



Ziegler
Strong Partner. Stronger You.

2011 ANNUAL REPORT



THE ZIEGLER VISION...

Advancing health, wealth and well-being through tailored financial solutions.

ZIEGLER'S CORPORATE VALUES FOCUS ON THREE DISTINCT CONSTITUENCIES:

1. Clients — Our client's interests come first. We create high value relationships for clients, knowing that their success will assure our own;
2. Shareholders — We are committed to earning a profit in an ethical manner and providing shareholders with a fair return on their investment; and
3. Associates — Our most important assets are our people. We help our associates improve their skills, encourage them to take risks, treat them fairly, and recognize their accomplishments.

We are proud of our work in serving these constituents and in generating a positive impact on their lives.

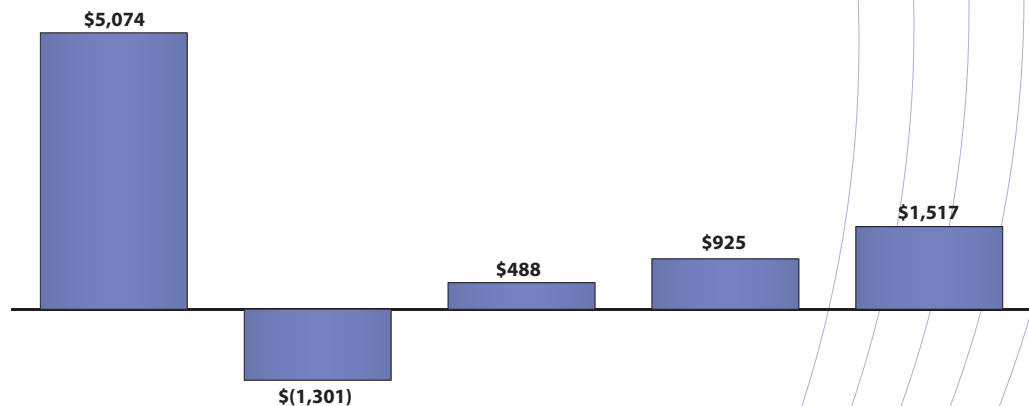
EARNINGS

2011 delivered net income of \$1,517,000 or \$1.27 per basic share, a 64% increase over 2010's results of \$925,000 or \$.73 per share. Prior years reported \$488,000 or \$0.38 per share, \$(1,301,000) or \$(1.04) per share, \$5,074,000 or \$3.05 per share in 2009, 2008, and 2007, respectively.

Return on equity continued to improve in 2011 at 5.6%, compared to 3.4%, 1.8%, (4.6)%, and 13.2% in 2010, 2009, 2008, and 2007, respectively.

Tangible book value continued its incline reaching \$22.99 per share in 2011, compared to \$21.51, \$18.69, \$16.34, and \$20.18 in 2010, 2009, 2008, and 2007, respectively.

NET INCOME (unaudited, in thousands)



For the years ended December 31,	2007	2008	2009	2010	2011
Basic Earnings Per Share	\$3.05	\$(1.04)	\$0.38	\$0.73	\$1.27
Return on Equity	13.2%	(4.6)%	1.8%	3.4%	5.6%
Tangible Book Value	\$20.18	\$16.34	\$18.69	\$21.51	\$22.99

ZIEGLER 2011 ANNUAL REPORT — LETTER TO THE SHAREHOLDERS

March 2012

To the Shareholders of The Ziegler Companies, Inc.,

We have viewed the last four years in the financial services sector like working outwards in concentric circles. At the center of the circles is the sector's economic volatility. The subsequent circles represent our firm's response.

Circle #1: We execute our strategic plan.

Ziegler is a specialty bank with unique talents in and around complex credit structures and advisory. In 2010 we reset our strategic plan to laser-focus our energies around senior living, healthcare, religion, and education and to service our institutional and individual investors. We knew a focused vision with limited distractions and a lean and efficient infrastructure would guide us through the economic downturn.

Circle #2: We improve our financial results.

Net income, earnings per share, return on equity, and tangible book value have increased each year since 2008. Year-over-year 2011 versus 2010 results posted a 64% increase in net income, 74% increase in earnings per share, 65% increase in return on equity, and 6.9% increase in tangible book value. In the spirit of full disclosure, we did start the year from a relatively low base in 2010, but our progress proves our plan is working, despite the housing market, which so greatly impacts our stalwart senior living finance practice.

Circle #3: We explore innovations.

When we reset our strategic plan we committed to innovating 'where it made sense' for our focused business. For example, we put forth a strategy to emerge as one of the top five underwriters in charter school debt financing in America. As reported by EMMA^{®*} in par amounts, Ziegler boasts the #1 charter school underwriter position for 2011.

Our plan called for revenue diversification that allows us to respond to different market cycles. We are pleased with the advancement of our mortgage finance and M&A practices.

Continually, we seek new ideas that are tangential to our core business. We're careful about where we put our development dollars, and know that when we place a bet, we fully expect to win.

Circle #4: We look forward.

The economic forecast is promising — the available money supply and deflationary effects are reversing, equities are going up, manufacturing activity and employment are increasing, credit extension and usage are rising. It's slow progress, for sure, but progress nonetheless... and important to our business.

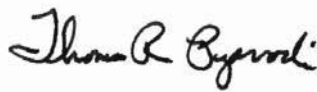
Our mantra for 2012 is GET IT DONE! An absolute certainty of our concentric circles is as little control as we have over the center circle of economic volatility, we have maximum control over the circles of our business. We know our strategic plan has us in the right space. We have confidence in our teams to execute our plan for profitable growth.

On behalf of Ziegler and the Board of Directors, thank you for your investment and support. We look forward to sharing our continued progress with you.

Kind Regards,



Geoffrey B. Shields
Chairman
The Ziegler Companies, Inc.



Thomas R. Paprocki
Chief Executive Officer
The Ziegler Companies, Inc.

The Ziegler Companies, Inc.

**Audited Consolidated Financial Statements and Footnotes
and
Other Information
As of December 31, 2011 and 2010, and
For the Years Ended December 31, 2011 and 2010**

Address

**200 South Wacker Drive, Suite 2000
Chicago, Illinois 60606**

**Total Shares of Common Stock Outstanding
At February 29, 2012**

1,177,098

Report of Independent Certified Public Accountants

Board of Directors
The Ziegler Companies, Inc.

We have audited the accompanying consolidated statements of financial condition of The Ziegler Companies, Inc. and Subsidiaries (the “Company”) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Ziegler Companies, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

GRANT THORNTON LLP
Chicago, Illinois
March 20, 2012

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2011 AND 2010

(In thousands, except per share amounts)

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 12,781	\$ 7,919
Securities owned, at fair value	44,299	61,178
Receivable for unsettled trades, net	-	11,218
Receivables, net	6,050	6,988
Notes receivable, net	8,888	4,032
Investments	5,817	7,651
Deferred tax assets	2,956	2,593
Furniture, equipment, and leasehold improvements, net	5,583	6,120
Intangible assets, net	1,003	508
Goodwill	-	440
Other assets	2,368	3,236
	<hr/>	<hr/>
Total assets	<u>\$ 89,745</u>	<u>\$ 111,883</u>
<u>LIABILITIES</u>		
Short-term notes payable	\$ 4,450	\$ 3,548
Short-term bank borrowing	7,800	6,300
Securities, sold not yet purchased	506	-
Payable to clearing broker	14,311	31,744
Payable for unsettled trades, net	2,819	-
Accrued compensation	12,977	14,997
Accounts payable, accrued expenses and other liabilities	6,934	7,759
Long-term debt	11,686	14,885
	<hr/>	<hr/>
Total liabilities	<u>61,483</u>	<u>79,233</u>
Commitments		
<u>EQUITY</u>		
Ziegler shareholders' equity-		
Preferred stock, \$1 par, 500 shares authorized, none issued	-	-
Common stock, \$1 par, 7,500 shares authorized, 3,544 shares issued	3,544	3,544
Additional paid-in capital	8,655	8,567
Retained earnings	67,309	65,792
Treasury stock, at cost, 2,373 and 2,322 shares, respectively	(51,585)	(50,569)
Notes receivable for purchase of common stock	-	(94)
	<hr/>	<hr/>
Total Ziegler shareholders' equity	27,923	27,240
Noncontrolling interest	339	5,410
	<hr/>	<hr/>
Total equity	<u>28,262</u>	<u>32,650</u>
Total liabilities and equity	<u>\$ 89,745</u>	<u>\$ 111,883</u>

See accompanying notes to consolidated financial statements.

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In thousands, except per share amounts)

	<u>2011</u>	<u>2010</u>
Revenues:		
Investment banking	\$ 31,548	\$ 42,471
Net trading profits	11,706	10,671
Commissions	10,306	9,424
Miscellaneous fee income	5,075	3,875
Investment management and advisory fees	2,816	5,065
Interest and dividends	2,557	4,872
Investment losses, net of gains	(769)	(2,570)
Other income	4,340	3,746
	<u>67,579</u>	<u>77,554</u>
Expenses:		
Compensation and benefits	46,663	52,581
Communications and data processing	4,947	5,774
Occupancy	4,462	4,927
Promotional	3,196	3,584
Provision for (recoveries from) losses	2,965	(62)
Professional and regulatory	2,054	2,841
Brokerage commissions and clearing fees	1,970	1,888
Interest	1,420	1,864
Intangible asset impairment	538	1,879
Other	901	2,986
	<u>69,116</u>	<u>78,262</u>
Loss before income taxes and noncontrolling interest	(1,537)	(708)
Provision for (benefit from) income taxes	<u>152</u>	<u>(259)</u>
Net loss	(1,689)	(449)
Loss attributable to the noncontrolling interest	<u>3,206</u>	<u>1,374</u>
Net income attributable to Ziegler	<u>\$ 1,517</u>	<u>\$ 925</u>
Per share data:		
Basic and diluted earnings per share	\$ 1.27	\$ 0.73

See accompanying notes to consolidated financial statements.

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Dollars in thousands, except share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Notes Receivable	Noncontrolling Interest	Total
BALANCE, December 31, 2009	\$ 3,544	\$ 8,561	\$ 64,867	\$ (49,348)	\$ (382)	\$ 18,952	\$ 46,194
Net income attributable to Ziegler	-	-	925	-	-	-	925
Cost of treasury stock purchased (77,530 shares)	-	-	-	(1,393)	-	-	(1,393)
Common stock issued as compensation (6,633 shares)	-	4	-	101	-	-	105
Proceeds from exercise of stock options (4,700 shares)	-	2	-	71	-	-	73
Payments on notes receivable for purchase of common stock	-	-	-	-	288	-	288
Loss attributable to noncontrolling interest	-	-	-	-	-	(1,374)	(1,374)
Noncontrolling interest capital distributions paid	-	-	-	-	-	(12,168)	(12,168)
BALANCE, December 31, 2010	3,544	8,567	65,792	(50,569)	(94)	5,410	32,650
Net income attributable to Ziegler	-	-	1,517	-	-	-	1,517
Cost of treasury stock purchased (64,850 shares)	-	-	-	(1,225)	-	-	(1,225)
Common stock issued as compensation (814 shares)	-	3	-	13	-	-	16
Common stock sold to employees (9,407 shares)	-	44	-	143	-	-	187
Proceeds from exercise of stock options (3,500 shares)	-	7	-	53	-	-	60
Payments on notes receivable for purchase of common stock	-	-	-	-	94	-	94
Share-based compensation	-	34	-	-	-	-	34
Loss attributable to noncontrolling interest	-	-	-	-	-	(3,206)	(3,206)
Noncontrolling interest capital distributions paid	-	-	-	-	-	(1,865)	(1,865)
BALANCE, December 31, 2011	<u>\$ 3,544</u>	<u>\$ 8,655</u>	<u>\$ 67,309</u>	<u>\$ (51,585)</u>	<u>\$ -</u>	<u>\$ 339</u>	<u>\$ 28,262</u>

See accompanying notes to consolidated financial statements.

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,689)	\$ (449)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,462	1,744
Gain on sale of mortgage loans	(3,342)	(322)
Provision for (reduction to) receivables allowances	886	(56)
Provision for (reduction to) notes receivable allowances	2,079	(6)
Loss on sale of furniture, equipment, and leasehold improvements	10	128
Mortgage servicing rights retained	(703)	(100)
Investment losses, net of gains	769	2,570
Compensation expense paid in stock	50	107
Deferred income taxes	(363)	(890)
Gain on sale of operations	-	(2,724)
Equity in (income) loss of partially owned entities	(22)	153
Intangible asset impairment	538	1,879
Change in assets and liabilities:		
Decrease (increase) in -		
Securities owned	16,879	5
Receivable for unsettled trades, net	11,218	65,012
Receivables, net	52	(4,515)
Other assets	868	3,720
Increase (decrease) in -		
Payable to clearing-broker	(17,433)	(68,491)
Accrued compensation	(2,020)	(362)
Payable for unsettled trades, net	2,819	-
Securities sold, not yet purchased	506	-
Accounts payable, accrued expenses and other liabilities	(825)	(525)
Net cash provided by (used in) operating activities	11,739	(3,122)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from -		
Sale of furniture, equipment, and leasehold improvements	2	4
Payments received on notes receivable	1,677	12,667
Sale of ZCM, net of cash	-	3,528
Distributions and proceeds from investments	1,779	3,577
Sale of mortgage loans	88,088	12,018
Payments for -		
Issuances of notes receivable	(62)	(777)
Furniture, equipment, and leasehold improvement expenditures	(827)	(567)
Purchases of investments	(692)	(581)
Mortgage loans originated	(93,296)	(11,696)
Net cash (used in) provided by investing activities	(3,331)	18,173

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont'd.)

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from -		
Issuance of short-term notes payable	\$ 27,632	\$ 14,437
Short-term bank borrowing	50,850	20,875
Payments received on notes receivable issued for purchase of common stock	94	288
Stock sold to employees	187	-
Exercise of employee stock options	60	71
Payments for -		
Maturities of short-term notes payable	(26,730)	(14,192)
Repayments of short-term bank borrowing	(49,350)	(21,575)
Repayments of long-term debt	(3,199)	(12,269)
Purchase of treasury stock	(1,225)	(1,393)
Noncontrolling interest capital distributions	(1,865)	(12,168)
	<u>(3,546)</u>	<u>(25,926)</u>
Net cash used in financing activities		
	<u>(3,546)</u>	<u>(25,926)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,862	(10,875)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,919</u>	<u>18,794</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 12,781</u>	<u>\$ 7,919</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid during the year	\$ 1,422	\$ 1,768
Income taxes refunded during the year	(337)	(1,914)

See accompanying notes to consolidated financial statements.

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share amounts)

(1) Organization and Nature of Business

The Ziegler Companies, Inc. ("ZCO", "Ziegler" or the "Parent") and its wholly and partially-owned subsidiaries (collectively, the "Company") are principally engaged in specialty investment banking for the healthcare, senior living, religion and education sectors. Ziegler also provides services associated with corporate finance, Federal Housing Administration/Housing and Urban Development (FHA/HUD) mortgage loan origination, financial advisory, merger and acquisition advisory, investment advisory, retail brokerage, fixed income institutional sales and trading, private placement, seed capital, and related financial services. These services are provided to institutions, businesses, and individuals throughout the United States. B.C. Ziegler and Company, the Company's largest subsidiary, is a broker-dealer registered with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority.

(2) Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of ZCO and its wholly owned subsidiaries; B. C. Ziegler and Company ("BCZ"); Ziegler Capital Management, LLC ("ZCM") through April 30, 2010 (and thereafter included as a partially owned investment which changed its name to Ziegler Lotsoff Capital Management, LLC ("ZLCM")); Ziegler Financing Corporation ("ZFC"); ZHP I, LLC, a general partner ("ZHP"); Ziegler Medical Devices, LLC ("ZMD"); Ziegler Healthcare Real Estate Fund Management IV, LLC, a general partner ("ZHREFM"); and Ziegler Healthvest Management, LLC ("ZHM"), a general partner. ZMD owns a 20% interest in Ziegler Meditech Partners, LLC ("ZMP"), the general partner of Ziegler Meditech Equity Partners, LP ("Meditech"), of which ZMP holds a 1% interest. ZHREFM is the general partner of Ziegler Healthcare Real Estate Fund IV, LP, a partnership formed for the purpose of investing in medical real estate. ZHM is the general partner of Ziegler HealthVest Partners, LP, and Ziegler HealthVest Partners (Parallel), LP (together "ZHVP"), both partnerships formed for the purpose of making equity and equity-linked investments in companies related to the healthcare services, healthcare information management and technology, and wellness sectors. The Company's consolidated financial statements also include the accounts of Ziegler Equity Funding I, LLC ("ZEF I"), a 68% owned entity, and Ziegler Healthcare Fund I, LP ("ZHF I"), an 11% owned entity through both a direct and indirect relationship for which ZHP is the general partner. ZHF I is a Small Business Investment Company ("SBIC") regulated by the Small Business Administration ("SBA"). ZEF I is 32% owned by officers, employees, and former employees of the Company. The Company's consolidated financial statements include a 49% equity investment in ZLCM from May 1, 2010 to June 10, 2011, and 36% thereafter, a 16% equity investment in Ziegler Healthcare Fund II, LLC ("ZHF II") and a 20% equity investment in Ziegler Equity Funding IV, LLC ("ZEF IV"). ZEF IV is 80% owned by officers and employees of the Company. The investments in ZCM as of May 1, 2010, ZHF II and ZEF IV are accounted for using the equity method of accounting. All significant intercompany balances and transactions are eliminated in consolidation.

ZHF I has been licensed to operate as an SBIC. As an SBIC, ZHF I extended credit to qualifying small businesses using its own capital and funds borrowed from the SBA. ZHF I is no longer extending credit, has repaid all SBA funds, and is progressing to the point of full liquidation.

Investment Banking

Investment banking revenues include gains, losses, and fees, net of direct expenses, arising from fixed income securities offerings in which the Company acts as an underwriter. Investment banking revenues also include fees earned from providing consulting, merger and acquisition, risk management, and financial advisory services. Investment banking management fees and sales concessions are recorded on trade date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable. Deferred expenses on investment banking transactions not yet completed were \$423 and \$399 at December 31, 2011 and 2010, respectively, and are included in other assets.

Commission Income and Related Clearing Expenses

Acting as an agent, the Company earns substantially all commission income by buying and selling securities and mutual funds on behalf of its customers and earning commissions on the related transactions. Commission income and related clearing expenses are recorded on a trade date basis.

Investment Management and Advisory Fees

The Company earns investment management and advisory fees for investment advice. The Company earns fees based on the net asset value of the individual and institutional accounts. Revenues from investment management and advisory fees and related activities are recognized on a pro rata basis over the period in which services are performed.

Miscellaneous Fee Income

The Company earns fees for various services and activities. These fees include management, accounting, and origination fees from private equity entities, FHA/HUD loan origination fees, fees related to the sale of investment products, referral fees, and fees associated with account activity of retail brokerage customers. Miscellaneous fee income is recognized when the fees are earned.

Securities Transactions

Proprietary securities transactions are recorded on the trade date, as if they had settled. In the normal course of business, the Company, like other firms in the securities industry, purchases and sells securities as both principal and agent. If another party to the transaction fails to perform as agreed, the Company may incur a loss if the market value of the security is different from the contract amount of the transaction. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the Consolidated Statements of Financial Condition.

Securities are financial instruments, are recorded at fair value, and are considered trading securities.

Receivables

The balance of receivables includes amounts due from third parties for underwriting, remarketing, and sales fees, amounts due for accrued interest on securities owned and notes receivable, and amounts due for financial advisory and merger and acquisition services. The balance of receivables also includes amounts due from related parties for investment management and advisory fees, commissions, accounting services, management services, and loan origination fees totaling \$2,474 and \$2,458 in 2011 and 2010, respectively.

Allowances for Receivables and Notes Receivable

The Company reviews receivables and notes receivable and establishes an allowance for losses on balances for which management has deemed collection is unlikely. At December 31, 2011 and 2010, an allowance for receivables was not required. The allowance for notes receivable was \$115 at December 31, 2010. An allowance for notes receivable was not required at December 31, 2011.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Certain income and expense items are accounted for in different periods for financial reporting purposes than for income tax purposes. Appropriate provisions are made in the Company's consolidated financial statements for deferred income taxes in recognition of these temporary differences. A valuation allowance is established for deferred tax assets when, as determined by management, it is more likely than not that the tax benefit will not be realized.

The Company recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Under that guidance the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

Depreciation and Amortization

Furniture, equipment and leasehold improvements are recorded at cost. The Company provides for depreciation of these assets using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Furniture and equipment are generally depreciated over 3

to 10 years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

Goodwill and Contract Intangible Assets

Goodwill represents the cost of an acquired business in excess of fair value of assets acquired. Goodwill is tested annually for impairment or whenever indications of impairment exist. In testing for the potential impairment of goodwill, the Company considers such factors as historic profitability, projected future cash flows and profitability, and the fair value of the business in an exchange price based on management estimates. An identifiable intangible, which is amortized over its estimated useful life, is tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of the asset may not be fully recoverable.

Mortgage Servicing Rights

Mortgage servicing rights that are retained are carried at fair value and are included in Intangible assets on the Statement of Financial Condition. Mortgage servicing rights may be purchased or may be recognized when mortgage loans are originated pursuant to an existing plan for sale or, if no plan exists, when the mortgage loans are sold. Originated mortgage servicing rights are initially recognized at fair value. Fair value is based on an estimate of market value associated with the sale of the servicing rights, if sold, and the estimated cost of the servicing rights compared to the cost of carrying out the servicing responsibilities.

Mortgage Loans and Origination Fees

Mortgage loans are originated with the intent to immediately sell them although the Company may consider retaining the mortgage loans in certain circumstances. Origination fees on mortgage loans are recognized when the sales of loans are closed. A total of \$1,203 and \$198 related to origination fees were recorded in the Consolidated Statements of Income in 2011 and 2010, respectively.

Stock-Based Compensation

The Company accounts for stock-based awards through the measurement and recognition of compensation expense for all stock-based payment awards to employees and directors based on estimated fair values. Compensation expense is recognized on a straight line basis over the requisite service period. Stock-based compensation with future service requirements is recognized over the period that the recipient of the award provides service in exchange for the award.

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The Company's financial instruments are carried at fair value or amounts that approximate fair value. To differentiate between the approach to fair value measurements, a three level hierarchy which prioritizes the inputs to valuation techniques is used to classify fair value measurements:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 inputs are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data, such as matrix pricing of fixed income securities.
- Level 3 fair value measurements are based on unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Therefore, unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability (including assumptions about risk).

Financial assets are assessed quarterly to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications are made based upon the nature and type of the observable inputs.

Advertising

The Company expenses advertising costs as incurred. The advertising expense was \$591 and \$715 in 2011 and 2010, respectively.

Cash Equivalents

Cash equivalents are defined as unrestricted short-term investments with original maturities within three months of the date of purchase and money market investments. The Company maintains deposits in financial institutions that consistently exceed the Federal Deposit Insurance Corporation ("FDIC") limit of \$250. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk. Cash and cash equivalents consist of cash of \$1,067 and \$1,090 at December 31, 2011 and 2010, respectively, and money market mutual funds of \$11,714 and \$6,829, respectively.

Earnings Per Share

The Company reports both basic earnings per share and diluted earnings per share. Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the year.

Treasury Stock

The Company values common stock in the Treasury on a first in, first out basis.

Use of Estimates

The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

(3) Fair Value Measurements

In valuing financial assets and liabilities, the Company uses valuation techniques believed to be appropriate for each particular financial asset or liability to estimate fair value. These techniques require some degree of judgment and utilize assumptions that market participants would use in pricing the asset or liability. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than financial instruments that are thinly traded or not quoted. The criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability. The following valuation techniques are considered for the financial assets and liabilities of the Company.

- Cash equivalents consist of investments in money market mutual funds. Such instruments are classified within Level 1 of the fair value hierarchy.
- Municipal debt securities are classified as Level 1 or Level 2 in the fair value hierarchy. Municipal variable rate demand notes that have a weekly or more frequent rate reset, are rated by a rating agency and are actively traded, are classified as Level 1 in the fair value hierarchy. Fixed rate municipal debt securities are generally unrated and are not actively traded. The obligations are generally traded at infrequent intervals and may be priced using matrix pricing models. The Company relies on outside pricing services to determine the fair value of fixed rate municipal debt securities. Fixed rate municipal debt securities are classified as Level 2 in the fair value hierarchy.

- Preferred equity securities held by the Company are generally classified as Level 1 in the fair value hierarchy. The preferred equity securities traded by the Company are generally investment grade securities as determined by two rating agencies. In the event that a preferred equity security would fall below investment grade in one or both of its ratings and also be subject to very limited or no market trading, it could be classified as Level 2 or Level 3 in the fair value hierarchy.
- Corporate debt securities include primarily unrated taxable debt securities underwritten by the Company for religious institutions and private schools. These debt securities are generally sold to retail investors. The Company prices the debt securities for sale at the par value based upon the required interest rate using observable market inputs. The Company also participates in limited secondary trading in these corporate debt securities and will price the debt securities at the fair value using current prevailing market interest rates compared to the stated interest rate on the debt securities. Accordingly, corporate debt securities are classified as Level 2 in the fair value hierarchy.
- Other securities consist primarily of mutual funds which are actively traded in public markets and are valued daily. Such investments are classified as Level 1 in the fair value hierarchy.
- Private equity investments consist of various direct investments in operating entities. The valuation of these investments requires significant judgment due to the lack of trading in these investments, the absence of quoted market prices, the inherent lack of liquidity, and the long-term nature of these investments. Private equity investments are valued initially at transaction price until significant transactions or developments indicate that a change in the carrying values of these private equity investments is appropriate. Generally, the carrying values of these private equity investments will be adjusted based on financial performance, financing and sales transactions with third parties, and changes in market outlook. Various methodologies are used to value these investments including comparable market transactions, discounted cash flow and other valuation methodologies. Investments valued using these valuation techniques are classified within Level 3 of the fair value hierarchy.
- Seed capital investments consist of project specific investment entities that provide funding for the pre-finance development capital needs of continuing care retirement communities (“CCRCs”) to the potential residents of these communities. The Company participates with other investors to provide the relatively significant capital requirements for these seed capital projects. Once a seed capital project has reached a specified level of presales and deposits for the occupancy of living units in the CCRC, the developer can initiate the process of accessing permanent construction financing if such financing is available at interest rates suitable for the project. When permanent construction financing is obtained for a project, the seed capital investment and related investment return is generally paid to the seed capital investors. The valuation of seed capital investments is difficult to evaluate due to the lack of certainty related to the presales success, timing, and ability to obtain financing for the projects. The Company values these investments at the cost of the investment. The progress of the marketing is a key determinant of the ability of the project to ultimately achieve financing. The Company will recognize a gain on a seed capital project when the financing is successful. Seed capital projects that do not achieve a financing are written off as a loss of the entire investment. Seed capital investments are classified within Level 3 of the fair value hierarchy.
- The investment in Ridgestone Financial Services, Inc. (“Ridgestone”) is an investment in common stock. The common stock is not publicly traded. The Company reviews financial information of similar publicly traded entities to value its investment in Ridgestone common stock. The Ridgestone common stock investment is classified within Level 3 of the fair value hierarchy.
- The investment in ZHVP is an investment in a limited partnership that has invested in private equity entities. As noted above for other private equity entities, significant judgment is required in the valuation process. The underlying private equity entities included in the portfolio of ZHVP are each evaluated individually to arrive at a valuation of ZHVP in total. The underlying private equity entities are evaluated for financial performance, financing and capital transactions with third party investors, if any, and changes in market outlook. The Company’s investment in ZHVP is valued based on its proportionate share of the estimated value. Investments valued using these valuation techniques are classified within Level 3 of the fair value hierarchy.

The following table presents the valuation of the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>ASSETS</u>				
Cash equivalents	\$ 11,714	\$ -	\$ -	\$ 11,714
Securities owned:				
Municipal debt securities – fixed rate	\$ -	\$ 40,153	\$ -	\$ 40,153
Municipal debt securities – variable rate	575	-	-	575
Preferred equity securities	650	-	-	650
Corporate debt securities	-	2,554	-	2,554
Other securities	367	-	-	367
	<u>\$ 1,592</u>	<u>\$ 42,707</u>	<u>\$ -</u>	<u>\$ 44,299</u>
Other investments:				
Private equity investments	\$ -	\$ -	\$ 652	\$ 652
Seed capital investments	-	-	1,605	1,605
Investment in Ridgestone	-	-	1,868	1,868
Investment in ZHVP	-	-	448	448
Other	-	-	142	142
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,715</u>	<u>\$ 4,715</u>
Investments not subject to fair value adjustment which are accounted for using the equity method of accounting				<u>1,102</u>
Total investments				<u>\$ 5,817</u>
<u>LIABILITIES</u>				
Securities sold, not yet purchased:				
U.S. Government	\$ 506	\$ -	\$ -	\$ 506

Financial instruments are considered within Level 3 of the fair value hierarchy when their value is determined using pricing models, discounted cash flow methodologies, and similar techniques, and for which at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those instruments for which the determination of fair value requires significant management judgment or estimation. The following table presents the summary of changes in financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2011 and required to be reported at fair value in the Consolidated Statements of Financial Condition.

	Private Equity Investments	Seed Capital Investments	Investment in Ridgestone
Balance, December 31, 2010	\$ 1,460	\$ 1,250	\$ 1,868
Unrealized losses included in Investment losses, net of gains	(848)	(50)	-
Realized gain included in Investment losses, net of gains	-	75	-
Purchases	40	593	-
Settlements	-	(263)	-
	<u>\$ 652</u>	<u>\$ 1,605</u>	<u>\$ 1,868</u>

	Investment in ZHVP	Other Investments: Other	Total
Balance, December 31, 2010	\$ 366	\$ 149	\$ 5,093
Unrealized gains and losses included in Investment losses, net of gains	27	27	(844)
Realized gain included in Investment losses, net of gains	-	-	75
Purchases	55	4	692
Settlements	-	(38)	(301)
	<u>\$ 448</u>	<u>\$ 142</u>	<u>\$ 4,715</u>

The following table presents the valuation of the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>ASSETS</u>				
Cash equivalents	<u>\$ 6,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,829</u>
Securities owned:				
Municipal debt securities – fixed rate	\$ -	\$ 49,689	\$ -	\$ 49,689
Municipal debt securities – variable rate	6,905	-	-	6,905
Preferred equity securities	649	-	-	649
Corporate debt securities	-	3,421	-	3,421
Other securities	514	-	-	514
	<u>\$ 8,068</u>	<u>\$ 53,110</u>	<u>\$ -</u>	<u>\$ 61,178</u>
Other investments:				
Private equity investments	\$ -	\$ -	\$ 1,460	\$ 1,460
Seed capital investments	-	-	1,250	1,250
Investment in Ridgestone	-	-	1,868	1,868
Investment in ZHVP	-	-	366	366
Other	-	-	149	149
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,093</u>	<u>\$ 5,093</u>
Investments not subject to fair value adjustment which are accounted for using the equity method of accounting				<u>2,558</u>
Total investments				<u>\$ 7,651</u>

The following table presents the summary of changes in financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2010 and required to be reported at fair value in the Consolidated Statements of Financial Condition.

	Private Equity Investments	Seed Capital Investments	Investment in Ridgestone
Balance, beginning of period	\$ 4,150	\$ 2,703	\$ 2,012
Unrealized losses included in Investment losses, net of gains	(2,160)	(453)	(144)
Realized gain included in Investment losses, net of gains	-	340	-
Purchases	270	300	-
Settlements	(800)	(1,640)	-
	<u>\$ 1,460</u>	<u>\$ 1,250</u>	<u>\$ 1,868</u>

	Investment in ZHVP	Other Investments: Other	Total
Balance, beginning of period	\$ 625	\$ 143	\$ 9,633
Unrealized losses included in Investment losses, net of gains	(259)	-	(3,016)
Realized gain included in Investment losses, net of gains	-	-	340
Purchases	-	11	581
Settlements	-	(5)	(2,445)
	<u>\$ 366</u>	<u>\$ 149</u>	<u>\$ 5,093</u>

Nonrecurring Fair Value Measurements

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value measurement only in certain circumstances, such as when there is evidence of impairment to an asset. Such assets are only subject to adjustment to fair value when the asset value is lower, or impaired, rather than when the asset value is higher than the value recorded by the Company.

The following table presents the assets measured at fair value for which a nonrecurring change in fair value was recorded during the year ended December 31, 2011.

	Level 1	Level 2	Level 3	Total
Contract intangible asset, net	\$ -	\$ -	\$ -	\$ -
Goodwill, net	-	-	-	-

The adjustments to fair value using the income approach during the year ended December 31, 2011, resulted in additional adjustments to income of \$98 for the contract intangible asset and \$440 for the goodwill.

The following table presents the assets measured at fair value for which a nonrecurring change in fair value was recorded during the year ended December 31, 2010.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contract intangible asset, net	\$ -	\$ -	\$ 111	\$ 111
Goodwill, net	-	-	440	440

The adjustments to fair value of these assets using the income approach during the year ended December 31, 2010, resulted in additional charges to income of \$712 for the contract intangible asset and \$1,167 for the goodwill.

Other Fair Value Disclosures

Certain financial instruments held by the Company are not required to be recorded at fair value. The following financial instruments have the following valuation techniques and respective fair values, but are recorded in the Company's Consolidated Statement of Financial Condition at cost, net of allowances.

Notes receivable: Notes receivable are primarily notes associated with the business activities of the Company and are not traded. The fair value of notes receivable, net of allowances, is estimated based on discounted values using current loan rates and the contractual arrangements associated with the loans.

Long-term debt: Long-term debt consists of debt with variable and fixed rates of interest. The fair value of variable rate debt is considered to be the face or stated value of the debt. The fair value of fixed rate debt is determined based on a discounted cash flow analysis by substituting current rates of interest for the stated rate of interest.

The estimated fair values of the Company's financial instruments that are not carried at fair value at December 31, 2011 and 2010 are as follows:

	<u>2011</u> Estimated Fair Value	<u>2010</u> Estimated Fair Value
Notes receivable	\$ 8,879	\$ 3,592
Long-term debt	11,686	14,885

For those financial instruments described above for which the fair value is not reflected on the Consolidated Statements of Financial Condition, we have estimated their fair value in part, based upon our assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates presented above. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the Company's fair value. We are not required to disclose the fair value of non-financial instruments including furniture, equipment and leasehold improvements.

(4) Securities Owned

Securities owned at December 31 consists of trading securities at fair value as follows:

	<u>2011</u>	<u>2010</u>
Municipal debt securities - fixed rate	\$ 40,153	\$ 49,689
Municipal debt securities - variable rate	575	6,905
Preferred equity securities	650	649
Corporate debt securities	2,554	3,421
Other securities	367	514
	<u>\$ 44,299</u>	<u>\$ 61,178</u>

Municipal debt securities consist primarily of revenue bonds issued by state and local governmental authorities related to continuing care retirement communities and health care facilities. Included in municipal debt securities at December 31, 2011 are \$14,791 from four issuers in Florida and \$6,986 from three issuers in Connecticut.

(5) Notes Receivable

Notes receivable at December 31 consist of the following:

	<u>2011</u>	<u>2010</u>
Mortgage note	\$ 8,550	\$ -
SBA-qualified borrowers	-	3,502
Employees (see Note 15)	-	12
Former employees	6	12
Other	<u>332</u>	<u>621</u>
	8,888	4,147
Allowance	<u>-</u>	<u>(115)</u>
	<u>\$ 8,888</u>	<u>\$ 4,032</u>

The mortgage note is being held for sale. It is the result of an FHA loan origination. The loan was sold in January, 2012. See Note 21.

(6) Allowance for Notes Receivable

The activity in the allowance for notes receivable account as of December 31 is as follows:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 115	\$ 121
Provision for losses (reduction due to recoveries)	2,079	(6)
Write-offs	<u>(2,194)</u>	<u>-</u>
Ending balance	<u>\$ -</u>	<u>\$ 115</u>

(7) Investments

Other investments at December 31 consist of the following:

	<u>2011</u>	<u>2010</u>
Investment in Ridgestone	\$ 1,868	\$ 1,868
Seed capital investments	1,605	1,250
Investment in ZLCM	802	865
Private equity investments	652	1,460
Investment in ZHVP	448	366
Investment in ZEF IV	300	327
Investment in ZHF II	-	1,366
Other	<u>142</u>	<u>149</u>
	<u>\$ 5,817</u>	<u>\$ 7,651</u>

Private equity investments consist of various direct investments in operating entities.

The Company owns 287,547 shares of common stock in Ridgestone at December 31, 2011, which is less than 10% of the common stock. There is no public market for the common stock. The investment in Ridgestone is carried at fair value as discussed in Note 3.

Investments in project specific investment entities that provide funding for pre-finance development capital needs are referred to as “seed capital” investments. Seed capital investments represent direct investments by ZCO in such projects. Seed capital investments are carried at fair value as discussed in Note 3.

The investment in ZEF IV is an equity investment and is a variable interest entity, for which the Company is not the primary beneficiary. ZEF IV is in the business of investing primarily in private equity investments by use of investor equity. The Company has fully funded its total commitment to ZEF IV. The Company accounts for ZEF IV using the equity method of accounting.

The investment in ZHF II was an equity investment and a variable interest entity, for which the Company was not the primary beneficiary. ZHF II was in the business of making first mortgage loans to senior living facilities by use of investor equity and loan commitments from banks. ZHF II was dissolved in 2011.

(8) Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements at December 31, 2011 and 2010, consist of the following:

	<u>2011</u>	<u>2010</u>
Furniture	\$ 4,866	\$ 4,500
Equipment	7,235	7,203
Leasehold improvements	<u>6,326</u>	<u>6,106</u>
	18,427	17,809
Less accumulated depreciation	<u>(12,844)</u>	<u>(11,689)</u>
	<u>\$ 5,583</u>	<u>\$ 6,120</u>

Depreciation and amortization expense was \$1,352 and \$1,578 in 2011 and 2010, respectively.

(9) Goodwill and Contract Intangible Assets

The Company’s agreement to purchase an advisory firm in 2005 included the acquisition of goodwill and an identifiable intangible asset associated with a portfolio of assets under management (the “contract intangible”). The purchase agreement included a total of six payments calculated at the end of each year with the final payment in 2010. Total payments recorded for goodwill were \$3,164 through December 31, 2011.

During 2011, based on a substantial reduction in assets under management the Company determined that both the goodwill and contract intangible should be evaluated for impairment. The evaluation resulted in a complete charge-off of both the goodwill and the contract intangible. An impairment charge of \$440 for the goodwill and \$98 for the contract intangible was recorded in 2011.

In conjunction with the sale of 51% of ZCM in 2010, the Company determined that both the goodwill and contract intangible should be evaluated for impairment. The evaluation of both the goodwill and contract intangible resulted in an impairment charge of \$1,167 for the goodwill and \$712 for the contract intangible as of May 1, 2010, the date of the transaction. The sale transaction and deconsolidation of ZCM also resulted in a reduction in goodwill of \$270 and a reduction in the contract intangible of \$80. An evaluation of goodwill at December 31, 2010 did not indicate any further impairment. However, the evaluation indicated the final purchase price payment should not increase goodwill. The \$563 was expensed and included in Other expense in the Consolidated Statements of Income for 2010.

The carrying amount of goodwill and intangible assets is as follows:

	<u>Goodwill</u>	<u>Contract Intangible Asset</u>
Balance, December 31, 2009	\$ 1,877	\$ 947
Sale of 51% of ZCM and related deconsolidation	(270)	(80)
Amortization	-	(44)
Impairment deductions	<u>(1,167)</u>	<u>(712)</u>
Balance, December 31, 2010	440	111
Amortization	-	(13)
Impairment deductions	<u>(440)</u>	<u>(98)</u>
Balance, December 31, 2011	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2011, the carrying amounts of the goodwill and contract intangible asset were as follows:

	<u>Goodwill</u>	<u>Contract Intangible Asset</u>
Gross carrying value	\$ 2,601	\$ 1,423
Accumulated amortization	-	(311)
Impairment write-down	(2,331)	(1,032)
Deductions due to sale and deconsolidation	<u>(270)</u>	<u>(80)</u>
	<u>\$ -</u>	<u>\$ -</u>

(10) Mortgage Servicing Rights

Mortgage servicing rights activity as of and for the years ended December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 397	\$ 344
Mortgage servicing rights retained	703	100
Amortization	<u>(97)</u>	<u>(47)</u>
Ending balance	<u>\$ 1,003</u>	<u>\$ 397</u>

Mortgage servicing fees are subject to the risk that prepayment of principal will exceed expectations and prevent the Company from realizing the value of the mortgage servicing rights. The Company mitigates the risk of prepayment by amortizing the mortgage servicing rights over a shorter period than that which the loan principal is amortized based on an estimated principal paydown schedule that is shorter than the original term.

The amount of contractually specified servicing fees is included in Other income in the Consolidated Statements of Income. The Company collected no late fees or other ancillary fees in 2011 or 2010.

The Company assesses the mortgage servicing right assets for impairment annually. Based on estimates of market value as well as the associated costs of servicing the mortgage servicing rights assets, there is no impairment for the years ended December 31, 2011 and 2010.

(11) Payable to Clearing Broker

The Company's broker-dealer subsidiary, BCZ, clears its proprietary and customer transactions through a clearing broker on a fully disclosed basis. The relationship with BCZ's clearing broker results in

amounts payable for inventory purchases, transaction processing, and losses on securities transactions offset by inventory sales, commissions earned, fees earned, and profits on securities transactions. The amount payable to the clearing broker of \$14,311 at December 31, 2011, and \$31,744 at December 31, 2010 relate primarily to the financing of securities owned by BCZ. At December 31, 2011, securities held by the Company at the clearing broker with a market value of \$43,933 are available to collateralize amounts payable to the clearing broker.

(12) Short-Term Borrowing Arrangements

The Company obtains financing by issuing commercial paper classified in the Consolidated Statements of Financial Condition as Short-term notes payable. The commercial paper has varying maturities up to 270 days. The average interest rate on commercial paper outstanding at December 31, 2011 was approximately 2.6%.

The Company had a bank line of credit for short-term bank borrowing at December 31, 2011 and 2010, totaling \$30,000. The credit facility is collateralized by the Company's equipment, leaseholds and other assets in conjunction with the term loans due June 2014. See Note 13. In accordance with normal banking practices, this line may be withdrawn at the discretion of the lender, is renewed annually, and is payable on demand. The credit facility has restrictive covenants that require, among other things, the Company to maintain a specified debt service coverage ratio, a specified level of tangible net worth, and to carry a zero balance on the line of credit for a specified period during each year. In the event of a default by the Company, the bank has the right to terminate the credit facility and demand immediate payment of the outstanding balance. As of December 31, 2011, the Company was in compliance with all covenants. Interest on the credit facility was 3.5% at December 31, 2011. Amounts outstanding under this credit facility are the balances stated in Short-term bank borrowing in the Consolidated Statements of Financial Condition.

The Company finances securities owned through its clearing relationship. Funds are borrowed at the clearing broker's daily cost of funds, which approximated 1.6% at December 31, 2011, and are due under normal margin arrangements for securities owned and held at the clearing broker. The clearing agent financing is included in Payable to clearing broker in the Consolidated Statements of Financial Condition. See Note 11.

(13) Long-term Debt

Long-term debt at December 31, 2011 and 2010, consists of the following:

	<u>2011</u>	<u>2010</u>
Bank term loans:		
Due June, 2014; interest variable	\$ 10,612	\$ 12,101
Due June, 2013; interest variable	-	1,710
Senior subordinated notes:		
Due February, 2037; interest at 7%	31	31
Due December, 2037; interest at 8%	<u>1,043</u>	<u>1,043</u>
	<u>\$ 11,686</u>	<u>\$ 14,885</u>

The bank term loan due June 2014 bears interest at a floating rate of 30-day Libor plus 375 basis points. The interest rate at December 31, 2011 was 4.0%. The bank term loans are collateralized by the Company's equipment, leaseholds, and other assets in conjunction with the bank line of credit. See Note 12. The term loan with a balance of \$10,612 and \$12,101 at December 31, 2011 and 2010, respectively, was initiated in 2008 with a 10-year amortization schedule and requires monthly principal payments of \$136 plus accrued interest. The term loan with a balance of \$1,710 at December 31, 2010 was repaid in 2011. The remaining term loan has restrictive covenants that require, among other things, the Company to maintain a specified debt service coverage ratio, a specified level of tangible net worth, and to carry a zero balance on the line of credit for a specified period. In the event of a default by the Company, the bank has the right to terminate the term loan and demand immediate payment of the outstanding balance. The Company was in compliance with all covenants as of December 31, 2011.

The senior subordinated notes (the “Notes”) were issued in exchange for outstanding Company common stock. Each of the Notes requires semiannual interest payments. The Notes may not be prepaid by the Company prior to February 15, 2012. The 7% Notes may then be prepaid at the option of the Company at 102% through February 14, 2013 and 101% through February 14, 2014, after which they may be prepaid at 100% of the principal amount. The 8% Notes may be prepaid at the option of the Company at 102% through August 15, 2013 and at 101% through August 15, 2014, after which they may be prepaid at 100% of the principal amount. Holders of the Notes may request prepayment of principal together with accrued interest.

Scheduled payments due on long-term debt are as follows:

2012	\$ 1,633
2013	1,633
2014	7,346
2015	-
2016	-
Thereafter	<u>1,074</u>
	<u>\$ 11,686</u>

(14) Related Party Transactions

The Company has a 36% equity investment in ZLCM at December 31, 2011. The Company obtains subadvisory services from ZLCM for certain asset management services provided by the Company. The Company paid \$196 in 2011 and \$371 in 2010 for these services which are included in professional and regulatory expense in the Consolidated Statements of Income. The Company also provided administrative support services to ZLCM for a fee. Total fees were \$152 in 2011 and \$174 in 2010 and are included in Miscellaneous fee income. The Company received \$22 in referral fees in 2011. A total of \$37 is owed to ZLCM at December 31, 2011 related to fees paid to BCZ by a common client that included ZLCM fees and is included in other liabilities in the Consolidated Statements of Financial Condition. A total of \$9 is due from ZLCM in 2010 related to the fees and is included in receivables in the Consolidated Statements of Financial Condition. The Company held a note receivable due from ZLCM totaling \$240 at December 31, 2010. The note receivable carried an interest rate of 8%. The Company received \$5 and \$2 in interest on the note receivable in 2011 and 2010, respectively. The note was repaid in 2011. ZLCM was invested in \$849 of Company-issued commercial paper which is included in short-term notes payable in the Consolidated Statements of Financial Condition at December 31, 2010.

ZCO extended credit to certain employees in conjunction with their participation in the 2005 Employee Stock Purchase Plan. The credit is in the form of notes signed by individual employees and the principal balance totaled \$94 at December 31, 2010. The outstanding principal balance of the notes is included as a reduction of shareholders’ equity in the Consolidated Statements of Financial Condition at December 31, 2010. The notes were repaid in 2011.

The Company provides accounting, management services, and loan origination and financing to private equity funds sponsored by the Company. Total fees received under these arrangements were \$1,586 and \$1,708 in 2011 and 2010, respectively. A total of \$2,474 and \$2,458 is due from the private equity funds and are included in receivables in the Consolidated Statements of Financial Condition at December 31, 2011 and 2010, respectively.

(15) Retirement Plans

The Company maintains a contributory profit sharing plan for substantially all full-time employees and certain part-time employees. The plan provided for a guaranteed Company match equal to 100% of the first 1% of employee contributions. The payments were made quarterly beginning July 1, 2011. The Company also provides for an annual discretionary matching contribution not to exceed 50% of employee contributions up to 6% of defined compensation for the year and an annual discretionary profit sharing contribution as a percentage of total employee compensation, as defined. Both annual Company contributions are at the discretion of the board of directors. Retirement plan contribution expenses were \$795 and \$705 in 2011 and 2010, respectively.

(16) Income Taxes

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

	<u>2011</u>	<u>2010</u>
Current federal provision	\$ 395	\$ 554
Current state provision	120	77
Total current provision	<u>515</u>	<u>631</u>
Deferred federal benefit	(425)	(983)
Deferred state provision	62	93
Total deferred benefit	<u>(363)</u>	<u>(890)</u>
Total provision (benefit)	<u>\$ 152</u>	<u>\$ (259)</u>

The following are the differences between the statutory federal income tax rate and the effective income tax rates reflected in the provision for (benefit from) income taxes based on income attributable to Ziegler:

	<u>2011</u>	<u>2010</u>
Expected federal tax at the statutory rate of 34%	\$ 568	\$ 226
Tax-exempt interest income, net of related nondeductible interest expense	(681)	(1,038)
State income taxes	120	112
Nondeductible business expenses	109	71
Nondeductible goodwill write-down	38	346
Other	(2)	24
	<u>\$ 152</u>	<u>\$ (259)</u>
Effective income tax rate	<u>9.1%</u>	<u>(38.9)%</u>

The tax effects of temporary differences that give rise to significant elements of the deferred tax assets and deferred tax liabilities at December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Deferred tax assets:		
Deferred compensation	\$ 736	\$ 644
Alternative minimum tax credit carry forwards	631	454
Accrued expenses	334	319
Net operating and capital loss carryforwards	291	143
Partnership income	874	594
Goodwill amortization	696	608
Other assets	<u>7</u>	<u>190</u>
	3,569	2,952
Gross deferred assets		
Less: Valuation allowance	<u>(58)</u>	<u>(58)</u>
Total deferred tax assets	<u>3,511</u>	<u>2,894</u>
Deferred tax liabilities:		
Accrued revenue	(133)	(132)
Mortgage servicing rights	(396)	(169)
Other liabilities	<u>(26)</u>	<u>-</u>
Total deferred tax liabilities	<u>(555)</u>	<u>(301)</u>
Net deferred tax assets	<u>\$ 2,956</u>	<u>\$ 2,593</u>

The Company has deferred tax assets generated from federal net operating loss carryforwards of \$588 which expire beginning in 2031, and state net operating loss carryforwards of \$653 which expire beginning in 2017. The Company also has federal alternative minimum tax credit carryovers of \$631 which have no expiration date. No valuation allowance exists against these net operating losses or credits because management believes it is more likely than not that these losses and credits will be realized. The Company also has deferred tax assets generated from state capital loss carryforwards of \$1,557 which expire beginning in 2012. A valuation allowance exists against the state capital loss carryforwards due to the uncertainty surrounding the utilization of the carryforwards prior to the expiration of the carryforward period.

The Company accounts for uncertain tax positions in accordance with ASC 740. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 226	\$ 178
Increases for tax positions related to the current year	28	37
Increases for tax positions related to the prior years	-	26
Reductions for the lapse of statute of limitations	<u>(77)</u>	<u>(15)</u>
Ending balance	<u>\$ 177</u>	<u>\$ 226</u>

Tax years that remain subject to examination by major tax jurisdictions include 2007 through 2011. The Company anticipates it is reasonably possible within 12 months of December 31, 2011 that unrecognized tax benefits of up to \$76 could be realized. The realization would primarily result from the lapsing of the statute of limitations in certain taxing jurisdictions.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$177. The total amount of interest and penalty expense (benefit) included in the income statement as it pertains to the unrecognized tax benefits for 2011 and 2010 is \$(18) and \$2, respectively. Included in the total liability for unrecognized tax benefits as of December 31, 2011 and December 31, 2010 is interest of

\$0 and \$16, respectively. Included in the total liability for unrecognized tax benefits as of December 31, 2011 and December 31, 2010 is penalties of \$0 and \$2, respectively.

(17) Stock-Based Compensation Plans

At December 31, 2011, the Company had multiple stock-based compensation plans which are described below. The Company reissues treasury stock for all vested stock awards.

Performance-based stock award plans

The Company initiated a performance-based plan for specified employees in 2011. The plan allows for the issuance of a maximum of 15,500 shares of stock upon the achievement of specified overall company and individual performance targets. These targets must be achieved by the year 2013 and the stock will become fully vested in 2014. The weighted average grant date fair value is \$17.48 per share based on the market prices on the dates of the grants.

The Company initiated a performance-based plan for outside directors of the Company's Board of Directors in 2011. The plan allows for the issuance of a maximum of 4,000 shares of stock upon the achievement of certain levels of return on equity for the year 2011 and vests over a three-year period thereafter. The stock vests one-third per year on the anniversary date of the grant. The weighted average grant date fair value is \$19.00 per share based on the market price on the date of grant. Total expense recorded by the Company for both performance-based plans was \$25 in 2011.

Individual employee stock award plans

The Company provided stock awards to specified employees in 2011. The stock awards allow for the issuance of 3,700 shares of stock over a five year period, one-fifth per year on the anniversary date of the stock award. The weighted average grant date fair value is \$18.54 per share based on the market price on the dates of the grants. Total expense recorded by the Company for the individual employee stock grants was \$9 in 2011.

Stock Options

All outstanding options have a fixed exercise price equal to the market price of the Company common stock on the date of grant. All remaining options are fully vested. Currently outstanding options expire in 2013. The source of stock provided for the exercise of options is treasury stock.

A summary of fixed price stock option activity is as follows:

	<u>Options Outstanding</u>	
	<u>Number</u>	<u>Exercise Price*</u>
Balance, December 31, 2009	80,100	\$ 17.17
Exercised	(4,700)	15.63
Forfeited	(400)	18.13
Expired	<u>(69,500)</u>	17.24
Balance, December 31, 2010	5,500	\$ 17.56
Exercised	(3,500)	17.23
Forfeited	-	-
Expired	<u>-</u>	-
Balance, December 31, 2011	<u>2,000</u>	<u>\$ 18.13</u>
Exercisable at December 31, 2011	<u>2,000</u>	<u>\$ 18.13</u>

*Weighted Average

At December 31, 2011, all outstanding options had a weighted average life of 1.3 years. All currently vested options may be exercised at a price below \$18.68, the last transaction price recorded in 2011. The aggregate intrinsic value of all options outstanding is \$2 based upon the last transaction price recorded in 2011. No compensation expense has been recorded for stock options in 2011 or 2010.

Stock Appreciation Rights

The Company granted stock appreciation rights (“SARs”) to outside directors of the Company’s Board of Directors. A summary of SARs activity is as follows:

	<u>SARs Outstanding</u>	
	<u>Number</u>	<u>Base Amount*</u>
Balance, December 31, 2009	12,000	\$ 18.75
Exercised	-	-
Balance, December 31, 2010	12,000	\$ 18.75
Exercised	-	-
Balance, December 31, 2011	<u>12,000</u>	<u>\$ 18.75</u>

*Weighted Average

The SARs each relate to one share of Company common stock, vested immediately upon grant, are payable in cash, and expire ten years from the date of grant. The value of a SAR is determined by the value of the stock on the December 31 after the date of exercise over the base amount of the SAR exercised. Currently outstanding SARs expire on various dates in 2014 and 2015. The Company had an expense of \$4 in 2010. No expense was recorded in 2011.

Retirement Plan Matching Contributions

The company initiated a 1% match for 401(k) participants. The match is contributed in common stock of the Company. A total of 8,270 shares were contributed at an average price of \$22.86 per share. See Note 15.

(18) Notes Receivable for Purchase of Common Stock

The Company adopted the 2005 Employee Stock Purchase Plan (“2005 Plan”) to provide employees an opportunity to purchase Company common stock. The 2005 Plan included the opportunity for each employee to finance the purchase of their shares with a note from the Company for up to 95% of the purchase price. During 2006, a total of \$1,971 of notes were issued under the 2005 Plan for the purchase of 98,975 shares. The notes issued in 2006 were at interest rates of 4.31% to 4.73%, required at least annual principal payments, and had a final maturity of February 28, 2011. A total of \$94 and \$288 of principal was paid on the notes in 2011 and 2010, respectively. All notes have been paid full. See Note 14.

(19) Net Capital Requirements

As the Company's registered broker-dealer, BCZ is subject to the Securities and Exchange Commission Uniform Net Capital Rule (the “Rule”), which requires the maintenance of minimum net regulatory capital. BCZ has elected to use the alternative method permitted by the Rule, which requires that BCZ maintain minimum net regulatory capital, as defined, equal to the greater of \$250 or 2% of aggregate debit balances arising from customer transactions, as defined. At December 31, 2011, BCZ had net regulatory capital of \$14,163, which was \$13,913 in excess of its required minimum net regulatory capital. At December 31, 2010, BCZ had net regulatory capital of \$14,950, which was \$14,700 in excess of its required minimum net regulatory capital. Such net regulatory capital requirements could restrict the ability of BCZ to pay dividends to ZCO.

(20) Segment Reporting

Operating segments are components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance. The segments are organized based on the nature of services provided, the methods of distribution, and the types of clients served.

The Company is organized and provides financial services through three operating segments. These operating segments are Institutional, Wealth Management, and Corporate. Operating segment results include all direct revenues and expenses of the operating units in each segment as well as an allocation of indirect administrative expenses.

The Institutional segment consists of the Company's investment banking, corporate finance, Federal Housing Administration/Housing and Urban Development (FHA/HUD) mortgage loan origination, financial advisory, fixed income institutional sales and trading, private placement, and related financial services. Sales credit revenue associated with underwritten offerings are reported in the Wealth Management segment when sold through retail distribution channels and in the Institutional segment when sold through institutional distribution channels.

The Wealth Management segment sells a wide range of financial products and financial planning services through its retail branch distribution network, including equity and fixed income securities, mutual funds, real estate investment trusts, affiliated and non-affiliated alternative investments, annuities, insurance products, and portfolio management and related administrative services. The Wealth Management segment is an essential distribution channel for retail-oriented underwritten debt securities of the Institutional segment.

The Corporate segment includes the Company's proprietary investing and overall Company financing activities. The Corporate segment further includes the Company's investment activities, the activities and share of income related to the Company's partially-owned entities, and activities associated with creating, managing, and administering private equity and venture capital investments. The effect on net income (loss) before taxes after the adjustment for the noncontrolling interest is reflected in the Corporate segment below.

As the result of the sale of 51% of ZCM and the related deconsolidation, the revenue and expense activity associated with ZCM (now ZLCM) is no longer consolidated into the Company as of May 1, 2010. The Corporate segment includes only the share of net income of ZCM as an investment of the Company since the sale.

Since there are no comprehensive authorities for management accounting related to the allocation of administrative expenses, which are equivalent to accounting principles generally accepted in the United States of America, the information presented is not necessarily comparable with similar information in other broker-dealer financial statements. In addition, methodologies used to measure, assign and allocate certain items may change from time to time to reflect, among other things, accounting refinements and changes in the organization and management structure. Allocations of indirect administrative expenses are based on manager assessments of the proportion of activity in the administrative areas devoted to the activities and support of the Company's segments. The allocations consider the overall business activities of each segment, the usage of the administrative services by each segment, the number of personnel in each segment, and other relevant factors.

Operating segment financial information for the years ended December 31 is as follows:

	<u>2011</u>	<u>2010</u>
Revenues:		
Institutional	\$ 44,039	\$ 49,398
Wealth Management	20,827	21,022
Corporate	<u>2,713</u>	<u>7,134</u>
	<u>\$ 67,579</u>	<u>\$ 77,554</u>
	<u>2011</u>	<u>2010</u>
Net income (loss) attributable to Ziegler		
Institutional	\$ 4,511	\$ 5,381
Wealth Management	(1,283)	(2,298)
Corporate	(1,559)	(2,417)
Noncontrolling interest	<u>(3,206)</u>	<u>(1,374)</u>
Loss before income taxes and adjustment for noncontrolling interest	(1,537)	(708)
Provision for (benefit from) income taxes	<u>152</u>	<u>(259)</u>
Net loss	(1,689)	(449)
Loss attributable to noncontrolling interest	<u>3,206</u>	<u>1,374</u>
Net income attributable to Ziegler	<u>\$ 1,517</u>	<u>\$ 925</u>

The Company's revenues and income (loss) before income taxes presented above are derived entirely from domestic operations. The Company does not segregate asset information by operating segment.

(21) Commitments and Contingent Liabilities

In the normal course of business, the Company is the subject of customer complaints and is named as a defendant in various legal actions arising from the securities and other financial services businesses. The Company is a defendant in other lawsuits incidental to its securities and other financial services businesses. The Company has established accruals for losses determined to be probable as a result of those customer complaints and legal actions. Although the outcome of litigation is always uncertain, especially in the early stages of a complaint or legal action, based on its understanding of the facts and the advice of legal counsel, management believes that resolution of these actions will not result in a material adverse effect on the consolidated financial condition or results of operations of the Company. However, if during any period any adverse complaint or legal action should become probable or be resolved, the financial condition or results of operations could be materially affected.

In the normal course of business, the Company enters into firm underwriting commitments for the purchase of debt securities. These commitments require the Company to purchase debt securities at a specified price. The debt securities associated with any such commitments are reflected in both securities owned and the net receivable or payable for unsettled trades in the consolidated Statements of Financial Condition. Transactions relating to commitments that were subsequently settled after the end of the year had no material effect on the financial statements as of December 31, 2011 or 2010.

In the normal course of business, the Company serves as the remarketing agent on certain variable-rate municipal bonds that can be tendered back to the respective issuers, generally upon seven days advance notice, by the holders. In its role as remarketing agent, the Company may choose to purchase the tendered bonds into its own securities inventory. The Company finances the purchase of variable-rate municipal bonds through its clearing broker. See Notes 4 and 11.

In the normal course of business, Ziegler Financing Corporation ("ZFC"), whose activities include Federal Housing Administration ("FHA") loan originations, makes commitments to originate loans. As of December 31, 2011, ZFC had \$4,809 of outstanding commitment to originate FHA loans. ZFC may

contract with a third party to fund the loan originations. Loans originated by ZFC are generally sold to third party investors. A mortgage note totaling \$8,550 is included in Notes receivable on the Consolidated Statements of Financial Condition and is an FHA originated loan that was sold in January, 2012. See Note 5.

The Company has entered into certain agreements where payment has been received and future performance is required. Although fees have been collected, they have not been included in the revenues of the Company. Revenue will only be recognized when performance is complete or all risk that fees will be returned has been eliminated. The fees are included as deferred revenue in accounts payable, accrued expenses, and other liabilities in the Statements of Financial Condition and total \$477 and \$538 at December 31, 2011 and 2010, respectively.

The Company leases office space under noncancellable lease agreements, which allow for annual adjustments to the minimum lease payments to reflect increases in actual operating costs. Certain leases have renewal options and rent escalation clauses. The Company also leases office and computer equipment under noncancellable agreements. Rental expense for 2011 and 2010 was \$3,172 and \$3,777, respectively. Future minimum lease payments which extend through 2015 and thereafter are:

2012	\$ 2,560
2013	1,835
2014	1,656
2015	1,482
2016	1,063
Thereafter	<u>1,649</u>
	<u>\$ 10,245</u>

(22) Earnings Per Share

The following reconciles the numerators and denominators of the basic and diluted earnings per share computations for net income (loss) for the years ended December 31 (shares in thousands):

	<u>2011</u>	<u>2010</u>
Net income attributable to Ziegler	<u>\$ 1,517</u>	<u>\$ 925</u>
<u>Basic</u>		
Weighted average shares outstanding	<u>1,196</u>	<u>1,265</u>
Basic earnings per share	<u>\$ 1.27</u>	<u>\$ 0.73</u>
<u>Diluted</u>		
Weighted average shares outstanding - Basic	1,196	1,265
Effect of dilutive securities:		
Stock options	<u>-</u>	<u>-</u>
Weighted average shares outstanding - Diluted	<u>1,196</u>	<u>1,265</u>
Diluted earnings per share	<u>\$ 1.27</u>	<u>\$ 0.73</u>

The earnings per share is unaffected by dilution associated with stock options due to the small number of stock options outstanding and the exercise price of those options relative to the average market price of the Company's shares.

(23) Common Stock

On June 7, 2010, the Company announced a stock repurchase program in accordance with the provisions of Rule 10b5-1 of the Securities Exchange Act. On November 16, 2010 and July 27, 2011, the Company amended the stock repurchase program. It is the Company's intent to purchase up to 25,000 shares of Company common stock in each calendar quarter at a price of up to \$20.00 per share.

In the event that the Company purchases less than 25,000 shares in any given quarter, such unpurchased amounts will be added to the authorized shares available for purchase in a subsequent quarter. If the Company fills its quarterly 25,000 share purchase goal, subject to the preceding purchase carryover process, it will seek other buyers in order to satisfy shareholder requests and a director has adopted a similar Rule 10b5-1 program to be able to participate as an additional purchaser of any shares after the Company satisfies the 25,000 share limit in any quarter or such higher amount as the result of the purchase carryover process. The Company reserves the right to discontinue the stock repurchase program at any time. The stock purchase program is currently in effect through June 30, 2012. A total of 64,850 shares were purchased in 2011 at a cost of \$1,225. A total of 73,330 shares were purchased under this program in 2010 at a cost of \$1,330. An additional 4,200 shares were purchased in 2010 prior to the initiation of the repurchase program for a cost of \$63.

(24) Sale of 51% of ZCM

On April 30, 2010, the Company entered into a definitive agreement to sell 51% of ZCM to Rizvi Traverse Management, LLC and a ZCM management individual while retaining a 49% ownership share. The transaction closed on May 21, 2010 with an effective date of May 1, 2010. The total gross proceeds from the transaction totaled \$4.0 million. The gain on the transaction totaled \$2,724 after consideration of the basis in the entity and is included in other income in the Consolidated Statements of Income. ZCM was included in the Company financial statements using the equity method of accounting based on its initial 49% ownership share and its minority representation in the management of ZCM. As of May 1, 2010, the Company no longer consolidates the financial statements of ZCM (now ZLCM) into the Company's consolidated financial statements. As of May 1, 2010, the Company's share of ZLCM net income using the equity method of accounting is included in other income in the Company's Consolidated Statements of Income. As of December 31, 2011, the Company's ownership share was 36% as a result of the additional issuance of stock by ZLCM.

The fair value on the date of the transaction was estimated to approximate its carrying value using various estimation methodologies. These methodologies included the effect of different growth projections, discounted cash flow, and other methodologies. Accordingly, no gain or loss was recorded on the retained investment in ZCM.

(25) Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. The Company evaluated its financial statements for subsequent events through March 20, 2012, the date the financial statements were available to be issued. There are two types of subsequent events:

- 1) The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, referred to as "recognized" subsequent events.
- 2) The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose subsequent to that date, referred to as "non-recognized" subsequent events.

Based on the Company's evaluation, there were no recognized or non-recognized subsequent events that would require adjustment to a disclosure in the consolidated financial statements.

MANAGEMENT'S DISCUSSION

Business and Operating Segments

The Ziegler Companies, Inc. (“ZCO” or the “Parent”), through its wholly and partially owned subsidiaries (collectively, the “Company” or “Ziegler”), is engaged in financial services activities. These financial services activities are conducted through three operating segments: Institutional, Wealth Management and Corporate. Note 20 of the Notes to Consolidated Financial Statements provides additional information about operating segment results.

The Institutional business segment underwrites fixed income securities primarily to finance senior living and healthcare providers, religious institutions, and private schools. The Institutional segment services also include risk management and financial advisory, merger and acquisition advisory, institutional sales and trading of fixed income securities and preferred stock, health care consulting and corporate and public finance services including Federal Housing Administration (“FHA”) mortgage loan origination, often in conjunction with the Company's investment banking services. Institutional segment activities are conducted primarily through B. C. Ziegler and Company (“BCZ”), except that Ziegler Financing Corporation (“ZFC”) conducts all FHA mortgage loan origination activities. These services are provided primarily to not-for-profit corporations, municipalities, and for-profit business corporations in the broader healthcare industries.

The Wealth Management business segment includes the retail brokerage and investment consulting services of the Company. Wealth Management offers a wide range of financial products and financial planning services to retail and institutional clients through its retail branch distribution network, including equity and fixed-income securities, mutual funds, real estate investment trusts, affiliated and non-affiliated alternative investments, annuities, insurance products and portfolio management services. Wealth Management is the primary retail distribution channel for religious institution and private school debt securities and an important distribution channel for other taxable and tax-exempt debt securities underwritten by the Institutional segment. Wealth Management activities are conducted through BCZ.

The Corporate business segment consists primarily of the proprietary investing and overall financing activities of the Company as well as management and administrative activities of the Company, part of which are allocated to the other segments as described in Note 20 of the Notes to Consolidated Financial Statements. The Corporate segment includes the management and operation of various private equity funds and proprietary investing activities related to direct investment in private equity and seed capital investments. The Company has ownership interests as described in Note 2 of the Notes to Consolidated Financial Statements. The Company is active in originating and managing private equity and seed capital investments, which the Company places with qualified investors and also participates as an investor.

As of December 31, 2011, approximately 250 persons were employed full time and 4 persons were employed part time by the Company and its subsidiaries.

Business/Economic Environment

The Company's financial results can be significantly affected by uncertainty and volatility in the global financial markets. The Company experienced a decrease in the demand for underwriting of bonds which affected our investment banking activities, an outflow of funds from municipal bond funds which affected our trading activities, and extreme periods of market volatility during the last few years. The unprecedented level of regulatory reform and the slow recovery of the U.S. economy has created a more challenging business environment. Institutional investors continue to focus more closely on credit quality and the structure of liquidity and credit support agreements for the bonds of the issuers and projects being underwritten. The economic environment continues to influence many institutions in their decisions to move forward on new projects. The Company continues to develop other financial and advisory services to mitigate the effect of the decrease in demand for underwriting activity.

The Company is exposed to market fluctuations. The Company does not engage in a significant level of proprietary trading. Trading activity generally involves securities the Company underwrites or securities purchased to satisfy institutional client demand. The Company is affected by economic events and valuations. The Company monitors its trading activities in recognition of the circumstances in the municipal bond market.

Results of Operations – Comparison of 2011 to 2010, as revised
(Dollars are expressed in thousands unless specifically indicated otherwise.)

The overall trends and conditions of the financial markets, specifically, the fixed income markets and the senior living and health care markets, have a significant effect on the financial position and results of operations of the Company. Results of any year or quarter vary and should not be considered representative of future results. The Company has attempted to establish a scope of operations and related cost structure that is appropriate for anticipated future business activity. The Company continuously reviews its business structure and related costs and makes adjustments accordingly. Note 20 of the Notes to Consolidated Financial Statements provides information on revenues and net income or loss before taxes of each of the Company's operating segments.

Company revenues decreased 13% to \$67,579 in 2011 compared to \$77,554 in 2010. The decrease in investment banking revenues was the primary reason for the decrease. Increased revenues from the origination and sale of FHA/HUD loan origination helped to offset the decrease. Interest income decreased due to lower inventory balances from both trading and investment banking activity. Investment management and advisory fees decreased due to the sale of part of our interest in Ziegler Capital Management, LLC ("ZCM") and the deconsolidation of that entity. ZCM's primary source of revenues was investment management and advisory fees.

Total expenses decreased 12% to \$69,116 in 2011 compared to \$78,262 in 2010. The largest expense of the Company, compensation and benefits, also had the largest decrease. The decrease of \$5,918 reflects the combination of decreased incentive-based revenues and a decrease of \$1,312 in these expenses related to the deconsolidation of ZCM. The other significant change in expenses was an increase in the provision for losses. The increase was related to Ziegler Healthcare Fund I, LP ("ZHF I"), the Small Business Investment Company, which is consolidated into the Company's financial statements. ZHF I incurred a loss on an investment totaling \$3,048 as it winds down its operations. Much of this loss is offset by the effect of the noncontrolling interest which reflects the Company's 11% ownership share. The Company's results were affected by approximately \$335.

Institutional segment revenues were \$44,039 in 2011 compared to \$49,398 in 2010, a decrease of \$5,359 or 11%. The Company underwrote \$1.0 billion of bonds in 2011 compared to \$3.3 billion in 2010. Investment banking activity contributed \$28,806 to revenues of the Institutional segment, a decrease of \$9,117. Net trading profits increased \$455 to \$7,313 in 2011. An increase in Federal Housing Administration loan origination and sale activity included in Other income helped to offset the decrease in revenues. Interest income for this segment decreased \$1,378 due to lower overall securities inventory levels. Institutional segment expenses before administrative expense allocations decreased \$3,712. The decrease was primarily due to a decrease in compensation and benefits from a decrease in incentive-based compensation. Institutional segment income before administrative expense allocations and income taxes was \$8,123 in 2011 compared to \$9,771 in 2010.

Wealth Management segment revenues were \$20,827 in 2011 compared to \$21,022 in 2010, a decrease of \$195 or 1%. The decrease in revenues resulted from a decrease in bond underwriting revenue, offset by commission revenue from mutual funds and insurance products and net trading profits all of which are related to sales to retail investor clients. Wealth Management segment expenses before administrative expense allocations decreased \$608. These expense decreases were spread across all expense categories. Wealth Management segment income before administrative expense allocations and income taxes was \$911 in 2011 compared to \$498 in 2010.

Corporate segment revenues were \$2,713 in 2011 compared to \$7,134 in 2010, a decrease of \$4,421. A significant reason for the decrease in revenues is the accounting related to the sale of 51% of ZCM. ZCM (now ZLCM) is now included in the Corporate segment as an investment of the Company for which only the Company's share of net income in ZLCM is recorded as revenue. Prior to the sale of ZCM, the full amount of revenues and expenses were included in the Company's financial statements. Therefore, \$2,436 of ZCM revenues for the first four months of 2010 are included in the revenues reported for the Corporate segment in 2010. After that only our 49% proportionate share of net income was included in revenues and that share was reduced to 36% in 2011. (See Note 24.) The gain on the sale of ZCM of \$2,724 is also included in 2010 revenues. Total Corporate segment expenses before administrative expense allocations were \$1,580 in 2011 compared to \$6,824 in 2010. The decrease in expenses is primarily due to the reduction in operating expenses of \$2,161 related to the deconsolidation of ZCM and the inclusion of write-downs, amortization of goodwill and intangible assets of \$1,914, and other expense reductions associated with a planned reduction in Corporate

segment activities. The Corporate segment was primarily affected by its share of the losses associated with ZHF I and interest expenses associated with corporate financing activities. The Corporate segment includes ZHF I and ZEF I that are partially owned by the Company and consolidated into the Company's financial statements. Total losses associated with these entities was \$3,642 and \$1,629 in 2011 and 2010, respectively. The loss included in the Corporate segment related to these entities was \$436 and \$255 in 2011 and 2010, respectively. The noncontrolling interest absorbed \$3,205 and \$1,374 of the losses in 2011 and 2010, respectively. These factors resulted in a loss before administrative expense allocations of \$381 in 2011 compared to a loss of \$875 in 2010.

Administrative expenses include the expenses in support of all three business segments. These expenses include expenses for executive management, accounting, business acceptance, credit, legal, compliance, human resources, information technology, office services and other miscellaneous expenses in support of the business segments. These expenses totaled \$6,984 in 2011 compared to \$8,728 in 2010. The reduction is primarily due to expense reduction measures. These expenses are allocated based on estimates of the amount of these resources used by each of the business segments.

A summary of results for the business segments of the Company and the related administrative expense allocations to the business segments for the years ended December 31 is as follows:

	2011		
	Segment Direct Profits	Administrative Expense Allocations	Segment Results After Allocations
Institutional	\$ 8,123	\$ (3,612)	\$ 4,511
Wealth Management	911	(2,194)	(1,283)
Corporate			
Activities not including ZHF I and ZEF I	55	(1,178)	(1,123)
Share of losses of ZHF I and ZEF I	(436)	-	(436)
Administrative Expenses	<u>(6,984)</u>	<u>6,984</u>	<u>-</u>
Income before income taxes including only the Ziegler share of the noncontrolling interest	<u>\$ 1,669</u>	<u>\$ -</u>	<u>\$ 1,669</u>
	2010		
	Segment Direct Profits	Administrative Expense Allocations	Segment Results After Allocations
Institutional	\$ 9,771	\$ (4,390)	\$ 5,381
Wealth Management	498	(2,796)	(2,298)
Corporate			
Activities not including ZHF I and ZEF I	(620)	(1,542)	(2,162)
Share of losses of ZHF I and ZEF I	(255)	-	(255)
Administrative Expenses	<u>(8,728)</u>	<u>8,728</u>	<u>-</u>
Income before income taxes including only the Ziegler share of the noncontrolling interest	<u>\$ 666</u>	<u>\$ -</u>	<u>\$ 666</u>

Investments/Proprietary Investing

The Company has created and manages a variety of private equity venture capital and alternative investment funds. Investments in these funds are offered to qualified retail and institutional investors. The funds target investments in the healthcare sectors and include seed capital for planned senior living communities, acquisitions of medical office buildings, venture capital for mid and late-stage medical device companies, and private equity for for-profit healthcare organizations among other investments. This activity has been slower over the past few years. The Company has also selectively made proprietary investments in these funds as well as direct investments in various private equity seed capital projects that may also be an investment of the funds. The Company also has equity investments in other operating entities that are not a part of the fund investments offered to retail investors. Each of the proprietary investments made by the Company carries the risks associated with any investment of this illiquid and long-term nature. Although the Company carefully analyzes and evaluates each investment prior to the commitment of funds, the progress of the investment, the timing of returns, and the potential loss of principal are subject to factors beyond the Company's control.

Private equity investments are direct investments in operating entities. These investments total \$652 at December 31, 2011 and consist of a Company investment valued at \$342 in a single operating entity and two smaller investments by the Company of \$310 in entities that were received as part of the Company's merger and acquisition services. The Company investment in the operating entity valued at \$342 is experiencing slower progress than originally projected. Based on projected cash flows and earnings, the Company recognized a valuation adjustment of \$114 during 2011 reducing the fair value of the investment from \$456 at December 31, 2010. The smaller investments totaling \$310 associated with merger and acquisition services are development stage companies and are not publicly traded. These investments are relatively recent, are progressing as planned, and have not had additional transactions with which to indicate a change in value. The investment made by ZHF I, the Company's 11% owned SBIC, that was valued at \$734 at December 31, 2010 was written off during 2011. Only 11% of the loss in ZHF I is included in the Company's final net income based on the Company's ownership share. The other 89% of the loss is absorbed by the noncontrolling interest.

As of December 31, 2011, the Company had invested a total of \$2,625 for 287,547 shares of common stock representing an approximate 8.8% interest in Ridgestone Financial Services, Inc. ("Ridgestone"), a bank holding company with locations in Wisconsin and Illinois. Valuations of this investment indicated losses of \$144 in 2010 to arrive at a value of \$1,868 as of December 31, 2010. A review of financial information of similar publicly traded banks indicated that the valuation of \$1,868 continues to be appropriate at December 31, 2011.

Seed capital investments are for the pre-finance development and marketing of continuing care retirement communities ("CCRC") to potential residents of these communities. The Company participates with other investors to provide the relatively significant capital requirements for these seed capital projects. Once a seed capital project has reached a specified level of presales and deposits for the occupancy of living units in the CCRC, the developer is able to seek permanent construction financing. Because of the current economic environment, the required presale levels have increased and the structure of financing arrangements for the projects has to take into consideration the short-term component of the permanent financing structure. Banks were the historic source of letters of credit for the short-term component of the permanent financing structure. Those banks are now largely not providing these letters of credit and new strategies for the short-term component of the financing structure are now required to complete the financings. When permanent construction financing is obtained for a project, the seed capital investment and related investment return are generally paid to the seed capital investors. The financing structure of certain projects has involved a deferral of the payment of seed capital investment returns to investors. Each project is evaluated based on the total cost of the project and related project financing. If interest rates are above those originally projected and acceptable to make the project financially viable, the project may be discontinued and the original seed capital investment would be a total loss.

As of December 31, 2011, the Company has invested directly in two seed capital investment projects with a cost and estimated fair value of \$1,605. Two prior seed capital projects were successful in achieving an adequate level of presales and obtaining the financing and credit support structure needed to access the financing market in 2010. The two prior seed capital project investments provided for gross proceeds in 2010 of \$1,640 which included a realized gain of \$340. The two remaining seed capital projects continue to progress, but were delayed due to the economic environment of the past two years. The Company also invested in one seed capital project that was initiated and completed in 2011 realizing a gain of \$75.

In 2008, the Company invested \$1,000 in the Ziegler HealthVest Partners, LP, and Ziegler HealthVest Partners (Parallel), LP (together “ZHVP”), a private equity fund. ZHVP had five underlying equity investments, three of which ceased operations. As the result of the write-off of the investments in the ZHVP fund and due to the progress of the two remaining investments, management determined that the fair value of ZHVP had declined and recorded a value of \$366 as of December 31, 2010. Based upon the progress of a portfolio investment within ZHVP the Company recorded the value of ZHVP at \$448 as of December 31, 2011 an increase of \$82. The Company also purchased an additional carried interest in ZHVP for \$55 from a former employee, but recognized a reduction in value of the same amount in recognition of the fact that the current valuation of ZHVP would yield no value for the carried interest. In the event that prospects improve, the Company anticipates the ability to realize the value of the carried interest in the future.

The investments in ZLCM and Ziegler Equity Funding IV, LLC (“ZEF IV”) are based on the equity method of accounting. Accordingly, the value increases and decreases with the profits and losses of the respective entities. ZLCM and ZEF IV are not subject to fair value adjustments.

Noncontrolling Interest

The term “noncontrolling interest” refers to that portion or interest of a consolidated company owned by third parties. The Company includes the full amount of the assets and the full amount of the liabilities of the partially-owned and consolidated entities (ZHF I and ZEF I) in the respective categories of assets and liabilities in the Company’s Consolidated Statements of Financial Condition. The recognition of the claim on the net assets associated with ownership outside of the Company is included in the “Noncontrolling interest” caption in the Consolidated Statements of Financial Condition. The Company includes the full amount of revenues of the partially-owned entities in the total revenues and the full amount of expenses of the partially-owned entities in the total expenses in the Company’s Consolidated Statements of Income. However, the Company only includes in its net income its proportionate share of net income from the partially-owned entities. The share of net income belonging to other owners is deducted in the caption “Loss attributable to the noncontrolling interest” in the Consolidated Statements of Income.

With respect to the partially owned entities in the consolidation process described above, the Company does not have access or a right to the assets of the partially-owned entities nor is the Company responsible for the liabilities of the partially-owned entities. Only the partially-owned entities, ZHF I and ZEF I, have access to the assets and are legally responsible for the liabilities of their respective entities. At December 31, 2011, the assets of the partially-owned entities totaled \$433, all of which consist of cash and cash equivalents. At December 31, 2011, the liabilities of the partially-owned entities totaled \$26. At December 31, 2010, the assets of the partially-owned entities totaled \$6,220 of which \$1,385 consisted of cash and cash equivalents, \$4,102 consisted of notes and other receivables, and \$734 consisted of investments. At December 31, 2010, the liabilities of the partially-owned entities totaled \$38. The Company’s only exposure to loss related to the partially-owned entities is its net investment in the entities, which is \$88 and \$1,119 at December 31, 2011 and 2010, respectively.

Liquidity and Capital Resources

The Company’s business is providing financial services. Adequate regulatory capital and liquidity are essential elements of the Company’s various business components, especially with respect to underwriting activities. The Company must maintain sufficient liquidity to operate its businesses while satisfying the regulatory net capital requirements of its broker-dealer subsidiary, BCZ. In 2011 and 2010, the Company met all such requirements.

BCZ acts as a remarketing agent for approximately \$3.9 billion of municipal VRDNs consisting of variable rate debt securities within 225 issues, most of which BCZ previously underwrote. A total of approximately \$3.7 billion can be tendered to BCZ at the option of the holder on seven days advance notice, and approximately \$195 million can be tendered without advance notice. The obligation of the municipal borrower to pay for tendered VRDNs is typically supported by a third party liquidity provider, such as a commercial bank. In order to avoid utilizing the third party liquidity provider, municipal borrowers contract with BCZ to remarket the tendered VRDNs. In its capacity as remarketing agent, BCZ may purchase and hold the VRDNs as part of its remarketing efforts. Amounts purchased as securities owned by BCZ are generally held for less than two weeks. BCZ finances its VRDN securities acquired pursuant to its remarketing agent activities through its clearing broker under the clearing broker’s margin financing arrangements. The size of the portfolio of municipal VRDN’s subject to remarketing is a function of the strategy of the borrowers of the

debt. Debt may be converted to or from the VRDN structure based on the interest rate environment and the strategy of the borrower.

The Company finances the VRDN remarketing activity using margin financing through its clearing broker as well as financing through its \$30 million bank revolving line of credit. Although the line of credit borrowing arrangement is an uncommitted line of credit which can be reduced or eliminated at any time by the bank, the Company has been able to access this credit facility as needed. There was a \$7,800 balance outstanding under the credit facility at December 31, 2011. The Company's clearing broker margin financing and revolving bank line of credit are important sources of financing without which the Company's operations could be significantly impaired.

The circumstances that result from the economic environment which can at times be described as volatile, have not caused any significant reductions in the Company's regulatory net capital. The Company continuously monitors its regulatory net capital. In the opinion of management, the Company's capital and available sources of credit are currently adequate for present and anticipated future operations. Unanticipated losses in the broker-dealer or business circumstances associated with an unusual increase in inventories or other balances affecting net capital might cause regulatory net capital to be reduced to such a level as to impair Company and related broker-dealer operations.

The Company repurchases its own common stock from time-to-time. In recognition of that objective, the Company's board of directors has approved a stock repurchase program in accordance with the provisions of Rule 10b5-1 of the Securities Exchange Act. The repurchase program is described in Note 23 of the Notes to Consolidated Financial Statements. The Company evaluates share repurchase opportunities giving consideration to cash availability, business alternatives, working capital liquidity needs, and other relevant factors. The use of cash for share repurchases may limit the Company's ability to expand current operations or to acquire or develop new business operations.

The Company has a bank line of credit of \$30 million as discussed in Note 12 of the Notes to Consolidated Financial Statements. The Company made arrangements in 2008 with the same bank to establish two term loans for \$19,555 in order to reduce its borrowing under the existing bank line of credit. The Company has paid interest and principal due on the term notes, as scheduled. The Company repaid the shorter term loan in 2011 before its final due date. Covenant compliance is evaluated at the end of each quarter with respect to debt service coverage and tangible net worth and is evaluated annually with respect to the achievement of a zero balance on the Company's bank line of credit for a specified period. As of December 31, 2011, the Company is in compliance with the covenants included in an amended business loan agreement.

A source of cash for the Parent has been and continues to be the issuance of unrated commercial paper classified as short-term notes payable on the Consolidated Statements of Financial Condition. These notes have varying maturities up to 270 days with the majority of notes being less than 60 days. The short-term notes are sold directly to investors and are limited by the availability of investors who wish to invest in these unrated short-term notes payable at the interest rates offered by the Company. The Company has maintained this facility as a source of additional liquidity and to reduce its reliance on higher interest rate borrowing alternatives. The average balance of commercial paper outstanding was \$7,409 and \$3,808 during 2011 and 2010, respectively. Investors generally invest for specified periods up to 270 days and request funds at maturity to support cash flow requirements. The Company cannot be assured that these balances will be maintained at the current levels or whether they may increase or decrease. The Company has relied on a diminishing number of investors in its commercial paper. In some cases one or two investors may have a large percentage of the Company's commercial paper outstanding. In such cases, the balance can change significantly in a short period. At December 31, 2011, two investors held \$4,214 of the total of \$4,450 of the commercial paper outstanding.

Ziegler Healthcare Fund I, LP ("ZHF I") is a limited partnership in which the Company has an 11% direct and indirect interest. ZHF I has been licensed to operate as a Small Business Investment Company ("SBIC") by the Small Business Administration ("SBA"). As an SBIC, ZHF I was authorized to lend funds to qualifying small businesses using its own capital and funds borrowed from the SBA. ZHF I completed its authorization to lend funds and is no longer extending credit to borrowers using its own or SBA funds. ZHF I has repaid all SBA debentures. At December 31, 2011, ZHF I is completing final distributions and is expected to dissolve in the first quarter of 2012.

ZFC and BCZ, as wholly-owned subsidiaries of the Parent, have intercompany borrowing arrangements with the Parent to obtain or provide financing on a short-term basis, subject to regulatory requirements of each of the subsidiary entities. The Parent relies on its own cash balances or obtains funds from the bank line of credit facility to fund loans to either subsidiary. The Parent lends cash, on a subordinated basis, to BCZ in the event of a need for a temporary increase in regulatory capital for its broker-dealer business, as required by regulatory rules. ZFC, whose activities include FHA loan origination, generally finances its activities from its own resources, through intercompany borrowings with the Parent, and by arrangements with other parties involved in the FHA transaction.

The Company continues to evaluate its business and growth strategies. The financing of any alternatives will depend upon the specific strategies. With the uncertainty that prevails in the current economic environment, the Company has employed cost containment and reduction measures while retaining the capacity to operate its businesses competitively during the course of the economic uncertainty and into the future. As necessary, the Company will review its approach to continued operations. The Company expects to continue operating as an independent firm that is increasingly owned by employee and director shareholders.

Five Year Summary of Financial Data (Unaudited):

	For the years ended December 31,				
	2011	2010	2009	2008	2007
(Dollars in thousands except per share amounts)					
Operating Revenues.....	\$ 67,579	\$ 77,554	\$ 88,263	\$ 81,762	\$ 115,051
Net Income (Loss) attributable to Ziegler.....	1,517	925	488	(1,301)	5,074
Basic Earnings (Loss) Per Share.....	1.27	0.73	0.38	(1.04)	3.05
Diluted Earnings (Loss) Per Share.....	1.27	0.73	0.38	(1.04)	2.92
Cash Dividends Declared Per					
Share of Common Stock.....	-	-	-	-	0.13
Balance sheet data as of the end of the year:					
Total Assets.....	89,745	111,883	208,230	133,171	299,946
Short-Term Notes Payable.....	4,450	3,548	3,303	3,424	6,643
Long-Term Obligations.....	11,686	14,885	27,154	54,275	47,941
Long-Term Obligations Excluding SBA					
Debentures.....	11,686	14,885	17,254	20,685	1,961
Ziegler Shareholders' Equity.....	27,923	27,240	27,242	26,191	33,615
Book Value Per Share.....	23.85	22.29	21.14	20.53	23.59

Quarterly Consolidated Results of Operations for 2011 and 2010 (Unaudited):

2011 Quarter Ended	March 31	June 30	September 30	December 31
(Dollars in thousands except per share amounts)				
Revenues.....	\$ 11,492	\$ 16,602	\$ 15,571	\$ 23,914
Expenses.....	13,747	16,801	15,985	22,583
Net income (loss) attributable to Ziegler.....	(1,130)	1,553	153	941
Basic income (loss) per share.....	\$ (0.93)	\$ 1.28	\$ 0.13	\$ 0.80
Diluted income (loss) per share.....	\$ (0.93)	\$ 1.28	\$ 0.13	\$ 0.80
2010 Quarter Ended, as Revised				
(Dollars in thousands except per share amounts)				
Revenues.....	\$ 21,551	\$ 17,892	\$ 17,772	\$ 20,339
Expenses.....	21,355	17,635	17,566	21,706
Net income (loss) attributable to Ziegler.....	654	216	189	(134)
Basic income (loss) per share.....	\$ 0.51	\$ 0.17	\$ 0.15	\$ (0.11)
Diluted income (loss) per share.....	\$ 0.51	\$ 0.17	\$ 0.15	\$ (0.11)

The Company's Common Stock is traded under the symbol "ZGCO" in the over-the-counter market (Pink Sheets LLC).

	Quarter Ended			
	March 31	June 30	September 30	December 31
<u>Calendar year 2011</u>				
Stock price range:				
High Closing Price	\$ 19.15	\$ 22.00	\$ 25.50	\$ 19.50
Low Closing Price	16.51	18.93	17.24	18.00
<u>Calendar year 2010</u>				
Stock price range:				
High Closing Price	\$ 16.00	\$ 28.00	\$ 20.00	\$ 19.00
Low Closing Price	13.49	15.55	15.00	18.00

Forward-Looking Statements

Certain matters discussed herein contain forward-looking statements that involve risks and uncertainties, including (without limitation): the effect of the economic conditions and the current uncertainties that exist; the effect of market conditions, such as demand for investment banking, investment advisory, brokerage and financial advisory services in the markets served by the Company; pricing of services; resolving any IRS inquiries concerning municipal bond issuer practices and other matters; successful management of regulatory and legal risks and requirements; successful defense of litigation, arbitrations, and claims; interest rates; successful implementation and management of repurchase and interest rate swap agreements; the ability to attract, develop and retain skilled and productive employees; profitable operation of the institutional trading desks; competition; return on proprietary investments made by the Company; the ability to collect receivables and realize the value of investments; the Company's ability to realize the value of intangible assets; the Company's ability to profitably expand its business lines both internally and through external acquisitions; national healthcare and tax policies; strategic alternatives; the ability of the Company to underwrite and distribute securities; the success of affiliated private equity funds and our seed capital and other investments; the ability to maintain our reputation; the prevailing market values in the broad equity markets; the ability to maintain sufficient liquidity through commercial paper issuance and the use of other credit facilities; the ability to access capital; the ability to comply with regulatory capital requirements; the ability to successfully implement the requirements of regulatory reform; the ability to keep pace with technological change and invest in technological improvements to remain competitive and in compliance with all regulatory requirements; and the ability to successfully remarket municipal variable rate demand notes and the use of the third party liquidity providers under limited circumstances. Forward-looking statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially from those contemplated in the statements. Readers are cautioned not to place undue reliance on the forward-looking statements. When used in written documents or oral presentations, the terms "believe," "estimate," "expect," "may," "possible," and similar expressions are intended to identify forward-looking statements. There can be no assurance that: (i) the Company has correctly measured or identified all of the factors affecting these markets or the extent of their likely impact; (ii) the publicly available information with respect to these factors on which the Company's analysis is based is complete or accurate information; or (iii) the Company's analysis is correct. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

DIRECTORS

Geoffrey B. Shields

Chairman, The Ziegler Companies, Inc.;
President, Dean and Professor of Law
Vermont Law School

Peter R. Kellogg

Chief Executive Officer
IAT Reinsurance Company, Ltd., a reinsurance
company

William D. McGuire

Independent Director & retired healthcare
chief executive officer

Belverd E. Needles, Jr.

Professor of Accountancy, DePaul University;
Principal, Vice President and Secretary of
Needles & Powers, Inc., a textbook
development and executive training
company; Past President, International
Association of Accounting Education and
Research; Past Chair, Board of Directors,
Illinois CPA Society

Donald A. Carlson, Jr.

Vice Chairman, The Ziegler Companies, Inc.;
Senior Managing Director, Investment
Banking, B.C. Ziegler and Company

Thomas R. Paprocki

Chief Executive Officer
The Ziegler Companies, Inc.;
B.C. Ziegler and Company

Daniel J. Hermann

Senior Managing Director, Head of
Investment Banking, B.C. Ziegler and
Company

EXECUTIVE OFFICERS*

The Ziegler Companies, Inc.

Thomas R. Paprocki

Chief Executive Officer

Donald A. Carlson, Jr.

Vice Chairman

James M. Bushman

Director, Chief Compliance Officer

Angelique A. David

Senior Managing Director, General Counsel
and Corporate Secretary

Gary P. Engle

Senior Managing Director, Finance

Jeffrey C. Vredenburg

Senior Managing Director, Chief Financial
Officer

EXECUTIVE OFFICERS*

B.C. Ziegler and Company

Thomas R. Paprocki

Chief Executive Officer

Mark A. Baumgartner

Senior Managing Director, Chief Credit
Officer

James M. Bushman

Director, Chief Compliance Officer

Donald A. Carlson, Jr.

Senior Managing Director, Investment
Banking

Angelique A. David

Senior Managing Director, General Counsel
and Corporate Secretary

Gary P. Engle

Senior Managing Director, Finance

Daniel J. Hermann

Senior Managing Director, Head of
Investment Banking

Leslie E. Lynch

Senior Managing Director, Head of Corporate
Services

S. Charles O'Meara

Senior Managing Director, Alternative
Investments

Kevin L. Strom

Senior Managing Director, Head of Capital
Markets

Jeffrey C. Vredenburg

Senior Managing Director, Chief Financial
Officer

Christopher Zelesnick

Senior Managing Director, Head of Wealth
Management

** as of February 2012*

Corporate Center

200 South Wacker Drive, Suite 2000
Chicago, Illinois 60606
312 263 0110

Capital Markets Offices

Sarasota, Florida
Chicago, Illinois
New York, New York

Investment Banking Offices

Scottsdale, Arizona
Denver, Colorado
Sarasota, Florida
Chicago, Illinois
Columbia, Maryland
Nashville, Tennessee
New York, New York
Cleveland, Ohio
Columbus, Ohio
Milwaukee, Wisconsin

Wealth Management Offices

Scottsdale, Arizona
Denver, Colorado
Orlando, Florida
Chicago, Illinois
Richmond, Virginia
Rockford, Illinois
Minnetonka, Minnesota
Appleton, Wisconsin
Madison, Wisconsin
Mequon, Wisconsin
Milwaukee, Wisconsin
Sheboygan, Wisconsin
Wausau, Wisconsin
West Bend, Wisconsin

\$89,235,000

RENAISSANCE CHARTER SCHOOLS, INC.
Ft. Lauderdale, Florida
Revenue Bonds
Series 2011



EXECUTING OUR STRATEGY: 2011 SUCCESSES

2011 was the first year of our three-year strategic plan. Focused and energized, we set forth to 'give advice and raise capital' in select sectors with service specialties. We are proud of the purposeful execution of our strategy. Please take a moment to review a few highlights of 2011.

Charter School Finance

Since Ziegler's first financing in 1913, we have become a recognized leader in providing creative, tailored solutions to educational institutions. Given our successful track record in education finance, we knew charter school finance was a natural extension.

Our strategic plan optimistically called for charter school finance 'to emerge as one of the top five underwriters in charter school debt financing in America.' And we did it. As reported by

EMMA, Ziegler now boasts the #1 school underwriter spot based on 2011 par amounts.

Jon Hage, President & CEO of Charter Schools USA commented, "...Ziegler has proven to be an invaluable asset to our team in securing the capital we need to continue with our growth plans. Ziegler's underwriting of our model and creative plan of finance continues to exceed our expectations. Because of their continued commitment to Renaissance and the charter school industry, we will be able to open new facilities this year that will benefit thousands of students in the years to come."

Corporate Finance

In consideration of healthcare reform, a recovering economy, and the size of the healthcare market as a percentage of U.S. GDP, we knew we had an opportunity to impact certain mid-market sectors. Ziegler's deep experience in healthcare services and information technology, hospitals and healthcare systems, and senior living and post-acute care provides a wide range of tailored, creative financial solutions.

In 2011, Ziegler's M&A practice experienced a 60% growth in revenues and 217% growth in profits.

This client's experience may not be representative of the experience of other clients, nor is it indicative of future performance or success.



In the sale to



JULY 2011
SELL-SIDE ADVISOR

THE
MCGUIRE GROUP

Sold six nursing and rehabilitation centers in New York to



JANUARY 2011
SELL-SIDE ADVISOR



In a strategic partnership with



Quality of Daily Life Solutions
JULY 2011
ADVISOR

INVESTOR INFORMATION

CORPORATE OFFICES

200 South Wacker Drive, Suite 2000
Chicago, IL 60606
312 263 0110

ANNUAL MEETING

The annual meeting of the shareholders will be held 9:00 a.m. on May 1, 2012, at the Ziegler corporate offices located at 200 South Wacker Drive, Chicago.

QUARTERLY EARNINGS RELEASES

Ziegler's quarterly news releases are posted promptly on our website (www.Ziegler.com) upon approval by our Board of Directors. At www.Ziegler.com, simply click on "Inside Ziegler" and "Financials." A listing of recent quarterly earnings releases are listed under "Latest Ziegler Financial News."

FINANCIAL SUMMARY

FOR THE YEARS ENDED DECEMBER 31,	2007	2008	2009	2010	2011
(in thousands, except per share amounts, unaudited)					
Total revenues	\$115,051	\$81,762	\$88,263	\$77,554	\$67,579
Income before income taxes	7,369	(3,483)	(356)	666	1,669
Net income	5,074	(1,301)	488	925	1,517
Basic earnings per share	\$3.05	\$(1.04)	\$0.38	\$0.73	\$1.27
Diluted earning per share	\$2.92	\$(1.04)	\$0.38	\$0.73	\$1.27



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