FBR

FBR & CO.

2012 ANNUAL REPORT

BOARD OF DIRECTORS

Richard J. Hendrix
Chairman, President and Chief Executive Officer, FBR & Co.

Dr. Reena Aggarwal
Professor, Georgetown University's McDonough School of Business

Thomas J. Hynes, Jr.
Co-Chairman and Chief Executive Officer, Colliers International – Boston, a commercial real estate services firm

Adam J. Klein
Principal, Crestview Advisors, LLC, a private equity firm

Richard A. Kraemer
Former Chairman of the Board, Saxon Capital Inc., a publicly traded mortgage REIT

Ralph S. Michael, III
President and Chief Executive Officer, Fifth Third Bank Greater Cincinnati, a U.S. regional banking corporation

Thomas S. Murphy, Jr.
Managing Director, Crestview Advisors, LLC, a private equity firm

Arthur J. Reimers, Lead Director
Private Investor and Former Partner and Managing Director, Goldman Sachs & Co., an investment bank

EXECUTIVE OFFICERS

Richard J. Hendrix
Chairman, President and Chief Executive Officer

Adam J. Fishman
Executive Vice President and Head of Sales and Research

Robert J. Kieman
Senior Vice President, Controller and Chief Accounting Officer

Michael A. Lloyd
Executive Vice President and Head of Trading

James C. Neuhauser
Executive Vice President and Chief Investment Officer

Kenneth P. Slosser
Executive Vice President and Head of Investment Banking

Bradley J. Wright
Executive Vice President, Chief Financial Officer and Chief Administrative Officer

EXECUTIVE COMMITTEE

Richard J. Hendrix
Chairman, President and Chief Executive Officer

Gavin A. Beske
Senior Vice President and General Counsel

Paul T. Dell'Isola
Senior Managing Director and Head of Capital Markets

Adam J. Fishman
Executive Vice President and Head of Sales and Research

Michael A. Lloyd
Executive Vice President and Head of Trading

James C. Neuhauser
Executive Vice President and Chief Investment Officer

Kenneth P. Slosser
Executive Vice President and Head of Investment Banking

Bradley J. Wright
Executive Vice President, Chief Financial Officer and Chief Administrative Officer

FBR

Dear Shareholders:

2012 was one of the most important years in the history of FBR. Not only did we generate the most net income in our short history trading as a stand-alone public company, we reestablished momentum as a capital markets franchise and demonstrated to each of our key constituencies (clients, owners, and employees) that following our restructuring activities over the last several years, we are more capable than ever at executing for clients and better positioned to consistently generate value for shareholders.

Reestablishing this type of momentum is, in my opinion, extraordinarily difficult. It requires a talented team possessing differentiated capabilities and the total commitment and belief of that team in its ability to succeed. We are fortunate today to have 260 people with those capabilities and that level of commitment. Together, we put the challenges and uncertainties surrounding our restructuring firmly behind us as we entered 2012 and went to work on delivering for clients; and in the process, we reconfirmed our core strengths as a firm.

While our progress in 2012 was tremendously important to our future success, our challenge in 2013 will be to translate the hard work of the last several years, and the momentum we have entering this year, into even better returns for shareholders. Achieving higher returns on equity and significantly higher operating earnings from continuing operations are near term goals that we are focused on and that will be important markers along our path to maximizing the value of our franchise.

For the full year 2012, our net after-tax earnings were $29.7 million compared to a net after-tax loss of $49.6 million in 2011. Pre-tax income from continuing operations was $3.9 million on revenue of $151.5 million compared with a $51.3 million pre-tax loss on revenue of $132.2 million in 2011. 2012 net earnings included $23.1 million from the sale of our mutual funds business.

Banking revenues were $90.7 million in 2012, a 56% increase over 2011. But that's only part of the story. This revenue achievement reflects 56 transactions representing $8.7 billion in transaction volume. It also reflects the completion of a number of sole book-run capital markets transactions, one of which became the year's second best performing underwritten IPO. It includes four industry-leading private transactions where, as sole placement agent, FBR raised $1.5 billion in capital in the real estate sector and, specifically, around the recovery of the US housing market.

The banking work that we completed for clients in 2012 put FBR on top as the #1 bookrunner[1] of initial common stock offerings across all industries for market caps of $1.5 billion and under. Further, it is important to note that the $90.7 million in banking revenue does not include an additional $38.3 million earned in the second quarter of 2012, but which wasn't able to be fully recognized until the first quarter of 2013.

More important than the actual numbers and specific transactions is the clear demonstration to the marketplace that FBR is excelling at what we do best: identifying great investment opportunities that align with our research themes, partnering with world class management teams, and rapidly accessing the capital markets to maximize both corporate flexibility and value to investors. We proved in 2012 that we are more capable now than we have ever been at delivering against those objectives.

1) Source: Dealogic. Includes domestic, rank eligible common stock transactions including SEC registered IPOs and 144A (PIPOs). 1/1/12 – 12/31/12

FBR

In equity research, competition still abounds, and clear differentiation of thought remains the key determinant of ultimate success. 2012 marked an important year for FBR research as we solidified the branding of our unique approach. Our analysts identify and then focus on the two to four issues that will matter most to the performance of the stocks they cover, and dive deeply into those targeted questions and investor debates. This concentration of effort allows them to devote considerable resources to solving complex questions and avoid the repetitive conclusions that buy-side clients frequently dismiss. Throughout the year, our research team delivered on this mission, and their thought leadership around important themes shaped Street views in each of our industries. From a housing perspective, we produced insightful reports on the impact of HARP 2.0, mortgage insurers, and a very comprehensive piece on the “Future of the Housing and Mortgage Markets.” We created an important look into the coal to gas switching discussion that described the causes of market misperception. We added several pieces throughout the year that further delved into the direction and cycle of gas prices and the cost and political considerations that may lead to an increase in coal prices. Within our technology team, we were a very influential voice and thought leader regarding the shares of Sprint throughout the year. Investors who followed our call were rewarded with over 100% appreciation in a very closely watched and, at the time, controversial name.

Over the course of the year, pressure continued to weigh on volumes across institutional brokerage platforms, most notably in cash equities, and competition remained intense. Our trading businesses were not immune to these industry-wide challenges, and for the year revenue from institutional brokerage was $53 million compared to $79 million in 2011. Nevertheless, we maintained an intense client focus and reversed negative market share trends that had developed around our downsizing. We were able to achieve this improvement due in large part to the thought leadership and differentiated views of our research analysts, as well as the execution expertise delivered daily to our buy-side clients by our trading professionals. In addition, throughout the year our credit desk continued to gain momentum with clients, helped in part by our participation in ten high yield bond or loan offerings, the highest volume of deal activity since we initiated that business several years ago. Furthermore, we indentified and have now executed on significant operational improvements that will directly increase our margins in equities trading. Overall, our focus on execution allowed us to end the year with positive trends in our trading businesses and those trends have continued so far into 2013.

As a final thought around trading, it is important to recognize when evaluating institutional trading businesses that they are an integral part of an overall capital markets business. While we will always strive to maximize revenue and profit from our trading relationships, true economic value is delivered not just in daily trading but in maintaining relationships that are key to the execution of our investment banking business. In fact, each of our functional areas (sales, trading, research, investment banking) are necessary components of our capital markets franchise, and can only be fully evaluated in the context of our overall results.

A significant component of our improved financial results was our reduction in fixed costs and the consequently lower level of revenue required to breakeven for the year. This outcome was one of the two primary goals of our restructuring. Total fixed expenses for 2012 were $101 million, down $36 million from 2011, with significant reductions coming from occupancy, technology, and compensation. These cost reductions exceeded our targets and there are more savings that will continue to come our way in 2013 based on the work completed during the past two years. In total, our multi-year effort to reduce fixed costs has resulted in over $100 million of annual savings, or a more than 60% reduction from the peak in 2008. The second key goal of our restructuring was to maintain what is special and valuable about our firm even as we underwent significant change. The cutting-edge banking work that we completed in 2012 confirmed clearly that we are still the innovative, results-oriented firm we are known to be. Additionally, we have seen tremendous stability within our leadership team. Across the firm, turnover at that level was very low in 2012 despite the scope and pace of change over the last year. As a result, we feel very good about not just having maintained what is special about our firm, but having in place a truly closeknit group of leaders with a clear and consistent view of our collective goals and a track record of accomplishing big things for clients.

During the year, we also made the determination to exit our mutual fund business. As a result, in the fourth quarter we recognized $23.1 million in earnings from discontinued operations related to the sale of that business. The decision to exit that business was consistent with our commitment to focus and concentrate our resources on our core capital markets franchise. It also allowed us to take steps to more efficiently allocate the Company's capital. We received an attractive price and used the proceeds of that sale to fund a portion of our significant share buyback activity throughout the year. In addition, this was an efficient event from a tax perspective as it allowed the Company to utilize some of its capital loss carry-forwards. I want to thank our former associates in that business for their commitment and hard work while a part of the FBR team. In particular, I want to thank and recognize Dave Ellison. Dave helped found the mutual fund business at FBR, and is, in my opinion, one of the most talented fund managers in the business. I am confident that the former FBR Funds team will continue to deliver for shareholders with their new firm, Hennessy Advisors.

During the year, the Company repurchased 1.9 million shares at an average price of $11.20 per share. This represented approximately 15% of total shares outstanding and was in addition to 2.1 million shares repurchased the prior year at an average of $11.28 per share. These buybacks, combined with the Company's operating performance in 2012, resulted in tangible book value per share growth of 21.4% during the year. As of year-end, tangible book value per share was $19.18, up from $15.80 at the end of 2011. Subsequent to year-end, the Company has repurchased an additional 0.6 million shares at an average price of $16.16 per share. Going forward, we intend to remain focused on growing book value through a combination of earnings performance and the efficient allocation of capital.

As of December 31, 2012, shareholders' equity totaled $240 million, with $175 million held in cash. We continue to have a very liquid and transparent balance sheet which has been a source of strength through a prolonged difficult environment. In 2013, we will strive to maintain high levels of liquidity and capital as we concurrently work to efficiently allocate that capital to generate attractive returns for shareholders.

While we feel growing momentum and believe we have established a productive and efficient operating platform for any environment, we expect 2013 will bring its own macro-economic and market challenges. Certainly, the inability of political leaders to effectively address the US deficit and the increasing burden of government regulation will continue to weigh on US markets. Already this year, we have seen continued consequences of the banking crisis in Europe and the market remains exposed to the potential impact of a slowing European economy as tough measures are pursued to recapitalize sovereigns in the Eurozone. Additionally, the continued deleveraging of the financial system and fears of rising interest rates following unprecedented central bank intervention are likely to contribute to volatility and investor unease as we move forward. Combined, these realities will provide the capital markets with ongoing challenges and provide us with a healthy dose of caution.

Despite these macro concerns, FBR is off to a strong start in 2013 with the first quarter being one of the best in our history. We have continued to be active in areas related to the housing recovery in the US and are seeing increased activity in our industrial, energy, and specialty finance investment banking groups. This activity, coupled with a tremendous effort to increase market share in our trading businesses, has positioned us to attain levels of operating profit that we never reached previously in even the most robust markets.

Clients are increasingly taking notice of our success in helping issuers and investors achieve their respective goals. We are winning large important mandates in head-to-head competition with many of the most well established and highly respected firms in the world and buy-side clients are eager to partner with us.

We are understandably optimistic about our business prospects based upon the momentum we have established over the last year. We remain very cognizant, however, that our business is quite volatile quarter to quarter and even year to year. That volatility allows us to earn outsized returns in certain environments, but also means that maintaining expense discipline is key to generating value for shareholders over time.

During 2013, our team has four priorities: 1) focus intensely on our clients and deliver for them so that they achieve success; 2) maintain our vigilance on expenses; 3) recruit and retain the best talent available for our Company; and 4) remain committed to our strategy and our team. We will be intensely focused on, and committed to, executing on these priorities throughout the year.

We are not currently, nor have we ever been, one of the largest firms in our industry, but we continue to be a firm that executes on big ideas in a big way. We will forever be passionate about our business and the success of our clients. And as we go forward, I'm confident in our ability to continue to provide our clients with innovative ideas that perform and keep them ahead of the game.

Richard J. Hendrix

Chairman, President & Chief Executive Officer

FBR & Co.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-33518

FBR & Co.
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of Incorporation or organization)	**20-5164223** (I.R.S. Employer Identification No.)
1001 Nineteenth Street North, Arlington, VA (Address of principal executive offices)	**22209** (Zip Code)

(703) 312-9500
(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, Par Value $0.001	**The NASDAQ Stock Market LLC (The NASDAQ Global Select Market℠)**

Securities registered pursuant to section 12(g) of the act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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: ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ☐ No ☒

The aggregate market value of FBR & Co.'s outstanding common stock held by non-affiliates as of June 30, 2012 was approximately $112.2 million based on the closing price of the registrant's common stock on such date as reported on The NASDAQ Stock Market LLC. In determining this figure, the registrant has excluded all shares of common stock beneficially owned by its directors and executive officers and each person who beneficially owns 10% or more of FBR & Co.'s outstanding common stock. By doing so, the registrant does not admit that such persons are affiliates within the meaning of Rule 405 of the Securities Act of 1933, as amended, or for any other purpose.

On March 1, 2013, there were 11,927,308 shares of FBR & Co. common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
FBR & Co. 2013 Proxy Statement (to be filed with the Securities and Exchange Commission on or before April 30, 2013)	Part III, Items 10, 11, 12, 13 and 14

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FORWARD-LOOKING STATEMENTS

Some of the statements contained in or incorporated by reference in this Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are predictive in nature and can be identified by the use of forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "goal," "objective," "potential," "project," "should," "will" and "would" or the negative of these terms or other comparable terminology. Statements concerning projections, future performance developments, events, revenues, expenses, earnings, run rates, and any other guidance on present or future periods constitute forward-looking statements. Such statements include, but are not limited to, those relating to the effects of growth, our principal investing activities, levels of assets under management and our current equity capital levels. Forward-looking statements involve risks and uncertainties. You should be aware that a number of important factors could cause our actual results to differ materially from those in forward-looking statements. These factors include, but are not limited to:

- the risks identified under the section captioned "Risk Factors" in this Form 10-K;
- general volatility of the capital markets and the possibility that an active public trading market for our common stock cannot be sustained;
- deterioration in the business environment in the specific sectors of the economy in which we focus or a decline in the market for securities of companies within these sectors;
- substantial fluctuations in our financial results;
- our ability to retain our senior professionals;
- pricing and other competitive pressures;
- changes in laws and regulations and industry practices that adversely affect our sales and trading business;
- incurrence of losses in the future;
- the singular nature of our capital markets and strategic advisory engagements;
- competition among financial services firms for business and personnel;
- larger and more frequent capital commitments in our trading and underwriting businesses;
- limitations on our access to capital;
- malfunctioning or failure in our operations and infrastructure;
- our entry into new business areas, including entry through strategic investments, acquisitions and joint ventures;
- failure to achieve and maintain effective internal controls;
- declines in the market value of our principal investments;
- the loss of our exemption from registration as an investment company under the Investment Company Act of 1940, as amended (the "1940 Act");
- the overall environment for interest rates;
- changes in our business strategy; and
- availability, terms and deployment of capital.

Forward-looking information speak only as of the date they are made, and we will not necessarily update the information presented or incorporated by reference in this Form 10-K if any of these forward-looking statements turn out to be inaccurate, and there are no guarantees about our performance. This Form 10-K, including the consolidated financial statements and notes thereto and the documents incorporated by reference, should be read for a complete understanding of our business, an investment in our company and the risks and other uncertainties associated with that business or an investment in our company.

AVAILABLE INFORMATION

FBR & Co. ("we," "us," "our company" or the "Company") files annual, quarterly and current reports, proxy statements, information statements and other information with the United States Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Our electronic SEC filings are available to the public at *http://www.sec.gov*.

Our public internet site is *http://www.fbr.com*. We make available free of charge through our public internet site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also make available through our public internet site statements of beneficial ownership of our equity securities filed by our directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

We also make available on *http://www.fbr.com* (i) our Corporate Governance Guidelines, (ii) Statement of Business Principles (our code of business conduct and ethics), including any waivers, if any, therefrom granted to executive officers or directors, and (iii) the charters of the Audit, Compensation, and Nominating and Corporate Governance Committees of our Board of Directors. These documents are also available in print without charge to any person who requests them by writing or telephoning:

FBR & Co.
1001 Nineteenth Street North
Arlington, Virginia 22209
(703) 312-9500
Attention: Corporate Secretary

PART I

ITEM 1. BUSINESS

Overview

FBR & Co. is a full-service investment banking and institutional brokerage firm with a customer-focused and innovative approach to meeting our clients' needs. In addition, we make principal investments, including merchant banking investments, with our own capital. Since the founding of certain predecessor companies, we have grown from a boutique investment bank with primary expertise in financial institutions into a full-service U.S. investment bank for middle-market companies.

Through our principal operating subsidiary, FBR Capital Markets & Co. ("FBRCM."), an SEC-registered broker-dealer, we have focused our business on providing:

- capital raising services, including underwriting and placement of public and private equity and debt;
- financial advisory services, including merger and acquisition ("M&A") advisory, restructuring, liability management, recapitalization and strategic alternative analysis;
- institutional sales and trading services focused on equities, equity-linked securities, listed options, high-yield bonds, senior debt and bank loans;
- research coverage; and
- principal investment returns to our shareholders through merchant banking and other direct investments that we make utilizing our own capital.

We focus our capital markets business (investment banking and institutional brokerage) in the following industry sectors—consumer, diversified industrials, energy and natural resources, financial institutions, insurance, real estate, and technology, media and telecommunications ("TMT").

In October 2012, we completed the sale of the assets related to the management of our mutual fund business. As a result, we are no longer engaged in the asset management business and now report the results of our asset management operations as discontinued operations. See Note 12 to our financial statements included in this Form 10-K.

In July 2006, we sold shares of our common stock in a private offering and a concurrent private placement to Crestview Partners ("Crestview"), a New York-based private equity firm. In June 2007 we became a publicly-traded company listed on The NASDAQ Global Select Market℠ (NASDAQ: FBRC). We are a Virginia corporation headquartered in Arlington, Virginia and also have offices in Boston, Dallas, Houston, Irvine, New York and San Francisco. The address of our principal executive offices is 1001 Nineteenth Street North, Arlington, Virginia 22209. Our telephone number is (703) 312-9500.

Business Segments

Our business is comprised of two separate segments: capital markets, which includes investment banking and institutional brokerage and research; and principal investing.

Financial information concerning our company for the fiscal years ended December 31, 2012, 2011, and 2010, including the amount of net revenues contributed by each segment in such periods, is set forth in our consolidated financial statements and the notes thereto in Part II, Item 8, of this Form 10-K. Information with respect to our operations by business segment is set forth under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Overview" in Part II, Item 7, of this Form 10-K and in Note 13 to our consolidated financial statements in Part II, Item 8, of this Form 10-K.

Capital Markets

Our capital markets business is conducted by our investment banking and institutional brokerage professionals through our broker-dealer subsidiary. These professionals provide investment banking services, including capital raising and financial advisory services for our corporate issuer clients, and institutional brokerage services including sales, trading, and research services, to our institutional investor clients. We believe the capital markets transactions sourced by our investment banking professionals create the types of investment opportunities that our institutional brokerage clients seek, while our institutional brokerage clients provide demand for our investment banking clients' securities issues, thus helping to provide these corporate issuers with the ability to meet their corporate financing needs. In recent years we have reduced our total number of employees and made adjustments to our fixed and variable cost structure to better align our overall cost structure with current market conditions, while over the same period we have added capabilities in convertible securities sales and trading, loan trading, and high yield debt and listed options sales and trading.

Investment Banking

Our investment banking professionals, backed by their industry knowledge and our strong distribution platform, seek to establish and maintain relationships with our corporate clients and to provide them with capital raising and financial advisory services. We provide capital raising services through industry specific investment banking teams that focus on the diversified industrials, energy and natural resources, financial institutions, insurance and real estate industries. These teams work closely with our equity, equity-linked and debt capital markets personnel in originating and executing capital markets transactions. In addition to our industry specific teams, our financial sponsors investment banking group delivers investment banking products and solutions to the private equity community and their portfolio companies, our financial advisory investment banking group delivers a broad range financial advisory services to our investment banking clients.

As an investment bank with an ability to raise equity in the private capital markets, we are involved with companies early in their formation in order to establish relationships that will provide us with ongoing revenues as these companies' corporate finance and financial advisory needs grow. We seek to provide our investment banking clients with the financing and advisory services that they will need at all stages of their corporate lifecycle.

Capital Raising. We have developed a strong market presence as a leading underwriter of equity securities in the United States. We base our decision to underwrite an offering of a client's securities on company and industry fundamentals, management's track record, historical financial results, financial projections, and other factors, all backed by extensive due diligence. We offer a wide range of financial products and services designed to serve the needs of our investment banking clients, including private common equity offerings, initial public, follow-on, and secondary offerings of common equity, convertible debt offerings, public and private preferred equity offerings, and high yield debt offerings and bank-loan syndication.

Strategic Advisory Services. Our financial advisory practice builds on our capital markets expertise and focuses on helping our investment banking clients to assess strategic alternatives, including advice on M&A, liability management and financial restructuring, and strategic partnerships. In addition, we provide valuation advice, fairness opinions, market comparable valuation analysis and other corporate finance advice.

Institutional Brokerage and Research

Through our institutional brokerage professionals, we provide research and institutional sales and trading services to institutional investors such as mutual funds, insurance companies, hedge funds, banks, money managers and pension and profit-sharing plans. Our ability to work on multiple securities classes with clients enhances our overall brokerage relationships with our clients. We currently operate desks that cover the trading of equity securities, convertible securities, high-yield debt securities, loan products and listed options.

Institutional Brokerage. We believe our institutional brokerage professionals are distinguished by their in-depth understanding of the companies and industries in which we focus. Our traders and salespeople are required to develop detailed knowledge and relationships and provide trade execution and sales and trading services to a diverse institutional client base. Many of our institutional clients have been long-standing investors in transactions that our investment banking teams have brought to the capital markets and have continued a close relationship with us as they have grown in size and assets under management.

Our sales professionals work closely with our research analysts and our trading desks to provide the most up-to-date information to our institutional clients. Our sales, trading, and research professionals work together to maintain regular contact with the specialized portfolio managers and buy-side analysts of each institutional client. We make markets in NASDAQ and other securities, we trade listed and unlisted securities and loan products, and we service the trading desks of major institutions in the United States, Europe and elsewhere.

Research. We understand the importance of research and the role quality research plays in the institutional brokerage process, particularly for accounts that do not maintain a large in-house research team. We seek to differentiate ourselves through originality of perspective, depth of insight, and our ability to uncover industry trends. We believe our unique viewpoint has helped us develop relationships with investor clients in both our primary distribution and secondary trading businesses.

Our research analysts operate under three guiding principles: (i) to provide objective, independent analysis of securities, their issuers, and their place in the capital markets; (ii) to identify attractive investment opportunities in the capital markets; and (iii) to communicate effectively the fundamentals of these investment opportunities to potential investors. To achieve these objectives, we believe that industry specialization is necessary and, as a result, we organize our research staff along industry lines. Each industry team works together to identify and evaluate industry trends and developments. Within industry groups, analysts are further subdivided into specific areas of focus so that they can maintain and apply specific industry knowledge to each investment opportunity they address.

After initiating coverage of a company, our analysts seek to maintain a long-term relationship with that company and a long-term commitment to ensure that new developments are effectively communicated to our sales force and institutional investors. Our research team analyzes major trends, publishes original research on new areas of growth, provides fundamental, company-specific coverage and works with our institutional clients to identify and evaluate public equity investment opportunities.

Principal Investing

Our principal investing activity consists primarily of investments in merchant banking and other equity investments, investment funds and corporate debt investments. We have historically made merchant banking investments in selected transactions that our investment banking group underwrites. This strategy involves investing our capital alongside the capital of our institutional clients.

Accounting, Administration and Operations

Our accounting, administration and operations personnel are responsible for financial controls, internal and external financial reporting, human resources and personnel services, office operations, information technology and telecommunications systems, the processing of securities transactions, and corporate communications. With the exception of payroll processing, which is performed by an outside service bureau, and customer account processing, which is performed by our clearing brokers, most data processing functions are performed internally.

Compliance, Legal, and Risk Management

Our compliance, legal and risk management personnel (together with other appropriate personnel) are responsible for our compliance procedures with regard to the legal and regulatory requirements of our company and for our procedures with regard to our exposure to market, credit, operations, liquidity, compliance, legal, reputational and equity ownership risk. In addition, compliance personnel test for compliance by our personnel with our policies and procedures. Our legal personnel also provide legal service throughout our company, including advice on managing legal risk. The supervisory personnel in these areas have direct access to, and meet regularly with, our executive management and with the Audit Committee of our Board of Directors to ensure their independence in performing these functions. In addition to our internal compliance, legal, and risk management personnel, we outsource particular functions to outside consultants and attorneys for their particular expertise.

Financial Information about Geographic Areas

We operate predominately in the United States. We also provide investment banking, research, and sales and trading services to selected companies in international jurisdictions. For a summary of net revenues from continuing operations attributable to international operations, see Note 13 to our financial statements included in this Form 10-K. Our long lived assets attributable to foreign operations have been immaterial for the last three fiscal years.

Competition

In recent years, the financial services industry has undergone a dramatic reshaping, as numerous major financial institutions consolidated, were forced to merge, declared bankruptcy, received substantial government assistance or were placed into conservatorship, all of which has resulted in significant upheaval in the competitive environment. These events accelerated a longstanding trend toward consolidation among companies in the financial services industry and created an environment of uncertainty among financial services firms of all sizes. As a full-service investment banking and institutional brokerage firm, all aspects of our business are intensely competitive. Our competitors include large, fully integrated bank holding companies, as well as other traditional and online brokerage firms, investment banking firms, merchant banks and financial advisory firms. Some of our competitors have fundamentally changed their respective business models over the past several years, including, in certain cases, becoming commercial banks, and there has been significant movement of personnel, both among firms as well as out of the industry altogether. We compete with some of our competitors nationally and with others on a regional, product or business line basis. Many of our competitors have substantially greater capital and resources than we do and offer a broader range of financial products and services. Recent developments could result in our remaining competitors gaining even greater capital and other resources. We believe that the principal factors that allow us to compete effectively include the strength and extent of our client relationships, our reputation and track record, the abilities of our professionals, our market focus and the relative quality and price of our services and products.

We have experienced intense price competition in some areas of our capital markets businesses, in particular, within our trading business. The ability to execute trades electronically, through the Internet and through other alternative trading systems, has increased the pressure on trading commissions and spreads. We believe that this trend toward alternative trading systems is likely to continue. We may experience competitive pressures in these and other areas in the future as some of our competitors seek to increase market share by reducing prices.

Competition is also intense for the recruitment and retention of qualified professionals. The performance of our business is in large part dependent on the skills, expertise and performance of our employees. Our ability to continue to compete effectively in our businesses will depend upon our continued ability to attract new professionals and retain and motivate our existing professionals.

Risk Management

In conducting our business, we are exposed to a range of risks including, without limitation:

- *Market risk.* Market risk is the risk that a change in the level of one or more market prices, rates, indices, or other market factors, such as market liquidity, will result in losses for a position or portfolio.
- *Credit risk.* Credit risk is the risk of loss due to an individual customer's or institutional counterparty's unwillingness or inability to pay its obligations.
- *Operations risk.* Operations risk is the risk of loss resulting from systems failure, inadequate controls, human error, fraud or unforeseen catastrophes.
- *Liquidity risk.* Liquidity risk is the risk that we may be unable to meet our obligations as they come due because of our inability to liquidate assets or obtain funding. Liquidity risk also includes the risk of having to sell assets at a loss to generate liquid funds.
- *Regulatory risk.* Regulatory risk is the risk of loss, including fines, penalties or restrictions in our activities, from failing to comply with federal, state or local laws, rules and regulations pertaining to financial services activities.
- *Legal risk.* Legal risk is the risk of loss, disruption or other negative effect on our operations or condition that arises from unenforceable contracts, lawsuits, adverse judgments, or adverse governmental or regulatory proceedings, or the threat thereof.
- *Reputational risk.* Reputational risk is the risk that negative publicity regarding our practices, whether true or not, will cause a decline in the customer base, resulting in costly litigation, or reduce our revenues.

We monitor market and business risk, including credit risk, operations, liquidity, regulatory, legal, and reputational risk through a number of control procedures designed to identify and evaluate the various risks to which our businesses and investments are exposed. We have established various committees to assess and manage risk associated with our investment banking, principal investing and other activities. We review, among other things, business and transactional risks associated with investment banking potential clients and engagements. We seek to manage the risks associated with our investment banking and principal investing activities by review and approval of transactions by the relevant committee, prior to accepting an engagement or pursuing a material investment transaction. Although we believe that our risk management program and our internal controls are appropriately designed to address the risks to which we are exposed, we cannot provide assurance that our risk management program or our internal controls will prevent or reduce such risks.

Insurance

We maintain insurance in types and amounts and with deductibles that management believes are customary for companies of similar size and engaged in similar businesses. However, the insurance market is volatile, and there can be no assurance that any particular coverage will be available in the future on terms acceptable to us.

Employees

As of December 31, 2012, we had 256 employees, in comparison to the 295 employees we had as of December 31, 2011. Our employees are not subject to any collective bargaining agreement and we consider our relationship with our employees to be good.

Regulation

Our business, as well as the financial services industry generally, is subject to extensive regulation in the United States and elsewhere. As a matter of public policy, regulatory bodies in the United States and the rest of the world are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. In light of current conditions in the financial markets and the economy, regulators have increased their focus on the regulation of the financial services industry. Legislation in recent years, including the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), has substantially intensified the regulation of the financial services industry. Among other things, Dodd-Frank has expanded the authority of our existing regulators, broadened reporting requirements and regulation relating to executive compensation, and expanded the standards for market participants dealing with clients and customers. In addition, conditions in the global financial markets have caused regulatory agencies to increase their examination, enforcement and rulemaking activites. This regulatory environment will likely alter certain financial industry business practices and change the competitive landscape, which may have an adverse effect on our business, financial condition and results of operation.

In the U.S., the SEC is the federal agency responsible for the administration of the federal securities laws. FBRCM is registered as a broker-dealer with the SEC and the Financial Industry Regulatory Authority, Inc. ("FINRA"), a self-regulatory organization, and in all 50 states, Puerto Rico and the District of Columbia. Accordingly, FBRCM is subject to regulation and oversight by the SEC and FINRA, which is itself subject to oversight by the SEC and which adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including FBRCM and its registered representatives. State securities regulators also have regulatory or oversight authority over FBRCM. Our business may also be subject to regulation by non-U.S. governmental and regulatory bodies and self-regulatory authorities in other countries where we operate.

In connection with the sale of the assets related to our mutual fund business, in the fourth quarter of 2012 we terminated the registration with the SEC as an investment advisor of our subsidiary FBR Fund Advisers, Inc., and initiated the process to terminate the SEC broker-dealer registration of our subsidiary FBR Investment Services, Inc.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure, record-keeping, the financing of customers' purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of various self-regulatory organizations, FBRCM is subject to the SEC's uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of its assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC's uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

Compliance with regulatory net capital requirements could limit those operations that require the intensive use of capital, such as underwriting and trading activities, and also could restrict our ability to withdraw capital from our affiliated broker-dealer, which in turn could limit our ability to pay dividends, repay debt and redeem or repurchase shares of our outstanding capital stock.

We believe that at all times FBRCM has been in compliance in all material respects with the applicable minimum net capital rules of the SEC and FINRA. The failure of FBRCM, our U.S. broker-dealer, to maintain its minimum required net capital would require it to cease executing customer transactions until it came back into compliance, and could cause it to lose its FINRA membership, its registration with the SEC or require its liquidation. Further, the decline in our broker-dealer subsidiary's net capital below certain early warning levels, even though above minimum net capital requirements, could cause material adverse consequences to us and to our broker-dealer subsidiary.

FBRCM also is subject to "Risk Assessment Rules" imposed by the SEC which require, among other things, that certain broker-dealers maintain and preserve certain information, describe risk management policies and procedures and report on the financial condition of certain affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. Certain "material associated persons" (as defined in the Risk Assessment Rules) of the broker-dealer and the activities conducted by such material associated persons may also be subject to regulation by the SEC. In addition, the possibility exists that, on the basis of the information it obtains under the Risk Assessment Rules, the SEC could seek authority over our unregulated subsidiaries either directly or through its existing authority over our regulated subsidiaries.

The research areas of investment banks have been and remain the subject of increased regulatory scrutiny. Acting in part pursuant to a mandate contained in the Sarbanes-Oxley Act of 2002, the SEC, the NYSE and FINRA have adopted rules imposing heightened restrictions on the interaction between equity research analysts and investment banking personnel at member securities firms. In addition, in 2003 and 2004, several securities firms in the United States reached a settlement with certain federal and state securities regulators and self-regulatory organizations to resolve investigations into their equity research analysts' alleged conflicts of interest. Under this settlement, the firms have been subject to certain restrictions and undertakings. As part of this settlement, restrictions have been imposed on the interaction between research and investment banking departments, and these securities firms are required to fund the provision of independent research to their customers. In connection with the research settlement, we have also subscribed to a voluntary initiative imposing restrictions on the allocation of shares in initial public offerings to executives and directors of public companies.

The effort to combat money laundering and terrorist financing is a priority in governmental policy with respect to financial institutions. The USA PATRIOT Act of 2001, as amended (the "PATRIOT Act"), contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations applicable to broker-dealers and other financial services companies, including standards for verifying client identification at account opening, and obligations to monitor client transactions and report suspicious activities. Through these and other provisions, the PATRIOT Act seeks to promote the identification of parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside the United States contain some similar provisions. The obligation of financial institutions, including us, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls which have increased, and may continue to increase, our costs, and any failure with respect to our programs in this area could subject us to serious regulatory consequences, including substantial fines, and potentially other liabilities.

Certain of our businesses are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or reputational damage.

Additional legislation, changes in rules promulgated by the SEC and self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect the mode of our operation and profitability.

Our broker-dealer business is also subject to regulation by various foreign governments and regulatory bodies. FBRCM is registered with and subject to regulation by a number of provincial securities regulators in Canada. Foreign regulation may govern all aspects of the investment business, including regulatory capital, sales and trading practices, conflicts of interest, research, use and safekeeping of customer funds and securities, record-keeping, margin practices and procedures, registration standards for individuals, periodic reporting and settlement procedures.

Prior to December 2011, our subsidiary FBR Capital Markets International, Ltd. ("FBRIL") located in the United Kingdom was an introducing broker-dealer registered with the Financial Services Authority ("FSA") of the United Kingdom. In the fourth quarter of 2011, we initiated the process to cease activities at FBRIL and terminate FBRIL's registration with the FSA. Subsequent to these actions, subject to regulatory limitations, institutional brokerage and investment banking activity with European clients is conducted by FBRCM. FBRIL's registration with the FSA was terminated in 2012.

The U.S. and non-U.S. government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or its directors, officers or employees. Occasionally, FBR & Co. has been subject to investigations and proceedings, and sanctions have been imposed for infractions of various regulations relating to its activities.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks and all of the other information contained in this Form 10-K, including the consolidated financial statements and the notes thereto included in Part II, Item 8, of this Form 10-K. If any of the risks, uncertainties, events or developments described below occurs, our business, financial condition or results of operation could be negatively impacted. In connection with the forward-looking statements that appear in this Form 10-K, you should also carefully review the cautionary statements included under the caption "Forward-Looking Statements."

Risks Related to Adverse Market Conditions

Our businesses have been and may in the future be materially and adversely affected by financial market conditions and economic conditions generally.

As an investment bank, risk is an inherent part of our business. Our businesses are materially affected by conditions in the financial markets, particularly the equity capital markets, and economic conditions generally. Market valuations fluctuated throughout 2012 and the liquidity seen in the markets prior to 2008 has not yet returned. Lower levels of liquidity continue to have a negative effect on trading volumes, particularly in the equity market, which has a direct negative impact on our cash equities trading business.

Our financial performance is highly dependent on the environment in which our businesses operate. A favorable business environment is generally characterized by, among other factors, high global gross domestic product growth, stable geopolitical conditions, transparent and efficient capital markets, liquid markets with active investors, low inflation, high business and consumer confidence and strong business earnings. Slowing growth, contraction of credit, increasing energy prices, declines in business or investor confidence or risk tolerance, increases in inflation, higher unemployment, outbreaks of hostilities or other geopolitical instability, corporate, political or other scandals that reduce investor confidence in capital markets and natural disasters, among other things, can affect the global financial markets. In addition, economic or political pressures in a country or region may cause local market disruptions and currency devaluations, which may also affect markets generally. In the event of changes in market conditions, such as interest or foreign exchange rates, equity, fixed income, commodity or real estate valuations, liquidity, availability of credit or volatility, our businesses could be adversely affected in many ways.

Our investment banking revenues are directly related to the number and size of the transactions in which we participate. Any future market downturns that affect the size and number of capital raising transactions will likely have a negative impact on our investment banking business. Sustained market downturns and credit market dislocations and liquidity issues in the future would also likely lead to a further decline in the volume of secondary market trading that we execute for our institutional brokerage clients and, therefore, to a decline in the revenues we receive from commissions and spreads earned from the trades we execute for our clients. Heightened risk aversion among investors may cause them to shift their trading activity to higher quality and more liquid products, which are generally somewhat less profitable for us.

Risks Related to Our Business

Our financial results may fluctuate substantially from quarter to quarter.

We have experienced, and expect to experience in the future, significant quarterly variations in our revenues and results of operations. These variations may be attributed in part to the fact that our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties. For example, a client's securities offering may be delayed or terminated because of adverse market conditions, failure to obtain necessary regulatory approvals or unexpected financial or other problems in the client's business. If the parties fail to complete an offering in which we are participating as an underwriter or placement agent, we will earn little or no revenue from the transaction. This risk may be intensified by our focus on early-stage companies in certain sectors, as the market for securities of these companies may experience significant variations in the number and size of equity offerings as well as the after-market trading volume and prices of newly issued securities. More companies initiating the process of an initial public offering are simultaneously exploring M&A exit opportunities. Our investment banking revenues would be adversely affected in the event that an initial equity offering for which we are acting as an underwriter is preempted by the company's sale if we are not engaged as a strategic advisor in such sale. As a result, we are unlikely to achieve steady and predictable earnings on a quarterly basis.

We are dependent on our executive management team, and we may not be able to execute our business plan in the event that members of our executive management team are no longer available to us and we are unable to find suitable replacements for them or the members of our executive management team do not dedicate a sufficient amount of their professional time to our endeavors.

With the exception of our President and Chief Executive Officer, members of our executive management team do not have employment agreements with us. We have no assurance that the services of our executive management team will continue to be available to the full extent of our needs. We believe that our success depends to a significant extent upon the experience of our executive management team, whose continued service is not guaranteed. If certain members of our executive management team leave our company or are otherwise no longer available to us or are not available to the full extent of our needs, we may not be able to replace them with suitable management and may be unable to execute our business plan.

We encounter intense competition for qualified professionals from other investment banking firms and from businesses outside the investment banking industry, such as hedge, private equity and venture capital funds, and our failure to hire qualified professionals and retain our existing professionals may materially impede the success and growth of our business.

Our people are our most valuable resource. Our ability to secure and maintain investment banking engagements depends upon the reputation, judgment, business generation capabilities and project execution skills of our professionals. Our professionals' reputations and relationships with our clients are a critical element in obtaining and executing client engagements. Generally, we do not have employment or non-competition agreements with any of our professionals. We encounter intense competition for qualified professionals from other companies in the investment banking industry and from businesses outside the investment banking industry, such as hedge, private equity and venture capital funds. The headcount reductions we undertook as part of our restructuring actions in 2010 and 2011 have made us more dependent on the professionals that we continue to employ. We may experience losses of investment banking, brokerage, research and other professionals and our failure to hire qualified professionals and retain our existing professionals may materially impede our success and growth. While we believe that we will continue to be able to retain and recruit qualified professionals, the departure or other loss of our key professionals who manage substantial client relationships or who possess substantial experience and expertise could impair our ability to secure or successfully complete engagements, which could materially adversely affect our business and results of operations. Any negative financial performance that results in lower compensation levels may exacerbate this risk. In addition, if any of our investment bankers or members of our executive management team were to join an existing competitor or form a competing company, some of our clients could choose to use the services of that competitor instead of our services. We may not be able to prevent our key professionals or the members of our executive management team from resigning to join our competitors or from forming a competing company.

Our capital markets and strategic advisory engagements are singular in nature and our failure to obtain new engagements may harm our operating results.

Our investment banking clients generally retain us on a short-term, engagement-by-engagement basis in connection with specific capital markets or M&A transactions, rather than on a recurring basis under long-term contracts. As these transactions are typically singular in nature and our engagements with these clients may not recur, we must continuously seek out new engagements when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements that generate fees from the successful completion of transactions, our business and results of operations would likely be adversely affected.

We depend on relatively few industries to generate a significant percentage of our revenue, which may limit our revenues and net income and may adversely affect our operating results.

We are dependent on revenues related to securities issued by companies in specific industry sectors. The real estate, diversified industrials, energy and natural resources, and financial institutions sectors account for the majority of our investment banking, institutional trading and research activities. Therefore, any downturn in the market for the securities of companies in these industry sectors, or factors affecting such companies, could adversely affect our operating results and financial condition. Additionally, the frequency and size of securities offerings can vary significantly from industry to industry due to economic, legislative, regulatory and political factors.

Underwriting and other capital raising transactions, strategic advisory engagements and related trading activities in the industries on which we focus represent a significant portion of our businesses. This concentration of activity exposes us to the risk of substantial declines in revenues in the event of downturns in these industries. Future downturns in the industries on which we focus could result in a decrease in the size or number of transactions we complete, which would reduce our investment banking revenues.

We also derive a significant portion of our revenues from institutional sales and trading transactions related to the securities of companies in these sectors. Our revenues from such institutional sales and trading transactions may decline when underwriting activities in these industry sectors decline, the volume of trading on the NASDAQ, the New York Stock Exchange (“NYSE”) or any other securities market or exchange declines, or when industry sectors or individual companies report results below investors’ expectations.

We have incurred losses in recent periods and may incur losses in the future.

We have incurred losses in recent periods. We may incur losses in future periods. If we are unable to fund future losses, those losses may have a significant effect on our liquidity as well as our ability to operate.

In addition, we may incur significant expenses in connection with any expansion of our capital markets businesses or in connection with strategic acquisitions and investments. Accordingly, we will need to increase our revenues at a rate greater than our expenses to achieve and maintain profitability. If our revenues do not increase sufficiently, or even if our revenues increase but we are unable to manage our expenses, we will not achieve and maintain profitability in future periods.

Pricing and other competitive pressures may impair the revenues and profitability of our institutional brokerage business.

We derive a significant portion of our revenues from our institutional brokerage business. Along with other firms, we have experienced intense price competition in this business in recent years. In particular, the ability to execute trades electronically and through alternative trading systems has increased the pressure on trading commissions and spreads. We expect pricing pressures in the business to continue. We believe we may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price or use their own capital to facilitate client trading activities. In addition, we face pressure from our larger competitors, which may be better able to offer a broader range of complementary products and services to clients in order to win their trading business. If we are unable to compete effectively in these areas, the revenues from our sales and trading business may decline, and our business and results of operations may be adversely affected. Our research and institutional brokerage business also may be adversely affected by changes in laws and regulations and industry practices.

Our institutional brokerage revenues may decline due to competition from alternative trading systems and lower overall volume.

Securities and futures transactions are now being conducted through the internet and other alternative, non-traditional trading systems, and it appears that the trend toward alternative trading systems will continue and probably accelerate. In addition, industry-wide trading volumes of equity securities have declined in recent years. Any dramatic increase in computer-based or other electronic trading or further declines in trading volumes may adversely affect our institutional brokerage revenues. The NYSE's adoption of its hybrid market for trading securities may increase pressure on our institutional brokerage business as customers execute more of their NYSE-related trades electronically. Even if we were to develop our own electronic trading systems, we cannot assure you that the revenues generated by these systems will yield an adequate return on our investment, particularly given the relatively lower commissions arising from electronic trades. As a result, our institutional brokerage revenues could decline in the future, which would negatively impact our cash flows and the value of our common stock.

We face strong competition from larger firms, some of which have greater resources and name recognition, which may impede our ability to grow our business.

The brokerage and investment banking industries are intensely competitive and we expect them to remain so. We compete on the basis of a number of factors, including client relationships, reputation, the abilities of our professionals, market focus and the relative quality and price of our services and products. We have experienced intense price competition in some of our businesses, in particular discounts in large block trades and trading commissions and spreads. In addition, pricing and other competitive pressures in investment banking, including the trends toward increased focus by many larger investment banking companies on institutional equity offerings pursuant to Rule 144A, multiple book runners, co-managers and multiple financial advisors handling transactions, have continued and could adversely affect our revenues, even as the volume and number of investment banking transactions have started to increase. We believe we may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price.

Many of our competitors in the brokerage and investment banking industries have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more senior professionals to serve their clients' needs, greater global reach and more established relationships with clients than we have. These larger and better capitalized competitors may be better able to respond to changes in the brokerage and investment banking industries, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally.

The scale of our competitors has increased in recent years as a result of substantial consolidation among companies in the brokerage and investment banking industries. In addition, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired underwriting or financial advisory practices and broker-dealers or have merged with other financial institutions. These firms have the ability to offer a wider range of products than we do, which may enhance their competitive position. They also have the ability to support investment banking with commercial banking, insurance and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in our businesses. In particular, the ability to provide financing has become an important advantage for some of our larger competitors and, because we do not provide such financing, we may be unable to compete as effectively for clients in a significant part of the brokerage and investment banking market.

If we are unable to compete effectively with our competitors, our business, financial condition and results of operations will be adversely affected.

Larger and more frequent capital commitments in our trading and underwriting business increase the potential for us to incur significant losses.

We commit our capital to maintain trading positions in the equity, convertible securities, debt and listed options markets. We may enter into large transactions in which we commit our own capital as part of our client trading activities. The number and size of these large transactions may materially affect our results of operations in a given period. Although, as discussed below, we take measures to manage market risk, we may also incur significant losses from our trading activities due to market fluctuations and volatility in our results of operations. To the extent that we own assets, *i.e*., have long positions, in any of those markets, a downturn in the value of those assets or in those markets could result in losses. Conversely, to the extent we have sold assets we do not own, *i.e.*, have short positions, in any of those markets, an upturn in those markets could expose us to potentially large losses as we attempt to cover our short positions by acquiring assets in a rising market.

We use a number of quantitative measures to manage our exposure to market risk, including inventory position limits, scenario analysis, and value at risk, or VaR. VaR is a model that quantifies potential losses using historical data. Because the historical market prices used in our VaR analysis may not be an accurate measure of future market events and conditions, especially in highly stressful market environments, and because our VaR model measures the risk of a current net trading position and does not take into account future position changes arising from transaction and/or hedging activity, we could incur losses that are materially greater than our reported VaR, and our business, financial condition and results of operations could be adversely affected.

Many financial services firms commit their own capital as part of their business activities. For example, in order to win business, investment banks may commit to purchase large blocks of stock from publicly traded issuers or significant shareholders, instead of the more traditional marketed underwriting process, in which marketing is typically completed before an investment bank commits to purchase securities for resale. We have committed capital in this way, and expect in the future that we will continue to do so from time to time. As a result, we will be subject to risk as we commit capital to facilitate primarily client-driven business and, therefore, may suffer losses even when economic and market conditions are generally favorable for others in the industry.

Limitations on our access to capital could impair our liquidity and our ability to conduct our businesses.

Liquidity, or ready access to funds, is essential to financial services firms. Failures of financial institutions have often been attributable in large part to insufficient liquidity. Liquidity is of particular importance to our trading business and perceived liquidity issues may affect our clients' and counterparties' willingness to engage in brokerage transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects our trading clients, third parties or us. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

FBRCM, which is a U.S. registered broker-dealer, is subject to the net capital requirements of the SEC and various self-regulatory organizations of which it is a member. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Any failure to comply with these net capital requirements could impair our ability to conduct our core business as a brokerage firm.

Furthermore, FBRCM is subject to laws that authorize regulatory bodies to block or reduce the flow of funds from it to FBR & Co. As a holding company, we will depend on dividends, distributions and other payments from our subsidiaries to fund our obligations, including any debt obligations we may incur. As a result, regulatory actions could impede access to funds that we need to make payments on our obligations, including debt obligations.

We are highly dependent on communications, information and other systems and third parties, and any systems failures could significantly disrupt our business.

Our business is highly dependent on communications, information and other systems, including systems provided by our clearing broker and by and for other third parties. Any failure or interruption of our systems, the systems of our clearing broker or third-party trading or information systems could cause delays or other problems in our securities trading activities, which could have a material adverse effect on our operating results and negatively affect the market price of our common stock.

In addition, our clearing broker provides elements of our principal disaster recovery system. We cannot assure you that we or our clearing broker will not suffer any systems failure or interruption, including one caused by a hurricane, earthquake, fire, other natural disaster, power or telecommunications failure, act of God, act of war, terrorist attack, pandemic or other emergency situation, or that our or our clearing broker's back-up procedures and capabilities in the event of any such failure or interruption will be adequate. The occurrence of any failures or interruptions could significantly harm our business.

Secure processing, storage and transmission of confidential and other information in our internal and third-party computer systems and networks also is critically important to our business. We take protective measures and endeavor to modify them as circumstances warrant. However, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, inadvertent, erroneous or intercepted transmission of information (including by e-mail), and other events that could have an information security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could harm our business.

We have devoted significant resources to develop our risk management strategies and techniques and expect to continue to do so in the future. However, our risk management strategies and techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure, breach of contract or other reasons. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Although we regularly review credit exposures to specific clients and counterparties and to specific industries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. If any of the variety of instruments, processes and strategies we utilize to manage our exposure to various types of risk are not effective, we may incur losses.

Strategic investments or acquisitions and joint ventures may result in additional risks and uncertainties in our business.

We may grow our core businesses through both internal expansion and through strategic investments, acquisitions or joint ventures. To the extent we make strategic investments or acquisitions or enter into joint ventures, we face numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with customers and business partners. In the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control. In addition, conflicts or disagreements between us and our joint venture partners may negatively impact our businesses.

Our due diligence may not reveal all of a portfolio company's liabilities and may not reveal other weaknesses in a portfolio company's business.

Before we make principal investments, we assess the strength and skills of an entity's management and other factors that we believe will determine the success of the investment. In making the assessment and otherwise conducting customary due diligence, we rely on the resources available to us and, in some cases, an investigation by third parties. This process is particularly important and subjective with respect to newly-organized entities because there may be little or no information publicly available about the company. We cannot assure you that our due diligence processes will uncover all relevant facts or risks about a company in which we make a princepal investment, or that any such investment will be successful. Any unsuccessful principal investments may have a material adverse effect on our financial condition and results of operation.

In any potential principal investment, we depend on management and have limited ability to influence management of companies in which we have invested.

We generally do not control the management, investment decisions or operations of the enterprises in which we make principal investments. Management of those enterprises may decide to change the nature of their assets or business plan, or management may otherwise change in a manner that is not satisfactory to us. We typically have no ability to affect these management decisions, and as noted below, may have only limited ability to dispose of these investments.

We may make principal investments that have limited liquidity, which may reduce the return on those investments to our stockholders.

The securities of any new publicly-held or privately-held entity in which we make a principal investment are likely to be restricted as to resale and may otherwise be highly illiquid. The investments we make in alternative asset classes such as hedge funds are typically subject to restrictions that limit the amount and timing of redemptions. We also expect that there will be restrictions on our ability to resell the securities of any private or newly-public company that we acquire for a period of at least one year after we acquire those securities. Thereafter, a public market sale may be subject to volume limitations or dependent upon securing a registration statement for a secondary offering of the securities.

The securities of newly-public entities may trade less frequently and in smaller volume than securities of companies that are more widely held and have more established trading patterns. Sales of these securities may cause their values to fluctuate more sharply. Because we have made and expect to make our principal investments through an affiliate of FBRCM, a registered broker-dealer in the U.S., our ability to invest in companies may be constrained by applicable securities laws and regulations and the rules of FINRA and similar self-regulatory organizations. FBR & Co.'s investment and trading activities are regulated by the SEC, FINRA and other governmental authorities. As a result, the rules of the SEC, FINRA, and other governmental authorities and self-regulatory organizations may limit our ability to invest in the securities of companies whose securities are underwritten or privately placed by our broker-dealer affiliates.

Prices of the equity securities of new entities in which we make principal investments may be volatile. We may make principal investments that are significant relative to the subject company's overall capitalization, and resales of significant amounts of these securities might adversely affect the market and the sales price for the securities.

The disposition value of our principal investments is dependent upon general and specific market conditions which could result in a decline of the value of these investments.

Even if we make an appropriate investment decision based on the intrinsic value of an enterprise, we cannot assure you that the market value of the investment will not decline, perhaps materially, as a result of general market conditions. For example, an increase in interest rates, a general decline in the stock markets, or other market conditions adverse to companies or alternative asset class investments of the type in which we invest could result in a decline in the value of our investments.

Our capital markets business is dependent on cash inflows to the mutual fund industry and other pooled investment vehicles, which could result in our experiencing operating losses if cash flows slow.

A slowdown or reversal of cash inflows to the mutual fund industry and other pooled investment vehicles could lead to lower capital markets revenues for us since mutual funds and other pooled investment vehicles purchase a significant portion of the securities offered in public offerings underwritten by our broker-dealer subsidiaries and subsequently traded in the secondary markets. Demand for new equity offerings has been driven in part by institutional investors, particularly large mutual funds and hedge funds, seeking to invest on behalf of their investors. The public may redeem mutual funds as a result of a decline in the market generally or as a result of a decline in mutual fund net asset values. To the extent that a decline in cash inflows into mutual funds reduces demand by fund managers for initial public or secondary offerings, our capital markets business and results of operations could be materially adversely affected. Moreover, a slowdown in investment activity by mutual funds may have an adverse effect on the securities markets generally.

Declines in the market values of our investments may adversely affect periodic reported results and credit availability, which may reduce earnings.

We make principal and merchant banking investments that are classified for accounting purposes as "available-for-sale." Changes in the market values of those assets will be directly charged or credited to stockholders' equity. As a result, a further decline in market value of our investment securities may further reduce the book value of our assets. Moreover, if the decline in value of an available-for-sale security is other-than-temporary, such decline will reduce earnings, as will a decline in the value of securities not classified as available-for-sale for accounting purposes.

A decline in the market value of our assets may adversely affect us particularly in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan. If we were unable to post the additional collateral, we would have to sell the assets at a time when we might not otherwise choose to do so. A reduction in credit available may reduce our earnings.

Changes in interest rates could negatively affect the value of investments we make with our excess capital, which could result in reduced earnings or losses.

We invest our excess capital from time to time in highly liquid investments. Investments that are sensitive to interest rate fluctuations will decline in value if long-term interest rates increase. Declines in market value may ultimately reduce earnings or result in losses to us.

In addition, changes in interest rates may impact some of our principal investments and/or merchant banking investments in companies whose business models are sensitive to interest rates.

If we become subject to the registration requirements of the 1940 Act as a result of our principal investing activities, our ability to operate our business as contemplated would be impaired, our operating results would be adversely affected.

The 1940 Act and the rules thereunder contain detailed parameters for the organization and operations of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, prohibit the issuance of stock options, and impose certain governance requirements. We intend to conduct our operations so that we will not be deemed to be an investment company under 1940 Act. However, if anything were to happen which would cause us to be deemed to be an investment company under the 1940 Act, requirements imposed by the 1940 Act, including limitations on our capital structure, ability to transact business with affiliates and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among us and our subsidiary, FBR & Co., and materially adversely affect our business, financial condition and results of operations.

We are a holding company and are dependent on our subsidiaries for funds.

Since we are a holding company, our cash flow and consequent ability to pay dividends and satisfy our obligations under securities we issue are dependent upon the earnings of our subsidiaries and the distribution of those earnings as dividends or loans or other payments by those subsidiaries to us. Our broker-dealer subsidiary is subject to various capital adequacy requirements promulgated by the regulatory and other authorities of the countries in which they operate. These regulatory rules may restrict our ability to withdraw capital from our subsidiaries by dividends, loans or other payments. Additionally, our ability to participate as an equity holder in any distribution of assets of any subsidiary upon liquidation is generally subordinate to the claims of creditors of the subsidiary.

Our exposure to legal liability is significant, and damages that we may be required to pay and the reputational harm that could result from legal action against us could materially adversely affect our businesses.

We face significant legal risks in our businesses and, in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions have been increasing. These risks include potential liability under securities or other laws for materially false or misleading statements made in connection with securities offerings and other transactions, potential liability for "fairness opinions" and other advice we provide to participants in strategic transactions and disputes over the terms and conditions of complex trading arrangements. We are also subject to claims arising from disputes with employees for alleged discrimination or harassment, among other things.

As a brokerage and investment banking firm, we depend to a large extent on our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, it may be more damaging in our business than in other businesses. Moreover, our role as advisor to our clients on important underwriting or M&A transactions involves complex analysis and the exercise of professional judgment, including rendering "fairness opinions" in connection with mergers and other transactions. Therefore, our activities may subject us to the risk of significant legal liabilities to our clients and aggrieved third parties, including stockholders of our clients who could bring securities class actions against us. Our investment banking engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, but these provisions may not protect us or may not be enforceable in all cases. Furthermore, there is no assurance that an investment banking client will be able to satisfy its indemnity or contribution obligations when due. As a result, we may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and adverse judgments. Substantial legal liability or significant regulatory action against us could have a material adverse effect on our results of operations or cause us significant reputational harm, which could seriously harm our business and prospects. See Part I, Item 3, "Legal Proceedings" of this Form 10-K for additional information concerning litigation in which we are involved.

Our ability to use net capital loss carryovers to reduce our taxable income may be limited.

On October 22, 2009, as a result of the sale by Arlington Asset of all of the remaining shares of our common stock then beneficially owned by it, we had an "ownership change" as defined in Internal Revenue Code section 382. Section 382 limits tax deductions for net operating losses ("NOL"), net capital losses ("NCL") and net unrealized built-in losses after there is a substantial change in ownership in a corporation's stock involving a 50 percentage point increase in ownership by 5% or larger stockholders over the relevant testing period.

Under the provisions of Section 13 of the Worker, Homeownership, and Business Act of 2009, enacted on November 6, 2009, we elected to use a five year carryback period for the domestic federal NOL incurred in 2008. As a result, we do not have any domestic federal NOL carryover that would be subject to limitations of section 382. As of the end of 2012, we had NCL carryovers and certain built-in losses that would be subject to an annual section 382 limitation.

The Section 382 limitation is equal to the fair market value of our stock immediately prior to the ownership change multiplied by the long-term tax-exempt rate applicable to the calendar month of the ownership change. In general, the "long-term tax-exempt rate" is a rate determined monthly by the Internal Revenue Service that approximates the yield on a tax-exempt bond that would be equivalent to the market yield on long-term U.S. Treasury securities. The long-term tax-exempt rate for an ownership change occurring in October 2009 was 4.48%. Any NCLs that exceed the Section 382 limitation in any year will continue to be allowed as carryforwards for the remainder of the carryforward period and such losses can be used to offset taxable income for years within the carryforward period subject to the Section 382 limitation (and other applicable limitations) in each year. However, if the carryforward period for any NCL were to expire before that loss had been fully utilized, the unused portion of that loss would be lost. The carryforward period for NCLs is five years from the year in which the losses giving rise to the NCL were incurred. Our use of new NOLs or NCLs arising after the date of the ownership change would not be affected by the Section 382 limitation, unless another ownership change were to occur after those new losses arose.

Risks Related to Use of Estimates and Valuations

We make various estimates that affect reported amounts and disclosures.

We make various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in measuring fair value of certain financial instruments, accounting for identifiable intangible assets, establishing provisions for potential losses that may arise from litigation, regulatory proceedings and tax examinations, assessing our ability to realize deferred taxes and valuing equity-based compensation awards. Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our consolidated financial statements.

See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" and Note 2 to our consolidated financial statements in Part II, Item 8, of this Form 10-K for additional information concerning our use of estimates and valuation methodologies.

Risks Related to Our Relationship with Crestview

Pursuant to the Amended and Restated Voting Agreement (as defined below) among Arlington Asset, FBR TRS Holdings, Crestview and us, Crestview has the right to designate two representatives to serve on our board of directors and therefore has the ability to influence any action taken or recommended by our board of directors. If the interests of Crestview are in conflict with the interests of our other stockholders, Crestview's ability to influence our board of directors could result in a conflict of interest for members of our board.

In 2009, we entered into the Amended and Restated Voting Agreement with Arlington Asset, FBR TRS Holdings and Crestview (the "Amended and Restated Voting Agreement") that provides Crestview, among other things, with the right to designate two representatives for election to our board of directors. Subject to certain conditions, Crestview also has the right to designate one representative to serve on each of the committees of our board of directors, to the extent permitted by law and the applicable regulations of the NASDAQ Global Select Market (or, if not so permitted, such designee(s) will have certain observation rights). Accordingly, Crestview may have the ability to influence any action taken or recommended by our board of directors. If the interests of Crestview are in conflict with the interests of our other stockholders, the ability of Crestview to influence our board of directors could result in a conflict of interest for members of our board.

Crestview has certain registration rights with respect to the shares of our common stock owned by it and the exercise of these rights could affect the trading market for our common stock.

As of December 31, 2012, Crestview, directly and indirectly, beneficially owned approximately 18% of the outstanding shares of our common stock, including stock options issued to them. We entered into a registration rights agreement with Crestview, dated as of July 20, 2006, with respect to the shares of our common stock beneficially owned by Crestview. The registration rights agreement contains certain demand and piggyback registration rights.

If Crestview exercises its registration rights with respect to some or all of its shares of our common stock, this could have an adverse effect on the market price of our common stock. Crestview could sell its stake in us to one or more third parties that may not be favorable to our stockholders. In addition, the existence of these rights may make it more difficult to effect a business combination or increase the cost of a target business in the event that we are unable to complete a business combination solely with cash, as the stockholders of a particular target business may be discouraged from entering into a business combination with us or will request a higher price for their securities as a result of these registration rights and the potential future effect their exercise may have on the trading market for our common stock.

We may not be successful in capturing the benefit of our ongoing strategic advisory relationship with an affiliate of Crestview which may impede our growth and negatively impact our operating results.

We have agreed, subject to the modification described below, to pay Crestview Advisors, L.L.C., an affiliate of Crestview, a $1.0 million annual strategic advisory fee and reimburse Crestview Advisors, L.L.C. for reasonable out-of-pocket expenses in exchange for ongoing strategic advice and assistance. This fee is payable for as long as Crestview beneficially owns at least 50% of the shares of our common stock that the Crestview affiliates purchased in our 2006 private offering. In September 2008, we granted Crestview Advisors, L.L.C. options to purchase 502,268 shares of our common stock at a price of $5.30 per share in lieu of cash payments for the strategic advisory fee for the period from October 1, 2008 through December 31, 2009. In June 2010, the Company and Crestview agreed to amend the professional services agreement to allow Crestview the ability to elect to receive a portion of their fee in restricted stock and/or options to purchase shares of the Company's common stock. Based on Crestview's election, in June 2012, June 2011 and June 2010, the Company issued 244,898, 168,067 and 153,846, respectively, such options to Crestview Advisors, L.L.C. valued at $0.24 million in 2012, and $0.2 million in 2011 and 2010. The remaining portion of the 2012, 2011 and 2010 strategic advisory fee was paid in cash. Crestview Advisors, L.L.C. is not required to provide specified services to us or our affiliates, and we cannot assure you that this agreement will result in increased opportunities for any of our businesses or in the establishment of new relationships with potential clients or investors. To the extent that we do not capture the anticipated benefit of these services, our payment obligations under this agreement may impede our growth and negatively impact our operating results.

Risks Related to Our Industry

Significantly expanded corporate governance and public disclosure requirements may result in fewer initial public offerings and distract existing public companies from engaging in capital market transactions which may reduce the number of investment banking opportunities available to pursue.

Highly-publicized financial scandals in recent years have led to investor concerns over the integrity of the U.S. financial markets, and have prompted the United States Congress, the SEC, the NYSE and NASDAQ to significantly expand corporate governance and public disclosure requirements. To the extent that private companies, in order to avoid becoming subject to these new requirements, decide to forgo initial public offerings, our equity underwriting business may be adversely affected. In addition, provisions of the Sarbanes-Oxley Act of 2002 and the corporate governance rules imposed by self-regulatory organizations have diverted many companies' attention away from capital market transactions, including securities offerings and acquisition and disposition transactions. In particular, companies that are or are planning to be public are incurring significant expenses in complying with the SEC and accounting standards relating to internal control over financial reporting, and companies that disclose material weaknesses in such controls under the new standards may have greater difficulty accessing the capital markets. These factors, in addition to adopted or proposed accounting and disclosure changes, may have an adverse effect on our business.

Financial services firms have been subject to increased scrutiny over the last several years, increasing the risk of financial liability and reputational harm resulting from adverse regulatory actions.

As a participant in the financial services industry, we are subject to extensive regulation under federal and state laws in the U.S. and under the laws of other countries in which we do business. We are also regulated by a number of self-regulatory organizations. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, NYSE, FINRA, and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. This regulatory and enforcement environment has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms and that were generally believed to be permissible and appropriate. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. The specific impact of Dodd-Frank on our businesses, our clients and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments over the next several years. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other United States or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets, including FINRA. Among other things, we could be fined, prohibited from engaging in some of our business activities or subject to limitations or conditions on our business activities. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which could seriously harm our business prospects.

In addition, financial services firms are subject to numerous conflicts of interests or perceived conflicts. The SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. We have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly seek to review and update our policies, controls and procedures. However, appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest. Our policies and procedures to address or limit actual or perceived conflicts may also result in increased costs, additional operational personnel and increased regulatory risk. Failure to adhere to these policies and procedures may result in regulatory sanctions or client litigation. For example, the research areas of investment banks have been and remain the subject of heightened regulatory scrutiny which has led to increased restrictions on the interaction between equity research analysts and investment banking personnel at securities firms.

The effort to combat money laundering and terrorist financing is a priority in governmental policy with respect to financial institutions. The obligation of financial institutions, including ourselves, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls which have increased, and may continue to increase, our costs. Regulators have also stepped up regulation and enforcement to catch and punish bribery or similar corrupt practices by financial institutions. Any failure with respect to our programs in this area could subject us to serious regulatory consequences, including substantial fines, and potentially other liabilities.

Employee misconduct could harm us and is difficult to detect and deter.

Our reputation is critical in maintaining our relationship with clients, investors, regulators and the general public and is a key focus in our risk management efforts. In recent years, there have been a number of highly publicized cases involving fraud, conflicts of interest or other misconduct by employees in the financial services industry, and we run the risk that employee misconduct could occur at our company. For example, misconduct by employees could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. Misconduct by employees could include binding us to transactions that exceed authorized limits or present unacceptable risks, or hiding from us unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. As a result, we could suffer significant reputational harm for any misconduct by our employee. In addition, in certain circumstances our reputation could be damaged by activities of our clients or of hedge funds or other entities in which we invest, over which we have little or no control.

The soundness of other financial institutions and intermediaries affects us.

We face the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries that we use to facilitate our securities transactions. As a result of the consolidation over the years among clearing agents, exchanges and clearing houses, our exposure to certain financial intermediaries has increased and could affect our ability to find adequate and cost-effective alternatives should the need arise. Any failure, termination or constraint of these intermediaries could adversely affect our ability to exercise transactions, service our clients and manage our exposure to risk.

Our ability to engage in routine trading and funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, funding, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients. Furthermore, although we do not hold any EU sovereign debt, we may do business with and be exposed to financial institutions that have been affected by the recent EU sovereign debt crisis. As a result, defaults by, or even rumors or questions about the financial condition of, one or more financial services institutions, or the financial services industry generally, have historically led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. Although we have not suffered any material or significant losses as a result of the failure of any financial counterparty, any such losses in the future may materially adversely affect our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located at Potomac Tower, 1001 Nineteenth Street North, Arlington, Virginia 22209. We carry out all aspects of our operations related to our capital markets and principal investing segments at that location. We occupy four leased floors of our headquarters building in Arlington, Virginia. We also lease office space in the following locations where we conduct certain portions of our capital markets operations: Boston, Massachusetts; Dallas, Texas; Houston, Texas; Irvine, California; New York, New York; and San Francisco, California. We believe that the present facilities, together with current options to extend lease terms and occupy additional space, are adequate for our current and presently projected needs.

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2012, except as described below, we were neither a defendant nor plaintiff in any lawsuits or arbitrations nor involved in any governmental or self-regulatory organization matters that are expected to have a material adverse effect on our financial condition, results of operations or liquidity. We have been named as a defendant in a small number of civil lawsuits relating to our various businesses. In addition, we are subject to various reviews, examinations, investigations and other inquiries by governmental agencies and self regulatory organizations. There can be no assurance that these matters individually or in aggregate will not have a material adverse effect on our financial condition, results of operations, or liquidity in a future period. However, based on management's review with counsel, resolution of these matters is not expected to have a material adverse effect on our financial condition, results of operations or liquidity.

Many aspects of our business involve substantial risks of liability and litigation. Underwriters, broker-dealers and investment advisers are exposed to liability under Federal and state securities laws, other Federal and state laws and court decisions, including decisions with respect to underwriters' liability and limitations on indemnification, as well as with respect to the handling of customer accounts. For example, underwriters may be held liable for material misstatements or omissions of fact in a prospectus used in connection with the securities being offered and broker-dealers may be held liable for statements made by their securities analysts or other personnel. FBRCM has been named as a defendant in a small number of securities claims involving investment banking clients of FBRCM as a result of FBRCM's role as an underwriter. In these cases, the underwriting agreement provides, subject to certain conditions, that the investment banking client is required to indemnify FBRCM against certain claims or liabilities, including claims or liabilities under the Securities Act of 1933, as amended (the "Securities Act"), or contribute to payments which FBRCM is required to make as a result of the litigation. There can be no assurance that such indemnification or contribution will ultimately be available to us or that an investment banking client will be able to satisfy its indemnity or contribution obligations when due.

In May 2008, the lead plaintiff in a previously filed and consolidated action filed an amended consolidated class action complaint that, for the first time, named Friedman, Billings, Ramsey & Co., Inc. (now FBRCM) and eight other underwriters as defendants. The lawsuit, styled In Re Thornburg Mortgage, Inc. Securities Litigation and pending in the United States District Court for the District of New Mexico, was originally filed in August 2007 against Thornburg Mortgage, Inc. ("TMI"), and certain of its officers and directors, alleging material misrepresentations and omissions about, inter alia, the financial position of TMI. The amended complaint included claims under Sections 11 and 12 of the Securities Act against nine underwriters relating to five separate offerings (May 2007, June 2007, September 2007 and two offerings in January 2008). The allegations against FBRCM related only to its role as underwriter or member of the syndicate that underwrote TMI's total of three offerings in September 2007 and January 2008—each of which occurred after the filing of the original complaint. The plaintiffs sought restitution, unspecified compensatory damages and reimbursement of certain costs and expenses. Although FBRCM is contractually entitled to be indemnified by TMI in connection with this lawsuit, TMI filed for bankruptcy on May 1, 2009 and this likely will decrease or eliminate the value of the indemnity that FBRCM receives from TMI. On June 2, 2011 the Court granted FBRCM's motion to dismiss the consolidated class action complaint as to FBRCM and then entered final judgment for FBRCM on July 25, 2011. Plaintiffs filed a timely notice of appeal to the 10th Circuit Court of Appeals, challenging the District Court's findings; briefing on the appeal is complete and oral argument at the Court of Appeals has been heard. Claims relating to the two January 2008 offerings have been voluntarily dismissed with prejudice by plaintiffs. The claims against FBRCM relating to the September 2007 offering remain on appeal.

FBRCM has been named as a defendant in a case relating to its role as an underwriter in residential mortgage-backed securities ("RMBS") offerings. FBRCM is among dozens of underwriter, securitization trust and depositor defendants in an individual action filed by Cambridge Place Investment Management, Inc. in Massachusetts state court (Cambridge Place Investment Management Inc. v. Morgan Stanley et al). Cambridge's complaint relates to the more than $22.4 billion in RMBS purchases it made in numerous underwritten offerings (of which the claims concerning FBRCM are limited to Cambridge's purchases of a combined $22 million of RMBS in two separate offerings) and alleges that each of the defendants made misrepresentations and omissions relating to, among other things, loan-to-value ratios, appraisals, and underwriting standards, in violation of state securities laws. FBRCM has contractual indemnification claims against the RMBS issuers and contribution claims against co-underwriters involved in the two offerings for which claims have been made against it.

FBRCM has been named a defendant in the putative class action lawsuit MHC Mutual Conversion Fund, L.P. v. United Western Bancorp, Inc., et al. pending in the United States District Court for the District of Colorado. The complaint, filed in March 2011 against United Western Bancorp, Inc. (the "Bank"), its officers and directors, underwriters and outside auditors, alleges material misrepresentations and omissions in the registration statement and prospectus issued in connection with the Bank's September 2009 offering. The complaint alleges claims under Sections 11 and 12 of the Securities Act against the lead underwriter of the offering and FBRCM as a member of the underwriting syndicate. Although FBRCM is contractually entitled to be indemnified by the Bank in connection with this lawsuit, the Bank filed for bankruptcy on March 5, 2012 and this likely will decrease or eliminate the value of the indemnity that FBRCM receives from the Bank. On December 19, 2012 the Court granted Defendants' motion to dismiss the class action complaint with prejudice and entered final judgment for the underwriters. Class plaintiffs filed a timely notice of appeal to the 10^{th} Circuit Court of Appeals, challenging the District Court's findings.

FBRCM has been named a defendant in four putative class action lawsuits all alleging substantially identical claims against Imperial Holdings, Inc. ("Imperial"), its officers and directors and underwriters for material misrepresentations and omissions in the registration statement and prospectus issued in connection with Imperial's February 2011 initial public offering. The cases all currently pending in the Southern District of Florida are captioned: Martin J. Fuller v. Imperial Holdings, Inc., et al; City of Roseville Employees Retirement System v. Imperial Holdings, et al; Sauer v. Imperial Holdings, et al.; and Pondick v. Imperial Holdings, et al. The complaints allege claims under Sections 11 and 12 of the Securities Act against the lead underwriters of the offering. Imperial has assumed its contractual obligation to indemnify the underwriters. As of December 19, 2012, Imperial and all other relevant parties, including FBRCM, executed a non-binding term sheet to settle the class action lawsuits. Definitive settlement agreements are forthcoming.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. As a litigation or regulatory matter develops, management, in conjunction with counsel, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. The cases discussed above involving the Company are at a preliminary stage, based on management's review with counsel and present information known by management, loss contingencies for these matters are not probable and estimable as of December 31, 2012.

In certain circumstances, broker-dealers and asset managers may also be held liable by customers and clients for losses sustained on investments. In recent years, there has been an increasing incidence of litigation and actions by government agencies and self regulatory organizations involving the securities industry, including class actions that seek substantial damages. We are also subject to the risk of litigation, including litigation that may be without merit. As we intend to actively defend such litigation, significant legal expenses could be incurred. An adverse resolution of any future litigation against us could materially affect our financial condition, operating results and liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Price Range of Common Stock

Our common stock is listed on The NASDAQ Global Select Market℠ under the symbol "FBRC." On February 28, 2013, the Company affected a one-for-four reverse stock split of its issued and outstanding common stock. While this reverse stock split reduced the number of issued and outstanding common shares, it had no effect on the Company's total shareholder's equity. As of March 1, 2013, subsequent to the reverse stock split, there were 11,927,308 shares of our common stock outstanding and approximately 22 holders of record. Such information was obtained through our registrar and transfer agent. The tables below shows the actual high and low sales prices for our common stock on The NASDAQ Global Select Market℠ as adjusted to give retroactive effect to the one-for-four reverse stock split for the periods indicated.

	Price Range of Common Stock	
	High	Low
Year Ended December 31, 2012:		
Fourth Quarter	$15.76	$11.48
Third Quarter	13.88	10.68
Second Quarter	12.00	9.44
First Quarter	11.04	8.00

	Price Range of Common Stock	
	High	Low
Year Ended December 31, 2011:		
Fourth Quarter	$12.36	$ 7.48
Third Quarter	13.80	9.08
Second Quarter	15.52	12.44
First Quarter	16.52	13.96

Dividends

For the years ended December 31, 2012 and 2011, our board of directors has not authorized and we have not declared or paid any cash dividends on our common stock.

Share Repurchases

During 2012, we repurchased 2.2 million shares of our common stock in open market transactions at weighted average share prices of $2.74 per share, for a total cost of $5.9 million. During 2012, we completed two tender offers to repurchase shares of our stock. Pursuant to these modified "Dutch auction" tender offers, we repurchased 5.3 million shares of our common stock at weighted average share prices of $2.83 per share for a total cost, including transaction costs, of $15.0 million. The following table provides information on the Company's share repurchases during the fourth quarter of 2012:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
October 1 to October 31, 2012	—	$ —	—	5,972,738
November 1 to November 30, 2012	—	—	—	5,972,738
December 1 to December 31, 2012	193,666(2)	3.50	—	5,972,738
Total	**193,666**	**$3.50**	**—**	**5,972,738**

(1) On July 17, 2012, the Board of Directors of the Company approved a 5,000,000 share increase to the number shares of common stock that the Company is authorized to repurchase. This directive increased the total number of shares authorized to repurchase to 6,146,644 shares of which 5,972,738 remains authorized for repurchase as of December 31, 2012.

(2) In December 2012, the Company announced a tender offer to repurchase up to 4,000,000 shares of its stock at a price between $3.25 and $3.50. Pursuant to this tender offer, the Company repurchased 193,666 shares of its common stock at a price of $3.50 per share through a modified "Dutch auction."

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Consolidated Statements of Operations (dollars in thousands, except per share amounts):					
Revenues:					
Investment banking:					
Capital raising	$ 84,144	$ 42,862	$ 98,768	$121,007	$ 76,377
Advisory	6,525	15,284	19,505	17,716	20,573
Institutional brokerage:					
Principal transactions	19,353	18,081	22,227	40,271	20,261
Agency commissions	33,119	60,376	77,864	92,357	117,013
Net investment (loss) income	4,906	(9,664)	9,162	1,577	(81,333)
Interest, dividends & other	3,445	5,288	4,879	5,794	24,292
Total revenues	151,492	132,227	232,405	278,722	177,183
Interest expense	—	—	—	252	12,457
Revenue, net of interest expense	151,492	132,227	232,405	278,470	164,726
Non-interest expenses:					
Compensation and benefits	82,672	99,808	174,967	185,428	216,814
Professional services	12,839	11,629	18,054	20,580	27,553
Business development	9,394	10,753	14,007	12,917	27,811
Clearing and brokerage fees	7,490	11,928	13,129	13,896	13,900
Occupancy and equipment	15,755	19,034	24,797	32,251	31,675
Communications	12,553	16,402	19,423	20,670	23,088
Impairment of goodwill	—	5,882	—	—	—
Other operating expenses	6,861	8,119	9,618	10,967	12,079
Total non-interest expenses	147,564	183,555	273,995	296,709	352,920
Income (loss) from continuing operations before income taxes	3,928	(51,328)	(41,590)	(18,239)	(188,194)
Income tax benefit	(1,078)	(243)	(4,097)	(842)	(3,313)
Income (loss) from continuing operations, net of taxes	5,006	(51,085)	(37,493)	(17,397)	(184,881)
Income (loss) from discontinued operations, net of taxes	24,685	1,436	(65)	(10,254)	(9,849)
Net income (loss)	$ 29,691	$ (49,649)	$ (37,558)	$ (27,651)	$(194,730)
Basic income (loss) per share:					
Income (loss) from continuing operations, net of taxes	$ 0.09	$ (0.84)	$ (0.59)	$ (0.29)	$ (2.93)
Income (loss) from discontinued operations, net of taxes	0.47	0.02	0.00	(0.17)	(0.16)
Basic income (loss) per share	$ 0.56	$ (0.82)	$ (0.59)	$ (0.46)	$ (3.09)
Diluted income (loss) per share:					
Income (loss) from continuing operations, net of taxes	$ 0.09	$ (0.84)	$ (0.59)	$ (0.29)	$ (2.93)
Income (loss) from discontinued operations, net of taxes	0.45	0.02	0.00	(0.17)	(0.16)
Diluted income (loss) per share	$ 0.54	$ (0.82)	$ (0.59)	$ (0.46)	$ (3.09)
Weighted-average shares (in thousands):					
Basic	53,096	60,841	63,546	60,094	63,056
Diluted	55,193	60,841	63,546	60,094	63,056

	As of December 31,				
	2012	2011	2010	2009	2008
Consolidated Balance Sheet Data (in thousands):					
Assets:					
Cash and cash equivalents	$174,925	$135,792	$236,077	$275,506	$207,801
Mortgage-backed securities, at fair value	—	—	—	—	454,339
Financial instruments owned, at fair value	121,404	100,634	86,400	104,124	31,209
Other investment, at cost	8,388	25,744	45,224	33,974	27,919
Due from brokers, dealers, and clearing organizations	4,670	6,048	15,463	96,477	—
Other	24,057	29,865	48,303	46,244	79,101
Total assets	$333,444	$298,083	$431,467	$556,325	$800,369
Liabilities:					
Securities sold but not yet purchased, at fair value	$ 56,929	$ 35,496	$ 55,444	$ 51,669	$ 8,325
Repurchase agreements	—	—	—	—	416,037
Accrued compensation, accounts payable and other liabilities	32,953	31,040	77,209	94,989	69,271
Due to brokers, dealers, and clearing organizations	3,698	6,250	7,323	90,168	3,009
Total liabilities	93,580	72,786	139,976	236,826	496,642
Shareholders' equity	239,864	225,297	291,491	319,499	303,727
Total liabilities and shareholders' equity	$333,444	$298,083	$431,467	$556,325	$800,369

	Year ended December 31,				
	2012	2011	2010	2009	2008
Statistical Data:					
Total employees(1)	256	295	501	595	568
Net revenue per employee(2)	$ 591	$ 362	$ 450	$ 503	$ 274
Compensation and benefits expense as a percentage of net revenues	55%	72%	74%	66%	125%

(1) As of end of the period reported

(2) Based on average of employees as of the end of each quarter.

The selected financial data set forth above has been derived from the audited consolidated financial statements of FBR & Co.

This information should be read in conjunction with Item 1, "Business," Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the audited consolidated financial statements of FBR & Co and notes thereto included under Item 8, "Financial Statements and Supplementary Data," in this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

FBR & Co. is a full-service investment banking and institutional brokerage firm with a customer-focused and innovative approach to meeting our clients' needs. In addition, we make principal investments, including merchant banking investments, with our own capital. Since the founding of certain predecessor companies, we have grown from a boutique investment bank with primary expertise in financial institutions into a full-service U.S. investment bank for middle-market companies.

Through our principal operating subsidiary, FBR Capital Markets & Co. ("FBRCM."), an SEC-registered broker-dealer, we have focused our business on providing:

- capital raising services, including underwriting and placement of public and private equity and debt;
- financial advisory services, including merger and acquisition ("M&A") advisory, restructuring, liability management, recapitalization and strategic alternative analysis;
- institutional sales and trading services focused on equities, equity-linked securities, listed options, high-yield bonds, senior debt and bank loans;
- research coverage; and
- principal investment returns to our shareholders through merchant banking and other direct investments that we make utilizing our own capital.

We focus our capital markets business (investment banking and institutional brokerage) in the following industry sectors—consumer, diversified industrials, energy and natural resources, financial institutions, insurance, real estate, and technology, media and telecommunications ("TMT").

On October 25, 2012, we completed the sale of the assets related to the management of our mutual fund business. As a result, we are no longer engaged in the asset management business and now report the results of our asset management operations as discontinued operations.

Our business is comprised of two separate segments: capital markets, which includes investment banking and institutional brokerage and research; and principal investing.

Business Environment

U.S. equity markets experienced a recovery throughout 2012, as evidenced by the strong performance of most equity indices, and that recovery has extended into the first part of 2013. Issuers' demand for raising capital continues to grow as evidenced by an increase in registrations for public equity offerings. Volatility measures have fallen to levels not experienced since prior to the financial crisis. There are signs that the housing market has stabilized and that a recovery may be in its early stages. Should this recovery gain momentum it would provide a much needed source of support for the overall consumer economy. Interest rates continue to be below historic levels as the Federal Reserve holds short-term rates at or below 50 basis points and has committed to purchase approximately $85 billion per month in mortgage securities. This market support has contributed to significant fund flows into bonds and, in particular, the high yield corporate market has seen tremendous new issue activity and overall rates within that market have fallen to historically low levels.

The environment for equity trading businesses continues to be difficult however, and the volume of trading activity in the public markets continues to be muted. In our opinion, the deleveraging of the U.S. financial system has not fully run its course and we expect that it will continue to pressure asset valuations and market liquidity, and possibly lead to additional bouts of extreme market volatility. Regulatory pressure and uncertainty continue to persist for businesses generally, and for institutional investors and the brokerage industry in particular. Fiscal uncertainty caused by political dysfunction within the U.S., sovereign debt challenges and an undercapitalized banking system in Europe, and the specter of rising interest rates at some point in the future continue to constrain risk taking and long term commitments of capital.

Executive Summary

For the year ended December 31, 2012, our net income was $29.7 million compared to net losses of $49.6 million in 2011 and $37.6 million in 2010. In June 2012, we entered into a definitive agreement to sell the assets related to our mutual fund business. This sale was completed in October 2012. As a result of this sale transaction, the Company reports the results of its asset management operations as discontinued operations. Our 2012 net income includes $24.7 million of net income from discontinued operations, which was primarily derived from the gain recorded on the asset sale. Net income from discontinued operations totaled $1.4 million in 2011 and we incurred a $0.1 million net loss from discontinued operations in 2010.

Regarding our continuing operations, in 2012 our total revenues from continuing operations were $151.5 million, our pre-tax income was $3.9 million, and our net income was $5.0 million. This compares to 2011 revenues from continuing operations of $132.2 million, a pre-tax loss of $51.3 million, and a net loss of $51.1 million, and 2010 revenues from continuing operations of $232.4 million, a pre-tax loss of $41.6 million, and a net loss of $37.5 million.

The improvement in our results from continuing operations in 2012 as compared to both 2011 and 2010 is primarily due to the steps we have taken to reduce our fixed costs and changes made to our variable compensation programs. In response to the difficult domestic equity market environment, in particular during the second half of 2011, late in 2011 we implemented a restructuring plan intended to reduce our fixed expenses by 35%, principally through reductions in our workforce. As a result of these changes, our fixed expenses in 2012 decreased by $36.1 million as compared to 2011. Additionally, our 2012 fixed expenses reflect a $77.3 million reduction as compared to 2010. While we have made significant reductions to our headcount over the past two years, with our year end 2012 headcount down 49% as compared to 2010, we do not believe that these actions have changed the fundamental composition or strength of our franchise. Rather, we believe that the changes to our cost structure have better positioned the Company to perform in the less active markets that we have experienced since the financial crisis began in 2008.

The increase in our revenue from continuing operations in 2012 as compared to 2011 reflects the net effects of increased capital raising revenue and investment income offset by a reduction in our institutional brokerage revenue. Our total expenses in 2012 are significantly lower than both 2011 and 2010, primarily as a result of our cost reduction initiatives noted above.

During 2012, we repurchased 7.5 million shares of our common stock at an average price of $2.80 per share and a total cost of $20.9 million. We ended 2012 with $239.9 million of total equity, $174.9 million in cash and no debt.

The following is an analysis of our operating results by segment for the years ended December 31, 2012, 2011 and 2010.

Capital Markets

Our capital markets segment includes investment banking and institutional sales, trading and research. These business units operate as a single integrated segment to deliver capital raising, advisory and sales and trading services to corporate and institutional clients. Our investment banking and institutional brokerage businesses are focused on the consumer, diversified industrials, energy and natural resources, financial institutions, insurance, real estate and TMT sectors. By their nature, our capital markets business activities are highly competitive and are subject to market conditions as well as to the conditions affecting the companies and markets in our areas of focus. As a result, our capital markets revenues and profits are subject to significant volatility from period to period. The following table provides a summary of our results within the capital markets segment (dollars in thousands).

	For the year ended December 31,		
	2012	2011	2010
Revenues, net of interest expense:			
Investment banking	$ 90,669	$ 58,146	$118,273
Institutional brokerage	52,472	78,457	100,091
Net interest income, dividends, and other	2,145	3,237	2,102
Total	**145,286**	**139,840**	**220,466**
Operating Expenses:			
Variable	45,977	40,766	95,429
Fixed	98,919	135,049	173,354
Impairment of goodwill	—	5,882	—
Total(1)	**144,896**	**181,697**	**268,783**
Pre-tax income (loss)	**$ 390**	**$ (41,857)**	**$ (48,317)**

(1) For the years ended December 31, 2012, 2011, and 2010, total operating expenses includes the allocation of corporate overhead costs of $25,226, 33,778, and $46,305, respectively.

The pre-tax income from our capital markets segment was $0.4 million in 2012 as compared to pre-tax losses of $41.9 million in 2011 and $48.3 million in 2010. This improvement in our pre-tax results was primarily attributable to the decrease in our fixed costs during 2012 as compared to prior years. Fixed expenses decreased $36.1 million, or 26.7%, in 2012 as compared to 2011 and are down $74.4 million, or 42.9% as compared to 2010. These decreases are attributable to both the reduction in employees noted above and the impact of other non-compensation cost reduction initiatives. In addition, our 2011 results include a $5.9 million goodwill impairment charge that isn't comparable to either 2012 or 2010.

Variable expenses increased $5.2 million, or 12.7%, in 2012 primarily due to increased variable compensation costs. Our 2012 variable costs also reflect the net effects of increased costs related to investment banking transactions due to increased investment banking revenue and reduced clearing and brokerage fees due to lower institutional brokerage revenue. The increase in variable compensation in 2012 was attributable to the increase in revenues and the Company's improved performance. The increase in costs related to investment banking transactions in 2012 was directly related to the increase in transaction volumes in 2012, while the decrease in clearing and brokerage fees is due to the reduction in equity trading volumes.

Investment banking revenues increased $32.6 million to $90.7 million in 2012 from $58.1 million in 2011. Our 2012 results include $70.4 million of capital raising fees earned from sole-managed private placement transactions that were completed during the year. The increased revenue in 2012 reflects a higher volume of capital raising activity as a result of improved market conditions. Our results in 2011 include $26.3 million in revenues from private placement transactions and an overall lower volume of capital raising activity reflecting an industry-wide decrease in equity capital raising activity during that time.

Our institutional brokerage revenues decreased $26.0 million to $52.5 million in 2012 from $78.5 million in 2011. This decrease was primarily a result of the continued decrease in overall industry-wide equity trading volume during 2012, a decrease in principal transaction revenues from our convertible and credit desks and the reductions in our headcount.

The pre-tax loss from our capital markets segment decreased to $41.9 million in 2011 from $48.3 million in 2010 despite a decrease in revenues of $80.6 million or 37% in 2011. This decrease in pre-tax loss was attributable to decreases in both variable and fixed costs, partially offset by the goodwill impairment charge in 2011 that isn't comparable to 2010. Variable expenses decreased $54.7 million, or 57.3%, in 2011 reflecting a decrease in variable compensation and costs related to investment banking transactions. The decrease in variable compensation was attributable to a reduction in employees since the end of the third quarter of 2010, changes made to our variable compensation programs in 2011, and the reduction in revenues as compared to 2010. The decrease in costs related to investment banking transactions in 2011 was directly related to the decrease in transaction volumes in 2011. Fixed expenses decreased $38.3 million, or 22.1%, in 2011. This decrease was attributable to both the reduction in employees noted above and the impact of other non-compensation cost reduction initiatives.

Investment banking revenues decreased $60.2 million to $58.1 million in 2011 from $118.3 million in 2010. The lower volume of capital raising revenue for 2011 was representative of an industry-wide decrease in equity capital raising activity due to continued economic challenges affecting investor confidence and volatility in the capital markets. In particular, the market in the second half of 2011 was especially challenged. The results in 2010 include fees earned from a single private placement that in total, raised in excess of $1.2 billion of equity capital for an issuer client. There were no comparable transactions in 2011.

Our institutional brokerage revenues decreased $21.6 million to $78.5 million in 2011 from $100.1 million in 2010. This decrease was primarily a result of a decrease in overall industry-wide equity trading volume during 2011 and a decrease in principal transaction revenues from our convertible and credit desks.

Principal Investing

As of December 31, 2012, our principal investing activity consists of investments in merchant banking and other equity investments, investment funds and corporate debt investments. The following tables provide a summary of our results within the principal investing segment (dollars in thousands):

	For the year ended December 31,		
	2012	**2011**	**2010**
Revenues, net of interest expense:			
Net investment income (loss)	$4,906	$(9,665)	$ 9,162
Net interest income, dividends, and other	1,299	2,049	2,774
Total	**6,205**	**(7,616)**	**11,936**
Operating Expenses:			
Variable	761	6	276
Fixed	434	358	2,164
Total(1)	**1,195**	**364**	**2,440**
Pre-tax income (loss)	**$5,010**	**$(7,980)**	**$ 9,496**

(1) Substantially all of the operating expense for the years ending December 31, 2012, 2011, and 2010 represent allocated corporate overhead and other allocated costs.

The following table details the components of net investment income/loss for the periods (dollars in thousands):

	For the year ended December 31,		
	2012	2011	2010
Income (loss) on merchant banking and other equity investments and investment funds	$4,906	$(2,104)	$9,162
Other-than-temporary impairment losses on merchant banking and other equity investments	—	(7,561)	—
Total	$4,906	$(9,665)	$9,162

The pre-tax income from our principal investing segment was $5.0 million in 2012 as compared to a pre-tax loss of $8.0 million in 2011. Net investment income in 2012 includes net realized and unrealized gains on trading securities and investment funds held during the year of $4.9 million. This compares to a net investment loss of $9.7 million in 2011, which was primarily attributable to other-than-temporary impairment losses of $7.6 million related to two equity investments recognized in the second and fourth quarters of 2011. Our net interest income, dividends and other income decreased $0.7 million during 2012 due to a reduction in dividend income as compared to 2011. This decrease is due to changes in investment positions held during the year.

The pre-tax loss from our principal investing segment was $8.0 million in 2011 compared to pre-tax income of $9.5 million in 2010. The pre-tax loss in 2011 was primarily attributable to other-than-temporary impairment losses of $7.6 million related to two equity investments recognized in the second and fourth quarters of 2011 due to the severity of the decline in fair value of these investments below our cost basis. In addition, our 2011 results include $5.9 million in net unrealized losses on trading securities held for investment purposes, offset partially by $3.8 million in net realized gains from the sale of several equity investments and settlement of derivatives held for investment purposes in 2011. Our net interest income, dividends and other income also decreased $0.7 million during 2011 due to a reduction in dividend income as compared to 2010. This decrease is due to changes in investment positions held during the year.

Investments

The total value of our principal investments was $55.6 million as of December 31, 2012. Of this total, $8.4 million was held in non-public investments recorded at cost, $29.6 million was held in marketable and non-public equity securities, warrants and fixed income securities, at fair value, and $17.6 million was held in non-registered investment funds that primarily invest in fixed income securities.

The following table provides additional detail regarding our merchant banking and other long-term investments as of December 31, 2012 (dollars in thousands):

	December 31, 2012	
	Number of Shares	Carrying Value/ Fair Value
Investments, at cost:		
Single Family Housing REIT	125,000	$ 2,390
Oil and Gas Equipment Manufacturer (Note)	n/a	5,000
Other	n/a	998
Total		$ 8,388
Marketable and non-public equity securities and warrants, at fair value		29,578
Investment funds, at fair value		17,599
Total investments		$55,565

Discontinued Operations

In June 2012, we entered into a definitive agreement to sell the assets related to the FBR Funds, a family of mutual funds. This sale was completed in October 2012 and subsequent to the sale closing we have no continuing involvement in the management of these funds. As a result of this sale transaction, we report the results of our asset management operations as discontinued operations. The results related to our asset management operations reflected in the consolidated statements of operations are presented in the following table (dollars in thousands).

	For year ended December 31,		
	2012	2011	2010
Revenues	$14,275	$14,924	$14,182
Gain on sale of assets	24,189	—	—
Expenses	12,514	13,475	14,254
Income (loss) from discontinued operations before income taxes	25,950	1,449	(72)
Income tax provision (benefit)	1,265	13	(7)
Income (loss) from discontinued operations, net of taxes	$24,685	$ 1,436	$ (65)

For the year ended December 31, 2012, we generated $24.7 million of net income from discontinued operations as compared to net income of $1.4 million and a net loss of $0.1 million, respectively in 2011 and 2010. Our 2012 net income from discontinued operations was primarily derived from the $24.2 million gain recorded on the asset sale in the fourth quarter. Similarly, the increase in our net income from discontinued operations in 2012 as compared to 2011 and 2010 was due to the asset sale. The tax provision recognized in 2012 relates primarily to state taxes on income that could not be offset by either net operating loss or capital loss carryforwards.

Regarding our proceeds from the sale, in accordance with the asset sale agreement, we received an initial payment upon closing in October 2012 and will receive a subsequent payment upon the first anniversary of closing, in each case based on a percentage of assets under management for the applicable funds. Specifically, in October 2012, we received proceeds of $19.7 million representing an initial payment equal to 60% of the sales price as calculated on the closing date and we will receive the remaining 40% of the sales price as calculated on the first anniversary of the closing. As of December 31, 2012, we have valued this contingent payment at $9.8 million. This value reflects an approximate 25% discount to the assets under management at closing and is recorded as a receivable on our balance sheet. The value recorded is based on our consideration of various factors outside of our control that can have a significant effect on the value of prospective assets under management. For example, uncertainties related to fund performance, market conditions as well as investor demand for equity mutual funds. Other considerations included the historical asset levels of the FBR Funds and potential asset attrition as a result of the sale transaction. We will continue to monitor the value of these assets under management and adjust the corresponding value of this receivable through the date of the first anniversary of the closing.

Costs related to the sale were expensed as incurred during the year and were comprised primarily of professional fees, including costs for advisory services, legal services and costs associated with the fund shareholder proxy. In addition, upon the close of the sale, we recognized in expense our remaining management contract intangible assets with a value of $1.9 million at that time. Subsequent to the sale, we do not hold any intangible assets on our balance sheet.

Results of Operations

Revenues

Our revenues consist primarily of capital raising and advisory fees in investment banking; agency commissions, principal transactions, including trading gains and losses, in institutional brokerage; and with respect to principal investing activities, net investment income, including realized gains or losses, and dividends from merchant banking investments, earnings from investment funds, and net interest income from principal investing activities.

Revenue from capital raising transactions is substantially dependent on the market for public and private offerings of equity and debt securities within the industries in which we focus our efforts. Agency commissions are dependent on the level of overall market trading volume and penetration of our institutional client base by our research, sales, and trading staff. Principal brokerage transactions are dependent on these same factors and on trading volume and spreads in the securities of such companies; net trading gains and losses are dependent on the market performance of securities held, as well as our decisions as to the level of market exposure we accept in these securities. Accordingly, our revenues in these areas have fluctuated in the past, and we anticipate that they are likely to continue to fluctuate in the future, based on these factors.

In our principal investing activities, merchant banking and other investments are subject to market risk, as well as, any number of specific additional risks related to each investment. As a result, net investment income and dividends generated from these investments will vary and cannot be accurately predicted.

Investment Banking

Capital raising revenue consists of underwriting discounts, placement fees, selling concessions, management fees and reimbursed expenses associated with underwriting activities and private placements of debt and equity. We act in varying capacities in our capital raising activities, which, based on the underlying economics of each transaction, determine our ultimate revenues from these activities. When we are engaged as lead-manager of an underwriting, we generally bear more risk and earn higher revenues than if engaged as a co-manager, an underwriter (syndicate member) or a broker-dealer included in the selling group.

Advisory revenue consists primarily of advisory fees and reimbursed expenses associated with such activities. Advisory fees have fluctuated in the past, and are likely to continue to fluctuate, based on the number and size of our completed transactions.

Institutional Brokerage

Principal transactions consist of a portion of dealer spreads attributed to our securities trading activities as principal in listed and other equity securities, convertible debt securities, listed options and various credit-related instruments and are primarily derived from our customer trading activities. Trading gains and losses on equity securities, convertible debt securities and other instruments are combined and reported on a net basis as part of principal transactions. Gains and losses result primarily from market price fluctuations that occur while holding positions in our trading security inventory.

Agency commissions consist of revenue resulting from the execution of exchange-listed securities and other transactions as agent.

Net Investment Income

Net investment income includes net realized gains or losses on sale of equity and debt securities, impairment losses related to investments in marketable and non-public equity securities, realized and unrealized gains and losses on investments held at broker-dealer subsidiaries and other investments designated as trading as well as income from investment funds.

We record in net investment income in our statements of operations changes in the net asset value of investment funds, including mutual funds, in which we have made investments.

Interest, Dividends & Other Income

Interest income and dividends includes amounts earned from positions held on our trading desk and from treasury management investments, which includes interest-bearing accounts and securities and dividends on merchant banking and other equity investments. Other income primarily includes other miscellaneous fees generated from non-core business activities.

Expenses

Compensation and benefits expense includes base salaries, payroll taxes, employee benefits, non-cash expenses associated with all stock-based awards granted to employees, and incentive compensation. Incentive compensation varies primarily based on revenue production. Salaries, payroll taxes and employee benefits are relatively fixed in nature. In addition, severance charges related to reductions in our workforce are included in this amount.

Professional services expenses include legal fees, primarily associated with investment banking transactions, consulting fees, and recruiting fees. Legal fees associated with investment banking transactions are, to a large extent, variable with revenue.

Business development expenses include travel and entertainment expenses related to investment banking transactions, costs of investor conferences, sponsorships and advertising. Expenses that are directly related to completed investment banking transactions are variable with revenue.

Clearing and brokerage fees include trade processing expenses that we pay to our clearing broker, and execution fees that we pay to floor brokers and electronic communication networks. These expenses are almost entirely variable based on our revenue.

Occupancy and equipment includes rental costs for our facilities, depreciation and amortization of equipment, software and leasehold improvements and expenses. These expenses are largely fixed in nature.

Communications expenses include voice, data and Internet service fees, and data processing costs. While variable in nature, these do not tend to vary with revenue.

Other operating expenses include professional liability and property insurance, business license taxes and registration fees, board of directors costs, offices supplies, interest related to taxes, penalties and fees, printing and copying, charitable contributions and other miscellaneous office expenses.

The following table sets forth financial data related to our continuing operations as a percentage of revenues.

	For the Year Ended December 31,		
	2012	2011	2010
Revenues:			
Investment banking:			
Capital raising	55.5%	32.4%	42.5%
Advisory	4.3%	11.6%	8.4%
Subtotal	59.8%	44.0%	50.9%
Institutional brokerage:			
Principal transactions	12.8%	13.7%	9.6%
Agency commissions	21.9%	45.6%	33.5%
Subtotal	34.7%	59.3%	43.1%
Net investment income (loss)	3.2%	(7.3)%	3.9%
Interest, dividends & other	2.3%	4.0%	2.1%
Total revenues	100.0%	100.0%	100.0%
Non-interest expenses:			
Compensation and benefits	54.6%	75.5%	75.3%
Professional services	8.5%	8.8%	7.8%
Business development	6.2%	8.1%	6.0%
Clearing and brokerage fees	4.9%	9.0%	5.6%
Occupancy and equipment	10.4%	14.4%	10.7%
Communications	8.3%	12.4%	8.4%
Impairment of goodwill	—	4.4%	—
Other operating expenses	4.5%	6.1%	4.1%
Total non-interest expenses	97.4%	138.7%	117.9%
Income (loss) before income taxes	2.6%	(38.7)%	(17.9)%

Comparison of the Years Ended December 31, 2012 and 2011

For the year ended December 31, 2012, our net income was $29.7 million compared to a net loss of $49.6 million in 2011. In June 2012, we entered into a definitive agreement to sell the assets related to the management of the entire family of FBR Funds. This sale was completed in October 2012. Our 2012 net income includes $24.7 million of net income from discontinued operations, which was primarily derived from the gain recorded on the sale of the FBR Funds. Net income from discontinued operations totaled $1.4 million in 2011.

Our pre-tax income from continuing operations was $3.9 million in 2012 compared to a pre-tax loss of $51.3 million in 2011. The improvement in these results during 2012 is primarily the result of the steps we have taken to reduce our fixed costs as well as an improvement in our net investment income. Our 2011 results from continuing operations include a goodwill impairment charge of $5.9 million and $4.7 million of severance costs that are not comparable to 2012. Our income tax benefit was $1.1 million in 2012 compared to a tax benefit of $0.2 million in 2011.

The pre-tax income from our capital markets segment was $0.4 million in 2012 as compared to a pre-tax loss of $41.9 million in 2011. This improvement in these pre-tax results was primarily attributable to the decrease in our fixed costs during 2012. The pre-tax income from our principal investing segment was $5.0 million in 2012 as compared to a pre-tax loss of $8.0 million in 2011. Our 2012 principal investing income includes net realized and unrealized gains on trading securities and investment funds held during the year of $4.9 million.

This compares to a $9.7 million net investment loss for 2011 which reflects other than temporary impairment losses from two merchant banking investments and unrealized losses on trading securities held for investment purposes, partially offset by gains on the sale of certain investments.

Revenues

Our revenues increased 14.6% to $151.5 million during 2012 from $132.2 million during 2011 due to the changes in revenues discussed below.

Capital raising revenues increased 96.0% to $84.1 million in 2012 from $42.9 million in 2011. The increase was attributable to a higher volume of capital raising activity as a result of improved market conditions and an increase in sole managed private placements. Our revenues from private placements during 2012 were $70.4 million compared to $26.3 million in 2011. Our private placement revenue in 2012 related almost entirely to six sole-managed equity private placements that raised $1.1 billion. In comparison, in 2011 our private placement revenue included $20.1 million related two sole-managed equity private placements that raised $328 million. Our revenues from public equity and debt transactions were $13.7 million in 2012 compared to $16.6 million in 2011.

Advisory revenues decreased 57.5% to $6.5 million in 2012 from $15.3 million generated in 2011. While we completed a comparable number of assignments in 2012 as compared to 2011, our 2011 results include two significant merger and acquisition transactions that generated a majority of the advisory revenues for this period. Our results in 2012 do not include comparable transactions.

Institutional brokerage revenues from agency commissions and principal transactions decreased 33.1% to $52.5 million in 2012 from $78.5 million in 2011. The decrease was primarily a result of a decrease in overall industry-wide equity trading volume during 2012, a decrease in principal transaction revenues from our convertible and credit desks and the reductions in our headcount.

Net investment income was $4.9 million in 2012 compared to a loss of $9.7 million in 2011. Net investment income in 2012 includes net realized and unrealized gains on trading securities and investment funds held during the year. The loss for 2011 was due to other-than-temporary impairment losses of $7.6 million related to two equity investments, $5.9 million in net unrealized losses on trading securities held for investment purposes, offset partially by $3.8 million in net realized gains from the sale of several equity investments and the settlement of derivatives held for investment purposes during 2011.

Net interest income, dividends and other revenues decreased 35.8% to $3.4 million in 2012 from $5.3 million in 2011. These revenues include interest from convertible and fixed income securities held on our trading desks as well as interest and dividends generated from our investment activities. The decrease is primarily attributable to changes in our trading and investment positions during 2012 as compared to 2011.

Expenses

Total expenses decreased 19.6% to $147.6 million in 2012 from $183.6 million in 2011. This decrease was caused by the changes in expenses discussed below.

Compensation and benefits expenses decreased 17.1% to $82.7 million in 2012 from $99.8 million in 2011. Fixed compensation decreased $24.0 million in 2012 reflecting the effects of an approximate 40% reduction in our headcount since the end of the third quarter of 2011. Our fixed compensation costs in 2011 also included severance costs of $4.7 million that are not comparable to 2012. Variable compensation increased $6.9 million in 2012 due to the increase in revenues.

Professional services expenses increased 10.3% to $12.8 million in 2012 from $11.6 million in 2011. This increase is due to the net effects of increased expenses related to investment banking transactions in 2012 as compared to 2011, partially offset by a decrease in costs related to corporate activities.

Business development expenses decreased 13.0% to $9.4 million in 2012 from $10.8 million in 2011. This decrease is primarily the result of decreased travel and business promotion costs associated with the overall reduction in our workforce, partially offset by increased transaction costs related to investment banking activity.

Clearing and brokerage fees decreased 37.0% to $7.5 million in 2012 from $11.9 million in 2011. This decrease is primarily the result of a lower volume of trading activity, particularly related to our equity trading desk.

Occupancy and equipment expenses decreased 16.8% to $15.8 million in 2012 from $19.0 million in 2011. The decrease in occupancy costs was primarily the result of reductions in depreciation expense associated with reduced capital expenditures over the past two years and reductions in our leased office space. In addition, our results for 2012 include $1.9 million in charges associated with the consolidation of office space in our Arlington headquarters compared to $1.0 million of comparable office consolidation charges in 2011.

Communications expenses decreased 23.2% to $12.6 million in 2012 from $16.4 million in 2011. The decrease in these expenses is primarily due to decreased costs related to market data and customer trading services as a result of the reduction in our headcount.

We recognized a goodwill impairment charge of $5.9 million in 2011 that is not comparable to 2012. In our annual assessment of goodwill as of December 31, 2011, as discussed in Note 5. *Goodwill and Intangible Assets* included in our financial statements attached to this Form 10-K, we determined that an impairment to goodwill was necessary. The impairment was the result of various factors, including the significant decline in revenues during the second half of 2011 as well as the restructuring plan implemented by the Company in the fourth quarter of 2011 in response to the decline in revenues and uncertain market conditions. Based on that assessment, the Company determined that the asset was fully impaired. During 2011, we recognized an impairment to goodwill of $5.9 million that reduced our goodwill balance to zero as of December 31, 2011.

Other operating expenses decreased 14.8% to $6.9 million in 2012 from $8.1 million in 2011. The decrease in expenses is primarily due to a decrease in license and registration fees as a result of the reduction in our workforce, as well as reductions in administrative operational expenses and corporate insurance costs.

Our income tax benefit of $1.1 million in 2012 compares to a benefit of $0.2 million in 2011. Our 2012 tax benefit includes the recognition of $1.2 million of previously unrecognized tax benefits that is not comparable to 2011. Our effective tax rate was (27.5%) in 2012 as compared to 0.5% in 2011. In addition to the effects of the valuation allowance related to our net deferred tax assets and with respect to 2012 the release of our liability for uncertain tax positions due to the expiration of the statute of limitations, our effective tax rates during these periods differed from statutory rates primarily due to the effect of permanent differences in relation to our operating results. Without these and other discrete items, our effective income tax rate would have been 37.9% and 38.4%, in the years ended December 31, 2012 and 2011, respectively.

At December 31, 2012, our net deferred tax assets totaled $77.3 million. We have established a full valuation allowance against these deferred tax assets based on the criteria in ASC 740, “Income Taxes” (“ASC 740”). Following the criteria in ASC 740, we review this valuation allowance on a quarterly basis assessing the positive and negative evidence to determine if it is more likely than not that some or all of the deferred tax assets will be realized. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in past years. We will continue to assess the need to maintain a full valuation allowance against our net deferred tax assets at each reporting date. Recognition of our deferred tax assets would be based on sustaining profitability over an appropriate time period in amounts that are sufficient to support a conclusion that it is more likely than not that all or a portion of our deferred tax assets will be realized. It is reasonably possible that the Company could meet these criteria in the next twelve months.

Discontinued Operations

Income from discontinued operations, net of taxes increased to $24.7 million in 2012 compared to $1.4 million in 2011. The significant increase in income is due entirely to the gain on the sale of the FBR Funds which was completed in the fourth quarter of 2012.

Comparison of the Years Ended December 31, 2011 and 2010

Net loss increased to $49.6 million in 2011 from $37.6 million in 2010. The increase in net loss was primarily the result of the reduction in revenues from investment banking and institutional brokerage and the net investment loss of $9.7 million. Our 2011 results include a goodwill impairment charge of $5.9 million that is not comparable to 2010. Our income tax benefit was $0.2 million in 2011 compared to a tax benefit of $4.1 million in 2010. Our pre-tax loss from continuing operations increased to $51.3 million in 2011 from $41.6 million in 2010. Net income from discontinued operations totaled $1.4 million in 2011 compared to a loss $0.1 million in 2010.

The pre-tax loss from our capital markets segment decreased to $41.9 million in 2011 from $48.3 million in 2010 despite a decrease in revenues of $80.6 million or 37% in 2011. This decreased loss was attributable to a decrease in variable costs related to the decrease in revenues and a decrease in fixed operating expenses associated with the reduction in headcount during both years offset partially by the goodwill impairment of $5.9 million. The pre-tax loss from our principal investing segment was $8.0 million during 2011 compared to pre-tax income of $9.5 million during 2010. The principal investing results for 2011 reflect other than temporary impairment losses from two merchant banking investments and unrealized losses on trading securities held for investment purposes, partially offset by gains on the sale of certain investments.

Revenues

Our revenues decreased 43.1% to $132.2 million during 2011 from $232.4 million during 2010 due to the changes in revenues discussed below.

Capital raising revenues decreased 56.6% to $42.9 million in 2011 from $98.8 million in 2010. The decrease was attributable to a decrease in sole managed private placements. Our revenues from private placements during 2011 were $26.3 million compared to $79.6 million in 2010. The lower volume of capital raising revenue in 2011 was representative of an industry-wide decrease in equity capital raising activity due to continued economic challenges affecting investor confidence and volatility in the capital markets. Our private placement revenue in 2011 included $20.1 million related to two sole-managed equity private placements that raised $328 million. In comparison, in 2010 our private placement revenue included $56.5 million related to five sole-managed equity private placements that raised $1.7 billion. In addition, during 2010 we recognized $16.1 million of contingent revenue related to two transactions completed in 2009. Our revenues from public equity and debt transactions were $16.6 million in 2011 compared to $19.2 million in 2010.

Advisory revenues decreased 21.5% to $15.3 million in 2011 from $19.5 million generated in 2010. We completed 14 assignments in 2011 as compared to 20 assignments in 2010.

Institutional brokerage revenues from agency commissions and principal transactions decreased 21.6% to $78.5 million in 2011 from $100.1 million in 2010. The decrease was primarily a result of a decrease in overall industry-wide equity trading volume during 2011 and a decrease in principal transaction revenues from our convertible and credit desks.

Net investment loss was $9.7 million in 2011 compared to income of $9.2 million in 2010. Net investment loss for 2011 was due to other-than-temporary impairment losses of $7.6 million related to two equity investments, $5.9 million in net unrealized losses on trading securities held for investment purposes, offset partially by $3.8 million in net realized gains from the sale of several equity investments and the settlement of derivatives held for investment purposes during 2011. Net investment income for 2010 consisted of income from investment funds due to fund performance and the sale of certain merchant banking investments, partially offset by losses on short positions in certain exchange-traded funds that were intended to hedge the fund investments.

Net interest income, dividends and other revenues increased 8.2% to $5.3 million in 2011 from $4.9 million in 2010. This increase was primarily attributable to an increase in interest income from our convertible and credit securities positions as a result of an increase in the average balance held on our trading desks for 2011 as compared to 2010.

Expenses

Total expenses decreased 33.0% to $183.5 million in 2011 from $274.0 million in 2010. This decrease was caused by the changes in expenses discussed below.

Compensation and benefits expenses decreased 43.0% to $99.8 million in 2011 from $175.0 million in 2010. Variable compensation decreased $48.2 million due to a decrease in net revenues, a reduction in headcount since third quarter 2010 and changes in our variable compensation programs in 2011. Fixed compensation decreased $26.2 million due to the reduction in headcount previously noted and a reduction in stock compensation expense reflecting a decrease in stock-based awards over the past two years. As a result of the reduction in headcount in 2011 and 2010, we incurred severance charges of $4.7 million and $6.5 million, respectively.

Professional services expenses decreased 35.9% to $11.6 million in 2011 from $18.1 million in 2010 primarily due to decreased expenses related to investment banking transactions in 2011 as compared to 2010. Also contributing to the decrease were lower costs related to recruiting, legal and consulting services.

Business development expenses decreased 22.9% to $10.8 million in 2011 from $14.0 million in 2010. This decrease was primarily the result of decreased costs associated with our investment banking transactions.

Clearing and brokerage fees decreased 9.2% to $11.9 million in 2011 from $13.1 million in 2010. This decrease was primarily the result of a lower volume of trading activity, particularly related to our equity trading desk.

Occupancy and equipment expenses decreased 23.4% to $19.0 million in 2011 from $24.8 million in 2010. The decrease in occupancy costs was primarily the result of reductions in depreciation expense associated with reduced capital expenditures over the past two years and reductions in our leased office space. In addition, we incurred a $1.0 million charge in 2011 associated with the consolidation of office space in our Arlington headquarters. This charge is comparable to a $1.1 million charge in 2010 associated with the reduction in leased space in our London office.

Communications expenses decreased 15.5% to $16.4 million in 2011 from $19.4 million in 2010. The decrease in these expenses was primarily due to decreased costs related to market data and customer trading services as a result of the reduction in our headcount.

We recognized a goodwill impairment change of $5.9 million in 2011 that is not comparable to 2010. In our annual assessment of goodwill as of December 31, 2011, as discussed in Note 5. *Goodwill and Intangible Assets* included in our financial statements attached to this Form 10-K, the Company determined that an impairment to goodwill was necessary. The impairment was the result of various factors, including the significant decline in revenues during the second half of 2011 as well as the restructuring plan implemented by the Company in the fourth quarter of 2011 in response to the decline in revenues and uncertain market conditions. Based on that assessment, the Company determined that the asset was fully impaired. During 2011, we recognized an impairment to goodwill of $5.9 million that reduced our goodwill balance to zero as of December 31, 2011.

Other operating expenses decreased 15.6% to $8.1 million in 2011 from $9.6 million in 2010. The decrease in expenses was primarily due to a decrease in license and registration fees as a result of the reduction in our headcount as well as reductions in our corporate insurance costs and printing, postage and office supplies.

Our income tax benefit of $0.2 million in 2011 compares to a benefit of $4.1 million in 2010. Our 2010 tax benefit included the recognition of $3.2 million of benefits from the utilization of federal net operating losses that is not comparable to 2011. Our effective tax rate was 0.5% in 2011 as compared to 9.8% in 2010. In addition to the effects of the valuation allowance related to our net deferred tax assets, our effective tax rates during these periods differed from statutory rates primarily due to the discrete period reporting of the tax effects of restricted stock vesting, as required under ASC 718, "Compensation-Stock Compensation," as restricted stock awards vested at share prices lower than original grant date prices as well as the effect of permanent differences in relation to our operating results. Without these and other discrete items, our effective income tax rate would have been 38.4% in each of the years ended December 31, 2011 and 2010.

At December 31, 2011, our net deferred tax assets totaled $102.0 million. We established a full valuation allowance against these deferred tax assets based on the criteria in ASC 740.

Discontinued Operations

Income from discontinued operations, net of taxes increased to $1.4 million in 2011 compared to loss of $0.1 million in 2010. The increase in income is due primarily to the reduction in both fixed and variable costs related to our asset management activities in 2011 as compared to 2010. These cost reductions relate primarily to the reductions in our workforce during this time.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing funding for investments, and for other general business purposes. Regulatory requirements applicable to our broker-dealer subsidiary require minimum capital levels. The primary sources of funds for liquidity consist of existing cash balances (i.e., available liquid capital not invested in our operating businesses), proceeds from sales of securities, internally generated funds, dividends on equity securities that we own, and credit provided by margin accounts, banks, clearing brokers, and affiliates of our principal clearing broker. Potential future sources of liquidity for us include internally generated funds, borrowing capacity through margin accounts, corporate lines of credit and other credit facilities which we may enter into in the future, and future issuances of common stock, preferred stock or debt securities.

Cash Flows

As of December 31, 2012, our cash and cash equivalents totaled $174.9 million representing a net increase of $39.1 million for the year ended December 31, 2012. The increase is attributable to $38.0 million of cash provided by operating activities, $21.2 million of cash provided by investing activities and $20.1 million of cash used in financing activities. Due to the cyclical nature of our industry and the industries in which we provide services, we maintain liquid capital to cover potential cash outflows in periods of decreased revenues and earnings.

Net cash provided by our operating activities of $38.0 million during 2012, compares to $65.5 million of cash used in operating activities during 2011. The cash provided by operating activities in 2012 reflects our net operating income for the year, a decrease in our capital invested in net long positions on our trading desks, and a net increase in our accrued compensation. For 2011, the cash used in operating activities reflected our net operating loss, an increase in our capital invested in net long positions on our trading desks, and payment of previously accrued compensation associated with our 2010 operating results.

Net cash provided by investing activities of $21.2 million during 2012 compares to net cash used in investing activities of $12.3 million during 2011. The cash provided by investing activities in 2012 includes $19.7 million of cash provided by the sale of the FBR Funds during the fourth quarter that is not comparable to the 2011 activity. The remainder of the activity in 2012 primarily includes net sales of principal investments. During 2012, our net investment sales reflect the sale of equity securities and the purchase of interests in non-registered investment funds. Our net cash used in investing activities in 2011 reflects the net purchase of equity securities held for investment purposes and also includes the settlement of derivatives held for investment purposes.

Net cash used in financing activities of $20.1 million during 2012, compares to net cash used in financing activities of $22.5 million during 2011. The 2012 and 2011 activity primarily represents the repurchase of 7.5 million and 8.2 million shares of our common stock, respectively. Of the activity during 2012, 2.2 million shares were repurchased through open market transactions for $5.9 million and the remaining 5.3 million shares were repurchased as part of two modified "Dutch auction" tender offers for an aggregate purchase price, including transaction costs, of $15.0 million. The 2011 share repurchases were made in both open market transactions and two modified "Dutch auction" tender offers at a cost of $23.2 million.

As of December 31, 2011, our cash and cash equivalents totaled $135.8 million representing a net decrease of $100.3 million for the year ended December 31, 2011. The decrease was attributable to $65.5 million of cash used in operating activities, $12.3 million of cash used in investing activities and $22.5 million of cash used in financing activities.

Net cash used in our operating activities of $65.5 million during 2011, compares to $33.4 million of cash used in operating activities during 2010. The cash used in operating activities for 2011 reflects net operating losses, an increase in our capital invested in net long positions on our trading desks, and payment of previously accrued compensation associated with our 2010 operating results. For 2010, the cash used in operating activities reflected the net operating losses incurred over that period and our payment of previously accrued compensation associated with our 2009 operating results partially offset by decreased capital invested in our net long positions on our trading desks.

Net cash used in investing activities of $12.3 million during 2011 compares to net cash provided by investing activities of $7.7 million during 2010. The cash used in investing activities during 2011 reflects the net purchase of principal investments, primarily equity securities as well as the settlement of derivatives held for investment purposes. The cash provided by investing activities in 2010 reflects the net sales of certain merchant banking investments during the year.

Net cash used in financing activities of $22.5 million during 2011, compares to net cash used in financing activities of $13.7 million during 2010. The 2011 and 2010 activity primarily represents the repurchase of 8.2 million and 3.2 million shares of our common stock, respectively. Of the activity during 2011, 2.1 million shares were repurchased through open market transactions for $7.3 million and the remaining 6.1 million shares were repurchased as part of two modified "Dutch auction" tender offers for an aggregate purchase price, including transaction costs, of $15.9 million. The 2010 share repurchases were made in open market transactions at a cost of $15.9 million.

Sources of Funding

We believe that our existing cash and cash equivalents balances (totaling $174.9 million at December 31, 2012) comprised primarily of investments in money market funds investing in short-term U.S. Treasury securities, cash flows from operations, borrowing capacity, other sources of liquidity and execution of our financing strategies will be sufficient to meet our cash requirements. We have obtained, and believe we will be able to continue to obtain, short-term financing, such as margin financing and temporary subordinated financing, in amounts and at interest rates consistent with our financing objectives. We may, however, seek debt or equity financings, in public or private transactions, to provide capital for corporate purposes and/or strategic business opportunities, including possible acquisitions, joint ventures, alliances or other business arrangements which could require substantial capital outlays. Our policy is to evaluate strategic business opportunities, including acquisitions and divestitures, as they arise. There can be no assurance that we will be able to generate sufficient funds from future operations, or raise sufficient debt or equity on acceptable terms, to take advantage of investment opportunities that become available. Should our needs ever exceed these sources of liquidity, we believe that many of our investments could be sold, in most circumstances, to provide cash.

We monitor and manage our leverage and liquidity risk through various committees and processes we have established. We assess our leverage and liquidity risk based on considerations and assumptions of market factors, as well as factors specific to us, including the amount of our available liquid capital (i.e., the amount of our cash and cash equivalents not invested in our operating business). At December 31, 2012, we had no outstanding borrowings.

Assets

As of December 31, 2012, our principal assets consisted of cash and cash equivalents, financial instruments at fair value, receivables, and investments carried at cost. As of December 31, 2012 and December 31, 2011, our liquid assets consisted primarily of cash and cash equivalents of $174.9 million and $135.8 million, respectively.

The increase in our total assets to $333.4 million as of December 31, 2012 compared to $298.1 million as of December 31, 2011, was primarily the result of a $39.1 million increase in cash and cash equivalents discussed previously, partially offset by a $6.4 million decrease in furniture, equipment, leasehold improvements and prepaid expenses and other assets.

Our due from and to brokers, dealers, and clearing organizations balances primarily represent unsettled trades associated with our credit sales and trading platform. These transactions include corporate bond and syndicated loan trades. A decrease in unsettled trades outstanding associated with these activities was the primary reason for the decrease in the receivable from brokers, dealers and clearing organizations. The total amount of outstanding unsettled trade receivables and payables related to these instruments was $3.8 million and $3.7 million, respectively, as of December 31, 2012 compared to $5.0 million and $6.3 million, respectively, as of December 31, 2011. Due to the extended settlement nature of most par and distressed bank loan transactions, we are subject to certain market and counterparty credit risks. See our discussion related to these risks included in the *Quantitative and Qualitative Disclosures about Market Risk*. The remaining components of the due from and to brokers, dealers, and clearing organizations includes receivables related to commissions and receivables and payables related to unsettled trades that are settled on a regular basis.

As of December 31, 2012, our $55.6 million of investments primarily consists of investments in marketable equity securities, non-public equity securities, investment funds and corporate debt investments. These investments are funded in cash and are not financed with debt.

Regulatory Capital

FBRCM, our broker-dealer subsidiary, is registered with the SEC and is a member of the FINRA. As such, FBRCM is subject to the minimum net capital requirements promulgated by the SEC. As of December 31, 2012, FBRCM had total regulatory net capital of $65.1 million, which exceeded its required net capital of $3.3 million by $61.8 million. Regulatory net capital requirements increase when the broker-dealers are involved in underwriting activities based upon a percentage of the amount being underwritten.

Share Repurchases

During 2012, we repurchased 2.2 million shares of our common stock through privately negotiated or open market transactions at a weighted average share price of $2.74 per share, for a total cost, including transaction costs, of $5.9 million. As of December 31, 2012, we had a remaining authority to repurchase up to 6.0 million additional shares.

During 2012, we completed two tender offers to repurchase shares of our stock. Pursuant to these modified "Dutch auction" tender offers, we repurchased 5.3 million shares of our common stock at weighted average share prices of $2.83 per share for a total cost, including transaction costs, of $15.0 million.

Contractual Obligations

We have contractual obligations to make future payments in connection with non-cancelable lease agreements and other contractual commitments as well as uncalled capital commitments to an investment partnership that may be called over the next three years. The following table sets forth these contractual obligations by fiscal year (dollars in thousands):

	2013	2014	2015	2016	2017	Thereafter	Total
Minimum rental commitments(1)	$8,634	$7,766	$1,937	$1,684	$1,471	$605	$22,097
Capital commitments and other(2)	—	—	—	—	—	—	—
Total Contractual Obligations	$8,634	$7,766	$1,937	$1,684	$1,471	$605	$22,097

(1) These commitments are for operating leases of the Company. The Company currently has no commitments associated with capital leases. The Company has entered into sublease agreements with multiple third parties. For the years ended December 31, 2013 and 2014, contractual sublease receipts to be received by us are $2.6 million, $2.3 million, respectively.

(2) The table above excludes $0.4 million of uncalled capital commitments to an investment partnership that may be called over the next three years. This amount was excluded because the Company cannot currently determine when, if ever, the commitments will be called.

Recent Developments

On February 28, 2013, the Company affected a one-for-four reverse stock split of its issued and outstanding common stock. While this reverse stock split reduced the number of issued and outstanding common shares from 47.7 million to 11.9 million at that date, it had no effect on the Company's total shareholder's equity. Pursuant to the requirements of the FBR & Co. Long Term Incentive Plan and the provisions of the reverse stock split, all outstanding stock awards under the plan have been adjusted. These adjustments reduced the number of outstanding awards and, in addition for options to purchase common stock the applicable exercise price, but had no effect on the unrecognized compensation expense applicable to these awards.

During the first quarter of 2013, adjusting for the impact of the reverse stock split, the Company has repurchased 0.6 million shares of its common stock through privately negotiated or open market transactions at a weighted average share price of $16.16, for a total cost, including transaction costs, of $9.1 million. Subsequent to these repurchases the Company currently has remaining authority to repurchase up to 931,537 shares.

Quantitative and Qualitative Disclosures about Market Risk

Overall Risk Management

We monitor market and business risk, including credit risk, operations, liquidity, compliance, legal, and reputational risk through a number of control procedures designed to identify and evaluate the various risks to which our business and investments are exposed. We have established various committees and processes to assess and to manage risk associated with our investment banking, trading, and merchant banking activities. We review, among other things, business and transactional risks associated with potential investment banking clients and engagements as well as our capital subjected to risk through our trading activities. We seek to manage the risks associated with our investment banking and merchant banking activities by review and approval of transactions by the relevant committee, prior to accepting an engagement or pursuing a material investment transaction.

Market Risk

Market risk is the risk that a change in the level of one or more market prices, rates, indices, or other market factors, such as market liquidity, will result in losses for a position or portfolio. Our activities as an underwriter, market maker and principal investor, as well as our activities as a financial intermediary in customer trading transactions, expose us to market risk.

We use a number of quantitative measures to manage our exposure to market risk in our trading businesses. These measures include:

Inventory position limits—we establish inventory position limits on gross and net positions, at both the trading desk and individual position level, and we monitor exposures against limits on a daily basis.

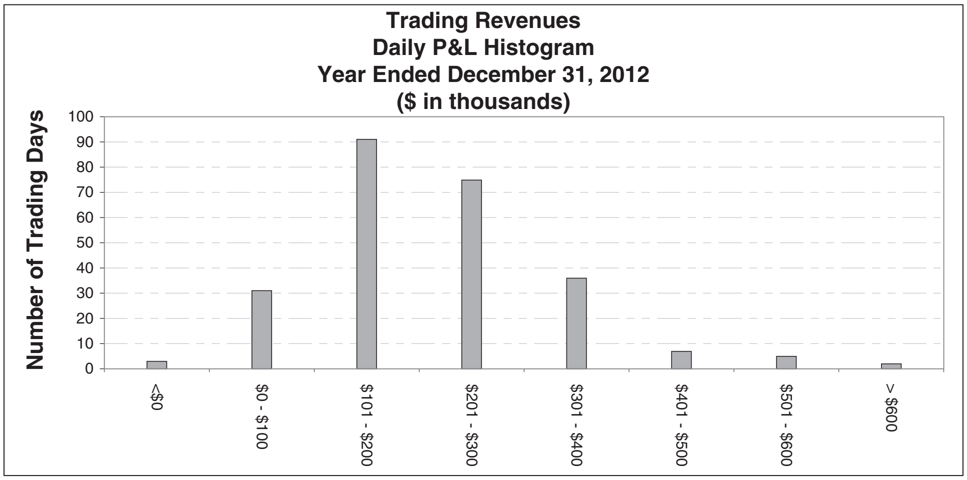
Scenario analysis—we apply stress tests and scenario analysis to estimate the potential impact on our trading revenues of highly stressful market environments in both the credit and equity markets.

Value at Risk—we utilize a statistical measure of potential trading loss, called Value at Risk ("VaR"), to estimate the potential loss from adverse market moves in an ordinary market environment. We also establish VaR limits, as appropriate.

Value at Risk. We calculate VaR for our trading businesses using a historical simulation model that isolates various risk elements associated with each of our trading positions over a one-day time horizon and at a 95% confidence level. The simulation is based on data for the previous twelve months. This approach assumes that historical changes in market values are representative of future changes. Using the results of this simulation, VaR measures the potential gains and losses on net trading positions at a 95% confidence level over a one-day time horizon. A 95% confidence level implies that, on average, we anticipate that 5% of the time we may realize trading losses in excess of our VaR amount. Our one-day 95% VaR at December 31, 2012 was approximately $285 thousand.

VaR is a model that quantifies potential losses using historical data. We could incur losses greater than the reported VaR because the historical market prices used may not be an accurate measure of future market events and conditions, especially in highly stressful market environments. In addition, the VaR model measures the risk of the current net trading positions and does not take into account future position changes arising from transaction and/or hedging activity. Our VaR includes positions actively managed and held by our trading desks and does not include positions associated with investment banking transactions that may be held on our trading desk in order to facilitate distribution. In most instances, these positions are held only for a short period and sold at or above our costs. To the extent we hold these positions on a long-term basis, they are reflected as long-term investments and risk related to these positions are discussed below under *Equity Price Risk*.

The comparison of actual daily trading revenue fluctuations with a daily VaR estimate is the primary method used to test the reasonableness of the VaR measure. The following table provides the distribution of daily trading revenues and losses during the year ended December 31, 2012. The table shows data reflecting that the average lowest 5 percentile daily trading revenues during the year ended December 31, 2012 was net losses of $3 thousand. Over the same period, the worst one-day trading revenues were net losses of $207 thousand which is less than the $349 thousand daily trading loss implied by the average one-day VaR for the year ended December 31, 2012.



Equity Price Risk. Equity price risk represents the potential loss in value of a position due to adverse changes in the level or volatility of equity prices. We generally attempt to limit exposure to equity price risk on securities held as a result of our daily equity trading activities by limiting our intra-day and overnight inventory of trading securities to that needed to provide the appropriate level of liquidity in the securities for which we are a market maker. We also seek to manage these risks by diversifying exposures, controlling position sizes, and establishing economic hedges in related securities, principally through short sale transactions.

While it is impossible to project exactly what factors may affect the prices of equity securities and how much the effect might be, the impact of a ten percent increase and a ten percent decrease in the price of equities held by us would be as follows as of December 31, 2012. The fair value of the $8.5 million of trading equity securities held at our broker-dealer subsidiaries would increase or decrease to $9.4 million and $7.7 million, respectively, and the fair value of the $26.6 million of other equity investments would increase or decrease to $29.3 million and $23.9 million, respectively.

Except to the extent that we sell our equity securities designated as available-for-sale or our cost method equity investments, or a decrease in their fair value is deemed to be other-than-temporary, an increase or decrease in the fair value of those assets will not directly affect our earnings. However, an increase or decrease in the value of trading securities held by our broker-dealer subsidiary, investment securities designated as trading, or investment funds will directly affect our earnings.

Credit Risk. Our broker-dealer subsidiaries clear all of their securities transactions through a clearing broker on a fully disclosed basis. Pursuant to the terms of the agreements between our broker-dealer subsidiaries and the clearing broker, the clearing broker has the right to charge us for losses that result from a counterparty's failure to fulfill its contractual obligations. As the right to charge us has no maximum amount and applies to all trades executed through the clearing broker, we believe there is no maximum amount assignable to this right. At December 31, 2012 and December 31, 2011, we have recorded no liabilities with regard to this right. During the year ended December 31, 2012 and 2011, amounts paid to the clearing broker related to these guarantees have been immaterial. In addition, we have the right to pursue collection of performance from the counterparties who do not perform under their contractual obligations. We monitor the credit standing of the clearing broker and all counterparties with which we conduct business.

We attempt to limit our credit spread risk by offsetting long or short positions in various related securities, but may also hedge credit risk exposure through the use of credit derivatives such as credit default swaps.

Our due from and to brokers, dealers and clearing organizations balances primarily represent unsettled trades associated with our credit sales and trading platform. These transactions include corporate bonds and syndicated loan trades. As part of this activity, we incur market and counterparty credit risk due to the extended settlement nature of most par and distressed bank loan transactions. Par loan and distressed bank loan trades have extended settlement periods due to the administrative and legal requirements associated with transferring title of such instruments. During this period whereby a trade has been executed but not settled, we are at risk if one of our counterparties defaults on a trade obligation and we have to meet this obligation at market prices that are adverse relative to the original trade. We manage this exposure by calculating the current and potential default exposure on each trade and maintaining risk limits for each counterparty with whom we have outstanding bank loan trades.

The securities industry is subject to numerous risks, including the risk of loss associated with the underwriting, ownership, and trading of securities, and the risk of reduced revenues in periods of reduced demand for security offerings and activity in secondary trading markets. Changing economic and market trends may negatively impact the liquidity and value of our investments and the level of security offerings underwritten by us, which may adversely affect our revenues and profitability.

Our equity and debt investments include non-investment grade securities of privately held issuers with no ready markets. The concentration and illiquidity of these investments expose us to a higher degree of risk than associated with readily marketable securities.

Interest Rate Risk. Interest rate risk represents the potential loss in value of a position or portfolio from adverse changes in market interest rates. We are exposed to interest rate risk through our trading activities in convertible and fixed income securities, however, based on our daily monitoring of this risk, we believe we currently have limited exposure to interest rate risk in these activities.

Off-Balance Sheet Arrangements

Through indemnification provisions in agreements with clearing organizations, customer activities may expose us to off-balance sheet credit risk. Financial instruments may have to be purchased or sold at prevailing market prices in the event a customer fails to settle on a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer obligations. We seek to manage the risks associated with customer activities through customer screening and selection procedures as well as through requirements on customers to maintain margin collateral in compliance with various regulations and clearing organization policies.

Critical Accounting Policies and Estimates

Our financial statements are prepared in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") and follow general practices within the industries in which we operate. The preparation of our financial statements requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although we base our estimates and assumptions on historical experience, when available, market information, and on various other factors that we believe to be reasonable under the circumstances, management exercises significant judgment in the final determination of our estimates. Actual results may differ from these estimates.

Our significant accounting policies are presented in Note 2 to our consolidated financial statements. Our most critical policies that are both very important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective or complex judgments or estimates are discussed below.

Fair Value of Financial Instruments

ASC 820 "Fair Value Measurements and Disclosures" ("ASC 820") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not adjusted for transaction costs. ASC 820 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels giving the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as described below:

Level 1 Inputs—Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Company;

Level 2 Inputs—Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Inputs—Unobservable inputs for the asset or liability, including significant assumptions of the Company and other market participants.

The Company determines fair values for the following assets and liabilities:

Equity securities, listed options and warrants—The Company classifies marketable equity securities and listed options within Level 1 of the fair value hierarchy because quoted market prices are used to value these securities. Non-public equity securities are classified within Level 3 of the fair value hierarchy if enterprise values are used to value these securities. In determining the enterprise value, the Company analyzes various financial, performance and market factors to estimate the value, including where applicable over-the-counter market trading activity. Warrants to purchase non-public equity securities are classified as Level 3 as both enterprise value and Black-Scholes valuation are used to value these securities.

Convertible and fixed income debt instruments—The Company classifies convertible and fixed income debt instruments within Level 2 of the fair value hierarchy as they are valued using quoted market prices provided by a broker or dealer, or alternative pricing services that provide reasonable levels of price transparency.

Other— The Company invests in proprietary investment funds that are valued at net asset value ("NAV") determined by the fund administrator. Investments in mutual funds are classified within Level 1 of the fair value hierarchy because investments within the funds are primarily exchange-traded securities and no restrictions exist on the redemption of the amounts invested by the Company. For investments in non-registered investment companies (private equity and debt funds and fund of funds), the Company classifies these investments within Level 3 as the underlying securities held by these investment companies are primarily private-equity and debt securities and restrictions exist on the redemption of amounts invested by the Company.

As a practical expedient, the Company relies on the NAV of these investments as their fair value. The NAVs that have been provided by investees are derived from the fair values of the underlying investments as of the reporting date.

As of December 31, 2012, our financial instruments, valued at fair value, classified as Level 1, Level 2, and Level 3 were \$33.4 million, \$67.8 million, and \$20.2 million, respectively. As of December 31, 2012, for financial instruments measured and reported at fair value on a recurring basis and classified within Level 3 were 6.1% of our total assets.

Securities and Principal Investments

Trading securities and investments owned by our broker-dealer subsidiary and securities sold but not yet purchased are recorded on a trade-date basis and carried at fair value. Realized and unrealized gains and losses from trading securities are reflected in principal transactions in the statements of operations. Realized and unrealized losses from such other investments are reflected in net investment income in the statements of operations.

Marketable equity and debt securities held for investment purposes at non-broker-dealer subsidiaries are designated as either available-for-sale or trading investments pursuant to ASC 320, "Investments—Debt and Equity Securities" ("ASC 320"). These investments are carried at fair value with resulting unrealized gains and losses on available-for-sale securities reflected in accumulated other comprehensive income (loss) in the balance sheets and unrealized gains and losses on trading securities reflected in net investment income in the statements of operations. Investments in equity securities of non-public companies that are held in non-broker dealer subsidiaries are carried at cost.

We evaluate available-for-sale securities and investments in securities of non-public companies carried at cost for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The value of our investments in marketable equity securities designated as available-for-sale can fluctuate significantly. The value of our investments in securities of non-public companies can also fluctuate significantly. Such values may be based on unobservable inputs, including significant assumptions by us and consideration of the liquidity and size of our position. In evaluating these investments for other-than-temporary impairment, consideration is given to (1) the length of time and the extent to which the fair value has been lower than carrying value, (2) the severity of the decline in fair value, (3) the financial condition and near-term prospects of the issuer, and (4) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. If it is determined that an investment impairment is other-than-temporary then the amount that the fair value is below its current basis is recorded as an impairment charge and recorded through earnings in net investment income (loss) in the statement of operations.

For unrealized losses that are determined to be temporary, we continue to evaluate these at each reporting date. If we determine at a future date that an impairment of a marketable equity security is other-than-temporary, the applicable unrealized loss will be reclassified from accumulated other comprehensive income and recognized as an other-than-temporary impairment loss at the time the determination is made.

As of December 31, 2012, we held $24.3 million of investments in marketable equity securities accounted for under ASC 320 and $8.4 million of non-public securities held in a non-broker dealer subsidiary. As of December 31, 2012, we evaluated our portfolio of available-for-sale securities and investments in securities of non-public companies carried at cost for other-than-temporary impairments. Regarding our available-for sale securities, as of December 31, 2012, we held three marketable equity securities that were in unrealized loss positions. The total unrealized loss at that date of $1.1 million related primarily to two securities in the financial services industry. We concluded that these unrealized losses did not represent other-than temporary impairments based on the limited severity and duration of the unrealized losses, including for two of the investments a recovery in value above our cost basis subsequent to year end. With respect to each of these investments, the Company has the intent and ability to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value. Regarding our $8.4 million of investments that are carried at cost, based on our evaluation of these investments we concluded that none of these investments was in an unrealized loss position as of December 31, 2012.

Accounting for Income Taxes

Deferred tax assets and liabilities represent the differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates. The measurement of net deferred tax assets is adjusted by a valuation allowance if, based on our evaluation and our consideration of the guidance in ASC 740, it is more likely than not that they will not be realized. At December 31, 2012, our net deferred tax assets totaled $77.3 million offset by a full valuation allowance.

Following the criteria in ASC 740, we review this valuation allowance on a quarterly basis assessing the positive and negative evidence to determine if it is more likely than not that some or all of the deferred tax assets will be realized. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in past years. We will continue to assess the need to maintain a full valuation allowance against our net deferred tax assets at each reporting date. Recognition of our deferred tax assets would be based on sustaining profitability over an appropriate time period in amounts that are sufficient to support a conclusion that it is more likely than not that all or a portion of our deferred tax assets will be realized. It is reasonably possible that the Company could meet these criteria in the next twelve months.

Recently Issued Accounting Pronouncements

See Note 2. *Summary of Significant Accounting Policies—Recent Accounting Pronouncements* included in our financial statements attached to this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Part II, Item 7, of this Form 10-K "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Part II, Item 8, of this Form 10-K appears in a subsequent section of this report. See "Index to Audited Consolidated Financial Statements of FBR & Co." on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report on Form 10-K, our management carried out an evaluation, with the participation of our Chief Executive Officer, Richard J. Hendrix, and our Chief Financial Officer, Bradley J. Wright, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) pursuant to Rule 13a-15(b) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures, as of December 31, 2012, are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). The Company's internal control over financial reporting is designed under the supervision of the firm's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the Company's assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As of December 31, 2012, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2012.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, as stated in their report which appears on F-2.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Part III, Item 10, of this report on Form 10-K will be provided in our 2013 Proxy Statement and is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Part III, Item 11, of this report on Form 10-K will be provided in our 2013 Proxy Statement and is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by Part III, Item 12, of this report on Form 10-K will be provided in our 2013 Proxy Statement and is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Part III, Item 13, of this report on Form 10-K will be provided in our 2013 Proxy Statement and is hereby incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Part III, Item 14, of this report on Form 10-K will be provided in our 2013 Proxy Statement and is hereby incorporated by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

We have filed the following documents as part of this report on Form 10-K:

1. *Financial Statements*. The audited consolidated financial statements of FBR & Co. required by Part II, Item 8, of this report on Form 10-K, which are listed on page F-1 of this report on Form 10-K, including the notes thereto and the report of PricewaterhouseCoopers LLP, our independent registered public accounting firm, thereon.

2. *Financial Statement Schedules*. We have not filed any financial statement schedules as part of this report on Form 10-K because these schedules are not required or because the information required to be included in these schedules has been included in the audited consolidated financial statements of FBR & Co. or the notes thereto.

3. *Exhibits*. The following exhibits have been filed as part of or incorporated by reference in this report on Form 10-K:

Exhibit Number	Description
3.1	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Registrant and Amended and Restated Articles of Incorporation of the Registrant, as amended.*
3.2	Amended and Restated Bylaws of the Registrant.(13)
4.1	Form of Certificate for Common Stock.(3)
4.2	Registration Rights Agreement, dated as of July 20, 2006, between the Registrant, Forest Holdings LLC and Forest Holdings (ERISA) LLC.(1)
4.3	Form of Amended and Restated Voting Agreement, dated as of May 20, 2009, between Friedman, Billings, Ramsey Group, Inc., FBR TRS Holdings, Inc., FBR Capital Markets Corporation, Forest Holdings LLC and Forest Holdings (ERISA) LLC.(9)
10.1	2006 Long-Term Incentive Plan (as Amended and Restated Effective June 3, 2010).(11)†
10.2	Form of Incentive Stock Option Agreement.(1)†
10.3	Form of Non-Qualified Stock Option Agreement.(1)†
10.4	Tax Sharing Agreement, dated as of July 20, 2006, between FBR TRS Holdings, Inc. and the Registrant.(1)
10.5	Investment Agreement, dated as of July 19, 2006, among the Registrant, Forest Holdings LLC and Forest Holdings (ERISA) LLC.(1)
10.6	Option Agreement, dated as of July 20, 2006, between the Registrant and Forest Holdings LLC.(1)
10.7	Option Agreement, dated as of July 20, 2006, between the Registrant and Forest Holdings (ERISA) LLC.(1)
10.8	Professional Services Agreement, dated as of July 20, 2006, between the Registrant and Crestview Advisors, L.L.C.(1)
10.9	Amendment No. 2 to Professional Services Agreement, dated June 14, 2010, between Registrant and Crestview Advisors, L.L.C.(12)
10.10	Form of Subscription Agreement with respect to the Registrant's Director Stock Purchase Plan.(2)†
10.11	2007 Employee Stock Purchase Plan, amended as of June 1, 2011.(2)†

10.12	Form of resolution of the Registrant's Board of Directors with respect to the Registrant's Director Stock Purchase Plan.(2)†
10.15	Employment Agreement, dated December 13, 2012, by and between the Registrant and Richard J. Hendrix.(5)†
10.18	Form of Stock Option Agreement.(6)†
10.19	Form of Restrictive Covenant Agreement.(6)†
10.20	Retirement Agreement between the Registrant and Eric F. Billings, dated December 21, 2008.(7)†
10.22	Stock Repurchase Agreement, dated as of May 18, 2009, by and among the Registrant, Friedman, Billings, Ramsey Group, Inc. (d/b/a Arlington Asset Investment Corp.), and FBR TRS Holdings, Inc.(9)
10.23	Form of Transition Services Agreement by and between the Registrant and Friedman, Billings, Ramsey Group, Inc. (d/b/a Arlington Asset Investment Corp.).(9)
10.24	Form of Assignment and Assumption Agreement by and between the Registrant and Friedman, Billings, Ramsey Group, Inc. (d/b/a Arlington Asset Investment Corp.).(9)
10.25	Form of Trademark and Copyright Assignment by and between the Registrant and Friedman, Billings, Ramsey Group, Inc. (d/b/a Arlington Asset Investment Corp.).(9)
10.26	Form of Domain Name Assignment by and between the Registrant and Friedman, Billings, Ramsey Group, Inc. (d/b/a Arlington Asset Investment Corp.).(9)
10.27	Form of Trademark License Agreement by and between the Registrant and Friedman, Billings, Ramsey Group, Inc. (d/b/a Arlington Asset Investment Corp.).(9)
10.28	Form of LTIP RSU Award Agreement.(10)†
10.29	RSU Award Agreement, dated February 9, 2010, between the Registrant and Richard J. Hendrix.(10)†
10.30	Stock Option Agreement, dated February 9, 2010, between the Registrant and Richard J. Hendrix.(10)†
10.31	FBR Capital Markets Corporation 2010 Partner Leveraged Stock Purchase Program, as amended and restated.(10)†
10.32	FBR & Co. Retention and Incentive Plan ("RI Plan I") (Effective February 8, 2012).(14)†
10.33	Form of Retention and Incentive Plan Award Letter under RI Plan I.(14) †
10.34	Form of RSU Award Letter under RI Plan I.(14) †
10.35	FBR & Co. Retention and Incentive Plan II ("RI Plan II") (Effective February 5, 2012).*†
10.36	Form of Retention and Incentive Plan Award Letter under RI Plan II.*†
10.37	Form of RSU Award Letter under RI Plan II.*†
10.38	2013 Performance Share Unit Program (Effective March 11, 2013).(8)†
10.39	Form of 2013 Performance Share Unit Award Letter.(8)†
10.40	2013 Performance Share Unit Award Letter to Richard J. Hendrix.(8)†
21.1	Subsidiaries of the Registrant.*
23.1	Consent of PricewaterhouseCoopers LLP.*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following financial information from the Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text.

(1) Previously filed as an exhibit to the Registrant's Registration Statement on Form S-1 (Registration No. 333-138824), which was filed with the SEC on November 17, 2006, and incorporated by reference herein.
(2) Previously filed as an exhibit to Pre-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-1/A (Registration No. 333-141987), which was filed with the SEC on May 10, 2007, and incorporated by reference herein.
(3) Previously filed as an exhibit to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-1/A (Registration No. 333-141987), which was filed with the SEC on May 21, 2007, and incorporated by reference herein.
(4) Incorporated herein by reference to the description of such program included in Item 5.02 of the Registrant's Current Report on Form 8-K, which was filed with the SEC on February 26, 2008.
(5) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the SEC on December 13, 2012, and incorporated herein by reference.
(6) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the SEC on August 21, 2008, and incorporated herein by reference.
(7) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the SEC on December 22, 2008, and incorporated herein by reference.
(8) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the SEC on March 15, 2013, and incorporated herein by reference.
(9) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the SEC on May 19, 2009, and incorporated herein by reference.
(10) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the SEC on February 16, 2010, and incorporated herein by reference.
(11) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the SEC on June 8, 2010, and incorporated herein by reference.
(12) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the SEC on June 14, 2010, and incorporated herein by reference.
(13) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the Commission on June 23, 2011, and incorporated by reference herein.
(14) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K, which was filed with the Commission on February 14, 2012, and incorporated by reference herein.
* Filed herewith.
† Management contract or compensatory plan or arrangement.

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.

FBR & CO.

Date: March 15, 2013

By: /s/ RICHARD J. HENDRIX
Richard J. Hendrix
Chief Executive Officer

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 and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ RICHARD J. HENDRIX **RICHARD J. HENDRIX**	Chief Executive Officer and Director *(principal executive officer)*	March 15, 2013
/s/ BRADLEY J. WRIGHT **BRADLEY J. WRIGHT**	Executive Vice President, Chief Financial Officer and Chief Administrative Officer *(principal financial officer)*	March 15, 2013
/s/ ROBERT J. KIERNAN **ROBERT J. KIERNAN**	Senior Vice President, Controller and Chief Accounting Officer *(principal accounting officer)*	March 15, 2013
/s/ DR. REENA AGGARWAL **REENA AGGARWAL**	Director	March 15, 2013
/s/ THOMAS J. HYNES, JR. **THOMAS J. HYNES, JR.**	Director	March 15, 2013
/s/ ADAM J. KLEIN **ADAM J. KLEIN**	Director	March 15, 2013
/s/ RICHARD A. KRAEMER **RICHARD A. KRAEMER**	Director	March 15, 2013
/s/ RALPH S. MICHAEL, III **RALPH S. MICHAEL, III**	Director	March 15, 2013
/s/ THOMAS S. MURPHY, JR. **THOMAS S. MURPHY, JR.**	Director	March 15, 2013
/s/ ARTHUR J. REIMERS **ARTHUR J. REIMERS**	Director	March 15, 2013

FBR & Co.

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Shareholders of
FBR & Co.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of FBR & Co. and its subsidiaries (the "Company") at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
McLean, Virginia
March 15, 2013

FBR & Co.

Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 174,925	$ 135,792
Receivables:		
Due from brokers, dealers and clearing organizations	4,670	6,048
Customers	2,579	3,937
Other	10,902	6,854
Financial instruments owned, at fair value	121,404	100,634
Other investments, at cost	8,388	25,744
Intangible assets, net	—	2,121
Furniture, equipment, software, and leasehold improvements, net of accumulated depreciation and amortization	3,693	6,162
Prepaid expenses and other assets	6,883	10,791
Total assets	$ 333,444	$ 298,083
Liabilities and Shareholders' Equity		
Liabilities		
Securities sold but not yet purchased, at fair value	$ 56,929	$ 35,496
Accrued compensation and benefits	19,075	15,760
Accounts payable, accrued expenses and other liabilities	13,878	15,280
Due to brokers, dealers and clearing organizations	3,698	6,250
Total liabilities	93,580	72,786
Commitments and Contingencies (Note 8)		
Shareholders' equity		
Preferred Stock, $0.001 par value 100,000,000 authorized, none issued and outstanding	—	—
Common stock, $0.001 par value, 300,000,000 shares authorized, 48,898,107 and 54,981,135 shares issued and outstanding, respectively	49	55
Additional paid-in capital	402,631	413,224
Employee stock loan receivable, including accrued interest (50,950 and 103,450 shares, respectively)	(307)	(673)
Restricted stock units	25,235	29,013
Accumulated other comprehensive (loss) income, net of taxes	(1,094)	19
Accumulated deficit	(186,650)	(216,341)
Total shareholders' equity	239,864	225,297
Total liabilities and shareholders' equity	$ 333,444	$ 298,083

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

FBR & Co.

Consolidated Statements of Operations

(Dollars in thousands except per share amounts)

	Year Ended December 31, 2012	2011	2010
Revenues:			
Investment banking:			
Capital raising	$ 84,144	$ 42,862	$ 98,768
Advisory	6,525	15,284	19,505
Institutional brokerage:			
Principal transactions	19,353	18,081	22,227
Agency commissions	33,119	60,376	77,864
Net investment income (loss)	4,906	(9,664)	9,162
Interest income, dividends, and other	3,445	5,288	4,879
Total revenues	151,492	132,227	232,405
Expenses:			
Compensation and benefits	82,672	99,808	174,967
Professional services	12,839	11,629	18,054
Business development	9,394	10,753	14,007
Clearing and brokerage fees	7,490	11,928	13,129
Occupancy and equipment	15,755	19,034	24,797
Communications	12,553	16,402	19,423
Impairment of goodwill and intangible assets	—	5,882	—
Other operating expenses	6,861	8,119	9,618
Total expenses	147,564	183,555	273,995
Income (loss) from continuing operations before income taxes	3,928	(51,328)	(41,590)
Income tax benefit	(1,078)	(243)	(4,097)
Income (loss) from continuing operations, net of taxes	5,006	(51,085)	(37,493)
Income (loss) from discontinued operations, net of taxes	24,685	1,436	(65)
Net income (loss)	$ 29,691	$ (49,649)	$ (37,558)
Basic income (loss) per share:			
Income (loss) from continuing operations, net of taxes	$ 0.09	$ (0.84)	$ (0.59)
Income from discontinued operations, net of taxes	0.47	0.02	0.00
Basic income (loss) per share	$ 0.56	$ (0.82)	$ (0.59)
Diluted income (loss) per share:			
Income (loss) from continuing operations, net of taxes	$ 0.09	$ (0.84)	$ (0.59)
Income from discontinued operations, net of taxes	0.45	0.02	0.00
Diluted income (loss) per share	$ 0.54	$ (0.82)	$ (0.59)
Basic weighted average shares outstanding (in thousands)	53,096	60,841	63,546
Diluted weighted average shares outstanding (in thousands)	55,193	60,841	63,546

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

FBR & CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net income (loss)	$29,691	$(49,649)	$(37,558)
Other comprehensive income, net of tax:			
Change in unrealized gain (loss) on available-for-sale investment securities, net of taxes	(1,113)	72	18
Comprehensive income (loss)	$28,578	(49,577)	(37,540)

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

FBR & Co.

Consolidated Statements of Changes in Shareholders' Equity
(Dollars and shares in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Employee Stock Loan Receivable	Restricted Stock Units	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balances at December 31, 2009	64,065	$ 64	$429,052	$(391)	$ 19,979	$ (71)	$(129,134)	$319,499
Net loss	—	—	—	—	—	—	(37,558)	(37,558)
Issuance of common stock, net of forfeitures	850	1	6,655	(315)	(4,453)	—	—	1,888
Repurchase of common stock	(3,197)	(3)	(15,902)	—	—	—	—	(15,905)
Stock compensation expense for options granted to purchase common stock	—	—	4,836	—		—	—	4,836
Issuance of restricted stock units	—	—	—	—	18,713	—	—	18,713
Other comprehensive income (loss):								
Change in unrealized gain (loss) on available-for-sale investment securities, net of taxes	—	—	—	—	—	18	—	18
Balances at December 31, 2010	61,718	$ 62	$424,641	$(706)	$ 34,239	$ (53)	$(166,692)	$291,491
Net loss	—	—	—	—	—	—	(49,649)	(49,649)
Issuance of common stock, net of forfeitures	1,507	1	10,242	33	(12,070)	—	—	(1,794)
Repurchase of common stock	(8,242)	(8)	(23,230)	—	—	—	—	(23,238)
Stock compensation expense for options granted to purchase common stock	—	—	1,571	—	—	—	—	1,571
Issuance of restricted stock units	—	—	—	—	6,844	—	—	6,844
Other comprehensive income (loss):								
Change in unrealized gain (loss) on available-for-sale investment securities, net of taxes	—	—	—	—	—	72	—	72
Balances at December 31, 2011	54,981	$ 55	$413,224	$(673)	$ 29,013	$ 19	$(216,341)	$225,297
Net income	—	—	—	—	—	—	29,691	29,691
Issuance of common stock, net of forfeitures	1,370	1	8,371	366	(9,437)	—	—	(699)
Repurchase of common stock	(7,453)	(7)	(20,863)	—	—	—	—	(20,870)
Stock compensation expense for options granted to purchase common stock	—	—	1,899	—	—	—	—	1,899
Issuance of restricted stock units	—	—	—	—	5,659	—	—	5,659
Other comprehensive income (loss):								
Change in unrealized gain (loss) on available-for-sale investment securities, net of taxes	—	—	—	—	—	(1,113)	—	(1,113)
Balances at December 31, 2012	48,898	$ 49	$402,631	$(307)	$ 25,235	$(1,094)	$(186,650)	$239,864

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

FBR & Co.

Consolidated Statements of Cash Flows
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities			
Net income (loss)	$ 29,691	$ (49,649)	$ (37,558)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	2,391	4,023	7,471
Income tax provision—deferred	0	(213)	149
Net investment (income) loss from investments	(5,035)	9,696	(9,218)
Gain on the sale of assets	(24,189)	—	—
Stock compensation	7,894	8,096	20,237
Impairment of goodwill and intangible assets	0	5,882	—
Securities received in lieu of cash	(810)	—	(14,068)
Other	2,061	1,968	1,955
Changes in operating assets			
Receivables			
Brokers, dealers and clearing organizations	1,378	9,415	81,014
Customers	77	5,622	(4,821)
Affiliates	23	619	36
Interest, dividends and other	5,434	4,166	(2,137)
Trading account securities	(1,005)	6,536	12,708
Prepaid expenses and other assets	3,408	(2,396)	(1,434)
Changes in operating liabilities			
Trading account securities sold but not yet purchased	21,433	(19,948)	11,331
Accounts payable, accrued expenses and other liabilities	(5,519)	(11,737)	(1,488)
Accrued compensation and benefits	3,312	(36,537)	(14,770)
Brokers, dealers and clearing organizations	(2,552)	(1,073)	(82,845)
Net cash provided by (used in) operating activities	37,992	(65,530)	(33,438)
Cash flows from investing activities			
Purchases of investment securities and other investments	(48,244)	(35,353)	(32,855)
Proceeds from sales of and distributions from investments	50,293	27,856	51,672
Securities sold but not yet purchased, net	(71)	—	(7,812)
Proceeds from sale of assets	19,692	—	—
Purchases of furniture, equipment, software, and leasehold improvements	(460)	(1,304)	(2,777)
Settlement of derivatives held for investment purposes	0	(3,472)	—
Acquisition of net assets	—	—	(488)
Net cash provided by (used in) investing activities	21,210	(12,273)	7,740
Cash flows from financing activities			
Repurchases of common stock	(20,870)	(23,238)	(15,905)
Proceeds from sales of common stock	438	696	2,140
Proceeds from repayment of employee stock purchase plan	363	60	34
Net cash used in financing activities	(20,069)	(22,482)	(13,731)
Cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents	39,133	(100,285)	(39,429)
Cash and cash equivalents, beginning of period	135,792	236,077	275,506
Cash and cash equivalents, end of period	$174,925	$ 135,792	$236,077
Supplemental cash flows disclosures			
Income tax payments	$ 251	$ 138	$ 5,077
Interest payments	—	—	—
Non-cash operating activities			
Securities received in exchange for services provided, fair value at receipt date	$ 810	$ —	$ 14,068

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

Note 1. Organization and Nature of Operations:

Organization

FBR & Co., (the "Company"), a Virginia corporation, is a holding Company of which the principal operating companies are FBR Capital Markets & Co. ("FBRCM"), FBR Capital Markets LT, Inc. ("FBRLT"), and FBR Capital Markets PT, Inc. ("FBRPT").

FBRCM is an SEC-registered broker-dealer and member of Financial Industry Regulatory Authority Inc. ("FINRA"). FBRCM acts as an introducing broker and forwards all transactions to a clearing broker on a fully disclosed basis. FBRCM does not hold funds or securities for, nor owe funds or securities to, customers. In addition, FBRCM provides capital raising and advisory services. The Company conducts its syndicated loan trading activity at FBRLT.

FBRPT holds and manages the Company's portfolio of investments which includes investments in merchant banking and other equity investments, investment funds and corporate debt investments.

Prior to December 2012, the Company's subsidiary FBR Fund Advisers, Inc. ("FBRFA") was an SEC-registered investment adviser and manager of The FBR Funds, a family of mutual funds. In June 2012, the Company entered into a definitive agreement to sell the assets related to the management of the FBR Funds and on October 26, 2012, completed this sale ("sale of the FBR Funds"). As a result of the Company's decisions, during the second quarter of 2012 the Company began reporting the results of its asset management operations as discontinued operations (see Note 12). As a result of this change, certain previously reported amounts in the consolidated financial statements and notes have been reclassified to conform to the current period presentation. These reclassifications had no effect on the results of operations of the Company.

The Company's subsidiary FBR Investment Services, Inc. ("FBRIS") was the Distributor of The FBR Funds. Subsequent to the sale of the FBR Funds, FBRIS has not conducted any business activity. FBRIS initiated the process to terminate its registration with the SEC as a broker-dealer and this action is anticipated to be effective in March 2013.

Prior to December 2011, the Company's subsidiary FBR Capital Markets International, Ltd. ("FBRIL") located in the United Kingdom was an introducing broker-dealer registered with the Financial Services Authority ("FSA") of the United Kingdom. In the fourth quarter of 2011, the Company initiated the process to cease activities at FBRIL. Subsequent to these actions, subject to regulatory limitations, institutional brokerage and investment banking activity with European clients is conducted by FBRCM. FBRIL's registration with the FSA was terminated in 2012.

Nature of Operations

The Company's principal business activities, including capital raising, securities sales and trading, merger, acquisition and advisory services and proprietary investments, are all linked to the capital markets.

The Company's investment banking and institutional brokerage business activities are primarily focused on small—and mid-cap stocks in the following industry sectors: consumer, diversified industrials, energy and natural resources, financial institutions, insurance, real estate, and technology, media and telecommunications ("TMT"). By their nature, the Company's business activities are conducted in markets which are highly competitive and are subject to general market conditions, volatile trading markets and fluctuations in the volume of market activity, as well as conditions affecting the companies and markets in the Company's areas of focus.

The Company's revenues from investment banking are subject to substantial fluctuations due to a variety of factors that cannot be predicted with great certainty, including the overall condition of the economy and the securities markets as a whole and of the sectors on which the Company focuses. Fluctuations also occur due to the level of market activity, which, among other things, affects the flow of investment dollars and the size, number and timing of transactions. As a result, net income and revenues may vary significantly from period-to-period and year-to-year.

In the fourth quarter of 2011, in response to adverse market conditions, the Company implemented a restructuring plan intended to reduce fixed costs by approximately 35%, principally through headcount reduction. In connection with the restructuring plan, the Company reduced its headcount by 30% in the fourth quarter of 2011 as compared to September 30, 2011. The Company incurred cash severance charges related to these actions of $3,496 in 2011. The Company does not believe that these actions changed the fundamental composition or strength of its franchise.

Concentration of Risk

A substantial portion of the Company's investment banking revenues may be derived from a small number of transactions or issues or may be concentrated in a particular industry. For the years ended December 31, 2012, 2011 and 2010 investment banking revenue accounted for 59.8%, 44.0%, and 50.9%, respectively, of the Company's revenues,.

Note 2. Summary of Significant Accounting Policies:

Principles of Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the Company's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although, the Company bases its estimates and assumptions on historical experience and market information (when available) and on various other factors that it believes to be reasonable under the circumstances, management exercises significant judgment in the final determination of its estimates. Actual results may differ from these estimates.

Cash Equivalents

Cash equivalents include demand deposits with banks, money market accounts and highly liquid investments with original maturities of three months or less that are not held for sale in the ordinary course of business. As of December 31, 2012 and 2011, approximately 22% and 48%, respectively, of the Company's cash equivalents were invested in money market funds that invest primarily in U.S. Treasuries and other securities backed by the U.S. government.

Fair Value of Financial Instruments

The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 820 "Fair Value Measurements and Disclosures" ("ASC 820") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not adjusted for transaction costs. ASC 820 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels giving the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as described below:

Level 1 Inputs—Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Company;
Level 2 Inputs—Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
Level 3 Inputs—Unobservable inputs for the asset or liability, including significant assumptions of the Company and other market participants.

The Company determines fair values for the following assets and liabilities:

Equity securities, listed options and warrants—The Company classifies marketable equity securities and listed options within Level 1 of the fair value hierarchy because quoted market prices are used to value these securities. Non-public equity securities are classified within Level 3 of the fair value hierarchy if enterprise values are used to value these securities. In determining the enterprise value, the Company analyzes various financial, performance and market factors to estimate the value, including where applicable over-the-counter market trading activity. Warrants to purchase non-public equity securities are classified as Level 3 as both enterprise value and Black-Scholes valuation are used to value these securities.

Convertible and fixed income debt instruments—The Company classifies convertible and fixed income debt instruments within Level 2 of the fair value hierarchy as they are valued using quoted market prices provided by a broker or dealer, or alternative pricing services that provide reasonable levels of price transparency.

Other— The Company invests in proprietary investment funds that are valued at net asset value ("NAV") determined by the fund administrator. Investments in mutual funds are classified within Level 1 of the fair value hierarchy because investments within the funds are primarily exchange-traded securities and no restrictions exist on the redemption of the amounts invested by the Company. For investments in non-registered investment companies (private equity and debt funds and fund of funds), the Company classifies these investments within Level 3 as the underlying securities held by these investment companies are primarily private-equity and debt securities and restrictions exist on the redemption of amounts invested by the Company.

As a practical expedient, the Company relies on the NAV of these investments as their fair value. The NAVs that have been provided by investees are derived from the fair values of the underlying investments as of the reporting date.

The estimated fair values of the Company's financial instrument assets and liabilities which are not measured at fair value on the consolidated balance sheets are as follows:

	December 31, 2012				
		Estimated Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$174,925	$174,925	$ —	$ —	$174,925
Non-interest bearing receivables	8,305	—	8,305	—	8,305
Other investments, at cost	8,388	—		8,560	8,560
Financial Liabilities					
Accounts payable, accrued expenses and other liabilities	13,878	—	13,878	—	13,878
Due to brokers, dealers and clearing organizations	3,698	—	3,698	—	3,698

	Carrying Amount	December 31, 2011 Estimated Fair Value Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$135,792	$135,792	$ —	$ —	$135,792
Non-interest bearing receivables	10,791	—	10,791	—	10,791
Other investments, at cost	25,744	—	—	21,622	21,622
Financial Liabilities					
Accounts payable, accrued expenses and other liabilities	15,280	—	15,280	—	15,280
Due to brokers, dealers and clearing organizations	6,250	—	6,250	—	6,250

The carrying amounts noted above for cash and cash equivalents, non-interest bearing receivables, accounts payable, accrued expenses and other liabilities and due to brokers, dealers and clearing organizations approximate fair value due to the short term nature of these items. The fair value of other investments, at cost is determined based on the Company's assessment of enterprise values as discussed above.

Securities and Principal Investments

Trading securities and investments owned by the Company's broker-dealer subsidiary and securities sold but not yet purchased are recorded on a trade-date basis and carried at fair value. Realized and unrealized gains and losses from trading securities are reflected in principal transactions in the statements of operations. Realized and unrealized losses from such long term investments are reflected in net investment income in the statements of operations.

Marketable equity and debt securities held for investment purposes at non-broker-dealer subsidiaries are designated as either available-for-sale or trading investments pursuant to ASC 320 "Investments—Debt and Equity Securities" ("ASC 320"). These investments are carried at fair value with resulting unrealized gains and losses on available-for-sale securities reflected in accumulated other comprehensive income (loss) in the balance sheets and unrealized gains and losses on trading securities reflected in net investment income in the statements of operations. Investments in equity securities of non-public companies that are held in non-broker dealer subsidiaries are carried at cost.

The Company evaluates available-for-sale securities and investments in securities of non-public companies carried at cost for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The value of our investments in marketable equity securities designated as available-for-sale can fluctuate significantly. The value of our investments in securities of non-public companies can also fluctuate significantly. Such values may be based on unobservable inputs, including significant assumptions of the Company and consideration of the liquidity and size of the Company's position. In evaluating these investments for other-than-temporary impairment, consideration is given to (1) the length of time and the extent to which the fair value has been lower than carrying value, (2) the severity of the decline in fair value, (3) the financial condition and near-term prospects of the issuer, and (4) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. If it is determined that an investment impairment is other-than-temporary then the amount that the fair value is below its current basis is recorded as an impairment charge and recorded through earnings in net investment income (loss) in the statement of operations.

For unrealized losses that are determined to be temporary, we continue to evaluate these at each reporting date. If we determine at a future date that an impairment of a marketable equity security is other-than-temporary, the applicable unrealized loss will be reclassified from accumulated other comprehensive income and recognized as an other-than-temporary impairment loss at the time the determination is made.

Realized gains and losses on sales of equity securities are determined using the specific identification method.

For restricted shares, including private company shares, these investments by their nature have limited or no price transparency. Adjustments to carrying value may be based on third-party transactions evidencing a change in value and output from the Company's valuation models and estimates of fair value. In reaching that determination, the Company may consider factors such as, but not limited to, the financial performance of the companies relative to projections, trends within sectors, underlying business models and expected exit timing and strategy.

The Company's investments in proprietary investment funds have included mutual funds, private equity and fund of funds. As of December 31, 2012, the Company's investments primarily include funds that invest in fixed income securities. These investments are comprised of registered and non-registered investment companies that report NAV to investors representing the fair value of the underlying investments held by the funds. The Company reflects the increase/decrease in NAV (including realized and unrealized gains and losses) in net investment income in the statement of operations.

The private investment funds are non-registered investment companies that record their investments in securities at fair value. The disposition of these investments may be restricted due to the lack of a ready market or due to contractual or regulatory restrictions on disposition. As a result, precise valuation is a matter of judgment, and the determination of fair value must be considered only an approximation and may vary significantly from the amounts that could be realized if the investment were sold or from the value that would have been used had a ready market existed for the securities and those differences could be material.

Due from/to Brokers, Dealers, and Clearing Organizations

The Company clears all of its proprietary and customer transactions through another broker-dealer on a fully disclosed basis. Based on the terms and conditions of the Company's agreements with its clearing broker, the amount receivable from the clearing broker represents proceeds from unsettled securities sold less amounts payable for unsettled securities purchased by the Company. The amounts payable are collateralized by securities owned by the Company. In addition, these balances include unsettled trades associated with our credit sales and trading platform. These transactions include trades in certain sectors of the corporate bond and syndicated loan markets.

Intangible Assets

The Company's intangible assets have consisted of goodwill and intangible assets with finite useful lives. Goodwill is not amortized but has been tested annually for impairment (during the fourth quarter) or more frequently if an adverse event occurred that may have indicated impairment. The assessment of goodwill was performed at the reporting unit level. The values of the intangible assets with finite useful lives have been amortized in proportion to their expected economic benefit over their estimated useful life or straight-line if the economic benefit could not be reliably determined. These intangible assets were periodically tested for impairment by comparing expected future gross cash flows to the asset's carrying amount. If the expected gross cash flows were less than the carrying amount, the asset would be impaired and written-down to its fair value. See Note 5 regarding the Company's 2011 assessment of goodwill and the resulting $5,882 impairment charge recorded during the year ended December 31, 2011. See Notes 5 and 12 regarding the disposition, during 2012, of the Company's intangible assets with finite useful lives.

Furniture, Equipment, Software and Leasehold Improvements

Furniture and equipment are depreciated using the straight-line method over their estimated useful lives of three to five years. Amortization of purchased software is recorded over the estimated useful lives of three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life or lease term.

Investment Banking Revenues

Capital raising revenues represent fees earned from private placement transactions and from public offerings of securities in which the Company acts as placement agent or underwriter. These revenues consist of selling concessions, underwriting discounts, placement fees, and management fees. Advisory revenues represent fees earned from mergers and acquisitions, mutual conversions, financial restructuring and other advisory services provided to clients. Capital raising revenues are recorded as revenue at the time the private placement or underwriting is completed. Advisory fees are recorded as revenue when the related service has been rendered and the client is contractually obligated to pay. Certain fees received in advance of services rendered are deferred and recognized as revenue over the service period.

Institutional Brokerage Agency and Principal Revenues

Agency commissions consist of commissions earned from executing the trade of stock exchange-listed securities and other transactions as an agent and principal transactions consist of sales credits and trading gains or losses from securities transactions. Revenues generated from securities transactions and related commission income and expenses are recorded on a trade-date basis.

Compensation and Benefits

Compensation and benefits includes base salaries, incentive compensation, stock-based compensation, employee benefit costs, and employer taxes. Incentive compensation is a significant component of compensation expense and is accrued based on the Company's performance and the contribution of key business units, and in certain limited cases, using pre-defined formulas. The Company's compensation accruals are reviewed and evaluated on a quarterly basis. The Company recognizes stock-based compensation expense in the statement of operations based on the grant-date fair value of awards of equity instruments issued to employees. The expense is recognized over the period during which employees are required to provide service. The expense is recorded using an estimated forfeiture rate for awards on the date of grant.

Income Taxes

Deferred tax assets and liabilities represent the differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates. The measurement of net deferred tax assets is adjusted by a valuation allowance if, based on our evaluation and our consideration of the criteria in ASC 740, "Income Taxes" ("ASC 740"), it is more likely than not that they will not be realized. The Company's policy for recording interest and penalties associated with uncertain tax positions is to record such items as a component of other operating expenses in the statement of operations.

Other Comprehensive Income

Comprehensive income includes net income as currently reported by the Company on the consolidated statements of operations adjusted for other comprehensive income. Other comprehensive income for the Company represents changes in unrealized gains and losses related to the Company's investment securities accounted for as available-for-sale with changes in fair value recorded through shareholders' equity.

Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing net income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share includes the impact of dilutive securities such as stock options, unvested shares of restricted stock and restricted stock units ("RSUs"), all of which are subject to forfeiture. Due to the Company's reported net loss for the years ended December 31, 2011 and 2010, all stock options, unvested shares of restricted stock and unvested RSUs were considered anti-dilutive for these periods. The following table presents the computations of basic and diluted earnings per share for the periods indicated:

	Year Ended December 31, 2012		Year Ended December 31, 2011		Year Ended December 31, 2010	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding:						
Common stock (in thousands)	53,096	53,096	60,841	60,841	63,546	63,546
Stock options, unvested restricted stock and RSUs (in thousands)	—	2,097	—	—	—	—
Weighted average common and common equivalent shares outstanding (in thousands)	53,096	55,193	60,841	60,841	63,546	63,546
Net income (loss) applicable to common stock	$29,691	$29,691	$(49,649)	$(49,649)	$(37,558)	$(37,558)
Net Income (loss) per common share	$ 0.56	$ 0.54	$ (0.82)	$ (0.82)	$ (0.59)	$ (0.59)

The following table present the number of antidilutive stock options, unvested restricted stock and RSUs outstanding for the periods indicated:

	Year Ended December 31,		
	2012	2011	2010
Stock Options—Employees and directors	5,152	7,069	7,979
Stock Options—Non-employee	1,061	3,424	3,256
Restricted Stock, unvested	8	265	658
Restricted Stock Units, unvested	4,599	5,528	8,231
Total	10,820	16,286	20,124

Recent Accounting Pronouncements

In December 2011, the FASB amended its guidance for disclosure of assets and liabilities netted for financial statement purposes. The amendment is designed to enhance disclosures by requiring improved information about financial instruments and derivative instruments that are either offset in accordance with current standards or subject to an enforceable master netting arrangement or similar agreement. The disclosure enhancements include providing in the notes to the financial statements the gross assets and gross liabilities recognized on the balance sheet, those amounts netted in accordance with current standards, those net positions subject to an enforceable master netting arrangement or similar agreement, and the net positions presented on the balance sheet. This information should be presented in a tabular format. This amendment is effective for annual reporting periods beginning January 1, 2013 and interim periods within those annual reporting periods.

Note 3. Investments:

Fair Value Hierarchy

The following tables set forth, by level within the fair value hierarchy, financial instruments and long-term investments accounted for under ASC 820 as of December 31, 2012 and 2011, respectively. As required by ASC 820, assets and liabilities that are measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Items Measured at Fair Value on a Recurring Basis

	December 31, 2012	Level 1	Level 2	Level 3
Financial instruments owned, at fair value:				
Financial instruments held for trading activities at broker-dealer subsidiaries:				
Marketable and non-public equity securities	$ 8,514	$ 7,885	$ —	$ 629
Listed options	20	20	—	—
Convertible and fixed income debt instruments	65,692	—	65,692	—
	74,226	7,905	65,692	629
Financial instruments held for investment activities:				
Designated as trading:				
Marketable and non-public equity securities	2,278	1,186	—	1,092
Warrants	894	0	—	894
Fixed income debt instruments	2,090	0	2,090	—
Designated as available-for-sale:				
Marketable equity securities	24,316	24,316	—	—
	29,578	25,502	2,090	1,986
Other	17,600	—	—	17,600
Total	$121,404	$33,407	$67,782	$20,215
Securities sold but not yet purchased, at fair value:				
Marketable equity securities	$ 45,816	$45,816	$ —	$ —
Listed options	287	287	—	—
Convertible and fixed income debt instruments	10,826	—	10,826	—
Total	$ 56,929	$46,103	$10,826	$ —

As of December 31, 2012, financial assets measured and reported at fair value on a recurring basis and classified within Level 3 were $20,215 or 6.1% of the Company's total assets at that date. Regarding these Level 3 financial assets, in determining fair value, the Company analyzes various financial, performance and market factors to estimate the value, including where applicable over-the-counter market trading activity. The following table provides the valuation technique and unobservable inputs primarily used in assessing the value of these securities as of December 31, 2012:

Valuation Technique	Fair Value	Unobservable Input	Range	Weighted Average
Market approach	$ 1,721	Over-the-counter trading activity	$0.51 - $20.50/share	$ 7.78
Black-Scholes	$ 894	Volatility	39%	39%
		Dividend Yield	0%	0%
		Interest Rate	2%	2%
		Discount Rate	50%	50%

For those non-public equity securities valued using a market approach, adverse industry market conditions or events experienced by the underlying entities could result in lower over-the-counter trading prices for the securities. Such lower trading prices would result in a decline in the estimated fair value of these securities. For warrants valued using Black-Scholes, adverse industry market conditions or events experienced by this entity could result in a lower over-the counter trading price for this security and therefore a lower value of these warrants. A reduction in the estimated volatility or an increase in the discount rate would also result in a lower value of the warrants. The table above excludes $17,600 of investments in non-registered investment funds that are valued at NAV as determined by the fund administrators. The underlying fund investments consist primarily of fixed income securities.

	December 31, 2011	Level 1	Level 2	Level 3
Financial instruments owned, at fair value:				
Financial instruments held for trading activities at broker-dealer subsidiaries:				
Marketable and non-public equity securities	$ 24,043	$20,966	$ —	$3,077
Listed options	4,930	4,930	—	—
Convertible and fixed income debt instruments	45,282	—	45,282	—
	74,255	25,896	45,282	3,077
Financial instruments held for investment activities:				
Designated as trading:				
Marketable and non-public equity securities	25,107	20,358	—	4,749
Designated as available-for-sale:				
Marketable equity securities	165	165	—	—
	25,272	20,523	—	4,749
Other	1,107	591	—	516
Total	$100,634	$47,010	$45,282	$8,342
Securities sold but not yet purchased, at fair value:				
Marketable equity securities	$ 24,414	$24,414	$ —	$ —
Listed options	7,062	7,062	—	—
Convertible and fixed income debt instruments	4,020	—	4,020	—
Total	$ 35,496	$31,476	$ 4,020	$ —

As of December 31, 2011, financial assets measured and reported at fair value on a recurring basis and classified within Level 3 were $8,342 or 2.8% of the Company's total assets at that date.

Level 3 Gains and Losses

The tables below set forth a summary of changes in the fair value of the Company's Level 3 financial assets that are measured at fair value on a recurring basis for the years ended December 31, 2012 and 2011. As of December 31, 2012 and 2011, the Company did not have any net unrealized gains (losses) included in accumulated other comprehensive income on Level 3 financial assets.

	Trading Securities	Other	Total
Beginning balance, January 1, 2012	$ 7,826	$ 516	$ 8,342
Total net losses (realized/unrealized)			
Included in earnings	477	743	1,220
Included in other comprehensive income	—	—	—
Purchases	257,359	16,403	273,762
Sales/Distributions	(261,163)	(62)	(261,225)
Transfers out of Level 3	(1,884)	—	(1,884)
Ending balance, December 31, 2012	$ 2,615	$17,600	$ 20,215
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 50	$ 910	$ 960

	Trading Securities	Other	Total
Beginning balance, January 1, 2011	$ 4,462	$ 555	$ 5,017
Total net losses (realized/unrealized)			
Included in earnings	723	(85)	638
Included in other comprehensive income	—	—	—
Purchases	625,865	150	626,015
Sales/Distributions	(620,601)	(104)	(620,705)
Transfers out of Level 3	(2,623)	—	(2,623)
Ending balance, December 31, 2011	$ 7,826	$ 516	$ 8,342
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (652)	$ (85)	$ (737)

There were no transfers of securities in to, or out of, Level 2 financial assets during the years ended December 31, 2012 and 2011. During the years ended December 31, 2012 and 2011, transfers were made out of Level 3 and into Level 1 for equity securities that were previously non-public equity securities and during the periods became publicly traded.

Gains and losses from Level 3 financial assets that are measured at fair value on a recurring basis, that are included in earnings for the years ended December 31, 2012, 2011, and 2010, are reported in the following line descriptions on the Company's statements of operations:

	Year ended December 31,		
	2012	2011	2010
Total gains and losses included in earnings for the period:			
Principal transactions	$ 187	$ 259	$ 42
Net investment income (loss)	1,033	464	(19)
Change in unrealized gains or losses relating to assets still held at the end of the respective period:			
Principal transactions	$ 50	$(1,116)	$ 50
Net investment income (loss)	910	464	(19)

Items Measured at Fair Value on a Non-Recurring Basis

The Company also measures certain financial assets and other assets at fair value on a non-recurring basis. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or impairments of individual assets. Due to the nature of these assets, unobservable inputs are used to value these assets. In determining the fair value, the Company analyzes various financial, performance, and market factors to estimate the fair value, including where applicable, market activity. As a result, these assets are classified within Level 3 of the fair value hierarchy. During the year ended December 31, 2012, other than the recognition of a $9,846 receivable related to the sale of the FBR Funds (See Note 12), there were no assets measured at fair value on a non-recurring basis for which there was a change in carrying value.

The following table presents the change in carrying value of those assets measured at fair value on a non-recurring basis, for which a change in fair value was recognized in 2011:

	December 31, 2011	Level 1	Level 2	Level 3	Year Ended December 31, 2011 Gains (Losses)
Goodwill	$ —	$ —	$ —	$ —	$(5,882)

In the Company's annual assessment of goodwill as of December 31, 2011, as discussed in Note 5, the Company determined that its goodwill balance was fully impaired.

The following table presents the change in carrying value of those assets measured at fair value on a non-recurring basis, for which a change in fair value was recognized in 2010:

	December 31, 2010	Level 1	Level 2	Level 3	Year Ended December 31, 2010 Gains (Losses)
Leasehold improvements	$ —	$ —	$ —	$ —	$(1,135)

In assessing certain leasehold improvements as of December 31, 2010, as discussed in Note 4, the Company determined that as a result of the Company executing a new lease agreement in December 2010 for its office located in London, UK, including a sublease of its existing office space, that a fair value assessment of its leasehold improvements located at its then current office space was required. Based on that assessment, the Company determined that these assets were fully impaired.

Financial Instruments Held for Investment—Designated as Trading

As of December 31, 2012 and 2011, and during the years ended December 31, 2012, 2011 and 2010, the Company has maintained certain investments in marketable equity securities held by other than the Company's broker-dealer subsidiary that are classified as trading securities. These investments are designated as trading based on the Company's intent at the time of designation. In accordance with ASC 320, these securities are carried at fair value with resulting realized and unrealized gains and losses reflected as net investment income (loss) in the statements of operations. Net gains and losses on these securities as of the dates indicated were as follows:

	Year ended December 31,		
	2012	2011	2010
Net gains (losses) recognized on trading securities	$ 3,722	$(5,410)	$10,018
Less: Net (gains) losses recognized on trading securities *sold* during the period	(3,665)	(377)	(8,884)
Unrealized gains (losses) recognized on trading securities *still held* at the reporting date	$ 57	$(5,787)	$ 1,134

Financial Instruments Held for Investment—Designated as Available-for-Sale

As of December 31, 2012 and 2011, the Company has certain investments in marketable equity securities held by other than the Company's broker-dealer subsidiary that are classified as available-for-sale securities. These investments are designated as available-for-sale due to the Company's intent at the time of designation to hold these securities for investment purposes over an extended period, however, they are available to be sold should economic conditions warrant such a transaction. In accordance with ASC 320, these securities are carried at fair value with resulting unrealized gains and losses reflected as other comprehensive income or loss. Gross unrealized gains and losses on these securities as of the dates indicated were as follows:

	December 31, 2012			
	Cost Basis	Unrealized Gains	Unrealized Losses(1)	Fair Value
Marketable equity securities	$25,410	$ 0	$1,094	$24,316

	December 31, 2011			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Marketable equity securities	$ 146	$19	$ —	$ 165

(1) Duration of unrealized losses is less than 12 months

The following provides detail of the amounts included in accumulated other comprehensive income and reclassified to earnings during the specified periods.

	Year ended December 31,		
	2012	2011	2010
Beginning balance	$ 19	$ (53)	$(71)
Net unrealized investment gains (losses) during the period:			
Unrealized holding gains (losses), net of taxes	(1,113)	1,312	(18)
Reclassification adjustment for recognized (gains) losses included in net income, net of taxes	—	(1,240)	36
Ending balance	$(1,094)	$ 19	$(53)

The Company evaluates its portfolio of marketable equity securities for impairment as of each reporting date. For the securities with unrealized losses, the Company will review the underlying cause for the impairments, as well as the severity and duration of the impairments. If the impairment is determined to be other-than-temporary, the Company will recognize an other-than-temporary impairment loss in its statement of operations. During the years ended December 31, 2012, 2011 and 2010, the Company recorded other-than-temporary impairment losses of $-0-, $7,561, and $-0-, respectively, in the statements of operations relating to marketable equity securities.

As of December 31, 2012, the Company held three marketable equity securities that were in unrealized loss positions. The total unrealized loss at that date of $1,094 related primarily to two securities in the financial services industry. The Company concluded that these unrealized losses did not represent other-than temporary impairments based on the limited severity and duration of the unrealized losses, including for two of the investments a recovery in value above the Company's basis subsequent to year end. With respect to each of these investments, the Company has the intent and ability to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value.

The Company did not hold any marketable equity securities that were in an unrealized loss position at December 31, 2011, but did recognize other-than-temporary impairment losses during the year ended December 31, 2011. Such impairment losses were due to the severity of the decline in the fair value of these securities below the Company's cost basis during the second and fourth quarters of 2011. These results include an impairment loss of $7,416 in the second quarter of 2011 related to an entity operating in the maritime transportation industry. This entity completed a secondary public offering in June 2011 that significantly diluted previous shareholders and severely impacted the market value of the entity's shares. The carrying value of the security after the recognition of the impairment loss was $8,054. Subsequent to the recognition of this impairment loss, based on the increased liquidity of the shares resulting from the offering and the Company's intentions with respect to the investment, the Company elected to transfer the security from designated as available-for-sale to designated as trading.

During the years ended December 31, 2012, 2011, and 2010, the Company received $0, $6,360, and $206, respectively, from sales of marketable equity securities designated as available-for-sale resulting in gross gains of $0, $1,386, and $9, respectively.

Other Investments, at Cost

Other investments consisted of the following as of the dates indicated:

	December 31,	
	2012	**2011**
Non-public equity securities	$3,071	$25,427
Corporate debt investments	5,317	317
	$8,388	$25,744

The Company evaluates its portfolio of non-public equity securities, carried at cost, for impairment as of each reporting date. This evaluation includes consideration of the operating performance of the respective companies, their financial condition and their near-term and long-term prospects. Based on its evaluations of these investments, the Company recorded no impairment losses during the years ended December 31, 2012, 2011, and 2010.

There were no sales of, or distributions from, non-public equity securities during 2012. During 2011, the Company received $8,403 from sales of, or distributions from, non-public equity securities, resulting in gross gains and losses of $5,500 and $22, respectively. During 2010, the Company received $11,916 from sales of, or distributions from, non-public equity securities, resulting in gross gains and losses of $286 and $963, respectively.

Note 4. Furniture, Equipment, Software and Leasehold Improvements:

Furniture, equipment, software and leasehold improvements, summarized by major classification, were:

	December 31,	
	2012	**2011**
Furniture and equipment	$ 15,029	$ 20,233
Software	13,155	15,024
Leasehold improvements	16,004	18,715
	44,188	53,972
Less: Accumulated depreciation and amortization	(40,495)	(47,810)
	$ 3,693	$ 6,162

For the years ended December 31, 2012, 2011 and 2010, depreciation expense was $2,160, $3,561, and $7,024, respectively. For the years ended December 31, 2012, 2011 and 2010, the Company incurred losses of $769, $1,323, and $1,135, respectively, related to the write-off of leasehold improvements as a result of lease terminations. For the year ended December 31, 2012, the charge of $769 represents the impairment of certain leasehold improvements in the first, third and fourth quarters of the year related to office space that was subleased at these respective times in which the sublease covers the remaining period of the Company's original lease agreement. For the year ended December 31, 2011, the charge represents the impairment of certain leasehold improvements related to office space that had been subleased to a third party in July 2011 in which the sublease covers the remaining period of the Company's original lease agreement. For the year ended December 31, 2010, the charge of $1,135 represents the impairment of certain leasehold improvements related to office space that had been subleased to a third party effective in February 2011. Based on the lack of transferability of these assets and no anticipated salvage value, the Company assessed the fair value of these assets as $-0- as of December 31, 2010.

Note 5. Goodwill and Intangible Assets:

Goodwill

The Company does not carry a goodwill balance as of December 31, 2012 and did not maintain a goodwill balance during the year ended December 31, 2012.The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 are as follows:

	Year ended December 31,	
	2011	**2010**
Balance as of January 1:		
Goodwill	$ 5,882	$5,882
Accumulated impairment losses	—	—
	5,882	5,882
Goodwill acquired during year	—	—
Impairment losses	(5,882)	—
Balance as of December 31:		
Goodwill	5,882	5,882
Accumulated impairment losses	(5,882)	—
	$ —	$5,882

During the periods that the Company maintained a goodwill balance it performed its annual assessment of goodwill impairment during the fourth quarter of each year. In prior years goodwill had been assigned to the Company's capital markets segment. Management's assessment process included determining the fair value of its reporting units (considered its business segments) based on current market information, including industry comparatives and relevant recent transactions, and comparing such fair value to the carrying value of the respective reporting units. In addition, the Company compared the sum of the fair values of its reporting units to its total market capitalization and considered other qualitative factors impacting the Company's operations. Based on the results of the Company's assessment in the fourth quarter of 2011, the Company determined that the goodwill was impaired and recognized an impairment charge of $5,882. The impairment recorded in 2011 was the result of various factors, including the significant decline in revenues during the second half of 2011 as well as the restructuring plan implemented by the Company in the fourth quarter of 2011 in response to the revenue decline and uncertain market conditions. These factors coupled with the extended period in which the Company's market capitalization has been below its carrying value resulted in the Company determining that an impairment to goodwill was necessary. Based on the Company's assessment, no impairment charges were recognized during the year ended December 31, 2010.

Intangible Assets

As a result of the Company's sale of the FBR Funds during 2012 (see Notes 1 and 12), the Company does not hold any intangible assets on its balance sheet as of December 31, 2012. Pursuant to the sale, these intangible assets were transferred upon the close of the sale and eliminated from the Company's balance sheet at that time. For the year ended December 31, 2012, the Company recorded amortization expense of $231 during the period in 2012 prior to the sale and recognized $1,890 of expense at the time of the sale. For the years ended December 31, 2011 and 2010, amortization expense recognized was $462, and $447, respectively. These expense amounts are included in the Company's results from discontinued operations. The following table reflects the components of intangible assets as of December 31, 2011:

Management contracts and customer relationships associated with asset management activities	$ 6,144
Accumulated amortization	(4,023)
Net balance as of December 31, 2011	$ 2,121

Note 6. Income Taxes:

The (benefit) provision for income taxes consists of the following for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Federal	$(1,122)	$(178)	$(3,878)
State	44	(65)	(197)
Foreign	—	—	(22)
	$(1,078)	$(243)	$(4,097)
Current	$(1,078)	$ (30)	$(4,246)
Deferred	0	(213)	149
	$(1,078)	$(243)	$(4,097)

The federal tax benefit includes a benefit for domestic federal net operating losses of $-0-, $-0- and $3,233 for the years ended December 31, 2012, 2011 and 2010, respectively. The benefits of these net operating losses were realized through carryback of losses to offset income in prior years.

During 2010, the Company filed claims to carry back its losses from tax year 2008 to prior periods including periods in which it was part of the FBR TRS Holdings, Inc.'s (a subsidiary of Arlington Asset Investment Corp., the Company's former parent) consolidated group and received the incremental benefit of the net operating loss carryback, pursuant to its tax sharing agreement with FBR TRS Holdings, Inc.

Deferred tax assets and liabilities consisted of the following as of December 31, 2012 and 2011:

	2012	2011
Deferred tax assets		
Net operating loss, Domestic	$ 28,978	$ 31,513
Net operating loss, Foreign(1)	0	7,556
Capital loss carry forward	22,765	24,626
Stock-based compensation	17,628	21,802
Other-than-temporary investment write downs	3,940	8,851
Depreciation and amortization	6,047	7,321
Goodwill amortization	0	1,918
Other, net	450	(1,620)
Total deferred tax assets	79,808	101,967
Deferred tax liabilities		
Gain on installment sale	(2,459)	—
Net deferred tax assets	77,349	101,967
Valuation allowance	(77,349)	(101,967)
Net deferred tax asset	$ —	$ —

(1) Based on the changes in the Company's business activity in the United Kingdom (see Note 1), these net operating losses were written off in 2012.

At December 31, 2012, the Company's net deferred tax assets totaled $77,349. The Company has established a full valuation allowance against these assets since the Company believes that, based on the criteria in ASC 740, it is more likely than not that the benefits of these assets will not be realized in the future. During the years ended December 31, 2012 and 2011, the Company's valuation allowance decreased by $24,618 and increased by $13,562, respectively. Following the criteria in ASC 740, the Company reviews this valuation allowance on a quarterly basis assessing the positive and negative evidence to determine if it is more likely than not that some or all of the deferred tax assets will be realized. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in past years. The Company will continue to assess the need to maintain a full valuation allowance against its net deferred tax assets at each reporting date. Recognition of our deferred tax assets would be based on sustaining profitability over an appropriate time period in amounts that are sufficient to support a conclusion that it is more likely than not that all or a portion of our deferred tax assets will be realized. It is reasonably possible that the Company could meet these criteria in the next twelve months.

As of December 31, 2012, the Company has domestic federal net operating losses of $59,243 which includes no tax windfalls resulting from the vesting of equity compensation. The Company has state net operating loss carryovers of $12,680 on a tax-effected basis, excluding the federal tax benefit. The state net operating losses include no tax benefit related to windfalls from the vesting of equity compensation. The federal net operating losses of $21,260 and $37,983 will expire in years 2030 and 2031 respectively. The state net operating losses begin to expire in 2013.

As of December 31, 2012, the Company has pre-tax capital loss carryovers of $12,554, $31,601, and $13,012 which will expire in years 2013, 2014, and 2015, respectively.

Internal Revenue Code Section 382 limits tax deductions for net operating losses, capital losses and net unrealized built-in losses after there is a substantial change in ownership in a corporation's stock involving a 50 percentage point increase in ownership by 5% or larger stockholders. On October 22, 2009 as a result of the sale by Arlington Asset of the Company's stock, the Company incurred an ownership change as defined in Section 382. The ownership change will cause the future utilization of capital losses incurred before the change date to be subject to an annual limitation of $17,201 plus any cumulative unused 382 limitation from post-change tax years.

The Company's effective tax rate for the years ended December 31, 2012, 2011 and 2010 was (27.45%), 0.47%, and 9.85%, respectively. The provision for income taxes results in effective tax rates that differ from the Federal statutory rates. The reconciliation of the Company's reported amount of income tax (benefit) provision attributable to continuing operations to the amount of income tax expense that would result from applying domestic federal statutory tax rates to income from continuing operations was:

	For the year ended December 31,		
	2012	2011	2010
Federal income tax provision (benefit), at statutory rate	$ 1,375	$(17,458)	$(14,591)
State income taxes benefit, net of Federal benefit	113	(2,259)	(1,383)
Effect of rates different than statutory	21	188	923
Nondeductible expenses	259	594	797
Effect of stock-based compensation	2	1,970	4,296
Other, net	612	(82)	(183)
Uncertain tax positions	(1,165)	0	0
Valuation allowance	(2,295)	16,804	6,044
Effective income tax benefit	$(1,078)	$ (243)	$ (4,097)

The components of income (losses) before income taxes were as follows:

	For the year ended December 31,		
	2012	2011	2010
United States	$4,140	$(48,616)	$(35,570)
United Kingdom	(212)	(2,712)	(6,020)
	$3,928	$(51,328)	$(41,590)

The following table displays the change in unrecognized tax benefits for the years ended December 31, 2012 and 2011:

	For the year ended December 31,	
	2012	2011
Balance at beginning of period	$(1,642)	$(2,130)
Increases to tax positions for prior years	0	(353)
Increases to tax positions for current year	0	(42)
Decreases to tax positions for prior years	1,642	—
Settlements	0	883
Balance at end of period	$ 0	$(1,642)

During the year ended December 31, 2012, the statute of limitations related to the Company's uncertain tax positions expired. As such, the Company recognized a tax benefit of $1,247 in 2012 upon the release of its liability for uncertain tax positions. As of December 31, 2012, the Company has no liability for uncertain tax positions.

The Company records interest and penalties in other operating expenses and other revenue respectively in the consolidated statements of operations. The total amount of interest related to tax uncertainties recognized in the statement of operations for the periods ended December 31, 2012, 2011 and 2010 was $0, $57 and $147, respectively. The total amount of accrued interest related to uncertain tax positions was $0 and $212 as of December 31, 2012 and 2011, respectively.

The Internal Revenue Service has completed its examination of the Company's tax return for 2010 and did not propose any adjustments. The Company is not currently under audit related to its federal tax returns. As of December 31, 2012, tax years subsequent to December 31, 2008 remain open under the federal statute of limitations due to net operating loss carrybacks. As of December 31, 2012, tax years subsequent to December 31, 2005 remain open for the Company's significant state jurisdiction of Virginia. The Company is currently under audit in New York State for tax years 2008 through 2010.

Note 7. Regulatory Capital Requirements:

FBRCM is registered with the SEC and is a member of FINRA. As such, FBRCM is subject to the minimum net capital requirements promulgated by the SEC. As of December 31, 2012 and 2011, FBRCM had net capital of $65,078 and $57,032, respectively that was $61,798 and $53,189, respectively, in excess of its required net capital of $3,280 and $3,843, respectively.

Note 8. Commitments and Contingencies:

Contractual Obligations

The Company has contractual obligations to make future payments in connection with non-cancelable lease agreements and other contractual commitments as well as an uncalled capital commitment to an investment partnership that may be called over the next three years. The following table sets forth these contractual obligations by fiscal year:

	2013	2014	2015	2016	2017	Thereafter	Total
Minimum rental commitments(1)	$8,634	$7,766	$1,937	$1,684	$1,471	$605	$22,097
Capital commitments(2)	—	—	—	—	—	—	—
Total Contractual Obligations	$8,634	$7,766	$1,937	$1,684	$1,471	$605	$22,097

(1) These commitments are for operating leases of the Company. The Company currently has no commitments associated with capital leases. The Company has entered into sublease agreements related to certain of its leased office space with multiple third parties. For the years ended December 31, 2013 and 2014, contractual sublease receipts to be received by the Company are $2,613, and $2,340, respectively. Equipment and office rent expense for the years ended December 31, 2012, 2011 and 2010 was $8,478, $8,378 and $9,314, respectively.

(2) The table above excludes a $400 uncalled capital commitment to an investment partnership that may be called over the next three years. This amount was excluded because the Company cannot currently determine when, if ever, the commitment will be called.

Clearing Broker

Our broker-dealer subsidiaries clear all of their securities transactions through a clearing broker on a fully disclosed basis. Pursuant to the terms of the agreements between our broker-dealer subsidiaries and their respective clearing brokers, the clearing broker has the right to charge our broker-dealer subsidiary for losses that result from a counterparty's failure to fulfill its contractual obligations.

As the right to charge our broker-dealer subsidiary has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. At December 31, 2012 and 2011, the Company has recorded no liabilities, and during the years ended December 31, 2012, 2011 and 2010, the Company did not incur any significant costs, with regard to this right.

Litigation

As of December 31, 2012, except as described below, the Company was neither a defendant nor plaintiff in any lawsuits or arbitrations nor involved in any governmental or self-regulatory organization matters that are expected to have a material adverse effect on its financial condition, results of operations or liquidity. The Company has been named as a defendant in a small number of civil lawsuits relating to its various businesses. In addition, the Company is subject to various reviews, examinations, investigations and other inquiries by governmental agencies and self regulatory organizations. There can be no assurance that these matters individually or in aggregate will not have a material adverse effect on the Company's financial condition, results of operations, or liquidity in a future period. However, based on management's review with counsel, resolution of these matters is not expected to have a material adverse effect on the Company's financial condition, results of operations or liquidity.

Many aspects of the Company's business involve substantial risks of liability and litigation. Underwriters, broker-dealers and investment advisers are exposed to liability under Federal and state securities laws, other Federal and state laws and court decisions, including decisions with respect to underwriters' liability and limitations on indemnification, as well as with respect to the handling of customer accounts. For example, underwriters may be held liable for material misstatements or omissions of fact in a prospectus used in connection with the securities being offered and broker-dealers may be held liable for statements made by their securities analysts or other personnel. FBRCM has been named as a defendant in a small number of securities claims involving investment banking clients of FBRCM as a result of FBRCM's role as an underwriter. In these cases, the underwriting agreement provides, subject to certain conditions, that the investment banking client is required to indemnify FBRCM against certain claims or liabilities, including claims or liabilities under the Securities Act of 1933, as amended (the "Securities Act"), or contribute to payments which FBRCM is required to make as a result of the litigation. There can be no assurance that such indemnification or contribution will ultimately be available to the Company or that an investment banking client will be able to satisfy its indemnity or contribution obligations when due.

In May 2008, the lead plaintiff in a previously filed and consolidated action filed an amended consolidated class action complaint that, for the first time, named Friedman, Billings, Ramsey & Co., Inc. (now FBRCM) and eight other underwriters as defendants. The lawsuit, styled In Re Thornburg Mortgage, Inc. Securities Litigation and pending in the United States District Court for the District of New Mexico, was originally filed in August 2007 against Thornburg Mortgage, Inc. ("TMI"), and certain of its officers and directors, alleging material misrepresentations and omissions about, inter alia, the financial position of TMI. The amended complaint included claims under Sections 11 and 12 of the Securities Act against nine underwriters relating to five separate offerings (May 2007, June 2007, September 2007 and two offerings in January 2008). The allegations against FBRCM related only to its role as underwriter or member of the syndicate that underwrote TMI's total of three offerings in September 2007 and January 2008—each of which occurred after the filing of the original complaint. The plaintiffs sought restitution, unspecified compensatory damages and reimbursement of certain costs and expenses. Although FBRCM is contractually entitled to be indemnified by TMI in connection with this lawsuit, TMI filed for bankruptcy on May 1, 2009 and this likely will decrease or eliminate the value of the indemnity that FBRCM receives from TMI. On June 2, 2011 the Court granted FBRCM's motion to dismiss the consolidated class action complaint as to FBRCM and then entered final judgment for FBRCM on July 25, 2011. Plaintiffs filed a timely notice of appeal to the 10th Circuit Court of Appeals, challenging the District Court's findings; briefing on the appeal is complete and oral argument at the Court of Appeals had been heard. Claims relating to the two January 2008 offerings have been voluntarily dismissed with prejudice by plaintiffs. The claims against FBRCM relating to the September 2007 offering remain on appeal.

FBRCM has been named as a defendant in a case relating to its role as an underwriter in residential mortgage-backed securities ("RMBS") offerings. FBRCM is among dozens of underwriter, securitization trust and depositor defendants in an individual action filed by Cambridge Place Investment Management, Inc. in Massachusetts state court (Cambridge Place Investment Management Inc. v. Morgan Stanley et al). Cambridge's complaint relates to the more than $2,400,000 in RMBS purchases it made in numerous underwritten offerings (of which the claims concerning FBRCM are limited to Cambridge's purchases of a combined $22,000 of RMBS in two separate offerings) and alleges that each of the defendants made misrepresentations and omissions relating to, among other things, loan-to-value ratios, appraisals, and underwriting standards, in violation of state securities laws. FBRCM has contractual indemnification claims against the RMBS issuers and contribution claims against co-underwriters involved in the two offerings for which claims have been made against it.

FBRCM has been named a defendant in the putative class action lawsuit MHC Mutual Conversion Fund, L.P. v. United Western Bancorp, Inc., et al. pending in the United States District Court for the District of Colorado. The complaint, filed in March 2011 against United Western Bancorp, Inc. (the "Bank"), its officers and directors, underwriters and outside auditors, alleges material misrepresentations and omissions in the registration statement and prospectus issued in connection with the Bank's September 2009 offering. The complaint alleges claims under Sections 11 and 12 of the Securities Act against the lead underwriter of the offering and FBRCM as a member of the underwriting syndicate. Although FBRCM is contractually entitled to be indemnified by the Bank in connection with this lawsuit, the Bank filed for bankruptcy on March 5, 2012 and this likely will decrease or eliminate the value of the indemnity that FBRCM receives from the Bank. On December 19, 2012 the Court granted Defendants' motion to dismiss the class action complaint with prejudice and entered final judgment for the underwriters. Class plaintiffs filed a timely notice of appeal to the 10th Circuit Court of Appeals, challenging the District Court's findings.

FBRCM has been named a defendant in four putative class action lawsuits all alleging substantially identical claims against Imperial Holdings, Inc. ("Imperial"), its officers and directors and underwriters for material misrepresentations and omissions in the registration statement and prospectus issued in connection with Imperial's February 2011 initial public offering. The cases, all currently pending in the Southern District of Florida, are captioned: Martin J. Fuller v. Imperial Holdings, Inc., et al.; City of Roseville Employees Retirement System v. Imperial Holdings, et al.; Sauer v. Imperial Holdings, et al.; and Pondick v. Imperial Holdings, et al. The complaints allege claims under Sections 11 and 12 of the Securities Act against the lead underwriters of the offering. Imperial has assumed its contractual obligation to indemnify the underwriters. As of December 19, 2012, Imperial and all other relevant parties, including FBRCM, executed a non-binding term sheet to settle the class action lawsuits. Definitive settlement agreements are forthcoming.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. As a litigation or regulatory matter develops, management, in conjunction with counsel, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. The cases discussed above involving the Company are at a preliminary stage, based on management's review with counsel and present information known by management, loss contingencies for these matters are not probable and estimable as of December 31, 2012.

In certain circumstances, broker-dealers and asset managers may also be held liable by customers and clients for losses sustained on investments. In recent years, there has been an increasing incidence of litigation and actions by government agencies and self regulatory organizations involving the securities industry, including class actions that seek substantial damages. The Company is also subject to the risk of litigation, including litigation that may be without merit. As the Company intends to actively defend such litigation, significant legal expenses could be incurred. An adverse resolution of any future litigation against the Company could materially affect its financial condition, operating results and liquidity.

Other

In February 2012, pursuant to a compensation plan, the Company granted certain employees an interest in a pool of assets valued at $3,000. The individual awards are subject to a 4 year cliff vesting requirement based on continued service. The terms of the compensation plan provide that any forfeited awards be reallocated to remaining award recipients and that the total value of the asset pool at the date of vesting be distributed. The value of the asset pool was $3,162 as of December 31, 2012.

Note 9. Shareholders' Equity:

Share Repurchases

During the year ended December 31, 2012, the Company repurchased 2,151,893 shares of its common stock in privately negotiated or open market transactions at a weighted average share price of $2.74 per share for a total cost of $5,887. As of December 31, 2012, the Company had remaining authority to repurchase 5,972,739 additional shares (see Note 14 for information regarding share repurchases subsequent to year end).

During the year ended December 31, 2011, the Company repurchased 2,096,790 shares of its common stock in open market transactions at a weighted average share price of $3.48 per share for a total cost of $7,299. During the year ended December 31, 2010, the Company repurchased 3,197,374 shares, of its common stock in open market transactions at a weighted average share price of $4.97 per share, for a total cost of $15,905.

During the year ended December 31, 2012, the Company completed two tender offers to repurchase shares of its stock. Pursuant to these modified "Dutch auction" tender offers, the Company repurchased 5,300,666 shares of its common stock at weighted average share prices of $2.83 per share for a total cost, including transaction costs, of $14,983.

During the year ended December 31, 2011, the Company completed two tender offers to repurchase shares of its stock. Pursuant to these modified "Dutch auction" tender offers, the Company repurchased 6,145,521 shares of its common stock at weighted average share prices of $2.55 per share for a total cost, including transaction costs, of $15,939.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan ("Purchase Plan"), eligible employees may purchase common stock through payroll deductions at a price that is 85% of the lower of the market value of the common stock on the first day of the offering period or the last day of the offering period. In accordance with the provisions of ASC 718, the Company is required to recognize compensation expense relating to shares offered under the Purchase Plan. For the years ended December 31, 2012, 2011 and 2010, the Company recognized compensation expense of $133, $245 and $378, respectively, related to the Purchase Plan.

Partner Leveraged Stock Purchase Program

The Company initiated the Partner Leveraged Stock Purchase Program ("PLSPP") in December 2009. Under the PLSPP, non-executive officer employees who are members of the Company's Partnership Group as well as the Company's Chief Financial Officer and General Counsel were granted the right to purchase shares of the Company's common stock on four specific offering dates during the fourth quarter of 2009 and the first half of 2010. Each participant was initially granted the right to purchase up to either 25,000 shares or 50,000 shares. The Company offered to provide a full recourse loan at market rates and terms to each non-executive officer participant for up to 50% of the aggregate purchase price, collateralized by the shares purchased, bearing interest at market rates, and maturing three years from the date of issuance. For each share purchased by the participant, the Company would grant two options (three options in the case of each of the Company's Chief Financial Officer and General Counsel) to purchase the Company's common stock under the FBR & Co. Long-Term Incentive Plan (described below) that are subject to a 3-year cliff vesting requirement. For the years ended December 31, 2010 and 2009, participants purchased 264,535 and 210,500, respectively, for an aggregate purchase price of $1,286 and $1,431, respectively. As of December 31, 2012 and 2011, the Company had loans outstanding to participants of $307 and $673, respectively. The employee stock loan receivable balance is included in shareholders' equity on the balance sheet.

Stock Compensation Plans

FBR & Co. 2006 Long-Term Incentive Plan (FBR & Co. Long-Term Incentive Plan)

Under the FBR & Co. Long-Term Incentive Plan, as amended, the Company may grant options to purchase stock, stock appreciation rights, performance awards, restricted and unrestricted stock and RSUs for up to an aggregate of 22,069,985 shares of common stock, subject to increase under certain provisions of the plan, to eligible participants. Participants include employees, officers and directors of the Company and its subsidiaries. The FBR & Co. Long-Term Incentive Plan has a term of 10 years and options granted may have an exercise period of up to 10 years. Options may be incentive stock options, as defined by Section 422 of the Internal Revenue Code, or nonqualified stock options.

The Company grants options to purchase stock, restricted shares of common stock and RSUs to employees that vest based on meeting specified service conditions of three to five years and in certain cases achievement of specified market conditions. The following table presents compensation expense related to these awards for the periods indicated:

	Year Ended December 31,		
	2012	2011	2010
Stock Options	$1,526	$1,126	$ 3,937
Restricted shares	148	635	2,939
RSUs	5,489	5,792	11,749

During the year ended December 31, 2012, the Company did not grant any options to purchase stock. Regarding options that were issued during the years ended December 31, 2011 and 2010, the fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. Due to the relatively short period in which the Company has been publicly-traded, the Company has not based its volatility assumption solely on historical data. The Company has used a combination of its historical volatility, historical industry comparisons, and other market data in order to determine the volatility assumption. The risk-free interest rate was based on the rates of the U.S. Treasury with similar maturities as the expected life of the award. The expected life of the awards was based on the length of time from the grant date to the midpoint of the vesting date and the contractual expiration date of the award. The Company uses this methodology for determining expected life as the Company does not have sufficient historical data to estimate an expected life. The dividend yield was based on the expected dividend payout over the expected life of the award. The following weighted average assumptions were used for options granted for the periods indicated:

	Year Ended December 31,	
	2011	2010
Volatility	39.8%	45.0%
Risk-free interest rate	1.6%	2.5%
Expected life (years)	4.5	5.1
Dividend yield	—	—
Weighted average fair value	$1.27	$2.19

The fair value of each RSU with a market condition was estimated on the date of grant using a lattice-pricing model. The methodology for determining the assumptions used for these valuations was similar to those described above for stock options. The Company did not grant any RSUs with a market condition during the years ended December 31, 2012 and 2011. The assumptions used for 76,000 RSUs with a market condition granted during the year ended December 31, 2010 were a volatility of 45.0%, risk-free interest rate of 1.4% and an expected term based on the applicable service condition.

The following table presents the unrecognized compensation related to unvested options to purchase stock, restricted shares of common stock, and RSUs and the weighted average vesting period in which the expense will be recognized:

	As of December 31, 2012		
	Stock Options	Restricted Shares	RSUs
Unrecognized compensation	$ 633	$ 5	$ 10,522
Unvested awards[(1)]	2,339,817	25,002	6,669,642
Weighted average vesting period	0.71 years	0.15 years	2.09 years

(1) See Note 14 regarding one-for-four reverse stock split that was affected by the Company on February 28, 2013.

Stock Options

A summary of option activity under the FBR & Co. Long Term Incentive Plan as of December 31, 2012, and changes during the years ended December 31, 2012, 2011, and 2010 are presented below:

	Number of Shares	Weighted-average Exercise Prices	Weighted-average Remaining Contractual Life
Share Balance as of December 31, 2009	7,477,153	$ 8.52	5.1
Granted	1,513,530	5.14	
Forfeitures	(1,011,500)	8.16	
Share Balance as of December 31, 2010	7,979,183	$ 7.93	4.3
Granted	318,066	3.62	
Forfeitures	(1,227,973)	8.06	
Share Balance as of December 31, 2011	7,069,276	$ 7.71	3.5
Granted	0	0.00	
Forfeitures/Expirations	(1,917,094)	13.85	
Share Balance as of December 31, 2012	5,152,182	$ 5.43	2.12
Options Exercisable as of December 31, 2012	2,812,365	$ 5.79	2.86

Restricted Stock

A summary of unvested restricted stock awards as of December 31, 2012, and changes during the years ended December 31, 2012, 2011, and 2010 are presented below:

	Number of Shares	Weighted-average Grant-date Fair Value	Weighted-average Remaining Vested Period
Share Balance as of December 31, 2009	1,360,832	$14.86	1.9
Granted	—	—	
Vestings	(613,835)	15.65	
Forfeitures	(88,793)	16.08	
Share Balance as of December 31, 2010	658,204	$13.96	1.4
Granted	—	—	
Vestings	(338,441)	13.39	
Forfeitures	(54,486)	16.90	
Share Balance as of December 31, 2011	265,277	$14.09	0.6
Granted	—	—	
Vestings	(216,185)	15.57	
Forfeitures	(24,090)	8.98	
Share Balance as of December 31, 2012	25,002	$ 6.26	0.15

RSUs

A summary of unvested restricted stock units as of December 31, 2012, and changes during the years ended December 31, 2012, 2011, and 2010 are presented below:

	Number of Shares	Weighted-average Grant-date Fair Value	Weighted-average Remaining Vested Period
Share Balance as of December 31, 2009	7,337,685	$5.38	3.5
Granted	2,778,592	5.27	
Vestings	(417,123)	5.48	
Forfeitures	(1,468,489)	5.35	
Share Balance as of December 31, 2010	8,230,665	$5.34	2.8
Granted	1,789,206	3.61	
Vestings	(1,673,269)	5.60	
Forfeitures	(2,818,601)	4.66	
Share Balance as of December 31, 2011	5,528,001	$5.04	2.1
Granted	3,198,360	2.50	
Vestings	(1,371,517)	5.31	
Forfeitures	(685,202)	3.59	
Share Balance as of December 31, 2012	6,669,642	$3.93	2.1

Deferred Compensation Awards

In addition, as part of the Company's satisfaction of incentive compensation earned for past service under the Company's variable compensation programs, employees may receive restricted shares of common stock or RSUs in lieu of cash payments. These shares and RSUs are issued to an irrevocable trust for the benefit of the employees and are not returnable to the Company. For the years ended December 31, 2012, 2011, and 2010, the Company granted such stock-based awards with an aggregate fair value upon grant date of $0, $1,052, and $6,975, respectively. A summary of restricted stock irrevocable trust awards as of December 31, 2012, and changes during the years ended December 31, 2012, 2011, and 2010 are presented below:

	Number of Shares	Weighted-average Grant-date Fair Value	Weighted-average Remaining Vested Period
Share Balance as of December 31, 2009	756,528	$ 9.64	0.9
Granted	—	—	
Vestings	(413,600)	10.35	
Share Balance as of December 31, 2010	342,928	$ 8.77	0.7
Granted	—	—	
Vestings	(241,972)	8.21	
Share Balance as of December 31, 2011	100,956	$ 9.89	0.6
Granted	—	—	
Vestings	(77,354)	10.15	
Share Balance as of December 31, 2012	23,602	$ 4.90	0.64

A summary of restricted stock unit awards held in the irrevocable trust as of December 31, 2012, and changes during the years ended December 31, 2012, 2011, and 2010 are presented below:

	Number of Shares	Weighted-average Grant-date Fair Value	Weighted-average Remaining Vested Period
Share Balance as of December 31, 2009	994,392	$3.74	2.1
Granted	1,238,881	5.63	
Vestings	(513,587)	4.26	
Share Balance as of December 31, 2010	1,719,686	$4.94	1.8
Granted	293,784	3.58	
Vestings	(643,694)	4.61	
Share Balance as of December 31, 2011	1,369,776	$4.81	1.3
Granted	0	0.00	
Vestings	(628,417)	4.40	
Share Balance as of December 31, 2012	741,359	$4.67	1.48

Note 10. Financial Instruments with Off-Balance-Sheet Risk and Credit Risk:

Financial Instruments

The Company's trading and investment activities include equity securities, convertible debt securities, corporate debt securities, bank loans, and listed equity options that are primarily traded in United States markets. The Company's investments in non-public investment funds trade and invest in public and non-public debt and equity securities. As of December 31, 2012 and 2011, the Company had not entered into any transactions involving financial instruments that would expose the Company to significant related off-balance-sheet risk.

In addition, as part of its market making activities, the Company sells equity and debt securities it does not currently own (securities sold, not yet purchased—see Note 3). When the Company sells a security short and borrows the security to make a delivery, a gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, will be realized upon the termination of the short sale.

Market Risk

The securities industry is subject to numerous risks, including the risk of loss associated with the underwriting, ownership, and trading of securities, and the risk of reduced revenues in periods of reduced demand for security offerings and activity in secondary trading markets. Changing economic and market trends may negatively impact the liquidity and value of the Company's investments and the level of security offerings underwritten by the Company, which may adversely affect the Company's revenues and profitability.

Market risk is primarily caused by movements in market prices of the Company's trading and investment account securities and changes in value of the underlying securities of the investment funds in which the Company invests. The Company's trading securities and investments are also subject to interest rate volatility and possible illiquidity in markets in which the Company trades or invests. The Company seeks to manage market risk through monitoring procedures. The Company's principal transactions are primarily long and short equity and convertible debt transactions.

Positions taken and commitments made by the Company, including those made in connection with investment banking activities, may result in substantial amounts of exposure to individual issuers and businesses, including non-investment grade issuers, securities with low trading volumes and those not readily marketable. These issuers and securities may expose the Company to a higher degree of risk than associated with investment grade instruments.

Credit Risk

The Company's broker-dealer subsidiary functions as an introducing broker that places and executes customer orders. The orders are then settled by an unrelated clearing organization that maintains custody of customers' securities and provides financing to customers.

The Company's broker-dealer subsidiary clears all of its securities transactions through a clearing broker on a fully disclosed basis. Pursuant to the terms of the agreement between the Company's broker-dealer subsidiary and its clearing broker, the clearing broker has the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations. As the right to charge our broker-dealer subsidiary has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. At December 31, 2012 and 2011, the Company has recorded no liabilities, and during the years ended December 31, 2012, 2011 and 2010, the Company did not incur any significant costs, with regard to this right.

The due from and to brokers, dealers, and clearing organizations balances primarily represent unsettled trades associated with the Company's credit sales and trading platform. These transactions include corporate bonds and syndicated loan trades. As part of this activity, the Company incurs counterparty credit risk due to the extended settlement nature of most par and distressed bank loan transactions. Par loan and distressed loan trades have extended settlement periods due to the administrative and legal requirements associated with transferring title of such instruments. During this period whereby a trade has been executed but not settled, the Company is at risk if one of its counterparties defaults on a trade obligation and the Company has to meet this obligation at market prices that are adverse relative to the original trade. The Company manages this exposure by calculating the current and potential default exposure on each trade and by maintaining risk limits for each counterparty with whom it has outstanding bank loan trades.

In addition, the Company has the right to pursue collection of performance from the counterparties who do not perform under their contractual obligations. The Company monitors the credit standing of the clearing broker and all counterparties with which it conducts business.

We attempt to limit our credit spread risk by offsetting long or short positions in various related securities, but from time to time may also hedge credit risk exposure through the use of credit derivatives.

Through indemnification provisions in agreements with clearing organizations, customer activities may expose the Company to off-balance-sheet credit risk. Financial instruments may have to be purchased or sold at prevailing market prices in the event a customer fails to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer obligations. The Company seeks to manage the risks associated with customer activities through customer screening and selection procedures as well as through requirements on customers to maintain margin collateral in compliance with various regulations and clearing organization policies.

The Company's equity and debt securities held for trading and investment purposes include non-investment grade securities of privately held issuers with no ready markets. The concentration and illiquidity of these investments expose the Company to a higher degree of risk than associated with readily marketable securities.

Note 11. Related-Party Transactions:

Professional Services Agreement

Under the professional services agreement, as amended, with Crestview Partners, L.P. ("Crestview"), the Company agreed to pay Crestview Advisors, L.L.C. a $1,000 annual strategic advisory fee plus reimbursement of reasonable out-of-pocket expenses as long as Crestview continues to own at least 50% of the shares purchased by certain Crestview affiliates in our 2006 private offering. In June 2010, the Company and Crestview agreed to amend the professional services agreement to allow Crestview the ability to elect to receive a portion of their fee in restricted stock and/or options to purchase shares of the Company's common stock. If elected, stock options would be issued with a strike price equal to the prevailing market price per share as of the grant date and with an expiration of 4 years. Based on Crestview's elections, in June 2012, 2011 and 2010, the Company issued 244,898, 168,067 and 153,846, respectively, such options to Crestview Advisors, L.L.C. valued at issuance at $240, $200 and $200, respectively. The remainders of the respective annual strategic advisory fees were paid in cash. During the years ended December 31, 2012, 2011 and 2010, the Company recognized $1,000 of expense associated with this agreement.

Note 12. Discontinued Operations:

In June 2012, the Company entered into a definitive agreement to sell the assets related to the FBR Funds, a family of mutual funds. This sale was completed in October 2012 and subsequent to the sale closing the Company has no continuing involvement in the management of these funds. As a result of this sale transaction, the Company reports the results of its asset management operations as discontinued operations. The results related to the asset management operations reflected in the consolidated statements of operations are presented in the following table.

	For year ended December 31,		
	2012	2011	2010
Revenues	$14,275	$14,924	$14,182
Gain on sale of assets	24,189	—	—
Expenses	12,514	13,475	14,254
Income (loss) from discontinued operations before income taxes	25,950	1,449	(72)
Income tax provision (benefit)	1,265	13	(7)
Income (loss) from discontinued operations, net of taxes	$24,685	$ 1,436	$ (65)

For the year ended December 31, 2012, the Company's net income from discontinued operations was primarily derived from the gain recorded on the asset sale. The gain on sale recognized in the fourth quarter of 2012 reflects proceeds from the sale, including estimated amounts receivable, totaling $29,538 and transaction related expenses of $5,349. The tax provision recognized in 2012 relates primarily to state taxes on income that could not be offset by either net operating loss or capital loss carryforwards.

Regarding the proceeds from the sale, in accordance with the asset sale agreement, the Company received an initial payment upon closing in October 2012 and will receive a subsequent payment upon the first anniversary of closing, in each case based on a percentage of assets under management for the applicable funds. Specifically, in October 2012, the Company received proceeds of $19,692 representing an initial payment equal to 60% of the sales price as calculated on the closing date and the Company will receive the remaining 40% of the sales price as calculated on the first anniversary of the closing. As of December 31, 2012, the Company has valued this contingent payment at $9,846. This value reflects an approximate 25% discount to the assets under management at closing and is recorded as a receivable on the Company's balance sheet. The value recorded is based on the Company's consideration of various factors outside of its control that can have a significant effect on the value of prospective assets under management. For example, uncertainties related to fund performance, market conditions as well as investor demand for equity mutual funds. Other considerations included the Company's historical asset levels and potential asset attrition as a result of the sale transaction. The Company will continue to monitor the value of the assets under management and adjust the corresponding value of this receivable through the first anniversary of the closing.

Costs related to the sale were expensed as incurred during the year and were comprised primarily of professional fees, including costs for advisory services, legal services and costs associated with the fund shareholder proxy. In addition, upon the close of the sale, the Company recognized in expense its remaining management contract intangible assets with a value of $1,890 at that time. Subsequent to the sale, the Company does not hold any intangible assets on its balance sheet.

Note 13. Segment Information:

The Company considers its capital markets and principal investing operations to be separate reportable segments. The capital markets segment includes the Company's investment banking and institutional sales, trading and research operations. These businesses operate as a single integrated unit to deliver capital raising, advisory and sales and trading services to corporate and institutional clients. Principal investing includes investments in merchant banking and other equity investments, investment funds and corporate debt investments.

The Company has developed systems and methodologies to allocate overhead costs to its business units and, accordingly, presents segment information consistent with internal management reporting. Revenue generating transactions between the individual segments have been included in the net revenue and pre-tax income of each segment.

In prior periods, the Company included the results of its fee-based asset management operations in continuing operations and reported these operations as a separate reportable segment. However, due to the transaction described in Notes 1 and 12 and the reclassification of asset management's results as discontinued operations, the Company no longer includes the results of its asset management operations in its segment information. Corporate overhead costs that have been allocated to the asset management operations are included in the segment disclosure as these costs will remain part of the Company's continuing operations subsequent to the disposal of the asset management operations.

Prior to December 2011, the Company's subsidiary FBRIL, located in the United Kingdom was an introducing broker-dealer registered with the FSA of the United Kingdom. In the fourth quarter of 2011, the Company initiated the process to cease activities at FBRI. The Company's revenues from foreign operations totaled $0, $3,935, and $9,331, for the years ended December 31, 2012, 2011 and 2010, respectively. The following tables illustrate the financial information for the Company's segments for the periods indicated:

	For year ended December 31, 2012			
	Capital Markets	Principal Investing	Other [1]	Total
Revenues, net of interest expense:				
Investment banking	$ 90,669	$ —	$ —	$ 90,669
Institutional brokerage	52,472	—	—	52,472
Net investment loss	—	4,906	—	4,906
Net interest income, dividends, and other	2,145	1,299	1	3,445
Total	145,286	6,205	1	151,492
Operating Expenses:				
Variable	45,977	761	27	46,765
Fixed	98,919	434	1,446	100,799
Total	144,896	1,195	1,473	147,564
Pre-tax income (loss)	$ 390	$ 5,010	$ (1,472)	$ 3,928
Compensation and benefits:				
Variable	$ 26,183	$ 758	$ 12	$ 26,953
Fixed	54,814	163	742	55,719
Total	$ 80,997	$ 921	$ 754	$ 82,672
Total assets	$214,290	$104,253	$14,901	$333,444
Total net assets	$129,671	$102,135	$ 8,058	$239,864

(1) Included in "Other" are net revenues and operating expenses related to the Company's continuing operations that are allocated to the Asset Management segment.

	For year ended December 31, 2011			
	Capital Markets	Principal Investing	Other (1	Total
Revenues, net of interest expense:				
Investment banking	$ 58,146	$ —	$ —	$ 58,146
Institutional brokerage	78,457	—	—	78,457
Net investment income	—	(9,665)	1	(9,664)
Net interest income, dividends, and other	3,237	2,049	2	5,288
Total	139,840	(7,616)	3	132,227
Operating Expenses:				
Variable	40,766	6	27	40,799
Fixed	135,049	358	1,467	136,874
Impairment of goodwill	5,882	—	—	5,882
Total	181,697	364	1,494	183,555
Pre-tax loss	$ (41,857)	$ (7,980)	$(1,491)	$ (51,328)
Compensation and benefits:				
Variable	$ 20,078	$ 1	$ 6	$ 20,085
Fixed	78,733	194	796	79,723
Total	$ 98,811	$ 195	$ 802	$ 99,808
Total assets	$209,886	$78,311	$ 9,886	$298,083
Total net assets	$139,144	$78,310	$ 7,843	$225,297

(1) Included in "Other" are net revenues and operating expenses related to the Company's continuing operations that are allocated to the Asset Management segment.

	For year ended December 31, 2010			
	Capital Markets	Principal Investing	Other (1)	Total
Revenues, net of interest expense:				
Investment banking	$118,273	$ —	$ —	$118,273
Institutional brokerage	100,091	—	—	100,091
Net investment income	—	9,162	1	9,163
Net interest income, dividends, and other	2,102	2,774	2	4,878
Total	220,466	11,936	3	232,405
Operating Expenses:				
Variable	95,429	276	193	95,898
Fixed	173,354	2,164	2,579	178,097
Total	268,783	2,440	2,772	273,995
Pre-tax (loss) income	$ (48,317)	$ 9,496	$ (2,769)	$ (41,590)
Compensation and benefits:				
Variable	$ 68,040	$ 244	$ 402	$ 68,686
Fixed	103,886	1,295	1,100	106,281
Total	$171,926	$ 1,539	$ 1,502	$174,967
Total assets	$277,601	$136,545	$17,321	$431,467
Total net assets	$139,914	$136,262	$15,315	$291,491

(1) Included in "Other" are net revenues and operating expenses related to the Company's continuing operations that are allocated to the Asset Management segment.

Note 14. Subsequent Events:

On February 28, 2013, the Company affected a one-for-four reverse stock split of the Company's issued and outstanding common stock. While this reverse stock split reduced the number of issued and outstanding common shares, it had no effect on the Company's total shareholder's equity. Pursuant to the requirements of the FBR & Co. Long Term Incentive Plan and the provisions of the reverse stock split, all outstanding stock awards under the plan have been adjusted. These adjustments reduced the number of outstanding awards and, in addition for options to purchase common stock the applicable exercise price, but had no effect on the unrecognized compensation expense applicable to these awards.

During the first quarter of 2013, adjusting for the impact of the reverse stock split, the Company has repurchased 561,738 shares of its common stock through privately negotiated or open market transactions at a weighted average share price of $16.16, for a total cost, including transaction costs, of $9,076. Subsequent to these repurchases the Company currently has remaining authority to repurchase up to 931,537 shares.

Note 15. Quarterly Data (Unaudited):

The following tables set forth selected information for each of the fiscal quarters during the years ended December 31, 2012 and 2011. The selected quarterly data is derived from unaudited financial statements of the Company and has been prepared on the same basis as the annual, audited financial statements to include, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for fair statement of the results for such periods.

Note: The sum of quarterly earnings per share amounts may not equal full year earnings per share amounts due to differing average outstanding shares amounts for the respective periods.

	Total Revenues	Net (Loss) Income Before Income Taxes	Net Income From Discontinued Operations, Net of Taxes	Net Income (Loss)	Basic Earnings (Loss) Per Share	Diluted Earnings (Loss) Per Share
2012						
First Quarter	$ 34,945	$ (27)	$ 472	$ 438	$ 0.01	$ 0.01
Second Quarter	33,732	322	184	491	0.01	0.01
Third Quarter	23,889	(5,578)	959	(3,357)	(0.07)	(0.07)
Fourth Quarter	58,926	9,211	23,070	32,119	0.64	0.60
Total Year	$151,492	$ 3,928	$24,685	$ 29,691	$ 0.56	$ 0.54
2011						
First Quarter	$ 46,097	$ (2,364)	$ 382	$ (1,905)	$(0.03)	$(0.03)
Second Quarter	45,274	(3,170)	230	(2,727)	(0.04)	(0.04)
Third Quarter	16,657	(26,032)	283	(26,136)	(0.43)	(0.43)
Fourth Quarter	24,199	(19,762)	541	(18,881)	(0.33)	(0.33)
Total Year	$132,227	$(51,328)	$ 1,436	$(49,649)	$(0.82)	$(0.82)

S T O C K H O L D E R   I N F O R M A T I O N

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McLean, VA 22102

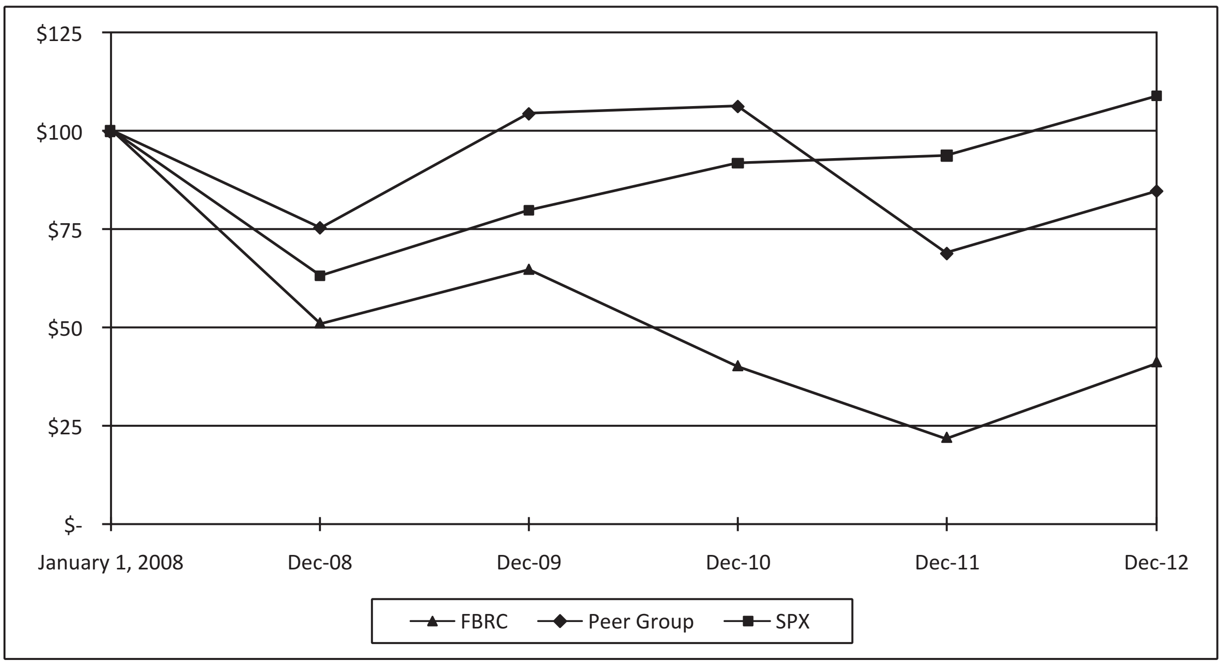
TRANSFER AGENT AND REGISTRAR
American Stock Transfer & Trust Co.
40 Wall Street, 46th Floor
New York, NY 10005

STOCK LISTINGS
NASDAQ: FBRC
Common stock trading range
for 2012: $8.00 – $15.76

STOCK MARKET INFORMATION
Our common stock is listed on The Nasdaq Global Select Market[SM] ("Nasdaq") under the symbol "FBRC." On April 24, 2013 the reported close sale price per share of common stock on the Nasdaq was $20.39 and there were 14 holders of record of our common stock.

ANNUAL REPORT ON FORM 10-K
Copies of our Annual Report on Form 10-K will be made available to shareholders at no charge by sending a written request to Investor Relations, FBR & Co., 1001 Nineteenth Street North, Suite 1100, Arlington, VA 22209, fax 703.469.1012.

STOCK PERFORMANCE GRAPH
The following graph compares the cumulative total return on a $100 investment in each of our common stock, the Standard & Poor's 500 Stock Index and our Peer Group Index for the period from January 1, 2008 to December 31, 2012. This graph assumes an investment in our common stock and the indices of $100 on January 1, 2008 and that all dividends, if any, were reinvested:



Our Peer Group Index includes the following in the broker-dealer industry: Cowen Group, Inc., Evercore Partners Inc., Jefferies Group, Inc., JMP Group Inc., KBW, Inc., Lazard Ltd., Piper Jaffray Companies, and Southwest Group Inc.

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