

FIRST ALBANY CAPITAL INC.
(A wholly owned subsidiary of First Albany Companies Inc.)
(Unaudited)
STATEMENT OF FINANCIAL CONDITION
June 30, 2005

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(Unaudited)

(In thousands of dollars)

ASSETS

Cash	\$	571
Cash and securities segregated for regulatory purposes		8,300
Securities purchased under agreements to resell		48,889
Receivables from:		
Brokers, dealers and clearing agencies		18,443
Customers		4,092
Parent and affiliates		2,796
Others		5,505
Securities owned, at market value		204,721
Exchange memberships, at cost; market value: \$3		1
Deferred tax asset, net		14,114
Other assets		3,839
Total assets	\$	311,271

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities

Short-term bank loans	\$	149,150
Payables to:		
Brokers, dealers and clearing agencies		13,744
Customers		9,149
Affiliates		126
Others		12,776
Securities sold, but not yet purchased, at market value		48,572
Accounts payable		3,302
Accrued compensation		10,058
Accrued expenses		3,904
Total liabilities		250,781

COMMITMENTS AND CONTINGENCIES

Subordinated debt		5,307
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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		20,429
Retained earnings		34,754
Total stockholder's equity		55,183
Total liabilities and stockholder's equity	\$	311,271

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

NOTES TO FINANCIAL STATEMENT
(Unaudited)

NOTE 1.

Significant Accounting Policies

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, the National Futures Association 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.

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 statements. 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, 2005, the Company had entered into a number of resale agreements with Mizuho Securities USA and Spear Leeds & Kellogg valued at \$49.1 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 Spear Leeds & Kellogg. These resale agreements may be cancelled or renewed on a daily basis by either the Company or the counter party.

Securities-Lending Activities

Securities borrowed and securities loaned transactions are generally reported as collateralized financings and are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash, or other collateral with the lender. With respect to securities loaned transactions, the Company receives collateral in the form of cash or other collateral in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Exchange Memberships

Exchange memberships are recorded at cost or, if other than a temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment. There is no allowance recorded for impairment.

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, enter into securities lending transactions or 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.

Fair Value of Financial Instruments

The financial instruments of the Company are reported on the 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, 2005, approximates its carrying value based on current rates available.

Drafts Payable

Drafts payable represent amounts drawn by the Company against a bank and sight overdrafts under a sweep agreement with a bank.

NOTE 2. Cash and Securities Segregated For Regulatory Purposes

At June 30, 2005, the Company segregated \$8,300,000 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, 2005
Securities borrowed	\$ 265
Securities fail-to-deliver	10,104
Commissions receivable	2,105
Deposits with clearing organizations	5,969
Total	\$ 18,443

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

<i>(In thousands of dollars)</i>	June 30, 2005
Securities fail-to-receive	\$ 5,697
Adjustment to record securities owned on a trade date basis, net	8,047
Total	\$ 13,744

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 Statement of Financial Condition.

NOTE 4. Receivables from Customers

At June 30, 2005, 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 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 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 right. At June 30, 2005, 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, 2005:

<i>(In thousands of dollars)</i>		
	Owned	Sold, but not yet purchased
Marketable Securities:		
U.S. Government and federal agency obligations	\$ 7,716	\$ 47,800
State and municipal bonds	142,767	1
Corporate obligations	28,114	650
Corporate stocks	22,390	121
Options	80	
Not Readily Marketable Securities:		
Securities with no publicly quoted market	129	-
Securities subject to restrictions	3,525	-
Total	\$ 204,721	\$ 48,572

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 lines of credit totaling at least \$300,000,000 of which \$149,150,000 is outstanding at June 30, 2005. These loans are available to finance securities eligible for collateralization, including Company owned securities, subject to certain regulatory formulas. These loans bear interest at variable rates based primarily on the Federal Funds interest rate. The weighted average interest rates on these loans are 3.88% at June 30, 2005. At June 30, 2005, short-term bank loans are collateralized by Company owned securities, which are classified as Securities Owned and Receivables from Brokers, Dealers and Clearing Agencies, of \$161,822,523.

NOTE 7. Payables To Others

Amounts payable to others consisted of the following at:

<i>(In thousands of dollars)</i>	June 30, 2005	
Drafts payable	\$	10,624
Others		2,152
Total	\$	12,776

Drafts payable represent amounts drawn by the Company against bank overdrafts under a sweep agreement with a bank.

NOTE 8. Commitments and Contingencies

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, which 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 of adverse dispositions. 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 or financial position, although it could have a material effect on quarterly or annual operating results in the period in which it is resolved.

In connection with the termination of Arthur Murphy's employment by First Albany Capital, Mr. Murphy filed an arbitration claim against First Albany Capital, Alan Goldberg and George McNamee with the National Association of Securities Dealers on June 24, 2005. The claim alleges damages in the amount of \$8 million based on his assertions that he was fraudulently induced to remain in the employ of First Albany Capital. The Company believes the claim to be wholly without merit and intends to vigorously defend such claim.

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, enter into securities lending transactions or deliver to counter parties to cover short positions. The Company continues to report assets it has pledged as collateral in secured borrowing and other arrangements when the secured party cannot sell or repledge the assets and does not report assets received as collateral in secured lending and other arrangements because the debtor typically has the right to redeem the collateral on short notice.

The fair value of securities received as collateral, where the Company is permitted to sell or repledge the securities consisted of the following as of:

<i>(In thousands of dollars)</i>	June 30, 2005	
Securities purchased under agreements to resell	\$	49,118
Securities borrowed		260
Total	\$	49,378

The Company has not sold or repledged any securities received as collateral as of June 30, 2005.

Letters of Credit: The Company is contingently liable under bank stand-by letter of credit agreements, executed in connection with office lease activities, totaling \$2.1 million at June 30, 2005. The letter of credit agreements were collateralized by firm securities with a market value of \$2.8 million at June 30, 2005.

Other: In February of 2005, the Company was informed that the general partner of Ardent Research Partners LP, an investment fund in which the Company is a limited partner, was the subject of an SEC

investigation. The complaint by the SEC alleges the general partner, Northshore Asset Management LLC, misappropriated fund assets in making illiquid, and potentially improper, investments. As of June 30, 2005 the value of the Company's investment in the limited partnership is approximately \$568,000 and is classified as securities owned on the Condensed Consolidated Statement of Financial Condition. The Company has not recognized any adjustment to the carrying value of this investment because at this time it is unable to estimate what the future loss, if any, might be.

The Company enters into underwriting commitments to purchase securities as part of its investment banking business and may also purchase or sell securities on a when-issued basis. As of June 30, 2005, the Company had no outstanding underwriting commitments and had purchased no securities on a when-issued basis.

NOTE 9. Related Party Transactions

Securities transactions

The Company clears security transactions for its Parent and affiliates, and certain of the Company'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 statements of financial condition.

During 2005, the Parent sold certain publicly traded investments, the proceeds of which were used to contribute additional capital to the Company. The parent also used other cash to contribute capital. The total amount of capital contributions made to the Company was \$3,927,000 for the six months ended June 30, 2005.

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.

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 which expire at various times through 2014. The Company is charged by the Parent for the use of such offices.

Dividends

The Company paid two dividends during the six months ended June 30, 2005 totaling \$3,258,000. All dividends were paid to the Parent.

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 (the "Plan"). The employees enter into

subordinate loans with the Company to provide for the deferral of compensation and employer allocations under the Plan. The New York Stock Exchange has approved the Company's subordinated debt agreements related to the Plan. Pursuant to these approvals, these amounts are allowable in the Company's computation of net capital. The accounts of the participants of the Plan 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 are as follows:

<i>(In thousands of dollars)</i>	June 30, 2005
2006	\$ 1,288
2007	1,462
2008	1,299
2009	141
2010	266
Thereafter	851
Total	\$ 5,307

NOTE 11. Income Taxes

The Company files with its Parent a consolidated federal and various combined state and local income tax returns. Separate tax returns are filed with 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.

The temporary differences that give rise to significant portions of deferred tax assets and liabilities consisted of the following at:

<i>(In thousands of dollars)</i>	June 30, 2005
Net operating loss carryforward	\$ 5,008
Investments	779
Deferred compensation	7,890
Other	437
Total deferred tax assets	\$ 14,114

The Company has deferred tax assets, net, of \$14.1 million as of June 30, 2005 reflecting net operating losses and other deductible temporary differences, which reduce taxable income in future years. We are required to assess the realization of our deferred tax assets. Significant changes in circumstances may require adjustments in future periods. Although realization is not assured, we have concluded that it is more likely than not that the remaining net deferred tax assets will be realized principally based upon forecasted taxable income generally within net operating loss carryforward periods giving consideration to our restructuring program. The amount of the net deferred tax assets actually realized could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income. If our forecast is determined to no longer be reliable due to uncertain market conditions or improvement in our results of operations does not materialize, our long-term forecast will require reassessment. As a result, we may need to establish valuation allowances for all or a portion of the net deferred tax assets.

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 that the Company maintain minimum net capital equal to 2% of aggregate debit balances arising from customer transactions, as defined, or \$1 million, whichever is greater. At June 30, 2005, the Company had net capital of \$15.5 million, which was 153.02% of aggregate debit balances and \$14.5 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, 2005, the Company had approximately \$7.6 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 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 statements at June 30, 2005 at market values of the related securities and will incur a loss if the market value of the securities increases subsequent to June 30, 2005.

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 collateral where it deems appropriate.

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.

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

<i>(In thousands of dollars)</i>	June 30, 2005
Average Notional or Contract Market Value	\$ (53,900)
Period End Notional or Contract Market Value	\$ (33,075)

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 \$717,000 at June 30, 2005, respectively, are 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.