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# 2004

ANNUAL REPORT

## Financial Highlights\_2004

### FIRST ALBANY COMPANIES INC.

(In thousands of dollars except per share data)  
For the years ended

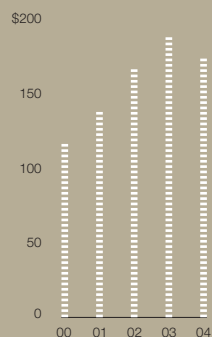
	December 31 2004	December 31 2003	December 31 2002	December 31 2001	December 31 2000
<b>Operating Results</b>					
Net Revenues	\$ 175,674	\$ 189,941	\$ 166,341	\$ 137,542	\$ 118,482
Operating Revenues	171,442	186,587	161,146	133,813	111,757
<b>Net Income*</b>					
Brokerage Operations	\$ (3,305)	\$ 4,336	\$ 4,103	\$ (1,812)	\$ 2,514
Parent & Affiliates **	1,421	7,347	(1,217)	(25)	(5,627)
Total Continuing Operations	(1,884)	11,683	2,886	(1,837)	(3,113)
Income (loss) from discontinued operations	(1,703)	(1,122)	351	(1,155)	602
Gain on sale of discontinued operations					22,799
Income (loss) before cumulative effect	(3,587)	10,561	3,237	(2,992)	20,288
Cumulative effect of accounting change, net of taxes			(2,655)		
Net income (loss)	\$ (3,587)	\$ 10,561	\$ 582	\$ (2,992)	\$ 20,288
<b>Financial Condition</b>					
Total assets	\$ 410,113	\$ 393,142	\$ 440,172	\$ 1,109,084	\$ 646,125
Stockholders' equity	86,085	83,434	66,641	62,875	66,106
<b>Per Common Share***</b>					
Diluted earnings per share *					
Continuing operations	\$ (0.15)	\$ 0.99	\$ 0.30	\$ (0.20)	\$ (0.32)
Discontinued operations	(0.14)	(0.10)	0.04	(0.12)	0.06
Gain on sale of discontinued operations					2.30
Cumulative effect of accounting change			(0.28)		
Net income per share	\$ (0.29)	\$ 0.89	\$ 0.06	\$ (0.32)	\$ 2.04
Cash dividend	0.20	0.20	0.20	0.20	0.20
Book value	6.45	7.64	6.62	6.69	7.17

\* In 2004, the Company committed to a plan to dispose of its asset management business other than its institutional convertible bond arbitrage advisory group. Accordingly, the Company will account for the operating results of its asset management business other than its institutional convertible bond arbitrage advisory group as discontinued operations on a net income basis. Additionally, in 2000 the Company sold its Private Client Group and continues to report prior years operating results and the receipt and settlement of pending obligations as discontinued operations on a net income basis.

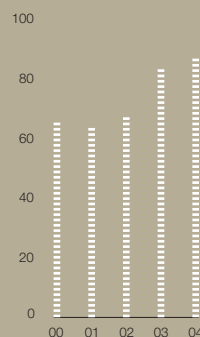
\*\* Including investments and the Institutional Convertible Bond Arbitrage Advisory Group.

\*\*\* All per share figures have been restated for all common stock dividends issued.

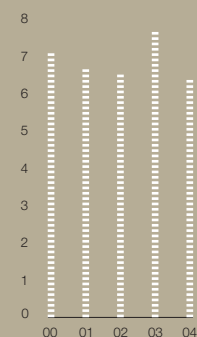
**Net Revenues**  
(in millions of dollars)



**Stockholders' Equity**  
(in millions of dollars)



**Book Value per Share**  
(dollars)





TO OUR SHAREHOLDERS

GEORGE C. MCNAMEE\_Chairman  
ALAN GOLDBERG\_President

While 2004 was a challenging year, we met the challenges and further strengthened our equity business, which continued to grow. As part of our strategic plan to focus on this core business, we downsized where necessary, and our entire organization supported the often difficult actions we took. We want to thank all of our employees for their commitment and hard work in support of our goal: to make First Albany one of America's leading independent institutional investment banks.

## **Overview** \_

During 2004, we built on progress made during the prior two years and further strengthened our Equities division. Equities net revenues were up 45 percent and Investment Banking net revenues were up 140 percent over 2003, a direct result of our efforts to grow that business.

We saw a decline in fixed income revenues throughout 2004 but took steps to reverse the trend, restructuring in that area to improve performance and expanding our product line through our acquisition of a leading mortgage-backed securities firm.

We exited the asset management business in order to better support our core business lines and in February 2005, sold our asset management group to Johnson Illington, a partnership led by our longtime Chief Investment Officer, Hugh Johnson, who became Chairman of Johnson Illington and who will also continue with First Albany in a consulting capacity.

We reduced our investment holdings to further clarify our financial reporting while providing shareholder value: we distributed our position in Plug Power to First Albany shareholders, and divested our position in The Meta Group when it was acquired by Gartner.

And, finally, we implemented over \$9 million in cost-saving initiatives across the Company, which should positively impact operating results going forward.

For the twelve months ended December 31, 2004, our consolidated net revenues were \$175.7 million, down eight percent compared to 2003. Our 2004 income from continuing operations was a loss of \$1.9 million compared to net income of \$11.7 million in 2003, primarily due to a \$13.5 million decline in investment income and a charge totaling \$4.5 million related mainly to restructuring and costs related to documenting compliance with Section 404 of Sarbanes-Oxley. While the overall 2004 financial performance of the firm was not up to our expectations, we did make progress in many areas of our business.

## **Division Results** \_

### **EQUITIES**

For 2004, Equities net revenues were \$76.0 million, a 45 percent increase over 2003, also a strong year for the division. This increase, for the second year in a row, is the direct results of our efforts to strengthen our management, our teams and our market share in targeted areas of the Equities business.

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“Equities net revenues were up 45 percent and Investment Banking net revenues were up 140 percent over 2003, a direct result of our efforts to grow that business.”

#### SALES & TRADING

Equities sales and trading net revenue was \$49.8 million for 2004, an increase of 21 percent over 2003, which was also a very strong year. During 2004, NASDAQ net revenue increased 21 percent, listed net revenue was up 22 percent, and our small and mid-cap focus resulted in a significantly higher market share, moving us up to 14th in the NASDAQ Autex Institutional Rankings for 2004.

The two year increase in Sales & Trading grows out of internal efforts to build our sales, trading and research teams and external business development efforts in the underserved but attractive middle market. Backed by our Research Group, we aggressively pursued strong investment opportunities for our clients among leading middle-market companies in the energy, healthcare and technology sectors. During 2004, our NASDAQ trading team ranked among the top five market makers in more than 190 stocks and among the top 10 in more than 320 stocks.

#### INVESTMENT BANKING

Investment Banking had an outstanding performance throughout 2004, with net revenues up \$15.2 million or 140 percent over 2003 and growing deal volumes. The team closed 15 deals in the fourth quarter alone and 45 transactions during the year, compared to 27 closed during 2003. The team lead-managed four deals including NMS Communications, MapInfo, Gasco Energy and PainCARE. It also co-managed seven initial public offerings. This activity moved our Investment Banking division up significantly in the equity underwriting league tables.

Our Advisory Group practice grew as well during 2004. In our growing energy practice, we acted as exclusive sales advisor to Inland Resources in its acquisition by Newfield Exploration, the largest M&A assignment in First Albany's history. We also had 17 other advisory assignments which included both M&A transactions and private placements.

The strong performance of Investment Banking — driven by continued efforts in healthcare and the expansion of our practice in the energy sector — is the direct result of our efforts to grow this business. Over the last two years, we strengthened our management team and recruited productive professionals who appreciate the advantages of working in an independent investment banking boutique. This restructuring led to the 2003-2004 revenue ramp up and we began 2005 with one of the strongest deal pipelines in the history of First Albany.

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“In public finance, we lead-managed the largest public issue in the company’s history, moved up to within the top 20 senior managers of long-term competitively bid financings, and strengthened our presence in the transportation, healthcare, education, water and airport sectors.”

We anticipate increasing top and bottom line contributions from our Investment Banking team over the coming year, and will continue to provide the support necessary to maintain momentum in the Equities division.

#### FIXED INCOME

Record low volatility across the fixed income markets contributed to a difficult environment and led to a decline in our fixed income revenues throughout 2004.

Fixed Income net revenue was down 21 percent, sales and trading net revenue was down 22 percent, and Public Finance revenue declined 23 percent over 2003.

However, we mitigated these declines with the addition of a high-yield team and our May 2004 acquisition of Descap Securities, Inc., a New York-based broker dealer and investment bank specializing in mortgage-backed securities. Both additions were part of our plan to broaden the revenue base and improve margins in our Fixed Income businesses, and we expect these two groups to be meaningful contributors to our business in 2005.

Looking at a breakdown by product area within Fixed Income, for 2004 we saw a 49 percent decline in net revenue within **High Grade Corporate Bonds**, compared with 2003, due primarily to the effects of low volatility and relatively stable interest rates which depressed secondary trading activity.

2004 net revenue for **High Yield Corporate Bonds** remained unchanged from 2003. However, with the opening of a High Yield office in Greenwich, Connecticut late in 2004 and an ongoing commitment to recruitment and expansion in this area, we anticipate improved performance from High Yield in 2005.

During 2004, the net revenue for **Mortgage-Backed Securities** increased 104 percent compared to 2003, primarily from our May 2004 acquisition of Descap Securities, Inc. For 2005, we see additional opportunities for revenue and margin growth, with expansion into secondary products and origination.

The net revenue for **Municipal Sales & Trading** was down 20 percent in 2004 compared to 2003, and **Public Finance** net revenue for 2004 decreased 23 percent compared to 2003 primarily as a result of a drop in municipal origination. However, we lead-managed a \$500 million tax-exempt issue in California, the largest in the Company’s history. We moved up to within the top 20 senior managers of long-term competitively bid financings. We strengthened our presence in the transportation, healthcare, education, water and airport

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“In Fixed Income, we strengthened our management team and broadened our revenue base with the addition of a high yield team and a mortgage-backed securities subsidiary.”

sectors. In 2004, we deepened our penetration into the Texas market as we opened our second office in this state. Since the Texas effort began in May 2003, we have served as senior or co-manager on 36 negotiated underwritings.

There will be continuing challenges in the fixed income environment during 2005. However, we believe that our new management teams will reverse the decline in our Fixed Income businesses, and we expect modest growth, particularly in high yield and mortgage-backed securities.

#### FA TECHNOLOGY VENTURES

During 2004, FA Technology Ventures invested \$7.6 million in four new portfolio companies: CreditSights, Autotask, iRobot and BinOptics.

CreditSights, Inc., based in New York City, is an independent research firm providing capital market research to institutional investors. Autotask, Inc. — based in Rensselaer, NY — develops, markets and hosts professional services automation software targeted to small to medium-sized information technology (IT) service businesses. iRobot, based in Burlington, MA, designs and manufactures robots for the consumer and military markets. BinOptics, headquartered in Ithaca, NY uses technology developed at Cornell University to fabricate next generation optoelectronic chips and subassemblies.

We also funded \$2.1 million of commitments from prior years, made \$4.3 million of planned expansion investments in existing portfolio companies including Softricity, which offers application management software, and ISOPur Fluid Technologies, which makes technology for fluid filtration, and took a write-off of our investment in Seranoa Networks in the fourth quarter of 2004.

Other portfolio companies include Concentrix, based in Pittsford, NY, which provides a full range of out-sourced customer relationship management services; Adapt Media, based in New York, NY which enables dynamic outdoor advertising targeted by time and geography on taxitops; and IPMobileNet which markets IP-based mobile wireless communications systems for public safety and other private radio markets.

During 2005, we plan to invest in targeted companies offering technological breakthroughs and innovative business models, and to add additional value to our 10 portfolio companies, helping to position them for growth and the potential for return of capital to the fund, which is now 56 percent invested or reserved.

“We remain committed to providing value for our clients and shareholders and to our goal of making First Albany one of the leading independent, institutional investment banks in America.”

### **First Albany's Future**

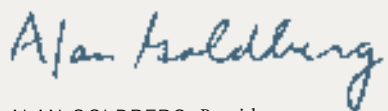
Over the past several years, we have aggressively changed our business as part of a plan to focus on building our strength in institutional investment banking. We exited several business lines and committed resources to our core businesses, particularly in Equities where we have now seen substantial growth that we expect to continue in 2005. Going forward, we will continue to strengthen our capabilities in targeted areas by recruiting and retaining talented professionals and pursuing acquisitions that match our mission.

During 2004 we instituted equity-based incentive plans and implemented sweeping company-wide cost reductions, which should positively impact 2005 operating results. In 2005, we will continue to focus on cost containment in order to improve margins and profitability, provide greater flexibility in changing market conditions, and increase the leverage to invest in our business as opportunities arise.

We restructured our business units and management teams during 2004 — to improve performance and profitability — and in 2005 we expect these teams will produce modest overall revenue growth for the year, improved results in fixed income and continued strength in investment banking.

We remain committed to our plan of increased revenue, margins and profitability. We remain committed to providing value for our clients and shareholders. And we remain committed to our goal of making First Albany one of the leading independent, institutional investment banks in America.

Thank you for your support.



ALAN GOLDBERG\_President



GEORGE C. MCNAMEE\_Chairman

**Directors**

CARL P. CARLUCCI, PH.D  
Director

WALTER FIEDEROWICZ  
Director

ALAN P. GOLDBERG  
President/Director

NICHOLAS A. GRAVANTE, JR.  
Director

HUGH A. JOHNSON, JR.  
Director

DALE KUTNICK  
Director

GEORGE C. MCNAMEE  
Chairman/Director

ARTHUR T. MURPHY, JR.  
Director

SHANNON P. O'BRIEN  
Director

ARTHUR J. ROTH  
Director

**Offices**

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One Penn Plaza  
212.273.7100

PITTSBURGH  
724.933.0888

RICHMOND  
804.934.0061

SAN FRANCISCO  
415.262.5000

**First Albany Companies Inc. is the parent company of the following significant subsidiaries:**

Founded in 1953, *First Albany Capital Inc.* is a research-driven investment banking and capital markets boutique, providing underwriting of corporate and municipal securities; and market-making and trading of corporate, government, and municipal securities, as well as other financial and advisory services. First Albany Capital is a member of the New York Stock Exchange, American Stock Exchange, Boston Stock Exchange, National Association of Securities Dealers ("NASD"), and is a registered broker-dealer with the Securities and Exchange Commission ("SEC").

*Descap Securities, Inc.*, a New York-based broker dealer and investment bank specializing in mortgage-backed securities.

*FA Technology Ventures Corporation* manages private equity funds, providing management and guidance to emerging growth companies.

*FA Asset Management Inc.*, provides absolute return and enhanced indexing strategies through the use of convertible arbitrage to institutional investors.

**Annual Meeting**

The First Albany Companies Inc. Annual Meeting will be held at 10:00 a.m. on Thursday, April 28, 2005 at the headquarters of the Company, 677 Broadway, Albany, New York.

**Corporate Headquarters**

First Albany Companies Inc.  
677 Broadway  
Albany, NY 12207-2990  
518.447.8500

**Investor Inquiries**

The Company's Annual Report on Form 10-K for Fiscal Year 2004, filed no later than March 16, 2005 with the Securities and Exchange Commission, is available upon request without charge by writing to the Corporate Headquarters. In addition, the Company's Quarterly and Annual Reports may be accessed through its website at [www.firstalbany.com](http://www.firstalbany.com).

**Auditors**

PricewaterhouseCoopers LLP  
Albany, NY

**Transfer Agent**

American Stock Transfer  
Brooklyn, NY

**Listing**

Shares of First Albany Companies Inc. are traded on the NASDAQ National Market system under the symbol FACT. As of February 24, 2005 there were approximately 2,355 stockholders of record.

**Account Protection**

Each account is protected through the Securities Investor Protection Corporation (SIPC) and customers are afforded the benefits under the Securities Investor protection Act of 1970. SIPC provides protection up to a \$500,000 limit, of which \$100,000 may be for cash balances. In addition, supplemental account protection has been arranged with our clearing firm, First Clearing LLC.



**First Albany Companies Inc.**  
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