

**BROADPOINT CAPITAL, INC. (Formerly FIRST ALBANY CAPITAL INC.)**

(A wholly owned subsidiary of First Albany Companies Inc.)

(Unaudited)

STATEMENT OF FINANCIAL CONDITION

June 30, 2007

<p>Broadpoint Capital, Inc. (A wholly owned subsidiary of First Albany Companies Inc.)</p>
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**STATEMENT OF FINANCIAL CONDITION**

**June 30, 2007**

**(Unaudited)**

*(In thousands of dollars)*

**ASSETS**

Cash	\$	363
Cash and securities segregated under federal regulation		5,100
Securities purchased under agreements to resell		9,983
Receivables from:		
Brokers, dealers and clearing agencies		10,040
Customers		1,148
Parent and affiliates		3,190
Others		4,894
Securities owned, at market value		165,445
Other assets		2,580
Total assets	\$	202,743

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Liabilities**

Short-term bank loans	\$	139,065
Payables to:		
Brokers, dealers and clearing agencies		2,652
Customers		449
Affiliates		117
Others		7,070
Securities sold, but not yet purchased, at market value		12,981
Accounts payable		3,127
Accrued compensation		8,862
Accrued expenses		1,736
Total liabilities	176,059	

**COMMITMENTS AND CONTINGENCIES**

Subordinated debt	2,962	
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**Stockholder's equity**

Preferred, voting, 6% cumulative, \$10 par value; authorized 20,000 shares; none issued		
Common, voting \$.01 par value; authorized 5,000,000 shares; 100 issued and outstanding		
Additional paid-in capital		32,733
Accumulated deficit		(9,011)
Total stockholder's equity		23,722
Total liabilities and stockholder's equity	\$	202,743

The accompanying notes are an integral  
part of the unaudited Statement of Financial Condition.

**NOTES TO THE FINANCIAL STATEMENT**  
**(Unaudited)**

**NOTE 1.**

**Significant Accounting Policies**

Broadpoint Capital, Inc. (formerly First Albany Capital Inc.) (the Company) is a wholly owned subsidiary of First Albany Companies Inc. (the Parent). The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers, Inc., the New York Stock Exchange, and various other exchanges. The Company's primary businesses include securities brokerage for institutional customers and investment banking services to corporate and public clients. Additionally, the Company engages in market-making and trading of corporate, government and municipal securities. Certain information and footnote disclosures normally included in the financial statement prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. This unaudited condensed consolidated financial statement should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2006.

Liquidity and Net Capital

Recurring losses experienced by the Company as of June 30, 2007 have impacted the Company's liquidity and net capital, and in order to recapitalize and reposition itself, the Company and its Parent have entered into an asset sale agreement with DEPFA Bank PLC ("DEPFA") for the sale of the Municipal Capital Markets Group for \$12 million. The Company's Parent has also entered into an investment agreement with an affiliate of MatlinPatterson Global Opportunities Partners II to receive a \$50 million equity investment. The Company and its Parent believe that the proceeds from these transactions will provide the resources to invest in future growth, build on its investment product and services strengths, and better meet the needs of its clients. If these transactions are not completed, the Company may be forced to preserve its cash position through a combination of cost reduction measures and sales of assets at values that may be significantly below their potential worth or augment cash through additional dilutive financings, and there can be no assurance that the Company could obtain funds on terms that are as favorable as the terms of these transactions or at all.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

Resale and Repurchase Agreements

Transactions involving purchases of securities under agreements to resell or sales of securities under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily and the Company may require counter parties to deposit additional collateral or return collateral pledged when appropriate.

At June 30, 2007, the Company had entered into a number of resale agreements with Mizuho Securities USA and First Tennessee valued at approximately \$10 million. The collateral held by the Company consists of Government Bonds and was in excess of the principal amount loaned to Mizuho Securities USA and First Tennessee. These resale agreements may be cancelled or renewed on a daily basis by either the Company or the counter party.

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

Securities-Borrowing Activities

Securities borrowed are generally reported as collateralized financings and are recorded at the amount of cash collateral advanced. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. The Company monitors the market value of securities borrowed on a daily basis, with additional collateral obtained or refunded as necessary. The Company no longer engages in securities lending transactions.

Collateral

The Company receives collateral in connection with resale agreements and securities borrowed transactions. Under many agreements, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements or to deliver to counter parties to cover short positions. The Company continues to report assets it has pledged as collateral in secured borrowing transactions and other arrangements when the secured party cannot sell or repledge the assets and does not report assets received as collateral in secured lending transactions and other arrangements because the debtor typically has the right to redeem the collateral on short notice.

Drafts Payable

The Company maintains a group of “zero-balance” bank accounts which are included in payables to others on the Statement of Financial Condition. The balances in the “zero-balance” accounts represent outstanding checks that have not yet been presented for payment at the bank. The Company has sufficient funds on deposit to clear these checks, and these funds will be transferred to the “zero-balance” accounts upon presentment. The Company maintains one “zero-balance” account which is used as a cash management technique, permitted under Rule 15c3-3 of the Securities and Exchange Commission, to obtain federal funds for a fee, which is lower than prevailing interest rates, in amounts equivalent to amounts in customers’ segregated funds accounts with a bank ( See “Cash and Securities Segregated Under Federal Regulations” Note).

Derivative Financial Instruments

The Company does not engage in the proprietary trading of derivative securities with the exception of highly liquid treasury and municipal index futures contracts and options. These index futures contracts and options are used primarily to hedge securities positions in the Company’s inventory. Futures contracts are executed on an exchange and cash settlement is made on a daily basis for market movements. Gains and losses on these financial instruments are included as revenues from principal transactions.

Income Taxes

The Company files a consolidated federal and various combined state and local income tax returns with its Parent and separate tax returns with certain other states and localities. The income tax provision or benefit is computed on a separate return basis as a member of a controlled group and is allocated to the Company by its Parent.

Under the asset and liability method, deferred income taxes are recognized for the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable for future years to differences between financial statement basis and tax basis of existing assets and liabilities. The effect of tax rate changes on deferred taxes is recognized in the income tax provision in the period that includes the enactment date

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

Fair Value of Financial Instruments

The financial instruments of the Company are reported on the unaudited Statement of Financial Condition at market or fair value, or at carrying amounts that approximate fair values, because of the short maturity of the instruments except subordinated debt. The estimated fair value of subordinated debt at June 30, 2007, approximates its carrying value based on current rates available.

**NOTE 2. Cash and Securities Segregated Under Federal Regulations**

At June 30, 2007, the Company segregated \$5.1 million cash in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission.

**NOTE 3. Receivables From and Payables To Brokers, Dealers and Clearing Agencies**

Amounts receivable from brokers, dealers and clearing agencies consisted of the following at:

<i>(In thousands of dollars)</i>	June 30, 2007
Adjustment to record securities owned on a trade date basis, net	\$ 1,944
Securities fail-to-deliver	2,679
Commissions receivable	1,080
Receivable from clearing organizations	4,337
<b>Total</b>	<b>\$ 10,040</b>

Amounts payable to brokers, dealers and clearing agencies consisted of the following at:

<i>(In thousands of dollars)</i>	June 30, 2007
Adjustment to record securities owned on a trade date basis, net	\$ 1,964
Securities fail-to-receive	688
<b>Total</b>	<b>\$ 2,652</b>

Proprietary securities transactions are recorded on trade date, as if they had settled. The related amounts receivable and payable for unsettled securities transactions are recorded net in Receivables or Payables to brokers, dealers and clearing agencies on the unaudited Statement of Financial Condition.

**NOTE 4. Receivables from and Payables to Customers**

At June 30, 2007, receivables from customers are mainly comprised of the purchase of securities by institutional clients. Delivery of these securities is made only when the Company is in receipt of the funds from the institutional clients.

The majority of the Company's non-institutional customers securities transactions, including those of officers, directors, employees and related individuals, are cleared through a third party under a clearing agreement. Under this agreement, the clearing agent executes and settles customer securities transactions, collects margin receivables related to these transactions, monitors the credit standing and required margin

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

levels related to these customers and, pursuant to margin guidelines, requires the customer to deposit additional collateral with them or to reduce positions, if necessary. In the event the customer is unable to fulfill its contractual obligations, the clearing agent may purchase or sell the financial instrument underlying the contract, and as a result may incur a loss.

If the clearing agent incurs a loss, it has the right to pass the loss through to the Company which, as a result, exposes the Company to off-balance-sheet risk. The Company has retained the right to pursue collection or performance from customers who do not perform under their contractual obligations and monitors customer balances on a daily basis along with the credit standing of the clearing agent. As the potential amount of losses during the term of this contract has no maximum, the Company believes there is no maximum amount assignable to this indemnification. At June 30, 2007, substantially all customer obligations were fully collateralized and the Company has not recorded a liability related to the clearing agent's right to pass losses through to the Company.

**NOTE 5. Securities Owned and Sold, But Not Yet Purchased**

Securities owned and sold, but not yet purchased, consisted of the following at June 30, 2007:

<i>(In thousands of dollars)</i>		
	Owned	Sold, but not yet purchased
Marketable Securities:		
U.S. Government and federal agency obligations	\$ 359	\$ 9,888
State and municipal bonds	142,798	2,849
Corporate obligations	18,130	-
Corporate stocks	3,671	244
Not Readily Marketable Securities:		
Securities with no publicly quoted market	206	-
Securities subject to restrictions	281	-
<b>Total</b>	<b>\$ 165,445</b>	<b>\$ 12,981</b>

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions or conditions applicable to the securities or to the Company.

**NOTE 6. Short-Term Bank Loans**

Short-term bank loans are made under a variety of bank lines of credit totaling \$210 million, of which approximately \$139 million was outstanding at June 30, 2007. These bank lines of credit consist of credit lines that the Company has been advised are available solely for financing securities inventory but for which no contractual lending obligation exist and are repayable on demand. These loans are collateralized by eligible securities, including Company-owned securities, subject to certain regulatory formulas. Typically, these lines of credit allow the Company to borrow up to 85% to 90% of the market value of the collateral. These loans bear interest at variable rates based primarily on the Federal Funds interest rate. The weighted average interest rates on these loans were 5.80% at June 30, 2007. At June 30, 2007, short-term bank loans were collateralized by Company-owned securities, which are classified as securities owned, of \$159 million.

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

**NOTE 7. Payables to Others**

Amounts payable to others consisted of the following at:

<i>(In thousands of dollars)</i>	June 30, 2007
Drafts payable	\$ 6,140
Others	930
Total	\$ 7,070

The Company maintains a group of “zero-balance” bank accounts which are included in payables to others on the Statement of Financial Condition. Drafts payable represents the balances in these accounts related to outstanding checks that have not yet been presented for payment at the bank. The Company has sufficient funds on deposit to clear these checks, and these funds will be transferred to the “zero-balance” accounts upon presentment. The Company maintains one “zero-balance” account which is used as a cash management technique, permitted under Rule 15c3-3 of the Securities and Exchange Commission, to obtain federal funds for a fee, which is lower than prevailing interest rates, in amounts equivalent to amounts in customers’ segregated funds accounts with a bank ( See “Cash and Securities Segregated Under Federal Regulations” Note).

**NOTE 8. Commitments and Contingencies**

Investment Agreement: In May 2007 the Company’s Parent entered into an agreement pursuant to which an affiliate of MatlinPatterson Global Opportunities Partners II will invest \$50 million in the Parent’s common equity. Under the terms of the investment agreement, MatlinPatterson will acquire a minimum of 33,333,333 shares of common stock for \$50 million, representing an effective purchase price of \$1.50 per share. The number of shares issuable to MatlinPatterson in consideration of the \$50 million purchase price is subject to upward adjustment if the Company and its Parent incurs certain incremental employment-related obligations as a result of the DEPFA transaction not having closed prior to the closing of the MatlinPatterson transaction and if the Parent’s consolidated net tangible book value per share at closing is less than \$1.60. Upon the closing of the MatlinPatterson transaction, and after giving effect to the contemplated issuance of restricted stock units upon closing of the MatlinPatterson transaction, MatlinPatterson is currently expected to own between 70 and 75% of the outstanding common stock of the Parent (between 60 and 65% on a fully diluted basis), based on the number of shares outstanding on June 25, 2007, and after giving effect to an increase in the number of shares to be purchased by MatlinPatterson that may result from the adjustment provisions of the Investment Agreement and which may further increase the number of shares of our common stock issuable to MatlinPatterson. The MatlinPatterson transaction is expected to close in the third quarter of 2007, subject to approval from the First Albany shareholders as well as customary regulatory approvals and other closing conditions. Upon closing, MatlinPatterson will also have three representatives on a nine member First Albany Board of Directors.

Asset Purchase Agreement: On March 6, 2007 The Company and its Parent entered into an Asset Purchase Agreement for the sale of the Municipal Capital Markets Group of the Company to DEPFA for \$12 million in cash and the related purchase by DEPFA of the Company’s municipal bond inventory used in the business, which is expected to range in value at closing from between \$40-50 million. In connection with this transaction, DEPFA will assume the rights to the name "First Albany" and the Company will operate under a new name to be announced. The closing of the transaction is subject to DEPFA obtaining a US broker-dealer license, regulatory approvals and other customary conditions.

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

MatlinPatterson FA Acquisition LLC and DEPFA, entered into a voting agreement dated as of June 29, 2007 (the "DEPFA Voting Agreement"). Among other things, the DEPFA Voting Agreement provides that MatlinPatterson FA Acquisition LLC vote any shares of the Common Stock as to which MatlinPatterson FA Acquisition LLC and its affiliates are the beneficial owner or MatlinPatterson FA Acquisition LLC is otherwise able to direct the voting thereof, in favor of an amendment to the certificate of incorporation of the Issuer changing its corporate name to a name that does not include the words "First Albany" or any derivative thereof at every meeting of the Issuer at which such matter is considered and every adjournment thereof; MatlinPatterson FA Acquisition LLC agree not to solicit, encourage or recommend to other stockholders of the Issuer that they vote their shares of Common Stock or any other securities in any contrary manner, or they not vote their shares of Common Stock at all; and MatlinPatterson FA Acquisition LLC vote the Shares in favor of the approval of the Asset Purchase Agreement if submitted to a vote of the Issuer's stockholders, and against any Incompatible Transaction, as defined in the DEPFA Voting Agreement, submitted to a vote of the Issuer's stockholders. The term of the DEPFA Voting Agreement commences on June 29, 2007 and expires on the earlier of the Closing Date, as defined in the Asset Purchase Agreement; and the termination of the Asset Purchase Agreement in accordance with its terms.

**Litigation:** In the normal course of business, the Company has been named a defendant, or otherwise has possible exposure, in several claims. Certain of these are class actions, which seek unspecified damages that could be substantial. Although there can be no assurance as to the eventual outcome of litigation in which the Company has been named as a defendant or otherwise has possible exposure, the Company has provided for those actions most likely to have an adverse disposition. Although further losses are possible, the opinion of management, based upon the advice of its attorneys, is that such litigation will not, in the aggregate, have a material adverse effect on the Company's liquidity, financial position or cash flow, although it could have a material effect on quarterly or annual operating results in the period in which it is resolved.

In the ordinary course of business, the Company is called upon from time to time to answer inquiries and subpoenas on a number of different issues by self-regulatory organizations, the SEC and various state securities regulators. In recent years, there has been an increased incidence of regulatory enforcement in the United States involving organizations in the financial services industry, and the Company is no exception. We are not always aware of the subject matter of the particular inquiry or the ongoing status of a particular inquiry. As a result of some of these inquiries, the Company has been cited for technical operational deficiencies. Although there can be no assurance as to the eventual outcome of these proceedings, none of these inquiries has to date had a material effect upon the business or operations of the Company.

**Collateral:** The fair value of securities received as collateral, where the Company is permitted to sell or repledge the securities consisted of Securities purchased under agreements to resell of \$10.0 million. At June 30, 2007 a substantial portion of this collateral received by the Company had been sold or repledged.

**Other:** The Company enters into underwriting commitments to purchase securities as part of its investment banking business. Also, the Company may purchase and sell securities on a when-issued basis. As of June 30, 2007, the Company had \$42 thousand in outstanding underwriting commitments.

As of June 30, 2007, the Company has guaranteed compensation payments of \$5.4 million payable over the next four years related to various compensation arrangements with its employees.

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

**NOTE 9. Related Party Transactions**

*Securities transactions*

The Company clears securities transactions for its Parent and affiliates, and certain of the Parent's investments are managed by an affiliate. Revenues and expenses associated with these transactions are nominal.

*Advances*

The Company periodically provides advances to its Parent and affiliates or receives advances from its Parent and affiliates. Typically, advances are to fund certain operating expenses, tax payments and capital purchases. These advances are included in Receivables from and Payable to Parent and affiliates on the unaudited Statement of Financial Condition.

*Other*

To the extent that employees of the Company participate in certain stock based benefit plans sponsored by the Company's Parent, the expense associated with these plans is recognized by the Company and either a liability to the Parent or capital contribution by the Parent is recognized. Any tax benefits related to these benefit plans are also recognized by the Company.

*Dividends*

The Company did not pay any dividends during the six months ended June 30, 2007 to the Parent.

*Leases*

The Company's headquarters and sales offices, and certain office and communication equipment are leased by the Parent under noncancellable operating leases, certain of which contain escalation clauses that expire at various times through 2015. Certain leases also contain renewal options. The Company is charged by the Parent for the use of such offices.

The Parent's future minimum annual lease payments, net of sublease rental income related to offices used by the Company are as follows:

<i>(In thousands of dollars)</i>	Future Minimum Lease Payments	Sublease Rental Income	Net Lease Payments
2007 (remaining)	\$ 3,482	\$ 589	\$ 2,893
2008	6,202	971	5,231
2009	2,831	100	2,731
2010	2,518	100	2,418
2011	2,439	100	2,339
2012	2,417	100	2,317
Thereafter	4,376	91	4,285
<b>Total</b>	<b>\$ 24,265</b>	<b>\$ 2,051</b>	<b>\$ 22,214</b>

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

**NOTE 10. Subordinated Debt**

A select group of management and highly compensated employees are eligible to participate in the First Albany Companies Inc. Deferred Compensation Plan for Key Employees and the First Albany Companies Inc. 2005 Deferred Compensation Plan for Key Employees (the “Key Plans”). The employees enter into subordinated loans with the Company to provide for the deferral of compensation and employer allocations under the Key Plans. The New York Stock Exchange has approved the Company’s subordinated debt agreements related to the Key Plans. Pursuant to these approvals, these amounts are allowable in the Company’s computation of net capital. The accounts of the participants of the Key Plans are credited with earnings and/or losses based on the performance of various investment benchmarks selected by the participants. Maturities of the subordinated debt are based on the distribution election made by each participant, which may be deferred to a later date by the participant. Principal debt repayment requirements, which occur on about April 15<sup>th</sup> of each year, as of June 30, 2007, are as follows:

<i>(In thousands of dollars)</i>	
2008	\$ 1,299
2009	465
2010	287
2011	108
2012 to 2016	803
Total	\$ 2,962

**NOTE 11. Income Taxes**

Income tax expense is recorded using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, using current tax rates. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset will not be realized.

The Company must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent that the Company believes that recovery is not likely, it must establish a valuation allowance. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. The Company has recorded a full valuation allowance as a result of uncertainties related to the realization of its net deferred tax assets at June 30, 2007 and December 31, 2006. The valuation allowance was established as a result of weighing all positive and negative evidence, including the Company’s history of cumulative losses over at least the past three years and the difficulty of forecasting future taxable income. The valuation allowance reflects the conclusion of management that it is more likely than not that the benefit of the deferred tax assets will not be realized.

In the event actual results differ from these estimates or these estimates are adjusted in future periods, the valuation allowance may require adjustment which could materially impact the Company’s financial position and results of operations

On January 1, 2007 the Company adopted FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (“FIN 48”). The Company did not recognize any adjustments in the liability for unrecognized income tax benefits as a result of the implementation of FIN 48. At the adoption date of January 1, 2007 the Company had \$73 thousand of unrecognized tax benefits including related interest and penalties.

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

During the six months ended June 30, 2007, \$73 thousand of unrecognized tax benefits above including interest was recognized as a result of a lapse of federal statute of limitations related to the liability. The resulting benefit was allocated to discontinued operations.

The Company and its Parent are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. As of January 1, 2007, with few exceptions, the Company and its Parent were no longer subject to U.S. federal tax or state and local income tax examinations for years before 2003. There are no returns currently under examination.

The Company's continuing practice is to recognize interest and penalties related to income tax matters as a component of income tax

**NOTE 12. Net Capital Requirements**

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1) and the Commodity's Futures Trading Commission Regulation 1.17 which both require the maintenance of minimum net capital. The Company has elected to use the alternative method permitted by the rule, which requires it to maintain a minimum net capital amount of 2% of aggregate debit balances arising from customer transactions as defined or \$1 million, whichever is greater. As of June 30, 2007, the Company had aggregate net capital, as defined, of \$9.5 million, which equaled 783% of aggregate debit balances and \$8.5 million in excess of required minimum net capital.

**NOTE 13. Trading Activities**

As part of its trading activities, the Company provides to institutional clients brokerage and underwriting services. While trading activities are primarily generated by client order flow, the Company also takes selective proprietary positions based on expectations of future market movements and conditions and to facilitate institutional client transactions. Interest revenue and expense are integral components of trading activities. In assessing the profitability of trading activities, the Company views net interest and principal transactions revenues in the aggregate. Certain trading activities expose the Company to market and credit risks.

Market Risk: Market risk is the potential change in an instrument's value caused by fluctuations in interest rates, equity prices, or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

As of June 30, 2007, the Company had approximately \$0.5 million of securities owned which were considered non-investment grade. Non-investment grade securities are defined as debt and preferred equity securities rated as BB+ or lower or equivalent ratings by recognized credit rating agencies. These securities have different risks than investment grade rated investments because the companies are typically more highly leveraged and therefore more sensitive to adverse economic conditions and the securities may be more thinly traded or not traded at all.

The Company seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate interest rate, price, and spread movements of trading inventories and hedging activities. The Company uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by the Company.

Interest Rate Risk: Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The decision to manage interest rate risk using futures

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

or options as opposed to buying or selling short U.S. Treasury or other securities depends on current market conditions and funding considerations.

Equity Price Risk: Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statement at June 30, 2007 at market values of the related securities and will incur a loss if the market value of the securities increases subsequent to June 30, 2007.

Credit Risk: The Company is exposed to risk of loss if an issuer or counterparty fails to perform its obligations under contractual terms (“default risk”). Both cash instruments and derivatives expose the Company to default risk. The Company has established policies and procedures for mitigating credit risks on principal transactions, including reviewing and establishing limits for credit exposure, requiring collateral to be pledged, and continually assessing the creditworthiness of counter parties.

In the normal course of business, the Company executes and settles various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by the Company. These activities may expose the Company to default risk arising from the potential that customers or counter parties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counter parties. The Company seeks to control credit risk by following an established credit approval process, monitoring credit limits, and requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were acquired, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, the Company may purchase the underlying security in the market and seek reimbursement for losses from the counter party.

Concentrations of Credit Risk: The Company’s exposure to credit risk associated with its trading and other activities is measured on an individual counter party basis, as well as by groups of counter parties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. The Company’s most significant industry credit connection is with financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies and investment companies. This concentration arises in the normal course of the Company’s brokerage, trading, financing, and underwriting activities. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counter party and market conditions. Also, the Company purchases securities and may have significant positions in its inventory subject to market and credit risk. Should the Company find it necessary to sell such a security, it may not be able to realize the full carrying value of the security due to the significance of the position sold. In order to control these risks, securities positions are monitored on at least a daily basis along with hedging strategies that are employed by the Company.

**NOTE 14. Derivative Financial Instruments**

The Company does not engage in the proprietary trading of derivative securities with the exception of highly liquid treasury and municipal index futures contracts and options. These index futures contracts and options are used to hedge securities positions in the Company’s inventory.

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

The contractual or notional amounts related to the index futures contracts were as follows at:

<i>(In thousands of dollars)</i>	June 30, 2007
Average Notional or Contract Market Value	\$ (74,772)
Period End Notional or Contract Market Value	\$ (61,702)

The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. The amounts at risk are generally limited to the unrealized market valuation gains on the instruments and will vary based on changes in market value. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Open equity in the futures contracts in the amount of \$0.4 million at June 30, 2007 is recorded as other assets. The settlements of the aforementioned transactions are not expected to have a material adverse effect on the financial condition of the Company.

**NOTE 15. Discontinued Operations**

On June 22, 2007, the Company closed its Fixed Income Middle Markets group following the departure of the employees of the group. As a result, the Company determined to sell the securities inventory positions managed by the Group at market values through dealer-to-dealer trades to an Albany based institutional equity research firm. The trades were made on June 21, 2007, in the aggregate amount of approximately \$34 million, the proceeds were used to repay short term bank loans used to finance this and other firm inventory.

The Company and its parent announced on March 6, 2007, the agreement for the sale of the Municipal Capital Markets Group to DEPFA BANK plc for \$12 million in cash, subject to certain adjustments as outlined in the agreement, and the related purchase by DEPFA of First Albany's municipal bond inventory used in the business, which is expected to range in value at closing from between \$40-\$50 million. In connection with this transaction, DEPFA will assume the rights to the name "First Albany" and the Company will operate under a new name. The transaction is currently expected to close in the third quarter of 2007.

**NOTE 16. Subsequent Events**

On July 25, 2007, the Company and its Parent and DEPFA entered into agreements pursuant to which DEPFA waived certain provisions of the Asset Purchase Agreement at the request of the Company, and the Company and its Parent waived certain provisions of the Asset Purchase Agreement at the request of DEPFA.

**DEPFA Waiver**

On July 25, 2007, the Company and its Parent entered into a Notice and Waiver Letter Agreement with DEPFA (the "DEPFA Waiver"), pursuant to which DEPFA agreed to waive the condition in the Asset Purchase Agreement requiring that the Parent include, in connection with the sale of the name "First Albany", an amendment to its certificate of incorporation changing its corporate name to a name that does not include the words "First Albany" or "FA" or any derivatives thereof (the "Charter Amendment") as a management proposal to be voted on by the shareholders at its next annual meeting, to be held no later than June 30, 2007. This waiver allows the Parent to hold its annual meeting of shareholders after June 30, 2007, without including the Charter Amendment, and still comply with the terms of the Asset Purchase Agreement. The Charter Amendment is expected to be voted on by the Parent's shareholders at a special meeting following the annual meeting.

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

In addition, the DEPFA Waiver provides that on the tenth business day following the satisfaction or waiver of the closing conditions in the Asset Purchase Agreement, the Parent shall cause its subsidiaries to change their corporate names to a name that does not include the words “First Albany” or “FA” or any derivative thereof and the Parent shall cause its business to be operated under a trade name that does not include the name “First Albany” or “FA” or any derivatives thereof.

Pursuant to the DEPFA Waiver, DEPFA also waived the provision in the Asset Purchase Agreement requiring the Company to maintain Tentative Net Capital (as defined in the Asset Purchase Agreement) of not less than \$18,000,000, in exchange for the Company providing DEPFA daily copies of certain of its capital reports until the closing of the DEPFA Transaction. This allows the company to maintain Tentative Net Capital of less than \$18,000,000 without breaching the Asset Purchase Agreement.

*License Agreement*

The DEPFA Waiver provides that DEPFA and the Parent shall entered into a license agreement (the “License Agreement”) to allow the parent to operate under a trade name but continue to use the name “First Albany” in certain instances in the event the DEPFA Transaction closes before the Charter Amendment is approved at the special meeting or in the event the Charter Amendment is not approved at the special meeting. In such event, DEPFA will grant the Parent a non-exclusive, royalty-free, non-transferable, non-sublicensable license of the common law trademark “First Albany” to allow the Parent to continue to use the name “First Albany” in any context where use of the Parent’s official corporate name is required by applicable law and where the Parent must use the name in order to identify itself in the ordinary conduct of its business. If the Charter Amendment is not effected within sixty days following the closing of the DEPFA Transaction, then the Parent will pay DEPFA an annual royalty fee of \$50,000 until the License Agreement terminates in accordance with its terms.

*Voting Agreement*

As a condition to the DEPFA Waiver, DEPFA and MatlinPatterson FA Acquisition LLC, a Delaware limited liability company (“MatlinPatterson”) entered into a voting agreement (the “Voting Agreement”) dated as of June 29, 2007. As previously announced, MatlinPatterson entered into an investment agreement with the Parent on May 14, 2007 pursuant to which MatlinPatterson agreed to purchase 33,333,333 newly-issued shares of the Parent’s common stock in a private placement for \$50 million (the “MatlinPatterson Transaction”). Pursuant to the Voting Agreement, MatlinPatterson agreed to vote its shares of the Parent’s common stock in favor of the Charter Amendment and not to solicit, encourage or recommend to other shareholders of the Parent that they vote their shares of common stock in any contrary manner or they not vote their shares of common stock at all.

The DEPFA Waiver does not constitute a waiver by DEPFA of any other provisions of the Asset Purchase Agreement.

**First Albany Waiver**

On July 25, 2007, the Company and its Parent entered into a Notice and Waiver Letter Agreement with DEPFA (the “First Albany Waiver”), pursuant to which the Company and its Parent agreed to waive the provision in Section 4.1 of the Asset Purchase Agreement requiring the closing to be consummated on the third business day following satisfaction or waiver of the closing conditions in the Asset Purchase Agreement and the Company and its Parent agreed that the closing shall be consummated on the tenth business day following satisfaction or waiver of such conditions.

The Company and its Parent also agreed to waive the provision in the Asset Purchase Agreement requiring DEPFA to offer to interview each employee in good standing in the Company’s Municipal Capital Markets

**NOTES TO THE FINANCIAL STATEMENT (continued)**  
**(Unaudited)**

Division with respect to a potential offer of employment, subject to DEPFA providing to each employee a standard form of job application and job description template to be returned to DEPFA. The First Albany Waiver also provides that DEPFA is permitted to assign the Asset Purchase Agreement to a wholly-owned subsidiary and change the name of such subsidiary to include the words "First Albany" effective at the close of business on the business day prior to closing and that DEPFA may communicate the scheduled date of the closing to third parties subject to certain conditions.

The First Albany Waiver does not constitute a waiver by the Company or and its Parent of any other provisions of the Asset Purchase Agreement.

**Term Loan and Capital Leases Waiver**

On August 6, 2007, the Parent entered into an Agreement with the lender to amend the their obligations under the Loan Agreement (see "Short Term Bank Loans and Notes Payable: note) and Lease Obligations (see "Obligations Under Capitalized Leases: note) with respect to the Depfa and Matlin Patterson transactions (collectively "Transactions"). The Agreement states that the lender and the Parent acknowledge that they do not agree on the interpretation and /or enforcement of each of the parties respective rights under the Loan Agreement and/or the Lease, therefore, the parties acknowledge and agree that neither the lender nor the Parent has waived or is waiving any of its rights under the Loan Agreement and or the Lease except for the waivers and or modifications set forth below. The lender agrees to waive all Events of Default, if any, arising from the Depfa and Matlin Patterson transactions, and the Parent will take commercially reasonable efforts but not guarantee that the Matlin Patterson transaction will close by November 30, 2007. The Parent has agreed that upon the closing of both Transactions, the Parent will repay the outstanding loan with unpaid accrued interest and all other obligations outstanding under the Loan Agreement and all liabilities under the Lease. If the Depfa transaction closes prior to the Matlin Patterson transaction, the Parent has agreed to prepay the aggregate amounts of the Loan Agreement Obligations and Lease Obligations equal to 75 percent of the net proceeds received by First Albany Companies Inc. and upon closing of the Matlin Patterson transaction will repay in full the remaining amounts from the Loan Agreement Obligations and Lease Obligations. If the Depfa transaction does not occur by September 30, 2007 or a Depfa closing termination event occurs, the Parent will take commercially reasonable efforts to obtain a commitment from a third party lender on or before October 31, 2007 in order to remit to the lender amounts necessary to pay in full the Loan Agreement Obligations and Lease Obligations. If the Parent cannot obtain a refinancing commitment by October 31, 2007, the Parent will pay on the last day of each and every interest period after October 31, 2007, an amount equal to the interest at the interest rate on the unpaid principal balance and a principal payment of \$500 thousand (current principal payment is \$238 thousand) of the Loan Agreement Obligations. With respect to the Lease, the Parent shall continue to perform thereunder in accordance with its terms. Commencing from the date of the Agreement, if (i) First Albany Companies Inc. complies in all material respects with the terms of the Agreement, (ii) no event of default shall occur under the Loan Agreement or Lease Obligations as modified by the Agreement and (iii) First Albany Companies Inc. shall use commercially reasonable efforts to consummate the MatlinPatterson transaction by November 30, 2007, then the lender has agreed to waive any and all events of default arising from, in connection with, or as a result of, the failure of the Parent to comply with all financial covenants under Section 5.04 of the Loan Agreement.

**Net Capital Requirements**

As of July 31, 2007, the Company had net capital of \$8.0 million, which was 11.02% of aggregate debit balances and \$6.5 million in excess of required minimum net capital.