

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

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

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):

No fee required.

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:

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(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.

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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)