

FRIEDMAN BILLINGS RAMSEY GROUP INC
Form DEF 14A
May 01, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

Friedman, Billings, Ramsey Group, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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- No fee required.
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(3) Filing party:

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FRIEDMAN, BILLINGS, RAMSEY GROUP, INC.
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 1, 2009

To the Shareholders

of Friedman, Billings, Ramsey Group, Inc.:

The annual meeting of shareholders of Friedman, Billings, Ramsey Group, Inc., a Virginia corporation doing business as Arlington Asset Investment Corp. (the Company), will be held at the Marriott Key Bridge, 1401 Lee Highway, Arlington, Virginia 22209, on Monday, June 1, 2009, at 1:00 p.m. Eastern Daylight Time, for the following purposes:

1. To elect seven directors for a term of one year each.
2. To approve an amendment to the Company's Amended and Restated Articles of Incorporation (the Amended and Restated Articles) to change the Company's corporate name from Friedman, Billings, Ramsey Group, Inc. to Arlington Asset Investment Corp.
3. To approve an amendment to the Company's Amended and Restated Articles to effect a reverse stock split of the issued and outstanding shares of Class A and Class B common stock at one of three reverse split ratios, 1-for-20, 1-for-25 or 1-for-30, as will be selected by the Board of Directors within 12 months of the date of the annual meeting if this amendment is approved by shareholders.
4. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2009.
5. To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

Only holders of the Company's Class A and Class B common stock outstanding at the close of business on the record date, April 20, 2009, are entitled to notice of, and to vote at, the annual meeting. Holders of the Company's Class A and Class B common stock outstanding at the close of business on the record date will vote together as a single group on all matters at the annual meeting. A list of shareholders entitled to vote at the annual meeting will be available at the annual meeting and for ten days prior to the annual meeting at the Company's principal executive office, which is located at 1001 Nineteenth Street North, Arlington, Virginia 22209.

Whether or not you plan to attend the annual meeting, it is important that your shares are represented and voted. You may authorize your proxy over the Internet or by telephone as described on the proxy card attached to the accompanying proxy statement. Alternatively, you may authorize your proxy and instruct the proxies named in the proxy card attached to the proxy statement accompanying this notice how to vote by signing and returning the proxy card in the envelope provided. If you hold your shares in street name (*i.e.*, through a bank, broker or other nominee), you will receive instructions from your nominee that you must follow in order to provide voting instructions to your nominee, or you may contact your nominee directly to request these instructions.

By Order of the Board of Directors,

D. Scott Parish
Corporate Secretary

Arlington, Virginia

April 30, 2009

PROXY STATEMENT

FRIEDMAN, BILLINGS, RAMSEY GROUP, INC.

1001 Nineteenth Street North

Arlington, Virginia 22209

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JUNE 1, 2009

GENERAL INFORMATION ABOUT THE ANNUAL MEETING

The Solicitation of Proxies

The Board of Directors of Friedman, Billings, Ramsey Group, Inc. (we, us, our or the Company) is soliciting proxies in connection with the 2009 annual meeting of shareholders to be held on June 1, 2009. The mailing address of our principal executive office is 1001 Nineteenth Street North, Arlington, Virginia 22209. Our definitive proxy materials, including this proxy statement and the accompanying proxy card, together with the Notice of Annual Meeting of Shareholders and a copy of our Annual Report on Form 10-K for the year ended December 31, 2008, are first being mailed to shareholders on or as reasonably practicable after May 1, 2009.

The solicitation of proxies is being made primarily by the use of standard mail. The cost of preparing and mailing this proxy statement and accompanying proxy materials, and the cost of any supplementary solicitations, which may be made by standard mail, e-mail, telephone or personally by our directors, officers or employees, will be borne by us. None of our directors, officers or employees will receive any additional or special compensation for soliciting your proxy. In addition, we have retained The Altman Group, Inc. to assist us in the solicitation of proxies. We will pay The Altman Group, Inc. a proxy solicitation fee in the amount of \$7,500 for its services in connection with the solicitation of proxies. We will also reimburse The Altman Group, Inc. for its reasonable out-of-pocket costs and expenses incurred in connection with the solicitation of proxies. We will, on request, reimburse brokers, banks and other nominees for their reasonable expenses in sending our proxy materials and voting instruction forms to street name holders to obtain their voting instructions.

Who Can Vote

You are entitled to vote at the annual meeting if our records show that you held shares of our Class A or Class B common stock as of the close of business on the record date, April 20, 2009. At the close of business on the record date, 147,585,068 shares of our Class A common stock and 11,372,293 shares of our Class B common stock were outstanding. Holders of our Class A and Class B common stock will vote together as a single group on all matters presented at the annual meeting. Each share of our Class A common stock is entitled to one vote per share. Each share of our Class B common stock is entitled to three votes per share.

How to Vote

You may authorize your proxy over the Internet or by telephone as described on the proxy card accompanying this proxy statement. Alternatively, you may authorize your proxy and instruct the proxies named in the proxy card how to vote by signing and returning the proxy card in the envelope provided. Once you authorize your proxy, you may revoke your proxy by executing and delivering to us a later dated proxy card, by subsequently authorizing your proxy over the Internet or by telephone, by sending a written revocation of your proxy to our Corporate Secretary at our principal executive office or by attending the annual meeting and voting in person.

If you hold your shares in street name (i.e., through a bank, broker or other nominee), you will receive instructions from your nominee that you must follow in order to provide voting instructions to your nominee, or

you may contact your nominee directly to request these instructions. If you hold your shares in street name, you must follow the instructions you receive from your nominee in order to revoke your voting instructions.

Matters to be Presented

At the annual meeting, shareholders will consider and vote on:

the election of seven directors for a term of one year each;

a proposal to approve an amendment to our Amended and Restated Articles of Incorporation (the Amended and Restated Articles) to change our corporate name from Friedman, Billings, Ramsey Group, Inc. to Arlington Asset Investment Corp., the form of which is attached as *Appendix A* to this proxy statement (the Name Change Amendment);

a proposal to approve an amendment to our Amended and Restated Articles to effect a reverse stock split of the issued and outstanding shares of our Class A and Class B common stock at one of three reverse split ratios, 1-for-20, 1-for-25 or 1-for-30, as will be selected by the Board of Directors within 12 months of the date of the annual meeting if this amendment is approved by shareholders, the form of which is attached as *Appendix B* to this proxy statement (the Reverse Stock Split Amendment); and

a proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2009. We are not now aware of any other matters to be presented at the annual meeting. If any other matters are properly presented at the annual meeting, the proxies will vote your shares, if authorized, in accordance with the recommendation of our Board of Directors or use their own judgment to determine how to vote your shares.

Attending the Annual Meeting in Person

If you would like to attend the annual meeting in person, you will need to bring an account statement or other evidence acceptable to us of ownership of your shares as of the close of business on the record date. If you hold your shares in street name and wish to vote in person at the annual meeting, you will need to contact your nominee and obtain a proxy from your nominee and bring it to the annual meeting.

Quorum Requirement

A majority of the outstanding shares of our Class A and Class B common stock as of the close of business on the record date, represented in person or by proxy, constitutes a quorum. A quorum is required to conduct the annual meeting. If you have (1) authorized your proxy over the Internet or by telephone or by signing and returning the proxy card and you have not revoked your proxy or (2) you attend the annual meeting and vote in person, your shares will be counted for the purpose of determining whether there is a quorum. Abstentions and shares held by brokers, banks or nominees that are voted on any matter will be included in determining whether a quorum is present.

Vote Required for Each Matter to be Presented at the Annual Meeting

At the annual meeting, directors will be elected by a plurality of the votes cast by the shares entitled to vote in the election of directors, if a quorum is present. Votes withheld will not have an impact on the outcome of the vote on the election of directors.

If a quorum is present at the annual meeting, the proposals with respect to the Name Change Amendment and the Reverse Stock Split Amendment will be approved if each of those proposals receives the affirmative vote of at least a majority of the votes entitled to be cast at the annual meeting. Abstentions and shares held in street name that are not voted on these proposals will have the effect of a vote against these proposals.

If a quorum is present at the annual meeting, the proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2009 will be approved if the votes cast in favor of

the proposal exceed the votes cast opposing the proposal. Abstention and shares held in street name that are not voted on this proposal will not have an impact on the outcome of the vote on this proposal.

Discretionary Authority to Vote Shares Held in Street Name

If you hold your shares in street name through a brokerage account, your broker may or may not vote your shares in its discretion in the absence of your voting instructions depending on the proposal before the meeting. Under the rules of the New York Stock Exchange (the NYSE), your broker may vote your shares in its discretion on routine matters. We believe that the election of directors, the proposal to approve the Name Change Amendment, the proposal to approve the Reverse Stock Split Amendment and the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm are routine matters on which brokers may vote if no voting instructions are furnished.

Board Recommendation

The Board of Directors recommends that you vote FOR the election of each nominee for director, FOR approval of the Name Change Amendment, FOR approval of the Reverse Stock Split Amendment and FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2009.

Shareholders should specify their choice for each matter on the enclosed proxy. If no specific instructions are given, it is intended that all proxies that are signed and returned will be voted FOR the election of all nominees for director, FOR approval of the Name Change Amendment, FOR approval of the Reverse Stock Split Amendment and FOR the ratification of the appointment of PricewaterhouseCoopers LLP.

Annual Report on Form 10-K for the Year Ended December 31, 2008

A copy of our Annual Report on Form 10-K for the year ended December 31, 2008, including our consolidated financial statement and the notes thereto, is enclosed with this proxy statement. Our Annual Report on Form 10-K for the year ended December 31, 2008 is also available online on our website at www.arlingtonasset.com under Investor Relations. For additional printed copies of our Annual Report on Form 10-K for the year ended December 31, 2008, please contact our Investor Relations department in writing c/o Arlington Asset Investment Corp., 1001 Nineteenth Street North, Arlington, Virginia 22209, Attention: Investor Relations. Shareholders may also contact our Investor Relations department by telephone at (703) 469-1080 or by e-mail at ir@arlingtonasset.com.

Electronic Delivery of Proxy Materials

You may access this proxy statement and our Annual Report on Form 10-K for the year ended December 31, 2008 on our Internet website at www.arlingtonasset.com under Investor Relations. If you would like to reduce our costs of printing and mailing proxy materials for next year's annual meeting of shareholders, you can opt to receive all future proxy statements, proxy cards and Annual Reports on Form 10-K electronically via e-mail or the Internet rather than in printed form. If you hold shares of our common stock in your own name as a holder of record, you may sign up for electronic delivery of future proxy materials by contacting American Stock Transfer & Trust Company and following their procedure. Electronic delivery will continue in future years until you revoke your election by sending a written request to the Corporate Secretary at the following address: Arlington Asset Investment Corp., 1001 Nineteenth Street North, Arlington, Virginia 22209, Attention: Corporate Secretary. If you are a street name shareholder who wishes to register for electronic delivery of future proxy materials, you should review the information provided in the proxy materials mailed to you by your broker, bank or other nominee. If you have agreed to electronic delivery of proxy materials and Annual Reports on Form 10-K to shareholders, but wish to receive printed copies, please contact the Corporate Secretary at the address provided above or your nominee in accordance with its procedures.

Shareholder Proposals and Nominations for the 2010 Annual Meeting

Shareholders may submit proposals for inclusion in our proxy statement for our 2010 annual meeting, nominate individuals for election at our 2010 annual meeting of shareholders and propose other business for consideration by our shareholders at our 2010 annual meeting of shareholders. The following describes certain procedures and deadlines applicable to these shareholder proposals:

Shareholder Proposals for Inclusion in 2010 Proxy Statement. Under SEC rules, proposals that shareholders seek to have included in the proxy statement for our 2010 annual meeting of shareholders must be received by the Corporate Secretary no later than December 31, 2009.

Other Shareholder Proposals and Nominations. Our Bylaws, which are available on our website as discussed below, govern the submission of nominations for director or other business proposals that a shareholder wishes to have considered at a meeting of shareholders, but which are not included in our proxy statement for that meeting. Under our Bylaws, nominations for director or other business proposals to be addressed at our next annual meeting may be made by a shareholder entitled to vote who has delivered a notice to the Corporate Secretary no later than the close of business on March 3, 2010, and no earlier than February 1, 2010. The notice must contain the information required by our Bylaws.

These advance notice provisions are in addition to, and separate from, the requirements that a shareholder must meet in order to have a proposal included in the proxy statement under the rules of the SEC. A proxy granted in connection with the 2010 annual meeting by a shareholder will give discretionary authority to the proxies to vote on any matters introduced pursuant to the above advance notice provisions of our Bylaws, subject to applicable rules of the SEC. Copies of our Bylaws are available on our Internet website at www.arlingtonasset.com under Corporate Governance, or may be obtained from the Corporate Secretary at the address shown above under Electronic Delivery of Proxy Materials.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Seven directors will be elected at the annual meeting. Russell C. Lindner, a director since 1999, has decided not to stand for re-election at the annual meeting. After the annual meeting, the Board of Directors may, upon the recommendation of the Nominating and Governance Committee, appoint Mr. Lindner's replacement or the Board, upon the recommendation of the Nominating and Governance Committee, may decide to reduce the size of our Board to seven directors. If elected, these directors will serve for a one-year term expiring at the 2010 annual meeting of shareholders. The Nominating and Governance Committee has recommended for nomination, and the Board of Directors has nominated, each of the nominees listed below under the heading "Nominees for Election as Directors." All of the nominees currently are serving as members of our Board of Directors. Each nominee has agreed to be named in this proxy statement and to serve if elected.

Although we know of no reason why any of the nominees for director listed below would not be able to serve, if unforeseen circumstances (*e.g.*, death or disability) make it necessary for the Board of Directors to propose a substitute nominee for any of the nominees named below and you have authorized the proxies to vote your shares for the election of the nominees named below, the proxies will vote your shares for that substitute nominee. Proxies cannot be voted at the annual meeting for more than these seven nominees, except as described above.

Unless you direct otherwise in the proxy card, the persons named as proxies in the proxy card will vote your proxy for the election of each of the nominees listed below. At the annual meeting, directors will be elected by a plurality of the votes cast by the shares entitled to vote in the election of directors, if a quorum is present. Votes withheld and broker-non votes will not have an impact on the outcome of the vote on the election of directors. Cumulative voting is not permitted in the election of directors.

Nominees for Election as Directors

ERIC F. BILLINGS, age 56, is our Chairman and Chief Executive Officer. Since co-founding our company as FBR Group in 1989, he has continuously served as a director. He served as Vice Chairman and Chief Operating Officer from 1989 to 1999, Vice Chairman and Co-Chief Executive Officer from 1999 to April 2003 and Co-Chairman and Co-Chief Executive Officer from April 2003 to April 2005. He was appointed Chairman and Chief Executive Officer on April 28, 2005. Mr. Billings also serves as Chairman of FBR Capital Markets Corporation, our publicly-traded, majority-owned subsidiary ("FBR Capital Markets"). Mr. Billings sits on the board of the Boys & Girls Clubs of Greater Washington and the Board of Visitors for the Robert H. Smith School of Business. Mr. Billings is the brother of Mr. Jonathan Billings, who is the Executive Vice President and Head of Institutional Brokerage for FBR Capital Markets & Co. (f/k/a Friedman, Billings, Ramsey & Co., Inc.), a subsidiary of FBR Capital Markets.

DANIEL J. ALTOBELLO, age 68, has served as a director of our company since June 2000. Since October 2000, Mr. Altobello, chairman of Altobello Family LP, has been a private investor and active board member of several companies. From September 1995 until October 2000, Mr. Altobello was the Chairman of Onex Food Services, Inc., the parent of Caterair International, Inc. and LSG/SKY Chefs. He is a member of the board of directors of DiamondRock Hospitality Company, JER Investors Trust, Inc. and MESA Air Group. Mr. Altobello serves on the advisory board of Thayer Capital Partners. Mr. Altobello is also a trustee of Loyola Foundation, Inc.

PETER A. GALLAGHER, age 68, served as a director of FBR Asset Investment Corporation, a predecessor of our company, since August 2000 and, upon the merger that formed our company in March 2003, he became a director of our company. Mr. Gallagher retired in May 2004 as the President and Chief Executive Officer of America's Promise - the Alliance for Youth, a non-profit organization dedicated to building the character and competence of America's youth, in which capacity he had served since July 1997. From 1994 through 1996,

Mr. Gallagher served as Chief Executive Officer of Source One Financial Services, Inc., and from 1989 through 1993 he served as Senior Vice President of AT&T Consumer Affairs. Mr. Gallagher has also served as a member of the Board of Trustees of Pew Charitable Trust Partnership for Civic Change; VHA Health Foundation, Inc., and the National Assembly of Health and Human Service Organizations, and from 1996 through 1999 he served as Vice Chairman of the District of Columbia Emergency Board of Education.

RALPH S. MICHAEL, III, age 54, has served as a director of our company since 2006. He served as President and Chief Operating Officer of The Ohio Casualty Insurance Company until November 2007. From 2003 to 2005 he was executive vice president and manager of private asset management and held other positions with U.S. Bank. From 1979 to 2002 he held various executive and management positions with PNC Financial Services Group. Mr. Michael is a director of AK Steel Corporation, Key Energy Services, Inc. and Cincinnati Bengals, Inc. He is also a trustee of Xavier University (Ohio).

WALLACE L. TIMMENY, age 71, has served as a director of our company since December 1997. From 1979 to the present, Mr. Timmeny was a securities attorney in private practice, most recently as a partner in the Washington, D.C. office of Dechert LLP, from 1996 until his retirement from Dechert LLP in April 2007. From 1965 to 1979, Mr. Timmeny was an attorney with the U.S. Securities and Exchange Commission (SEC) and ultimately the Deputy Director of the Division of Enforcement of the SEC. Mr. Timmeny has served as an adjunct professor at American University School of Law, George Mason University School of Law and Georgetown University School of Law. Mr. Timmeny is a past chairman of the Executive Council of the Securities Law Committee of the Federal Bar Association. Mr. Timmeny is a director of Waste Services, Inc. and Whitney Information Systems, Inc.

J. ROCK TONKEL, JR., age 46, has served as a director of our company since March 2007. He serves as our President and Chief Operating Officer, a position he assumed in February 2007. From April 2004 to February 2007, Mr. Tonkel served as President and Head of Investment Banking at Friedman, Billings, Ramsey & Co., Inc. (currently FBR Capital Markets & Co.) with responsibility over the investment banking unit operated by our affiliates. Prior to that, Mr. Tonkel served as Executive Vice President and Head of Investment Banking, a position he assumed in February 2002. Mr. Tonkel joined Friedman, Billings, Ramsey & Co., Inc. in 1994 as Managing Director of our financial institutions investment banking group.

JOHN T. WALL, age 67, has served as a director of our company since October 2002. Mr. Wall is currently the Chairman and CEO of Capital Markets Advisors, Inc., a firm that provides financial markets advisory services, a position that Mr. Wall has held since the firm's formation in December 2002. Mr. Wall is also Co-Chairman of World Trade Center Dulles Airport Capital Advisors, Inc., a position that Mr. Wall has held since its inception in January 2008. From 1965 to October 2002, Mr. Wall served in various management roles at the NASD, Inc. and the Nasdaq Stock Market, most recently serving as President of Nasdaq International, Ltd. Mr. Wall currently serves as a director of FBR Capital Markets. In addition, Mr. Wall serves on the board of the Macklin Business Institute of Montgomery College and is Honorary Chairman of YANS International, a Chinese conglomerate. Mr. Wall has also served on numerous industry committees and boards, including the National Securities Clearing Corporation, The Options Clearing Corporation and EASDAQ. Mr. Wall recently retired from the board of the Caisse de Depot et Placement du Quebec.

THE BOARD OF DIRECTORS RECOMMENDS

A VOTE FOR EACH OF THE BOARD OF DIRECTOR S NOMINEES

FOR ELECTION TO THE BOARD OF DIRECTORS.

PROPOSAL NO. 2

NAME CHANGE AMENDMENT

The Board of Directors has approved, and recommends that our shareholders approve, an amendment to our Amended and Restated Articles to change our corporate name from Friedman, Billings, Ramsey Group, Inc. to Arlington Asset Investment Corp. We refer to this proposed amendment in this proxy statement as the Name Change Amendment.

The form of the proposed Name Change Amendment is attached as *Appendix A* to this proxy statement. Upon shareholder approval of the Name Change Amendment, we will file Articles of Amendment with the Virginia State Corporation Commission to effect the corporate name change.

Reasons for the Name Change Amendment

In February 2009, we began doing business under the name Arlington Asset Investment Corp. The Board of Directors believes that it is in the best interests of shareholders to approve the proposed Name Change Amendment to change our corporate name because it is expected to allow us to further distinguish our business from the investment banking, institutional brokerage, asset management and merchant banking businesses being conducted by FBR Capital Markets and its subsidiaries. Our investment in FBR Capital Markets common stock represents a significant asset of our company, and the Board of Directors believes that the inherent value of this asset will be increased by allowing FBR Capital Markets and its subsidiaries to use exclusively the Friedman, Billings, Ramsey and FBR brand to promote the businesses being operated by FBR Capital Markets and its subsidiaries.

Corresponding Ticker Symbol Change

If this proposal is approved by shareholders, we will change the ticker symbol under which our Class A common stock is listed and traded on the NYSE from FBR to AI. We have notified the NYSE of the proposed change and have received approval from the NYSE to change our ticker symbol to AI. We expect the ticker symbol change to become effective on or about the same time as effectiveness of the Name Change Amendment. Prior to effectiveness of the ticker symbol change, we will issue a press release to provide our shareholders and the public with additional details regarding the ticker symbol change. We reserve the right to change our ticker symbol to AI or any other symbol selected by us even if shareholders do not approve the Name Change Amendment.

Vote Required and Board Recommendation

Assuming a quorum is present at the meeting, the proposal to approve the proposed Name Change Amendment will be approved if it receives the affirmative vote of at least a majority of the votes entitled to be cast. Holders of our Class A and Class B common stock will vote together as a single group on this proposal. Abstentions and shares held in street name that are not voted on this proposal will have the same effect as a vote against this proposal. We have been informed by representatives of the NYSE that brokers, banks and other nominees that hold shares in street name have discretionary authority to vote on this proposal in accordance with the rules of the NYSE.

THE BOARD OF DIRECTORS RECOMMENDS

THAT SHAREHOLDERS VOTE FOR THE APPROVAL

OF THE NAME CHANGE AMENDMENT.

PROPOSAL NO. 3

REVERSE STOCK SPLIT AMENDMENT

The Board of Directors has adopted, and recommends that our shareholders approve, an amendment to our Amended and Restated Articles, the form of which is attached as *Appendix B* to this proxy statement (the "Reverse Stock Split Amendment"), to effect a reverse stock split at one of three reverse split ratios, 1-for-20, 1-for-25 or 1-for-30, as will be selected by the Board of Directors. If the Reverse Stock Split Amendment is approved, the Board of Directors may, in its sole discretion, implement the reverse stock split at any time on or before June 1, 2010 without further shareholder action. In addition, the Board of Directors reserves the right, in its sole discretion, notwithstanding shareholder approval and without further action by the shareholders, to elect not to proceed with the reverse stock split if, at any time, the Board of Directors, in its sole discretion, determines that it is no longer in our company's best interests and the best interests of our shareholders to proceed with the reverse stock split. If the Board of Directors does not implement the reverse stock split by June 1, 2010, the authorization to implement the reverse stock split will terminate.

The primary intent of the reverse stock split, if implemented, will be to increase the price of our Class A common stock in order to meet the NYSE's price criteria for continued listing on that exchange or the initial listing requirements of another national securities exchange. The reverse stock split, if implemented, will become effective upon the filing and effectiveness of the Reverse Stock Split Amendment with the Virginia State Corporation Commission. Assuming the shareholders approve the Reverse Stock Split Amendment, the exact timing of the filing of the amendment will be determined by the Board of Directors, in its sole discretion, based on its evaluation as to when such action will be the most advantageous to our company and our shareholders.

The Board of Directors, in its discretion, may elect to effect any one (but not more than one) of the three reverse split ratios upon receipt of shareholder approval, or none of them if the Board of Directors determines in its discretion not to proceed with the reverse stock split. We believe that the availability of the three alternative reverse split ratios will provide us with the flexibility to implement the reverse stock split at the time and in a manner designed to maximize the anticipated benefits for us and our shareholders. In determining which of the three alternative reverse stock split ratios to implement, if any, following the receipt of shareholder approval, the Board of Directors may consider, among other things, factors such as:

the historical trading price and trading volume of our Class A common stock;

the then prevailing trading price and trading volume of our Class A common stock and the anticipated impact of the reverse stock split on the trading market for our Class A common stock;

our ability to continue our listing on the NYSE;

which of the alternative reverse split ratios would result in the greatest overall reduction in our administrative costs; and

prevailing general market and economic conditions.

To avoid the existence of fractional shares of our common stock, we will make arrangements for our transfer agent to aggregate all fractional shares and sell those shares in the open market. The proceeds will be allocated to the shareholders' respective accounts pro rata in lieu of fractional shares. The ownership of a fractional interest will not give the holder any voting, dividend or other rights, except to receive the above-described cash payment. If the reverse stock split is implemented, the Company will not be responsible for any brokerage fees or commissions related to the transfer agent's sale of these shares in the open market.

As of April 20, 2009, we had 147,585,068 shares of Class A common stock outstanding and 11,372,293 shares of Class B common stock outstanding. Based on the number of shares of Class A and Class B common stock

outstanding as of that date, immediately following the completion of the reverse stock split, and, for illustrative purposes only, assuming a 1-for-25 reverse split ratio, we will have approximately 5,903,402 and 454,891 shares of Class A and Class B common stock outstanding, respectively. The actual number of shares outstanding after giving effect to the reverse stock split, if implemented, will depend on the reverse split ratio that is selected by the Board of Directors. We do not expect the reverse stock split to have any economic effect on our shareholders or holders of options or restricted stock, except to the extent the reverse stock split will result in fractional shares as discussed below.

Reasons for the Reverse Stock Split

The Board of Directors adopted the Reverse Stock Split Amendment, subject to its right to abandon the reverse stock split as described above, with the primary intent of increasing the price of our Class A common stock in order to meet the NYSE's price criteria for continued listing on that exchange or the initial listing requirements of another national securities exchange. As of the date of this proxy statement, our Class A common stock is publicly traded and listed on the NYSE under the symbol FBR. As discussed above, we are proposing to change our ticker symbol from FBR to AI in connection with Proposal No. 2. The Board of Directors believes that, in addition to increasing the trading price of our Class A common stock, the reverse stock split, if implemented, will also reduce certain of our costs, such as NYSE listing fees, and will make our Class A common stock more attractive to a broader range of institutional and other investors. Accordingly, for these and other reasons discussed below, the Board of Directors believes that approval of the Reverse Stock Split Amendment is in the best interests of our company and our shareholders.

As previously disclosed, on November 4, 2008, we were notified in writing by the NYSE that the trading price of our Class A common stock was below the criteria of the NYSE's continued listing standards, as the average per share closing price of our Class A common stock over a consecutive 30-trading day period was less than \$1.00. The NYSE's letter stated that we have a six-month cure period to bring the price of our Class A common stock and the 30-trading day average closing price of our Class A common stock above \$1.00. The letter further stated that in the event a \$1.00 share price and a \$1.00 average share price over the preceding 30 trading days are not attained at the expiration of the six-month cure period, the NYSE will commence suspension and delisting procedures; however, on February 26, 2009, the NYSE announced that it is suspending application of the share price rule until June 30, 2009, which extends our cure period to regain compliance until September 5, 2009.

In addition to bringing the trading price of our Class A common stock back above \$1.00, we also believe that the reverse stock split, if implemented, will make our Class A common stock more attractive to a broader range of institutional and other investors, as we have been advised that the current market price of our Class A common stock may affect its acceptability to certain institutional investors, professional investors and other members of the investing public. Many brokerage firms and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. In addition, some of those policies and practices may function to make the processing of trades in low-priced stocks economically unattractive to brokers. Moreover, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of common stock can result in individual shareholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. Some investors may view the reverse stock split negatively since it would reduce the number of shares of our Class A common stock available in the public market if the Board of Directors elects, in its sole discretion, to implement the reverse stock split on or before June 1, 2010.

Reducing the number of outstanding shares of our Class A common stock through the reverse stock split is intended, absent other factors, to increase the per share trading price of our Class A common stock. Other factors,

such as our financial results, market conditions and the market perception of our business may adversely affect

the market price of our Class A common stock. As a result, there can be no assurance that the reverse stock split, if implemented, will result in the intended benefits described above, that the trading price of our Class A common stock will increase following the reverse stock split or that the trading price of our Class A common stock will not decrease in the future.

Our Amended and Restated Articles provide that, in the case of a reverse stock split of our Class A common stock, the shares of our Class B common stock will also be split so that the number of shares of our Class A and Class B common stock outstanding immediately following such reverse stock split will bear the same relationship to each other as that which existed immediately prior to the reverse stock split. Accordingly, the Reverse Stock Split Amendment adopted by the Board of Directors splits our Class B common stock on the same basis and at the same reverse split ratio as our Class A common stock if the reverse stock split is implemented. Following the reverse stock split, if implemented, the rights of the holders of our Class A and Class B common stock will continue to be in all respects identical, except for the fact that each share of our Class A common stock will continue to entitle the holder to one vote and each share of our Class B common stock will continue to entitle the holder to three votes.

General Effects of the Reverse Stock Split

If our shareholders approve this proposal and the Board of Directors implements the reverse stock split, the principal effect will be to proportionately decrease the number of outstanding shares of Class A and Class B common stock based on the reverse split ratio selected by the Board of Directors. Our Class A common stock is currently registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and we are subject to the periodic reporting and other requirements of the Exchange Act. The reverse stock split will not affect the registration of our Class A common stock under the Exchange Act or the listing of our Class A common stock on the NYSE. Following the reverse stock split, if implemented, our Class A common stock will continue to be listed on the NYSE under the symbol FBR or AI (if the ticker symbol is changed prior to or concurrently with the reverse stock split) although it will be considered a new listing with a new CUSIP number; however, it is possible that we may elect, in our sole discretion, to transfer our listing to another national securities exchange in the future.

Proportionate voting rights and other rights of the holders of our Class A and Class B common stock, including distribution rights and right upon liquidation, will not be affected by the reverse stock split, if implemented, other than as a result of the treatment of fractional shares as described below. For example, a holder of 2.0% of the voting power of the outstanding shares of our Class A and Class B common stock immediately prior to the Effective Date will generally continue to hold 2.0% of the voting power of the outstanding shares of our Class A and Class B common stock immediately after the reverse stock split. The number of shareholders of record will not be affected by the reverse stock split, except to the extent any are cashed out as a result of holding fractional shares. The reverse stock split may result in some shareholders owning odd lots of less than 100 shares of our Class A common stock. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in round lots of even multiples of 100 shares.

Effect On Our Stock Plan

As of April 20, 2009, there were approximately 476,274 shares of Class A common stock subject to stock options, 5,650,890 shares of unvested restricted stock and 510,426 shares of Class A common stock underlying restricted stock units under our 2004 Long-Term Incentive Plan (the 2004 LTIP). Under the 2004 LTIP, the Compensation Committee of the Board of Directors has sole discretion to determine the appropriate adjustment to these awards in the event of a reverse stock split; however, under the 2004 LTIP, the number of shares subject to the adjusted awards must be a whole number. Should the reverse stock split be effected, the Compensation Committee of the Board of Directors will approve proportionate adjustments to the number of shares of Class A common stock available for issuance under our Stock Plans, the individual grant limitations imposed under the

2004 LTIP and to the terms of the outstanding awards including the number of shares and the exercise price relating to any award under our 2004 LTIP.

Accordingly, if the reverse stock split is implemented, we expect the number of all outstanding equity awards will be proportionately adjusted by the Compensation Committee, pursuant to its existing authority under the 2004 LTIP, using the same reverse split ratio selected by the Board of Directors. The Compensation Committee will implement technical, conforming changes to the 2004 LTIP and the terms of outstanding awards if the reverse stock split is implemented. For illustrative purposes only, and assuming that a 1-for-25 reverse stock split is implemented by the Board of Directors, the 1,198,995 shares of Class A common stock that remain available for issuance under our 2004 Long-Term Incentive Plan as of April 20, 2009, will be adjusted to 47,959 shares. The individual grant limitations under the 2004 LTIP will be adjusted similarly. In addition, the exercise price per share for each stock option would be increased by 25 times, such that upon an exercise, the aggregate exercise price payable by the option holder to us would remain the same. For illustrative purposes only, an outstanding stock option to purchase 3,000 shares of Class A common stock, exercisable at \$1.00 per share, will be adjusted as a result of a 1-for-25 reverse split ratio into a stock option to purchase 120 shares of Class A common stock at an exercise price of \$25.00 per share.

If an adjusted stock option or restricted stock unit would cover a fractional share, the fraction will be disregarded without a payment or other compensation to the participant. If an adjusted unvested restricted stock award would cover a fractional share, the participant will receive a cash payment (without interest or deduction) in lieu of the fractional share.

Effect on Authorized Shares

Currently, we are authorized to issue up to a total of 575,000,000 shares of capital stock, consisting of 450,000,000 shares of Class A common stock, of which 147,585,068 shares were issued and outstanding as of April 20, 2009, 100,000,000 shares of Class B common stock, of which 11,372,293 shares were issued and outstanding as of April 20, 2009, and 25,000,000 shares of preferred stock, of which no shares were issued and outstanding as of April 20, 2009. The reverse stock split, if implemented, will not affect the number of our authorized shares of capital stock and will increase the number of authorized but unissued shares of our Class A and Class B common stock. These shares may be issued by us in the future. Any future issuances could have the effect of diluting the percentage of stock ownership and voting rights of the present holders of our Class A and Class B common stock.

Effect on Par Value

The reverse stock split, if implemented, will not affect the par value of our capital stock, which will remain at \$0.01. As a result of the reverse stock split, if implemented, the stated capital on our balance sheet attributable to our Class A and Class B common stock, respectively, will be reduced in proportion to the size of the reverse stock split, and the additional paid-in capital account will be credited with the amount by which the stated capital is reduced. Our shareholders' equity, in the aggregate, will remain unchanged.

Fractional Shares

We do not currently intend to issue fractional shares if the reverse stock split is implemented. Shareholders who otherwise would hold fractional shares because the number of shares of Class A or Class B common stock they held before the reverse stock split would not be evenly divisible based upon the reverse split ratio selected by the Board of Directors will be entitled to cash payments (without interest or deduction) in respect of such fractional shares. To avoid the existence of fractional shares of our common stock, we will make arrangements for our transfer agent to aggregate all fractional shares and sell those shares in the open market. The proceeds will be allocated to the shareholders' respective accounts pro rata in lieu of fractional shares. The ownership of a fractional interest will not give the holder any voting, dividend or other rights, except to receive the above-described cash payment. If the reverse stock split is implemented, the Company will not be responsible for any brokerage fees or commissions related to the transfer agent's sale of these shares in the open market.

Our Amended and Restated Articles provide for the conversion, at our option, of shares of our Class B common stock into shares of our Class A common stock in certain circumstances, including upon a sale or other transfer. If the reverse stock split is implemented, we intend to cause any fractional shares of Class B common stock otherwise issuable by us as a result of the reverse stock split to be converted in accordance with our Amended and Restated Articles into an equivalent number of fractional shares of Class A common stock and sold in the open market by our transfer agent with all other fractional shares of Class A common stock.

Issuance of New Book-Entry Shares; Exchange of Certificates

If the shareholders approve the Reverse Stock Split Amendment and the Board of Directors determines to effect the reverse stock split, we will communicate to our shareholders and the public, prior to effectiveness of the reverse stock split, additional details regarding the reverse stock split, including the specific reverse split ratio selected by the Board of Directors, information regarding the issuance of new book-entry shares, information regarding the exchange of old stock certificates representing pre-split shares for new stock certificates representing post-split shares and information regarding the sale of fractional share interests by our transfer agent. **SHAREHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATES AND SHOULD NOT SUBMIT ANY CERTIFICATES UNTIL REQUESTED TO DO SO BY THE COMPANY OR THE COMPANY'S TRANSFER AGENT.**

No Going Private Transaction

Notwithstanding the decrease in the number of outstanding shares of Class A and Class B common stock following the reverse stock split, if implemented, this transaction is not intended to be the first step in a going private transaction within the meaning of Rule 13e-3 of the Exchange Act.

No Appraisal Rights

Under the Virginia Stock Corporation Act, shareholders are not entitled to dissenter's rights or appraisal rights with respect to the reverse stock split described in this proposal, if implemented, and we will not independently provide our shareholders with any such rights.

Material Federal Income Tax Consequences

The information contained in the following paragraph is for general informational purposes only. We have not sought, and will not seek, an opinion of counsel or a ruling from the Internal Revenue Service (IRS) regarding the United States federal income tax consequences of the reverse stock split and there can be no assurance the IRS will not challenge the statements and conclusions set forth below or that a court would not sustain any such challenge. **SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO ANY FEDERAL, STATE, LOCAL AND FOREIGN TAX EFFECTS OF THE REVERSE STOCK SPLIT IN LIGHT OF THEIR INDIVIDUAL CIRCUMSTANCES.**

The exchange of our Class A or Class B common stock in the reverse stock split, if implemented, should not have material federal income tax consequences to the shareholders. The exchange of our Class A or Class B common stock in the reverse stock split generally will not cause any gain or loss to be recognized by a shareholder, except for cash received for a fractional share. A shareholder who receives cash for a fractional share will recognize gain or loss equal to the difference between the amount of cash received and the shareholder's basis in the fractional share. The aggregate basis of the shares of our Class A and Class B common stock received in the reverse stock split, including any fractional share for which a shareholder receives cash, will be the same as the aggregate basis of our Class A and Class B common stock held by the shareholder prior to the reverse stock split. A shareholder's holding period for shares received in the reverse stock split will include the holding period for shares held prior to the reverse stock split if they are held as a capital asset at the Effective Date.

Vote Required and Board Recommendation

Assuming a quorum is present at the meeting, the proposal to approve the Reverse Stock Split Amendment will be approved if the proposal receives the affirmative vote of at least a majority of the votes entitled to be cast. Holders of our Class A and Class B common stock will vote together as a single voting group on this proposal. Abstentions and shares held in street name that are not voted on this proposal will have the same effect as a vote against this proposal.

THE BOARD OF DIRECTORS RECOMMENDS

A VOTE FOR THE PROPOSAL TO APPROVE THE

REVERSE STOCK SPLIT AMENDMENT.

PROPOSAL NO. 4**RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has appointed PricewaterhouseCoopers LLP (PwC) as our independent registered public accounting firm to audit our company s and our subsidiaries financial statements for the fiscal year ending December 31, 2009. A resolution will be presented at the annual meeting to ratify the appointment of PwC by the Audit Committee. If shareholders do not ratify the appointment of PwC at the annual meeting, the Audit Committee will consider that fact in its review and future selection of our independent registered public accounting firm. Representatives of PwC will be present at the annual meeting and will have the opportunity to make statements if they desire to do so. Representatives of PwC are expected to be available to respond to appropriate questions.

Unless you direct otherwise in the proxy card, the persons named as proxies will vote your proxy for the approval of the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2009. If a quorum is present at the annual meeting, the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2009 will be approved if the votes cast in favor of the ratification exceed the votes cast opposing the ratification. Abstention and shares held in street name that are not voted on this proposal will not have an impact on the outcome of the vote on this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR

THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP

AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2009.

Information Regarding Fees Paid to Our Independent Accountants in 2008 and 2007

Aggregate fees for professional services rendered for us and our subsidiaries, including FBR Capital Markets, by PwC for the years ended December 31, 2008 and 2007, were (dollars in thousands):

	Year Ended December 31,	
	2008	2007
Audit Fees ⁽¹⁾	\$ 1,998	\$ 3,304
Audit-Related Fees ⁽²⁾	\$	\$ 82
Tax Fees ⁽³⁾	\$	\$
All Other Fees ⁽⁴⁾	\$ 166	\$ 3
Total	\$ 2,164	\$ 3,389

(1) Audit fees represent the aggregate fees billed for each of the last two fiscal years for professional services rendered by PwC for the audit of our financial statements and the financial statements of our subsidiaries, including FBR Capital Markets, the review of unaudited financial statements included in Quarterly Reports on Form 10-Q filed by us and FBR Capital Markets with the SEC and services that are provided by PwC in connection with the statutory and regulatory filings that are made by us and our subsidiaries, including the delivery of comfort letters to broker-dealer subsidiaries of FBR Capital Markets.

(2) Audit-related fees represent the aggregate fees billed in each of the last two fiscal years for assurance and related services by PwC that are reasonably related to the performance of the audit or review of our financial statements and the financial statements of our subsidiaries, including FBR Capital Markets, and are not reported in Audit Fees in the table above. In 2007, audit related fees paid by us related to PwC s review of documentation for a consolidated loan portfolio held in a trust.

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- (3) Tax fees represent the aggregate fees billed in each of the last two fiscal years for professional services rendered by PwC for tax compliance, tax advice and tax planning. No such fees were paid to PwC in 2008 or 2007.

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- (4) All other fees represent the aggregate fees billed in each of the last two fiscal years for products and services provided by PwC, other than the services reported in Audit Fees, Audit-Related Fees and Tax Fees in the table above. In 2008, these amounts related to fees paid by FBR Capital Markets to PwC in connection with advisory services and a license for accounting research software. In 2007, these amounts related to fees paid by FBR Capital Markets to PwC in connection with a license for accounting research software.

Audit Committee Pre-Approval Policies and Procedures

It is the Audit Committee's policy to review and, if appropriate, pre-approve all audit and non-audit services provided by the independent registered public accounting firm to us and our subsidiaries, including FBR Capital Markets. The Audit Committee pre-approved all of the services provided by PwC to the Company and its subsidiaries, except for services provided by PwC to FBR Capital Markets and its subsidiaries, which were approved by the audit committee of FBR Capital Markets' board of directors during the fiscal year ended December 31, 2008.

INFORMATION ON OUR BOARD OF DIRECTORS, ITS COMMITTEES AND CORPORATE GOVERNANCE

Independence of our Board of Directors

The listing standards of the NYSE and our Corporate Governance Guidelines require that a majority of our directors must be independent directors. Our Corporate Governance Guidelines specify that an independent director is a director who meets the independence requirements of the NYSE, as then in effect, and of such additional guidelines as our Board may adopt. These categorical standards provide a baseline for determining the independence of members of the Board. The independence standards used by our Board are attached to our Corporate Governance Guidelines, which are available on our website at www.arlingtonasset.com.

In making affirmative independence determinations, the Board broadly considers all relevant facts and circumstances, including, among other factors, the extent to which we make charitable contributions to tax exempt organizations with which the director, or director's immediate family member, is affiliated. Using these criteria, the Board has affirmatively determined that the following directors have no material relationship with our company and are independent under the listing standards of the NYSE and our Corporate Governance Guidelines: Daniel J. Altobello, Peter A. Gallagher, Russell C. Lindner, Ralph S. Michael III, Wallace L. Timmeny and John T. Wall.

In making director independence determinations, the Board of Directors considered that Mr. Timmeny, a director since April 1997, retired in April 2007 as a partner of Dechert LLP, a law firm that has from time to time provided legal services to our subsidiaries and may continue to do so. During 2008, we paid Dechert LLP approximately \$897,000 for legal services rendered, which we believe amounted to less than one percent of Dechert LLP's total revenues for 2008. In light of these facts, our Board concluded that, notwithstanding our relationship with Dechert LLP, Mr. Timmeny satisfied the independence standards set forth in the NYSE listing standards and our Corporate Governance Guidelines.

The Board of Directors also considered the fact that Mr. Wall also serves as a director of FBR Capital Markets. The Board noted that various agreements and other arrangements exist between us and FBR Capital Markets which could give rise to conflicts of interest for Mr. Wall. Notwithstanding the existence of these agreements and arrangements and the potential for conflicts of interest, the Board concluded that Mr. Wall satisfied the independence standards set forth in the NYSE listing standards and our Corporate Governance Guidelines. The Board noted that, under our policy and practice, a majority of disinterested directors must approve transactions between us and FBR Capital Markets in which a conflict of interest may arise. FBR Capital Markets has a similar policy and practice. Mr. Wall would generally not be considered to be disinterested with respect to actions taken by the Board relating to agreements and transactions between us and FBR Capital Markets.

Board Meetings and Executive Sessions of our Non-Management Directors

The Board of Directors held a total of 19 meetings during 2008. Each of the incumbent directors attended at least 75% of the aggregate of the total number of meetings of the Board and of the Board Committees on which he served.

In accordance with our Corporate Governance Guidelines, our non-management directors are required to meet without the management directors being present at least quarterly. Mr. Altobello, the Lead Director, chairs the meetings of the non-management directors. Shareholders and other interested persons may contact the Lead Director in writing by mail directed to the Corporate Secretary, Arlington Asset Investment Corp., 1001 Nineteenth Street North, Arlington, Virginia 22209.

Board Committees

The Board has established four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Governance Committee and the Risk Policy and Compliance Committee. From time to time the Board of Directors may establish other standing or special committees to discharge specific duties delegated to such committees by the Board.

Current standing committee membership and the number of meetings of each committee during 2008 are described below. Messrs. Billings and Tonkel did not serve on any of our Board's standing committees in 2008.

Name	Audit	Compensation	Nominating and Governance	Risk Policy and Compliance
Daniel J. Altobello		ü		
Peter A. Gallagher	ü	ü	ü	
Russell C. Lindner			ü (Chairman)	ü
Ralph S. Michael III	ü (Chairman)			ü
Wallace L. Timmeny			ü	ü (Chairman)
John T. Wall	ü	ü (Chairman)		
Number of Meetings in 2008:	8	9	2	3

Audit Committee

The current members of the Audit Committee are Mr. Michael, who serves as Chairman, Mr. Gallagher and Mr. Wall. Stephen D. Harlan, a former member of the Board, served on the Audit Committee until June 5, 2008. The Audit Committee assists the Board of Directors in monitoring our financial reporting process, and is solely responsible for hiring and monitoring the independence and performance of our independent auditors. The Board has determined that each member of the Audit Committee is independent according to the independence standards set forth in the NYSE listing standards and our Corporate Governance Guidelines. The Board has determined that Mr. Michael is qualified as an audit committee financial expert, within the meaning of SEC regulations, and possess related financial management expertise within the meaning of the listing standards of the NYSE. The Board of Directors has adopted a written charter for the Audit Committee, a current copy of which is available to shareholders on our website at www.arlingtonasset.com. For additional information on our Audit Committee, please refer to Audit Committee Report in this proxy statement.

Compensation Committee

The current members of the Compensation Committee are Mr. Wall, who serves as Chairman, Mr. Altobello and Mr. Gallagher. Mr. Harlan served on the Compensation Committee until June 5, 2008. The Board has determined that each member of the Compensation Committee is independent according to our categorical standards. The Compensation Committee reviews our compensation plans and makes recommendations concerning those plans and concerning executive officer compensation. The Board of Directors has adopted a written charter for the Compensation Committee, a current copy of which is available to shareholders on our website at www.arlingtonasset.com. For additional information on the Compensation Committee's processes and procedures for the consideration and determination of executive and director compensation, please refer to Compensation Discussion and Analysis and Compensation Committee Report in this proxy statement.

Nominating and Governance Committee

The current members of the Nominating and Governance Committee are Mr. Lindner, who serves as Chairman, Mr. Gallagher and Mr. Timmeny. The Board has determined that each member of the Nominating and Governance Committee is independent according to our categorical standards. The Nominating and Governance Committee assists the Board of Directors in identifying individuals qualified to become Board members, plays a leadership role in shaping the governance of our company and oversees the evaluation of the Board. The Board

of Directors has adopted a written charter for the Nominating and Governance Committee, a current copy of which is available to shareholders on our website at www.arlingtonasset.com.

Risk Policy and Compliance Committee

The current members of the Risk Policy and Compliance Committee are Mr. Timmeny, who serves as Chairman, Mr. Lindner and Mr. Michael. The Board has determined that each member of the Risk Policy and Compliance Committee is independent according to our categorical standards. The Risk Policy and Compliance Committee assists the Board with respect to assessment of our risk management policies and procedures and assessment of our compliance with legal and regulatory requirements. The Board of Directors has adopted a written charter for the Risk Policy and Compliance Committee, a current copy of which is available to shareholders on our website at www.arlingtonasset.com.

Special Committee of the Board

As previously disclosed on October 23, 2008, we retained financial advisors to evaluate strategic alternatives for the purpose of maximizing the value of our assets and liabilities. Potential strategic alternatives included the sale of our company or our assets or distribution of our assets to shareholders. In connection with our evaluation of strategic alternatives, the Board appointed a special committee consisting of Messrs. Altobello, Gallagher, Lindner, Michael, Timmeny and Wall, our non-employee directors, to oversee the process regarding the evaluation of strategic alternatives and to make recommendations to the Board. This committee retained and was advised by Gibson, Dunn & Crutcher LLP. This committee met 25 times in 2008.

Availability of Corporate Governance Materials

Shareholders may view our corporate governance materials, including our Bylaws, Corporate Governance Guidelines, Statement of Business Principles and the charters of each of the committees of our Board of Directors, on our website at www.arlingtonasset.com. Our corporate governance materials may be obtained free of charge by submitting a written request to the Corporate Secretary c/o Arlington Asset Investment Corp., 1001 Nineteenth Street North, Arlington, Virginia 22209.

Code of Ethics

We have not adopted a code of ethics that applies only to our principal executive officer, principal financial officer and principal accounting officer, because our Board of Directors has adopted a Statement of Business Principles that is broadly written and covers these officers and their activities. Our Statement of Business Principles is available on our website at www.arlingtonasset.com.

Director Nominations

Our Nominating and Governance Committee's responsibilities, as noted above and as described in its charter, include seeking, screening and recommending director candidates for nomination to serve on our Board of Directors. Our Corporate Governance Guidelines also contain information concerning the responsibilities of the Nominating and Governance Committee with respect to identifying and evaluating director candidates.

Director Candidate Recommendations and Nominations by Shareholders

A shareholder may nominate a person for election to the Board of Directors in compliance with applicable Virginia law and our Bylaws. No persons were nominated by shareholders for election to the Board of Directors at the annual meeting in accordance with this policy. Our Bylaws require that any such nominations for our 2010 annual meeting of shareholders must be received by us no earlier than February 1, 2010, and no later than March 3, 2010. Any such notice must satisfy the other requirements with respect to such proposals and nominations contained in our Bylaws. If a shareholder fails to meet the requirements or deadlines described in

our policy, such nominations will be considered out of order and will not be acted upon at our 2010 annual meeting of shareholders. We may exercise discretionary voting authority under proxies we solicit to vote against any such proposal.

Process for Identifying and Evaluating Director Candidates

The Nominating and Governance Committee evaluates all director candidates in accordance with the director qualification standards described in our Corporate Governance Guidelines, a copy of which is available on our website at www.arlingtonasset.com. The Nominating and Governance Committee evaluates any candidate's qualifications to serve as a member of the Board based on the skills and characteristics of individual Board members, as well as the composition of the Board as a whole. In addition, the committee will evaluate a candidate's independence, diversity, business experience, skills, judgment, integrity and ability to commit sufficient time and attention to the activities of the Board, in the context of the Board's needs. The committee evaluates any properly submitted shareholder nominations no differently than other nominations.

Communications with the Board of Directors

Shareholders wishing to communicate with the Board of Directors should send any communication in writing to our Corporate Secretary c/o Arlington Asset Investment Corp., 1001 Nineteenth Street North, Arlington, Virginia 22209. Any such communication must state the number of shares of Class A common stock and Class B common stock beneficially owned by the shareholder making the communication. The Corporate Secretary will forward such communication to the full Board of Directors, a committee of the Board of Directors, the lead director or to any other individual director or directors, as appropriate. If a communication is unduly hostile, threatening, illegal or similarly inappropriate, the Corporate Secretary is authorized by the Board to discard the communication or take appropriate legal action regarding the communication.

Director Attendance at the Annual Meeting

The Board of Directors has not adopted a formal policy regarding director attendance at annual meetings but encourages director attendance at annual meetings. All of the members of our Board of Directors attended the 2008 annual meeting of shareholders, in person or telephonically.

Contributions to Charitable Entities

In 2008, we did not make any charitable contributions to any charitable organization in which any of our directors served as an executive officer.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee has consisted of the following non-employee directors, all of whom are independent according to our categorical standards, since June 5, 2008: Messrs. Wall (Chairman), Altobello and Gallagher. Mr. Altobello was appointed to the Compensation Committee after Stephen D. Harlan chose not to stand for re-election to the Board in 2008. Mr. Harlan served on the Compensation Committee until June 5, 2008. None of Messrs. Wall, Altobello, Gallagher and Harlan served, during the last fiscal year or in any prior year, as an officer or employee of us. None of our executive officers served on the compensation committee or board of directors of any company that employed any of the members of the Compensation Committee named above.

Director Compensation For 2008

The following table contains compensation information for each of our non-employee directors serving on the Board during the year ended December 31, 2008. Neither Eric F. Billings, our Chairman and Chief Executive Officer, nor J. Rock Tonkel, Jr., our President and Chief Operating Officer, received compensation for their services as members of the Board of Directors in 2008.

Name	Fees Earned			Total Compensation
	or Paid in Cash ⁽¹⁾	Stock Awards ⁽²⁾	Option Awards ⁽²⁾	
Daniel J. Altobello	\$ 178,000	\$ 93,005		\$ 271,005
Peter A. Gallagher	\$ 108,000	\$ 80,436		\$ 188,436
Stephen D. Harlan ⁽³⁾	\$ 47,500	\$ 34,847		\$ 82,347
Russell C. Lindner	\$ 97,000	\$ 85,463		\$ 182,463
Ralph S. Michael, III	\$ 112,500	\$ 87,977		\$ 200,477
Wallace L. Timmeny	\$ 99,000	\$ 85,463		\$ 184,463
John T. Wall	\$ 100,000	\$ 85,463		\$ 185,463

- (1) Includes an annual cash retainer paid to each of our non-employee directors for service on our Board of Directors, in-person and telephonic attendance fees for each meeting of our Board of Directors and its standing committees on which each of our non-employee directors served and in-person and telephonic attendance fees for each special committee meeting on which each of our non-employee directors served.
- (2) The amounts in the Stock Awards and Option Award columns reflect the respective dollar amounts of stock-based compensation expense recognized for 2008 financial statement reporting purposes in accordance with SFAS No. 123R. Certain directors also hold options to purchase Class A common stock, all of which are currently exercisable. As a result, we did not recognize any stock-based compensation expense in 2008 for outstanding option awards in accordance with SFAS No. 123R. As of December 31, 2008, our non-employee directors held restricted stock units (RSUs) and options as set forth in the table below:

Name	Aggregate Number of RSUs Outstanding at Fiscal Year End	Aggregate Grant Date Fair Value of RSUs Outstanding at Fiscal Year End	Aggregate Number of Options Outstanding at Fiscal Year End	Aggregate Grant Date Fair Value of Option Awards Outstanding at Fiscal Year End
Daniel J. Altobello	89,222	\$ 544,972		
Peter A. Gallagher	77,283	\$ 472,452		
Stephen D. Harlan ^(a)	36,318	\$ 404,945		
Russell C. Lindner	80,667	\$ 479,959		
Ralph S. Michael, III	67,004	\$ 254,994		
Wallace L. Timmeny	80,667	\$ 479,959	12,000	\$ 66,030
John T. Wall	79,265	\$ 459,966	10,000	\$ 61,500

- (a) Mr. Harlan ceased being a member of the Board on June 5, 2008. Pursuant to the terms of the RSUs granted to Mr. Harlan, a total of 36,318 vested RSUs granted to Mr. Harlan will be converted into an equivalent number of shares of our Class A common stock on June 5, 2009.

- (3) Mr. Harlan did not stand for re-election at the 2008 annual meeting of shareholders, and his term of office as a director expired on June 5, 2008.

Annual Grant of RSUs to Non-Employee Directors

On June 5, 2008, the day of our 2008 annual meeting of shareholders, each of our non-employee directors received an annual grant of 41,666 restricted stock units (RSUs) having an aggregate grant date fair value of approximately \$80,000 based on the closing sale price of our Class A common stock on the NYSE on June 5, 2008 which was \$1.92. The RSUs were granted pursuant to the terms of our 2004 Long-Term Incentive Plan. In addition to the annual grant of RSUs, we also granted additional RSUs granted to our non-employee directors in lieu of certain cash payments for services as our Lead Director or as a chairman of one of our Board's standing committees.

A non-employee director's interest in RSUs vests if he serves on our Board of Directors from the date of grant until the first anniversary of the award. Vesting is accelerated if the non-employee director's service on our Board of Directors ends on account of death or disability or if there is a change in control of our company. Vested RSUs ordinarily are converted to shares of Class A common stock one year after the participant ceases to be a member of our Board of Directors. If the non-employee director's service on our Board of Directors ends for a reason other than death, disability or involuntary termination, he or she receives a cash payment for any non-vested RSUs, based on the fair market value of shares of Class A common stock on the date that the non-employee director retired from our Board. A non-employee director does not have voting rights with respect to RSUs, but receives dividend equivalent payments on outstanding RSUs.

The following table sets forth certain information regarding RSUs granted on June 6, 2008 to our non-employee directors as discussed above. The grant date fair value is calculated in accordance with SFAS No. 123R and is based on the closing sale price of our Class A common stock on the NYSE on June 5, 2008 which was \$1.92.

Name	Aggregate Number of RSUs Awarded	Grant Date Fair Value of RSUs Awarded
Daniel J. Altobello	48,177	\$ 92,500
Peter A. Gallagher	41,666	\$ 79,999
Russell C. Lindner	44,270	\$ 84,998
Ralph S. Michael, III	45,572	\$ 87,498
Wallace L. Timmeny	44,270	\$ 84,998
John T. Wall	44,270	\$ 84,998

Other Information Regarding Compensation of Our Directors

We also reimburse our non-employee directors for their reasonable out-of-pocket expenses incurred in attending meetings of our Board of Directors and its committees and corporate events that directors may be asked to attend. In 2008, no separate compensation was paid to Mr. Billings or Mr. Tonkel for serving as members of our Board of Directors during 2008.

Mr. Wall also received compensation for serving as a member of the FBR Capital Markets board of directors in 2008. As compensation for serving on the FBR Capital Markets Board, Mr. Wall was paid a total of \$139,750, consisting of \$29,166 in fees earned or paid in cash and 17,646 options to purchase FBR Capital Markets stock, 16,234 of which have an exercise price of \$6.25 per share, vest in full on August 5, 2009, and have a ten-year exercise period and 1,412 of which have an exercise price of \$6.56 per share, vested in full on March 12, 2009 and have a ten-year exercise period.

Mr. Billings retired as the Chief Executive Officer of FBR Capital Markets effective January 1, 2009. As previously disclosed, Mr. Billings will continue to serve as the non-executive Chairman of the FBR Capital Markets board of directors. In connection with his retirement, Mr. Billings entered into a director service agreement (the "director agreement") with FBR Capital Markets, effective as of January 1, 2009. It is expected that Mr. Billings will continue to have active involvement in crucial business development and relationship management aspects of FBR Capital Markets' business, and will help to grow and strengthen its current and future client relationships. In consideration of these efforts and to incentivize these actions, FBR Capital Markets entered into the director agreement, which provides that for three years (i) FBR Capital Markets will nominate Mr. Billings for election to its board, (ii) Mr. Billings will receive an annual Chairman's fee of \$400,000, at the same time and in the same form as the fees paid to other board members generally, no later than March 15 of each year following the calendar year in which Mr. Billings earned this fee, and (iii) Mr. Billings will be eligible to receive an annual bonus. For 2009, Mr. Billings will receive a bonus, based on agreed-upon, activity-based performance metrics, of at least \$1.5 million. For 2010 and 2011, there will be no minimum bonus and the annual bonus will be based on FBR Capital Markets and Mr. Billings' actual performance. Decisions with respect to the

bonus to be paid to Mr. Billings under the director agreement will be made exclusively by the compensation committee of the FBR Capital Markets board of directors. For a discussion of the compensation paid or awarded to Mr. Billings by FBR Capital Markets in his capacity as Chairman of the FBR Capital Markets board of directors, you should refer to the information included in the definitive proxy statement to be filed by FBR Capital Markets with the SEC on or about April 30, 2009.

EXECUTIVE OFFICERS OF THE COMPANY

In 2008, our Named Executive Officers were Eric F. Billings, Chairman of the Board and Chief Executive Officer, Kurt R. Harrington, Executive Vice President, Chief Financial Officer and Chief Accounting Officer, J. Rock Tonkel, Jr., President and Chief Operating Officer, Richard J. Hendrix, President and Chief Executive Officer of FBR Capital Markets and an executive officer of our company until April 30, 2008, and William J. Givan, Executive Vice President and General Counsel of FBR Capital Markets and an executive officer of our company until September 16, 2008. Mr. Hendrix resigned all positions with our company effective April 30, 2008, and Mr. Givan resigned all positions with our company effective September 16, 2008. The following persons served as our executive officers during all of 2008 and continue to serve as our executive officers today. The Board of Directors expects to appoint each of the persons listed below as our executive officers for the fiscal year ending December 31, 2009:

ERIC F. BILLINGS, Mr. Billings, age 56, is our Chairman and Chief Executive Officer. Since co-founding our company in 1989, he has continuously served as a director. He served as Vice Chairman and Chief Operating Officer from 1989 to 1999, and as Vice Chairman and Co-Chief Executive Officer from 1999 to April 2003, and Co-Chairman and Co-Chief Executive Officer from April 2003 to April 2005. He was appointed Chairman and Chief Executive Officer on April 28, 2005. Mr. Billings also serves as Chairman of FBR Capital Markets. Mr. Billings sits on the board of the Boys & Girls Clubs of Greater Washington and the Board of Visitors for the Robert H. Smith School of Business. Mr. Billings is the brother of Mr. Jonathan Billings, who is the Executive Vice President and Head of Institutional Brokerage for FBR Capital Markets & Co. (f/k/a Friedman, Billings, Ramsey & Co., Inc.), a subsidiary of FBR Capital Markets.

J. ROCK TONKEL, JR., Mr. Tonkel, age 46, has served as a director of our company since March 2007. He serves as our President and Chief Operating Officer, a position he assumed in February 2007. From April 2004 to February 2007, Mr. Tonkel served as President and Head of Investment Banking at Friedman, Billings, Ramsey & Co., Inc. (currently FBR Capital Markets & Co.) with responsibility over the investment banking unit operated by our affiliates. Prior to that, Mr. Tonkel served as Executive Vice President and Head of Investment Banking, a position he assumed in February 2002. Mr. Tonkel joined Friedman, Billings, Ramsey & Co., Inc. in 1994 as Managing Director of our financial institutions investment banking group.

KURT R. HARRINGTON, Mr. Harrington, age 56, is our Executive Vice President, Chief Financial Officer and Treasurer, a position he has held since January 2000. Mr. Harrington was appointed to serve as the Chief Accounting Officer in September 2008. Mr. Harrington was also the Executive Vice President, Chief Financial Officer and Treasurer of FBR Capital Markets between January 2000 and February 2008 and served as Chief Financial Officer and Treasurer of FBR Asset Investment from September 1999 to March 2003. Mr. Harrington joined our company as Vice President of Finance and Treasurer in March 1997. He was previously the Chief Financial Officer of Jupiter National, Inc., a publicly traded, closed-end venture capital company. From 1980 to 1990, Mr. Harrington served in a number of senior financial accounting, reporting and business planning positions at MCI Communications Corporation and Marriott Corporation, in Washington, D.C. He began his career with the public accounting firms of Meahl, McNamara & Co., Boston, Massachusetts and later, PricewaterhouseCoopers LLP, Washington, D.C. Mr. Harrington received his Certified Public Accountant certification in 1978. Mr. Harrington serves on the board of DanceSmith, a charitable organization, and is a trustee of Nichols College.

PRINCIPAL SHAREHOLDERS

Security Ownership of Management

The following table shows the number of shares of our Class A and Class B common stock and FBR Capital Markets common stock known by us to be beneficially owned at March 31, 2009, by each director, each nominee for director, each named executive officer and all directors and executive officers as a group.

For purposes of the table below, beneficial ownership has been determined in accordance with Rule 13d-3 of the Exchange Act. Unless indicated otherwise in the footnotes to the table below, each individual has sole voting and investment power with respect to all shares of our Class A and Class B common stock and FBR Capital Markets common stock shown as beneficially owned by such person.

Name of Beneficial Owners	Friedman, Billings, Ramsey Group, Inc.				FBR Capital Markets Corporation		
	Number of Shares of Class A Common Stock	Percent of Class ⁽¹⁾	Number of Shares of Class B Common Stock	Percent of Class ⁽²⁾	Percent of Total Voting Power ⁽³⁾	Number of Shares of Common Stock	Percent of Class ⁽⁴⁾
Eric F. Billings	3,969,376 ⁽⁵⁾	2.7%	8,065,400 ⁽⁶⁾	70.9%	15.5%	96,891	*
J. Rock Tonkel, Jr.	4,757,665 ⁽⁷⁾	3.2%	280,000 ⁽⁸⁾	2.5%	3.1%	10,000	*
Kurt R. Harrington	213,650	*			*	11,929	*
Richard J. Hendrix	679,040	*			*	61,381	*
William J. Ginivan	750,162	*			*	24,063	*
Daniel J. Altobello	30,000 ⁽⁹⁾	*			*		
Peter A. Gallagher	27,915 ⁽⁹⁾	*			*		
Russell C. Lindner	38,550 ⁽⁹⁾	*			*		
Ralph S. Michael, III	6,500 ⁽⁹⁾	*			*	5,000	*
Wallace L. Timmeny	23,200 ⁽⁹⁾⁽¹⁰⁾	*			*		
John T. Wall	30,000 ⁽⁹⁾⁽¹¹⁾	*			*	44,764 ⁽¹²⁾	*
All executive officers and directors (9 persons) ⁽¹³⁾	9,096,856	6.2%	8,345,400	73.4%	18.8%	168,584	*

* Less than one percent.

- (1) Based on 147,585,068 shares of Class A common stock outstanding as of March 31, 2009. Holders of shares of Class A common stock are entitled to one vote per share. Shares of Class A common stock subject to options currently exercisable, or exercisable within 60 days of March 31, 2009, are deemed outstanding for computing the percentage of the class owned by the person holding such options, but are not deemed outstanding for computing the percentage of the class owned by any other person.
- (2) Based on 11,372,293 shares of Class B common stock outstanding as of March 31, 2009. Holders of shares of Class B common stock are entitled to three votes per share. Holders of shares of Class A common stock are entitled to one vote per share. Shares of Class B common stock subject to options currently exercisable, or exercisable within 60 days of March 31, 2009, are deemed outstanding for computing the percentage of the class owned by the person holding such options, but are not deemed outstanding for computing the percentage of the class owned by any other person.
- (3) Total voting power represents the combined voting power of our outstanding Class A and Class B common stock. Holders of shares of Class A and Class B common stock vote together on all matters submitted to a vote of our shareholders.
- (4) Percentages based on 59,636,063 shares of FBR Capital Markets common stock outstanding as of March 31, 2009.

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- (5) The number of shares of Class A common stock shown as beneficially owned by Mr. Billings in the table above includes: (i) 219,988 shares held by EFB Capital Corp., of which all of the outstanding capital stock is held by Mr. Billings' wife, as to which shares Mr. Billings disclaims beneficial ownership; (ii) an aggregate of 400 shares held in trusts for the benefit of Mr. Billings' children, as to which Mr. Billings disclaims beneficial ownership; (iii) 1,315 shares held by the Eric and Marianne Billings Charitable Foundation, as to which Mr. Billings disclaims beneficial ownership; and (iv) 3,747,673 shares held by Mr. Billings, over which Mr. Billings exercises sole voting and investment power.
- (6) The number of shares of Class B common stock shown as beneficially owned by Mr. Billings in the table above includes an aggregate of 92,260 shares held in an irrevocable trust for the benefit of each child of Jonathan Billings, the brother of Eric F. Billings. Mr. Eric F. Billings serves as the trustee and has voting and investment power over these shares but disclaims beneficial ownership of these shares.
- (7) The number of shares of Class A common stock shown as beneficially owned by Mr. Tonkel in the table above includes: (i) 7,300 shares held by Mr. Tonkel's wife, as to which shares Mr. Tonkel disclaims beneficial ownership; and (ii) 4,750,365 shares held by Mr. Tonkel, over which Mr. Tonkel exercises sole voting and investment power.

- (8) The number of shares of Class B common stock shown as beneficially owned by Mr. Tonkel in the table above excludes 50,000 shares held in an irrevocable family trust, as to which Mr. Tonkel does not exercise voting or investment power of these 50,000 shares and disclaims beneficial ownership of such shares except to the extent of his pecuniary interest in the family trust.
- (9) The number of shares of Class A common stock shown as beneficially owned by each of our directors and director nominees in the table above does not include restricted stock units (RSUs) that we have awarded to our directors under our 2004 Long Term Incentive Plan and a predecessor plan, the Non-Employee Director Stock Compensation Plan, in the following amounts: Mr. Altobello 89,222 RSUs; Mr. Gallagher 77,283 RSUs; Mr. Lindner 80,667 RSUs; Mr. Michael 67,004 RSUs; Mr. Timmeny 80,667 RSUs; and Mr. Wall 79,265 RSUs. RSUs do not have any voting rights but are entitled to dividend equivalent payments.
- (10) The number of shares of Class A common stock shown as beneficially owned by Mr. Timmeny in the table above includes 12,000 shares issuable to Mr. Timmeny upon exercise of stock options that are currently exercisable.
- (11) The number of shares of Class A common stock shown as beneficially owned by Mr. Wall in the table above includes 10,000 shares issuable to Mr. Wall upon exercise of stock options that are currently exercisable.
- (12) The number of shares of FBR Capital Markets common stock shown as beneficially owned by Mr. Wall includes 34,764 shares of our common stock issuable to Mr. Wall upon exercise of options that are currently exercisable or exercisable within 60 days of the date of this table.
- (13) The amount shown as beneficially owned by all executive officers and directors of our company as of March 31, 2009.

Security Ownership by Certain Beneficial Owners

The following table shows the number of shares of Class A common stock beneficially owned by any person (including any group as that term is used in Section 13(d)(3) of the Exchange Act) who was known by us to be the beneficial owner of more than five percent of our Class A common stock as of December 31, 2008. Members of management that own five percent or more of any class of FBR Group common stock are shown in the table above under Security Ownership of Management.

Name and Address of Beneficial Owner	Title of Class	Number of Shares of Class Beneficially Owned	Percent of Class
NWQ Investment Management Company, LLC 2049 Century Park East, 16th Floor Los Angeles, CA 90067 ⁽¹⁾	Class A	9,834,563	6.66%
Passport Capital, LLC 30 Hotaling Place, Suite 200 San Francisco, CA 94111 ⁽²⁾	Class A	17,283,541 ⁽³⁾	10.85%

(1) This information is based on a Schedule 13G/A filed by NWQ Investment Management Company, LLC on February 17, 2009. The Schedule 13G/A indicates that NWQ Investment Management Company, LLC has sole voting power over 9,513,435 shares of Class A common stock and sole dispositive power over 9,834,563 shares of Class A common stock.

(2)

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This information is based on a Schedule 13D filed by Passport Global Master Fund SPC Ltd. for and on behalf of Portfolio A Global Strategy (Fund I), Partners Group Alternative Strategies PCC Limited Gold Iota Cell (Fund II), Passport Holdings, LLC, the special member of Fund I (Passport Holdings), Passport Management, LLC, the investment manager to Fund I and Fund II (Passport Management), Passport Capital, LLC, the managing member of Passport Holdings and Passport Management (Passport Capital) and John Burbank (Burbank), the sole managing member of Passport Capital (each of Fund I, Fund II, Passport Holdings, Passport Management, Passport Capital and Burbank may be referred to as a Passport Reporting Person and collectively, may be referred to as Passport Reporting Persons). Each of Fund I and Fund II is a British Virgin Islands partnership. Each of Passport Holdings, Passport Management and Passport Capital is a Delaware limited liability company. Burbank is a United States citizen. The principal business address for each of the Passport Reporting Persons is c/o Passport Management, LLC, 30 Hotaling Place, Suite 300, San Francisco, California 94111. The Schedule 13D filed by the Passport Reporting Persons indicates that as of May 13, 2008:

Fund I may be deemed to be the beneficial owner of 17,283,541 shares of Class A common stock and has shared voting and investment power over all of these shares.

Fund II may be deemed to be the beneficial owner of 395,400 shares of Class A common stock and has shared voting and investment power over all of these shares.

Passport Holdings may be deemed to be the beneficial owner of 17,283,541 shares of Class A common stock and has shared voting and investment power over all of these shares; however, Passport Holdings has specifically disclaimed beneficial ownership of all of these shares except to the extent of its pecuniary interest.

Passport Management may be deemed to be the beneficial owner of 17,678,941 shares of Class A common stock, and has shared voting and investment power over all of these shares; however, Passport Management has specifically disclaimed beneficial ownership in these shares except to the extent of its pecuniary interest.

Passport Capital may be deemed to be the beneficial owner of 17,678,941 shares of Class A common stock, and has shared voting and investment power over all of these shares; however, Passport Capital has specifically disclaimed beneficial ownership in these shares except to the extent of its pecuniary interest.

Burbank may be deemed to be the beneficial owner of 17,678,941 shares of Class A common stock, and has shared voting and investment power over all of these shares; however, Burbank has specifically disclaimed beneficial ownership in these shares except to the extent of his pecuniary interest. Based on information included in a Form 4 filed on September 3, 2008, by Passport Management, Fund I, Passport Capital and Burbank pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended, we believe that Fund I, Passport Holdings, Passport Management, Passport Capital and Burbank may be deemed to beneficially own 17,283,541 shares of Class A common stock over which each of these Passport Reporting Persons has shared voting and investment power. We also believe that as September 3, 2008, Fund II is no longer the beneficial owner of the 395,400 shares of Class A common stock indicated as beneficially owned by Fund II in the Schedule 13D based on information in the Form 4 filed by certain Passport Reporting Persons.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth, as of December 31, 2008, information with respect to compensation plans under which equity securities we authorized for issuance:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans ⁽¹⁾
Equity Compensation Plans Approved by Shareholders	543,774	\$ 14.76	1,198,995
Equity Compensation Plans Not Approved by Shareholders			
Total	543,774	\$ 14.76	1,198,995

(1) Amounts exclude any securities to be issued upon exercise of outstanding options.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires directors and executive officers to file reports of ownership and changes in ownership of our company's securities with the SEC. Based solely on our review of the reports and amendments to those reports furnished to us or written representations from these persons that these reports were not required from those persons, we believe that our directors and executive officers filed all reports required by Section 16(a) on a timely basis.

CERTAIN RELATIONSHIPS AND TRANSACTIONS WITH RELATED PERSONS

Transactions with Executive Officer, Directors and Other Related Persons

Jonathan Billings, the brother of Eric F. Billings, was employed in 2008 by FBR Capital Markets & Co. (f/k/a Friedman, Billings, Ramsey & Co., Inc.) as its Executive Vice President and Head of Institutional Brokerage. During 2008, Jonathan Billings was paid cash compensation of \$1,043,282, including 2008 base salary and a portion of 2007 bonus paid in 2008. On February 15, 2008, Jonathan Billings was granted 48,888 restricted shares of FBR Capital Markets common stock. This stock award had an aggregate grant date fair value of \$348,571 based on a value

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per share of \$7.13 (the closing price per share of FBR Capital Markets common stock on the date immediately preceding the grant date). On February 21, 2008, FBR Capital Markets granted Jonathan Billings 300,000 restricted stock units, subject to vesting contingent on FBR Capital Markets achieving a \$17 per share price target by the third anniversary of the grant date. This award was consistent with other similar awards made to other members of FBR Capital Markets Executive Committee. In order to maintain the incentive nature

of these awards in changing market conditions, Mr. Billings' February 2008 restricted stock award was modified on August 20, 2008, as were all other similar awards. On August 20, 2008, the February 21, 2008 award of 300,000 restricted stock units was amended. Of the initial award, 220,000 restricted stock units were cancelled. The remaining 80,000 restricted stock units were amended to include time-based vesting only. A new award of 80,000 restricted stock units was issued on August 20, 2008, subject to FBR Capital Markets achieving an \$8 per share price target by the third anniversary of the February 2008 grant date. An award of 160,000 stock options FBR Capital Markets common stock was also granted on August 20, 2008 to Mr. Billings. These options have an exercise price of \$5.61. Jonathan Billings continues to be employed by FBR Capital Markets & Co. We expect that he will be paid more than \$120,000 in 2009.

Transactions with FBR Capital Markets

From time to time FBR Capital Markets Corporation, our majority-owned subsidiary, and its affiliates may perform investment banking, financial advisory and other services in the ordinary course of our business for entities with which some of our directors are affiliated. Any such transactions are expected to be on an arms-length basis and otherwise in the ordinary course of our business. There were no transactions in 2008 involving independent directors that would cause any of the independent directors not to satisfy the standards for independence set forth in listing standards of the NYSE and our Corporate Governance Guidelines.

In connection with the July 2006 private offering of FBR Capital Markets' common stock, our Board of Directors approved and we entered into a services agreement with FBR Capital Markets pursuant to which FBR Capital Markets provides, or causes one or more of its subsidiaries to provide, to us certain services for fees based on actual costs incurred by FBR Capital Markets and its subsidiaries in providing the services. Similarly, we agreed to provide to FBR Capital Markets under the same services agreement certain services for fees based on actual costs incurred by us and our subsidiaries in providing the services. We have paid to FBR Capital Markets approximately \$2.7 million pursuant to this agreement since January 1, 2008, and FBR Capital Markets has paid to us approximately \$2.0 million pursuant to this agreement for the same period. We believe the terms of these services in the aggregate are at least as favorable to us as those we could have obtained from unrelated third parties through arms-length negotiations.

In July 2006, we entered into a tax sharing agreement with FBR Capital Markets, with respect to prior tax periods pursuant to which we and FBR Capital Markets will be responsible for our respective portions of the tax liability, and will be entitled to receive the benefit of our respective portions of any tax benefit or refund, that relates to such prior tax periods. Under the tax sharing agreement, we have the sole authority to respond to and conduct all income tax proceedings, including tax audits, relating to prior tax periods. This arrangement may result in conflicts of interest between our company and FBR Capital Markets with respect to prior tax periods. The tax sharing agreement will terminate upon the expiration of the statute of limitations for the 2006 tax period. Under the tax sharing agreement, if one of FBR Capital Markets or its subsidiaries is assessed and pays directly to the Internal Revenue Service tax liability for a prior tax period in excess of the amount properly allocable to it or such subsidiary under the tax sharing agreement, we have agreed to reimburse it for the amount of such excess. In 2008, we did not pay any reimbursement to FBR Capital Markets.

As of January 1, 2008, we provided a subsidiary of FBR Capital Markets with an unsecured revolving subordinated line of credit in an amount up to \$500 million. This line of credit expired on March 31, 2008. No borrowings were drawn on this line of credit in 2008 and no interest was paid to us in 2008 under this line of credit.

In 2007, a subsidiary of FBR Capital Markets provided us with a \$200 million uncommitted revolving credit facility. From time to time, we could borrow funds from our affiliate under this credit facility in order to provide for our working capital needs. This credit facility was terminated in March 2008. No advances were made to us during 2008 under this credit facility and no interest was paid by us during 2008 under this credit facility.

Review, Approval or Ratification of Transactions With Related Persons

Our policy and practice is not to enter into any related party transaction with any of our executive officers or directors (or transactions not in the ordinary course of business or not performed on standard market terms with shareholders known to beneficially own over five percent of a class of our voting securities or their related persons), unless the transaction is approved by a majority of our disinterested directors. Pursuant to its charter, the Nominating and Governance Committee also periodically reviews our conflict of interest policies as set forth in our Statement of Business Principles concerning directors and executive officers, and reviews with management our procedures for implementing and monitoring compliance with the conflict of interest policies.

Certain of our executive officers and directors may invest their personal funds in amounts that exceed \$120,000 in investment funds managed by affiliates of FBR Capital Markets and securities underwritten by affiliates of FBR Capital Markets, or otherwise engage in transactions in the ordinary course of business involving goods and services provided by FBR Capital Markets, and its affiliates, such as brokerage, investment management and financial advisory services, on the same terms and with the same conditions as those offered or provided to non-affiliated third parties. These transactions are reviewed in accordance with the policy stated above.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis describes our compensation strategy, policies, programs and practices for the executive officers identified in the Summary Compensation Table for 2008. Throughout this proxy statement, we refer to these individuals as our Named Executive Officers.

No performance-based bonuses were paid or awarded by us to our Named Executive Officers in cash or stock for the 2008 performance year. In addition, in 2008, no long-term equity awards were granted by us to our Named Executive Officers under our 2004 Long-Term Incentive Plan except for the retention stock awards which were granted to Messrs. Billings, Tonkel and Ginivan on February 20, 2008 and previously disclosed in our Current Report on Form 8-K filed with the SEC on February 26, 2008, our definitive proxy statement for our 2008 annual meeting of shareholders and our preliminary proxy statement for our 2009 annual meeting of shareholders.

In 2008, the Named Executive Officers were Eric F. Billings, Chairman of the Board and Chief Executive Officer, Kurt R. Harrington, Executive Vice President, Chief Financial Officer and Chief Accounting Officer, J. Rock Tonkel, Jr., President and Chief Operating Officer, Richard J. Hendrix, President and Chief Executive Officer of FBR Capital Markets and an executive officer of our company until April 30, 2008, and William J. Ginivan, Executive Vice President and General Counsel of FBR Capital Markets and an executive officer of our company until September 16, 2008. In 2008, all executive compensation decisions impacting the compensation paid or awarded to Mr. Hendrix were made by the FBR Capital Markets compensation committee, which we refer to as the FBCM Compensation Committee.

Effective as of January 1, 2008, we terminated the management services agreement that we entered into with FBR Capital Markets in July 2006. As a result of the termination of the management services agreement, FBR Capital Markets and the FBCM Compensation Committee assumed full responsibility for approving the compensation arrangements for its executive management team for 2008 and future years, and our Compensation Committee, which we sometimes refer to as the Committee, assumed full responsibility for approving the compensation arrangements for our executive management team without regard to the business of, or their performance with respect to, FBR Capital Markets. All of the compensation paid to Messrs. Billings, Hendrix and Ginivan for their services as executive officers of FBR Capital Markets, which is disclosed in this proxy statement, was separately paid by FBR Capital Markets and separately approved by the FBCM Compensation Committee. For a discussion of the compensation paid or awarded to Messrs. Billings, Hendrix and Ginivan by FBR Capital Markets in their capacities as executive officers of FBR Capital Markets, you should refer to the executive compensation information included in the definitive proxy statement to be filed by FBR Capital Markets with the SEC on or about April 30, 2009.

For the 2008 performance year, the Compensation Committee was advised by Frederic W. Cook & Co., Inc., an independent compensation consulting firm. Frederic W. Cook & Co., Inc. reported directly to the Committee and provided independent advice to the Committee with respect to certain aspects of our 2008 executive compensation program. Specifically, Frederic W. Cook & Co., Inc. provided the Committee with advice regarding the design of our 2008 executive bonus pool under which Messrs. Tonkel, Harrington and Ginivan were eligible to receive a portion of their total compensation for 2008 based on our profitability and assisted the Committee with the design of a peer group of publicly-traded companies, as explained below. Frederic W. Cook & Co., Inc. provided analysis and recommendations that informed the Committee; however, Frederic W. Cook & Co., Inc. did not decide or approve any compensation actions.

Compensation Philosophy and Objectives

Given the highly competitive nature of our business, the mobility of skilled and experienced executives, and the competitive importance of compensation in our industry, our 2008 executive compensation program was designed to motivate, reward and retain highly qualified individuals capable of implementing Board-approved strategic initiatives that we believe are critical in positioning us to increase long-term shareholder value by taking advantage of strategic opportunities once the global financial markets stabilize.

No performance-based bonuses were paid or awarded by us to our Named Executive Officers in cash or stock for the 2008 performance year. In addition, in 2008, no long-term equity awards were granted by us to our Named Executive Officers under our 2004 Long-Term Incentive Plan except for the retention stock awards which were granted to Messrs. Billings, Tonkel and Ginivan on February 20, 2008 and previously disclosed in our Current Report on Form 8-K filed with the SEC on February 26, 2008, our definitive proxy statement for our 2008 annual meeting of shareholders and our preliminary proxy statement for our 2009 annual meeting of shareholders.

The compensation paid or awarded by us to our Named Executive Officers, excluding Mr. Hendrix, for 2008 was designed to meet the following objectives:

Competitive Compensation. Our executive compensation program was designed to provide compensation that is competitive with compensation provided by other companies to executive officers who provide comparable services, taking into account the size and characteristics of our company, as well as other factors, including past contributions, individual performance and the amount of base salary paid in the past years and any recent adjustments.

Pay-for-Performance. Our executive compensation program was designed to create a compensation structure under which a meaningful portion of the total compensation paid or awarded is based on the achievement of annual corporate performance goals established by the Committee. As discussed further below, the Committee established a performance-based executive bonus plan for 2008 based on certain pre-determined corporate profitability goals. However, because these corporate profitability goals were not achieved, and the executive performance bonus pool was therefore not funded, no performance-based bonuses were paid by us to our Named Executive Officers for 2008. The Committee retained the discretion to recommend modifications to its annual corporate performance goals, to reduce overall and/or individual performance-based bonuses based on extraordinary events or market conditions, and to award discretionary bonuses after the completion of the fiscal year. **No such modifications or discretionary bonuses were approved for 2008.**

Shareholder Incentives. Our executive compensation program was designed to encourage the aggregation and maintenance of meaningful equity ownership, and alignment of executive and shareholder interests.

Retention Incentives. Our executive compensation program was designed to provide an incentive for long-term continued employment with us.

Perquisites. We do not pay our executive officers perquisites or other similar benefits.

Setting Compensation

Developing recommendations for our Board of Directors regarding our compensation programs and the specific elements and levels of compensation for our Named Executive Officers is central to the role of the Compensation Committee. The Committee does not have a specific allocation goal between cash and equity-based compensation or between annual and long-term incentive compensation. Instead, the Committee relies upon its collective business judgment as applied to the challenges confronting us, together with regular peer group analyses, evaluations of internal equity considerations and the recommendations of management. The Committee also considers advice and data from independent consultants and information provided by our employees. The

Compensation Committee also utilizes subjective information when considering the compensation to be paid or awarded to each of our Named Executive Officers, including the executive's credentials, length of service, experience, historical performance and competitive employment opportunities. We believe the variety of inputs considered by the Committee provide a basis for the Committee to make informed decisions on the design of our executive compensation program and the elements and amounts of compensation paid or awarded to our Named Executive Officers.

Peer Group Analysis

In constructing our peer group for the 2008 performance year, the Committee was advised by Frederick W. Cook that no peer group firm was exactly comparable to our company. At the same time, the Committee recognized that we compete for executive talent against smaller and larger mortgage REITs, specialty finance companies and firms that are predominantly broker-dealers. The Committee utilized the peer group as a context to make judgments about competitive factors in the market and to reach informed decisions about our compensation practices but did not use compensation paid by our peers as benchmarks or targets for the compensation paid or awarded to our Named Executive Officers for 2008.

As shown below, the 2008 peer group consisted of organizations that we believe are competitors either in our industry or for executive talent, or that have similar financial characteristics. To create a compensation program for our Named Executive Officers that is perceived as fair, both externally and internally, the Committee reviewed, but did not specifically target, the total compensation paid to the named executive officers of the peer group companies. The Committee made appropriate adjustments, including adjustments that took into account the nature, scope and market capitalization of our business, our size and the geographic location of our principal executive office in the Greater Washington, D.C. metropolitan area.

In 2008, the peer group approved by the Committee consisted of the following: Allied Capital Corporation; American Capital, Ltd.; Anworth Mortgage Asset Corporation; Capital Trust, Inc.; Capstead Mortgage Corporation; Cowen Group, Inc.; Greenhill & Co., Inc.; Jefferies Group, Inc.; KBW, Inc.; MCG Capital Corporation; MFA Financial, Inc.; NorthStar Realty Finance Corp.; RAIT Financial Trust; Redwood Trust, Inc.; Thomas Weisel Partners Group; and Piper Jaffray Companies.

Role of Executive Officers in Determining Executive Compensation For Named Executive Officers

The recommendations of our Chairman and Chief Executive Officer and our President and Chief Operating Officer also play a significant role in the compensation decision making process. Our Chairman and Chief Executive Officer and President and Chief Operating Officer provide the Committee with an assessment of our achievements and performance, their evaluation of individual performance and their recommendations for direct report base salary, short-term bonus, and long-term incentive awards. The Committee has the discretion to accept, reject or modify these recommendations. Additionally, the Chief Human Capital Officer of FBR Capital Markets, who is provided to us through the services agreement with FBR Capital Markets, and our former Executive Vice President and Chief Legal Officer worked closely with our Chairman and Chief Executive Officer, our President and Chief Operating Officer and the Committee to provide information and recommendations that the Committee considered in making executive compensation decisions for the 2008 performance year.

Elements of Executive Compensation

This section describes the various elements of our compensation program for our Named Executive Officers, excluding Mr. Hendrix, and why the Committee chose to include those elements in our 2008 executive compensation program. Our 2008 executive compensation program consisted of the following elements:

Element	Description	Compensation Objective(s)
Base Salary	Fixed cash compensation	Market Competitiveness
Annual Performance-Based Incentive Compensation Opportunities	Payable annually in cash or stock at the discretion of the Committee under our Amended Key Employee Incentive Plan, if earned	Pay-for-Performance
Discretionary Bonuses	Bonuses payable in cash and/or stock after the completion of the fiscal year at the discretion of the Committee; no performance-based bonuses were paid or awarded by us to our Named Executive Officers in cash or stock for the 2008 performance year	Pay-for-Performance
Long-Term Equity Incentives	Restricted stock awards granted at the Committee's discretion under the FBR Group 2004 Long-Term Incentive Plan; in 2008, no long-term equity awards were granted by us to our Named Executive Officers under our 2004 Long-Term Incentive Plan except for the retention stock awards which were granted to Messrs. Billings, Tonkel and Ginivan on February 20, 2008 and previously disclosed by us in our Current Report on Form 8-K filed on February 26, 2008, our definitive proxy statement for our 2008 annual meeting of shareholders and our preliminary proxy statement for our 2009 annual meeting of shareholders	Retention Incentives Shareholder Incentives Pay-for-Performance
Benefits	Defined contribution savings plan, healthcare plan and other standard company benefit plans that are generally available to other employees based on standard eligibility criteria	Market Competitiveness
Retention Incentive Awards	Cash awards made pursuant to retention incentive agreements that require the executive to repay in full the amount of the award if the employment condition is not satisfied	Retention Incentives
Perquisites	We do not pay or award our executive officers perquisites or other similar benefits	Not applicable

2008 Base Salaries

We believe that the purpose of base salary is to provide our executives with a set amount of cash compensation that is not variable, or at risk. The Committee seeks to pay our executive officers a competitive base salary in recognition of their job responsibilities for a publicly held company and has generally reviewed base salaries for our executives on an annual basis by considering several factors, including competitive factors within our industry, past contributions and individual performance. As discussed above, in setting base salaries the Committee is mindful of total compensation and the overall goal of keeping the amount of cash compensation that is provided in the form of base salary substantially lower than the amount of bonus opportunity that is available, assuming that performance targets are met or exceeded. The Committee also takes into account compensation provided to the Named Executive Officers in past years, including any recent adjustments to their base salary.

In conjunction with the termination of the management services agreement, the Committee carefully reviewed the dual responsibilities and anticipated relative contributions of certain executives and made decisions regarding the salary levels and allocations of these executives, effective as of January 1, 2008. As a result of these considerations, the Committee set 2008 base salaries for our Named Executive Officers, excluding Mr. Hendrix, as follows:

Named Executive Officer	2008 Base Salary Payable by Us	Percentage Decrease from 2007 ⁽¹⁾
Eric F. Billings	\$ 800,000	16.7%
J. Rock Tonkel, Jr.	\$ 750,000	
Kurt R. Harrington	\$ 250,000	
Richard J. Hendrix	N/A ⁽²⁾	
William J. Ginivan	\$ 125,000 ⁽³⁾	50.0%

- (1) In light of the fact that Messrs. Billings and Ginivan would continue to have responsibilities at both our company and FBR Capital Markets, but were expected by the Committee to dedicate more of their professional time to FBR Capital Markets in 2008, the Committee reduced the amount of base salary payable by us in 2008 to these executives. In 2008, Messrs. Billings and Ginivan were paid an aggregate of \$1.8 million and \$375,000 in base salary, respectively, by us and FBR Capital Markets. All of the compensation paid to Messrs. Billings and Ginivan for their services as executive officers of FBR Capital Markets was separately paid by FBR Capital Markets and separately approved by the FBCM Compensation Committee. For a discussion of the compensation paid or awarded to Messrs. Billings and Ginivan for their services as executive officers of FBR Capital Markets you should refer to the information included in the definitive proxy statement to be filed by FBR Capital Markets with the SEC on or about April 30, 2009.
- (2) The Committee did not approve a 2008 base salary for Mr. Hendrix because he was dedicated exclusively to FBR Capital Markets. The FBCM Compensation Committee approved his 2008 base salary, which remained unchanged from the amount paid by us in 2007 at \$750,000. For a discussion of the compensation paid or awarded to Mr. Hendrix for his service as executive officer of FBR Capital Markets you should refer to the information included in the definitive proxy statement to be filed by FBR Capital Markets with the SEC on or about April 30, 2009.
- (3) On September 16, 2008, Mr. Ginivan resigned all of his positions with our company and FBR Capital Markets assumed full responsibility for the payment of his 2008 base salary. As a result, we only paid \$88,542 of Mr. Ginivan's 2008 base salary.

2008 Annual Performance-Based Bonus Opportunities

On March 27, 2008, the Committee approved the establishment of the 2008 executive bonus pool under our Amended Key Employee Incentive Plan, from which annual performance-based bonuses would be paid, if earned, to our Named Executive Officers, excluding Mr. Billings and Mr. Hendrix. Given Mr. Billings' commitment to forgo any cash bonuses that might otherwise have been awarded to him in 2008, 2009 and 2010, the Committee determined that it was appropriate to exclude Mr. Billings from the overall pool funding for 2008. The criterion for the 2008 executive bonus pool was based on profitability, defined as our pre-tax net income before deducting the 2008 executive bonus pool. The Committee set the executive bonus pool at 4% of our 2008 profitability, as defined, versus 8% in 2007 after considering that neither Mr. Billings nor Mr. Hendrix would be participating in the 2008 executive bonus pool, and after determining that a 4% executive bonus pool would provide an adequate pay-for-performance incentive for the eligible Named Executive Officers. Individual bonus opportunities for each of the eligible Named Executive Officers were set in March 2008 at a percentage of the

executive bonus pool (Mr. Tonkel 67%, Mr. Harrington 18% and Mr. Ginivan 15%). If earned, bonuses would be paid through a combination of cash and restricted stock to be determined by the Committee at its discretion in the first quarter of 2009. The Committee retained the discretion to reduce the size of the 2008 executive bonus pool and to award a smaller performance-based bonus than would otherwise be earned under the bonus pool criteria, if the award was earned based on our 2008 profitability. The Committee was advised by outside counsel that the 2008 executive bonus pool complied with Section 162(m) of the Internal Revenue Code. The Committee also retained discretion to award a discretionary bonus that is not Section 162(m) eligible in the event that the 2008 bonus pool did not fund.

In February 2009, our executive management reported to the Committee that our pre-tax net income for 2008 would not be positive and, subsequently, performance-based bonuses would not be funded from the executive bonus pool. Our executive management explained that the primary reason for this result was the severity and unexpected industry-wide impact of the global credit crisis.

2008 Discretionary Bonuses

No performance-based bonuses were paid or awarded by us to our Named Executive Officers in cash or stock for the 2008 performance year.

In February 2009, the Committee reviewed the performance of Mr. Tonkel and Mr. Harrington for 2008 and noted that they successfully oversaw actions that the Committee believes will be beneficial to shareholder value over the long-term, but the Committee did not recommend discretionary bonuses for Mr. Tonkel or Mr. Harrington for 2008 at that time. Given Mr. Billings agreement to forego any cash bonuses for 2008, 2009 and 2010, Mr. Billings was not considered eligible to receive a discretionary bonus for 2008.

2008 Long-Term Equity Incentive Awards

Except for the retention stock awards granted by us to Messrs. Billings, Tonkel and Ginivan, which are described below, in 2008, no long-term equity awards were granted by us to our Named Executive Officers under our 2004 Long-Term Incentive Plan. The retention stock awards described below were previously disclosed by us in our Current Report on Form 8-K filed with the SEC on February 26, 2008, our definitive proxy statement for our 2008 annual meeting of shareholders and our preliminary proxy statement for our 2009 annual meeting of shareholders.

The Committee believes that a portion of Named Executive Officer compensation should be in the form of equity awards, as a retention tool and to align further the long-term interests of Named Executive Officers with those of our other shareholders. As described above, the Committee has discretion to determine the payment of Named Executive Officer bonuses through a combination of cash and restricted shares of our Class A common stock, which we refer to as restricted stock. Equity awards of restricted stock are made pursuant to our 2004 Long Term Incentive Plan (LTIP).

Although the LTIP provides for awards in the form of stock options, restricted stock and restricted stock units, equity awards to Named Executive Officers since the inception of the LTIP have been in the form of restricted stock. Subject to continued employment with us or one of our affiliates, restricted stock awards to our Named Executive Officers are subject to forfeiture restrictions that either lapse ratably over a three-year period after the first anniversary of the date of grant, or cliff-vest on the third anniversary of the date of grant to encourage long-term retention of executives. Executives are entitled to dividends and voting rights with respect to unvested shares of restricted stock. We have less frequently made equity awards to our Named Executive Officers based on particular instances of significant individual performance or change in management duties because the Committee believes that long-term equity incentive awards are more effectively used as a retention tool and to achieve our shareholder incentive objective.

Prior to February 2008, Mr. Billings had received smaller long-term equity incentive awards relative to his position as Chairman of the Board and Chief Executive Officer, as he continued to hold a substantial amount of

our Class B common stock which he purchased as a founder of our company in 1989. As of March 31, 2009, Mr. Billings beneficially owned approximately 2.7% of our outstanding Class A common stock and approximately 70.9% of our outstanding Class B common stock, representing approximately 15.5% of the total voting power of our outstanding Class A and Class B common stock on that date.

As previously disclosed in our Current Report on Form 8-K filed with the SEC on February 26, 2008 and our definitive proxy statement for our 2008 annual meeting of shareholders, on February 20, 2008, the Committee recommended and the independent members of the Board approved restricted stock awards for Messrs. Billings, Tonkel and Ginivan and, to ensure retentive impact, restrictions on these shares will lapse annually in one-third increments commencing on the first anniversary of the grant date (February 20, 2009). See Executive Compensation Tables Grants of Plan-Based Awards Table for 2008 (FBR Group) for information regarding the number of shares of restricted stock and the grant date fair value of these restricted stock awards.

As previously disclosed, Mr. Ginivan received a restrictive stock retention award of 500,000 restricted shares in February 2008. Pursuant to the terms of the LTIP and the award agreement, Mr. Ginivan retained these shares because he continued to be employed by FBR Capital Markets, our affiliate, after his resignation from our Company in September 2008.

2008 Cash Retention Incentive Payment to Chief Executive Officer

As previously disclosed in our Current Report on Form 8-K filed with the SEC on February 26, 2008, our definitive proxy statement for our 2008 annual meeting of shareholders and our preliminary proxy statement for our 2009 annual meeting of shareholders, on February 20, 2008, the Committee approved a one-time cash retention incentive payment to Mr. Billings in the amount of \$2.0 million in an effort to ensure his continued service in the capacity of our Chairman or as our Chairman and Chief Executive Officer. The cash retention incentive payment was made subject to the terms and conditions of a retention incentive agreement, which is filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008. If Mr. Billings voluntarily resigns or is terminated for cause (as defined in the agreement) prior to December 31, 2009, the entire \$2.0 million cash retention incentive payment will immediately become due for repayment in full, except as described below. If Mr. Billings voluntarily resigns prior to December 31, 2009 after a change in control of our company (as defined in the LTIP), together with any demotion or diminution of his responsibilities, no portion of the cash retention incentive payment will be repayable. For purposes of the retention incentive agreement only, the definition of change in control (as defined in the LTIP) excludes any business combination with an affiliated company, including FBR Capital Markets.

Stock Ownership Guidelines

Although the Committee has not established stock ownership guidelines, it recognizes that all of the Named Executive Officers have equity ownership, including some substantial share holdings, in our company. As of March 31, 2009, the Named Executive Officers beneficially owned as a group approximately 6.1% of our outstanding Class A common stock in the aggregate. The Committee believes that the current equity stakes of the Named Executive Officers closely align their interests with those of our shareholders.

Prerequisites and Other Personal Benefits

Given the focus on cash and equity-based compensation in our industry, we do not believe that it is necessary to provide perquisites and other personal benefits as part of the total compensation of our Named Executive Officers. We do not provide to our Named Executive Officers perquisites such as personal financial planning services, tax advice, income tax preparation fees, housing or other living expenses, personal use of corporate aircraft or other personal travel, car allowances, commuting expenses or payment of uninsured medical costs. We do not provide tax gross up payments or other tax reimbursement payments to our Named Executive Officers.

Our Named Executive Officers are eligible to participate in our group health insurance and life insurance benefit programs on the same terms as other employees. We maintain one corporate golf membership at a facility in the Washington, D.C. greater metropolitan area, which is used for business purposes. The corporate membership in one such facility is in the name of Mr. Tonkel, as required by the club's rules, but Mr. Tonkel receives no special privileges or other benefits as a result.

Deferred Compensation Plans

We do not have a deferred compensation plan available to our Named Executive Officers or to our other employees.

Post-Termination Compensation

We do not have employment contracts or post-termination compensation agreements with any of the Named Executive Officers, and we do not have contractual provisions or other arrangements with any of the Named Executive Officers, which provide for payments by us to a Named Executive Officer at, following, or in connection with the resignation, severance, retirement or other termination (including constructive termination) of a Named Executive Officer. The Board of Directors retains discretion to provide severance in a particular case, although we are under no obligation to do so. Unvested stock options and restricted stock awards held by grantees, including those held by Named Executive Officers, may vest upon a change of control or following a change of control as provided under the terms of our LTIP, including prior plans.

Retirement Benefits

As part of our policy of maintaining a compensation system that is incentive driven, we do not provide defined benefit plans or other retirement benefits to the Named Executive Officers, other than a defined contribution savings plan available to all of our employees pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). We provide matching contributions to certain employee contributions made under that plan for employees whose actual base salary, bonus and commission compensation is below \$500,000 during the prior performance year.

Tax Deductibility of Certain Compensation

Section 162(m) of the Internal Revenue Code limits the ability of a public company to deduct for tax purposes compensation in excess of \$1 million paid annually to each of the Chief Executive Officer and other executive officers named in the Summary Compensation Table. There are exemptions from this limit, including compensation that is based on the attainment of performance goals that are established by the Committee and approved by our shareholders. It is our intention to pay compensation that is fully tax deductible, pursuant to Section 162(m), when that is practicable. However, the Committee is of the view that there are circumstances in which the provision of compensation that is not fully deductible may be more consistent with the compensation philosophy and objectives of the Committee, as discussed above, and/or may be in the best interests of our company and our shareholders. The Committee's ability to exercise discretion and to retain flexibility in this regard may, in certain circumstances, outweigh the advantages of qualifying all compensation as tax deductible under Section 162(m). The Committee believes that the compensation of the Named Executive Officers has been appropriately structured and administered so that a substantial component of total compensation is dependent upon, and directly related to, our performance.

Other

In 2008, Mr. Billings and Mr. Tonkel also served on our Board of Directors. Neither Mr. Billings nor Mr. Tonkel received any director fees or other compensation from us for their service on our Board of Directors.

The Committee met in February 2009 and did not approve any increase in base salaries for Messrs. Billings, Harrington and Tonkel for 2009. In 2009, Mr. Hendrix and Mr. Ginivan will be paid exclusively by FBR Capital Markets and Mr. Billings will no longer receive a base salary from FBR Capital Markets but will be compensated for service on the FBR Capital Markets board of directors.

On March 31, 2009, the Committee approved the establishment of the 2009 executive bonus pool. The 2009 executive bonus pool was established by the Committee under the Amended Key Employee Incentive Plan and provides annual performance-based compensation opportunities to Messrs. Tonkel and Harrington. The objective of the 2009 executive bonus pool is to motivate and reward Mr. Tonkel and Mr. Harrington based on the Company's performance in 2009, taking into account that FBR Capital Markets is an independently managed entity. Mr. Billings has agreed to forgo any cash bonuses that might otherwise have been awarded or paid to him in 2009 and 2010, and he was excluded by the Committee from the 2009 executive bonus pool.

The Committee determined that the 2009 executive bonus pool will be funded based on our profitability, defined by the Committee as our pre-tax net income for the year ending December 31, 2009 (excluding FBR Capital Markets and its subsidiaries) before deducting the 2009 executive bonus pool. The Committee set the 2009 executive bonus pool at 3.4% of our 2009 profitability, as defined, versus 4% of our 2008 profitability under the 2008 executive bonus pool. The Committee set the 2009 executive bonus pool at 3.4% of our 2009 profitability after considering that Mr. Billings and Mr. Ginivan would not be participating in the 2009 executive bonus pool and after determining that a 3.4% pool would be sufficient to motivate, reward and retain Mr. Tonkel and Mr. Harrington for 2009.

Annual performance-based bonuses for Mr. Tonkel and Mr. Harrington paid out of the 2009 executive bonus pool, if earned, will be based on a pre-determined percentage of the 2009 executive bonus pool. Bonuses awarded from the 2009 executive bonus pool will be paid, if earned, in the first quarter of 2010 through a combination of cash and stock to be determined by the Committee, at its discretion. The Committee has the discretion to reduce the size of the 2009 executive bonus pool and to award a smaller bonus than would otherwise be earned under the 2009 executive bonus pool to Mr. Tonkel or Mr. Harrington. The Committee believes, and has received confirmation from outside counsel, that the 2009 executive bonus pool meets the requirements of Section 162(m) of the Internal Revenue Code.

The Committee retained discretion to award a discretionary bonus, payable in cash, restricted stock or a combination of both, outside of the 2009 executive bonus pool even if such discretionary bonuses are not Section 162(m) eligible. Discretionary bonuses may be paid to Mr. Tonkel and Mr. Harrington if the Committee determines that such bonuses are necessary to motivate, reward and/or retain Mr. Tonkel and Mr. Harrington for 2009 and for future years. The Committee expects to determine whether these discretionary bonuses are necessary in the first quarter of 2010 after it has reviewed and discussed all relevant facts necessary to making an informed business decision, including the Company's year-end 2009 financial results (excluding FBR Capital Markets and its subsidiaries), the contributions made by Mr. Tonkel and Mr. Harrington in 2009, all elements of compensation to be paid or awarded to Mr. Tonkel and Mr. Harrington for 2009 and such other factors as the Committee determines to be necessary or advisable.

EXECUTIVE COMPENSATION TABLES

Summary Compensation Table for 2008⁽¹⁾

No performance-based bonuses were paid or awarded by us to our Named Executive Officers in cash or stock for the 2008 performance year. In addition, in 2008, no long-term equity awards were granted by us to our Named Executive Officers under our 2004 Long-Term Incentive Plan except for the retention stock awards which were granted to Messrs. Billings, Tonkel and Ginivan on February 20, 2008 and previously disclosed in our Current Report on Form 8-K filed with the SEC on February 26, 2008, our definitive proxy statement for our 2008 annual meeting of shareholders and our preliminary proxy statement for our 2009 annual meeting of shareholders.

In accordance with the rules of the SEC, the following table contains compensation information for each of our Named Executive Officers in 2008 for the years ended December 31, 2008, 2007 and 2006. In general, all material amounts paid or awarded to our Named Executive Officers for 2008 have been disclosed in filings made by us and/or FBR Capital Markets with the SEC prior to the date of this proxy statement.

Name and Principal Position	Year	Salary ⁽²⁾	Bonus ⁽³⁾	Stock Awards ⁽⁴⁾	Option Awards ⁽⁴⁾	Non-Equity Incentive Plan Comp.	All Other Comp. ⁽⁵⁾	Total
Eric F. Billings	2008	\$ 1,760,000	\$ 2,000,000	\$ 8,328,234	\$ 1,701,999		\$ 10,186	\$ 13,800,419
<i>Chairman and Chief Executive Officer of FBR Group; Chairman and Chief Executive Officer of FBR Capital Markets</i>	2007	\$ 960,000	\$ 1,778,470	\$ 1,074,479	\$ 369,023		\$ 7,879	\$ 4,189,851
	2006	\$ 960,000		\$ 1,050,989			\$ 28,801	\$ 2,039,790
Kurt R. Harrington	2008	\$ 250,000		\$ 102,404				\$ 352,404
<i>Executive Vice President, Chief Financial Officer and Chief Accounting Officer of FBR Group</i>	2007	\$ 250,000	\$ 675,496	\$ 208,812	\$ 136,675		\$ 430	\$ 1,271,413
	2006	\$ 250,000	\$ 600,000	\$ 136,112		\$ 871,019	\$ 13,205	\$ 999,317
J. Rock Tonkel, Jr.	2008	\$ 750,000		\$ 5,095,497				\$ 5,845,497
<i>President and Chief Operating Officer of FBR Group</i>	2007	\$ 750,000	\$ 5,004,798	\$ 925,054	\$ 246,015		\$ 3,578	\$ 6,929,445
	2006	\$ 750,000		\$ 1,312,178			\$ 11,956	\$ 2,945,153
Richard J. Hendrix	2008	\$ 750,000	\$ 1,700,000	\$ 508,912	\$ 151,619			\$ 3,110,531
<i>Member, Office of the Chief Executive of FBR Group (through April 30, 2008); President and Chief Operating Officer of FBR Capital Markets⁽⁶⁾</i>	2007	\$ 750,000	\$ 1,073,672	\$ 1,107,170	\$ 246,015		\$ 430	\$ 3,177,287
	2006	\$ 750,000		\$ 1,195,669			\$ 170,156	\$ 2,115,825
William J. Ginivan	2008	\$ 375,000	\$ 275,000	\$ 1,381,282	\$ 31,587			\$ 2,062,869
<i>Executive Vice President and Chief Legal Officer of FBR Group (through September 16, 2008); Executive Vice President and General Counsel of FBR Capital Markets⁽⁷⁾</i>	2007	\$ 250,000	\$ 775,496	\$ 300,479	\$ 102,506		\$ 430	\$ 1,428,911
	2006	\$ 250,000	\$ 600,000	\$ 220,217			\$ 13,876	\$ 1,084,093

(1) The compensation information set forth in the table above includes compensation paid to our Named Executive Officer by both our Company and FBR Capital Markets. The two tables that appear below show the amounts of compensation paid by our Company and FBR Capital Markets separately.

- (2) In 2008, FBR Capital Markets paid \$960,000 of Mr. Billings' annual base salary and \$286,458 of Mr. Ginivan's annual base salary. All of the 2008 annual base salary paid to Messrs. Harrington and Tonkel was paid by us. All of the 2008 annual base salary paid to Mr. Hendrix was paid by FBR Capital Markets. All of the compensation paid to Messrs. Billings, Hendrix and Ginivan for their services as executive officers of FBR Capital Markets as set forth in the table above was separately paid by FBR Capital Markets and separately approved by the FBCM Compensation Committee. For a discussion of the compensation paid or awarded to Messrs. Billings, Hendrix and Ginivan for their services as executive officers of FBR Capital Markets you should refer to the information included in the definitive proxy statement to be filed by FBR Capital Markets with the SEC on or about April 30, 2009.
- (3) In 2008, we paid Mr. Billings a \$2.0 million retention bonus pursuant to a retention incentive agreement, which requires Mr. Billings to remain employed with our company in the capacity of Chairman of the Board and Chief Executive Officer or Chairman of the Board through at least December 31, 2009. Under the retention incentive agreement, in the event of any resignation by Mr. Billings or any termination of his employment by us for cause (as defined in the retention agreement) prior to December 31, 2009, Mr. Billings is required to repay the retention bonus in full.

In 2008, FBR Capital Markets paid Mr. Hendrix a \$1.7 million retention bonus pursuant to a retention incentive agreement. Pursuant to the retention incentive agreement, if Mr. Hendrix voluntarily resigns from FBR Capital Markets without good reason or is terminated by FBR Capital Markets with cause, in either case prior to April 30, 2008, he is required to repay the retention bonus in full.

On February 24, 2009, FBR Capital Markets paid Mr. Ginivan a \$275,000 discretionary bonus for his services in 2008 as an executive officer of FBR Capital Markets. The discretionary bonus was paid in cash and restricted stock as follows: \$237,708 was paid in cash and \$37,292 was paid in restricted stock units issued by FBR Capital Markets.

- (4) The amounts in the "Stock Awards" and "Option Awards" columns reflect the dollar amounts of stock-based compensation expense recognized by us and FBR Capital Markets during the fiscal year ended December 31, 2008, 2007 and 2006 for all outstanding stock awards and option awards granted by us and FBR Capital Markets to the Named Executive Officers in accordance with SFAS No. 123R. For more information regarding the valuation of stock awards and option awards granted by us and FBR Capital Markets to the Named Executive Officers, please refer to Note 13 in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008, and Note 12 in the notes to FBR Capital Markets consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2008, respectively. In February 2008, FBR Capital Markets awarded Messrs. Billings, Hendrix and Ginivan performance-based restricted stock units under the FBR Capital Markets Long-Term Incentive Plan. These awards were subsequently amended in August 2008, resulting in the forfeiture by Messrs. Billings, Hendrix and Ginivan of 733,333, 440,000 and 91,667 units, respectively.
- (5) In 2008, we paid \$10,186 in insurance premiums for the benefit of Mr. Billings.
- (6) As of April 30, 2008, Mr. Hendrix resigned his position as an executive officer of our company. Prior to such date, Mr. Hendrix was dedicated solely to FBR Capital Markets and its operations. All compensation paid or awarded for 2008 to Mr. Hendrix was paid or awarded by FBR Capital Markets.
- (7) As of September 16, 2008, Mr. Ginivan resigned as an executive officer of our company and became solely dedicated to FBR Capital Markets. From January 1, 2008 through September 16, 2008, Mr. Ginivan had dual responsibilities at our company and at FBR Capital Markets. After September 16, 2008, Mr. Ginivan became solely dedicated to FBR Capital Markets and its operations and FBR Capital Markets assumed full responsibility for his compensation for the remainder of 2008 and for future years.

Alternative Summary Compensation Tables for 2008

The following tables provide additional information about the compensation of our Named Executive Officers. The following tables summarize the compensation paid or awarded to our Named Executive Officers by our company and by FBR Capital Markets separately for 2008 using the same assumptions used in the Summary Compensation Table (which appears immediately above these tables). We believe that a compensation table that allocates compensation paid or awarded to our Named Executive Officers among us and FBR Capital Markets is helpful to understand the compensation of our Named Executive Officers.

Neither of the tables below is the Summary Compensation Table required by the SEC's rules. That table appears immediately above. The tables below are not a substitute for the information required in the Summary Compensation Table.

Compensation Paid by FBR Group in 2008

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Total
Eric F. Billings <i>Chairman and Chief Executive Officer of FBR Group; Chairman and Chief Executive Officer of FBR Capital Markets</i>	2008	\$ 800,000	\$ 2,000,000	\$ 5,487,506	\$ 8,287,506
Kurt R. Harrington <i>Executive Vice President, Chief Financial Officer and Chief Accounting Officer of FBR Group</i>	2008	\$ 250,000		\$ 97,159	\$ 347,159
J. Rock Tonkel, Jr. <i>President and Chief Operating Officer of FBR Group</i>	2008	\$ 750,000		\$ 5,095,497	\$ 5,845,497
Richard J. Hendrix <i>Member, Office of the Chief Executive of FBR Group (through April 30, 2008); President and Chief Operating Officer of FBR Capital Markets</i>	2008			\$ 98,022	\$ 98,022
William J. Ginivan <i>Executive Vice President and Chief Legal Officer of FBR Group (through September 16, 2008); Executive Vice President and General Counsel of FBR Capital Markets</i>	2008	\$ 88,542		\$ 954,613	\$ 963,065

Compensation Paid by FBR Capital Markets in 2008

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	All Other Comp.	Total
Eric F. Billings <i>Chairman and Chief Executive Officer of FBR Group; Chairman and Chief Executive Officer of FBR Capital Markets</i>	2008	\$ 960,000		\$ 2,840,728	\$ 1,701,999	\$ 10,186	\$ 5,512,913
Kurt R. Harrington <i>Executive Vice President, Chief Financial Officer and Chief Accounting Officer of FBR Group</i>	2008			\$ 5,245			\$ 5,245
J. Rock Tonkel, Jr. <i>President and Chief Operating Officer of FBR Group</i>	2008						
Richard J. Hendrix <i>Member, Office of the Chief Executive of FBR Group (through April 30, 2008); President and Chief Operating Officer of FBR Capital Markets</i>	2008	\$ 750,000	\$ 1,700,000	\$ 410,890	\$ 151,619		\$ 3,012,509
William J. Ginivan <i>Executive Vice President and Chief Legal Officer of FBR Group (through September 16, 2008); Executive Vice President and General Counsel of FBR Capital Markets</i>	2008	\$ 286,458	\$ 275,000	\$ 426,669	\$ 31,587		\$ 1,019,714

Grants of Plan-Based Awards Table for 2008 (FBR Group)

The following table presents information concerning each grant made by us to our Named Executive Officer in the fiscal year ended December 31, 2008, under any plan, including awards, if any, that subsequently have been transferred. Richard J. Hendrix did not receive any grants of plan-based awards from us in 2008.

Friedman, Billings, Ramsey Group, Inc.

Grants of Plan-Based Awards for 2008

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards: Target ⁽¹⁾	All Other Stock Awards: Number of Shares of Stock ⁽²⁾	Grant Date Fair Value ⁽³⁾
Eric F. Billings	2/20/2008		3,500,000 ⁽⁴⁾	\$ 10,185,000
Kurt R. Harrington	2/20/2008		17,182 ⁽⁴⁾	\$ 50,000
	2/20/2008		3,032 ⁽⁵⁾	\$ 8,823
J. Rock Tonkel, Jr.	3/27/2008	(1)		
	2/20/2008		3,250,000 ⁽⁴⁾	\$ 9,457,500
William J. Ginivan	3/27/2008	(1)		
	2/20/2008		21,478 ⁽⁴⁾	\$ 62,501
	2/20/2008		3,790 ⁽⁵⁾	\$ 11,029
	2/20/2008		500,000 ⁽⁴⁾	\$ 1,455,000
	3/27/2008	(1)		

(1) Performance-based compensation opportunities granted to our Named Executive Officers in 2008 provided for a single payout (payable in cash or equity at the discretion of our Compensation Committee) from the 2008 executive bonus pool established under our Amended Key Employee Incentive Plan. The amount payable to our Named Executive Officers was based on a pre-determined percentage of the bonus pool, which was set at four percent of our 2008 pre-tax net income before deducting the executive bonus pool for 2008. The 2008 executive bonus pool is discussed in more detail under the heading Compensation Discussion and Analysis 2008 Annual Performance-Based Bonus Opportunities. No performance based compensation was paid out of the 2008 executive bonus pool to our Named Executive Officers because our 2008 pre-tax net income was not positive. Mr. Billings did not participate in this plan.

(2) Represents grants of restricted Class A common stock to the Named Executive Officers under the 2004 Long-Term Incentive Plan.

(3) Represents the grant date fair value of plan-based awards computed in accordance with SFAS No. 123R.

(4) Vests ratably in three equal annual installments beginning on the first anniversary of the date of grant.

(5) Vests in full on the third anniversary of the date of grant.

Grants of Plan-Based Awards Table for 2008 (FBR Capital Markets)

The following table presents information concerning each grant made by FBR Capital Markets to our Named Executive Officer in the fiscal year ended December 31, 2008, under any plan, including awards, if any, that subsequently have been transferred. J. Rock Tonkel, Jr. did not receive any grants of plan-based awards from FBR Capital Markets in 2008.

FBR Capital Markets Corporation

Grants of Plan-Based Awards for 2008⁽¹⁾

Name	Grant Date	Date of Compensation Committee Approval	Estimated Future Payouts Under Non-Equity Incentive Plan Awards: Target ⁽²⁾	Estimated Future Payouts Under Equity Incentive Plan Awards: Target ⁽³⁾⁽⁴⁾	All Other Stock Awards: Number of Shares of Stock ⁽⁵⁾	All Other Option Awards: Number of Underlying Shares ⁽⁶⁾	Exercise or Base Price of Awards (\$/sh)	Closing Market Price on Date of Grant (\$/sh)	Grant Date Fair Value ⁽⁷⁾
Eric F. Billings	2/19/2008	2/19/2008	(2)						
	2/20/2008	2/19/2008		1,000,000 ⁽³⁾					\$ 2,180,000
	8/20/2008	8/18/2008		266,667 ⁽⁴⁾					\$ 1,106,668
	8/20/2008	8/18/2008				533,333 ⁽⁶⁾	5.61	5.69	\$ 1,605,332
Kurt R. Harrington	2/20/2008	2/19/2008			7,257 ⁽⁵⁾				\$ 50,001
	2/20/2008	2/19/2008			1,281 ⁽⁵⁾				\$ 8,826
Richard J. Hendrix	2/19/2008	2/19/2008	(2)						
	2/20/2008	2/19/2008		600,000 ⁽³⁾					\$ 1,308,000
	8/20/2008	8/18/2008		160,000 ⁽⁴⁾					\$ 664,000
	8/20/2008	8/18/2008				320,000 ⁽⁶⁾	5.61	5.69	\$ 963,200
William J. Ginivan	2/19/2008	2/19/2008	(2)						
	2/20/2008	2/19/2008		125,000 ⁽³⁾					\$ 272,500
	2/20/2008	2/19/2008			9,071 ⁽⁵⁾				\$ 62,499
	2/20/2008	2/19/2008			1,601 ⁽⁵⁾				\$ 11,031
	8/20/2008	8/18/2008		33,333 ⁽⁴⁾					\$ 138,332
	8/20/2008	8/18/2008				66,667 ⁽⁶⁾	5.61	5.69	\$ 200,668

- (1) All of the grants to Messrs. Billings, Hendrix and Ginivan presented in the table above were separately awarded by FBR Capital Markets and separately approved by the FBCM Compensation Committee. For a discussion of the compensation awarded to Messrs. Billings, Hendrix and Ginivan for their services as executive officers of FBR Capital Markets you should refer to the information included in the definitive proxy statement to be filed by FBR Capital Markets with the SEC on or about April 30, 2009.
- (2) The compensation committee of the board of directors of FBR Capital Markets developed a 2008 Incentive Compensation Program (FBCM ICP) in the first quarter of 2008 to provide performance-based compensation opportunities for certain of our Named Executive Officers. Messrs. Tonkel and Harrington did not participate in this plan. FBR Capital Markets did not achieve the minimum threshold of net revenues required under the FBCM ICP for the payment of performance-based compensation to the Named Executive Officers participating in the plan.
- (3) On February 20, 2008, FBR Capital Markets granted performance-based restricted stock units pursuant to the FBR Capital Markets 2006 Long-Term Incentive Plan to certain Named Executive Officers as part of a broad-based equity incentive program covering approximately 40 of FBR Capital Markets key employees. These units were awarded subject to a performance-based vesting condition, which was subsequently amended.

Of the 1,000,000 units granted to Mr. Billings on February 20, 2008, the vesting terms with respect to 266,667 units were amended on August 20, 2008, to remove the performance-based condition. As a result of the amendment, 266,667 units will vest in equal one-third increments on the third, fourth and fifth anniversaries of the original February 2008 grant date subject only to continued employment. The remaining 733,333 units granted on February 20, 2008 were cancelled.

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Of the 600,000 units granted to Mr. Hendrix on February 20, 2008, the vesting terms with respect to 160,000 units were amended on August 20, 2008, to remove the performance-based condition. As a result of the amendment, 160,000 units will vest in equal one-third increments on the third, fourth and fifth anniversaries of the original February 2008 grant date subject only to continued employment. The remaining 440,000 units granted on February 20, 2008 were cancelled.

Of the 125,000 units granted to Mr. Ginivan on February 20, 2008, the vesting terms with respect to 33,333 units were amended on August 20, 2008, to remove the performance-based condition. As a result of the amendment, 33,333 units will vest in equal one-third

increments on the third, fourth and fifth anniversaries of the original February 2008 grant date subject only to continued employment. The remaining 91,667 units granted on February 20, 2008 were cancelled.

- (4) On August 20, 2008, FBR Capital Markets granted performance-based restricted stock units pursuant to the FBR Capital Markets 2006 Long-Term Incentive Plan to certain Named Executive Officers as part of a broad-based equity incentive program covering approximately 40 of FBR Capital Markets key employees. These units will become eligible to vest in equal one-third increments in February 2011, February 2012 and February 2013, subject only to continued employment, but only if the average market price of FBR Capital Markets common stock trades at a price of at least \$8.00 per share for any 20 consecutive trading days prior to February 20, 2011.
- (5) On February 20, 2008, Mr. Harrington was awarded 7,257 restricted shares of FBR Capital Markets common stock, which vest ratably in three annual installments beginning on the first anniversary of the grant, subject to continued employment, and 1,281 restricted shares of FBR Capital Markets common stock, which vest on February 20, 2011, subject to continued employment. These shares were awarded under the FBR Capital Markets 2006 Long-Term Incentive Plan as partial payment of the discretionary bonus paid to Mr. Harrington by us for his 2007 service.

On February 20, 2008, Mr. Ginivan was awarded 9,071 restricted shares of FBR Capital Markets common stock, which vest ratably in three annual installments beginning on the first anniversary of the grant, subject to continued employment, and 1,601 restricted shares of FBR Capital Markets common stock, which vest on February 20, 2011, subject to continued employment. These shares were awarded under the FBR Capital Markets 2006 Long-Term Incentive Plan as partial payment of the discretionary bonus paid to Mr. Ginivan by us for his 2007 service.

- (6) On August 20, 2008, Messrs. Billings, Hendrix and Ginivan were granted options to purchase shares of FBR Capital Markets common stock under the FBR Capital Markets 2006 Long-Term Incentive Plan. These options become exercisable in three equal annual installments beginning on August 20, 2011, subject only to continued employment with FBR Capital Markets, for an exercise price of \$5.61 per share, which was the closing price of the company's common stock on the Nasdaq Stock Market on August 19, 2008, the trading day immediately preceding the date of grant.

- (7) Represents the grant date fair value computed in accordance with SFAS No. 123R.

On February 20, 2008, Messrs. Billings, Hendrix and Ginivan were awarded performance-based restricted stock units (2008 Performance RSUs) pursuant to the FBR Capital Markets 2006 Long Term Incentive Plan. The 2008 Performance RSUs were scheduled to vest in equal one-third increments on the third, fourth and fifth anniversaries of the original date of grant, subject to continued employment, and if the average market price of the FBR Capital Markets common stock as quoted on the Nasdaq Stock Market was at least \$17.00 per share for any 20 consecutive trading days prior to February 20, 2011. On August 20, 2008, the FBR Capital Markets board of directors determined that it was in the best interest of the company to approve certain amendments to a portion of the 2008 Performance RSUs, which became effective as of August 20, 2008. The FBR Capital Markets board of directors also determined that it was in the best interests of the company to cancel the balance of the 2008 Performance RSUs and to award new performance-based RSUs and stock options to the plan participants, effective as of August 20, 2008.

Outstanding Equity Awards At 2008 Fiscal Year-End (FBR Group)

The following table sets forth information concerning our company's equity awards held by our Named Executive Officers that were outstanding at December 31, 2008.

Name	Stock Awards	
	Number of shares or units that have not vested	Market value of shares or units that have not vested (1)
Eric F. Billings	3,553,861 ⁽²⁾	\$ 604,156
Kurt R. Harrington	53,558 ⁽³⁾	\$ 9,105
J. Rock Tonkel, Jr.	3,310,861 ⁽⁴⁾	\$ 562,846
Richard J. Hendrix		\$
William J. Ginivan	583,612 ⁽⁵⁾	\$ 99,214

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- (1) The market value of the restricted shares was calculated based on the closing price of our Class A common stock on December 31, 2008, which was \$0.17. Dividends, if any, are paid on outstanding shares of restricted stock at the same rate as paid to all holders of record of the Company's Class A common stock.
- (2) The unvested shares of restricted stock held by Mr. Billings at December 31, 2008 will vest as follows: 42,588 shares (these shares were awarded on July 25, 2007 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to

continued employment); 11,273 shares (these shares were awarded on July 25, 2007 and vest on July 25, 2010, subject to continued employment); and 3,500,000 shares (these shares were awarded on February 20, 2008 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment).

- (3) The unvested shares of restricted stock held by Mr. Harrington at December 31, 2008 vest as follows: 25,000 (vested February 9, 2009); 6,598 shares (these shares were awarded on July 25, 2007 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); 1,746 shares (these shares were awarded on July 25, 2007, and vest on July 25, 2010, subject to continued employment); 3,032 shares (these shares were awarded on February 20, 2008, and vest on February 20, 2011, subject to continued employment); and 17,182 shares (these shares were awarded on February 20, 2008 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continue employment).
- (4) The unvested shares of restricted stock held by Mr. Tonkel at December 31, 2008 vest as follows: 48,123 (these shares were awarded on July 25, 2007 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); 12,738 shares (these shares were awarded on July 25, 2007, and vest on July 25, 2010, subject to continued employment); and 3,250,000 shares (these shares were awarded on February 20, 2008 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment).
- (5) The unvested shares of restricted stock held by Mr. Ginivan at December 31, 2008 vest as follows: 50,000 shares (vested on February 9, 2009); 6,598 (these shares were awarded on July 25, 2007 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); 1,746 (these shares were awarded on July 25, 2007, and vest on July 25, 2010, subject to continued employment); 3,790 (these shares were awarded on February 20, 2008, and vest on February 20, 2011, subject to continued employment); 21,478 shares (these shares were awarded on February 20, 2008 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); and 500,000 shares (these shares were awarded on February 20, 2008 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment).

Outstanding Equity Awards At 2008 Fiscal Year-End (FBR Capital Markets)

The following table sets forth information concerning equity awards that were outstanding at December 31, 2008.

Name	Option Awards				Stock Awards		Equity incentive plan awards: market value of unearned shares, units or other rights that have not vested ⁽³⁾	
	Number of securities underlying unexercised options ⁽¹⁾	Equity incentive plan awards: number of securities underlying unexercised options ⁽²⁾	Option exercise price	Option expiration date	Number of shares or units that have not vested	Market value of shares or units that have not vested ⁽³⁾	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested ⁽⁴⁾	Equity incentive plan awards: market value of unearned shares, units or other rights that have not vested ⁽³⁾
Eric F. Billings	533,333	243,000	\$ 15.00 \$ 5.61	7/20/2012 8/20/2015	282,356 ⁽⁵⁾	\$ 1,372,250	266,667	\$ 1,296,002
Kurt R. Harrington		90,000	\$ 15.00	7/20/2012	10,969 ⁽⁶⁾	\$ 53,309		
J. Rock Tonkel, Jr.		162,000	\$ 15.00	7/20/2012				
Richard J. Hendrix	320,000	162,000	\$ 15.00 \$ 5.61	7/20/2012 8/20/2015	178,943 ⁽⁷⁾	\$ 869,663	160,000	\$ 777,600
William J. Ginivan	66,667	67,500	\$ 15.00 \$ 5.61	7/20/2012 8/20/2015	46,436 ⁽⁸⁾	\$ 225,679	33,333	\$ 161,998

(1) These options were awarded on February 20, 2008, and become exercisable in three equal annual installments beginning on the third anniversary of the date of grant, subject only to continued employment, for an exercise price of \$5.61 per share, which was the closing price of the company's common stock on the Nasdaq Stock Market on August 19, 2008, the trading day immediately preceding the date of grant.

(2) In connection with the FBR Capital Markets July 2006 private offering, the Board of Directors, which at the time consisted of Messrs. Billings, Hendrix and Tonkel, approved the grant of these performance-based options to the Named Executive Officers. The option grant was subject to a majority of the FBR Capital Markets independent directors approving the performance criteria for these options at a later date. On April 10, 2007, a majority of the FBR Capital

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Markets independent directors approved the performance criteria. These performance-based options will vest on July 20, 2009 if, commencing with the quarter ended September 30, 2006 and ending with the quarter ending June 30, 2009, FBR Capital Markets achieves an average after-tax return on equity (calculated over the period of any four consecutive quarters) in excess of ten percent. If the performance condition is not satisfied by the end of the three-year vesting period, these options will expire unvested. These options are expected to expire unvested at the end of the second quarter of 2009.

- (3) The market value of the restricted shares and restricted stock units that have not vested as of December 31, 2008 was calculated based on \$4.86 per share, the closing price of FBR Capital Markets common stock on December 31, 2008. Dividends, if any, will be paid on outstanding shares of restricted stock at the same rate as paid to all holders of record of FBR Capital Markets common stock. For 2008, FBR Capital Markets did not pay any dividends on our shares of common stock.

- (4) The shares held by Mr. Billings vest ratably in three annual installments beginning on February 21, 2011 if the average market price for FBR Capital Markets common stock is at least \$8.00 per share for any 20 consecutive trading days prior to February 20, 2011.

The shares held by Messrs. Ginivan and Hendrix vest ratably in three annual installments beginning on February 21, 2011 if the average market price for FBR Capital Markets common stock is at least \$8.00 per share for any 20 consecutive trading days prior to February 20, 2011. All vesting is subject to continued employment.

- (5) The unvested shares held by Mr. Billings at December 31, 2008 will vest as follows: 12,405 shares (these shares were awarded on July 25, 2007 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); 3,284 shares (these shares were awarded on July 25, 2007, and vest on July 25, 2010, subject to continued employment); and 266,667 shares (these shares were granted on February 20, 2008, and vest ratably beginning on the third anniversary of the date of grant, subject to continued employment).
- (6) The unvested shares held by Mr. Harrington at December 31, 2008 will vest as follows: 1,922 shares (these shares were awarded on July 25, 2007 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); 509 shares (these shares were awarded on July 25, 2007, and vest on July 25, 2010, subject to continued employment); 7,257 shares (these shares were granted on February 20, 2008, and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); 1,281 shares (these shares were awarded on February 20, 2008, and vest on February 20, 2011, subject to continued employment).
- (7) The unvested shares held by Mr. Hendrix at December 31, 2008 will vest as follows: 14,978 shares (these shares were awarded on July 25, 2007 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); 3,965 shares (these shares were awarded on July 25, 2007, and vest on July 25, 2010, subject to continued employment); and 160,000 shares (these shares were granted on February 20, 2008, and vest ratably beginning on the third anniversary of the date of grant, subject to continued employment).
- (8) The unvested shares held by Mr. Ginivan at December 31, 2008 will vest as follows: 1,922 shares (these shares were awarded on July 25, 2007 and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); 509 shares (these shares were awarded on July 25, 2007, and vest on July 25, 2010, subject to continued employment); 9,071 shares (these shares were awarded on February 20, 2008, and vest ratably in three annual installments beginning on the first anniversary of the date of grant, subject to continued employment); 1,601 shares (these shares were awarded on February 20, 2008, and vest on February 20, 2011, subject to continued employment); and 33,333 shares (these shares were granted on February 20, 2008, and vest ratably beginning on the third anniversary of the date of grant, subject to continued employment).

Option Exercises and Stock Vested (FBR Group)

The following table sets forth certain information regarding vesting of FBR Group stock awards during the year ended December 31, 2008. No stock options to purchase Class A or Class B common stock were exercised by the Named Executive Officers in 2008.

Name	Number of Shares Acquired on Vesting	Value Realized on Vesting ⁽¹⁾
Eric F. Billings	78,726	\$ 162,341
Kurt R. Harrington	6,320	\$ 14,478
J. Rock Tonkel, Jr.	97,043	\$ 213,961
Richard J. Hendrix	66,212	\$ 150,350
William J. Ginivan	6,320	\$ 14,478

- (1) The value realized on vesting is computed by multiplying the number of shares vesting by the market value of the underlying shares on the applicable vesting date.

Option Exercises and Stock Vested (FBR Capital Markets)

The following table sets forth certain information regarding vesting of FBR Capital Markets stock awards during the year ended December 31, 2008. No stock options to purchase FBR Capital Markets common stock were exercised by the Named Executive Officers in 2008.

Name	Number of Shares	
	Acquired on Vesting	Value Realized on Vesting ⁽¹⁾
Eric F. Billings	6,202	\$ 30,948
Kurt R. Harrington	960	\$ 4,790
J. Rock Tonkel, Jr.		
Richard J. Hendrix	7,488	\$ 37,365
William J. Ginivan	960	\$ 4,790

(1) The value realized on vesting is computed by multiplying the number of shares vesting by the market value of the underlying shares on the applicable vesting date.

COMPENSATION COMMITTEE REPORT

The following report is submitted by the Compensation Committee of the Board of Directors of Friedman, Billings, Ramsey Group, Inc. (the Company), which is composed of three independent directors, Messrs. Wall (Chairman), Altobello and Gallagher. The Board of Directors has concluded that each member of the Compensation Committee is independent according to the independence standards set forth in the NYSE listing standards and the Company's Corporate Governance Guidelines.

The Compensation Committee oversees the Company's compensation program on behalf of the Board of Directors. During 2008, the Compensation Committee met nine times. In fulfilling its oversight duties, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth in this proxy statement.

Based on the review and discussions referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the proxy statement and the Annual Report on Form 10-K for the year ended December 31, 2008.

Respectfully submitted,

John T. Wall, Chairman
Daniel J. Altobello
Peter A. Gallagher

April 27, 2009

AUDIT COMMITTEE REPORT

The following report is submitted by the Audit Committee of the Board of Directors of Friedman, Billings, Ramsey Group, Inc. (the Company), which is composed of three independent directors, Messrs. Michael (Chairman), Gallagher and Wall. The Board of Directors has concluded that each member of the Audit Committee is independent according to the Company's categorical standards. The Board of Directors has determined that Mr. Michael is qualified as an audit committee financial expert within the meaning of the SEC's regulations and possess related financial management expertise within the meaning of the listing standards of the NYSE.

The Audit Committee assists the Board of Directors in monitoring the Company's financial reporting process. The Company has primary responsibility for the financial statements and the reporting process, including the system of internal controls. The Company's independent registered public accounting firm, PricewaterhouseCoopers LLP (PwC), is responsible for expressing an opinion on the Company's consolidated financial statements and on its internal control over financial reporting as of December 31, 2007, and on its 2006 and 2005 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States).

In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the audited financial statements contained in the 2008 Annual Report on SEC Form 10-K with the Company's management and its independent registered public accountants. The Audit Committee discussed with PwC the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Accounting Oversight Board in Rule 3200T. In addition, the Audit Committee has received the written disclosures and the letter from PwC as required by the applicable requirements of the Public Company Accounting Oversight Board regarding PwC's communications with the Audit Committee concerning independence, and has discussed with PwC its independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, the inclusion of the audited financial statements in the Company's Annual Report on SEC Form 10-K for the year ended December 31, 2008, for filing with the SEC.

Also, in accordance with the charter of the Audit Committee, the Audit Committee met quarterly with its independent registered public accountants and with senior financial management to review their work and the financial results reported for the quarter, and otherwise complied with all provisions of such charter.

Respectfully submitted,

Ralph S. Michael, III, Chairman
Peter A. Gallagher
John T. Wall

April 27, 2009

OTHER MATTERS

The Board of Directors is not aware of any matters to be presented for action at the annual meeting other than as set forth in this proxy statement. However, if any other matters properly come before the annual meeting, or any adjournment or postponement thereof, the person or persons voting the proxies will vote them in accordance with their best judgment, as permitted under our Bylaws and Virginia law.

By Order of the Board of Directors

April 30, 2009

D. Scott Parish
Corporate Secretary

Form of Name Change Amendment

The form of amendment adopted by the Board of Directors, and recommended to shareholders for approval, is as follows:

Article I, Section 1.1 of the Corporation's Amended and Restated Articles of Incorporation is deleted in its entirety, and the following Article I, Section 1.1 is inserted in full to be and read as follows:

1.1 *Name.* The name of the Corporation is Arlington Asset Investment Corp. (the Corporation).

A-1

Form of Reverse Stock Split Amendment

The form of the amendment adopted by the Board of Directors, and recommended to shareholders for approval, is as follows:

ARTICLE III of the Corporation's Amended and Restated Articles of Incorporation is amended by inserting the following as Section 3.3 after Section 3.2 in the Corporation's Amended and Restated Articles of Incorporation:

3.3 Reverse Stock Split. As of [TIME] on [DATE] (the Effective Time), each [[20], [25] or [30]] shares of the Corporation's Class A Common Stock and each [[20], [25] or [30]] shares of the Corporation's Class B Common Stock, issued and outstanding immediately prior to the Effective Time, shall automatically be combined into one validly issued, fully paid and non-assessable share of Class A Common Stock and one validly issued, fully paid and non-assessable share of Class B Common Stock, respectively, without any further action by the Corporation or the holder thereof, subject to the treatment of fractional share interests as described below (the Reverse Stock Split).

Shareholders who otherwise would be entitled to receive fractional share interests as a result of the Reverse Stock Split shall, with respect to such fractional share interests, be entitled to receive cash (without interest or deduction) from the Corporation's transfer agent in lieu of such fractional share interests, upon receipt by the Corporation's transfer agent of the shareholder's properly completed and duly executed transmittal letter and, where shares are held in certificated form, the surrender of the shareholder's Old Certificates (as defined below), in an amount equal to the proceeds attributable to the sale of all such fractional shares following the aggregation and sale by the Corporation's transfer agent of all such fractional share interests otherwise issuable as a result of the Reverse Stock Split.

Each certificate that immediately prior to the Effective Time represented shares of the Corporation's Class A Common Stock or Class B Common Stock, as the case may be (the Old Certificates), shall thereafter represent that number of shares of Class A Common Stock or Class B Common Stock, as the case may be, into which the shares of Class A Common Stock or Class B Common Stock, as the case may be, represented by the Old Certificates shall have been combined, subject to the elimination of fractional share interests as described above.

