) (Continued)

For the Three Months
ended March 31,
2006 2005

(Expressed in thousands of U.S. dollars)

Cash flows from financing activities:		
Cash dividends paid on Class A non-voting and Class B voting shares	(1,276)	(1,214)
Issuance of Class A non-voting shares	3,363	2,629
Repurchase of Class A non-voting shares for cancellation	(2,158)	(4,980)
Zero coupon promissory note repayments . .	(2,386)	(3,631)
Bank loan repayments	(14,524)	(2,530)
Increase in bank call loans	99,122	23,927
Cash provided by financing activities	<u>82,141</u>	<u>14,201</u>
Net (decrease) increase in cash and cash equivalents	(6,025)	11,907
Cash and cash equivalents, beginning of period	32,013	33,390
Cash and cash equivalents, end of period	<u>\$ 25,988</u>	<u>\$ 45,297</u>

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

Oppenheimer Holdings Inc.

Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)

For the Three Months
ended March 31,
2006 2005

(Expressed in thousands of U.S. dollars)

Share capital

Balance at beginning of period	\$ 32,631	\$ 49,637
Issue of 165,166 Class A non-voting shares (of which 104,725 were issued to the Oppenheimer & Co. Inc. 401(k) Plan for \$2,074); 115,533 in 2005 (of which 64,176 were issued to the Oppenheimer & Co. Inc. 401(k) Plan for \$1,629)	3,363	2,629
Repurchase of 106,100 Class A non-voting shares for cancellation; 214,468 in 2005	<u>(2,158)</u>	<u>(4,980)</u>
Balance at end of period	<u>\$ 33,836</u>	<u>\$ 47,286</u>

Contributed capital

Balance at beginning of period	\$ 8,810	\$ 8,780
Tax benefit from employee stock options exercised	—	30
Stock option expense	1,254	—
Deferred tax pool for stock option expense . . .	<u>(340)</u>	<u>—</u>
Balance at end of period	<u>\$ 9,724</u>	<u>\$ 8,810</u>

Retained earnings

Balance at beginning of period	\$266,682	\$248,467
Net profit for the period	17,217	3,765
Dividends (\$0.10 per share; \$0.09 per share in 2005)	<u>(1,276)</u>	<u>(1,214)</u>
Balance at end of period	<u>\$282,623</u>	<u>\$251,018</u>
Shareholders' equity	<u>\$326,183</u>	<u>\$307,114</u>

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

Oppenheimer Holdings Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Summary of significant accounting policies

The condensed consolidated financial statements include the accounts of Oppenheimer Holdings Inc. ("OPY") and its subsidiaries (together, the "Company"). The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker-dealer in securities, and Oppenheimer Asset Management Inc. ("OAM"), a registered investment advisor under the Investment Advisers Act of 1940. Oppenheimer operates as Fahnstock & Co. Inc. in Latin America. Oppenheimer owns Freedom Investments, Inc. ("Freedom"), a registered broker dealer in securities, which operates its BUYandHOLD division, offering online discount brokerage and dollar-based investing services. The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, securities lending activities, trust services and investment advisory and asset management services.

The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These accounting principles are set out in the notes to the Company's consolidated financial statements for the year ended December 31, 2005 included in its Annual Report on Form 10-K for the year ended December 31, 2005. Disclosures reflected in these condensed consolidated financial statements comply in all material respects with those required pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") with respect to quarterly financial reporting.

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

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

2. Recent Accounting Pronouncements

Limited Partnerships — 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 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.

3. Share-based compensation

Effective January 1, 2006, the Company adopted SFAS No. 123-R, “Shares-Based Payment”, which is a revision to SFAS No. 123, “Accounting for Stock-Based Compensation”. SFAS 123-R, which requires that stock options be accounted for at fair value, focuses primarily on transactions in which an entity exchanges its equity instruments for employee services. Under SFAS No. 123-R, share-based compensation awards that require future service (ie. are subject to a vesting schedule) are amortized over the relevant service period. The Company is applying 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 stock options using the Black-Scholes option-pricing model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company’s Class A Shares over the term of the option, the risk-free interest rate over the expected option 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 stock options as of January 1, 2006 together with stock options granted during the three months ended March 31, 2006. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive stock option 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)	22.71%	23.50%	21.08%	22.61%	27.49%	28.43%
Risk-free interest rate (3)	4.32%	3.89%	3.01%	2.92%	4.10%	4.78%
Expected annual dividend yield (4) \$	0.37	\$ 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) The annual dividend yield was based on actual dividends.

The Company did not recognize compensation expense for outstanding stock options during the three months ended March 31, 2005. 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 U.S. dollars except per share amounts.

Three months ended
March 31, 2005

Stock-based employee compensation expense included in reported net income	—
Net profit, as reported	\$3,765
Stock-based compensation expense that would have been reported in net profit if the fair value provisions of FAS No. 123 had been applied to all awards	381
Pro forma net profit	<u>\$3,384</u>
Basic profit per share, as reported	\$ 0.28
Diluted profit per share, as reported	\$ 0.24
Pro forma basic profit per share	\$ 0.25
Pro forma diluted profit per share	\$ 0.22

Equity Incentive Plan

Under the Company's 1996 Equity Incentive Plan, as amended March 10, 2005 ("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 independent 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. The aggregate number of Class A Shares available under the EIP is 5,015,000.

Stock option activity under the EIP since January 1, 2004 is summarized as follows:

	Three months ended March 31, 2006		Year ended December 31, 2005		Year ended December 31, 2004	
	Weighted average		Weighted average		Weighted average	
	Number of shares	exercise price	Number of shares	exercise price	Number of shares	exercise price
Options outstanding, beginning of year	1,775,641	\$27.04	1,659,370	\$27.19	1,884,983	\$21.81
Options granted	28,632	\$20.03	231,798	\$23.38	510,606	\$32.58
Options exercised	—	—	(51,357)	\$19.48	(534,319)	\$16.02
Options forfeited or expired	(248,481)	\$22.93	(64,170)	\$20.93	(201,900)	\$13.64
Options outstanding, end of period	<u>1,555,792</u>	<u>\$27.56</u>	<u>1,775,641</u>	<u>\$27.04</u>	<u>1,659,370</u>	<u>\$27.19</u>
Options vested, end of period	<u>655,699</u>	<u>\$27.40</u>	<u>622,107</u>	<u>\$24.98</u>	<u>312,171</u>	<u>\$23.45</u>
Weighted average fair value of options granted	<u>\$ 4.46</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The following table summarizes stock options outstanding and exercisable as at March 31, 2006.

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price of outstanding options	Number exercisable (vested)	Weighted average exercise price of vested options
\$19.99 - \$25.00	693,346	2.43 years	\$23.60	241,332	\$24.02
\$25.01 - \$33.80	862,446	2.07 years	\$30.75	414,367	\$29.37
\$19.99 - \$33.80	<u>1,555,792</u>	<u>2.23 years</u>	<u>\$27.56</u>	<u>655,699</u>	<u>\$27.40</u>

The aggregate intrinsic value of options outstanding as of March 31, 2006 was \$67,000. The intrinsic value of options vested during the period was \$11,000.

The following table summarizes the status of the Company's nonvested options since December 31, 2005.

	Number outstanding	Weighted average fair value
Nonvested at 12/31/05	1,153,534	\$5.44
Granted	28,632	\$4.46
Vested	(282,073)	\$6.84
Forfeited or expired	—	—
Nonvested at March 31, 2006	900,093	\$6.17

In the first quarter of 2006, the Company has included approximately \$1,254,000 of compensation expense in its statement of operations relating to the expensing of stock options.

As of March 31, 2006, there was \$5.1 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the EIP. The cost is expected to be recognized over a weighted average period of 2.23 years.

The adoption of SFAS No. 123-R did not materially impact the accounting treatment for the Company's other share-based compensation arrangements.

4. Earnings per share

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

Earnings per share has been calculated as follows:

	Three Months ended March 31,	
	2006	2005
Basic weighted average number of shares outstanding	12,679,536	13,420,231
Net effect, if converted method (1)	6,932,000	6,932,000
Net effect, treasury method	—	25,101
Diluted common shares (2)	<u>19,611,536</u>	<u>20,377,332</u>
Net profit for the period, as reported	\$17,217,000	\$ 3,765,000
Effect of dilutive exchangeable debentures	<u>1,059,000</u>	<u>1,049,000</u>
Net profit available to shareholders and assumed conversions	<u>\$18,276,000</u>	<u>\$ 4,814,000</u>
Basic earnings per share	\$ 1.36	\$ 0.28
Diluted earnings per share	\$ 0.93	\$ 0.24

- (1) As part of the consideration for the 2003 acquisition of the Oppenheimer divisions from CIBC World Markets, the Company issued First and Second Variable Rate Exchangeable Debentures which are exchangeable for approximately 6.9 million Class A Shares of the Company at the rate of \$23.20 per share (approximately 36% of the outstanding Class A Shares, if exchanged).
- (2) The diluted EPS computations do not include the antidilutive effect of 1,583,000 and 1,270,000 Class A Shares granted under share-based compensation arrangements, respectively, at March 31, 2006 and 2005. Antidilution arises when the exercise price of the options exceeds the market price for the period.

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

	March 31, 2006	December 31, 2005
Securities owned consist of:		
Corporate equities and warrants	\$ 51,354,000	\$ 35,895,000
Corporate and sovereign obligations	51,591,000	46,482,000
U.S. government and agency and state and municipal government obligations	48,491,000	61,590,000
Money market funds and other	1,201,000	2,678,000
	<u>\$152,637,000</u>	<u>\$146,645,000</u>
	March 31, 2006	December 31, 2005
Securities sold, but not yet purchased consist of:		
Corporate equities	\$ 3,425,000	\$4,685,000
Corporate obligations	4,109,000	3,722,000
U.S. government and agency and state and municipal government obligations and other	1,220,000	1,379,000
	<u>\$ 8,754,000</u>	<u>\$9,786,000</u>

Securities owned and securities sold, but not yet purchased, consist of trading and investment securities at market values. Included in securities owned at March 31, 2006 are corporate equities with market values of approximately \$15,072,000 (\$14,660,000 at December 31, 2005), which are correlated to deferred compensation liabilities to certain employees. Also included in corporate equities in securities owned are investments with estimated fair values of approximately \$15,200,000, of which approximately \$12,700,000 relates to restricted shares of NYSE Group. At March 31, 2006, the Company had pledged securities owned of approximately \$1,575,000 (\$1,042,000 at December 31, 2005) as collateral to counterparties for stock loan transactions, which can be sold or repledged.

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 first quarter of 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 \$809,000 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. The Com-

pany has estimated the fair value on these restricted shares to be approximately \$12.7 million. The Company's pre-tax results of operations for the first quarter of 2006 reflect a gain of \$11.3 million related to the exchange of seats for cash and NYSE Group common shares (\$0.52 per share).

6. Long term debt and exchangeable debentures

Issued	Maturity Date	Interest Rate	March 31, 2006
Zero Coupon Promissory Note, issued January 2, 2003 (a)	—	0%	\$ 20,436,000
Less current portion			<u>6,452,000</u>
Long term portion of long-term debt			<u>\$ 13,984,000</u>
First and Second Variable Rate Exchangeable Debentures, issued January 6, 2003 and May 12, 2003, respectively (b)	1/2/2013	4.5%	<u>\$160,822,000</u>

- (a) The Zero Coupon Promissory Note is repayable as related employee notes receivable, which are assigned to Oppenheimer, become due or are forgiven. Such payments are to be made notwithstanding whether any of the employees' loans default.
- (b) The First and Second Variable Rate Exchangeable Debentures are exchangeable for approximately 6.9 million Class A Shares of the Company at the rate of \$23.20 per share. The annual interest rate is 3% in 2003, 4% in 2004 — 2006, and 5% in 2007 through maturity. The First and Second Variable Rate Exchangeable Debentures, which mature on January 2, 2013, contain a retraction clause, which may be activated by the holder for a period of 120 days at the end of year seven. Interest is payable semi-annually in June and December. Interest expense on the First and Second Variable Rate Exchangeable Debentures was \$1,809,000 for the three months ended March 31, 2006 and 2005. Under the interest method, the effective annual interest rate over the life of the First and Second Variable Rate Exchangeable Debentures is 4.5%.

7. Net Capital Requirements

The Company's major subsidiaries, Oppenheimer and Freedom, are subject to the uniform net capital requirements of the SEC under Rule 15c3-1 (the "Rule"). Oppenheimer computes its net capital requirements under the alternative method provided for in the Rule which requires that Oppenheimer maintain net capital equal to two percent of aggregate customer-related debit items, as defined in SEC Rule 15c3-3. At March 31, 2006, the net capital of Oppenheimer as calculated under the Rule was \$182,033,000 or 13.4% of Oppenheimer's aggregate debit items. This was \$154,860,000 in excess of the minimum required net capital. Freedom computes its net capital requirement under the basic method provided for in the Rule, which requires that Freedom maintain net capital equal to the greater

of \$250,000 or 6²/₃% of aggregate indebtedness, as defined. At March 31, 2006, Freedom had net capital of \$7,474,000, which was \$7,224,000 in excess of the \$250,000 required to be maintained at that date.

8. Securities lending activities

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

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

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

Included in receivable from brokers and clearing organizations are deposits paid for securities borrowed of \$461,777,000 (at December 31, 2005 — \$472,499,000). Included in payable to brokers and clearing organizations are deposits received for securities loaned of \$920,806,000 (at December 31, 2005 — \$794,353,000).

9. Financial instruments with off-balance sheet risk and concentration of credit risk

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

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

Securities sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and thereby create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk, as the Company's ultimate obligation to satisfy the sale of securities sold, but not yet purchased may exceed the amount recognized on the balance sheet. Securities positions are monitored on a daily basis.

The Company's customer financing and securities lending activities require the Company to pledge customer securities as collateral for various financing sources such as bank loans and securities lending. At March 31, 2006, the Company had approximately \$1.7 billion of customer securities under customer margin loans that are available to be pledged of which the

Company has repledged approximately \$511,761,000 under securities loan agreements and approximately \$124,617,000 with respect to bank call loans. In addition, the Company has received collateral of approximately \$444,349,000 under securities borrow agreements of which the Company has repledged approximately \$361,233,000 as collateral under securities loan agreements. Included in receivable from brokers and clearing organizations are receivables from four major U.S. broker-dealers totaling \$194,784,000. Included in receivable from customers is a receivable from one customer in the amount of \$188,310,000, which is collateralized with fixed income securities in the amount of \$260,894,000.

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

At March 31, 2006, the Company had outstanding commitments to buy and sell of \$718,000 and \$998,000, respectively, of mortgage-backed securities on a when issued basis. These commitments have off-balance sheet risks similar to those described above.

Futures contracts represent commitments to purchase or sell securities at a future date and at a specified price. Credit risk and market risk exist with respect to these instruments. Credit risk associated with the contracts is limited to amounts recorded in the balance sheet. Notional or contractual amounts are used to express the volume of these transactions, and do not represent the amounts potentially subject to market risk. At March 31, 2006, the Company had open contracts with notional values of approximately \$44 million. The fair value of these derivative financial instruments, included in receivables from brokers and clearing organizations at March 31, 2006, was approximately \$2.7 million.

The Company has a clearing arrangement with Pershing LLC to clear certain transactions in foreign securities. The clearing broker has the right to charge the Company for losses that result from a client's failure to fulfill its contractual obligations. The Company has a relationship with R.J. O'Brien & Associates, which maintains an omnibus account on behalf of Oppenheimer and executes commodities transactions on all exchanges. Accordingly, the Company has credit exposures with these clearing brokers. The clearing brokers can rehypothecate the securities held on behalf of the Company. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing brokers, the Company believes there is no maximum amount assignable to this right. At March 31, 2006, the Company had recorded no liabilities with regard to this right. The Company's policy is to monitor the credit standing of these clearing brokers, all counterparties and all clients with which it conducts business.

10. Related Party Transactions

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

11. Segment Information

The table below presents information about the reported operating income of the Company for the periods noted. The Company's segments are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The Company's business is conducted primarily in the United States. Asset information by reportable segment is not reported, since the Company does not produce such information for internal use.

	Three Months ended March 31,	
	2006	2005
Revenue:		
Private Client	\$147,618,000	\$124,454,000
Capital Markets	26,281,000	17,505,000
Asset Management**	13,354,000	14,374,000
Other*	13,797,000	913,000
Total	<u>\$201,050,000</u>	<u>\$157,246,000</u>
Operating Income:		
Private Client	\$ 13,681,000	\$ 7,242,000
Capital Markets	4,578,000	672,000
Asset Management	539,000	871,000
Other*	10,613,000	(2,294,000)
Total	<u>\$ 29,411,000</u>	<u>\$ 6,491,000</u>

* Other includes the gain of \$11.3 million on the NYSE Group shares, described in note 5.

** Advisory fees earned in 2005 included fees for the India and Asia Tigers Funds, which ceased to be managed by the Company in December 2005.

12. Subsequent event

On May 4, 2006, the Company sold 136,052 shares of NYSE Group (consisting of 80,635 and 55,417 NYSE Group 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 may sell additional shares pursuant to the underwriters' over-allotment option, which expires on June 5, 2006. The Company is recording an additional gain from the sale of approximately \$476,000, net of transaction related costs. See note 5.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Reference is also made to the Company's consolidated financial statements and notes thereto found in its Annual Report on Form 10-K for the year ended December 31, 2005.

The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, and investment advisory and asset management services. The Company provides its services from 81 offices in 21 states located throughout the United States. The Company conducts business from 2 offices in Latin America through local broker-dealers. Client assets entrusted to the Company as at March 31, 2006 totaled approximately \$56.4 billion. The Company provides investment advisory services through Oppenheimer Asset Management Inc. and Fahnstock Asset Management, operating as a division of Oppenheimer. At March 31, 2006, client assets under management by the asset management groups totaled \$12.4 billion (of which \$1.2 billion applies to a new transaction-based investment advisory program effective January 2006). The Company provides trust services and products through Oppenheimer Trust Company. The Company provides discount brokerage services through Freedom Investments Inc. and through BUYandHOLD, a division of Freedom. At March 31, 2006, the Company employed approximately 2,947 people, of whom 1,731 were financial consultants.

Critical Accounting Policies

The Company's accounting policies are essential to understanding and interpreting the financial results reported in the condensed consolidated financial statements. The significant accounting policies used in the preparation of the Company's condensed consolidated financial statements are summarized in note 1 to those statements. Certain of those policies are considered to be particularly important to the presentation of the Company's financial results because they require management to make difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain.

As of January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") 123-R, "Share-Based Payment" (related to the Company's outstanding stock options) resulting in approximately \$1,254,000 in additional compensation expense in the first quarter of 2006. In prior periods the cost of stock options was presented on a pro forma basis in the notes to the consolidated financial statements.

During the three months ended March 31, 2006, there were no other material changes to matters discussed under the heading "Critical Accounting Policies" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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 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 first quarter of 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 \$809,000 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. The Company has estimated the fair value on these restricted shares to be approximately \$12.7 million. The Company's pre-tax results of operations for the first quarter of 2006 reflect a gain of \$11.3 million related to the exchange of seats for cash and NYSE Group common shares.

On May 4, 2006, the Company sold 136,052 shares of NYSE Group (consisting of 80,635 and 55,417 NYSE Group 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 may sell additional shares pursuant to the underwriters' over-allotment option, which expires on June 5, 2006. The Company is recording an additional gain from the sale of approximately \$476,000, net of transaction related costs. See Note 5.

U.S. economic growth is strong, and despite a rising trend in interest rates and commodity prices, inflation continues to be remarkably low. The equity markets are reacting to strong corporate earnings fueled by the strong economy and continuing consumer demand. This positive environment resulted in

stronger comparisons in our results for 2006 compared to 2005. Without including the gain on the valuation of its shares of NYSE Group, the Company's revenue in the first quarter of 2006 increased by approximately 21% compared to its revenue in the first quarter of 2005. Higher revenue from commissions, principal trading activities and interest contributed to the increase in revenue. The increase in interest revenue was due to higher rates, larger customer debit balances and increased stock borrow/stock loan activity.

Interest rate changes also impact the Company's fixed income businesses as well as its cost of borrowed funds. Interest rates were higher in the first three months of 2006 compared to the same period in 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 constantly monitors its exposure to interest rate fluctuations to mitigate risk of loss in volatile environments.

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

Regulatory Environment

The brokerage business is subject to regulation by the SEC, the NYSE, the NASD and various state securities regulators. Events in recent years surrounding corporate accounting and other activities leading to investor losses resulted in the enactment of the Sarbanes-Oxley Act and have caused increased 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.

The NASD (Rule 3013) and the NYSE (Rule 342) have instituted new rules relating to supervisory control processes. On March 31, 2006, the Chief Executive Officers ("CEOs") of regulated broker-dealers (including the CEO of Oppenheimer) certified 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 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. The inquiries have centered on Oppenheimer's activities as a broker/dealer and as a clearing firm. The Company has conducted its own investigation and is continuing to cooperate with the investigating entities.

The Company believes that 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. The former employees and a current employee who had a supervisory role with respect to such financial advisors are being investigated by the SEC and the NYAG and have received "Wells Notices" from the SEC; the Company has received no such Notice. There is no evidence that either the Company or its employees were engaged in "late trading". 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.

On May 3, 2005, the NASD filed a complaint against Oppenheimer for matters arising prior to 2004 with respect to the timeliness and accuracy of its municipal bond reporting, the adequacy of its email retention, the adequacy of its supervisory systems and procedures, as well as the timeliness of its response to certain NASD requests for information. The Company believes that it has made and continues to make every effort to cooperate with the NASD and all other regulators. The Company worked diligently to provide tens of thousands of documents and all requested information and will continue to work with the NASD toward a resolution of this matter.

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 its 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, and had returned to customers approximately \$450,000 in breakpoint credits and had revised and enhanced its procedures for determining applicable breakpoints. The Company has now completed its review of breakpoint charges and increased the amount cited above to \$600,000. The additional \$150,000 will be credited to customers shortly. The Company believes that, upon the completion of this process, that it will have made all reasonable steps to resolve this industry-wide issue. 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 regula-

tors 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.

As noted above, certain regulatory issues between the Company, and the NYSE and NASD remain outstanding. 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.

Results of Operations

Net profit for the three months ended March 31, 2006 was \$17,217,000 or \$1.36 per share, an increase of approximately 4.5 times compared to \$3,765,000 or \$0.28 per share in the same period of 2005. Revenue for the three months ended March 31, 2006 was \$201,050,000, an increase of 28% compared to revenue of \$157,246,000 in the same period of 2005, with \$11.3 million relating to the valuation gain on the shares of NYSE Group, discussed above. Expenses increased by 14% in the three months ended March 31, 2006 compared to the same period of 2005, primarily reflecting increased volume-related compensation expense, which varies with the increased levels of commission revenue and principal transactions, as well as due to higher interest expense.

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

	Three Months ended March 31, 2006 versus 2005	
	Period to Change	Percentage Change
Revenue —		
Commissions	\$11,265	+14%
Principal transactions, net	11,019	+54%
Interest	11,469	+79%
Underwriting fees	(1,900)	-15%
Advisory fees	(2,302)	-9%
Other	<u>14,253</u>	+674%
Total revenue	<u>43,804</u>	+28%
Expenses —		
Compensation	9,049	+9%
Clearing and exchanges fees	876	+21%
Communications and technology	322	+3%
Occupancy and equipment costs	553	+5%
Interest	7,586	+113%
Other	<u>2,498</u>	+22%
Total expenses	<u>20,884</u>	+14%
Profit before taxes	22,920	+353%
Income taxes	<u>9,468</u>	+347%
Net profit	<u>\$13,452</u>	+357%

Revenue, other than interest

Commission income and, to a large extent, income from principal transactions depend on investor participation in the markets. In the three months ended March 31, 2006, commission revenue increased by 14% compared to the same period of 2005 primarily as a result of increased investor activity in the equity markets. Net revenue from principal transactions increased by 54% in the three months ended March 31, 2006 compared to the comparable period of 2005 due primarily to stronger market conditions. Investment banking revenues decreased 15% in the three months ended March 31, 2006 compared with the same period of 2005 due to the drop in new issue and secondary issuance in 2006 compared to 2005. Advisory fees decreased by 9% for the three months ended March 31, 2006 compared to the same period of 2005. The level of advisory fees earned in the first quarter of 2006 reflects the loss of the advisory contracts for the Asia Tigers and India Funds in December 2005. Assets under management by the asset management group were \$12.4 billion at March 31, 2006 (of which \$1.2 billion applies to a new transaction-based investment advisory program effective January 2006) compared to \$10.5 billion at March 31, 2005, reflecting that clients are increasingly interested in fee-based services. Other revenue in 2006 includes a gain on the valuation of the Company's shares in NYSE Group of \$11.3 million, as described above.

Interest

Net interest revenue (interest revenue less interest expense) increased by 50% in the three months ended March 31, 2006 compared to the same period of 2005. Interest revenue, which primarily relates to revenue from customer margin balances and securities lending activities, increased by 79% in 2006 compared to 2005 primarily as a result of higher interest rates in 2006 and higher customer debit balances.

Expenses, other than interest

Compensation expense increased by 9% in the three months ended March 31, 2006 compared to the comparable period of 2005. Compensation expense has volume-related components and, therefore, increased with the increased levels of commission and principal transactions business conducted in the three months ended March 31, 2006 compared to the comparable period of 2005. The amortization of forgivable loans to brokers is included in compensation expense. This expense is relatively fixed and is not influenced by increases or decreases in revenue levels. As of January 1, 2006, the Company adopted SFAS 123-R, "Shares-Based Payment", resulting in approximately \$1,254,000 in compensation expense in the first quarter of 2006 relating to the expensing of stock options. In prior periods, the Company provided pro forma disclosure of the impact of employee stock options in the notes to its consolidated financial statements. The cost of clearing and exchange fees increased by 21% in the three months ended March 31, 2006 compared to the comparable period of 2005 due to increased floor brokerage costs arising from increased institutional revenue. The cost of communications and technology increased 3% in the three months ended March 31, 2006 compared to the comparable period of 2005. While the Company continues to build out its technology platform for supporting its increasingly more complex business, it has been successful in reducing its costs through reviewing vendor charges and renegotiating more favorable terms. Occupancy and equipment costs increased by 5% in the three months ended March 31, 2006 compared to the same period of 2005 due to the expansion and relocation of several branch offices. Other expenses increased by 22% in the first three months ended March 31, 2006 compared to the comparable period in 2005 due to a \$400,000 decrease in bad debt expense and approximately a \$2,000,000 increase in litigation settlement costs, and legal and regulatory costs in the first quarter of 2006 compared to the same period in the prior year. Other expenses may continue to be impacted by litigation and regulatory settlement costs. The Company may face additional unfavorable judgments in future quarters. The Company has used its best estimate to provide adequate reserves to cover potential litigation and regulatory losses. The costs of compliance with regulatory authorities, as well as Sarbanes-Oxley Act compliance, continue to be expensive.

Liquidity and Capital Resources

Total assets at March 31, 2006 approximated December 31, 2005 levels, in total. 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 March 31, 2006, \$238,822,000 of such borrowings were outstanding compared to outstanding borrowings of \$139,700,000 at December 31, 2005. At March 31, 2006, the Company had available collateralized and uncollateralized letters of credit of \$160,200,000.

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 million and a zero coupon promissory note in the amount of approximately \$66 million. The notes to the consolidated financial statements contain a description of these instruments. The debentures, if exchanged, would represent the addition of approximately 36% of the outstanding Class A Shares of the Company. The interest due on the debentures is payable semi-annually and is generally being financed from internally generated funds and bank call loans. 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 arranged a credit facility in the amount of \$50 million with CIBC. In January 2003, the Company borrowed \$25 million under this facility and borrowed the balance in July 2003. The borrowings were used to finance broker retention notes and 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 bank call loans.

Funding Risk

	Three months ended March 31,	
	2006	2005
Cash (used in) operations	\$(87,016)	\$(1,776)
Cash used in investing activities.....	(1,150)	(518)
Cash provided by financing activities	82,141	14,201
Net increase (decrease) in cash and cash equivalents ..	<u>\$ (6,025)</u>	<u>\$11,907</u>

The Company made significant reductions in its long-term debt load, offset by earnings and increased bank call loans. With stronger market conditions in the first quarter of 2006, the Company's cash available was impacted by funding higher net customer debits, as customers increased borrowings and reduced credit balances.

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 first quarter of 2006, the Company purchased 106,100 Class A Shares pursuant to a Normal Course Issuer Bid at an average cost per share of \$20.34.

The following table describes the purchases in the first quarter of 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.

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
January 2006	—	—	—	259,100
February 2006	30,100	\$20.31	30,100	229,000
March 2006	76,000	\$20.35	106,100	153,000

During the first quarter of 2006, the Company issued 165,166 Class A Shares for a total consideration of \$3,363,000 to employees under its employee shares plans, of which 104,725 Class A Shares (\$2,074,000) were purchased by the Oppenheimer & Co. Inc. 401(k) Plan.

On February 28, 2006, the Company paid cash dividends of U.S.\$0.10 per Class A and Class B Share totaling \$1,276,000 from available cash on hand.

On April 27, 2006, the Board of Directors declared a regular quarterly cash dividend of U.S. \$0.10 per Class A and Class B Share payable on May 19, 2006, to shareholders of record on May 5, 2006.

The book value of the Company's Class A and Class B Shares was \$25.78 at March 31, 2006 compared to \$23.10 at March 31, 2005, an increase of approximately 12%, based on total outstanding shares of 12,654,887 and 13,297,621, respectively.

Off-Balance Sheet Arrangements

Information concerning the Company's off-balance sheet arrangements is included in note 9 of the notes to the condensed

consolidated financial statements. Such information is hereby incorporated by reference.

Contractual and Contingent Obligations

The Company has contractual obligations to make future payments in connection with non-cancelable lease obligations, certain retirement plans and debt assumed upon the 2003 acquisition of the Oppenheimer divisions from CIBC World Markets.

The following table sets forth these contractual and contingent commitments as at March 31, 2006:

Contractual Obligations (In millions of dollars)

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Minimum rentals	\$ 152	\$ 20	\$ 49	\$ 38	\$ 45
Debentures	161	—	—	—	161
Zero coupon promissory notes	20	6	5	3	6
Total	<u>\$ 333</u>	<u>\$ 26</u>	<u>\$ 54</u>	<u>\$ 41</u>	<u>\$ 212</u>

Newly Issued Accounting Standards

Limited Partnerships — 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 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.

Factors Affecting “Forward-Looking Statements”

This report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements relate to anticipated financial performance, future revenues or earnings, the results of litigation, business prospects and anticipated market performance of the Company. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company

cautions readers that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. These risks and uncertainties, many of which are beyond the Company's control, include, but are not limited to: (i) transaction volume in the securities markets, (ii) the volatility of the securities markets, (iii) fluctuations in interest rates, (iv) changes in regulatory requirements which could affect the cost and manner of doing business, (v) fluctuations in currency rates, (vi) general economic conditions, both domestic and international, (vii) changes in the rate of inflation and the related impact on the securities markets, (viii) competition from existing financial institutions and other new participants in the securities markets, (ix) legal or economic developments affecting the litigation experience of the securities industry or the Company, (x) changes in federal and state tax laws which could affect the popularity of products and services sold by the Company, (xi) the effectiveness of efforts to reduce costs and eliminate overlap, (xii) war and nuclear confrontation, (xiii) the Company's ability to achieve its business plan and (xiv) corporate governance issues. See "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. 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.

Quantitative and Qualitative Disclosures About Market Risk

During the three months ended March 31, 2006, there were no material changes to the information contained in Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(e) of the Exchange Act. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

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

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

Changes in Internal Control over Financial Reporting

No changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting, occurred during the quarter ended March 31, 2006.

OFFICES

Oppenheimer Holdings Inc.
P.O. Box 2015, Suite 1110
20 Eglinton Avenue West
Toronto Canada M4R 1K8
Tel: (416) 322-1515
Fax: (416) 322-7007

Oppenheimer & Co. Inc.
125 Broad Street
New York, NY 10004
U.S.A.
Tel: (212) 668-8000
Fax: (212) 943-8728

WEBSITE

The Company's public financial filings, press releases, statement of corporate governance practices, code of ethics, whistleblower policy and committee charters are posted on its website — www.opco.com under Investor Relations.

STOCK LISTING

The Class A non-voting shares of Oppenheimer Holdings Inc. are listed on the New York and Toronto Stock Exchanges under the symbol OPY.

FORM 10-Q

A copy of the Company's Quarterly Report filed on Form 10-Q with the SEC is available upon request from either of the offices listed above or by email to investorrelations@opy.ca. The link to the SEC's EDGAR website is available from the Company's website — www.opco.com under Investor Relations.

OPPENHEIMER

