FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

FIRST ALBANY COMPANIES INC
CIK:**782842**| IRS No.: **222655804** | State of Incorp.:**NY** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-14140** | Film No.: **99574678**
SIC: **6211** Security brokers, dealers & flotation companies

Mailing Address
41 STATE ST
ALBANY NY 12207

Business Address
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1998 Commission file number 014140

F I R S T A L B A N Y C O M P A N I E S I N C .
(Exact name of registrant as specified in its charter)

New York	22-2655804
(State or other jurisdiction of incorporation or organization)	(I.R.S.Employer Identification No.)
30 S. Pearl Street, Albany, New York	12207
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (518) 447-8500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
none	none

Securities registered pursuant to Section 12(g) of the Act:

Common stock par value $.01 per share

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. [ ]

As of March 18, 1999, 6,601,128 shares, par value $.01 per share, were outstanding. The aggregate market value of the shares of common stock of the Registrant held by non-affiliates (based upon the closing price of Registrant's shares as reported on the NASDAQ system on March 18, 1999, which was $14.1875 was approximately $41,475,908.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission are incorporated by reference into Part III.
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Part I

Item 1. Business

First Albany Companies Inc. (the Company), through its wholly owned subsidiary First Albany Corporation (First Albany), conducts a full service investment banking business with brokerage activity predominantly in New York and New England. These activities include securities brokerage for individual and institutional customers, and market-making and trading of corporate, government, and municipal securities. In addition, First Albany underwrites and distributes municipal and corporate securities, provides securities clearance activities for other brokerage firms, and offers financial advisory services to its customers. Another of the Company's subsidiaries is First Albany Asset Management Corporation ("FAAM"). FAAM serves as investment manager to individual and institutional customers. FAAM directs the investment of customer and mutual fund assets by making investment decisions, placing purchase and sales orders, and providing research, statistical analysis, and continuous supervision of the portfolios. First Albany Enterprise Funding ("FAEF") is another subsidiary of the Company formed in 1998 as a private equity investment company whose business is to provide venture capital and merchant banking services to firms in the high technology sector.

Brokerage services to private client and institutional customers are provided through First Albany's salesforce of Financial Consultants and Institutional Salespeople. First Albany believes that its Financial Consultants and Institutional Salespeople are a key factor to the success of its business. Over the last five years, the number of full-time Financial Consultants and Institutional Salespeople has grown from approximately 246 to 327 as of December 31, 1998, many of whom joined First Albany after previous associations with national brokerage firms.

First Albany has organized its business to focus on and serve the needs and financial/capital requirements of institutions, individuals, corporations, and municipalities. As investment bankers, First Albany is positioned to advise, manage, and conduct a variety of activities as requested including underwritings, initial and secondary offerings, advisory services, mergers and acquisitions, and private placements. As a brokerage firm, First Albany offers customers a full array of investment opportunities.

First Albany operates a total of 30 Private Client and Institutional (including Investment Banking) offices in 11 states. First Albany's executive office and largest sales office are both located in Albany, New York.

The Company (formed in 1985) and First Albany (formed in 1953) are New York corporations. First Albany is a member of the New York Stock Exchange, Inc. ("NYSE"), the American Stock Exchange, Inc. ("ASE"), and the Boston Stock Exchange, Inc. ("BSE") and is registered as a broker-dealer with the Securities and Exchange Commission ("SEC"). First Albany is also a member of the National Association of Securities Dealers, Inc. ("NASD") and the Securities Investor Protection Corporation ("SIPC"), which insures customer funds and securities deposited with a broker-dealer up to $500,000 per customer, with a limitation of $100,000 on claims for cash balances. First Albany has obtained additional coverage of $24,500,000 per account from National Union, a wholly owned subsidiary of American International Group (AIG), America's largest commercial insurer. Both companies are rated A+15 (highest rating) by A.M. Best.
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Sources of Revenues

A breakdown of the amount and percentage of revenues from each principal source for the periods indicated follows:
<TABLE>

	For the Years Ended					
	December 31, 1998		December 31, 1997		December 31, 1996	
	Amount	Percent	Amount	Percent	Amount	Percent
(In thousands of dollars)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Securities commissions:						
Listed	$25,723	11.4%	$22,523	11.6%	$20,507	12.2%
Over-the-counter	13,654	6.0%	11,327	5.9%	7,749	4.6%
Options	3,256	1.4%	2,843	1.5%	1,894	1.1%
Mutual funds	18,378	8.1%	15,805	8.2%	12,258	7.3%
Other	(1)	0.0%	489	0.3%	303	0.2%
Sub-total	61,010	26.9%	52,987	27.5%	42,711	25.4%
Principal transactions	72,060	31.8%	63,235	32.7%	63,438	37.7%
Investment banking	30,544	13.5%	19,636	10.1%	19,558	11.6%
Clearing revenues	1,055	0.5%	1,090	0.6%	1,100	0.7%

Fees and other	13,200	5.8%	10,550	5.5%	9,144	5.4%
Total operating revenues	177,869	78.5%	147,498	76.4%	135,951	80.8%
Interest income	48,697	21.5%	45,474	23.6%	32,240	19.2%
Total revenues	$226,566	100.0%	$192,972	100.0%	$168,191	100.0%

</TABLE>

Securities Commissions

In executing customers' orders to buy or sell listed securities and securities in which it does not make a market, First Albany generally acts as an agent and charges a commission.

Principal Transactions

First Albany buys and maintains inventories of municipal debt, corporate debt, and equity securities as a "market maker" for sale of those securities to other dealers and to customers. A staff of 54 traders, underwriters, and assistants manage First Albany's inventory of securities. As of December 31, 1998, First Albany made a market in 228 common stocks quoted on National Association of Securities Dealers Automated Quotation ("NASDAQ") and other less actively traded securities. First Albany also trades municipal bonds and taxable debt obligations, including U.S. Treasury bills, notes, and bonds; U.S. Government agency notes and bonds; bank certificates of deposit; mortgage-backed securities; and corporate obligations. Principal transactions have been a significant source of revenue and should continue to be so in the future. Continuation of these activities depends on the availability of sufficient capital and the services of highly skilled traders, Financial Consultants, and Institutional Salespeople.

In 1995, First Albany added an institutional municipal risk trading operation, in which certain inventory positions are hedged by highly liquid future contracts. Most of the inventory positions are carried for the purpose of generating sales by the retail and institutional salesforce. First Albany's trading activities require the commitment of capital and may place First Albany's capital at risk. Profits and losses are dependent upon the skill of traders, price movement, trading activity, and the size of inventories.

In executing customers' orders to buy or sell in the over-the-counter market in a security in which it makes a market, First Albany may sell to or purchase from its customers at a price which is substantially equal to the current inter-dealer market price, plus or minus a markup or markdown. Alternatively, First Albany may act as an agent, executing a customer's
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purchase or sale order with another broker-dealer, who acts as a market maker, at the best inter-dealer market price available and charging a commission.

The following table sets forth the highest, lowest, and average month-end inventories (including the net of securities owned and securities sold, but not yet purchased) for calendar 1998 by securities category where First Albany acted as principal.

<TABLE>

(In thousands of dollars)	Highest Inventory	Lowest Inventory	Average Inventory
<S>	<C>	<C>	<C>
State and municipal bonds	$ 147,203	$ 77,566	$ 108,772
Corporate obligations	21,424	5,644	12,317
Corporate stocks	6,277	1,255	3,454
U.S. Government and federal agencies obligations	13,730	(4,355)	6,137

</TABLE>

Underwriting and Investment Banking

First Albany manages, co-manages, and participates in municipal and corporate securities distributions. For the periods indicated, the table below highlights the number and dollar amount of corporate and municipal securities offerings managed or co-managed by First Albany and the number and amount of First Albany's underwriting participations in syndicates, including those managed or co-managed by First Albany:

Corporate Stock and Bond Offerings

<TABLE>

	Managed or Co-Managed		Syndicate Participations	
Year Ended	Number of Issues	Amount of Offering	Number of Participations	Amount of Participation
		(In thousands of dollars)		
<S>	<C>	<C>	<C>	<C>
December 1998	10	$636,660	108	$166,582
December 1997	12	322,137	110	126,250
December 1996	9	348,292	177	218,452
December 1995 (three-months)	2	86,828	74	73,303
September 1995	13	514,583	203	227,170
September 1994	13	483,814	334	349,723

</TABLE>

Municipal Bond Offerings

<TABLE>

Managed or Co-Managed	Syndicate Participations

Year Ended	Number of Issues	Dollar Amount	Number of Participations	Dollar Amount
		(In thousands of dollars)		
<S>	<C>	<C>	<C>	<C>
December 1998	344	$39,681,183	380	$4,672,904
December 1997	243	26,480,340	293	4,398,478
December 1996	267	19,291,904	302	3,226,226
December 1995 (three-months)	47	6,322,205	59	522,292
September 1995	113	12,235,469	222	1,362,845
September 1994	123	14,744,502	332	1,598,182

</TABLE>
Participation in an underwriting syndicate or selling group involves both economic and regulatory risks. An underwriter or selling group member may incur losses if it is forced to resell the securities it is committed to purchase at less than the agreed-upon purchase price. In addition, under the federal securities laws, other statutes, and court decisions with respect to underwriters' liabilities and limitations on indemnification of underwriters by issuers, an underwriter is subject to substantial potential liability for material misstatements or omissions in prospectuses and other communications with respect to underwritten offerings. Further, underwriting or selling commitments constitute a charge against net capital and First Albany's underwriting or selling commitments may be limited by the requirements that it must at all times be in compliance with the net capital rule. See "Net Capital Requirements".
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Interest

First Albany derives interest income primarily from the financing of customer margin loans, securities lending activities, and securities owned.

Customers' securities transactions are effected on either a cash or margin basis. In margin transactions, First Albany extends credit, which is collateralized by securities and cash in the customer's account, to the customer. In accordance with Federal Reserve Bank regulations, NYSE regulations, and internal policy, First Albany earns interest income as a result of charging customers at a rate of up to 2 3/4% over the brokers' call rate.

During the past several years, cash balances in customers' accounts have been a source of funds to finance customers' margin account debit balances. SEC regulations restrict the use of customers' funds by broker-dealers by providing generally that free credit balances and funds derived from pledging and lending customers' securities are to be used only to finance customers' margin account debit balances, and, to the extent not so used, the funds must be deposited in a special reserve bank account for the exclusive benefit of customers. The regulations also require broker-dealers, within designated periods of time, to obtain physical possession or control of, and to segregate, customers' fully paid and excess margin securities.

In the ordinary course of both its trading and brokerage activities, First Albany borrows securities to cover short sales and to complete transactions in which customers or other brokers have failed to deliver securities by the required settlement date. First Albany also lends securities to other brokers and dealers for similar purposes.

When borrowing securities, First Albany is required to deposit cash or other collateral, or to post a letter of credit with the lender and receive a rebate (based on the amount of cash deposited) calculated to yield a negotiated rate of return. When lending securities, First Albany receives cash and generally pays a rebate (based on the amount of cash received) to the other party to the transaction. Securities borrow and loan transactions are executed pursuant to written agreements with counter-parties which provide that the securities borrowed or loaned be marked to market on a daily basis and that excess collateral be refunded or that additional collateral be furnished in the event of changes in the market value of the securities. Collateral adjustments are usually made on a daily basis through the facilities of various clearinghouses.

Operations, Clearing, and Systems

First Albany's operations include: execution of orders; processing of transactions; receipt, identification, and delivery of funds and securities; custody of customers' securities; internal financial control; and compliance with regulatory and legal requirements.

The volume of transactions handled by the operations staff fluctuates substantially. The monthly number of purchase and sale transactions processed for the periods indicated were as follows:

<TABLE>

Year Ended	Number of Monthly Transactions High	Low	Average
December 1998	122,150	73,369	93,375
December 1997	101,571	52,773	69,609
December 1996	75,140	49,631	56,956
December 1995 (three months)	60,880	45,543	50,880
September 1995	56,251	35,440	42,181
September 1994	44,917	30,685	36,412

</TABLE>

First Albany has established internal controls and safeguards against securities theft, including use of depositories and periodic securities counts. As required by the NYSE and certain other authorities, First Albany carries fidelity bonds covering loss or theft of securities as well as embezzlement and forgery.

First Albany clears its own securities transactions and posts its books and records daily. Periodic reviews of controls are conducted, and administrative and operations personnel meet frequently with management to
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review operating conditions. Operations, compliance, internal audit, and legal personnel monitor compliance with applicable laws, rules, and regulations.

In addition to processing its own customer transactions, First Albany processes, for a fee, the transactions of other brokerage firms whose customer accounts are carried on a fully disclosed basis with all security positions, margin accounts receivable, and credit balances reflected on the books and records of First Albany.

Financial Services

Customized financial services are available to customers of First Albany.

The Financial Services Department advises customers on a variety of interrelated financial matters, including investment portfolio review, tax management, insurance analysis, education and retirement planning, survivor income needs, and estate tax analysis. For a fee, financial planners will prepare a detailed analysis with specific recommendations aimed at accumulating wealth and attaining financial goals.

First Albany also offers a range of retirement plans, including IRAs, SEP Plans, profit sharing, 401(k), and pension programs. Fixed and variable annuities are available as well as life, disability, and nursing home insurance programs, limited partnership interests in real estate, oil and gas drilling, and similar ventures.

Research

First Albany maintains a professional staff of equity analysts. Research is focused on six industry sectors: technology, financial services, energy, utilities, retailing and basic industry. First Albany employs 13 analysts and 13 research assistants who support First Albany's institutional equities and corporate finance activities.

In 1995, First Albany enlarged the scope of its research in the technology sector by entering into a strategic alliance with the META Group, Inc. ("META"). META, an independent market assessment company, provides research and analysis of developments and trends in information technology ("IT"), including computer hardware, software, communications and related information technology industries to both IT users and IT vendors. The alliance with META enables First Albany to provide its investors with insights drawn from META's analysis of technology trends, user experience, and vendor pricing and negotiating tactics.

Research services include review and analysis of the economy; general market conditions; technology trends, industries and specific companies via both fundamental and technical analyses; recommendations of specific action with regard to industries and specific companies; preparation of research reports which are provided to retail and institutional customers; and responses to inquiries from customers. In addition, First Albany purchases outside research services including economic reports, charts, data bases, company analyses, and technical analyses.

Private Client Business

Revenues from First Albany's private client brokerage activities are generated through customer purchases and sales of stocks, bonds, mutual funds, and other investment products. For the calendar years ended December 31, 1998, December 31, 1997 and December 31, 1996, these revenues accounted for approximately 48%, 52%, and 45% of operating revenues, respectively.

Institutional Business

Revenues generated from securities transactions with major institutions for the calendar years ended December 31, 1998, December 31, 1997, and December 31, 1996, accounted for approximately 46%, 42%, and 42% of operating revenues, respectively. Institutional revenues are derived from sales of tax-exempt securities, taxable debt obligations, and equity securities.
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Employees

At December 31, 1998, the Company had 850 full-time employees, of which 234 were Private Client Financial Consultants, 118 were Institutional Salespeople and Institutional Traders, 173 were in branch sales support, 158 were in other revenue producing positions, 60 were in operations, and 107 were in other support and administrative functions.

New Financial Consultants, Salespeople, and Traders are required to take examinations given by the NASD and approved by the NYSE and all principal exchanges as well as state securities authorities in order to be registered. There is intense competition among securities firms for Financial Consultants, Salespeople, and Traders with proven production records. The Company considers its employee relations to be good and believes that its compensation and employee benefits are competitive with those offered by other securities firms. None of the Company's employees are covered by a collective bargaining agreement.

Competition

First Albany is engaged in a highly competitive business. Its competition includes, with respect to one or more aspects of its business, all of the member organizations of the NYSE and other registered securities exchanges, all members of the NASD, members of the various commodity exchanges, and commercial banks and thrift institutions. Many of these organizations are national firms and have substantially greater financial and human resources than First Albany. Discount brokerage firms seeking to expand their share of the private client market, including firms affiliated with commercial banks and thrift institutions, are devoting substantial funds to advertising and direct solicitation of customers. In many instances, First Albany is competing directly with such organizations. In addition, there is competition for investment funds from the real estate, insurance, banking, and savings and loan industries. The Company believes that the principal factors affecting competition for the securities industry are the quality and ability of professional personnel and relative prices of services and products offered.

Regulation

The securities industry in the United States is subject to extensive regulation under federal and state laws. The SEC is the federal agency charged with administration of the federal securities laws. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations, principally the NASD and the national securities exchanges. These self-regulatory organizations adopt rules (subject to approval by the SEC) which govern the industry and conduct periodic examinations of member broker-dealers. Securities firms are also subject to regulation by state securities commissions in the states in which they are registered. First Albany is currently registered as a broker-dealer in 50 states, the District of Columbia and Puerto Rico.

The regulations to which broker-dealers are subject cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, capital structure of securities firms, recordkeeping, and conduct of directors, officers, and employees. Additional legislation, changes in rules promulgated by the SEC and by self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker-dealers. The SEC, self-regulatory organizations, and state security regulators may conduct administrative proceedings which can result in censure, fine, suspension, or expulsion of a broker-dealer, its officers, or employees. The principal purpose of regulation and discipline of broker-dealers is the protection of customers and the securities markets rather than protection of creditors and stockholders of broker-dealers.

Net Capital Requirements

As a broker-dealer and member of the NYSE, First Albany is subject to the Uniform Net Capital Rule promulgated by the SEC. The rule is designed to measure the general financial condition and liquidity of a broker-dealer, and it imposes a minimum amount of net capital requirement deemed necessary to meet the broker-dealer's continuing commitments to its customers.

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A broker-dealer may be required to reduce its business and to restrict withdrawal of subordinated capital if its net capital is less than 4% of aggregate debit balances; it may be prohibited from expanding its business and declaring cash dividends if its net capital is less than 5% of aggregate debit balances; and it will be subject to closer supervision by the NYSE if its net capital is less than 6% of aggregate debit balances. Compliance with the Net Capital Rule may limit those operations which require the use of its capital for purposes, such as maintaining the inventory required for a firm trading in securities, underwriting securities, and financing customer margin account balances. Net capital and aggregate debit balances change from day to day and, at December 31, 1998, First Albany's net capital was $22,336,000 which was 10.4% of its aggregate debit balances (2% minimum requirement) and $18,023,000 in excess of required minimum net capital.

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Item 2. Properties

As of February 1999, the Company had a total of 30 Private Client Group and Institutional Sales and Trading ("Institutional") offices in 11 states, all of which are leased or rented. The Company's executive offices are located at 30 South Pearl Street, Albany, New York. The order entry, trading, research, information technology ("IT"), operations, and accounting activities are centralized in the Albany office. The offices at 30 South Pearl Street are operated under a lease which currently expires in the year 2002. All other offices are subject to lease or rental agreements that expire at various times through March 2008. These leases, in the opinion of management, are sufficient to meet the needs of the Company. A list of locations are as follows:

Albany, NY 30 South Pearl St. Private Client Group & Institutional IT, Research, Back Office	Fairfield, CT Private Client Group	Norwich, NY Private Client Group
	Garden City, NY Private Client Group	Oneonta, NY Private Client Group
80 State St. Private Client Group	Hartford, CT Private Client Group & Institutional	Pittsfield, MA Private Client Group
Binghamton (Vestal), NY Private Client Group	Johnstown, NY Private Client Group	Rancho Santa Fe, CA Institutional
Bonita Springs, FL	Los Angeles, CA	San Francisco

Institutional

Boston, MA
Private Client Group
& Institutional
IT, Research

Buffalo, NY
Private Client Group

Burlington (Colchester), VT
Private Client Group

Chadds Ford, PA
Institutional

Chicago, IL
Private Client Group

Elmira, NY
Private Client Group

Institutional

Manchester, NH
Private Client Group

Morristown, NJ
Institutional

Minneapolis, MN
Institutional

Nashua, NH
Private Client Group

New York, NY
One Penn Plaza
Private Client Group
& Institutional IT,
Research, Back Office

(Burlingame), CA
Institutional

Scranton, PA
Institutional

Stamford, CT
Research

Syracuse, NY
Private Client Group

Wellesley, MA
40 Grove St.
Institutional
330 Washington St.
Private Client Group

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Item 3. Legal Proceedings

In the normal course of business, the Company has been named a defendant, or otherwise has possible exposure, in several claims. Certain of these claims are class actions which seek unspecified damages that could be substantial. Although there can be no assurance as to the eventual outcome of litigation in which the Company has been named as a defendant or otherwise has possible exposure, the Company has provided for those actions it believes are likely to result in adverse dispositions. Although further losses are possible, the opinion of management, based upon the advice of its attorneys and General Counsel, 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.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

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The Company's common stock trades on the NASDAQ Stock Market under the symbol "FACT". As of March 8, 1999 there were approximately 1,391 holders of record of the Company's common stock. The following table sets forth the high and low bid quotations for the common stock as adjusted for subsequent stock dividends, along with cash dividends during each quarter for the fiscal years ended:
<TABLE>

December 31, 1998	Quarters Ended			
<S>	<C>	<C>	<C>	<C>
Stock Price Range	Mar. 27	June 26	Sept. 25	Dec. 31
High	$ 15	$ 14 3/8	$ 13 7/8	$ 12 3/8
Low	$ 11 3/4	$ 12 5/8	$ 9 3/4	$ 8 1/4
Cash Dividend per Share	$ 0.05	$ 0.05	$ 0.05	$ 0.05

December 31, 1997	Quarters Ended			
Stock Price Range	Mar. 28	June 27	Sept. 26	Dec. 31
High	$ 9 3/8	$ 13 1/8	$ 14	$ 14 7/8
Low	$ 8 1/4	$ 8 3/8	$ 11	$ 11 1/2
Cash Dividend per Share	$ 0.05	$ 0.05	$ 0.05	$ 0.05

December 31, 1996	Quarters Ended			
Stock Price Range	Mar. 29	June 28	Sept. 27	Dec. 31
High	$ 8 3/8	$ 8 1/2	$ 8 1/2	$ 8 3/4
Low	$ 7 3/8	$ 7 3/8	$ 7 3/8	$ 7 1/8
Cash Dividend per Share	$ 0.05	$ 0.05	$ 0.05	$ 0.05

</TABLE>
The Board of Directors has from time to time authorized the Company to repurchase shares of its common stock either in the open market or otherwise. As of December 31, 1998, the total number of treasury shares was 2,808. When appropriate, the Company will consider making additional purchases.

During calendar 1998, the Company declared and paid four quarterly cash dividends totaling $.20 per share of common stock, and declared and issued two 5% common stock dividends.

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In January 1999, subsequent to the period reflected in this report, the Company declared the regular quarterly cash dividend of $0.05 per share payable on February 24, 1999 to shareholders of record on February 10, 1999.

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Item 6. Selected Financial Data

The following selected financial data have been derived from the Consolidated Financial Statements of the Company.

First Albany Companies Inc.
FINANCIAL SUMMARY
(In thousands of dollars except per share amounts)

<TABLE>

For the years ended	Dec. 31, 1998	Dec. 31, 1997	Dec. 31, 1996	Dec. 31, 1995	Sept. 29, 1995	Sept. 30, 1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Operating Results						
Revenues:						
Commissions	$ 61,010	$ 52,987	$ 42,711	$ 34,941	$ 31,889	$ 29,553
Principal transactions	72,060	63,235	63,438	44,821	43,198	36,167
Investment banking	30,544	19,636	19,558	16,311	14,625	19,164
Fees and other	14,255	11,640	10,244	7,530	7,214	6,578
Operating revenues	177,869	147,498	135,951	103,603	96,926	91,462
Interest income	48,697	45,474	32,240	28,075	26,173	16,222
Total revenues	226,566	192,972	168,191	131,678	123,099	107,684
Interest expense	39,946	38,615	26,030	21,985	19,904	10,467
Net revenues	186,620	154,357	142,161	109,693	103,195	97,217
Expenses (excluding interest):						
Compensation and benefits	130,169	105,080	95,691	74,596	71,064	65,513
Clearing, settlement and brokerage costs	4,347	3,358	2,868	2,378	2,258	1,894
Communications and data processing	13,852	12,872	10,897	8,244	7,794	7,198
Occupancy and depreciation	13,420	13,203	8,527	6,909	6,660	5,710
Selling	7,863	8,027	7,246	5,231	4,817	4,779
Other	9,837	8,915	7,840	5,912	5,382	4,755
Total expenses (excl. interest)	179,488	151,455	133,069	103,270	97,975	89,849

Income before income taxes	7,132	2,902	9,092	6,423	5,220	7,368
Income tax expense	2,794	1,251	3,592	2,363	1,870	2,876
Income before extraordinary gain	4,338	1,651	5,500	4,060	3,350	4,492
Extraordinary gain, net of $225 taxes		305				
Net income	$ 4,338	$ 1,956	$ 5,500	$ 4,060	$ 3,350	$ 4,492
Per Common Share:*						
Earnings-basic	$ 0.67	$ 0.31	$ 0.91	$ 0.67	$ 0.55	$ 0.75
Cash dividend	0.20	0.20	0.20	0.20	0.20	0.20
Book value	7.35	6.93	6.85	6.19	5.98	5.59
Financial Condition:						
Total assets	$842,898	$831,921	$675,785	$510,081	$543,255	$482,749
Notes payable	4,750	7,271	4,583	1,641	1,791	94
Obligations under capitalized leases	3,688	3,088	1,426			
Subordinated debt	7,500	7,500	5,000			
Stockholders' equity	48,408	44,548	42,274	37,558	36,192	33,230

*All per share figures have been restated for all common stock dividends paid.
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FIRST ALBANY COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

BUSINESS ENVIRONMENT

First Albany Corporation (First Albany), a wholly-owned subsidiary of First Albany Companies Inc. (the Company), is a full-service investment banking and brokerage firm. Its primary business includes the underwriting, distribution, and trading of fixed income and equity securities. The investment banking and brokerage businesses earn revenues in direct correlation with the general level of trading activity in the stock and bond markets. This level of activity cannot be controlled by the Company; however, many of the Company's costs are fixed. Therefore, the Company's earnings, like those of others in the industry, reflect the activity in the markets and can fluctuate accordingly.

This is a highly-competitive business. The competition includes not only full-service national firms and discount houses, but also mutual funds that sell directly to the customer as well as banks and insurance companies that offer a variety of investment products.

1998 was another exceptional year for the stock market. The Dow Jones Industrial Average rose from 7,908 to 9,181 and stock prices, as measured by the S&P 500, registered a total return of 28.6%. Large company stocks dominated the market, making this the fourth consecutive year small company stocks under performed large company stocks. The period from 1994-1998 ranks as the best five year period for large company stocks in 73 years. The Fed lowered its Federal Funds Rate on three separate occasions and the yield on long-term U. S. Treasury bonds decreased from 5.92% to 5.10%. Bonds registered a return of 9.5% as measured by the Lehman Brothers Government/Corporate Index.

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RESULTS OF OPERATIONS

FIRST ALBANY COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

<TABLE>

(In thousands of dollars)	Twelve Months Ended December 31, 1998	December 31, 1997	1998 vs. 1997 Increase (Decrease)	Percentage Increase (Decrease)
<S>	<C>	<C>	<C>	<C>
Revenues:				
Commissions	$61,010	$52,987	$8,023	15%
Principal transactions	72,060	63,235	8,825	14%
Investment banking	30,544	19,636	10,908	56%
Fees and other	14,255	11,640	2,615	22%
Operating revenue	177,869	147,498	30,371	21%
Interest income	48,697	45,474	3,223	7%
Total Revenues	226,566	192,972	33,594	17%
Interest expense	39,946	38,615	1,331	3%
Net revenues	186,620	154,357	32,263	21%
Expenses (excluding interest):				
Compensation and benefits	130,169	105,080	25,089	24%
Clearing, settlement and brokerage cost	4,347	3,358	989	29%
Communications and data processing	13,852	12,872	980	8%
Occupancy and depreciation	13,420	13,203	217	2%
Selling	7,863	8,027	(164)	(2%)

Other	9,837	8,915	922	10%
Total expenses (excluding interest)	179,488	151,455	28,033	19%
Income before income taxes	7,132	2,902	4,230	146%
Income tax expense	2,794	1,251	1,543	123%
Income before extraordinary items	4,338	1,651	2,687	163%
Extraordinary gain, net of $225 taxes		305	(305)	(100%)
Net Income	$4,338	$1,956	$2,382	122%
Net interest income:				
Interest income	$48,697	$45,474	$3,223	7%
Interest expense	39,946	38,615	1,331	3%
Net interest income	$8,751	$6,859	$1,892	28%

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FIRST ALBANY COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Calendar Year 1998 Compared with Calendar Year 1997

Net Income

Net income for the calendar year ended December 31, 1998 was $4.3 million or $0.67 basic earnings per share compared to $2.0 million or $0.31 basic earnings per share a year ago. This year's net revenue gains reflect an increase in each of the Company's divisions. Net revenues in the Company's Institutional Division were up 33% compared to the same period last year (taxable fixed income had an increase of over 60%, equities increased 30% while municipals increased 14%), while the Private Client Group's net revenues increased 13%.

Commissions

Commission revenues increased $8.0 million or 15% in calendar 1998 reflecting active trading in all major markets. Revenues from listed stocks and over-the-counter agency stock commissions increased $5.5 million or 15% with mutual fund commission revenues increasing $2.5 million or 16%.

Principal Transactions

Principal transactions increased $8.8 million or 14% in calendar 1998. This was comprised of an increase in taxable fixed income of $10.6 million partially due to increased opportunity in international markets, an increase in investment income of $0.7 million, and a decrease in municipal bonds of $2.5 million, with equity securities remaining stable.

Investment Banking

Investment banking increased $10.9 million or 56% in calendar 1998, primarily due to favorable market conditions during this period. Revenues from selling concessions increased $5.1 million (equities increased $0.5 million, municipals increased $3.1 million and taxable fixed income increased $1.5 million), underwriting fees increased $1.1 million (equities increased $0.5 million and municipals increased $0.6 million), and investment banking fees increased $4.7 million (equities increased $2.6 and municipals increased $2.1 million).

Fees and Other

Fees and other revenues increased $2.6 million or 22% in calendar 1998 resulting partially from the firm's focus to increase fee based revenue.

Net Interest Income

Net interest income increased $1.9 million or 28% in calendar 1998, due primarily to higher levels of margin borrowings by the Company's clients.

Compensation and Benefits

Compensation and benefits increased $25.1 million or 24% in calendar 1998 due primarily to higher levels of revenues and profitability. Sales-related compensation increased $23.2 million, salaries increased $1.9 million, and benefits remained stable.

Clearance, Settlement and Brokerage Costs

Clearance, settlement and brokerage costs increased $1.0 million or 29% in calendar 1998 due primarily to increases in listed agency transactions and customer options activity.

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Communications and Data Processing

Communications and data processing increased $1.0 million or 8% in calendar 1998. Communications expense increased $0.5 million due mainly to the firm's upgrade in market data services and the growth of its business related activity. Data processing expense increased $0.5 million due mainly to a greater number of transactions.

Income Taxes

Income taxes increased $1.5 million in calendar 1998 due primarily to an increase in pre tax earnings.

Equity Investments

At December 31, 1998, the Company owned approximately 2,444,000 common shares (34% of the shares outstanding) of Mechanical Technology Incorporated (MTI). The Company's investment in MTI is recorded under the equity method and approximated $4,487,000, which included goodwill of approximately $700,000, which is being amortized over 10 years. For the years ended December 31, 1998, and 1997, the Company's equity in MTI's net (loss)income, recorded on a one-quarter delay basis, was ($1,488,000) and $1,168,000, respectively. For the three month period ended December 31, 1998, MTI reported an unaudited loss of approximately $1.6 million. The Company's equity in MTI's net loss, was a loss of $544,000, and will be recorded in the quarter ending March 26, 1999.

In June 1997, Plug Power L.L.C., a joint venture between MTI and Edison Development Corp. ("EDC"), a subsidiary of DTE Energy Corporation, was formed. MTI and EDC have each stated they intend to contribute $5 million to Plug Power to fund continuing operations for the period August 1, 1998 through March 31, 1999. Under applicable accounting standards, MTI recognized its proportionate share of loss in Plug Power to the extent of such investment. This resulted in a $3.8 million loss in MTI's fourth quarter. The Company recognized its proportionate share (34%) of MTI's losses and reduced its pre-tax income by $1.3 million during its fourth quarter.

MTI distributed to holders of record of shares of its common stock as of the close of business on August 12, 1998 (the "Record Date"), non transferrable subscription rights to purchase additional shares of common stock at an exercise price of $6.00 per share (the "Rights Offering"). One right was granted for each five shares of common stock held on the Record Date. The rights expired September 24, 1998. First Albany Companies, Inc., exercised rights for a total of 407,340 shares of MTI common stock during the month of September 1998.

At December 31, 1998, the aggregate market value of the Company's shares in MTI was $19,705,000. Under the equity method, the market value of MTI's stock is not included in the calculation of the Company's investment.

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(In thousands of dollars)	Twelve Months Ended December 31, 1997	December 31, 1996	1997 vs. 1996 Increase (Decrease)	Percentage Increase (Decrease)
<S>	<C>	<C>	<C>	<C>
Revenues:				
Commissions	$52,987	$42,711	$10,276	24%
Principal transactions	63,235	63,438	(203)	0%
Investment banking	19,636	19,558	78	0%
Fees and other	11,640	10,244	1,396	14%
Operating revenue	147,498	135,951	11,547	9%
Interest income	45,474	32,240	13,234	41%
Total Revenues	192,972	168,191	24,781	15%
Interest expense	38,615	26,030	12,585	48%
Net revenues	154,357	142,161	12,196	9%
Expenses (excluding interest):				
Compensation and benefits	105,080	95,691	9,389	10%
Clearing, settlement and brokerage cost	3,358	2,868	490	17%
Communications and data processing	12,872	10,897	1,975	18%
Occupancy and depreciation	13,203	8,527	4,676	55%
Selling	8,027	7,246	781	11%
Other	8,915	7,840	1,075	14%
Total expenses (excluding interest)	151,455	133,069	18,386	14%
Income before income taxes	2,902	9,092	(6,190)	(68%)
Income tax expense	1,251	3,592	(2,341)	(65%)
Income before extraordinary items	1,651	5,500	(3,849)	(70%)
Extraordinary gain, net of $225 taxes	305		305	
Net Income	$1,956	$5,500	$(3,544)	(64%)
Net interest income:				
Interest income	$45,474	$32,240	$13,234	41%
Interest expense	38,615	26,030	12,585	48%

Net interest income	$6,859	$6,210	$649	10%

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FIRST ALBANY COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Calendar Year 1997 Compared with Calendar Year 1996

Net Income

Net income for the calendar year ended December 31, 1997, was $2.0 million or $0.31 basic earnings per share compared to $5.5 million or $0.91 basic earnings per share a year ago. This year's increase in net revenues of $12.2 million primarily reflects increases in the Company's Private Client Group. Although earnings continued to improve throughout 1997, earnings remain negatively impacted by our investment in people and technology. In the fourth quarter of calendar 1997, we began to see progress from our cost-reduction efforts with a 5% decrease in non compensation-related expenses over the previous quarter.

Commissions

Commission revenues increased $10.3 million or 24% in calendar 1997 reflecting active trading in all major markets. Revenues from listed stocks and over-the-counter agency stock commissions increased $5.6 million or 20%, with mutual fund commission revenues increasing $3.6 million or 29% and options commissions increased $1.0 million or 50%.

Principal Transactions

Principal transactions remained stable in calendar 1997. Taxable fixed income increased $2.4 million, municipal bonds increased $2.1 million, equities decreased $3.8 million, and investment income decreased $0.9 million.

Investment Banking

Investment banking revenues remained stable in calendar 1997. Revenues from investment banking fees increased $2.3 million (municipal finance fees increased $1.6 million while corporate finance fees increased $0.7 million). Selling concessions were down $1.8 million (municipals were the same as the prior year, equities decreased $1.4 million and taxable fixed income decreased $0.4 million), and underwriting fees decreased $0.4 million (municipals increased $0.5 million, equities decreased $0.9 million).

Fees and Other

Fees and other revenues increased $1.4 million or 14% in calendar 1997 primarily reflecting increased service charge income and financial service revenues.

Compensation and Benefits

Compensation and benefits increased $9.4 million or 10% in calendar 1997 due partly to the increase in revenues. Sales-related compensation increased $3.2 million, salaries increased $3.5 million, and benefits increased $2.7 million partly due to an increase in medical insurance costs.

Communications and Data Processing

Communications and data processing increased $2.0 million or 18% in calendar 1997. Communications expense increased $1.5 million due mainly to the firm's upgrade in technology and increased headcount. Data processing expense increased $0.5 million due in most part to a greater number of transactions.

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Occupancy and Depreciation

Occupancy and depreciation expense increased $4.7 million or 55% in calendar 1997 primarily as a result of the upgrade of our private client branch technology and the expansion of our private client and institutional offices in New York City.

Other

Other expense increased $1.1 million or 14% in calendar 1997 due to an increase in consulting fees and investments in enhanced client communications.

Extraordinary Gain, net of taxes

The Company realized an extraordinary gain of $0.3 million, net of taxes. This extraordinary gain was the result of the Company's investment in Mechanical Technology Incorporated ("MTI"). The Company's investment in MTI is recorded under the equity method. The Company recorded its share of MTI's extraordinary gains as an extraordinary gain on the Company's books. During the first quarter of MTI's 1997 fiscal year, MTI realized an extraordinary gain due to the extinguishment of debt.

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FIRST ALBANY COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

<TABLE>

(In thousands of dollars)	Twelve Months Ended December 31, 1996	Twelve Months Ended December 31, 1995	1996 vs. 1995 Increase (Decrease)	Percentage Increase (Decrease)
<S>	<C>	<C>	<C>	<C>
Revenues:				
Commissions	$42,711	$34,941	$7,770	22%
Principal transactions	63,438	44,821	18,617	42%
Investment banking	19,558	16,311	3,247	20%
Fees and other	10,244	7,530	2,714	36%
Operating revenues	135,951	103,603	32,348	31%
Interest income	32,240	28,075	4,165	15%
Total Revenues	168,191	131,678	36,513	28%
Interest expense	26,030	21,985	4,045	18%
Net revenues	142,161	109,693	32,468	30%
Expenses (excluding interest):				
Compensation and benefits	95,691	74,596	21,095	28%
Clearing, settlement and brokerage cost	2,868	2,378	490	21%
Communications and data processing	10,897	8,244	2,653	32%
Occupancy and depreciation	8,527	6,909	1,618	23%
Selling	7,246	5,231	2,015	39%
Other	7,840	5,912	1,928	33%
Total expenses (excluding interest)	133,069	103,270	29,799	29%
Income before income taxes	9,092	6,423	2,669	42%
Income tax expense	3,592	2,363	1,229	52%
Net income	$5,500	$4,060	$1,440	35%
Net interest income:				
Interest income	$32,240	$28,075	$4,165	15%
Interest expense	26,030	21,985	4,045	18%
Net interest income	$6,210	$6,090	$120	2%

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Calendar Year 1996 Compared with Calendar Year 1995

Net Income

Net income for the calendar year ended December 31, 1996, was $5.5 million or $0.91 basic earnings per share compared to $4.1 million or $0.67 basic earnings per share a year ago. Net revenues increased by 40% in the Company's Institutional Division compared to last year (equities increased 58%, taxable fixed income increased 49% and municipals increased 20%), while revenues in the Private Client Group increased nearly 31%. In the second half of 1996, continued strong revenues were offset in part by our investment in people and systems.

Commissions

Commission revenues increased $7.8 million or 22% in calendar 1996 reflecting active trading in all major markets. Revenues from listed stocks and over-the-counter agency stock commissions increased $4.5 million or 19% with mutual fund commission revenues increasing $3.1 million or 33%.

Principal Transactions

Principal transactions increased $18.6 million or 42% in calendar 1996. This growth was comprised of an increase in equity securities of $10.3 million, an increase in municipal bonds of $0.7 million, an increase in taxable fixed income of $5.9 million and an increase in investment income of $1.7 million, primarily from META Group, Inc.

Investment Banking

Investment banking revenues increased $3.2 million or 20% in calendar 1996. Revenues from selling concessions were up $0.7 million (municipals increased $1.6 million, equities decreased $0.8 million and taxable fixed income decreased $0.1 million), underwriting fees increased $0.5 million (primarily equities), and investment banking fees increased $2.0 million (municipal finance fees increased $1.5 million while corporate finance fees increased $0.5 million).

Fees and Other

Fees and other revenues increased $2.7 million or 36% in calendar 1996 primarily reflecting increased service charge income and financial service revenues.

Compensation and Benefits

Compensation and benefits increased $21.1 million or 28% in calendar 1996 due primarily to the increase in revenues. Sales-related compensation increased $17.8 million, salaries increased $2.7 million, and benefits increased $0.6 million.

Communications and Data Processing

Communications and data processing increased $2.7 million or 32% in calendar 1996. Communications expense increased $2.2 million due mainly to the Company's continued commitment to upgrading technology, its increase in personnel and the growth of its business-related activity. Data processing expense increased $0.5 million due in most part to a greater number of transactions.

Occupancy and Depreciation

Occupancy and depreciation expense increased $1.6 million or 23% in calendar 1996 primarily as a result of our continuing investment in new automated systems.

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Selling

Selling expense increased $2.0 million or 39% in calendar 1996 mainly reflecting greater promotional- related expenses resulting from increased retail and institutional activity.

Other

Other expense increased $1.9 million or 33% in calendar 1996 due to an increase in consulting costs and expenses related to an upgrade in our customer statement.

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LIQUIDITY AND CAPITAL RESOURCES

A substantial portion of the Company's assets, similar to other brokerage and investment banking firms, is liquid, consisting of cash and assets readily convertible into cash. These assets are financed primarily by the Company's interest bearing and non interest bearing payables to customers, payables to brokers and dealers secured by loaned securities, and bank lines-of-credit. Securities borrowed and securities loaned along with receivables from customers and payable to customers will fluctuate primarily due to the current level of business activity in these areas. Securities owned will fluctuate as a result of the changes in the level of positions held to facilitate customer transactions and changes in market conditions. Short-term bank loans and securities loaned, net, increased primarily due to an increase in net customer receivables and an increase in receivable from others. Receivables from others and payables to others will fluctuate primarily due to the change in the adjustment to record securities owned on a trade date basis.

At fiscal year-end 1998, First Albany Corporation, a registered broker-dealer subsidiary of First Albany Companies Inc., was in compliance with the net capital requirements of the Securities and Exchange Commission and had capital in excess of the minimum required.

Management believes that funds provided by operations and a variety of bank lines-of-credit-totaling $250,000,000 of which approximately $145,321,000 were unused as of December 31, 1998,-will provide sufficient resources to meet present and reasonably, foreseeable short-term financial needs.

During 1998, the Company declared and paid four quarterly cash dividends totaling $0.20 per share of common stock, as well as declared and issued two 5% common stock dividends.

In January 1999, subsequent to the period reflected in this report, the Company declared the regular quarterly cash dividend of $0.05 per share payable on February 24, 1999, to shareholders of record on February 10, 1999.

Management believes that funds provided by operations will be sufficient to fund the acquisition of office equipment, leasehold improvements, and other long-term requirements.

Year 2000

The Year 2000 Issue (Y2K) concerns the potential impact of historic computer software code that only utilizes two digits to represent the calendar year (e.g., "98" for "1998"). Software so developed and not corrected, could produce inaccurate or unpredictable results commencing January 1, 2000, when current and future dates present a lower two-digit year number than dates in the prior century. The Company, similar to most securities institutions, is significantly subject to the potential impact of the Y2K due to the nature of the industry. Potential impacts to the Company may arise from software, computer hardware, and other equipment both within the Company's direct control and outside the Company's ownership, yet with which the Company interfaces either electronically or operationally. Securities industry regulators have intensively focused upon Y2K exposures issuing guidance concerning the responsibilities of senior management and directors. Y2K testing and certification is being addressed as a key safety and soundness issue in conjunction with regulatory examinations of securities firms.

In August 1998, the Company filed form BD-Y2K, a mandatory filing with the Securities & Exchange Commission, New York Stock Exchange and National Association of Securities Dealers describing its Y2K compliance efforts and its Y2K readiness status. The Company will file the second of these mandatory filings in April 1999. The SEC has highly prioritized Y2K compliance in order to avoid major disruptions to the operations of securities institutions. Institutions failing to file this mandatory disclosure may be and in some cases already have been subject to formal enforcement action, supervisory agreements, cease and desist orders or civil money penalties.

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The Project

The Company has initiated a comprehensive project to prepare its internally and externally dependent computer and peripheral systems for the year 2000, and have completed changes to critical systems. This will allow time for first quarter 1999 industry testing and to assure the accurate processing of information and data for January 1, 2000. The approach is multiphase, as follows:

Phase I - Inventory & Assessment: A comprehensive inventory of all hardware, software, vendor interfaces and service providers is being completed and stored in a database that allows for easy access and updating.

Phase II - Planning, Analysis & Design: The detailed Project Plan has been completed, to allow for easy tracking and updating.

Phase III - Remediation: In some cases, remediation is undertaken either by the Company or by an outsourced third party in the form of upgrades, replacements or code fixes. In other cases, the Company monitors its vendors' progress in making its systems Y2K compliant.

Phase IV - Testing: As programs and hardware are fixed, replaced or upgraded, they are extensively tested before being placed into production.

Phase V - Implementation: All production-ready systems (hardware, software, and programming) are placed into production and carefully monitored.

Phase VI - Post Implementation: The Company will keep a careful eye out for any new products put into production after the Y2K plan has been fully executed.

The Company is currently participating in external testing with its service providers and is participating in industry-wide testing. In addition to our own testing, securities industry service providers, such as the New York Stock Exchange, the Depository Trust Company and the National Securities Clearance Corporation, are conducting tests of the critical clearance and execution systems that drive the industry as a whole. This is being done with the oversight of the Securities and Exchange Commission.

State of Readiness

The Company had defined "mission-critical" applications as those necessary for the Company to continue with business as usual. Beta Systems, which represents 90% of the Company's mission-critical applications, provides the Company with its official books and records, order entry and clearing capabilities related to securities transaction processing. Beta Systems has certified to the Company that they are Y2K compliant. Full testing with Beta Systems, for mission critical applications, began in the third quarter of 1998 and was completed in the fourth quarter of 1998. Testing of non mission critical applications began during the fourth quarter 1998 and will be completed in the first quarter of 1999. The Company is utilizing BETA Systems for participation in Industry Wide Testing and it is not until this testing is final that the Company will have independent verification of BETA System's compliance.

The Company has included facilities management concerns in its overall Y2K plan. This includes issues with power, HVAC, elevators, fire alarm systems, and security systems, among others. The Company is confident that these systems will work normally after January 1, 2000. The Company has delayed several Information Technology projects so thatY2K issues could be timely and efficiently dealt with. The delay of these projects has not affected the Company's financial condition and the results of operations.

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The Costs to Address the Company's Y2K Issues

The Company has allocated a budget of $1.2 million for the Y2K project. The Company has spent $175,000 on its Y2K project through the fourth quarter 1998. This amount was spent on upgrades to its Novell and NT operating systems, upgrading three voice/data applications, and building a Y2K compliant environment. The Company has committed $1.1 million in funds to be paid in the first and second quarters of 1999. This amount will include the replacement of non compliant desktop machines, which will be capitalized, as well as independent-verification testing of its internal applications which will be expensed as incurred. These costs are being funded through operating cash flow. All internal remediation has been accomplished by utilizing existing Company personnel. The Company's Y2K budget does not reflect the costs of the extensive resource allocation and management from internal sources. The Novell, NT, voice/data applications and the rollout of new desktop computer projects were all accelerated to meet the Company's Y2K project deadlines.

The Risks of the Company's Y2K Issues

The failure to correct a material Y2K problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Y2K problem, resulting in part from the uncertainty of the Y2K readiness of third-party suppliers and customers, the Company is unable to determine at this time whether the consequences of Y2K failures will have a material impact on the Company's results of operations, liquidity or financial condition.

Although all of Company's internal critical systems are now believed to be compliant, the Company cannot give any assurances that this result was actually achieved. Specific factors that give rise to this uncertainty include: failure to identify all susceptible systems, non compliance by third parties whose systems and operations impact the Company, and other similar uncertainties. A reasonably possible worst case scenario might include one or more of the Company's significant systems being non compliant. Such an event could result in a material disruption to the Company's operations. Specifically, the Company could experience an interruption in its ability to process trades, safeguard and manage its invested assets and operating cash accounts, accurately maintain client information, accurately maintain accounting records, and/or perform adequate customer service. Should the worst-case scenario occur it could, depending on its duration, have a material impact on the Company's results of operations and financial position.

The Company believes that, with implementation and completion of its Y2K project, the possibility of significant interruptions of normal business operations should be reduced.

The Company's Contingency Plans

There are certain industry-service centers that are so fundamental to the securities business that they cannot be replaced. The Company acknowledges that while a close watch must be kept on these, they have not been factored into the Company's contingency strategy. These service centers include, but are not limited to the following:

National Exchanges (NYSE, AMEX, NASDAQ, CBOT, etc.)
DTC Trading systems
Local and long-distance telephone carriers

Utility companies, including gas and electric

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FIRST ALBANY COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

The Company has determined that if it cannot independently confirm through extensive testing that Beta Systems is Y2K compliant, it will be necessary to convert to a service bureau that is compliant. While the Company believes that Beta Systems will be able to prove their compliance within an acceptable time frame, the Company has contracted with an established service bureau to convert the Company in the event that Beta Systems is determined to be non compliant. The Company will make this decision early in the third quarter 1999 to allow enough time for the conversion. The Company will continue to reassess the need for formal contingency plans based on progress of Y2K efforts by the Company and third parties.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company will adopt SFAS 133 in its 2000 fiscal year, as required, and has not determined whether its implementation will have a material impact on the Company's financial condition, results of operations or cash flows.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk
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MARKET RISK

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and equity prices, changes in the implied volatility of interest rate and equity prices and also changes in the credit ratings of either the issuer or its related country of origin. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the Company's market risk management procedures extends beyond derivatives to include all market risk sensitive financial instruments. The Company's exposure to market risk is directly related to its role as a financial intermediary in customer-related transactions and to its proprietary trading.

The Company trades municipal bonds and taxable debt obligations, including U.S. Treasury bills, notes, and bonds; U.S. Government agency notes and bonds; bank certificates of deposit; mortgage-backed securities, and corporate obligations. The Company is also an active market-maker in over-the-counter equity markets. In connection with these activities, the Company may be required to maintain inventories in order to ensure availability and to facilitate customer transactions. In connection with some of these activities, the Company attempts to mitigate its exposure to such market risk by entering into hedging transactions, which may include highly liquid future contracts, options and U.S. Government securities.

Following is a discussion of the Company's primary market risk exposures as of December 31, 1998, including a discussion of how those exposures are currently managed.

Interest Rate Risk

Interest rate risk is a consequence of maintaining inventory positions and trading in interest-rate-sensitive financial instruments. In connection with trading activities, the Company exposes itself to interest rate risk, arising from changes in the level or volatility of interest rates or the shape and slope of the yield curve. The Company's fixed income activities also expose it to the risk of loss related to changes in credit spreads. The Company attempts to hedge its exposure to interest rate risk primarily through the use of U.S. government securities, highly liquid futures and options designed to reduce the Company's risk profile.

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A sensitivity analysis has been prepared to estimate the Company's exposure to interest rate risk of its inventory position. The fair market value of these securities included in the Company's inventory at December 31, 1998 was $111.9 million. Interest rate risk is estimated as the potential loss in fair value resulting from a hypothetical one-half percent decrease in interest rates. At year end, the potential change in fair value, assuming this hypothetical decrease, was $4.5 million. The actual risks and results of such adverse effects may differ substantially.

Equity Price Risk

The Company is exposed to equity price risk as a consequence of making markets in equity securities. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities or instruments that derive their value from a particular stock. The Company attempts to reduce the risk of loss inherent in its inventory of equity securities by monitoring those security positions constantly throughout each day.

Marketable equity securities included in the Company's inventory at December 31, 1998, which were recorded at a fair value of $2.8 million, have exposure to equity price risk. This risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in prices quoted by stock exchanges and amounts to $0.3 million. The actual risks and results of such adverse effects may differ substantially. The Company's non-trading portfolio at December 31, 1998 had a fair market value of $6,232,000. (See Note 6). This equity price risk is also estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in prices quoted by stock exchanges and amounts to $0.6 million. Actual results may differ.

CREDIT RISK

The Company is engaged in various trading and brokerage activities whose counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counterparty or issuer of the instrument. The Company seeks to control credit risk by following an established credit approval process, monitoring credit limits, and requiring collateral where appropriate.

The Company purchases debt securities and may have significant positions in its inventory subject to market and credit risk. In order to control these risks, security positions are monitored on at least a daily basis. 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. The Company attempts to reduce its exposure to changes in securities valuation with the use of highly liquid municipal bond index futures contracts.

OPERATING RISK

Operating risk is the potential for loss arising from limitations in the Company's financial systems and controls, deficiencies in legal documentation and the execution of legal and fiduciary responsibilities, deficiencies in technology and the risk of loss attributable to operational problems. These risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In order to reduce or mitigate these risks, the Company has established and maintains an effective internal control environment which incorporates various control mechanisms at different levels throughout the organization and within such departments as Financial and Accounting, Operations, Legal, Compliance and Internal Audit. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that the Company's various businesses are operating with established corporate policies and limits.

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OTHER RISKS

Other risks encountered by the Company include political, regulatory and tax risks. These risks reflect the potential impact that changes in local laws, regulatory requirements or tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, the Company seeks to continuously review new and pending regulations and legislation and their potential impact on its business.

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Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements and Supplementary Data

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Report of Independent Accountants

To the Board of Directors and
Stockholders of First Albany Companies Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a) present fairly, in all material respects, the financial position of First Albany Companies Inc. at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a) presents fairly, in all material aspects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS L.L.P.

February 12, 1999

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First Albany Companies Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands of dollars except per share amounts)

<TABLE>

For the years ended	December 31, 1998	December 31, 1997	December 31, 1996

<S> <C> <C> <C>

Revenues:			
Commissions	$ 61,010	$ 52,987	$ 42,711
Principal transactions	72,060	63,235	63,438
Investment banking	30,544	19,636	19,558
Interest	48,697	45,474	32,240
Fees and other	14,255	11,640	10,244
Total revenues	226,566	192,972	168,191
Interest expense	39,946	38,615	26,030
Net revenues	186,620	154,357	142,161
Expenses (excluding interest):			
Compensation and benefits	130,169	105,080	95,691
Clearing, settlement and brokerage costs	4,347	3,358	2,868
Communications and data processing	13,852	12,872	10,897
Occupancy and depreciation	13,420	13,203	8,527
Selling	7,863	8,027	7,246
Other	9,837	8,915	7,840
Total expenses (excluding interest)	179,488	151,455	133,069
Income before income taxes	7,132	2,902	9,092
Income tax expense	2,794	1,251	3,592
Income before extraordinary items	4,338	1,651	5,500
Extraordinary gain, net of $225 taxes		305	
Net income	$ 4,338	$ 1,956	$ 5,500
Basic Earnings Per Share:			
Income before extraordinary gain	$0.67	$0.26	$0.91
Extraordinary gain	0.00	0.05	0.00
Net Income	$0.67	$0.31	$0.91
Dilutive Earnings Per Share:			
Income before extraordinary gain	$0.61	$0.24	$0.84
Extraordinary gain	0.00	0.04	0.00
Net Income	$0.61	$0.28	$0.84

*All per share figures have been restated to reflect all stock dividends paid.
</TABLE>

The accompanying notes are an integral
part of the consolidated financial statements.

</PAGE>

First Albany Companies Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands of dollars)

<TABLE>

<S>	December 31, 1998 <C>	December 31, 1997 <C>
Assets		
Cash	$ 1,424	$ 951
Cash segregated under federal regulations		
Securities purchased under agreement to resell	1,631	5,299
Securities borrowed	470,693	468,786
Receivables from:		
Brokers, dealers and clearing agencies	6,434	4,421
Customers	194,401	182,976
Others	12,228	7,760
Securities owned	118,370	121,116
Investments	10,719	7,026
Office equipment and leasehold improvements, net	11,390	14,057
Other assets	15,608	19,529
Total Assets	$ 842,898	$ 831,921
Liabilities and Stockholders' Equity		
Liabilities		
Short-term bank loans	$ 104,679	$ 99,702
Securities sold under agreement to repurchase		891
Securities loaned	565,571	547,847
Payables to:		
Brokers, dealers and clearing agencies	4,862	2,955
Customers	48,467	49,181
Others	17,742	37,201
Securities sold but not yet purchased	2,814	8,440
Accounts payable	4,970	4,196
Accrued compensation	23,584	13,025
Accrued expenses	5,863	6,076
Notes payable	4,750	7,271
Obligations under capitalized leases	3,688	3,088
Total Liabilities	786,990	779,873

Commitments and Contingencies		
Subordinated debt	7,500	7,500
Stockholders' Equity		
Preferred stock; $1.00 par value; authorized 500,000 shares; none issued		
Common stock; $.01 par value; authorized 10,000,000 shares; issued 6,584,464 and 5,943,381 respectively	66	59
Additional paid-in capital	40,354	33,024
Retained earnings	8,001	12,070
Less treasury stock at cost	(13)	(605)
Total Stockholders' Equity	48,408	44,548
Total Liabilities and Stockholders' Equity	$ 842,898	$ 831,921

The accompanying notes are an integral part of the consolidated financial statements.

</TABLE>
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First Albany Companies Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Periods Ended December 31, 1998, December 31, 1997 and December 31, 1996.
(In thousands of dollars except for number of shares)

<TABLE>

	Common Stock Issued Shares	Common Stock Issued Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance December 31, 1995	4,889,747	$ 49	$20,257	$19,153	(359,369)	$(1,901)
Issuance of restricted stock			340	45	74,557	413
Stock dividends declared	500,847	5	4,994	(4,999)	(38,768)	
Cash dividends paid				(932)		
Options exercised				(211)	136,276	806
Treasury stock purchase					(124,505)	(1,245)
Net income				5,500		
Balance December 31, 1996	5,390,594	54	25,591	18,556	(311,809)	(1,927)
Issuance of re-						

stricted stock			261	(39)	51,411	287
Stock dividends declared	552,787	5	7,172	(7,177)	(21,765)	
Cash dividends paid				(1,072)		
Options exercised				(154)	172,884	1,035
Net income				1,956		
Balance December 31, 1997	5,943,381	59	33,024	12,070	(109,279)	(605)
Issuance of restricted stock			(655)	132	33,059	178
Stock dividends declared	609,176	6	7,500	(7,506)	(4,689)	
Cash dividends paid				(1,165)		
Options exercised	31,907	1	243	132	67,136	354
Treasury stock sold			102		10,965	60
Non-employee options			140			
Net income				4,338		
Balance December 31, 1998	6,584,464	$ 66	$ 40,354	$ 8,001	(2,808)	$ (13)

</TABLE>

The accompanying notes are an integral
part of the consolidated financial statements.

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First Albany Companies Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

<TABLE>

For the years ended	Dec. 31, 1998	Dec. 31, 1997	Dec. 31, 1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$4,338	$1,956	$5,500
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	4,429	4,562	3,230
Deferred income taxes	(901)	2,251	146
Undistributed earnings of affiliate	1,488	(1,168)	(555)
Unrealized investment gains	(2,916)	(117)	(2,343)
Realized gains on sale of investments	(475)	(770)	
Loss on sale of fixed assets	60		
Services provided in exchange for common stock	637	509	798
(Increase) decrease in operating assets:			

Cash and securities segregated under federal regulations			1,300
Securities purchased under agreement to resell	3,668	(2,430)	(2,869)
Net receivables from brokers, dealers, and clearing agencies	(106)	(2,760)	
Net receivable from customers	(12,139)	(53,839)	(28,471)
Securities owned, net	(2,880)	33,403	(69,900)
Other assets	3,980	(11,945)	(4,158)
Increase (decrease) in operating liabilities:			
Securities loaned, net	15,817	73,388	6,312
Net payables to brokers, dealers, and clearing agencies			5,244
Net payable to others	(27,869)	(16,494)	48,934
Accounts payable and accrued expenses	11,120	4,098	4,717
Net cash (used in) provided by operating activities	(1,749)	30,644	(32,115)
Cash flows from investing activities:			
Purchase of furniture, equipment, and leaseholds	(226)	(2,682)	(8,288)
Purchases of investments	(2,444)	(15)	(1,789)
Proceeds from sale of investments	570	1,045	
Net cash used in investing activities	(2,100)	(1,652)	(10,077)
Cash flows from financing activities:			
Proceeds (payments) of short-term bank loans, net	4,977	(35,010)	22,420
Proceeds from subordinated debt		2,500	5,000
Proceeds of notes payable		5,000	5,500
Payments of notes payable	(2,521)	(2,312)	(2,558)
Payments of obligations under capitalized leases	(912)	(425)	(25)
Securities sold under agreement to repurchase	(891)	891	
Payments for purchases of common stock for treasury			(1,245)
Proceeds from issuance of common stock from treasury	892	881	595
Net increase (decrease) from borrowing under line-of-credit agreements	3,942	(2,499)	11,992
Dividends paid	(1,165)	(1,072)	(932)
Net cash provided by (used in) financing activities	4,322	(32,046)	40,747

</TABLE>

The accompanying notes are an integral

part of the consolidated financial statements.

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First Albany Companies Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)
(continued)

<TABLE>

For the years ended	Dec. 31, 1998	Dec. 31, 1997	Dec. 31, 1996
<S>	<C>	<C>	<C>
Increase (decrease) in cash	473	(3,054)	(1,445)
Cash at beginning of the period	951	4,005	5,450
Cash at the end of the period	$ 1,424	$ 951	$ 4,005
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Income Tax Payments	$ 956	$ 681	$ 3,410
Interest Payments	$39,837	$39,808	$25,404

</TABLE>

In 1998, 1997 and 1996, the Company entered into capital leases for office and computer equipment totaling approximately $1,513,000, $2,087,000 and $1,451,000, respectively.

The accompanying notes are an integral
part of the consolidated financial statements.

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First Albany Companies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Significant Accounting Policies

Organization and Nature of Business

The consolidated financial statements include the accounts of First Albany Companies Inc. and its wholly-owned subsidiaries (the "Company"). First Albany Corporation (the "Corporation") is the Company's principal subsidiary and a registered broker-dealer. The Corporation is registered with the Securities and Exchange Commission ("SEC") and is a member of various exchanges and the National Association of Securities Dealers, Inc. The Corporation's primary business includes securities brokerage for individual and institutional customers and market-making and trading of corporate, government, and municipal securities. In addition, the Corporation underwrites and distributes municipal and corporate securities, provides securities clearance activities for other brokerage firms, and offers financial advisory services to its customers. Another of the Company's subsidiaries is First Albany Asset Management Corporation ("FAAM"). Under management agreements, FAAM serves as investment manager to individual and institutional customers. FAAM directs the investment of customer and mutual fund assets by making investment decisions, placing purchase and sales orders, and providing research, statistical analysis, and continuous supervision of the portfolios. First Albany Enterprise Funding ("FAEF") is also a subsidiary of the Company formed in 1998 as a private equity investment company whose business is to provide venture capital and merchant banking services to firms in the high technology sector. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in affiliates which are not majority owned are reported using the equity method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities Transactions

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 Others on the Statement of Financial Condition. Profit and loss arising from all securities transactions entered for the account and risk of the Company are recorded on trade date. Customers' securities transactions are reported on a settlement date basis (normally the third business day following the transaction) with related commission income and expenses reported on a trade-date basis.

As a broker-dealer, the Corporation values marketable securities at market value and securities not readily marketable at fair value as determined by management. The resulting unrealized gains and losses are included as revenues from principal transactions. First Albany Companies Inc. also purchases securities for investment purposes and, as a non broker-dealer, classifies them as trading securities and values them at market value, unless they are restricted from being sold, in which case they are valued at cost.

Investment Banking

Investment banking revenues include gains, losses and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing merger, acquisition and financial advisory services. Investment banking management fees are recorded on offering date, sales concessions on trade date and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

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Resale and Repurchase Agreements

Transactions involving purchases of securities under agreements to resell or sales of securities under agreements to repurchase are treated 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 or control 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 counterparties to deposit additional collateral or return collateral pledged, when appropriate. At December 31, 1998 and December 31, 1997, the Company had entered into resale agreements in the amount of $1,631,000 and $5,299,000, respectively. At December 31, 1998, and December 31, 1997, the Company had entered into repurchase agreements with counterparties in the amounts of $0 and $891,000, respectively.

Securities-Lending Activities

Securities borrowed and securities loaned transactions 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, 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.

Collateral

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 or the Company can substitute collateral or otherwise redeem it on short notice. The Company generally 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.

Income Taxes

The amount of current taxes payable is recognized as of the date of the financial statements utilizing currently enacted tax laws and rates. Deferred income taxes are recognized for the future tax consequences, which are attributed to differences between the financial statement and tax basis of existing assets and liabilities.

Statement of Cash Flows

For purposes of the statement of cash flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than 90 days that are not segregated under federal regulations or held for sale in the ordinary course of business.

Office Equipment and Leasehold Improvements

Office equipment and leasehold improvements are stated at cost less accumulated depreciation of $19,916,000 at December 31, 1998 and $15,624,000 at December 31, 1997. Depreciation is provided on a straight-line basis over the shorter of the estimated useful life of the asset (3 to 5 years) or the term of the lease.

Securities Issued for Services

The Company accounts for stock and options issued for services by reference to the fair market value of the Company's stock on the date of stock issuance or option grant. Compensation expense is recorded for the fair market value of the stock issued, or in the case of options, for the difference between the stock's fair market value on the date of the grant

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and the option exercise price. In the event that recipients are required to render future services to obtain full rights in the securities received, the compensation expense so recorded is deferred and amortized as a charge to income over the period that such rights vest to the recipient.

Reclassification

Certain 1997 and 1996 amounts have been reclassified to conform to the 1998 presentation.

Earnings per Common Share

Basic earnings per share is computed based upon weighted-average shares outstanding. Dilutive earnings per share is computed consistently with basic while giving effect to all dilutive potential common shares that were outstanding during the period.

	December 31, 1998	December 31, 1997	December 31, 1996
Net Income	$4,338	$1,956	$5,500
Weighted average shares for basic EPS	6,510	6,318	6,072
Effect of dilutive common equivalent shares	638	616	463
Weighted average shares and dilutive common equivalent shares for dilutive EPS	7,148	6,934	6,535
Basic EPS	$0.67	$0.31	$0.91
Dilutive EPS	$0.61	$0.28	$0.84

All per share figures have been restated for all stock dividends declared.

NOTE 2. Receivables From and Payables To Brokers, Dealers, and Clearing Agencies

Amounts receivable from and payable to brokers, dealers, and clearing agencies, other than correspondents, consists of the following:

(In thousands of dollars)	December 31, 1998	December 31, 1997
Securities failed to deliver	$6,434	$4,421
Total receivables	$6,434	$4,421
Securities failed to receive	$4,862	$2,955
Total payables	$4,862	$2,955

NOTE 3. Receivables From and Payables To Customers

Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Such collateral is not reflected in the financial statements.

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First Albany Companies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Total unsecured and partly secured customer receivables were $333,000 and $341,000 as of December 31, 1998 and December 31, 1997, respectively. An allowance for doubtful accounts was recorded for $305,000 and $340,000 as of December 31, 1998 and December 31, 1997 respectively.

NOTE 4. Payables to Others

Amounts receivables from others as of:
<TABLE>

(In thousands of dollars)	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Adjustment to record securities on a trade date basis, net	$ 3,773	$
Others	8,455	7,760
Total	$12,228	$ 7,760

</TABLE>
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 Others on the Statement of Financial Condition.

NOTE 5. Securities Owned And Sold But Not Yet Purchased

Securities owned and sold but not yet purchased consisted of the following as of:
<TABLE>

(In thousands of dollars)	December 31, 1998		December 31, 1997	
	Owned	Sold, but not yet Purchased	Owned	Sold, but not yet Purchased
<S>	<C>	<C>	<C>	<C>
Marketable				
U.S. government and federal agency obligations	$ 6,321	$ 1,626	$18,296	$ 5,482
State and municipal bonds	85,836	54	94,642	57
Corporate obligations	21,434	10	4,646	1,065

Corporate stocks	3,898	1,124	3,061	1,836
Not readily-marketable securities, fair value	881		471	
	$118,370	$ 2,814	$121,116	$ 8,440

</TABLE>

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market ($187 at December 31, 1998 and $87 at December 31, 1997), (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 ($694 at December 31, 1998 and $384 at December 31, 1997).

NOTE 6. Investments

At December 31, 1998, the Company owned approximately 2,444,000 common shares (34% of the shares outstanding) of Mechanical Technology Incorporated (MTI). The Company's investment in MTI is recorded under the equity method and approximated $4,487,000, which included goodwill of approximately $700,000, which is being amortized over 10 years.

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For the years ended December 31, 1998, 1997 and 1996, the Company's equity in MTI's net (loss)income, recorded on a one-quarter delay basis, was ($1,488,000), $1,168,000 and $555,000, respectively. For the three month period ended December 31, 1998, MTI reported an unaudited loss of approximately $1.6 million. The Company's equity in MTI's net loss, was a loss of $544,000, and will be recorded in the quarter ending March 26, 1999.

The following presents summarized financial information of MTI for the year ended September 30, 1998:

<TABLE>

<S>	<C>
Assets	$21,128,000
Liabilities	10,004,000
Shareholders' equity	$11,124,000
Net Sales	$21,028,000

Operating income	1,999,000
Loss from continuing operations	(2,031,000)
Loss from discontinued operations	(2,285,000)
Net loss	$(4,316,000)

</TABLE>

In June 1997, Plug Power L.L.C., a joint venture between MTI and Edison Development Corp. ("EDC"), a subsidiary of DTE Energy Corporation, was formed. MTI and EDC have each stated they intend to contribute $5 million to Plug Power to fund continuing operations for the period August 1, 1998 through March 31, 1999. Under applicable accounting standards, MTI recognized its proportionate share of loss in Plug Power to the extent of such investment. This resulted in a $3.8 million loss in MTI's fourth quarter. The Company recognized its proportionate share (34%) of MTI's losses and reduced its pre-tax income by $1.3 million during its fourth quarter.

MTI distributed to holders of record of shares of its common stock as of the close of business on August 12, 1998 (the "Record Date"), non transferrable subscription rights to purchase additional shares of common stock at an exercise price of $6.00 per share (the "Rights Offering"). One right was granted for each five shares of common stock held on the Record Date. The rights expired September 24, 1998. First Albany Companies, Inc., exercised rights for a total of 407,340 shares of MTI common stock during the month of September 1998.

At December 31, 1998, the aggregate market value of the Company's shares in MTI was $19,705,000. Under the equity method, the market value of MTI's stock is not included in the calculation of the Company's investment.

At December 31, 1998, the Company owned 209,500 shares of META Group, Inc. The fair market value of this investment was $6,232,000. During the year ended December 31, 1998, the Company has recorded a realized gain of $475,000 and net unrealized gains of $2,917,000 with respect to this investment. During the year ended December 31, 1997, the Company recorded a realized gain of $770,000 and net unrealized gains of $117,000 with respect to this investment. During the year ended December 31, 1996, the Company recorded unrealized gains of $2.3 million with respect to this investment.

NOTE 7. Bank Loans

Short-term bank loans are made under a variety of committed and uncommitted bank lines of credit which are limited to financing securities eligible for collateralization. This includes Company owned securities and certain customer-owned securities purchased on margin, subject to certain regulatory formulas. These loans bear interest at fluctuating rates based primarily on the Federal Funds interest rate. The weighted average interest rates on these loans were 5.3%, 6.1%, and 5.9%, at December 31, 1998, December 31, 1997, and December 31, 1996, respectively.

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Short-term bank loans were collateralized by Company-owned securities of $104,095,000 and customers' margin account securities of $23,793,000 at December 31, 1998.

A note for $1,833,333, which is collateralized by fixed assets, is payable in monthly principal payments of $114,583 and accrued interest. Interest is at the 90-day U.S. Treasury Securities rate (4.43% at December 31, 1998) plus 2.5%. The note matures April 1, 2000.

A note for $2,916,667 is collateralized by fixed assets and is payable in monthly principal payments of $104,167 plus interest. The interest rate is 2% over the 30-day London InterBank Offered Rate ("LIBOR") (5.07 plus 2% on December 31 ,1998). One of the more significant covenants requires First Albany Corporation to maintain a minimum net capital (as defined by Rule 15c3-1 of the Securities and Exchange Commission) equal to three times the required minimum net capital. The required minimum net capital as of December 31, 1998, was $4,313,000. The amount of net capital as of December 31, 1998, was $22,336,000. This note matures on March 27, 2001.

Future annual principal loan repayment requirements as of December 31, 1998, are as follows:

<TABLE>

(In thousands of dollars)	
<S>	<C>
1999	$ 2,625
2000	1,709
2001	416
Total	$ 4,750

</TABLE>

NOTE 8. Obligations under Capitalized Leases

The Company entered into capital leases for office equipment. The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 1998:

<TABLE>

(In thousands of dollars)

1999	$ 1,409
2000	1,375
2001	1,008
2002	291
2003	49
Total Minimum Lease Payments	4,132
Less: Amount Representing Interest	444
Present Value of Minimum Lease Payments	$ 3,688

NOTE 9. Payables To Others

Amounts payable to others as of:

(In thousands of dollars)	December 31, 1998	December 31, 1997
Adjustment to record securities on a trade date basis, net	$	$ 23,737
Borrowing under line-of-credit agreements	14,735	10,793
Others	3,007	2,671
Total	$ 17,742	$ 37,201

</PAGE>

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 Others on the statement of financial condition.

NOTE 10. Subordinated Debt

During 1997, the Company increased its subordinated debt by $2,500,000. This debt bears interest at 8.75%. Interest is paid monthly with the principal amount due at maturity on December 31, 2002. The lender has the right to exercise stock options on 29,648 shares of the Company's stock at $16.87 per share. This right expires December 31, 2002. The Company also has an additional subordinated debt of $5,000,000 which bears interest at

9.25%. Interest is paid monthly with the principal amount due at maturity on December 31, 2002. The lender has the right to exercise stock options on 97,241 shares of the Company's stock at $10.29 per share. This right expires December 31, 2002.

Both loan agreements include restrictive financial covenants. One of the more significant covenants requires the Company to maintain a minimum net capital (as defined by Rule 15c3-1 of the Securities and Exchange Commission) equal to three times the required net capital. The amount of required net capital as of December 31, 1998 was $4,313,000. The amount of net capital as of December 31, 1998 was $22,336,000.

NOTE 11. Stockholders' Equity

Dividends:

During 1998, the Company declared and paid four quarterly cash dividends totaling $0.20 per share of common stock, and also declared and issued two 5% common stock dividends.

In January 1999, the Board of Directors declared the regular quarterly cash dividend of $0.05 per share payable on February 24, 1999, to shareholders of record on February 10, 1999.

Rights Plan:

On March 27, 1998, the Board of Directors adopted a Shareholder Rights Plan. The rights were distributed as a dividend of one right for each share of First Albany Companies, Inc. common stock outstanding, with a record date of March 30, 1998. The Shareholder Rights Plan is intended to deter coercive takeover tactics and strengthen the Company's ability to deal with an unsolicited takeover proposal.

The rights will expire on March 30, 2008. Each right will entitle the holder to buy one one-hundredth of a newly-issued share of preferred stock at an exercise price of $56.00. The rights will become exercisable at such time as any person or group acquires more than 15% of the outstanding shares of common stock of the Company (subject to certain exceptions) or within 10 days following the commencement of a tender offer that will result in any person or group owning such percentage of the outstanding voting shares.

Upon any person or group acquiring 15% of the outstanding shares of voting stock, each right will entitle its holders to buy shares of First Albany Companies Inc. common stock (or of the stock of the acquiring company if it is the surviving entity in a business combination) having a market value equal to twice the exercise price of each right. The rights will be redeemable at any time prior to their becoming exercisable.

NOTE 12. Income Taxes

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 the financial statement 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.

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First Albany Companies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The components of income taxes are:

<TABLE>

(In thousands of dollars)	December 31, 1998	December 31, 1997	December 31, 1996
<S>	<C>	<C>	<C>
Federal			
Current	$1,897	$ (956)	$2,455
Deferred	(680)	1,642	(3)
State and local			
Current	1,798	181	991
Deferred	(221)	609	149
Total income taxes	$2,794	$1,476	$3,592

</TABLE>

The reasons for the difference between the expected income tax expense using the federal statutory rate and the income tax expense are as follows:

<TABLE>

(In thousands of dollars)	December 31, 1998	December 31, 1997	December 31, 1996
<S>	<C>	<C>	<C>
Income taxes at federal statutory rate	$2,425	$1,167	$3,092
State and local income taxes, net of federal income taxes	1,118	439	753
Meals and entertainment	171	169	160
Tax-exempt interest income, net	(970)	(405)	(420)
Non deductible expenses	50	106	7
Total income taxes	$2,794	$1,476	$3,592

</TABLE>

The temporary differences that give rise to significant portions of deferred tax assets and liabilities are as follows:

<TABLE>

(In thousands of dollars)	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Bad debt reserve	$ 127	$ 149
Securities held for investment	(1,842)	(1,082)
Fixed assets	623	9
Deferred compensation	1,381	577
Other	(168)	(433)
Total deferred tax assets (liablities)	$ 121	$ (780)

</TABLE>

The Company has not recorded a valuation allowance for deferred tax assets since it has determined that it is more likely than not that deferred tax assets will be fully realized through a combination of future taxable income and income available in carryback years.

NOTE 13. Employee Benefit Plans

The Company maintains a deferred profit sharing plan (Internal Revenue Code Section 401(k) Plan) which permits eligible employees to defer a percentage of their compensation. Company contributions to eligible participants may be made at the discretion of the Board of Directors. During the years ended December 31, 1998, December 31, 1997, and December 31, 1996, the Company contributed $297,000, $107,000 and $103,000 respectively. The Company also maintains an Employee Stock Bonus Plan (Internal Revenue Code Section 401(a)) which permits eligible employees to contribute up to 8% of their compensation on an after-tax basis. The Company makes matching contributions equal to a percentage of each employee's contributions.

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Company contributions vest in accordance with the Plan and are tax deferred until withdrawal. Employee and Company contributions are invested solely in the common stock of the Company. During the years ended December 31, 1998, December 31, 1997 and December 31, 1996, the Company contributed $864,000, $788,000 and $617,000 respectively.

NOTE 14. Incentive Plans

In 1982, the Company established a Stock Incentive Plan (the "1982 Plan") which, as amended by stockholders in 1987, authorized issuance of options to officers and key employees of the Company to purchase up to 800,000 shares of common stock. On February 27, 1989, stockholders approved adoption of the First Albany Companies Inc. 1989 Stock Incentive Plan (the "1989 Plan"). As of December 31, 1998 and December 31, 1997, there were 2,199,673 and 2,041,121 shares authorized for the issuance of options. These shares include subsequent amendments to the 1989 plan for the issuance of additional shares, and the cumulative effect of subsequent stock dividends. Coincident with the adoption of the 1989 Plan, the 1982 Plan was terminated. Options previously granted under the 1982 Plan remain valid in accordance with the terms of the grant of such options; however, the grant of new options under the 1982 Plan was ended. Both the 1982 Plan and 1989 Plan enable the Company to grant incentive stock options (ISOs) which meet the requirements of Section 422A of the Internal Revenue Code of 1954 as amended and nonqualified stock options (NSOs). ISOs are granted at prices not less than fair value at the date of the grant; NSOs may be issued at prices less than fair market value. ISOs and NSOs may not have a term of more than ten years. Under certain conditions, the Company is required to purchase shares issued under this Plan at prices ranging from the original exercise or award price to the greater of the then book or market value. If NSOs are exercised, the difference between the option price and the selling price will be recognized as an expense in the income statement. Options granted under the 1989 plan vest over a period ranging from 0 to 5 years.

In addition, under the 1989 Plan, stock appreciation rights (SARs) may be granted in tandem with ISOs or NSOs. SARs may be exercised only if the related options (or portions thereof) are surrendered and at such time as the fair market value of the shares underlying the option exceeds the option price for such shares. Upon exercise of SAR and surrender of the related option, an employee will be entitled to receive an amount equal to the excess of the fair market value of one share at the time of such surrender over the option price per share specified in such option times the number of such shares called for by the option, or portion thereof, which is so surrendered. Payment may be made in cash, shares of common stock, or a combination thereof. SARs may not be exercised before six months from date of grant. As of December 31, 1998, no SARs have been granted.

Option transactions for the 36-month period ended December 31, 1998, under the 1982 Plan were as follows:
<TABLE>

<S>	Shares Subject to Option <C>	Weighted Average Exercise Price <C>
Balance at December 31, 1995	19,125	$ 4.04
Options granted	1,959	3.75
Options exercised	(4,022)	3.55

Balance at December 31, 1996	17,062	3.73
Options granted	967	3.15
Options exercised	(8,654)	4.04
Balance at December 31, 1997	9,375	3.07
Options granted	517	2.92
Options exercised	(4,335)	3.07
Balance at December 31, 1998	5,557	$ 2.78

</TABLE>
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First Albany Companies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

There were no shares available for grants of options under the 1982 Plan at December 31, 1998; December 31, 1997, and December 31, 1996. During calendar year 1998, the Company declared two 5% common stock dividends. These dividends resulted in an additional 517 options authorized. All shares subject to options were exercisable at the end of each period presented. At December 31, 1998, options outstanding and exercisable under the 1982 Plan had an average exercise price of $2.78 and expired during January, 1999.

Option transactions for the 36 month period ended December 31, 1998 under the 1989 Plan were as follows: (all are ISOs)
<TABLE>

	Shares Subject to Option	Weighted Average Exercise Price
<S>	<C>	<C>
Balance at December 31, 1995	765,934	$ 5.60
Options granted	262,441	8.51
Options exercised	(132,255)	4.39
Options terminated	(51,359)	6.59
Balance at December 31, 1996	844,761	6.11
Options granted	681,161	10.03
Options exercised	(164,230)	5.15
Options terminated	(50,616)	8.40
Balance at December 31, 1997	1,311,076	7.46
Options granted	427,326	11.10
Options exercised	(94,708)	7.55
Options terminated	(52,356)	8.56
Balance at December 31, 1998	1,591,338	$ 7.67

==
</TABLE>

During calendar year 1998, the Company declared two 5% common stock dividends. These dividends resulted in an additional 158,552 options authorized.

There were 66,605, 283,023 and 760,402 shares available for grants of options at December 31, 1998, December 31, 1997, and December 31, 1996.

The following table summarizes information about stock options outstanding under the 1989 Plan at December 31, 1998:
<TABLE>

	Outstanding			Exercisable	
Exercise Price Range	Shares	Average Life (years)	Average Exercise Price	Shares	Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$2.89-$3.58	358,733	2.46	$3.14	358,733	$3.14
$5.32-$7.64	305,856	3.76	6.58	210,885	6.14
$8.43-$11.93	863,904	8.58	9.57	205,230	10.69
$12.93	62,845	9.30	12.93	-------	-----
	1,591,338	6.30	$7.67	774,848	$5.95

</TABLE>

At December 31, 1998, 1,591,338 options were outstanding of which 1,246,402 were ISOs and 344,936 were NSOs.

At December 31, 1998, 774,848 options with an average exercise price of $5.95 were exercisable; at December 31, 1997, 602,333 options with an average exercise price of $5.19 were exercisable; and at December 31, 1996, 581,250 options with an average exercise price of $5.01 were exercisable.

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The Company has elected to follow Accounting Principals Board No. 25 "Accounting for Stock Issued to Employees" ("APB 25") in accounting for the stock option plans. Under APB 25, no compensation cost has been recognized in 1998, 1997, and 1996. Had compensation cost and fair value been determined pursuant to Financial Accounting Standard No. 123 (FAS 123) "Accounting for Stock-Based Compensation," net income would have decreased from $4,338,000 to $3,283,000 in calendar year 1998, $1,956,000 to $1,557,000 in calendar year 1997, and $5,500,000 to $5,388,000 in calendar year 1996. Basic earnings per share would decrease from $0.67 to $0.50 in 1998, $0.31

to $0.25 in 1997, and $0.91 to $0.89 in 1996. Dilutive earnings per share would decrease from $0.61 to $0.46 in 1998, $0.28 to $0.22 in year 1997, and $0.84 to $0.82 in calendar year 1996. The initial impact of FASB 123 on pro forma earnings per share may not be representative of the effect on income in future years because options vest over several years and additional option grants may be made each year.

The weighted average fair value of options granted during 1998, 1997 and 1996 under FAS 123 was $8.12, $5.53 and $3.21, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants: dividend yield 1.5% for both 1998 and 1997, and 2.76% for 1996; expected volatility of 66.4%, 59.4% and 54.7% for 1998, 1997 and 1996, respectively; risk-free interest rates of 5.0%, 5.5%, and 5.17% to 6.26% for 1998, 1997 and 1996, respectively; and expected lives of 6.0, 5.0, and 2.6 years for 1998, 1997 and 1996, respectively.

In 1992, the Company established the First Albany Companies Inc. Restricted Stock Plan which authorized the issuance of up to 471,412 shares of common stock (adjusted for all stock dividends) to certain key employees of the Company. Awards under this plan expire over a four-year period after the award date and are subject to certain restrictions including continued employment. As of December 31, 1998, December 31, 1997, and December 31, 1996, 163,052, 153,229, and 105,226 shares, respectively, have been awarded under this plan. The fair market value of the awards will be amortized over the period in which the restrictions are outstanding.

The Company has various other incentive programs which are offered to eligible employees. These programs consist of cash incentives and deferred bonuses. Amounts awarded vest over periods ranging from three to ten years. Costs are amortized over the vesting period and aggregated $5,859,000 in 1998, $3,641,000 in 1997, and $1,983,000 in 1996.

NOTE 15. Commitments and Contingencies

The Company's headquarters, sales offices, and certain office and communication equipment are leased under noncancelable operating leases, which expire at various times through 2008. Future minimum annual rentals payable are as follows:

<TABLE>

	(In thousands of dollars)
<S>	<C>
1999	$ 7,889
2000	6,827
2001	6,325
2002	5,043
2003	4,012
Thereafter	12,824

Total	$ 42,920

</TABLE>

Annual rental expense including utilities for the year ended December 31, 1998, December 31, 1997, December 31, 1996, approximated $6,366,000, $5,565,000 and $4,175,000, respectively.

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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 it believes are likely to result in adverse dispositions. Although further losses are possible, the opinion of management, based upon the advice of its attorneys and General Counsel, 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.

The Company is contingently liable under bank stand-by letter of credit agreements, executed in connection with security clearing activities, totaling $3,200,000 at December 31, 1998. The Company also has guaranteed a note payable to another for $700,000 which is collateralized by assets where the fair value approximates $700,000.

NOTE 16. Net Capital Requirements

The Corporation is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Corporation has elected to use the alternative method, permitted by the Rule, which requires that the Corporation maintain a minimum net capital equal to 2 percent of aggregate debit balances arising from customer transactions, as defined. At December 31, 1998, the Corporation had net capital of $22,336,000 which equaled 10.4% of aggregate debit balances and $18,023,000 in excess of required minimum net capital.

NOTE 17. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company's customer and correspondent clearing activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations, and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions, when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as bank loans and securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations.

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The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

In addition, the Company has sold securities that it does not currently own and is obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statements at the December 31, 1998 market values of the related securities and will incur a loss if the market value of the securities increases subsequent to December 31, 1998.

The Company acts as a manager and co manager in underwriting security transactions. In this capacity, there is risk if the potential customer does not fulfill the obligation to purchase the securities. This risk is mitigated by the fact that the Company deals primarily with institutional investors. In most cases, no one institutional customer subscribes to the majority of the securities being sold, thereby spreading the risk for this type of loss among many established customers. The Company also maintains credit limits for these activities and monitors compliance with applicable limits and industry regulations on a daily basis.

NOTE 18. Concentrations of Credit Risk

The Company is engaged in various trading and brokerage activities whose counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counterparty or issuer of the instrument. The Company seeks to control credit risk by following an established credit approval process, monitoring credit limits, and requiring collateral where appropriate.

The Company purchases debt securities and may have significant positions in its inventory subject to market and credit risk. In order to control these risks, security positions are monitored on at least a daily basis. 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. The Company reduces its exposure to changes in securities valuation with the use of municipal bond index futures contracts. (See Note 20.)

NOTE 19. 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 value, due to the short-term nature of the financial instruments, with the exception of its investment in MTI (Note 6) and its subordinated debt. The fair value of subordinated debt at December 31, 1998, approximates its carrying value based on current rates available.

NOTE 20. Derivative Financial Instruments

The Company does not engage in the proprietary trading of derivative securities with the exception of highly liquid index futures contracts and options. These index futures contracts and options are used to hedge securities positions in the Company's inventory. Gains and losses on these financial instruments are included as revenues from principal transactions.

Trading profits and losses relating to these financial instruments were as follows:

(In thousands of dollars)	Year Ended Dec. 31, 1998	Year Ended Dec. 31,1997	Year Ended Dec. 31, 1996
Trading Profits State and Municipal Bonds	$ 4,730	$ 6,840	$ 2,032
Index Futures Hedging	(2,172)	(2,061)	594
Net Revenues	$ 2,558	$ 4,779	$ 2,626

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First Albany Companies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 1998, the contractual or notional amounts related to these financial instruments were as follows:

(In thousands of dollars)	Average Notional or Contract Market Value	Year End Notional or Contract Market Value
Index Futures Contracts	($18,253)	($8,347)

As of December 31, 1997, the contractual or notional amounts related to these financial instruments were as follows:

(In thousands of dollars)	Average Notional or Contract Market Value	Year End Notional or Contract Market Value
Index Futures Contracts	($12,401)	($14,994)

As of December 31, 1996, the contractual or notional amounts related to these financial instruments were as follows:

(In thousands of dollars)	Average Notional or Contract Market Value	Year End Notional or Contract Market Value

<S>	<C>	<C>
Index Futures Contracts	($7,750)	($5,881)

</TABLE>

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 are recorded as receivables from clearing organizations. The settlement of these transactions is not expected to have a material adverse effect on the financial condition of the Company.

NOTE 21. Segment Analysis

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 is effective for fiscal years beginning after December 15, 1997. SFAS 131 establishes standards for reporting financial and descriptive information about an enterprise's operating segments in its annual financial statements and selected segment information in interim financial reports.

The Company's reportable operating segments are: Private Client Group, Institutional Sales and Trading ("Institutional"), and Other. The Private Client Group provides securities brokerage services to individual investors. Revenues are generated through customer purchase and sale of equity securities, taxable and non-taxable fixed income securities, along with mutual funds and various other investment products and services. The Institutional segment generates revenues from securities transactions (equities and fixed-income securities) with major institutions along with investment banking activities, which includes the managing, co-managing and participating in tax-exempt and corporate securities underwritings (excluding sales credits relating to such underwritings which are included in the Private Client Group). This segment also includes trading activity in which the Company buys and maintains inventories of fixed-income products and equities securities (as a "market maker") for sale to other dealers and to customers. The Other segment revenues are derived from a variety of sources which include investment income, net interest revenues relating to securities lending transactions and revenues from correspondent services.

The Company's Other segment also includes revenue relating to the Company's investment in Mechanical Technology Incorporated (MTI) which is recorded under the equity method (see Note 6 - "Investments").

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Pre-tax net (loss)income relating to MTI was $(1,488,000), $1,168,000 and $555,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The financial policies of the Company's segments are the same as those described in the "Summary of Significant Accounting Policies." Intersegment revenues and expenses are eliminated between segments. Interest revenues and interest expenses are reviewed primarily on a net basis (Net Interest Revenues) and are shown as such. The Company evaluates the performance of its segments and allocates resources to them based upon operating margins. Included in the Other segment are operations, administrative functions and other support costs along with an accrual for general discretionary variable compensation which are not allocated to the various segments. Asset information by reportable segments is not reported since the Company does not produce such information internally for the reportable segments. All assets are located in the United States.

Information concerning operations in these segments is as follows:

<TABLE>

For years ended (in thousands of dollars)	December 31, 1998	December 31, 1997	December 31, 1996
<S>	<C>	<C>	<C>
Revenues (excluding interest):			
Private Client Group	$ 85,183	$ 77,158	$ 68,030
Institutional	86,718	65,206	61,502
Other	5,968	5,134	6,419
Total	$177,869	$147,498	$135,951
Net Interest Revenues:			
Private Client Group	$ 3,540	$ 1,397	$ 903
Institutional	(1,538)	(1,055)	(1,104)
Other	6,749	6,517	6,411
Total	$ 8,751	$ 6,859	$ 6,210
Net Revenues:			
Private Client Group	$ 88,723	$ 78,555	$ 68,933
Institutional	85,180	64,151	60,398

Other	12,717	11,651	12,830
Total	$186,620	$154,357	$142,161
Pre-Tax Income:			
Private Client Group	$ 14,974	$ 16,310	$ 14,523
Institutional	13,073	4,232	2,801
Other	(20,915)	(17,640)	(8,232)
Total	$ 7,132	$ 2,902	$ 9,092

</TABLE>
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First Albany Companies Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 22. New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company will adopt SFAS 133 in its 2000 fiscal year, as required, and has not determined whether its implementation will have a material impact on the Company's financial condition, results of operations or cash flows.

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FIRST ALBANY COMPANIES INC.
SUPPLEMENTARY DATA
SELECTED QUARTERLY FINANCIAL DATA
(Unaudited)
(In thousands of dollars, except per share data)

<TABLE>

	Quarters Ended			
1998 - Calendar Year	Mar. 27	June 26	Sep. 25	Dec. 31
<S>	<C>	<C>	<C>	<C>

Total revenues	$57,098	$55,457	$55,892	$58,119
Interest expense	(9,105)	(9,871)	(10,126)	(10,844)
Net revenues	47,993	45,586	45,766	47,275
Total expenses (excluding interest)	(45,727)	(43,698)	(43,807)	(46,256)
Income before income taxes	2,266	1,888	1,959	1,019
Income tax expense	(859)	(801)	(811)	(323)
Net income	$ 1,407	$ 1,087	$ 1,148	$ 696
Net income per common and common equivalent share:				
Basic	$ 0.22	$ 0.17	$ 0.18	$ 0.11
Dilutive	$ 0.20	$ 0.15	$ 0.16	$ 0.10

	Quarters Ended			
1997 - Calendar Year	Mar. 28	June 27	Sep. 26	Dec. 31
Total revenues	$42,059	$45,770	$49,741	$55,402
Interest expense	(8,424)	(9,516)	(10,172)	(10,503)
Net revenues	33,635	36,254	39,569	44,899
Total expenses (excluding interest)	(33,605)	(35,933)	(38,418)	(43,499)
Income before income taxes	30	321	1,151	1,400
Income tax benefit/(expense)	36	(130)	(545)	(612)
Income before extraordinary items	66	191	606	788
Extraordinary gain (net of taxes)	305	---	---	---
Net income	$ 371	$ 191	$ 606	$ 788
Net income per common and common equivalent share:				
Basic	$ 0.06	$ 0.03	$ 0.10	$ 0.13
Dilutive	$ 0.06	$ 0.03	$ 0.09	$ 0.11

</TABLE>

All per share figures have been restated for common stock dividends paid. The sum of the quarter earnings per share amount does not always equal the full fiscal year's amount due to the effect of averaging the number of shares of common stock and common stock equivalents throughout the year.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant.

Except as set forth below, the information required by this item will be contained under the caption "Election of Directors" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on or about May 18, 1999. Such information is incorporated herein by reference.

Information (not included in the Company's definitive proxy statement for the 1998 Annual Meeting of Stockholders) regarding certain executive officers of the Company is as follows:

Item 11. Executive Compensation.

The information required by this item will be contained under the caption "Compensation of Executive Officers" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on or about May 18, 1999. Such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item will be contained under the caption "Stock Ownership of Principal Owners and Management" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on or about May 18, 1999. Such information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information required by this item will be contained under the caption "Certain Relationships and Related Transactions" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on or about May 18, 1999. Such information is incorporated herein by reference.

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Part IV

Item 14. Exhibits, Financial Statement Schedule and Reports on Form 8-K.

(a) (1) The following financial statements are included in Part II, Item 8:

Report of Independent Accountants

Financial Statements:

Consolidated Statements of Income For the Calendar Years Ended December 31, 1998, December 31, 1997, and December 31, 1996.

Consolidated Statements of Financial Condition as of December 31, 1998 and December 31, 1997.

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 1998, December 31, 1997 and December 31, 1996.

Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, December 31, 1997, and December 31, 1996.

Notes to Consolidated Financial Statements

(2) The following financial statement schedule for the periods 1998, 1997, and 1996 are submitted herewith:

Schedule II-Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

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(3) Exhibits included herein:

Exhibit Number	Description
3.1	Certificate of Incorporation of First Albany Companies Inc. (filed as Exhibit No. 3.1 to Registration Statement No. 33-1353).

3.1a Amendment to Certificate of Incorporation of First Albany Companies Inc. (as filed as Exhibit No. (3) (i) to Form 10-Q for the quarter ended June 26, 1998).

3.2 By laws of First Albany Companies Inc. (filed as Exhibit No. 3.2 to Registration Statement No. 33-1353).

3.2a By laws of First Albany Companies Inc., as amended (as filed as Exhibit No. 3.2a to Form 10-K for the fiscal year ended September 24, 1993).

3.2b By laws of First Albany Companies Inc., as amended (as filed as Exhibit No. 3.2b to Form 10-K for the calendar year ended December 31, 1996).

3.2c By laws of First Albany Companies Inc., as amended (as filed as Exhibit No. 3.2c to Form 10-K for the calendar year ended December 31, 1997).

3.2d By laws of First Albany Companies Inc., as amended (as filed as Exhibit (3) (ii) to Form 10-Q for the quarter ended June 26, 1998).

4. Specimen Certificate of Common Stock, par value $.01 per share (filed as Exhibit No. 4 to Registration Statement No. 33-1353).

10.6 Deferred Profit Sharing Plan of First Albany Corporation effective October 1, 1982, as amended by shareholder vote dated January 19, 1987 (filed as Exhibit 10.6 to Form 10-K for the fiscal year ended September 30, 1986).

10.7 Incentive Stock Option Plan of First Albany Corporation effective October 1, 1982, as amended by shareholder vote, dated January 19, 1987 (filed as Exhibit 10.7 to Form 10-K for the fiscal year ended September 30, 1987.

10.10 First Albany Companies Inc. Stock Bonus Plan effective July 8, 1987 (filed as Registration Statement No. 33-15220 (Form B) dated July 8, 1987).

10.10a First Albany Companies Inc. Stock Bonus Plan, as amended, effective June 25, 1990 (filed as Registration Statement No. 33-35166 (Form S-8) dated June 25, 1990).

10.10b First Albany Companies Inc. Stock Bonus Plan, as amended, effective February 4, 1994 (filed as Registration Statement 33-52153 (Form S-8) dated February 4, 1994).

10.10c First Albany Companies Inc. Stock Bonus Plan, as amended, effective June 2, 1995(filed as Registration Statement 33-59855(Form S-8) dated June 2, 1995).

10.10d First Albany Companies Inc. Stock Bonus Plan, as amended, effective June 2, 1995(filed as Registration Statement 333-18645(Form S-8) dated December 23, 1996).

10.12 First Albany Companies Inc. 1989 Stock Incentive Plan effective February 27, 1989, as approved by shareholder vote dated February 27, 1989 (filed as Exhibit 10.12 to Form 10-K for the fiscal year ended September 30, 1989).

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(3) Exhibits included herein: (continued)

Exhibit Number	Description
10.15	Lease dated June 12, 1992, between First Albany Companies Inc. and Olympia and York Limited Partnership for office space at 53 State Street, Boston, Massachusetts(filed as Exhibit 10.15 to Form 10-K for the fiscal year ended September 25, 1992).
10.16	The First Albany Companies Inc. Restricted Stock Plan as adopted by the Company on April 27, 1992(filed as Exhibit 10.16 to Form 10-K for the fiscal year ended September 25, 1992).
10.18	Sublease dated October 13, 1995, between First Albany Companies Inc. and KeyCorp for office facilities at 30 South Pearl Street, Albany, New York. (Filed as Exhibit 10.18 to Form 10K for fiscal year ended September 29, 1995).
10.19	Term Loan Agreement dated March 29, 1996, between First Albany Companies Inc. and OnBank Trust & Co. (Filed as Exhibit 10.19 to Form 10K for calendar year ended December 31,1996).
10.20	Subordinated Loan Agreement dated September 16, 1996, between First Albany Companies Inc. and Sharon M. Duker. (Filed as Exhibit 10.20 to Form 10K for calendar year ended December 31, 1996).
10.20a	Subordinated Loan Agreement between First Albany Companies Inc. and Sharon M. Duker as amended effective December 23, 1997 (filed as Exhibit 10.20a to Form 10-K for calendar year ended December 31, 1997).
10.21	Master Equipment Lease Agreement dated September 25, 1996, between First Albany Companies Inc. and KeyCorp Leasing Ltd. (Filed as Exhibit 10.21 to Form 10K for calendar year ended December 31, 1996).
10.22	Lease dated March 21, 1996, between First Albany Companies Inc. and

Mid-City Associates for office space at One Penn Plaza, New York, New York. (Filed as Exhibit 10.22 to Form 10K for calendar year ended December 31, 1996).

10.23 Subordinated Loan Agreement dated December 23, 1997 between First Albany Companies Inc. and Sharon M. Duker (filed as Exhibit 10.23 to Form 10K for calendar year ended December 31, 1997).

10.24 First Albany Companies Inc. Executive Officers Deferred Compensation Plan and First Albany Companies Inc. Investment Executive Deferred Compensation Plan effective January 7, 1998 (filed as Registration Statement No. 333-43825 (Form S-8) dated January 7, 1998).

11 Computation of per share earnings.

21 List of Subsidiaries of First Albany Companies Inc.

23 Consent of PricewaterhouseCoopers L.L.P.

27 Financial Data Schedule BD

(b) Reports on Form 8-K: No reports on Form 8-K have been filed by the Registrant during the last quarter of the period covered by this report.

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(3) Exhibits included herein: (continued)

Exhibit
Number   Description
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(c) Exhibits: The exhibits to this report are listed in section (a)(3) of Item 14 above.

(d) Financial Statement Schedules: The financial statement schedule filed with this report is listed in section (a)(2) of Item 14 above.

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FIRST ALBANY COMPANIES INC.
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
PERIODS ENDED DECEMBER 31, 1998, DECEMBER 31, 1997
AND DECEMBER 31, 1996.

<TABLE>

COL. A	COL. B	COL. C	COL. D	COL. E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts -- deducted from receivables from customers:				
<S>	<C>	<C>	<C>	<C>
Calendar Year 1998	$ 340,000	$ 133,000	$ 168,000	$ 305,000
Calendar Year 1997	$ 304,000	$ 120,000	$ 84,000	$ 340,000
Calendar Year 1996	$ 219,000	$ 120,000	$ 35,000	$ 304,000

</TABLE>
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST ALBANY COMPANIES INC.

By: /s/ GEORGE C. MCNAMEE

George C. McNamee,
Chairman and Co-Chief Executive Officer

Date: March 26, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ GEORGE C. MCNAMEE	Chairman and Co-Chief Executive Officer	March 26, 1999

George C. McNamee

/s/ ALAN P. GOLDBERG --------------------- Alan P. Goldberg	President and Co-Chief Executive Officer	March 26, 1999
/s/ TIMOTHY R. WELLES ------------------------- Timothy R. Welles	Chief Financial Officer (Principal Accounting Officer)	March 26, 1999
/s/ HUGH A. JOHNSON, JR. ------------------------- Hugh A. Johnson, Jr.	Senior Vice President and Director	March 26, 1999
------------------------- Peter Barton	Director	March 26, 1999
------------------------- J. Anthony Boeckh	Director	March 26, 1999
/s/ WALTER M. FIEDEROWICZ ------------------------- Walter M. Fiederowicz	Director	March 26, 1999
/s/ DANIEL V. MCNAMEE ------------------------- Daniel V. McNamee	Director	March 26, 1999
/s/ CHARLES L. SCHWAGER ------------------------- Charles L. Schwager	Director	March 26, 1999
/s/ BENAREE P. WILEY ------------------------- Benaree P. Wiley	Director	March 26, 1999

EXHIBIT 11

FIRST ALBANY COMPANIES INC. AND SUBSIDIARIES
Computation of Per Share Earnings *
(In thousands, except per share amounts)
(unaudited)

<TABLE>

	December 31, 1998	December 31, 1997	December 31, 1996
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Basic:			
Net income	$ 4,338	$ 1,956	$ 5,500
Weighted average number of shares outstanding during the period	6,510	6,318	6,072
Net income per share	$ 0.67	$ 0.31	$ 0.91
Dilutive:			
Net income	$ 4,338	$ 1,956	$ 5,500
Weighted average number of shares outstanding during the period	6,510	6,318	6,072
Effective of dilutive common equivalent shares	638	616	463
Weighted average shares and dilutive common equivalent shares for dilutive earnings per share	7,148	6,934	6,535
Net income per share	$ 0.61	$ 0.28	$ 0.84

</TABLE>

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

EXHIBIT 21

SUBSIDIARIES OF FIRST ALBANY COMPANIES INC.

COMPANY NAME	STATE OF INCORPORATION
FIRST ALBANY CORPORATION	NEW YORK
FIRST ALBANY ASSET MANAGEMENT CORPORATION	NEW YORK
FIRST ALBANY ENTERPRISE FUNDING INC.	DELAWARE

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of First Albany Companies Inc. on Form S-8 related to the First Albany Companies Inc. Stock Bonus Plan (File No. 014140) of our report dated February 12, 1999, on our audits of the consolidated financial statements and financial statement schedule of First Albany Companies Inc. as of December 31, 1998 and December 31, 1997, and for the three years in the period ended December 31, 1998, which report is included in this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS L. L. P.

March 25, 1999
Albany, New York

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CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of First Albany Companies Inc. on Form S-8 related to the First Albany Companies Inc. Executive Officers Deferred Compensation Plan and Investment Executives Deferred Compensation Plan (File No. 014140) of our report dated February 12, 1999, on our audits of the consolidated financial statements and financial statement schedule of First Albany Companies Inc. as of December 31, 1998 and December 31, 1997, and for the three years in the period ended December 31, 1998, which report is included in this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS L. L. P.

March 25, 1999
Albany, New York

</PAGE>

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