FIRST ALBANY COMPANIES INC
Form PRER14A
June 12, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A INFORMATION
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
þ Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12

First Albany Companies Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):
þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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June __, 2007

Dear Fellow Shareholder:

Enclosed are the proxy materials for the 2007 annual meeting of First Albany Companies Inc. (the Company). **Please read those materials carefully.**

As you may know, on May 14, 2007, the Company announced that the Board of Directors unanimously approved an agreement to recapitalize and receive a $50 million equity investment from an affiliate of MatlinPatterson Global Opportunities Partners II LP, which is a global private equity firm with approximately $4 billion under management. **This capital investment will provide the Company with resources to grow our business, to seek to acquire other securities or advisory businesses, to focus on its core investment products and services strengths, to provide incentives to its employees and to better meet the needs of its clients.** This transaction will complete a year of restructuring and repositioning for the Company.

After experiencing recurring loses, in the spring of 2006 the Board of Directors retained Freeman & Co. Securities LLC as its financial advisor to evaluate and entertain alternatives for recapitalization of the Company. In addition, the Board of Directors of the Company (the Board) formed a Special Committee to examine strategic alternatives, evaluate proposals from potential investors and to recommend to the Board the best course of action for the Company and its shareholders . Throughout 2006 and early 2007, the Company had active conversations with numerous potential investors, but ultimately received no offers. In the first quarter of 2007, MatlinPatterson FA Acquisition LLC (MatlinPatterson) expressed interest in a transaction. **Following intensive discussions and consultation with their financial advisors and legal counsels, the Special Committee unanimously recommended to the Board of Directors that the MatlinPatterson proposal was in the best interests of the Company and its shareholders, and the Board of Directors unanimously approved the transaction.**

This year s annual meeting is most important since you will be asked, among other things, to consider, act upon and approve five proposals, together authorizing the transaction to recapitalize the Company. In such recapitalization transaction, MatlinPatterson agreed to purchase 33,333,333 newly-issued shares of common stock of the Company (subject to upward adjustment) for an aggregate cash purchase price of $50 million. Upon consummation of the transaction, MatlinPatterson would control approximately 69.5% of the voting power of the Company (59.5% on a fully diluted basis), based on the number of shares of common stock outstanding on May 8, 2007, and after giving effect to an increase in the number of Purchased Shares that is currently expected to result from the adjustment provisions of the Investment Agreement. **This transaction has important implications for your investment.**

In connection with the recapitalization transaction:

The Special Committee unanimously recommended, and the Board of Directors unanimously approved the transaction;

Freeman & Co. Securities LLC, the financial advisor of the Company, provided a fairness opinion that, from a financial point of view, the consideration for the newly-issued shares is fair to the Company;

Peter McNierney, the Company s President and Chief Executive Officer, following consummation of the transaction, will become President and Chief Operating Officer;

Lee Fensterstock will take over management of Company as Chairman and Chief Executive Officer;
Mr. Fensterstock has over 20 years of experience in the securities industry, having served as President and Chief Operating Officer of Gruntal & Co., Chairman and Co- Chief Executive Officer of Bonds Direct Securities Inc. and Managing Director of Jefferies & Co.; and

26 of the Company s employees, comprising substantially all of the most senior management of the Company, have signed non-compete and non-solicit agreements conditioned on the closing of the recapitalization transaction which we believe is indicative of their commitment to the future of the Company if the recapitalization transaction is completed.

In order for the transaction to proceed, it is important that you vote FOR the five recapitalization proposals (Proposals 2 through 6) in the attached proxy.

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Your vote is very important. We hope that you are planning to attend the annual meeting personally and we look forward to seeing you. **Whether or not you are able to attend in person, it is very important that your shares be represented at the annual meeting. Accordingly, the return of the enclosed proxy as soon as possible will ensure that your shares are represented at the annual meeting. In addition to using the traditional proxy card, most shareholders also have the choice of voting over the Internet or by telephone.**

Since the approval of some of the recapitalization proposals requires the affirmative vote of holders of a majority of the outstanding shares of the Company s common stock, the **failure to vote your shares will have the same effect as voting against approval and adoption of such proposal**.

If you have any questions concerning these documents, please feel free to contact:

MacKenzie Partners, Inc.
105 Madison Avenue
New York, NY 10016
Call Collect: (212) 929-5500
or
Toll Free: (800) 322-2885

On behalf of the Board of Directors and management of First Albany Companies Inc., I would like to thank you for your continued support and confidence.

Sincerely yours,
George C. McNamee
Chairman of the Board

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD
__ __, 2007

NOTICE IS HEREBY GIVEN that the annual meeting of the shareholders of First Albany Companies Inc. (the Company) will be held at the offices of the Company, 677 Broadway, Albany, New York, on __ __, 2007 at 10:00 a.m. (EDT), for the following purposes:

(1) To elect three (3) directors whose terms will expire at the 2010 annual meeting of shareholders;

(2) To consider and act upon a proposal to approve the Company s issuance and sale of shares of common stock to certain qualified investors in a private placement;

(3) To consider and act upon a proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 50,000,000 shares of common stock to 100,000,000 shares of common stock with the same par value of $0.01 per share;

(4) To consider and act upon a proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 500,000 shares of preferred stock to 1,500,000 shares of preferred stock with the same par value of $1.00 per share;

(5) To consider and act upon a proposal to amend the Company s Certificate of Incorporation to limit the liability of the directors of the Company to the extent permitted under Section 402(b) of the New York Business Corporation Law (the NYBCL);

(6) To consider and act upon a proposal to approve the adoption of the First Albany Companies Inc. 2007 Incentive Compensation Plan;

(7) To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2007; and

(8) To transact such other business as may properly come before the meeting or any adjournment thereof.

We ask that you give it your careful attention.

The First Albany Companies Inc. Board of Directors unanimously recommends that the shareholders vote (1) FOR the election of the three (3) persons named as nominees under Election of Directors; (2) FOR the proposal to approve the Company s issuance and sale of shares of common stock to certain qualified investors in a private placement; (3) FOR the proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 50,000,000 shares of common stock to 100,000,000 shares of common stock with the same par value of $0.01 per share, (4) FOR the proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 500,000 shares of preferred stock to 1,500,000 shares of preferred stock with the same par value of $1.00 per share; (5) FOR the proposal to amend the Company s Certificate of Incorporation to limit the liability of the directors of the Company to the extent permitted under Section 402(b) of the NYBCL; (6) FOR the proposal to adopt the First Albany Companies Inc. 2007 Incentive Compensation Plan; and (7) FOR the ratification of the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2007.

As in the past, we will be reporting on your Company s activities and you will have an opportunity to ask questions about its operations.

Holders of common stock of record as of the close of business on __ __, 2007 are entitled to receive notice of and vote at the annual meeting of the shareholders. A list of such shareholders may be examined at the annual meeting.

We hope that you are planning to attend the annual meeting personally and we look forward to seeing you. Whether or not you are able to attend in person, it is important that your shares be represented at the annual meeting. For that reason we ask that you

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promptly sign, date, and mail the enclosed proxy card in the return envelope provided. You may also have the option of voting over the Internet or by telephone. Please refer to your proxy materials or the information forwarded by your bank, broker or other holder of record to see which voting methods are available to you. Shareholders who attend the annual meeting may withdraw their proxies and vote in person.

By Order of the Board of Directors

Peter J. McNierney
President and Chief Executive Officer
Albany, New York
__ __, 2007

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677 Broadway
Albany, New York 12207-2990

PROXY STATEMENT

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

The following are some questions that you, as a shareholder of First Albany Companies Inc., may have regarding the private placement and the other matters being considered at the annual meeting of shareholders and the answers to those questions. First Albany Companies Inc. urges you to read carefully the remainder of this document because the information in this section does not provide all the information that might be important to you with respect to the private placement and the other matters being considered at the annual meeting. Additional important information is also contained in the appendices to, and the documents incorporated by reference into, this document. The words we, our, and us as used in this proxy statement refer to First Albany Companies Inc. and its subsidiaries.

Why am I receiving these materials?

We sent you this proxy statement and the enclosed proxy card because the Board of Directors (the Board or Board of Directors) of First Albany Companies Inc. (sometimes referred to as the Company or First Albany) is soliciting your proxy to vote at our annual meeting of the shareholders to be held on __ __, 2007. You are invited to attend the annual meeting to vote on the Proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

We intend to mail this proxy statement and accompanying proxy card on or about __ __, 2007 to all shareholders of record entitled to vote at the annual meeting.

What am I voting on?

There are seven matters scheduled for a vote at the annual meeting:

(1) To elect three (3) directors whose terms will expire at the 2010 annual meeting of shareholders;

(2) To consider and act upon a proposal to approve the Company s issuance and sale of shares of common stock to certain qualified investors in a private placement;

(3) To consider and act upon a proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 50,000,000 shares of common stock to 100,000,000 shares of common stock with the same par value of $0.01 per share;

(4) To consider and act upon a proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 500,000 shares of preferred stock to 1,500,000 shares of preferred stock with the same par value of $1.00 per share;

(5) To consider and act upon a proposal to amend the Company s Certificate of Incorporation to limit the liability of the directors of the Company to the extent permitted under Section 402(b) of the New York Business Corporation Law (the NYBCL);

(6) To consider and act upon a proposal to approve the adoption of the First Albany Companies Inc. 2007 Incentive Compensation Plan (the 2007 Plan); and

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(7) To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2007.

What is the Private Placement described in Proposal 2?

On May 14, 2007, we entered into an investment agreement (the Investment Agreement) pursuant to which we agreed to issue and sell to MatlinPatterson FA Acquisition LLC (MatlinPatterson) 33,333,333 shares, subject to upward adjustment as described in the Investment Agreement, of the common stock, par value $0.01 per share, of the Company (the Purchased Shares) for an aggregate cash purchase price of $50 million (the Private Placement). If Proposal 2, Proposal 3, Proposal 4, Proposal 5 and Proposal 6 (collectively, the Investment Proposals) are approved by our shareholders and the Private Placement is completed, we will sell and issue the Purchased Shares representing, after the closing, approximately 69.5% of our outstanding common stock (59.5% on a fully-diluted basis), based on the number of shares outstanding on May 8, 2007, and after giving effect to an increase in the number of Purchased Shares that is currently expected to result from the adjustment provisions of the Investment Agreement.

Why is the Company selling the Purchased Shares?

We have experienced recurring losses and as of March 31, 2007, had cash of approximately $4.0 million and working capital of approximately $26 million. Continuing losses will adversely impact the Company s liquidity and net capital. We need additional capital to pursue our strategic objectives. If the Investment Proposals are approved by our shareholders, we would be authorized to issue the Purchased Shares and upon satisfaction of the other conditions to closing the Private Placement, we would receive $50 million of gross proceeds from the sale of Purchased Shares, less transaction fees and expenses. The net proceeds from the Private Placement would have a positive impact on our liquidity and net capital and we believe they would improve our ability to pursue our strategic objectives. The additional capital would provide us with additional resources to grow our businesses, to seek to acquire other securities or advisory businesses, to focus on our core investment products and service strengths, to provide incentives to employees and to better meet the needs of our clients.

We believe that the Private Placement, together with the new incentive compensation plan that is proposed to be adopted in connection with the Private Placement, will further and promote the interests of the Company and our shareholders by improving our ability to retain and motivate our current employees and to attract additional employees who can help us obtain our strategic objectives. In the past, we have lost a significant number of investment banking, brokerage, research and other professionals and, more recently, we lost several senior professionals. Continuing losses of professionals, particularly key senior professionals or groups of related professionals, could impair our ability to secure or successfully complete client engagements, materially and adversely affect our revenues and make it more difficult to return to profitability. Although we could still lose more employees in the future, we believe that completion of the Private Placement and adoption of the proposed new incentive compensation plan will significantly improve our ability to retain key employees. This belief is strengthened by the fact that 26 of our employees, comprising substantially all of the most senior management of the Company, have signed non-compete and non-solicit agreements conditioned on the closing of the recapitalization transaction.

We also believe that the Private Placement will strengthen our investor base with the addition of a new experienced investor who will have a significant stake in our long-term success and will be motivated to provide the support and assistance to protect and enhance its investment. We also believe we will strengthen our Board with the addition of new directors who have significant experience in advising comparable companies.

What will happen if Proposal 2 is not approved?

Approval of each of the Investment Proposals is a condition to closing of the Private Placement or is otherwise contemplated thereby. In the event that Proposal 2 is not approved, we will not complete the Private Placement or receive any of the proceeds from the sale of the Purchased Shares as described in Proposal 2. We also will not amend our Certificate of Incorporation as described in Proposal 3 and Proposal 4 and we will not adopt the 2007 Plan as described in Proposal 6, even if one or more of such other Investment Proposals is approved by the shareholders. However, if Proposal 5 is approved by the shareholders, our Certificate of Incorporation will still be amended as provided in that Proposal.

To what extent will the issuance of the Purchased Shares dilute our existing shareholders percentage ownership of the Company?

Our shareholders will incur immediate and substantial dilution of their percentage ownership in the Company if the Investment Proposals are approved by the shareholders and the Purchased Shares are issued. Based on the number of shares outstanding on May 8, 2007, the aggregate ownership of all holders of our outstanding common stock immediately prior to the issuance of the Purchased Shares will be reduced to approximately 30.5% of the outstanding shares of common stock (37.2% on a fully-

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diluted basis) based on the number of shares of common stock outstanding on May 8, 2007, and after giving effect to an increase in the number of Purchased Shares that is currently expected to result from the adjustment provisions of the Investment Agreement.

Why is the Company seeking shareholder approval for the Private Placement?

We are subject to the rules of the NASDAQ Stock Market because our common stock is currently listed on the NASDAQ Global Market. These rules require us to obtain shareholder approval for any issuance or sale of common stock that is (i) equal to 20% or more of our outstanding common stock before such an issuance or sale and (ii) at a price per share below the greater of book value or market value of such issuance or sale. These rules also require shareholder approval of any issuance of voting stock that would result in a change of control of the issuer, which is defined as the ownership by any shareholder or group of affiliated shareholders of 20% or more of an issuer s voting stock immediately following the issuance. The rules apply to the sale and issuance of the Purchased Shares because (i) the price of the Purchased Shares to be issued pursuant to the Investment agreement is $1.50 per share, compared to the $1.60 per share closing price of our common stock on the NASDAQ Global Market on May 11, 2007, the last business day prior to entry into the agreement to sell the Purchased Shares and (ii) issuance of the Purchased Shares will constitute a change of control under the NASDAQ Marketplace Rules because MatlinPatterson will beneficially own more than 20% of our common stock following completion of the Private Placement. For these reasons, we are required under the NASDAQ Marketplace Rules to obtain shareholder approval prior to issuing the Purchased Shares.

In addition, under the Investment Agreement, we agreed to seek the approval of the Private Placement at a meeting of our shareholders to be held as soon as practicable after the execution of the Investment Agreement.

Why is the Company seeking to increase the authorized number of shares of common stock as described in Proposal 3?

We do not currently have sufficient authorized shares to complete the Private Placement described in Proposal 2. To complete the Private Placement and issue the Purchased Shares, we need to substantially increase the number of shares of our common stock authorized for issuance under our Certificate of Incorporation. It is a condition to the completion of the Private Placement that our shareholders approve Proposal 3. Our current Certificate of Incorporation authorizes 50,000,000 shares of common stock for issuance. As of May 8, 2007, there were 16,082,117 shares of our common stock outstanding and an additional approximately 5,233,000 shares reserved for issuance upon exercise of outstanding options and warrants and reserved for future issuance under our equity compensation plans. As a result, as of May 8, 2007, there were only approximately 28,684,883 authorized shares of our common stock available for issuance. We have proposed increasing the authorized number of shares of common stock to 100,000,000 shares to permit completion of the Private Placement and to provide for additional authorized shares of common stock to issue in the future. The additional shares may be issued for various purposes without further shareholder approval, except to the extent required by applicable NASDAQ Marketplace Rules. The purposes may include raising capital, providing equity incentives to employees, officers, directors or consultants, establishing strategic relationships with other companies, expanding our business or product lines through the acquisition of other businesses or products, and other corporate purposes.

What will happen if Proposal 3 is not approved?

If Proposal 3 is not approved, we will not amend our Certificate of Incorporation as provided in Proposal 3. As noted above, if our Certificate of Incorporation is not amended to increase the authorized number of shares of common stock, we will not be able to complete the Private Placement. If Proposal 3 is not approved, we will not complete the Private Placement or receive any of the proceeds from the sale of the Purchased Shares as described in Proposal 2, we will not amend our Certificate of Incorporation as described in Proposal 4 and we will not adopt the 2007 Plan as described in Proposal 6, even if one or more of such other Investment Proposals is approved by the shareholders. However, if Proposal 5 is approved by the shareholders, our Certificate of Incorporation will still be amended as provided in that Proposal.

Why is the Company seeking to increase the authorized number of shares of preferred stock as described in Proposal 4?

Under the Investment Agreement, we agreed to seek the shareholders approval of an amendment to our Certificate of Incorporation to increase the authorized number of shares of preferred stock from 500,000 to 1,500,000.

The additional shares of preferred stock also relate to the Rights Agreement we entered into on March 30, 1998 with our transfer agent, American Stock Transfer & Trust Company (the Rights Agreement), designed to provide for fair and equal treatment for all shareholders in the event that an unsolicited attempt is made to acquire our Company. The Rights Agreement gives each holder of common stock the right to purchase 1/100th share of preferred stock upon certain triggering events. In connection with the authorization of 100,000,000 shares of common stock in accordance with Proposal 3, 1,000,000 shares of preferred stock will be needed to support these rights. The additional shares of authorized preferred stock may also be issued for various other purposes, including raising capital, providing equity incentives to employees, officers, directors or consultants, establishing strategic relationships with other companies, expanding our business or product lines through the acquisition of other businesses or products, and other corporate purposes.

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What will happen if Proposal 4 is not approved?

If Proposal 4 is not approved, we will not amend our Certificate of Incorporation as provided in Proposal 4. Approval of the amendment to our Certificate of Incorporation to increase the number of authorized shares of our preferred stock is a condition to the closing of the Private Placement. If the shareholders do not approve Proposal 4, unless MatlinPatterson waives the condition, we will not complete the Private Placement or receive any of the proceeds from the sale of the Purchased Shares as described in Proposal 2, we will not amend our Certificate of Incorporation as described in Proposal 3 and we will not adopt the 2007 Plan as described in Proposal 6, even if one or more of such other Proposals is approved by the shareholders. However, if Proposal 5 is approved by the shareholders, our Certificate of Incorporation will still be amended as provided in that Proposal.

Why is the Company seeking to limit the liability of the directors of the Company as described in Proposal 5?

Under the Investment Agreement, we agreed to seek the shareholders approval of an amendment to our Certificate of Incorporation limiting the liability of the directors of the Company to the extent permitted under Section 402(b) of the NYBCL at the annual meeting. The Board believes that limiting the directors personal liability as permitted by the New York statute will enhance the ability of the Company to attract and retain highly qualified directors in the future. In addition, the threat of personal liability may have an adverse effect on the decision-making process of directors. The proposed amendment may also encourage directors to make entrepreneurial decisions that they believe to be in the best interest of the Company with less threat of personal liability for damages for breach of their duty of care.

What will happen if Proposal 5 is not approved?

Approval of the amendment to our Certificate of Incorporation to limit the liability of the directors of the Company to the extent permitted under Section 402(b) of the NYBCL is a condition to the closing of the Private Placement. If the shareholders do not approve Proposal 5, unless MatlinPatterson waives the condition, we will not complete the Private Placement or receive any of the proceeds from the sale of the Purchased Shares as described in Proposal 2, we will not amend our Certificate of Incorporation as described in Proposal 3 and Proposal 4 and we will not adopt the 2007 Plan as described in Proposal 6, even if one or more of such other Proposals is approved by the shareholders. However, if Proposal 5 is approved by the shareholders, our Certificate of Incorporation will still be amended as provided in that Proposal.

Why is the Company seeking to put into effect the new First Albany Companies Inc. 2007 Incentive Compensation Plan as described in Proposal 6?

The 2007 Plan is designed to advance the interests of the Company by providing a means through which incentive awards can be granted to officers, other employees and persons who provide services to the Company and its subsidiaries. By making grants of awards under this plan, the Company can attract, retain and reward such persons and, by linking compensation measures to performance, the Company can provide incentives for the creation of shareholder value. In addition, the interests of the Company s shareholders and the award recipients can be more closely aligned by giving the recipients an interest in the long-term success of the Company.

Furthermore, the obligation of MatlinPatterson to complete the Private Placement is conditioned on at least 22 of 27 designated key employees of the Company becoming bound by certain non-competition and non-solicitation covenants conditioned on the closing of the Private Placement and remaining employed by the Company at the closing of the Private Placement. Twenty-six of such 27 designated key employees have already entered into such agreements to become effective as of the closing. The terms on which such designated key employees entered into such non-competition and non-solicitation covenants require that the Company grant to such employees certain awards of restricted stock units under the 2007 Plan if the Private Placement closes. The Company expects to enter into an employment agreement with Mr. Lee Fensterstock that will become effective as of the closing of the Private Placement. The Company has also entered into an employment agreement with Mr. Peter McNierney and an amendment to the existing employment agreement of Mr. Brian Coad that will each become effective as of the closing of the Private Placement. Under the terms of these employment agreements, following the closing of the Private Placement, Mr. Fensterstock will serve as the new Chairman of the Board and Chief Executive Officer of the Company, Mr. McNierney will become the President and Chief Operating Officer and Mr. Coad will remain the Chief Financial Officer. If the Private Placement is completed, these employment agreements (or amendment in the case of

Mr. Coad) will also obligate the Company to award certain restricted stock units to such executives under the 2007 Plan. Accordingly, it is contemplated that, as of the closing of the Private Placement, awards of restricted stock units in respect of up to 6.75 million shares of common stock will be made or committed to be made under the 2007 Plan, representing approximately 10.9% of the shares of common stock expected to be outstanding immediately following the closing assuming the issuance of 33,333,333 Purchased Shares, on a fully diluted basis, after giving effect to an increase in the number of Purchased Shares that is currently expected to result from the adjustment provisions of the Investment Agreement. If the Private Placement is not consummated, we will not adopt the 2007 plan as proposed.

What will happen if Proposal 6 is not approved?

If Proposal 6 is not approved at the annual meeting, the 2007 Plan will not go into effect unless approved by our shareholders at a subsequent meeting. If Proposals 2, 3, 4 and 5 are approved, following the closing of the Private Placement, MatlinPatterson will beneficially own a majority of the then outstanding shares of our common stock. As a result, if Proposal 6 is not approved at the annual meeting, there is a likelihood that a proposal to adopt the 2007 Plan will be approved by a majority vote of the shareholders at a

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meeting subsequent to the closing of the Private Placement. If we are required to hold a special meeting of the shareholders following the closing of the Private Placement in order to reconsider the approval of the 2007 Plan, we will incur additional expenses.

Who can vote at the annual meeting?

Only shareholders of record at the close of business on _____, 2007 will be entitled to vote at the annual meeting. At the close of business on this record date, there were _____ shares of common stock outstanding and entitled to vote.

Shareholder of Record: Shares Registered in Your Name

If at the close of business on _____, 2007 your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, then you are a shareholder of record. As a shareholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to complete and return the enclosed proxy card to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If at the close of business on _____, 2007 your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting your shares at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the shareholder of record, you will not be able to vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

How do I vote?

For each of the matters to be voted on, you may vote For or Against or abstain from voting. The procedures for voting are fairly simple:

Shareholder of Record: Shares Registered in Your Name

If you are a shareholder of record, you may vote in person at the annual meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy.

To vote by proxy, most shareholders have a choice of voting over the Internet, using a toll-free telephone number or completing the proxy card in the form enclosed and mailing it in the envelope provided. Please refer to your proxy card or the information forwarded by your bank, broker or other nominee to see which options are available to you.

To vote in person, come to the annual meeting, and we will give you a ballot when you arrive.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply complete and mail the proxy card to ensure that your vote is counted.

To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker or bank included with these proxy materials or contact your broker or bank to request a proxy form.

IF YOU HAVE ANY QUESTIONS OR NEED ASSISTANCE WITH VOTING YOUR SHARES, PLEASE CALL MACKENZIE PARTNERS, INC., THE FIRM ASSISTING US IN THIS SOLICITATION, TOLL-FREE AT (800) 322-2885.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of _____, 2007.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted (1) *For* the election of the three (3) persons named as nominees under Election of Directors; (2) *For* the proposal to

approve the Private Placement; (3) *For* the proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 50,000,000 shares of common stock to 100,000,000 shares of common stock with the same par value of $0.01 per share, (4) *For* the proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 500,000 shares of preferred stock to 1,500,000 shares of preferred stock with the same par value of $1.00 per share; (5)

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For the proposal to amend the Company s Certificate of Incorporation to limit the liability of the directors of the Company to the extent permitted under Section 402(b) of the NYBCL; (6) *For* the proposal to adopt the 2007 Plan; and (7) *For* the ratification of the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2007.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the meeting. You may revoke your proxy in any one of three ways:

You may submit another properly completed proxy card with a later date.

You may send a written notice that you are revoking your proxy to First Albany Companies Inc. s Secretary at 677 Broadway, Albany, New York 12207-2990.

You may attend the annual meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy.

How are votes counted?

Votes will be counted by the inspector of election appointed for the meeting, who will separately count *For* and *Against* votes, abstentions and broker non-votes. Abstentions will be counted towards a quorum and the vote total for each Proposal and will have the same effect as *Against* votes. Broker non-votes will be counted towards a quorum and depending on the Proposal either will have the same effect as an *Against* vote on the Proposal or will have no effect. Please see the more detailed description of the effect of broker non-votes on specific Proposals in the answer to How many votes are needed to approve each proposal? below.

If your shares are held by your broker as your nominee (that is, in street name), you will need to obtain a proxy card from the institution that holds your shares and follow the instructions included on that proxy card regarding how to instruct your broker to vote your shares. If you do not give instructions to your broker, your broker can vote your shares with respect to discretionary items but not with respect to non-discretionary items. Discretionary items are proposals considered routine under the rules of the NASDAQ Stock Market and on which your broker may vote shares held in street name in the absence of your voting instructions. On non-discretionary items for which you do not give your broker instructions, the shares will be treated as broker non-votes. The Investment Proposals will all be considered non-discretionary items.

How many votes are needed to approve each proposal?

For the election of directors, the three nominees receiving the most *For* votes from the shares present and entitled to vote at the annual meeting, either in person or by proxy, will be elected. Abstentions will not be treated as votes cast at the annual meeting for such purpose.

To be approved, Proposal 2 must receive *For* votes constituting a majority of the votes cast at the annual meeting with respect to shares entitled to vote thereon. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will not be treated as votes cast at the annual meeting for such purpose.

To be approved, Proposal 3 must receive *For* votes from the holders of a majority of the shares outstanding as of the record date. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will also have the same effect as an *Against* vote.

To be approved, Proposal 4 must receive *For* votes from the holders of a majority of the shares outstanding as of the record date. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will also have the same effect as an *Against* vote.

To be approved, Proposal 5 must receive *For* votes from the holders of a majority of the shares outstanding as of the record date. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will also have the same effect as an *Against* vote.

To be approved, Proposal 6 must receive *For* votes constituting a majority of the votes cast at the annual meeting with respect to shares entitled to vote thereon. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will not be treated as votes cast at the annual meeting for such purpose.

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To be approved, Proposal 7 must receive *For* votes constituting a majority of the votes cast at the annual meeting with respect to shares entitled to vote thereon. If you abstain from voting, it will have the same effect as an *Against* vote.

What is the quorum requirement?

A quorum of shareholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the shares outstanding and entitled to vote as of the record date are represented by shareholders present at the meeting or by proxy. On _____, 2007, the record date, there were _____ shares outstanding and entitled to vote. As a result _____ of these shares must be represented by shareholders present at the meeting or by proxy to have a quorum.

Your shares will be counted towards the quorum if you submit a valid proxy vote or vote at the meeting. Abstentions and broker non-votes will also be counted towards the quorum requirement. If there is no quorum, a majority of the votes present at the meeting may adjourn the meeting to another date.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting and announced promptly following the annual meeting in a press release and current report on Form 8-K. Final voting results will be published in our quarterly report on Form 10-Q for the third quarter of 2007 that we are required to file with the Securities and Exchange Commission (the SEC) by November 9, 2007.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors, officers and other employees may also solicit proxies in person, by telephone or by other means of communication. Directors, officers and other employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners. The solicitation of proxies will also be supplemented through the services of MacKenzie Partners, Inc., a proxy solicitation firm. MacKenzie Partners, Inc. will receive a customary fee which we estimate to be approximately $15,000.

IF YOU HAVE ANY QUESTIONS OR NEED ASSISTANCE WITH VOTING YOUR SHARES, PLEASE CALL MACKENZIE PARTNERS, INC. TOLL-FREE AT (800) 322-2885.

When are shareholder proposals due for next year s annual meeting?

The deadline for submitting a shareholder proposal for inclusion in our proxy statement and form of proxy for the 2008 annual meeting of shareholders is _____, 2008. If shareholders wish to submit proposals or director nominations that are not otherwise to be included in such proxy statement and proxy, the proposal must be received by the Company no earlier than _____, 2008 and no later than the close of business on _____, 2008. Shareholders are advised to review our Bylaws, which contain additional requirements with respect to advance notice of shareholder proposals and director nominations. Our current Bylaws are available at the SEC s website, *www.sec.gov*, or upon written request to Investor Relations, First Albany Companies Inc., 677 Broadway, Albany, New York 12207-2990. The proposed Amendments to our Certificate of Incorporation referred to in Proposal 3, Proposal 4 and Proposal 5 are appended to this proxy statement as **Appendix C** and will also be available at *www.sec.gov* or upon written request to our Investor Relations department following adoption.

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SUMMARY

This summary highlights information contained elsewhere in this document and may not contain all the information that is important to you. First Albany Companies Inc. urges you to read carefully the remainder of this document, including the attached appendices, and the other documents to which we have referred you to because this section does not provide all the information that might be important to you with respect to the Private Placement and the other matters being considered at the annual meeting of shareholders. We have included page references to direct you to a more complete description of the topics presented in this summary. Unless the context otherwise requires, references to we, our and us in this document refer to First Albany Companies Inc. and its subsidiaries.

The Companies

First Albany Companies Inc.
677 Broadway
Albany, New York 12207-2990
(518) 447-8673

First Albany Companies Inc. is an independent investment bank that serves the qualified market, state and local governments and the growing corporate middle market by providing clients with strategic, research-based investment opportunities, as well as advisory and financing services. First Albany offers a diverse range of products through its Equities division and its Municipal Capital Markets division (which is under contract to be sold), as well as Descap Securities Inc., its mortgage-backed security/asset-backed security trading subsidiary, and FA Technology Ventures Inc., its venture capital division. First Albany maintains offices in major business and commercial markets.

First Albany, a New York corporation, is traded on the NASDAQ Global Market, which we refer to as NASDAQ, under the symbol FACT .

MatlinPatterson FA Acquisition LLC
c/o MatlinPatterson Global Advisers LLC
520 Madison Avenue, 35th Floor
New York, New York 10022
(212) 651-9500

MatlinPatterson FA Acquisition LLC is a Delaware limited liability company formed by MatlinPatterson Global Opportunities Partners II L.P., an investment fund, and its parallel offshore vehicle (collectively, MatlinPatterson GOP II), for the purpose of entering into the Investment Agreement and acquiring the Purchased Shares. MatlinPatterson GOP II is managed by MatlinPatterson Global Advisers LLC, a global investment firm that currently manages, in addition to MatlinPatterson GOP II, MatlinPatterson Global Opportunities Partners L.P. These partnerships have aggregate assets and commitments of approximately $3.8 billion.

The Annual Meeting

The Annual Meeting (See page 15)

The First Albany annual meeting will be held at 677 Broadway, Albany, New York 12207-2990, at 10:00 a.m. (EDT), on _____, 2007. At the First Albany annual meeting, First Albany shareholders will be asked:

(1) To elect three (3) directors whose terms will expire at the 2010 annual meeting of shareholders;

(2) To consider and act upon a proposal to approve the Private Placement;

(3) To consider and act upon a proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 50,000,000 shares of common stock to 100,000,000 shares of common stock with the same par value of $0.01 per share;

(4) To consider and act upon a proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 500,000 shares of preferred stock to 1,500,000 shares of preferred stock with the same par value of $1.00 per share;

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(5) To consider and act upon a proposal to amend the Company s Certificate of Incorporation to limit the liability of the directors of the Company to the extent permitted under Section 402(b) of the NYBCL;

(6) To consider and act upon a proposal to approve the adoption of the 2007 Plan;

(7) To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2007; and

(8) To transact such other business as may properly come before the meeting or any adjournment thereof.

You may vote at the First Albany annual meeting if you owned shares of First Albany common stock at the close of business on _____, 2007. On that date, there were _____ shares of First Albany common stock outstanding, approximately 20% of which were owned and entitled to be voted by First Albany directors and executive officers and their affiliates. We currently expect that First Albany s directors and executive officers will vote their shares in favor of the Private Placement, and Messrs. George McNamee and Alan Goldberg, directors of the Company, and Mr. McNierney, a director and the President and CEO of the Company, have agreed with MatlinPatterson to vote the shares of common stock owned by them in favor of the transaction. These persons collectively own approximately 19% of the outstanding shares of common stock.

You can cast one vote for each share of First Albany common stock you own. The proposals require different percentages of votes in order to approve them:

For the election of directors, the three nominees receiving the most *For* votes from the shares present and entitled to vote at the annual meeting, either in person or by proxy, will be elected. Abstentions will not be treated as votes cast at the annual meeting for such purpose.

To be approved, Proposal 2 must receive *For* votes constituting a majority of the votes cast at the annual meeting with respect to shares entitled to vote thereon. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will not be treated as votes cast at the annual meeting for such purpose.

To be approved, Proposal 3 must receive *For* votes from the holders of a majority of the shares outstanding as of the record date. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will also have the same effect as an *Against* vote.

To be approved, Proposal 4 must receive *For* votes from the holders of a majority of the shares outstanding as of the record date. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will also have the same effect as an *Against* vote.

To be approved, Proposal 5 must receive *For* votes from the holders of a majority of the shares outstanding as of the record date. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will also have the same effect as an *Against* vote.

To be approved, Proposal 6 must receive *For* votes constituting a majority of the votes cast at the annual meeting with respect to shares entitled to vote thereon. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will not be treated as votes cast at the annual meeting for such purpose.

To be approved, Proposal 7 must receive *For* votes constituting a majority of the votes cast at the annual meeting with respect to shares entitled to vote thereon. If you abstain from voting, it will have the same effect as an *Against* vote.

Proposal No. 1: Election of Directors (See page 18)

Three directors will be elected at the annual meeting to serve for a three-year term expiring at the annual meeting of shareholders in 2010. The Board has nominated three persons as directors. The Board recommends that shareholders vote FOR the election of these nominees.

Proposal No. 2: Approval of the Private Placement (See page 21)

Background of the Private Placement (See page 22)

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The Company experienced losses in several of our key segments in 2005 and 2006, including equities sales and trading, equity investment banking and fixed income sales and trading. Recognizing these losses and the need to maintain liquidity requirements, in the spring of 2006 the Board retained Freeman & Co. Securities LLC (Freeman) as its financial advisor to establish a comprehensive process to entertain both a strategic sale of, or a strategic investment in, the Company.

Throughout 2006 and early 2007, the Company had conversations with numerous potential investors but ultimately received no offers. In the first quarter of 2007, MatlinPatterson expressed interest in investing in the Company. The Board formed a special committee of the Board (the Special Committee) to assist in evaluating proposals from potential investors and to make recommendations to the Board regarding any issues requiring Board consideration with respect to any proposals received from such investors. Bingham McCutchen LLP was retained as legal counsel for the Special Committee.

The Board and Special Committee engaged in discussions and consulted with their financial advisors and legal counsel regarding the potential MatlinPatterson transaction. The Special Committee ultimately reported to the Board that it was satisfied with the process and felt that all reasonably possible scenarios and interested parties had been considered and that the efforts made were sufficient to indicate that the MatlinPatterson proposal was the best available for the Company and its shareholders.

The Special Committee also requested that Freeman deliver a fairness opinion regarding the consideration to be paid to the Company in connection with the Private Placement.

On May 14, 2007, the Company entered into the Investment Agreement with MatlinPatterson described below and attached hereto as **Appendix A** providing for the issuance and sale of Purchased Shares for gross proceeds of $50 million. Please see the section Investment Agreement below for information on the Investment Agreement.

Reasons for the Private Placement (See page 25)

We have experienced recurring losses and, as of March 31, 2007, had cash of approximately $4.0 million and working capital of approximately $26 million. Continuing losses will adversely impact the Company s liquidity and net capital. We need additional capital to pursue our strategic objectives. If the Investment Proposals are approved by our shareholders, we would be authorized to issue the Purchased Shares and, upon satisfaction of the other conditions to closing the Private Placement, we would receive $50 million of gross proceeds from the sale of the Purchased Shares, less transaction fees and expenses. The additional capital would provide us with additional resources to grow our businesses, to seek to acquire other securities or advisory businesses, to focus on our core investment products and service strengths, to provide incentives to employees and to better meet the needs of our clients.

After considering numerous potential financing and strategic alternatives, the Board determined that the Private Placement was the best available alternative and would provide the greatest potential value for our shareholders, as well as provide the necessary capital to pursue our long-term strategic goals. The determination was the result of careful consideration by the Board of a number of factors, including (i) that the Private Placement will strengthen our financial condition and reduce our financial risk, (ii) that the Private Placement will strengthen our investor base with the addition of a new experienced investor who will have a significant stake in our long-term success and will be motivated to provide the support and assistance to protect and enhance its investment and (iii) that we believe we will strengthen our Board with the addition of new directors who have significant experience in advising comparable companies. In its review of the Private Placement, the Board also considered a number of potentially negative factors, including (i) that the Private Placement will have a highly dilutive effect on our current shareholders and option holders, (ii) that MatlinPatterson would control approximately 69.5% of the voting power of our capital stock immediately upon the closing of the Private Placement (59.5% on a fully diluted basis), after giving effect to an increase in the number of Purchased Shares that is currently expected to result from the adjustment provisions of the Investment Agreement and (iii) the Private Placement will result in restrictions on our ability to use our net operating loss carryforwards to offset future taxable income. The Board recognized that there can be no assurance that we would be able to achieve all or significantly all of each anticipated benefit or advantage or that it had identified and accurately assessed each risk and negative factor. However the Board concluded that the potential benefits and advantages of the Private Placement significantly outweigh the risks and negative factors that it had identified.

Recommendations of the Board of Directors (See page 44)

After careful consideration and on the unanimous recommendation of the Special Committee, the Board unanimously approved the Investment Agreement on May 14, 2007. For the factors considered by the Board in reaching its decision to approve the Investment Agreement, see the section entitled Proposal 2, Approval of the Private Placement Reasons for the Private Placement beginning on page 25. **The First Albany Board of Directors unanimously recommends that the First Albany shareholders vote *For* the proposal to approve the issuance of First Albany common stock in the Private Placement.**

Opinion of our Independent Financial Advisor (See page 27)

On May 14, 2007, First Albany s financial advisor, Freeman, delivered to the Board its opinion that, as of the date of the opinion and based upon the assumptions made, matters considered and limits of review set forth in its written opinion, the consideration to be paid to the Company was fair from a financial point of view. A copy of Freeman s written opinion is attached to this proxy statement as **Appendix B**.

First Albany encourages you to read carefully both the section entitled Proposal 2, Approval of the Private Placement Opinion of Our Financial Advisor beginning on page 27 and Freeman s written opinion in its entirety for a description of the assumptions made, matters considered and limits on the scope of review undertaken by Freeman. Freeman s opinion was intended for the use and benefit of the Board of Directors, does not address the merits of the underlying decision by First Albany to enter into the

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Investment Agreement or any of the transactions contemplated thereby, including the Private Placement, and does not constitute a recommendation as to how any holder of common stock should vote on, or take any action with respect to, the Private Placement or any related matter.

Terms of the Private Placement (See page 30)

The following is a summary of the terms of the Private Placement and the provisions of the Investment Agreement, the Registration Rights Agreement, the Voting Agreements and the Amendment of the Rights Agreement referred to below. The sale of the Purchased Shares has not been registered under the Securities Act of 1933, as amended (the Securities Act). The Purchased Shares will be sold to MatlinPatterson FA Acquisition LLC, an accredited investor, and possibly additional co-investors who are accredited investors, in reliance upon exemptions from registration under Section 4(2) of the Securities Act and SEC Rule 506 of Regulation D. None of the Purchased Shares may be offered or sold in the United States absent registration under or exemption from the Securities Act and any applicable state security laws.

THIS SUMMARY OF THE TERMS OF THE PRIVATE PLACEMENT IS INTENDED TO PROVIDE YOU WITH BASIC INFORMATION CONCERNING THE TRANSACTION. IT IS NOT A SUBSTITUTE FOR REVIEWING THE INVESTMENT AGREEMENT, THE FORM OF REGISTRATION RIGHTS AGREEMENT, THE VOTING AGREEMENTS AND THE AMENDMENT TO RIGHTS AGREEMENT APPENDED TO THIS PROXY STATEMENT AS APPENDIX A. YOU SHOULD READ THIS SUMMARY IN CONJUNCTION WITH THE AGREEMENTS APPENDED HERETO AS APPENDIX A.

Investment Agreement **(See page 30)**

On May 14, 2007, the Company entered into the Investment Agreement with MatlinPatterson FA Acquisition LLC providing for the purchase by MatlinPatterson FA Acquisition LLC and certain co-investors which may be designated by it (collectively referred to herein as MatlinPatterson), upon the terms and subject to the conditions of the Investment Agreement, of 33,333,333 newly issued shares of the Company s common stock, par value $0.01 per share, for an aggregate cash purchase price of $50 million. The number of shares issuable to MatlinPatterson in consideration of the $50 million purchase price (referred to herein as the Purchased Shares) is subject to an upward adjustment if the Company incurs certain incremental employment-related obligations as a result of the DEPFA Transaction (as defined below) not having closed prior to closing the Private Placement and if the Company s net tangible book value per share at closing is less than $1.60. Upon the closing of the Private Placement, and after giving effect to the contemplated issuance to certain employees of restricted stock units as described herein, MatlinPatterson would own approximately 69.5% of the outstanding common stock (approximately 59.5% on a fully diluted basis), based on the number of shares outstanding on May 8, 2007, and after giving effect to an increase in the number of Purchased Shares that is currently expected to result from the adjustment provisions of the Investment Agreement. The proceeds to the Company from the sale of shares to MatlinPatterson would be invested in the Company s ongoing businesses, consistent with a strategic plan to be developed by the Company, and to retire short-term debt.

The Company previously announced its agreement to sell the Municipal Capital Markets Group of First Albany Capital Inc., the Company s wholly-owned subsidiary, to DEPFA BANK plc (sometimes referred to herein as the DEPFA Transaction). We currently expect that the DEPFA Transaction will not close prior to the closing of the Private Placement. As a result, certain employees of the Company, who will remain employed by the Company at the time of the closing of the Private Placement and who would have otherwise have become employed by DEPFA had the DEPFA Transaction closed prior to the Private Placement, are expected to become entitled to receive certain cash payments and accelerated vesting of certain equity awards triggered by MatlinPatterson gaining control of the Company that they would not have been entitled to if the DEPFA Transaction had closed first. In such an event, the Investment Agreement provides that the number of Purchased Shares will be increased to account for the cash bonuses or other amounts paid or payable by the Company to any employee of the Municipal Capital Markets Group that would not have been so paid had the DEPFA Transaction closed prior to the closing of the Private Placement, as well as the accelerated vesting of the restricted stock awards and stock options held by such employees that would not have occurred if the DEPFA Transaction had closed prior to the closing of the Private Placement. In the event that our employees entitled to receive such payments and to benefit from the accelerated vesting of such awards and options do not waive such rights, we expect the number of Purchased Shares to be increased from 33,333,333 to 36,690,705 at

the closing, without MatlinPatterson being required to contribute more than the $50 million already contemplated by the Investment Agreement. If the number of Purchased Shares is increased in this manner, MatlinPatterson would own approximately 69.5% of the outstanding common stock (approximately 59.5% of the common stock, on a fully diluted basis). To the extent that the affected employees are willing to waive their rights to such payments and accelerated vesting, the number of additional Purchased Shares will be reduced accordingly.

The Investment Agreement also provides that the number of Purchased Shares will be further adjusted upwards, in addition to the adjustment described above, if our net tangible book value per share is less than $1.60 as of the closing date. In such case, the number of Purchased Shares will be increased by a factor reflecting the percentage shortfall represented by the net tangible book value per share as of the closing date compared to a target of $1.69 per share. If the DEPFA Transaction closes prior to the closing of the

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Private Placement, there will first be a pro forma adjustment to eliminate the effects of the closing of the DEPFA Transaction on net tangible book value per share, including a pro forma elimination of the incremental cash payments and accelerated restricted stock awards and stock options referred to above.

In connection with entering into the Investment Agreement, the Company has agreed with MatlinPatterson to terminate the Company s previously announced plans to reprice outstanding employee stock options and to replace outstanding employee restricted stock awards with stock appreciation rights.

The Investment Agreement contains other covenants of the Company, including an agreement of the Company to operate its business in the ordinary course until the purchase is completed. The Company has also agreed not to solicit or initiate discussions with third parties regarding other competing proposals and to certain restrictions on its ability to respond to any unsolicited competing proposal. The Investment Agreement also includes customary representations and warranties of the Company and MatlinPatterson, indemnification provisions for MatlinPatterson and termination provisions for both the Company and MatlinPatterson.

The summary above of the Investment Agreement does not purport to be complete and is qualified in its entirety by the more detailed description contained herein as well as the full text of such agreement, a copy of which is attached in **Appendix A** hereto.

The Investment Agreement contains representations and warranties of the Company and MatlinPatterson made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the contract between the Company and MatlinPatterson and may be subject to important qualifications and limitations agreed to by the Company and MatlinPatterson in connection with negotiating the terms of the Investment Agreement. Moreover, some of those representations and warranties may not be accurate or complete as of any specified date, may be subject to a contractual standard of materiality different from those generally applicable to shareholders or may have been used for purposes of allocating risk among the Company and MatlinPatterson rather than establishing matters as facts.

Registration Rights Agreement **(See page 36)**

We agreed to enter into a Registration Rights Agreement with MatlinPatterson (the Registration Rights Agreement), pursuant to which we would be required upon the demand of MatlinPatterson on up to three occasions to file with the SEC a registration statement for the resale of Purchased Shares. The Registration Rights Agreement would obligate us to use our best efforts to have the registration statement declared effective as soon as practicable after it is filed. The Registration Rights Agreement also provides MatlinPatterson with piggyback registration rights exercisable if we file certain registration statements on our own initiative or upon the request of another shareholder. We would bear all of the costs of any demand or piggyback registration other than underwriting discounts and commissions and certain other expenses.

The summary above of the Registration Rights Agreement does not purport to be complete and is qualified in its entirety by the more detailed description contained herein as well as the full text of such agreement, a copy of which is attached in **Appendix A** hereto.

Voting Agreements **(See page 37)**

MatlinPatterson has entered into certain voting agreements with Messrs. Alan Goldberg, George McNamee and Peter McNierney, individually (the Voting Agreements), pursuant to which each such shareholder has agreed to vote the shares of common stock beneficially owned by him in favor of approval of each of the Investment Proposals. Messrs. Goldberg, McNamee and McNierney have agreed, among other things (i) to vote their shares of common stock in favor of the Private Placement and the other Investment Proposals, (ii) not to solicit, encourage or recommend to other shareholders of the Company that they vote their shares of common stock in any contrary manner, that they refrain from voting their shares, that they tender, exchange or otherwise dispose of their shares of common stock pursuant to a Competing Transaction (as defined in the Voting Agreements), or that they attempt to exercise any statutory appraisal or other similar rights they may have, (iii) unless otherwise instructed in writing by MatlinPatterson, to vote their shares against any Competing Transaction and (iv) not to, and not to permit any of their employees, attorneys, accountants, investment bankers or other agents or representatives to, initiate, solicit, negotiate, encourage, or provide confidential information in order to facilitate any Competing Transaction. These persons collectively own approximately 19% of the outstanding shares of our common stock.

The summary above of the Voting Agreements does not purport to be complete and is qualified in its entirety by the more detailed description contained herein as well as the full text of each such agreement, a copy of which is attached in **Appendix A** hereto.

Amendment of the Rights Agreement **(See page 37)**

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On March 30, 1998, we entered into the Rights Agreement with our transfer agent, American Stock Transfer & Trust Company, designed to provide for a fair and equal treatment for all shareholders in the event that an unsolicited attempt is made to acquire our Company. The effect of the Rights Agreement is to discourage acquisitions of more than 15% of our common stock without negotiations with the Board. As required under the Investment Agreement, we entered into an amendment to the Rights Agreement (the Amendment to the Rights Agreement) to provide that entry into the Investment Agreement and the Private Placement will be exempt from the Rights Agreement and that MatlinPatterson and certain related persons would not be deemed to be Acquiring Persons thereunder.

No Appraisal Rights (See page 41)

The shareholders are not entitled to appraisal rights with respect to the Private Placement, and we will not independently provide the shareholders with any such rights.

Proposal No. 3: Amend the Certificate of Incorporation to Increase the Company s Authorized Common Stock from 50,000,000 shares to 100,000,000 shares (See page 45)

We do not currently have sufficient authorized shares to complete the Private Placement described in Proposal 2. To complete the Private Placement and issue the Purchased Shares, we need to substantially increase the number of shares of our common stock authorized for issuance under our Certificate of Incorporation. It is a condition to the completion of the Private Placement that our shareholders approve Proposal 3. Our current Certificate of Incorporation authorizes 50,000,000 shares of common stock for issuance. As of May 8, 2007, there were 16,082,117 shares of our common stock outstanding and an additional approximately 5,233,000 shares reserved for issuance upon exercise of outstanding options and warrants and reserved for future issuance under our equity compensation plans. As a result, as of May 8, 2007, there were only approximately 28,684,883 authorized shares of our common stock available for issuance. We have proposed increasing the authorized number of shares of common stock to 100,000,000 shares to permit completion of the Private Placement, for the Company to reserve 25% of our shares of common stock outstanding from time to time for issuance under the 2007 Plan and our existing long-term incentive plans and to provide additional authorized shares of common stock available to issue in the future. The additional authorized shares may be issued for various purposes without further shareholder approval, except to the extent required by applicable NASDAQ Marketplace Rules. The purposes may include raising capital, providing equity incentives to employees, officers, directors or consultants, establishing strategic relationships with other companies, expanding our business or product lines through the acquisition of other businesses or products, and other corporate purposes.

If our shareholders do not approve the amendment to our Certificate of Incorporation to increase the authorized number of shares of common stock, we will not be able to complete the Private Placement and we will not receive any of the proceeds from the sale of the Purchased Shares. In such event, we will also not amend our Certificate of Incorporation as described in Proposal 4 and we will not adopt the 2007 Plan as described in Proposal 6, even if one or more of such other Proposals is approved by the shareholders. However, if Proposal 5 is approved by the shareholders, our Certificate of Incorporation will still be amended as provided in that Proposal.

Proposal No. 4: Amend the Certificate of Incorporation to Increase the Company s Authorized Preferred Stock from 500,000 shares to 1,500,000 shares (See page 46)

Under the Investment Agreement, we agreed to seek the shareholders approval of an amendment to our Certificate of Incorporation to increase the authorized number of shares of preferred stock from 500,000 to 1,500,000. The additional shares of preferred stock also relate to the Rights Agreement we entered into on March 30, 1998 with our transfer agent, American Stock Transfer & Trust Company (the Rights Agreement), designed to provide for fair and equal treatment for all shareholders in the event that an unsolicited attempt is made to acquire our Company. The Rights Agreement gives each holder of common stock the right to purchase 1/100th share of preferred stock upon certain triggering events. In connection with the authorization of 100,000,000 shares of common stock in accordance with Proposal 3, 1,000,000 shares of preferred stock will be needed to support these rights. The additional shares of authorized preferred stock may also be issued for various other purposes, including raising capital, providing equity incentives to employees, officers, directors or consultants, establishing strategic relationships with other companies, expanding our business or product lines through the acquisition of other businesses or products, and other corporate purposes.

Approval of the amendment to our Certificate of Incorporation to increase the number of authorized shares of our preferred stock is a condition to the closing of the Private Placement and if the shareholders do not approve Proposal 4, we will not be able to complete the Private Placement and we will not receive any proceeds from the sale of the Purchased Shares, unless MatlinPatterson waives the condition. In such event, we also will not amend our Certificate of Incorporation as described in Proposal 3 and we will not adopt the 2007 Plan as described in Proposal 6, even if one or more of such other Proposals is approved by the shareholders. However, if Proposal 5 is approved by the shareholders, our Certificate of Incorporation will still be amended as provided in that Proposal.

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Proposal No. 5: Amend the Certificate of Incorporation to Limit the Liability of the Directors of the Company to the Extent Permitted under Section 402(b) of the New York Business Corporation Law (See page 48)

Under the Investment Agreement, we agreed to seek the shareholders approval of an amendment to our Certificate of Incorporation limiting the liability of the directors of the Company to the extent permitted under Section 402(b) of the NYBCL. The Board believes that limiting the directors personal liability as permitted by the New York statute will enhance the ability of the Company to attract and retain highly qualified directors in the future. In addition, the threat of personal liability may have an adverse effect on the decision-making process of directors. The proposed amendment may also encourage directors to make entrepreneurial decisions which they believe to be in the best interest of the shareholders with less threat of personal liability for damages for breach of their duty of care.

Approval of the amendment to our Certificate of Incorporation to limit the liability of the directors and officers of the Company is a condition to the closing of the Private Placement and if the shareholders do not approve Proposal 5, we will not be able to complete the Private Placement and we will not receive any proceeds from the sale of the Purchased Shares, unless MatlinPatterson waives the condition. In such event, we also will not amend our Certificate of Incorporation as described in Proposal 3 and Proposal 4 and we will not adopt the 2007 Plan as described in Proposal 6, even if one or more of such other Proposals is approved by the shareholders. If Proposal 5 is approved by the shareholders, we intend to amend our Certificate of Incorporation as contemplated by Proposal 5, even if none of the other Proposals are approved.

Proposal No. 6: Adopt the First Albany Companies Inc. 2007 Incentive Compensation Plan (See page 50)

The 2007 Plan is designed to advance the interests of the Company by providing a means through which incentive awards can be granted to officers, other employees and persons who provide services to the Company and its subsidiaries. By making grants of awards under this plan, the Company can attract, retain and reward such persons and, by linking compensation measures to performance, the Company can provide incentives for the creation of shareholder value. In addition, the interests of the Company s shareholders and the award recipients can be more closely aligned by giving the recipients an interest in the long-term success of the Company. The 2007 Plan provides that the number of shares of common stock available for outstanding awards under that plan and our existing long-term incentive plans will be equal to 25% of the total number of shares of common stock outstanding from time to time.

Furthermore, the obligation of MatlinPatterson to complete the Private Placement is conditioned on at least 22 of 27 designated key employees of the Company becoming bound by certain non-competition and non-solicitation covenants conditioned on the closing of the Private Placement and remaining employed by the Company at the closing of the Private Placement. Twenty-six of such 27 designated key employees have entered into such agreements to become effective as of the closing. The terms on which such designated key employees entered into such non-competition and non-solicitation covenants require that the Company grant to such employees certain awards of restricted stock units under the 2007 Plan if the Private Placement closes. The Company also expects to enter into an employment agreement with Mr. Fensterstock that will become effective at the closing of the Private Placement. The Company has also entered into an employment agreement with Mr. Nierney and an amendment to the existing employment agreement of Mr. Coad that will each become effective as of the closing of the Private Placement. If the Private Placement is completed, these employment agreements (or amendment in the case of Mr. Coad) will also obligate the Company to award certain restricted stock units to such executives under the 2007 Plan. Accordingly, it is contemplated that, as of the closing of the Private Placement, awards of restricted stock units in respect of up to 6.75 million shares of common stock will be made or committed to be made under the 2007 Plan, representing approximately 10.9% of the shares of common stock expected to be outstanding immediately following the closing assuming the issuance of 33,333,333 Purchased Shares, on a fully diluted basis, and after giving effect to an increase in the number of Purchased Shares that is currently expected to result from the adjustment provisions of the Investment Agreement. If the Private Placement is not consummated, we will not adopt the 2007 plan as proposed.

If Proposal 6 is not approved at the annual meeting, the 2007 Plan will not go into effect unless approved by our shareholders at a subsequent meeting. If Proposals 2, 3, 4 and 5 are approved, following the closing of the Private Placement, MatlinPatterson will beneficially own a majority of the then outstanding shares of our common stock. As a

result, if Proposal 6 is not approved at the annual meeting, there is a likelihood that a proposal to adopt the 2007 Plan will be approved by a majority vote of the shareholders at a meeting subsequent to the closing of the Private Placement. If we are required to hold a special meeting of the shareholders following the closing of the Private Placement in order to reconsider the approval of the 2007 Plan, we will incur additional expenses.

Proposal No. 7: Ratification of Selection of Independent Accountants (See page 54)

The Audit Committee of the Board of Directors has selected PricewaterhouseCoopers LLP as the Company s independent accountants for fiscal year ending December 31, 2007. We are submitting the selection of independent accountants for shareholder ratification at the annual meeting.

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ANNUAL MEETING OF SHAREHOLDERS
_____ __, 2007

This proxy statement is being furnished to the shareholders of First Albany in connection with the solicitation by the Board of Directors of proxies for use at the annual meeting to be held at the offices of the Company, 677 Broadway, Albany, New York on _____ __, 2007 at 10:00 a.m. (EDT), and any postponements or adjournments thereof. The mailing address of the principal office of the Company is 677 Broadway, Albany, New York 12207-2990 and its telephone number is (518) 447-8500.

At the annual meeting, the shareholders of the Company will be asked (1) to elect the three (3) persons named as nominees under Election of Directors; (2) to consider and act upon a proposal to approve the Private Placement; (3) to consider and act upon a proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 50,000,000 shares of common stock to 100,000,000 shares of common stock with the same par value of $0.01 per share; (4) to consider and act upon a proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 500,000 shares of preferred stock to 1,500,000 shares of preferred stock with the same par value of $1.00 per share; (5) to consider and act upon a proposal to amend the Company s Certificate of Incorporation to limit the liability of the directors of the Company to the extent permitted under Section 402(b) of the NYBCL; (6) to consider and act upon a proposal to approve the adoption of the 2007 Plan; and (7) to ratify the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2007.

Proxy Solicitation

This proxy statement and the enclosed form of proxy are expected to be mailed on or about _____ __, 2007. All expenses of the Company in connection with this solicitation of proxies will be borne by the Company. Proxies may be solicited by directors, officers and other employees of the Company in person or by mail, telephone, facsimile or e-mail, without additional compensation. Representatives of MatlinPatterson may also contact shareholders in connection with the solicitation of proxies. The Company has also retained MacKenzie Partners, Inc. to aid in the solicitation of proxies with respect to shares held by broker-dealers, financial institutions, and other custodians, fiduciaries and nominees for a fee of approximately $15,000, plus certain other fees for related services and reasonable out-of-pocket expenses. The Company will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares held of record by such persons and will reimburse such persons and the Company s transfer agent for their reasonable out-of-pocket expenses in forwarding such materials but these individuals will receive no additional compensation for these solicitation services.

Voting by Mail, Internet or Telephone

Shareholders who cannot attend the annual meeting in person can be represented by proxy. Most shareholders have a choice of voting over the Internet, using a toll-free telephone number or completing the proxy card in the form enclosed and mailing it in the envelope provided. Please refer to your proxy card or the information forwarded by your bank, broker or other nominee to see which options are available to you.

A proxy may be revoked at any time before it is exercised by giving notice of revocation to the Secretary of the Company, by executing a later-dated proxy (including an Internet or telephone vote) or by attending and voting in person at the annual meeting. The execution of a proxy will not affect a shareholder s right to attend the annual meeting and vote in person, but attendance at the annual meeting will not, by itself, revoke a proxy. Proxies properly completed and received prior to the annual meeting and not revoked will be voted at the annual meeting.

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VOTING, RECORD DATE AND QUORUM

Proxies will be voted as specified or, if no direction is indicated on a proxy, will be voted (1) *For* the election of the three (3) persons named as nominees under Election of Directors; (2) *For* the proposal to approve the Private Placement; (3) *For* the proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 50,000,000 shares of common stock to 100,000,000 shares of common stock with the same par value of $0.01 per share, (4) *For* the proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 500,000 shares of preferred stock to 1,500,000 shares of preferred stock with the same par value of $1.00 per share; (5) *For* the proposal to amend the Company s Certificate of Incorporation to limit the liability of the directors of the Company to the extent permitted under Section 402(b) of the NYBCL; (6) *For* the proposal to adopt the 2007 Plan; and (7) *For* the ratification of the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2007.

The persons named in the proxy also may vote in favor of a proposal to adjourn the annual meeting to a subsequent date or dates without further notice in order to solicit and obtain sufficient votes to approve the matters being considered at the annual meeting. If a proxy is returned which specifies a vote against a proposal, such discretionary authority will not be used to adjourn the annual meeting in order to solicit additional votes in favor of such proposal. As to any other matter or business which may be brought before the annual meeting, including any adjournment(s) or postponement(s) thereof, a vote may be cast pursuant to the proxy in accordance with the judgment of the person or persons voting the same. As of the date hereof, the Board does not know of any such other matter or business.

The close of business on _____ __, 2007 has been fixed as the record date for the determination of shareholders entitled to vote at the annual meeting. _____ shares of common stock were outstanding as of the record date. Each shareholder will be entitled to cast one vote, in person or by proxy, for each share of common stock held. There are no other shares of voting stock of the Company outstanding. The presence, in person or by proxy, of the holders of at least a majority of the shares of common stock entitled to vote at the annual meeting is necessary to constitute a quorum at the annual meeting. Abstentions and broker non-votes (as described below) and votes to withhold authority are counted in determining whether a quorum has been reached on a particular matter. Votes to withhold authority are treated the same as abstentions for purposes of the voting requirements described below.

If you hold your shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to certain matters. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Your broker **will** be permitted to exercise voting discretion with respect to Proposal 1 and Proposal 7. Your broker **will not** be permitted to exercise voting discretion with respect to any of the Investment Proposals.

You can cast one vote for each share of First Albany common stock you own. The proposals require different percentages of votes in order to approve them:

For the election of directors, the three nominees receiving the most *For* votes from the shares present and entitled to vote at the annual meeting, either in person or by proxy, will be elected. Abstentions will not be treated as votes cast at the annual meeting for such purpose.

To be approved, Proposal 2 must receive *For* votes constituting a majority of the votes cast at the annual meeting with respect to shares entitled to vote thereon. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will not be treated as votes cast at the annual meeting for such purpose.

To be approved, Proposal 3 must receive *For* votes from the holders of a majority of the shares outstanding as of the record date. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will also have the same effect as an *Against* vote.

To be approved, Proposal 4 must receive *For* votes from the holders of a majority of the shares outstanding as of the record date. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will also have the same effect as an *Against* vote.

To be approved, Proposal 5 must receive *For* votes from the holders of a majority of the shares outstanding as of the record date. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will also have the same effect as an *Against* vote.

To be approved, Proposal 6 must receive *For* votes constituting a majority of the votes cast at the annual meeting with respect to shares entitled to vote thereon. If you abstain from voting, it will have the same effect as an *Against* vote. Broker non-votes will not be treated as votes cast at the annual meeting for such purpose.

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To be approved, Proposal 7 must receive *For* votes constituting a majority of the votes cast at the annual meeting with respect to shares entitled to vote thereon. If you abstain from voting, it will have the same effect as an *Against* vote.

The Board unanimously recommends that the shareholders vote FOR (1) the election of the three (3) persons named as nominees under Election of Directors; (2) the proposal to approve the Company s issuance and sale of shares of common stock to certain qualified investors in a private placement; (3) the proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 50,000,000 shares of common stock to 100,000,000 shares of common stock with the same par value of $0.01 per share, (4) the proposal to amend the Company s Certificate of Incorporation to increase the authorized share capital of the Company from 500,000 shares of preferred stock to 1,500,000 shares of preferred stock with the same par value of $1.00 per share; (5) the proposal to amend the Company s Certificate of Incorporation to limit the liability of the directors of the Company to the extent permitted under Section 402(b) of the NYBCL; (6) the proposal to adopt the First Albany Companies Inc. 2007 Incentive Compensation Plan; and (7) the ratification of the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2007.

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PROPOSAL NO. 1
ELECTION OF DIRECTORS

The Bylaws of the Company provide that effective as of the annual meeting the Board shall consist of seven directors elected in three classes. Three directors will be elected at the annual meeting to serve for a three-year term expiring at the annual meeting of shareholders in 2010. The Board has nominated three persons as directors. The Board recommends that shareholders vote FOR the election of these nominees.

If the enclosed proxy card is duly executed and received in time for the annual meeting , and if no contrary specification is made as provided therein, it will be voted in favor of the election of persons nominated as directors by the Board.

Each of the nominees has consented to serve as a director if elected. Should any nominee for director become unable or unwilling to accept election, proxies will be voted for a nominee selected by the Board, or the size of the Board may be reduced accordingly. The Board has no reason to believe that any of the nominees will be unable or unwilling to serve if elected to office. Any vacancy occurring during the term of office of any director may be filled by the remaining directors for a term expiring at the next meeting of shareholders at which the election of directors is in the regular order of business. Each of the nominees is presently a director of the Company. The annual meeting shall constitute a special meeting for the election of directors as may be required by the provisions of Section 603 of the New York Business Corporation Law.

As discussed more fully below with respect to Proposal No. 2 Approval of the Private Placement, the Company has agreed that on or prior to the closing date of the Private Placement, the Company will cause the size of its Board of Directors to be increased from seven to nine and to cause certain of its current directors designated by MatlinPatterson to resign. The remaining directors would appoint directors designated by MatlinPatterson to fill the resulting vacancies. The Company has been advised that MatlinPatterson currently intends to nominate to the Board three representatives of MatlinPatterson and its affiliates, as well as Mr. Fensterstock. Mr. McNamee and Mr. McNierney will continue as members of the Board. It is currently expected that _____, _____ and _____ will also continue as members of the Board following the closing of the Private Placement until asked to resign in accordance with the Investment Agreement, at which time the remaining directors will fill the resulting vacancies with directors designated by MatlinPatterson.

Set forth below is certain information furnished to the Company by the director nominees and by each of the incumbent directors whose terms will continue following the Meeting.

Directors of the Company

The directors nominated for election whose terms will expire in 2010 are as follows:

PETER J. MCNIERNEY, age 41, joined First Albany in 2002 as the Director of Investment Banking, and was appointed as President and Chief Executive Officer in June 2006. Prior to joining First Albany, Mr. McNierney was a Managing Director and the Head of the Healthcare and Communications Services groups at Robertson Stephens. Prior to that, Mr. McNierney was a Vice President in the Healthcare Group at Smith Barney. Mr. McNierney received a BA and a JD/MBA from the University of Texas at Austin. Mr. McNierney has been a director of the Company since June 2006.

ALAN P. GOLDBERG, age 61, joined First Albany in 1980. Mr. Goldberg became Vice Chairman of the Company in June 2006. Mr. Goldberg served as the Company s President from 1989 to June 2006, as Chief Executive Officer from 2003 to June 2006 and as Co-Chief Executive Officer from 1993 until 2002. Mr. Goldberg is a Director of MVP Health Care (a private company that provides health benefit plans). He is active in industry and civic organizations and serves on the board of several nonprofit institutions. Mr. Goldberg has been a director of the Company since its incorporation in 1985.

CARL P. CARLUCCI, Ph.D., age 58, has been Executive Vice President and Chief Financial Officer of the University of South Florida since 2001. Prior to joining the University of South Florida he was appointed First Deputy Comptroller, Office of the State Comptroller, State of New York from 1999 to 2001. From 1993 to 1999, Dr. Carlucci was Executive Vice President of the University at Albany, State University of New York. Dr. Carlucci s public service has included the positions of Secretary to the New York State Assembly Ways & Means Committee and Director of the New York Assembly Higher Education Committee. His prior experience in higher education has also included the

position of Vice President for Administration at Brooklyn College and serving on the faculty of the Public Administration Departments of Baruch College of City University of New York and the University at Albany s Rockefeller College. Dr. Carlucci is Chair of the Audit Committee and is a member of the Executive Compensation Committee; he has served as a director of the Company since 2003.

The Board recommends a vote FOR each of the three Director nominees.

The following directors terms will expire at the annual meeting of shareholders in 2008:

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GEORGE C. McNAMEE, age 60, joined First Albany in 1969. Mr. McNamee has been Chairman of the Company since its inception and also serves as Managing Partner and Managing Director of FA Technology Ventures. Mr. McNamee was Co-Chief Executive Officer of the Company from 1993 to 2002. In addition, Mr. McNamee is Chairman of Plug Power Inc. (a leading fuel cell developer) and a director of iRobot Corporation (a designer and manufacturer of robots). Additionally, he is a director of several private companies including Autotask Corporation, CORESense Inc., MetaCarta Inc., and StreetEasy. He also serves on the Board of Directors of the New York Conservation Education Fund and is a Trustee of the Albany Academy for Girls. He received his Bachelor of Arts degree from Yale University. Mr. McNamee has been a director of the Company since its incorporation in 1985.

SHANNON P. O BRIEN, age 48, is Chief Executive Officer of the Girl Scouts, Patriot s Trail Council, Inc. since February 2005. Ms. O Brien was the State Treasurer and Receiver General for the Commonwealth of Massachusetts from 1999 to January 2003. The 2002 Democratic Nominee for Governor of Massachusetts, Ms. O Brien also served previously for eight years in the Massachusetts Legislature. She was Vice President for External Affairs for Community Care Systems, a behavioral healthcare network and taught at Boston University School of Communications. A graduate of Yale University and Boston University School of Law, she practiced law with the firm of Morrison Mahoney and Miller before entering the legislature. Ms. O Brien is Chair of the Committee on Directors and Corporate Governance, a member of the Audit Committee and has been a director of the Company since 2003.

The following directors terms will expire at the annual meeting of shareholders in 2009:

NICHOLAS A. GRAVANTE, JR., age 46, has been a partner at the law firm of Boies Schiller & Flexner LLP since July 1, 2000. Prior to that time he was a partner at Barrett, Gravante, Carpinello & Stern, LLP in New York City since 1992. Mr. Gravante practices law in the areas of corporate litigation and white-collar criminal defense. He is also a Trustee of the Community Service Society of New York, the Brooklyn Public Library, the Columbia Law School Association, a member of the Board of Governors at the Lords Valley Country Club in Lords Valley, Pennsylvania and a member of the Alumni Board of Governors at Poly Prep Country Day School. Mr. Gravante is Chair of the Executive Compensation Committee, a member of the Committee on Directors and Corporate Governance and has been a director of the Company since 2003.

DALE KUTNICK, age 57, is Senior Vice President of Research at Gartner, Inc., and has been there since April 2005 when Gartner acquired his previous employer, Meta Group. He was co-founder, Chairman and a director of Meta Group, Inc., a research and consulting firm focusing on information technology and business transformation. Mr. Kutnick served as Chief Executive Officer and Research Director of Meta Group, Inc. since its inception in January 1989 until 2002. Prior to co-founding Meta Group, Inc., Mr. Kutnick was Executive Vice President of Research at Gartner Group, Inc. and an Executive Vice President at Gartner Securities. Prior to his experience at Gartner Group, Inc., he served as an Executive Director, Research Director and Principal at Yankee Group and as a Principal at Battery Ventures, a venture capital firm. Mr. Kutnick is a graduate of Yale University. Mr. Kutnick is a member of the Committee on Directors and Corporate Governance, a member of the Audit Committee and has been a director of the Company since 2003.

GOVERNANCE OF THE COMPANY

The Board of Directors held nineteen (19) meetings during the Company s fiscal year ended December 31, 2006. The committees of the Board each held the number of meetings noted below in Committees of the Board . During 2006, each Director attended at least 86 % of the total number of meetings of the Board (while he or she was a member) and at least 82 % of the total number of meetings of committees of the Board on which he or she served. Directors are encouraged to attend the annual meeting of shareholders , and all directors attended last year s meeting. Walter Fiederowicz served as the Board s lead director until he resigned effective September 28, 2006, and the position previously held by him is currently vacant. The Board determined that each of Messrs. Carlucci, Gravante, Fiederowicz, Arthur J. Roth, and Kutnick and Ms. O Brien qualify as an independent director as defined in the NASDAQ Stock Market listing standards. Messrs. Fiederowicz and Roth ceased to be directors on September 28, 2006.

The Company has a Code of Business Conduct and Ethics applicable to all employees of the Company and members of the Board of Directors. The Code, as well as the current charters of each of the Committees listed below,

are available on the Company s website (www.firstalbany.com). The Company intends to post amendments to or waivers from its Code at this location on its website.

The Company has also adopted a procedure by which shareholders may send communications as defined within Item 407(f) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the Exchange Act) , to one or more members of the Board of Directors by writing to such director(s) or to the whole Board of Directors in care of the Company s Corporate Secretary at the following address: First Albany Companies Inc., 677 Broadway, Albany, New York 12207-2990, Attn: Corporate Secretary. Any such communications will be promptly distributed by the Corporate Secretary to such individual director(s) or to all directors if addressed to the whole Board of Directors.

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Committees of the Board

The Board of Directors has three standing committees: the Audit Committee, the Executive Compensation Committee and the Committee on Directors and Corporate Governance.

The Audit Committee. The Audit Committee, responsible for reviewing the Company s financial statements, met eleven (11) times during 2006. The Audit Committee operates pursuant to a written charter that the Committee and the Board reviews each year to assess its adequacy. Among the primary purposes of the Audit Committee are assisting the Board of Directors in its oversight of the integrity of the Company s financial reporting process; its compliance with legal and regulatory requirements; the qualifications, independence and performance of its independent auditors; and the performance of the Company s internal accounting controls. In addition, the Audit Committee decides whether to appoint, retain or terminate the Company s independent auditors and pre-approves all audit, audit-related, tax and other services, if any, to be provided by the independent auditors. The Audit Committee also prepares the Audit Committee report required by the rules of the Securities and Exchange Commission (SEC) for inclusion in the Company s annual proxy statement. Until September 28, 2006, this committee was comprised of Mr. Roth, who served as chair, Ms. O Brien and Mr. Fiederowicz. Messrs. Roth and Fiederowicz ceased to be directors on September 28, 2006. Currently, this committee is comprised of Mr . Carlucci, who serves as Chair, Ms. O Brien and Mr. Kutnick. Each member of the Audit Committee is an independent director as defined in the NASDAQ Stock Market listing standards, and is independent within the meaning of Rule 10A-3 under the Exchange Act and the Company s Corporate Governance Guidelines. Each of Mr. Carlucci and Mr. Kutnick are qualified as an audit committee financial expert within the meaning of Item 401(h) of Regulation S-K under the Exchange Act, and the Board has determined that they have accounting and related financial management expertise within the meaning of the NASDAQ Stock Market listing standards.

We have adopted policies on reporting of concerns regarding accounting, internal accounting controls or auditing matters (Accounting Matters). Any employees who have concerns about Accounting Matters may report their concerns to any of the following: (i) the employee s supervisor, (ii) an attorney in the Legal Department of First Albany, (iii) the Company s toll free anonymous voice mailbox at 1-866-480-6132, or (iv) the Company s anonymous drop-box, which may be accessed through the Company s website (www.firstalbany.com). The full text of the Complaint Procedures for Accounting and Auditing Matters is available on our website.

The Audit Committee s procedures for the pre-approval of the audit and permitted non-audit services are described in Audit Committee Report Audit Committee Pre-Approval Policy.

The Executive Compensation Committee. Under its charter, the primary purposes of the Executive Compensation Committee are to determine and approve the compensation of the Company s Chief Executive Officer and make recommendations to the Board of Directors with respect to executive compensation (including compensation of executive officers other than the Chief Executive Officer) and the Company s incentive-based compensation and equity-based plans that are subject to Board approval. Based on recommendations from the Chief Executive Officer, the Executive Compensation Committee reviews and approves the compensation of all executive officers of the Company other than the Chief Executive Officer. The Committee also administers the Company s 1999 Long-Term Incentive Plan, 2001 Long-Term Incentive Plan and the 2003 Senior Management Bonus Plan and will administer the 2007 Plan, if approved by the shareholders. The Committee assists the Board of Directors in its oversight of the development, implementation and effectiveness of the Company s policies and strategies relating to its human capital management function, including but not limited to those policies and strategies regarding recruiting, retention, career development and progression, management succession (other than that within the purview of the Committee on Directors and Corporate Governance), diversity and employment practices. In addition, the Executive Compensation Committee also prepares its report regarding the Compensation Discussion and Analysis as required by the rules and regulations of the SEC.

The Executive Compensation Committee is composed of two independent directors and operates under a written charter adopted by the Board, which was amended January 2004. Until September 28, 2006, it was comprised of Messrs. Carlucci and Fiederowicz. Currently, it is comprised of Mr. Gravante, who serves as Chair, and Mr. Carlucci. The Board annually reviews the NASDAQ Stock Market listing standards definition of independence and has determined that each member of the Committee is independent. During the year 2006, the Committee met

seven (7) times.

The Committee on Directors and Corporate Governance. The Board established the Committee on Directors and Corporate Governance in fiscal year 2002. The Committee held two (2) meetings during 2006. Among its specific duties, the Committee determines criteria for service as director, reviews candidates and considers appropriate governance practices. The Committee also oversees the evaluation of the performance of the Board of Directors and Chief Executive Officer and annually reviews the Corporate Governance Guidelines, reporting to the Board any recommended changes. The Committee considers nominees for directors proposed by shareholders. To recommend a prospective nominee for the Committee s consideration, shareholders should submit the candidate s name and qualifications to the Company s Corporate Secretary in writing to the following address: First Albany Companies Inc., 677 Broadway, Albany, New York 12207-2990, Attn: Corporate Secretary. The Committee on Directors and Corporate Governance is comprised of Ms. O Brien, who serves as Chair, and Messrs. Gravante and Kutnick. In identifying and recommending nominees for positions on the Board of Directors, the Committee on Directors and Corporate Governance places primary emphasis on the criteria set forth in our Corporate Governance Guidelines which include diversity, age and skills, all in the context of an assessment of the perceived needs of the Board. Recommendations by shareholders that are made in accordance with these procedures will receive the same consideration.

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PROPOSAL NO. 2
APPROVAL OF THE PRIVATE PLACEMENT

On May 14, 2007, the Company entered into an Investment Agreement with MatlinPatterson providing for the issuance to MatlinPatterson and certain co-investors which may be designated by it, upon the terms and subject to the conditions of the Investment Agreement, of 33,333,333 newly issued shares of the Company s common stock, par value $0.01 per share, for an aggregate cash purchase price of $50 million. The number of shares issuable to MatlinPatterson in consideration of the $50 million purchase price (the Purchased Shares) is subject to upward adjustment (i) if the Company incurs certain incremental employment-related obligations as a result of the DEPFA Transaction not having closed prior to the closing of the Private Placement and (ii)if the Company s consolidated net tangible book value per share at closing is less than $1.60, as more fully described below.

We currently expect that the DEPFA Transaction will not close prior to the closing of the Private Placement. As a result, certain employees of the Company, who will remain employed by the Company at the time of the closing of the Private Placement and who would have otherwise have become employed by DEPFA had the DEPFA Transaction closed prior to the Private Placement, are expected to become entitled to receive certain cash payments and accelerated vesting of certain equity awards triggered by MatlinPatterson gaining control of the Company that they would not have been entitled to if the DEPFA Transaction had closed first. In such an event, the Investment Agreement provides that the number of Purchased Shares will be increased to account for the cash bonuses or other amounts paid or payable by the Company to any employee of the Municipal Capital Markets Group (MCMG) that would not have been so paid had the DEPFA Transaction closed prior to the closing of the Private Placement, as well as the accelerated vesting of the restricted stock awards and stock options held by such employees that would not have occurred if the DEPFA Transaction had closed prior to the closing of the Private Placement. In the event that our employees entitled to receive such payments and to benefit from the accelerated vesting of such awards and options do not waive such rights, we expect the number of Purchased Shares to be increased from 33,333,333 to 36,690,705 at the closing, without MatlinPatterson being required to contribute more than the $50 million already contemplated by the Investment Agreement. If the number of Purchased Shares is increased in this manner, MatlinPatterson would own approximately 69.5% of the outstanding common stock (approximately 59.5% on a fully diluted basis). To the extent that the affected employees are willing to waive their rights to such payments and accelerated vesting, the number of additional Purchased Shares will be reduced accordingly.

The Investment Agreement also provides that the number of Purchased Shares will be further adjusted upwards, in addition to the adjustment set forth above, if the net tangible book value per share is less than $1.60 as of the closing date. In such case, the number of Purchased Shares will be increased by a factor reflecting the percentage shortfall represented by the net tangible book value per share as of the closing date compared to a target of $1.69 per share. There will first be a pro forma adjustment to eliminate the effects of the closing of the DEPFA Transaction on net tangible book value per share, including a pro forma elimination of the incremental cash payments and accelerated restricted stock awards and stock options referred to above. As of March 31, 2007, the Company s net tangible book value per share is approximately $1.86 and if the Company incurs losses, such an adjustment could be required.

The proceeds to the Company from the sale of the shares to MatlinPatterson would be invested in the Company s ongoing businesses, consistent with a strategic plan to be developed by the Company and MatlinPatterson, and to retire certain short-term debt. The Private Placement is expected to close in the third quarter of 2007. The terms of the Investment Agreement and the related Registration Rights Agreement and Voting Agreements are more fully described below under Summary of Terms of the Private Placement, and copies of the Investment Agreement, the form of the Registration Rights Agreement and the Voting Agreements are appended to this proxy statement as **Appendix A**.

It is expected that, if the Private Placement is completed, the Company will hire Mr. Lee Fensterstock, a securities industry veteran, to act as the Company s Chief Executive Officer. Mr. Fensterstock would also be elected to the Company s Board of Directors and serve as its Chairman. Mr. Peter J. McNierney, currently the Company s President and Chief Executive Officer, would become the Company s President and Chief Operating Officer.

In connection with the Private Placement, the Company would issue or commit to issue under the 2007 Plan restricted stock units in respect of up to 6,750,000 shares of common stock to key employees who enter into

non-compete and non-solicit agreements with the Company and pursuant to the employment agreement that the Company expects to enter into with Mr. Fensterstock and has entered into with Mr. McNierney. The restricted stock units would vest over a three-year period following issuance.

The Company has agreed that on or prior to the closing date of the Private Placement, the Company will cause the size of its Board of Directors to be increased from seven to nine and to cause certain of its current directors designated by MatlinPatterson to resign. The remaining directors would appoint directors designated by MatlinPatterson to fill the resulting vacancies. The Company has been advised that MatlinPatterson currently intends to nominate to the Board three representatives of MatlinPatterson and its affiliates, as well as Mr. Fensterstock. Mr. McNamee and Mr. McNierney will continue as members of the Board. It is currently expected that ___, ___ and ___ will also continue as members of the Board following the closing of the Private Placement until asked to resign in accordance with the Investment Agreement, at which time the remaining directors will fill the resulting vacancies with directors designated by MatlinPatterson. As

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the holder of a majority of the outstanding shares of common stock following the closing of the Private Placement, MatlinPatterson will have the power to replace any or all of such directors in the future and has indicated its intention to seek other qualified individuals with experience in the securities industry or other relevant skills or knowledge to become directors of the Company after the closing.

In connection with the Investment Agreement, the Company has agreed with MatlinPatterson to terminate the Company s previously announced plans to reprice outstanding employee stock options and to replace outstanding employee restricted stock awards with stock appreciation rights.

The Company has agreed to reimburse MatlinPatterson for certain reasonably incurred, documented expenses incurred in connection with the negotiation and execution of the Investment Agreement and the completion of the transactions contemplated thereby, subject to certain limits. The Investment Agreement contains other covenants of the Company, including an agreement of the Company to operate its business in the ordinary course until the purchase is completed. The Company has also agreed not to solicit or initiate discussions with third parties regarding other competing proposals and to certain restrictions on its ability to respond to any unsolicited competing proposal. The Investment Agreement also includes customary representations and warranties of the Company and MatlinPatterson, indemnification provisions for MatlinPatterson and termination provisions for both the Company and MatlinPatterson.

Under applicable NASDAQ Marketplace Rules, the Private Placement is subject to approval by a majority of the Company s shareholders. Messrs. George McNamee and Alan Goldberg, directors of the Company, and Mr. McNierney have agreed with MatlinPatterson to vote the shares of common stock owned by them in favor of the transaction. These persons collectively own approximately 19% of the outstanding shares of common stock. The completion of the Private Placement is also subject to the satisfaction or waiver of a variety of other closing conditions.

The Purchased Shares would be sold by the Company in the Private Placement in reliance on an exemption from the registration requirements of the Securities Act. MatlinPatterson and the Company would, at the closing of the Private Placement, enter into a Registration Rights Agreement pursuant to which MatlinPatterson would acquire rights to cause the Company to register, under specified circumstances, the subsequent offer and resale of the Purchased Shares.

The Investment Agreement contains representations and warranties the Company and MatlinPatterson made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the contract between the Company and MatlinPatterson and may be subject to important qualifications and limitations agreed to by the Company and MatlinPatterson in connection with negotiating the terms of the Investment Agreement. Moreover, some of those representations and warranties may not be accurate or complete as of any specified date, may be subject to a contractual standard of materiality different from those generally applicable to shareholders or may have been used for purposes of allocating risk among the Company and MatlinPatterson rather than establishing matters as facts.

Background of the Private Placement

The Company experienced losses in several of our key segments in 2005 and 2006, including equities sales and trading, equity investment banking and fixed income sales and trading.

Recognizing these losses and the need to maintain liquidity requirements, in the spring of 2006 the Board retained Freeman & Co. Securities LLC (Freeman) as its financial advisor to establish a comprehensive process to entertain both a strategic sale of, or a strategic investment in, the Company. We began to work immediately on preparing materials for potential investors, and in the spring and summer of 2006 a broad target list of over thirty names was developed, which led to focused discussions with twenty-two parties. After discussions and preliminary due diligence, three potential investors emerged. The first of these formally withdrew without providing a letter of intent or a term sheet and while both the second and third gave verbal indications of interest at a valuation of approximately tangible book value, neither provided a written letter of intent or term sheet, and the process concluded unsuccessfully.

The Board s conclusions from the formal process were that (1) there was apparent potential market interest to buy the entire Company for tangible book value, but no written offers were received, (2) the process was beginning to have a negative effect upon employee retention and (3) the Company should focus on its strategy to repair the

financials of the Company that was begun in June 2006 and suspend the formal process while still selectively entertaining or soliciting interest in a sale or investment.

During the December 22, 2006 meeting of the Board of Directors, Peter McNierney provided the Board with an update on the financial performance of the Company. He noted that the results were below budget projections by $3-4 million and stated that although the Company could continue to survive as a stand-alone entity, this would not be the preferred course of action. Mr. McNierney then presented an analysis and comparison of potential transactions the Company might undertake through a merger, an acquisition or by a third party investment.

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In the first quarter of 2007, the Company had active conversations with seven potential investors. The first contacted Peter McNierney to make an employment offer, and after a formal decline, took a concentrated look at purchasing the Company as a whole. Ultimately, it formally withdrew due to uncertainty of integration of the Company into its existing platform. Two additional firms took an active look at the Municipal Capital Markets Group (MCMG), one of which took a second active look at MCMG and the Descap division, but ultimately, both companies also withdrew. DEPFA BANK plc (DEPFA) also expressed a strong interest in MCMG. The conversations with DEPFA resulted in the sale of MCMG to DEPFA for a cash purchase price equal to $12 million plus the value of the municipal bond inventory used in the business, which is expected to range between $150-$200 million at closing. Following entry into the MCMG transaction with DEPFA, two investors took an active look at the remaining divisions of the Company. One investor decided not to submit a proposal at the time based on employee turnover and the continued losses of the Company. The second investor, composed of two parties, was unable to get comfortable with the key employee turnover and viewed the fixed income business as non-productive, whose only value was from capital, less the closing costs. MatlinPatterson then indicated its interest in the Company.

On March 20, 2007, MatlinPatterson executed a confidentiality agreement with the Company pursuant to which the Company was to provide confidential information to MatlinPatterson in connection with a potential transaction. Following initial due diligence and discussions with senior management at the Company, MatlinPatterson indicated interest in pursuing a direct investment in the Company.

During the January 3, 2007 meeting of the Board, a special committee of the Board (the Special Committee), comprised of Nicholas A. Gravante, Jr., Carl P. Carlucci, Dale Kutnick and Shannon P. O Brien, was formed to assist in evaluating proposals from potential investors and to make recommendations to the Board regarding any issues requiring Board consideration with respect to any proposals received from such investors. Bingham McCutchen LLP was then retained as legal counsel for the Special Committee.

At the Board meeting on April 5, 2007, Mr. McNierney gave an update on the operating results for the quarter. He stated that the Company expected to report a significant loss for the quarter. Mr. McNierney then lead the Board in a discussion of potential transactions, including a potential transaction with MatlinPatterson. The duties of the outside directors and the role of the Special Committee was also discussed. The Board appointed Ms. O Brien and Mr. Kutnick co-chairs of the Special Committee.

On April 25, 2007, MatlinPatterson delivered a draft letter of intent and term sheet (the Letter of Intent) to the Board for its review and approval. It contemplated a $40 million capital infusion into the Company at $1.50 per share, thereby obtaining an approximate 52.9% ownership position in the Company on a fully diluted basis after grants of restricted stock based awards by the Company for employee retention. In addition, the Letter of Intent included an exclusivity period until May 9, 2007 during which the Company would not negotiate with or solicit competing proposals from other bidders.

On April 26, 2007, at a meeting of the Board, members of the Company s management reviewed with the Board the draft Letter of Intent submitted by MatlinPatterson. The Company s financial and legal advisors participated in the meeting, as did counsel for the Special Committee. Mr. Gravante reported on the Special Committee s efforts to confirm the level of interest of other interested parties, including the Special Committee s direct communications with such other interest parties without management present, and the Special Committee s discussions with Freeman, which anticipated the delivery of a fairness opinion to the Board prior to authorization of a definitive agreement in light of the potential for MatlinPatterson to exercise voting control following completion of the proposed investment. The Special Committee reported that it was satisfied with the process and felt that all reasonably possible scenarios and interested parties had been considered and that the efforts made were sufficient to indicate that the MatlinPatterson proposal was the best available for the Company and its shareholders. At this meeting, the Company s Board discussed their fiduciary duties with respect to the proposed Letter of Intent presented. The Board resolved to authorize members of the Company s senior management to execute the Letter of Intent with certain revisions proposed by the Board.

On April 27, 2007, MatlinPatterson delivered a revised Letter of Intent, which was executed by MatlinPatterson and the Company.

At a meeting of the Special Committee on May 1, 2007, Mr. McNierney provided a status report regarding the negotiations with, and the due diligence conducted by, MatlinPatterson to date. He explained that MatlinPatterson planned to have Mr. Fensterstock serve as the new Chairman of the Board and Chief Executive Officer of the Company following the closing of the Private Placement, with Mr. McNierney becoming the President and Chief Operating Officer and Mr. Coad remaining the Chief Financial Officer. MatlinPatterson also required execution of the definitive Investment Agreement to be contingent upon certain designated Company employees entering into non-compete and non-solicit agreements that would become effective upon the closing of the Private Placement, and with such closing being conditioned on a certain number of additional employees entering into such agreements and remaining employed by the Company at the closing of the proposed investment. The Special Committee set a tentative agenda for its upcoming meetings and discussed the timeline for receiving certain reports from its officers, legal counsel and financial advisor regarding the Company s financial performance, including receipt of a written fairness opinion from the Company s financial advisor, as well as the possible consequences of the investment by MatlinPatterson. Please see the section entitled Opinion of our Independent Financial Advisor below for information on Freeman and the fairness opinion. The Special Committee then

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discussed whether there existed any potential conflicts of interest among its members that might impact its impartiality. The Special Committee determined that no member had any potential conflicts of interest in addressing the issues presented and noted that the Special Committee was well positioned to act impartially in the best interests of the shareholders, particularly with respect to equity awards and employment matters.

The Special Committee met again on May 4, 2007 without management present and during which it reviewed its duties under the Company s Certificate of Incorporation and relevant fiduciary law. After management was asked to join the meeting, Mr. McNierney provided a status report regarding the transaction structure, due diligence and process. First and second rounds of due diligence had been completed by MatlinPatterson and no significant issues had arisen. The Special Committee considered certain specific regulatory matters raised as part of legal and regulatory due diligence.

During the Special Committee meeting on May 6, 2007, Freeman presented an overview of its market survey on behalf of the Company. Mr. McNierney provided a status report on the Company s efforts to secure key employees continued employment as part of the transaction, including MatlinPatterson s indication that it would require Messrs. McNierney and Coad to amend their employment agreements prior to the execution of the Investment Agreement, that it would similarly require certain other key employees to execute non-compete and non-solicit agreements that would be conditioned on the closing of the proposed investment and that it would require certain additional key employees to execute such non-compete and non-solicit agreements between the signing of the Investment Agreement and closing and remaining employed by the Company at the closing of the proposed investment. The Special Committee engaged in a lengthy discussion of specific provisions contained in the draft Investment Agreement received from MatlinPatterson s counsel. The Special Committee also discussed the challenges and logistics of the resignation of current directors and the appointment of new directors as required by the Investment Agreement. Ms. O Brien also reported separately to the Special Committee the conversation she and Mr. Kutnick had with Mr. Fensterstock regarding MatlinPatterson s plans for the future financial success of the Company and its intentions with respect to employee compensation. The Special Committee resolved that it would not seek compensation for performance of their duties on the Committee, other than the usual per-meeting fees.

During a telephonic discussion between members of the Special Committee and its financial advisors and management on May 8, 2007, Dewey Ballantine LLP, outside counsel to the Company, provided an update on the status of negotiations with counsel for MatlinPatterson. There were several key provisions of the Investment Agreement that the parties were continuing to negotiate. Dewey Ballantine LLP also reported that MatlinPatterson would be seeking voting agreements from Messrs. McNierney, McNamee and Goldberg. Freeman reviewed its draft presentation to the Board, which covered an overview of the situational analysis, the process leading up to the MatlinPatterson offer and the financial analysis of the proposed investment, to be presented to the full Board.

Freeman s presentation characterized the Company as being in a critical survival situation due to continued financial losses and key employee losses. Freeman was concerned that continued losses could be funded only by sales of inventory to free-up capital and this would continue to erode the tangible book value at an accelerated pace. The Special Committee discussed additional concerns that this could threaten the DEPFA Transaction as the purchase agreement entered into with DEPFA contained conditions to closing that set forth minimum net capital requirements on a pro-forma stand alone basis. Therefore, Freeman recommended that the Company accept the formal, fully vetted and diligenced offer by MatlinPatterson instead of risking the deal by postponing it and pursuing another offer.

During that meeting, Mr. McNierney reported that MatlinPatterson was considering increasing its investment in the Company from $40 million to $50 million. The Special Committee asked that, in the event such a proposal materialized, it receive analysis from its financial advisor with respect to the merits of such an increased investment. Mr. McNierney also reported on the status of discussions with a group of employees from another middle-market institutional investment bank considering joining the Company.

The Board met on May 9, 2007 and Mr. McNierney updated the Board on the MatlinPatterson deal discussions. He summarized the outstanding issues as the following: a per share purchase price adjustment in the event that the DEPFA Transaction has not closed prior to the closing of the MatlinPatterson investment; a per share purchase price adjustment based on a significant drop in net tangible book value; the retention of key employees; the indemnification language; reimbursable expenses upon breakup of the transaction; the drop dead date; and the material adverse change

definition. Representatives of Dewey Ballantine LLP led the Board through a discussion of the significance of each of the above issues, as well as other terms of the deal, including a discussion of the Registration Rights Agreement and the Voting Agreements. Mr. McNierney then described MatlinPatterson s proposal to increase its investment in the Company. The Board then considered MatlinPatterson s proposal to (a) extend the exclusivity period from May 9 to May 14, 2007, and (b) increase the proposed capitalization to $50 million. The Board resolved to authorize extension of the exclusivity period under the Letter of Intent to May 14, 2007, and decided to discuss the proposed increase in capitalization further. In that regard, the Board asked counsel to review whether an increase in ownership could impact any supermajority thresholds in the constituent documents of the Company, and asked Freeman to analyze the financial impact of an increase in the size of the proposed investment to $50 million.

At a meeting of the Special Committee on May 11, 2007, Freeman provided its analysis of the proposed $10 million additional capitalization. Freeman stated that the additional capitalization would provide MatlinPatterson with a voting interest of

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59.9% on an undiluted basis and 58.4% on a fully-diluted basis. This compares with MatlinPatterson s voting interest of 54.4% undiluted and 52.9% fully diluted if the investment were limited to $40 million. These percentages were calculated taking into account approximately 6.0 million restricted stock units to be issued to certain key employees in connection with the proposed investment, as was contemplated at the May 11, 2007 Special Committee meeting. The number of restricted stock units was later increased to 6.75 million. Please see the section entitled Proposal No. 2 Approval of the Private Placement above for a discussion of MatlinPatterson s undiluted and fully-diluted voting interest taking into account the additional 750,000 restricted stock units. Freeman s analysis also found that the additional $10 million would increase the Company s pro forma tangible book value per share. The Special Committee discussed MatlinPatterson s intention to earmark the additional $10 million investment for FA Technology Ventures Corporation (FATV), the Company s investment fund manager. Freeman reported that it strongly supported the increased investment by MatlinPatterson, noting that it would increase tangible book value per share and achieve a more favorable tangible book value to cash ratio. Mr. Coad further stated that the additional $10 million would benefit the Company from an operational perspective. Freeman also reported that it would be very comfortable that the price at which the increased investment would be made ($1.50 per share) would be fair to the Company from a financial perspective.

At that meeting, the Special Committee questioned management regarding the likelihood that a potential pricing adjustment in the Investment Agreement may be triggered if the net tangible book value targets are not met as of the closing date. Management provided an analysis, based on past results and current management projections, to support their belief that the pricing adjustment trigger was not expected to be met.

At a meeting of the Board and the Special Committee on May 13, 2007, management presented an analysis on the MatlinPatterson transaction from legal, operational, and financial perspectives. Representatives of Dewey Ballantine LLP reviewed in detail the terms of the proposed Investment Agreement, form of Registration Rights Agreement and Voting Agreements. The Board discussed various contingencies with respect to the closing of the transaction, including the need for additional non-compete and non-solicit agreements to be secured from key employees, the risk of a potential price adjustment in the event the net tangible book value target were not met, and the ability of competing bidders to initiate a potential alternative transaction.

Freeman then provided a financial analysis of the transaction and its valuation of the Company. Freeman described the Company s current financial status, including fifteen consecutive quarterly operating losses leading to a reduced tangible book value and stock price, and a negative impact on employee retention. Freeman described the process by which the Company had undertaken an attempt to find potential buyers or strategic investors, as described above, concluding with its belief that there were no other bidders besides MatlinPatterson. Freeman further stated its belief that a price adjustment based on the net tangible book value trigger was unlikely. Freeman further concluded that the consideration to be paid by MatlinPatterson in the Private Placement was fair, from a financial point of view, to the Company and described the procedures and basis for that opinion.

Management discussed the operational and financial impacts of the transaction, and recommended approval of the transaction. The Special Committee also reviewed the numerous meetings and substantial process undertaken by the Special Committee in its evaluation of the transaction, confirmed the independence of its members and the process undertaken, and offered its unanimous recommendation that the Board approve the transaction. Following discussion of the fairness opinion and the terms of the various agreements, the Board unanimously approved the Private Placement and authorized the officers to enter into the Investment Agreement and related documents substantially as presented at the meeting.

On May 14, 2007, the Company entered into the Investment Agreement with MatlinPatterson described below and attached hereto as **Appendix A** providing for the issuance and sale of Purchased Shares for gross proceeds of $50 million. Please see the section Investment Agreement below for information on the Investment Agreement.

Reasons for the Private Placement

We believe that we need additional capital to more effectively pursue our strategic objectives. After considering numerous potential financing and strategic alternatives, including alternate financing structures, seeking to sell the Company, seeking a merger of the Company with another entity, and the liquidation of the Company, the Board determined that the Private Placement was the best available alternative and would provide the greatest potential value

for the shareholders, as well as provide the necessary capital to pursue our long-term strategic goals.

In making its determination to approve the Private Placement, the Board formed an independent Special Committee to assist management in evaluating various aspects of the transaction, and to make recommendations to the Board regarding any issues requiring Board consideration with respect to the transaction. As part of that process, the Board and the Special Committee consulted with our officers with respect to strategic and operational matters. The Board and the Special Committee also consulted with Freeman regarding financial matters and Dewey Ballantine LLP and Bingham McCutchen LLP regarding legal matters, including the Investment Agreement and related documents. The determination was the result of careful consideration by the Board and the Special Committee of a number of factors, including the following positive factors:

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The Private Placement will provide significant additional funding, which is important because the continued operation of our business is costly and capital intensive and our current capital resources are limited.

If the Private Placement is not completed, we may be forced to preserve our cash position through a combination of additional cost reduction measures and sales of assets at values that may be significantly below their potential worth or augment our cash through additional dilutive financings, and there can be no assurance that we could obtain funds on terms that are as favorable to us as the terms of the Private Placement.

The Company will have reduced cash compensation expenses by reducing the amount of cash bonuses compared to past practices in light of the issuance of restricted stock units to key employees and is expected to have savings resulting from reductions in back office personnel and related costs. Immediately following the closing of the Private Placement, the Company will have no long-term debt and approximately $38 million of cash on the balance sheet.

The current market process has led to no other investors and/or acquirers after the initial due diligence process. Please see a more detailed description of the current market process in the sections entitled Background of the Private Placement on page 22 and Opinion of Our Independent Financial Advisor on page 27.

Our prior market check process only led to verbal indications of interest for transactions that we believe are less favorable to our shareholders than the Private Placement and the Board believes that, with the severe risks of further key employee turnover combined with the absence of any written or formal current offers at this previous market check level, the MatlinPatterson deal is financially attractive. Please see a more detailed description of the previous market check in the sections entitled Background of the Private Placement on page 22 and Opinion of Our Independent Financial Advisor on page 27.

The Private Placement will strengthen our financial condition and reduce our financial risk, which the Board believes will:

- reassure our employees of our continued viability and long-term prospects as a place to work;
- improve our ability to raise additional funding through debt or equity financings on favorable terms; and
- make our common stock more attractive to prospective investors for purchase on the open market and for use as an acquisition currency.

The Board believes the 2007 Plan will further and promote the interests of the Company and its shareholders by enabling the Company and its subsidiaries to attract, retain and motivate employees and officers or those who will become employees or officers of the Company, to link compensation to measures of the Company s performance in order to provide additional incentives and to align the interests of those individuals and the Company s shareholders.

The Board believes the Private Placement will strengthen our investor base with the addition of a new experienced investor who will have a significant stake in our long-term success and will be motivated to provide the support and assistance to protect and enhance its investment.

We believe we will strengthen our Board with the addition of new directors who have significant experience in advising comparable companies.

The Private Placement will assist us in our efforts to maintain our listing on the NASDAQ Global Market by augmenting our shareholders equity.

The securities issued in the Private Placement will be shares of common stock rather than debt or preferred stock, which will place the new investors at the same rank as the existing shareholders and allow us to maintain a less complicated capital structure.

We received the opinion of Freeman that the consideration to be received by us in the Private Placement is fair to us from a financial point of view. Please see the section entitled Opinion of Our Independent Financial Advisor on page 27 for further information.

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In contrast to a sale of the Company, the Private Placement will permit the existing shareholders to continue to own shares of our common stock thereby giving them the opportunity to share in any increase in value that we are able to create following the infusion of new capital.

In its review of the Private Placement, the Board also considered a number of potentially negative factors, including the following factors:

the risks and uncertainties of our ability to execute our strategic plan and to enhance shareholder value;

the Private Placement will have a highly dilutive effect on our current shareholders and option holders;

the interests of MatlinPatterson as a controlling shareholder may conflict with your interests. MatlinPatterson will control approximately 69.5% (59.5% on a fully diluted basis), after giving effect to an increase in the number of Purchased Shares that is currently expected to result from the adjustment provision of the Investment Agreement, of the voting power of our outstanding common stock and will exercise a controlling influence over our business and affairs and will have the power to determine matters submitted to a vote of our shareholders, including the election of directors and approval of significant corporate transactions;

MatlinPatterson has required us either to modify or seek shareholder approval to modify certain measures that we had previously adopted, including our shareholder rights agreement and certain provisions of our Certificate of Incorporation;

sale of the Purchased Shares in the public market pursuant to registration statements that we would be obligated to file on up to three occasions and maintain effective if requested to do so by MatlinPatterson under the Registration Rights Agreement could have a material adverse affect on the market price of our common stock;

the completion of the Private Placement is conditioned upon the receipt of material consents and approvals of third parties and self-regulatory organizations which could delay or prevent the completion of the Private Placement; and

the Private Placement will likely limit the Company s use of its net operating loss carryforwards.

The Board conducted an overall analysis of the Private Placement in which it weighed the benefits and advantages against the risks and negative factors described above. The Board did not view any of the factors as determinative or assign any rank or relative weight to the factors. Throughout the process, the Board continued to consider alternatives to the Private Placement, including alternate financing structures, the sale of the Company or its merger with another entity, and the liquidation of the Company. The Board recognized that there can be no assurance that we would be able to achieve all or significantly all of each anticipated benefit or advantage or that it had identified and accurately assessed each risk and negative factor. However the Board concluded that the potential benefits and advantages of the Private Placement significantly outweighed the risks and negative factors.

After taking into account these and other factors, the Board unanimously determined that the Private Placement was fair to and in the best interests of the Company and its shareholders and approved the issuance and sale of the Purchased Shares to MatlinPatterson.

Opinion of Our Independent Financial Advisor

Our Board of Directors retained Freeman to render an opinion as to whether the consideration to be received by the Company in the Private Placement is fair to the Company from a financial point of view. The opinion, which we sometimes refer to in this proxy statement as the Fairness Opinion, was prepared at the request of our Board of Directors and the Special Committee to assist them in evaluating the Private Placement. The Fairness Opinion of Freeman does not constitute a recommendation as to how any security holder should vote at the annual meeting. The full text of Freeman s written opinion, dated May 14, 2007, is attached to this proxy statement as **Appendix B** and this summary is qualified in its entirety by reference to the full text of the opinion. You are encouraged to read the Fairness Opinion carefully in its entirety for a description of the assumptions made, matters considered and limitations on the review undertaken.

At the May 13, 2007 meeting of our Board of Directors, Freeman presented its analysis and verbally rendered to our Board its opinion that, based on and subject to the matters described in the Fairness Opinion, the consideration to be received by the Company in the Private Placement is fair to the Company from a financial point of view. Freeman issued its written opinion on May 14, 2007 in connection with the execution of the Investment Agreement.

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No limitations were imposed upon Freeman by our Board with respect to the investigations made or procedures followed by Freeman in rendering its opinion. Freeman has not been requested and does not intend to update, revise or reaffirm its Fairness Opinion, including, but not limited to, to reflect any circumstances or events that have occurred since May 14, 2007. You should understand that the Fairness Opinion speaks only as of its date. Events that could affect the fairness of the consideration received by the Company in the Private Placement from a financial point of view include adverse changes in industry performance or changes in market conditions and changes to our business, financial condition and results of operations.

Freeman made such reviews, analyses and inquiries as it deemed necessary to assess the fairness, from a financial point of view, of the consideration to be received by the Company in the Private Placement. In arriving at its Fairness Opinion, Freeman reviewed and considered such financial and other matters as it deemed relevant, including, among other things:

- the Investment Agreement and the financial terms of the transactions contemplated thereby;
- certain publicly available information for the Company and certain other relevant financial and operating data furnished to Freeman by the management of the Company;
- certain internal financial analysis, financial forecasts, reports and other information concerning the Company, prepared by the management of the Company;
- discussions Freeman had with certain members of the management of the Company concerning the historical and current business operations, financial conditions and prospects of the Company and such other matters Freeman deemed relevant;
- certain operating results, the reported price and/or trading histories of the shares of the common stock of the Company as compared to operating results, the reported price and trading histories of certain publicly traded companies Freeman deemed relevant;
- certain financial terms of the transaction contemplated by the Investment Agreement as compared to the financial terms of certain selected business combinations Freeman deemed relevant;
- certain pro forma financial effects of the transaction contemplated by the Investment Agreement on an accretion/dilution basis including pro forma operating cost reductions; and
- such other information, financial studies, analyses and investigations and such other factors that Freeman deemed relevant for the purposes of its opinion.

No material relationship existed between Freeman and us or our affiliates, none has since developed and none is mutually understood to be contemplated, other than our engagement of Freeman in the spring of 2006 to establish a comprehensive process to entertain both a strategic sale of, or strategic investment in, the Company, the contemplated consideration to be paid to Freeman by us for the announced sale of our Municipal Capital Markets in the DEPFA Transaction, and the engagement with respect to delivery of the Fairness Opinion. Freeman, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, private placements and valuations for corporate and other purposes.

Freeman used several methodologies to assess the fairness of the consideration to be received by the Company in connection with the Private Placement. The following is a summary of the material financial analyses undertaken by Freeman in connection with providing its Fairness Opinion. This summary is qualified in its entirety by reference to the full text of the Fairness Opinion.

Freeman s analyses of the Company were performed on a current situational analysis, an analysis of the MatlinPatterson discount, and a post-Private Placement potential analysis. The current situational analysis considered the Company s operating pre-tax earnings for the past fifteen consecutive quarters and included an analysis of the

Company s tangible book value and stock price based upon the prices at which the Company s common stock was trading on the NASDAQ Global Market. The current situational analysis also considered the Company s operating losses, investment portfolio gains, capitalization of fixed income businesses and key employee turnover.

The analysis of the MatlinPatterson discount considered the discounted stock price at which the Purchased Shares will be sold to MatlinPatterson in relation to the closing trading prices of the Company s common stock and discounts given in similar private investment in public equity transactions (sometimes referred to herein as PIPE transactions or PIPEs).

The post-Private Placement potential analysis calculated the Company s pro forma tangible book value based on the investment by MatlinPatterson and compared it to current trading multiples of publicly-traded broker-dealers similar to the Company. The post-Private Placement analysis gave consideration to the matters contemplated by the Investment Agreement and Registration

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Rights Agreement, including the contemplated immediate infusion of approximately $50 million of additional capital (net of certain fees and expenses) from the Private Placement and the contemplated dilutive impact of shares to be issued in connection with the Private Placement.

Current Situational Analysis of the Company

MatlinPatterson Transaction Analysis. Based on the Investment Agreement that contemplates a $50 million capital infusion into First Albany at $1.50 per share, Freeman determined that MatlinPatterson s ownership position on a pro forma basis would be 59.9% on a primary basis or 58.4% on a fully diluted basis. Both pro forma ownership estimates were calculated after taking into consideration the grants of 6.0 million restricted shares by MatlinPatterson to key executives and personnel. The number of restricted stock units was later increased to 6.75 million. Please see Proposal No. 2 Approval of the Private Placement above for a discussion of MatlinPatterson s undiluted and fully-diluted voting interest taking into account the additional 750,000 restricted stock units.

Analysis of MatlinPatterson Discount

Freeman reviewed the closing trading prices of the Company s common stock over a thirty day period ending May 11, 2007 and determined that MatlinPatterson s $1.50 per share investment ranged from 3.8% to 13.8% of a discount to market price. Based on the closing price of the Company s common stock on May 11, 2007 (the last business day prior to announcement of the Private Placement) of $1.60, the per share investment price of $1.50 represented a 6.25% discount. Freeman noted that the investment by MatlinPatterson, atypically for a speculative transaction of this nature, proposes no additional warrants or preferred stock which could further dilute existing shareholders.

Freeman analyzed PIPE transactions of a similar nature over a trailing twelve-month period and divided the transactions into three segments based on structure: unregistered common stock, PIPEs with warrants and registered direct placements. Freeman noted that the majority of these transactions did not involve a change of control.

Unregistered Common Stock. This segment represents the traditional PIPE structure where investors are granted unregistered securities that must become registered in a 90-120 day period. For the trailing twelve-month period, Freeman reviewed fifty-four completed transactions and calculated their mean discount to be 14.2% below the target stock price on the last trading day prior to sale.

PIPEs with Warrants. This segment represents the PIPE transaction structure used for more speculative investments. Freeman viewed this as the most relevant segment when comparing the current MatlinPatterson investment. For the trailing twelve-month period, there were 136 transactions completed with a calculated mean discount of 18.3% from the last sale price of the target s stock, excluding any implied discount from the issue of warrants in connection with each transaction.

Registered Direct Placements. This segment represents transactions used largely for bulletin board growth stocks where the investor is granted registered common stock that is able to be traded immediately. Over the trailing twelve-month period, thirty-nine transactions had an average discount of 8.4% from the target stock price on the last trading day prior to sale.

Post-Private Placement Analysis of the Company

As a result of the cash infusion from the Private Placement, Freeman calculated that the Company will have a pro forma tangible book value of $1.40 per share based on pro forma financials ending in the second quarter of 2007. The second quarter 2007 pro forma financials prior to the proposed Private Placement showed tangible shareholders equity of $27.4 million with 16,371,000 shares outstanding with the proposed Private Placement increasing shareholders equity to $77.4 million and increasing shares outstanding to 55,329,000. These numbers were calculated taking into account the issuance of 33,333,333 shares of common stock to MatlinPatterson for $50 million and approximately 6.0 million restricted stock units to be issued to certain key employees in connection with the Private Placement, as was contemplated at the May 11, 2007 Special Committee meeting. The number of restricted stock units was later increased to 6.75 million. Please see the section entitled Proposal No. 2 Approval of the Private Placement above for a discussion of MatlinPatterson s undiluted and fully-diluted voting interest taking into account the addition 750,000 restricted stock units. Based on a potential trading range established from the current trading multiples of publicly traded broker-dealers, Freeman determined that the tangible book value multiple could range from a high of 3.1 and a low of 1.7, resulting in potential post-Private Placement per share prices ranging from a high

of $4.34 to a low of $2.38. Notwithstanding the above analysis that was conducted by Freeman as a small subset of its overall analysis in determining its Fairness Opinion, Freeman specifically expressed no view as to the price or trading range for shares of the common stock of the Company following the consummation of the Private Placement.

Conclusion

Based on the analyses described above (which should be read in conjunction with the full text of the Fairness Opinion), and with consideration to the various assumptions and limitations set forth in the Fairness Opinion, Freeman determined that, as of the date

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of the Fairness Opinion, the consideration to be received by the Company in connection with the Private Placement is fair to the Company from a financial point of view.

In conducting its review and arriving at its opinion, Freeman, with the Company s consent, assumed and relied, without independent investigation, upon the accuracy and completeness of all financial and other information provided by the Company or which is publicly available. Freeman did not undertake any responsibility for the accuracy, completeness or reasonableness of, or independently verify such information. In addition, Freeman did not conduct nor assume any obligation to conduct any physical inspection of the properties or facilities of the Company. Freeman relied upon the assurance of the management of the Company that it was unaware of any facts that would make the information provided to Freeman incomplete or misleading in any respect. Freeman, with the Company s consent, assumed that the financial forecasts which they examined were reasonably prepared by the management of the Company on the basis reflecting the best currently available estimates and good faith judgments of management as to the future performance of the Company.

Freeman did not make or obtain any independent evaluations, valuations or appraisals of the assets or liabilities of the Company, nor was it furnished with such materials. With respect to all legal matters relating to the Company, Freeman relied on the advice of legal counsel to the Company. Freeman s services to the Company in connection with the transaction contemplated by the Investment Agreement have been to bring both potential investors and acquirers to the Company, assist management in those negotiations and render an opinion from a financial point of view with respect to the consideration offered in the Private Placement. Freeman s opinion is necessarily based upon economic and market conditions and other circumstances as they existed on May 14, 2007. It should be understood that although subsequent developments may affect Freeman s opinion, Freeman does not have any obligation to update, revise or reaffirm its opinion and expressly disclaims any responsibility to do so.

For purposes of rendering its opinion Freeman assumed in all respects material to its analysis that the representations and warranties of each party contained in the Investment Agreement were true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the Investment Agreement and that all conditions to the consummation of the transaction contemplated in the Investment Agreement will be satisfied without waiver thereof. Freeman also assumed that all governmental, regulatory and other consents and approvals contemplated by the Investment Agreement will be obtained and that in the course of obtaining those consents and approvals no restrictions will be imposed or waivers made that would have an adverse effect on the contemplated benefits of the Private Placement.

Freeman s opinion does not constitute a recommendation to any shareholder of the Company to take any action in connection with the transactions contemplated by the Investment Agreement or otherwise. Freeman has not been requested to opine as to, and its opinion does not in any manner address, the Company s underlying business decision to effect the transactions contemplated by the Investment Agreement. Furthermore, Freeman expressed no view, and specifically currently expresses no view, as to the price or trading range for shares of the common stock of the Company following the consummation of the transactions contemplated by the Investment Agreement.

Summary of Terms of the Private Placement

Investment Agreement

The following summarizes material provisions of the Investment Agreement which is attached in ***Appendix A*** *to this document and is incorporated by reference herein. The rights and obligations of the parties are governed by the express terms and conditions of the Investment Agreement and not by this summary or any other information contained in this proxy statement. First Albany shareholders are urged to read the Investment Agreement carefully and in its entirety as well as this document before deciding how to vote their shares on the Proposals. The Investment Agreement has been attached to this document to provide First Albany shareholders with information regarding its terms. It is not intended to provide any other factual information about First Albany. In particular, the assertions embodied in the representations and warranties contained in the Investment Agreement (and summarized below) are qualified by information in confidential disclosure schedules provided by First Albany to MatlinPatterson in connection with the signing of the Investment Agreement. These disclosure schedules contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the Investment Agreement. Moreover, certain representations and warranties in the Investment Agreement were used for the purpose of*

allocating risk between First Albany and MatlinPatterson rather than establishing matters as facts. Accordingly, you should not rely on the representations and warranties in the Investment Agreement (or the summaries contained herein) as characterizations of the actual state of facts about First Albany.

Purchase and Sale of Stock

The Company will issue and sell, and MatlinPatterson will purchase, 33,333,333 shares of the common stock of the Company, subject to potential upward adjustment as described below (the Purchased Shares). The purchase price for the Purchased Shares will be equal to $50 million, less certain reimbursable expenses as described below.

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If the DEPFA Transaction has not been consummated prior to the Private Placement closing date (which is currently expected to be the case), the number of Purchased Shares will be increased to account for the cash bonuses or other amounts paid or payable by the Company to any employee of its Municipal Capital Markets Group as a result of the Private Placement closing prior to the closing of the DEPFA Transaction, as well as any restricted stock awards and employee stock options held by employees of the Municipal Capital Markets Group that become vested as a result of the closing of the Private Placement and that would not have become so vested had the DEPFA Transaction closed prior to the Private Placement closing date. Pursuant to this adjustment mechanism, the number of Purchased Shares will be increased by multiplying the number of Purchased Shares that would otherwise be issuable by a fraction that is determined by (i) dividing the aggregate amount of Excess Compensation resulting from the failure of the DEPFA Transaction to close prior to the closing of the Private Placement by the number of shares of common stock outstanding as of the closing date, (ii) expressing such amount as a fraction of $1.50 and (iii) adding such fraction to one. Excess Compensation is in effect defined as the amount of incremental bonuses or other cash amounts paid or payable by the Company to or in respect of the employees of the Municipal Capital Markets Group as a result of the closing of the Private Placement taking place prior to the closing of the DEPFA Transaction *plus* the number of shares of restricted stock awarded to such employees that become vested as a result of the closing of the Private Placement multiplied by $1.50 per share *plus* the number of shares issuable upon the exercise of any stock options held by such employees with an exercise price of less than $1.50 per share that become vested as a result of the closing of the Private Placement multiplied by the difference between $1.50 and such exercise price. As of the closing of the Private Placement, the employees of the Municipal Capital Markets Group are expected to become entitled to Excess Compensation of approximately $2,429,696, in the aggregate. To the extent that such employees do not waive their rights to receive such Excess Compensation, the adjustment formula set forth in the Investment Agreement is expected to result in an increase in the number of Purchased Shares from 33,333,333 shares to approximately 36,690,705 shares.

In addition, if the Net Tangible Book Value Per Share (as defined in the Investment Agreement, including adjustments to eliminate any effects of a prior closing of the DEPFA Transaction on tangible net book value) is less than $1.60 as of the Private Placement closing date, the number of Purchased Shares will be increased by multiplying the number of Purchased Shares that would otherwise be issuable by a fraction that is determined by (i) expressing the difference between $1.50 and 88.86% of the Net Tangible Book Value Per Share as of the Private Placement closing date as a fraction of $1.50 and (ii) adding that fraction to one. It is currently expected that Tangible Net Book Value Per Share as of the closing of the Private Placement will be in excess of $1.60, so that no adjustment in the number of Purchased Shares would result under this mechanism.

Closing of the Purchase and Sale of Stock

Unless the parties agree otherwise, the closing of the Private Placement will take place on a date specified by the parties, but no later than the second business day following the day on which the last of the closing conditions have been satisfied or waived, at the offices of Sidley Austin LLP, 787 Seventh Avenue, New York, New York 10019.

We currently expect to complete the Private Placement by the end of the third quarter of 2007, subject to receipt of required shareholder and regulatory approvals and satisfaction of the other conditions to closing.

Closing Conditions

MatlinPatterson s obligation to purchase the shares in the Private Placement is subject to the satisfaction or waiver of the following conditions:

- there being in effect no order by any court or governmental authority having jurisdiction over any of the parties that prohibits, invalidates or seeks to restrain consummation of any of the transactions contemplated in the Investment Agreement;

- the adoption of the Investment Proposals set forth in this proxy statement by a majority of the shareholders of the Company;

the receipt of all material governmental and self regulatory organization approvals required for consummation of the transactions contemplated in the Investment Agreement;

the receipt of all material contractual consents required for consummation of the transactions contemplated in the Investment Agreement;

the performance by the Company all of its covenants and agreements contained in the Investment Agreement in all material respects;

the Company s representations and warranties contained in the Investment Agreement being true and correct in all material respects;

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the receipt of non-competition and non-solicitation covenants from at least 22 of 27 key employees of the Company designated by MatlinPatterson (which condition has already been met), as well as their continuing employment by the Company as of the closing;

the number of other employees of the Company whose employment is terminated in the period between May 14, 2007 and the closing date does not exceed by more than 20% the number of employees whose employment was terminated in the comparable period in 2006 or the six-month period ending on May 14, 2007, whichever is greater;

there have not occurred any changes or events that have had or would reasonably be expected to have a material adverse effect on the Company, as defined in the Investment Agreement; and

the receipt of a certificate of an executive officer of the Company stating that certain of the preceding conditions have been satisfied.

First Albany s obligation to issue and sell the Purchased Shares to MatlinPatterson in the Private Placement is subject to the to the satisfaction or waiver of the following conditions:

there being in effect no order by any court or governmental authority having jurisdiction over any of the parties that prohibits, invalidates or seeks to restrain consummation of the transactions contemplated in the Investment Agreement;

the adoption of the Investment Proposals set forth in this proxy statement by a majority of the shareholders of the Company;

the receipt of all material governmental and self regulatory organization approvals required for consummation of the transactions contemplated in the Investment Agreement;

the performance by MatlinPatterson all of its covenants and agreements contained in the Investment Agreement in all material respects;

MatlinPatterson s representations and warranties contained in the Investment Agreement being true and correct in all material respects;

the receipt of a certificate of a senior executive of MatlinPatterson stating that certain of the preceding conditions have been satisfied; and

if the closing occurs on or prior to July 31, 2007, the DEPFA Transaction shall have been consummated.

No Solicitation

The Investment Agreement provides that the Company shall not authorize or permit any of its officers, trustees, directors, employees, agents or representatives to directly or indirectly:

initiate, solicit or knowingly encourage or facilitate any inquiries or the making of any proposal or offer that constitutes, or would reasonably be expected to result in, a competing transaction (as defined below); or

enter into discussions or negotiations with, or provide any confidential information or data to, any person relating to a competing transaction.

The Company has also agreed to take all actions reasonably necessary to cause its officers, trustees, directors, employees, agents or representatives to immediately cease any discussions or negotiations with any other person with respect to, or that would reasonably be expected to lead to, a competing transaction.

Further, the Company has agreed to notify MatlinPatterson of any proposal which the Company receives relating to a competing transaction and to keep MatlinPatterson informed on a timely basis of the status and any material developments regarding such proposal.

However, if the Company receives a bona fide proposal for a competing transaction that the Board believes in good faith, after consultation with outside counsel and with the Company s financial advisors, constitutes or may reasonably be expected to result in a superior competing transaction (as defined below), and which was not the result of a breach of the no solicitation provisions in the

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Investment Agreement, the Board may, to the extent required by its fiduciary obligations:

contact such person making the proposal for the purpose of clarifying the proposal, any material terms and the capability of consummation so as to determine whether the proposal is reasonably likely to lead to a superior competing transaction; and

if the Board determines in good faith following consultation with its legal and financial advisors that such proposal is reasonably likely to lead to a superior competing transaction, the Board may:

- furnish such person non-public information about the Company and its subsidiaries pursuant to an appropriate confidentiality agreement;
- participate in negotiations and discussions with such person regarding its proposal; and
- subject to the requirements set forth below with respect to a change in Board recommendation and prior to shareholder approval of the Private Placement, terminate the Investment Agreement.

In addition, the Company agreed that the Board will not change its recommendation in favor of the Private Placement or terminate the Investment Agreement as provided above unless the Board has:

given MatlinPatterson at least three business days notice of its intent to take such action; and

negotiated with MatlinPatterson in good faith to amend the Investment Agreement and the competing transaction remains a superior competing transaction.

A competing transaction is defined in the Investment Agreement as:

any merger, reorganization, consolidation, share exchange, business combination, liquidation, dissolution, recapitalization or similar transaction involving the Company;

any direct or indirect acquisition or purchase of 20% or more of the consolidated gross assets of the Company and its subsidiaries, taken as a whole, 20% or more of any class of voting securities of the Company or any subsidiary, or 15% or more of any class of voting securities of the Company or any subsidiary if such securities carry the right to appoint or designate any member of the Board; or

any tender offer or exchange offer that, if consummated, would result in any person or group beneficially owning 20% or more of any class of voting securities of the Company.

A superior competing transaction is defined in the Investment Agreement as bona fide proposal for a competing transaction made by a third party which was not, directly or indirectly, the result of a breach of the no solicitation provisions set forth in the Investment Agreement:

on terms the Board determines in its good faith judgment, based on the financial analysis and advice of the Company s financial advisors and the advice of outside counsel, after giving effect to the payment of reimbursable expenses to MatlinPatterson pursuant to the Investment Agreement and to the expected timing of the closing of the proposed competing transaction, to be more favorable to the shareholders of the Company than the transactions contemplated by the Investment Agreement, including any alternative proposed by MatlinPatterson in accordance with the Investment Agreement;

which is reasonably likely to be consummated; and

for which financing, to the extent required, is then fully committed or which in the good faith judgment of the Board, based on the advice of the Company s financial advisors, is reasonably capable of being timely financed by such third party.

Termination of Obligations under Investment Agreement

The Investment Agreement may be terminated by the Company and MatlinPatterson by mutual consent. It also may be terminated by either MatlinPatterson or the Company if any permanent order, decree, ruling or other action of a court or other competent authority permanently restraining, enjoining or otherwise preventing the consummation of any of the transactions

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contemplated in the Investment Agreement, has become final and non-appealable, or the closing has not occurred before September 30, 2007.

MatlinPatterson may terminate the Investment Agreement if there is a material breach of any of the Company s representations or warranties, if there is a material breach of any of the Company s covenants or agreements that has not been cured within ten business days, or the Board accepts, approves or authorizes a superior competing transaction.

The Company may terminate the Investment Agreement if there is a material breach of any of MatlinPatterson s representations or warranties, there is a material breach of any of MatlinPatterson s covenants or agreements that has not been cured within ten business days, or, after the Company has paid certain reimbursable expenses to MatlinPatterson, if the Company s Board accepts, approves or authorizes a superior competing transaction. Other than the reimbursement of such expenses, the Company has no obligation to pay a break-up fee to MatlinPatterson if the Board accepts, approves or authorizes such a superior competing transaction.

Indemnification

The Company has agreed to indemnify MatlinPatterson against breaches of the Company s representations, warranties and covenants contained in the Investment Agreement and the Registration Rights Agreement. MatlinPatterson may not seek indemnification until its aggregate claims exceed $3,000,000, whereupon MatlinPatterson will be entitled to seek indemnification with respect to all damages incurred by it. The Company s aggregate liability for breaches of its representations, warranties and covenants shall not exceed $17,500,000. Generally, claims for breaches of Company representations, warranties and covenants must be brought by April 30, 2009.

Conduct of Business

The Company generally covenants to operate its business in the ordinary course of business, to use commercially reasonable efforts to keep available the services of its current officers and employees, and to preserve the goodwill of its customers, suppliers, licensors, lessors, third-party payors and others having business relations with the Company.

The Investment Agreement also includes certain negative covenants covering actions that the Company agrees not to take without MatlinPatterson s prior written consent, including amending the Company s certificate of incorporation or bylaws, issuing or encumbering the Company s capital stock, declaring or paying dividends, entering into any acquisitions of businesses or sales of certain assets, incurring indebtedness, entering into any reorganization or recapitalization, changing its accounting principles, making certain capital expenditures, settling or compromising certain liabilities, preparing or filing certain tax returns or taking any action giving rise to tax liability, amending certain Company contracts, violating any legal requirements, terminating certain key employees, increasing compensation or making certain changes in employee benefits.

Other Covenants and Agreements

The Company covenants to cause the number of directors on the Board to be increased to nine and to procure the resignation of each of the directors not continuing to be members of the Board following consummation of the Private Placement and to, on the closing date of the Private Placement, to cause the remaining members of the Board to appoint the directors appointed by MatlinPatterson to fill the resulting vacancies.

The Company and MatlinPatterson agree to cooperate in developing a new strategic plan designed to restore the Company to profitability and to provide a platform for future growth.

The Company and MatlinPatterson covenant to refrain from taking any actions which would render any representation or warranty in the Investment Agreement inaccurate. Each party is to reasonably notify the other of any event or matter that would reasonably be expected to cause any of its representations or warranties to be untrue in any material respect or any action, suit or proceeding that shall be instituted or threatened against any such party to restrain, prohibit or otherwise challenge the legality of any of the transactions contemplated under the Investment Agreement.

The Company and MatlinPatterson agree to use their reasonable best efforts to cause each of the closing conditions described above to be satisfied as soon as practicable.

The Company agrees to notify MatlinPatterson of any Company material adverse effect, any lawsuit, claim or proceeding threatened or commenced against the Company or any subsidiary or any of their officers, directors or employees, any notice or communication with a third person alleging the consent of such third person is required in connection with the transactions contemplated by the Investment Agreement, any material default under certain of the Company s contracts or any event which would become a material default on or prior to the Private Placement closing date, and any notice from any governmental authority in

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connection with or relating to any of the transactions contemplated by the Investment Agreement.

The Company and MatlinPatterson agree to cooperate fully with each other and assist each other in defending any lawsuits or other legal proceedings brought against either party challenging the Investment Agreement or the Registration Rights Agreement or the consummation of the transactions contemplated by the Investment Agreement.

The Company covenants to act diligently and reasonably, and MatlinPatterson agrees to cooperate, in order to obtain all Company contractual consents required in connection with the Private Placement, provided that neither party is to have any obligation to offer or pay any consideration in order to obtain such consents, and provided further that the Company may not make any agreement affecting the Company or any of its subsidiaries or any of their respective businesses as a condition for obtaining such consents without MatlinPatterson s prior written consent.

The Company and MatlinPatterson agree to cooperate and use commercially reasonable efforts to obtain all necessary approvals from any governmental authority, self regulatory organization (including the National Association of Securities Dealers), and stock exchange of which the Company or any subsidiary is a member in connection with the transactions contemplated by the Investment Agreement or to otherwise satisfy the closing conditions described above, provided that neither the Company nor MatlinPatterson is obligated to execute settlements or other similar agreements, sell or otherwise convey any particular assets or businesses of the Company or MatlinPatterson or otherwise take actions that after the Private Placement closing date would limit the freedom of action the Company or its subsidiaries or MatlinPatterson with respect to one or more of its or their businesses, product lines or assets, in order to avoid the entry of or effect the dissolution of any order in any suit or proceeding that would otherwise have the effect of preventing or materially delaying the closing.

The net proceeds received by the Company from the issuance of the Purchased Shares are to be used in a manner consistent with the new strategic plan to be developed by the Company and MatlinPatterson.

Representations and Warranties

The Investment Agreement contains representations and warranties, many of which are qualified by materiality, made by each party to the other. The Company has made representations and warranties relating to, among other topics, the following:

- organization and qualification;
- capitalization;
- subsidiaries and joint ventures;
- authorization and enforceability of the Investment Agreement;
- consents and approvals;
- filings with the SEC and financial statements;
- legal and regulatory compliance;
- absence of material changes in our business, operations, financial condition or results of operations;
- litigation;
- ownership of assets;
- our intellectual property;
- insurance;

employee benefits;

tax matters;

rights to registration under the Securities Act;

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application of takeover protection; and

disclosure and conduct of the Private Placement.

In addition, MatlinPatterson has made representations and warranties relating to, among other topics, the following:

organization, standing and power;

authorization and enforceability of the Investment Agreement;

consents and approvals;

investment experience;

disclosure of information;

availability of funds;

accuracy of information supplied or to be supplied for inclusion in any document to be filed with the SEC or any governmental authority to be filed in connection with the Private Placement; and

tax matters.

The representations described above and included in the Investment Agreement were made for purposes of the Investment Agreement and are subject to qualifications and limitations agreed by the respective parties in connection with negotiating the terms of the Investment Agreement. In addition, certain representations and warranties were made as of a specific date, may be subject to a contractual standard of materiality different from what might be viewed as material to shareholders, or may have been used for purposes of allocating risk between the respective parties rather than establishing matters as facts. This description of the representations and warranties, and their reproduction in the copy of the Investment Agreement attached to this proxy statement as **Appendix A**, are included solely to provide shareholders with information regarding the terms of the Investment Agreement. Accordingly, the representations and warranties and other provisions of the Investment Agreement should not be read alone, but instead should be read together with the information provided elsewhere in this proxy statement and in the documents incorporated by reference into this proxy statement. The majority of the representations and warranties will survive until April 30, 2009.

Registration Rights Agreement

The following summary of the provisions of the Registration Rights Agreement is qualified in its entirety by the full text of the form of Registration Rights Agreement included in **Appendix A** and incorporated by reference herein.

We agreed to enter into a Registration Rights Agreement with MatlinPatterson at the closing of the Private Placement pursuant to which we would be required upon the demand of MatlinPatterson on up to three occasions to file with the SEC a registration statement for the resale of Purchased Shares. The Registration Rights Agreement obligates us to use our best efforts to have the registration statement declared effective as soon as practicable after it is filed and to maintain its effectiveness for up to 270 days (or three years, if the registration statement is a shelf registration statement).

The Registration Rights Agreement also provides MatlinPatterson with piggyback registration rights exercisable if we were to file certain registration statements on our own initiative or upon the request of another shareholder.

We would bear all of the costs of any registration other than underwriting discounts and commissions and certain other expenses.

The Registration Rights Agreement contains customary indemnification provisions that obligate us to indemnify and hold harmless MatlinPatterson, its controlling persons and their officers, directors, partners and employees and any underwriter for losses caused by (i) any untrue statement of material fact or omission of a material fact in the registration statement or any prospectus included therein, (ii) the violation by us of the Securities Act or the Exchange

Act, or any rule or regulation thereunder relating to our acts or omissions in connection with the registration statement.

The Registration Rights Agreement also contains other customary terms found in such agreements, including provisions concerning registration procedures.

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Voting Agreements

The following summary of the provisions of the Voting Agreements is qualified in its entirety by the full text of the Voting Agreements included in **Appendix A** and incorporated by reference herein.

MatlinPatterson has entered into certain voting agreements with Messrs. Alan Goldberg, George McNamee and Peter McNierney, individually. Pursuant to the Voting Agreements, such shareholders, who beneficially own in the aggregate 3,054,976 shares of common stock, which represents approximately 19% of the shares of common stock deemed to be outstanding pursuant to Rule 13d-3(d)(1) under the Exchange Act and approximately 19% of the currently outstanding voting power of the Company, have agreed, among other things (i) to vote their shares of common stock (a) in favor of the Private Placement and the Investment Proposals, (ii) not to solicit, encourage or recommend to other shareholders of the Company that they vote their shares of common stock in any contrary manner, that they refrain from voting their shares, that they tender, exchange or otherwise dispose of their shares of common stock pursuant to a Competing Transaction (as defined in the Voting Agreements), or that they attempt to exercise any statutory appraisal or other similar rights they may have, (iii) unless otherwise instructed in writing by MatlinPatterson, to vote their shares against any Competing Transaction and (iv) not to, and not to permit any of their employees, attorneys, accountants, investment bankers or other agents or representatives to, initiate, solicit, negotiate, encourage, or provide confidential information in order to facilitate any Competing Transaction. The Voting Agreements expire at the earlier of: (i) the closing of the Private Placement, (ii) the due and proper termination of the Investment Agreement in accordance with its terms, or (iii) the mutual consent of MatlinPatterson and each of Messrs. Goldberg, McNamee and McNierney.

The purpose of the Voting Agreements is to increase the likelihood that the Private Placement and the Investment Proposals will be approved by the shareholders of the Company at the annual meeting.

Amendment of the Rights Agreement

The following summary of the provisions of the Amendment of the Rights Agreement is qualified in its entirety by the full text of the Amendment of the Rights Agreement included in **Appendix A** and incorporated by reference herein.

As of May 14, 2007, we entered into an amendment to the Rights Amendment with our transfer agent, American Stock Transfer & Trust Company, designed to provide for a fair and equal treatment for all shareholders in the event that an unsolicited attempt is made to acquire us.

The rights provided under the Rights Agreement are exercisable only if a person or group (an Acquiring Person , as defined in the Rights Agreement) acquires 15% or more of our common stock or announces a tender offer for 15% or more of our common stock. If an Acquiring Person acquires 15% or more of our common stock, all holders of such rights except the Acquiring Person will be entitled to acquire our common stock at a discount. The effect is to discourage acquisitions of more than 15% of our common stock without negotiations with the Board.

MatlinPatterson will beneficially own more than 15% of our outstanding common stock following the closing of the Private Placement. We agreed with MatlinPatterson in the Investment Agreement that we would amend the Rights Agreement to provide (i) that entry into the Investment Agreement and the Private Placement would be exempt from the Rights Agreement and (ii) neither MatlinPatterson FA Acquisition LLC (together with its affiliates and associations) or any group in which it is a member will be deemed to be an Acquiring Person . We entered into an amendment to Rights Agreement (the Amendment of the Rights Agreement) with American Stock Transfer & Trust Company as of May 14, 2007 to effect the required amendments. As a consequence, neither the issuance of the Purchased Shares to MatlinPatterson nor the acquisition by MatlinPatterson or any related person referred to above of any additional shares of our common stock will cause the rights issued under the Rights Agreement to become exercisable. The continued effectiveness of this amendment is a condition to MatlinPatterson s obligations to purchase the Purchased Shares at the closing of the Private Placement.

Under the Rights Agreement, we have the express authority to amend the Rights Agreement without shareholder approval. Accordingly, no shareholder action was required to amend the Rights Agreement.

Interest of Certain Persons in the Private Placement

Certain members of our Board and certain of our executive officers, in their capacities as such, have certain interests in the Private Placement that are in addition to or different from their interests as First Albany shareholders

generally. The Board was aware of these actual and potential conflicts of interest and considered them, among other matters, in approving the Investment Agreement and the transactions contemplated thereby and in recommending that shareholders vote in favor of the Investment Proposals. As a result of these interests, these directors and executive officers may be more likely to support and to vote to approve the Investment Proposals than if they did not have these interests. Shareholders should consider whether these interests may have influenced those directors and executive officers to support or recommend approval of the Investment Proposals. These interests are described below.

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As of the close of business on the record date for the annual meeting, our directors and executive officers and their affiliates were entitled to vote approximately ____ shares of common stock, representing approximately ____% of the common stock entitled to vote on the Investment Proposals.

If the Private Placement is completed, the Company will become obligated to issue restricted stock units in respect of an aggregate of up to 6,750,000 shares of common stock to certain key employees who enter into non-compete and non-solicit agreements with the Company and pursuant to the Company s employment agreements with Mr. Fensterstock and Mr. McNierney. The restricted stock units would vest over a three-year period following issuance.

Change in Control Provisions in Employment Agreements

The Company is a party to employment agreements with Peter McNierney, dated June 30, 2006, and with Brian Coad, dated June 30, 2006, as described in the section entitled *McNierney and Coad Agreements* on page 72. These employment agreements provide that the employee will have Good Reason to terminate his employment if certain adverse actions are taken by Company with respect to such employee, as described in the sections entitled *McNierney Agreement* or *Coad Agreement* , respectively, on page 72. Actions constituting good reason include the assignment to the employee of any duties materially inconsistent with his position (including status, offices, titles or reporting relationships); however, Mr. McNierney and Mr. Coad will not have Good Reason under this provision if, after a change of control they continue serving, respectively, as the senior most executive officer or senior-most financial officer of the Company and its subsidiaries as conducted immediately prior to the change of control. If Good Reason exists for termination, Mr. McNierney and Mr. Coad, as the case may be, would receive severance payments as described in the sections entitled *McNierney Agreement* or *Coad Agreement* , respectively, on page 72. In the event of change in control of the Company, if compensation payments to Mr. McNierney or Mr. Coad become subject to excise tax under Section 4999 of the Code, the Company will pay such executive a gross up payment in an amount equal to the amount of the excise tax imposed on such compensation payments.

On May 14, 2007, the Company entered into a new employment agreement with Mr. McNierney (the New McNierney Employment Agreement). This agreement, should it become effective, would supersede in most respects the employment agreement between the Company and Mr. McNierney entered into on June 30, 2006 (the Prior Agreement). The New McNierney Employment Agreement is made as of, and will become effective only upon, the closing of the Private Placement. On that date, the Prior Agreement will terminate, with limited exceptions. The New McNierney Employment Agreement provides that the Company will employ Mr. McNierney as its President and Chief Operating Officer for a three-year term commencing on the closing of the Private Placement. Mr. McNierney would be entitled to receive an annual base salary of $300,000 and to participate in the Company s annual bonus pool. Mr. McNierney would also be entitled to an initial grant of restricted stock units in respect of 600,000 shares of common stock, to be made upon closing of the Private Placement, and to subsequent grants of restricted stock units in respect of up to 500,000 shares of common stock, to be made over a period commencing on June 30, 2008 and ending January 1, 2010. The grant of restricted stock units made upon the closing of the Private Placement will be 10% vested as of such closing, and will vest an additional 30% on each of the first, second and third anniversaries of the closing. Upon termination of employment, whether voluntary or involuntary, Mr. McNierney would be entitled to a cash severance payment equal to $1.8 million less the market value of the common stock underlying any restricted stock units granted to him that have vested as of the date of termination of his employment with the Company or upon the expiration of the agreement. Upon expiration or termination of employment, whether voluntary or involuntary, Mr. McNierney would be entitled to a cash severance payment equal to $1.8 million less the aggregate market value of any granted restricted stock units that have vested as of the termination date. He would also be entitled to other additional payments upon termination of employment, the amount of which depends upon the circumstances of termination. In particular, in the event of his termination from the Company Without Cause he would also receive his base salary for twelve (12) months following termination, a prorated bonus for the fiscal year in which the twelve (12) month base salary continuation period ends, continuation health coverage paid by the Company for twelve (12) months following termination, any earned but unpaid bonus and, if he executes a release agreement (which will include an 18-month restrictive covenant), continued vesting in accordance with the schedule provided in the agreement of any restricted stock units granted to him prior to termination. If Mr. McNierney terminates his

employment without Good Reason, he will be entitled to any unpaid base salary and unpaid benefits and any earned but unpaid bonus. If Mr. McNierney terminates his employment for Good Reason, he will be entitled to any unpaid base salary and unpaid benefits, any earned but unpaid bonus, a pro-rated bonus for the year in which termination occurs and, if he executes a settlement and release agreement (which will include an 18-month restrictive covenant), continued vesting in accordance with the schedule provided in the agreement of any restricted stock units granted to him prior to termination. If Mr. McNierney is terminated by the Company for Cause, he will be entitled to any unpaid base salary and unpaid benefits and any earned but unpaid bonus. The New McNierney Employment Agreement also contains confidentiality, non-solicitation and other restrictive covenants. Good Reason, for purposes of the New McN ierney Employment Agreement, means: (i) a failure by Company to perform fully the terms of the agreement, or any plan or agreement referenced in the agreement, other than an immaterial and inadvertent failure not occurring in bad faith and remedied by Company promptly (but not later than five days) after receiving notice thereof from Mr. McNierney; (ii) any reduction in Mr. McNierney s base salary or failure to pay any bonuses or other material amounts due under the agreement; (iii) the assignment to Mr. McNierney of any duties inconsistent in any material respect with his position or with his authority, duties or responsibilities as President and Chief Operating Officer, or any other action by Company which results in a diminution in such position, authority, duties or responsibilities, or reporting relationship, excluding for this purpose any immaterial and inadvertent action not taken in bad

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faith and remedied by Company promptly (but not later than ten (10) days after receiving notice from Executive); (iv) any change in the place of Mr. McNierney s principal place of employment to a location outside New York City; or (v) any failure by Company to obtain an assumption and agreement to perform the agreement by a successor. Cause, for purposes of the New McNierney Employment Agreement, means: (i) Mr. McNierney s conviction of, or plea of guilty or no contest to, any felony; (ii) Mr. McNierney s conviction of, or plea of guilty or no contest to, a violation of criminal law involving the Company and its business; (iii) Mr. McNierney s commission of an act of fraud or theft, or material dishonesty in connection with his performance of duties to Company; or (iv) Mr. McNierney s willful refusal or gross neglect to perform the duties reasonably assigned to him and consistent with his position with Company or otherwise to comply with the material terms of the agreement, which refusal or gross neglect continues for more than fifteen days after Mr. McNierney receives written notice thereof from the Company providing reasonable detail of the asserted refusal or gross neglect (and which is not due to a physical or mental impairment).

The Company entered into a consulting agreement with Lee Fensterstock which will commence on July 1, 2007 and will end on the earlier of (i) the occurrence of the closing contemplated by the Investment Agreement; (ii) termination of the Investment Agreement or (iii) September 30, 2007, during which Mr. Fensterstock will serve as a financial consultant to the Company. Mr. Fensterstock shall have an office at the New York City headquarters of the Company that is satisfactory to Mr. Fensterstock and Mr. Fensterstock shall spend substantially all of his time providing the Financial Consulting Services. During the term of the agreement, Mr. Fensterstock will earn a consulting fee of $30,000 for each calendar month.

The Company also expects to enter into an employment agreement with Mr. Fensterstock (the Fensterstock Employment Agreement) to be effective at the closing of the Private Placement. The Fensterstock Employment Agreement provides that the Company shall employ Mr. Fensterstock as its Chief Executive Officer and Chairman of the Board for a three-year term commencing on the closing date of the Private Placement, automatically extended for one additional year upon the third anniversary of the effective date without any affirmative action, unless either party to the agreement provides at least six (6) months advance written notice to the other party that the employment period will not be extended. Upon the effective date of the agreement, Mr. Fensterstock will be entitled to receive an annual base salary of $350,000 and to participate in the Company s annual bonus pool (the bonus for the fiscal year that begins prior to the first anniversary of the effective date shall be pro-rated to correspond to the portion of such fiscal year that follows the first anniversary of the effective date). Mr. Fensterstock will also be entitled to an initial grant of restricted stock units in respect of 1,000,000 shares of common stock, to be made upon closing of the Private Placement, and to subsequent grants of restricted stock units in respect of up to 1,000,000 shares of common stock, to be made over a period commencing on June 30, 2008 and ending January 1, 2010. The grant of restricted stock units made upon the closing of the Private Placement will be 10% vested as of such closing, and will vest an additional 30% on each of the first, second and third anniversaries of the closing.

The Fensterstock Employment Agreement provides that upon termination of employment, Mr. Fensterstock will be entitled to certain payments or benefits, the amount of which depends upon the circumstances of termination. In particular, in the event of his termination from the Company Without Cause he will also receive his base salary for twelve months following termination; a prorated bonus for the fiscal year in which the twelve-month base salary continuation period ends; continuation health coverage paid by the Company for twelve months following termination; any earned but unpaid bonus; and, if he executes a settlement and release agreement (which will include an 18-month restrictive covenant), continued vesting in accordance with the schedule provided in the agreement of any restricted stock units granted to him prior to termination. If Mr. Fensterstock terminates employment without Good Reason he will be entitled to any unpaid base salary and unpaid benefits and his earned but unpaid bonus. If Mr. Fensterstock terminates employment for Good Reason, but not because of a Change of Control, he will be entitled to any unpaid base salary and unpaid benefits; any earned but unpaid bonus; a pro-rated bonus for the year in which termination occurs; and, if he executes a settlement and release agreement (which will include an 18-month restrictive covenant), continued vesting in accordance with the schedule provided in the agreement of any restricted stock units granted to him prior to termination. If Mr. Fensterstock is terminated by the Company for Cause, he will be entitled to any unpaid base salary and unpaid benefits and his earned but unpaid bonus. If Mr. Fensterstock terminates employment with the Company for Good Reason, because a Change of Control occurs and Mr. Fensterstock does not

continue thereafter as the most senior executive officer of the business of the Company as conducted immediately prior to the Change of Control, Mr. Fensterstock shall be entitled to any unpaid base salary and unpaid benefits, any earned but unpaid bonus, a pro-rated bonus for the year in which termination occurs. In addition, all restricted stock units granted to Mr. Fensterstock prior to the termination of his employment shall immediately vest upon termination; and restricted stock units specified in the Fensterstock Employment Agreement that have not yet been granted to Mr. Fensterstock, including without limitation all shares the grant of which is otherwise contingent on achieving certain performance targets, shall be granted to Mr. Fensterstock on the date of his termination and shall immediately vest upon such date.

The Fensterstock Employment Agreement also contains confidentiality, non-solicitation and other restrictive covenants. Change of Control means a transaction or event as a result of which MatlinPatterson Global Opportunities Partners II, L.P. (and/or one or more of its affiliates) shall no longer have the right to elect all the members of the Board. Good Reason, for purposes of the Fensterstock Employment Agreement, means: (i) a failure by Company to perform fully the terms of the Fensterstock Employment Agreement, or any plan or agreement referenced in such agreement, other than an immaterial and inadvertent failure not occurring in bad faith and remedied by Company promptly (but not later than five (5) days) after receiving notice thereof from Mr. Fensterstock ; (ii) any reduction in Mr. Fensterstock s base salary or failure to pay any bonuses or other material amounts due under the agreement; (iii) the assignment to Mr. Fensterstock of any duties inconsistent in any material respect with his position or with his authority, duties

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or responsibilities as Chief Executive Officer and Chairman of the Board, or any other action by Company which results in a diminution in such position, authority, duties or responsibilities, or reporting relationship, excluding for this purpose any immaterial and inadvertent action not taken in bad faith and remedied by Company promptly (but not later than ten (10) days after receiving notice from Executive); (iv) any change in the place of Mr. Fensterstock s principal place of employment to a location outside New York City; (v) any failure by Company to obtain an assumption and agreement to perform the agreement by a successor; or (vi) a Change of Control occurs and Mr. Fensterstock does not continue thereafter as the most senior executive officer of the business of the Company as conducted immediately prior to the Change of Control. Cause, for purposes of the Fensterstock Employment Agreement, means: (i) Mr. Fensterstock s conviction of, or plea of guilty or no contest to, any felony; (ii) Mr. Fensterstock s conviction of, or plea of guilty or no contest to, a violation of criminal law involving the Company and its business; (iii) Mr. Fensterstock s commission of an act of fraud or theft, or material dishonesty in connection with his performance of duties to Company; or (iv) Mr. Fensterstock s willful refusal or gross neglect to perform the duties reasonably assigned to him and consistent with his position with Company or otherwise to comply with the material terms of the agreement, which refusal or gross neglect continues for more than fifteen (15) days after Mr. Fensterstock receives written notice thereof from the Company providing reasonable detail of the asserted refusal or gross neglect (and which is not due to a physical or mental impairment).

In connection with the Private Placement, Mr. Coad, the Company s Chief Financial Officer, executed a Non-Compete and Non-Solicit Agreement in favor of the Company. This agreement will take effect only if the Private Placement is consummated. In consideration of this agreement, Mr. Coad will be awarded restricted stock units in respect of 200,000 shares of common stock. This grant is also contingent on closing of the Private Placement. In connection with the foregoing, the Company agreed to pay Mr. Coad a lump-sum, cash severance payment under certain circumstances. Specifically, in the event that as a result of action by the Company Mr. Coad no longer serves as the Company s Chief Financial Officer, or is assigned duties that are materially inconsistent with the position of Chief Financial Officer or that constitute a diminution of Mr. Coad s authority, duties or responsibilities as Chief Financial Officer, Mr. Coad may at his election resign from his employment with the Company and receive upon termination a severance payment. The amount of the severance payment would be $525,000 less the market value of the common stock underlying any previous restricted stock units granted to Mr. Coad that have vested as of the date of termination of his employment with the Company.

Continued Service on the Board of Directors

Mr. McNamee and Mr. McNierney are expected to continue as members of the Board immediately following the Private Placement. The Board shall be increased from seven to nine members following the Private Placement and the four new directors shall be Mr. Fensterstock and three representatives of MatlinPatterson and its affiliates. In addition, it is currently expected that __, __ and __ will continue as members of the Board following the closing of the Private Placement until asked to resign by MatlinPatterson in accordance with the terms of the Investment Agreement. At such time the remaining directors will fill the resulting vacancies with directors designated by MatlinPatterson.

Vesting of Equity Incentive Plans

Under both the 1999 Long Term Incentive Plan and 2001 Long Term Incentive Plan (referred to collectively herein as the Long Term Incentive Plans), if a Change of Control occurs (i) all stock options then unexercised and outstanding will become fully vested and exercisable and (ii) all restrictions, terms and conditions applicable to restricted shares then outstanding will be deemed lapsed and satisfied, each as of the date of the Change of Control. The definition of Change in Control as in these plans is described in the section entitled *The 1999 Long Term Incentive Plan and the 2001 Long Term Incentive Plan* on page 73.

Under the 2003 Non-Employee Directors Stock Plan, if a Change of Control occurs (i) all stock options then unexercised and outstanding will become fully vested and exercisable and (ii) all restrictions, terms and conditions applicable to restricted shares then outstanding will be deemed lapsed and satisfied, each as of the date of the Change of Control. The definition of Change in Control in this plan is defined in the section entitled *Director Compensation for Fiscal Year 2006* on page 57.

As of the record date, there were approximately __ shares underlying outstanding unvested options granted to directors and executive officers under the Long Term Incentive Plans. As of the record date, there were approximately

__ restricted shares granted under the Long Term Incentive Plans to directors and executive officers. The following table identifies, for each director and executive officer, the aggregate number of common shares subject to outstanding unvested options that will become vested in connection with the completion of the Private Placement and the weighted average exercise price and value of such unvested options. The information assumes that all options remain outstanding on the closing date of the Private Placement. The following table also identifies, for each of the First Albany directors and executive officers, the aggregate number of restricted shares whose restrictions will lapse in connection with the completion of the Private Placement. The information assumes that all restricted shares remain outstanding on the closing date of the Private Placement.

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