

advancing health,
wealth & well-being through
2005 ANNUAL REPORT



Ziegler

ADVANCING HEALTH, WEALTH & WELL-BEING THROUGH TAILORED FINANCIAL SOLUTIONS

tailored.
financial
solutions

THE ZIEGLER VISION

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



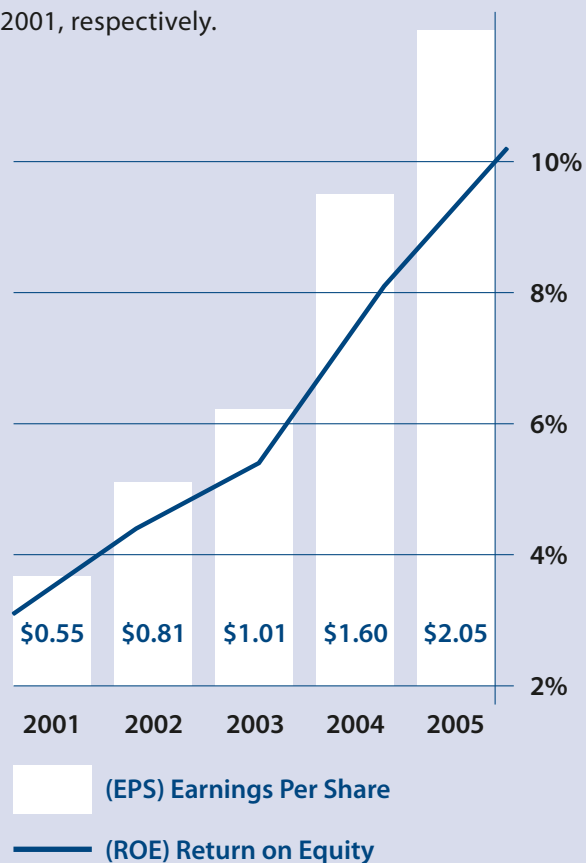
Ziegler believes in and lives its vision statement. We are in business to generate a positive impact on the lives of the clients we serve by improving physical, spiritual and mental health through funding to build private schools, churches, hospitals and senior living communities throughout America. We help clients generate and preserve wealth to improve their quality of life, retire in dignity and to help new generations educate their children and grandchildren. We are proud of our work toward creating financial solutions for the well-being of all the individual and institutional clients we serve.

Financial Summary

For the years ended December 31 (In thousands, except per share amounts)	2005	2004
Total revenues	\$94,202	\$79,143
Income before income taxes	6,439	5,014
Net income	3,789	3,145
Basic earnings per share	\$2.05	\$1.60
Diluted earnings per share	\$2.02	\$1.59

Earnings Per Share / Return on Equity

Net income for 2005 was \$3,789,000 or \$2.05 per share, compared to \$3,145,000 or \$1.60 per share, \$2,173,000 or \$1.01 per share, \$1,820,000 or \$0.81 per share and \$1,314,000 or \$0.55 per share, in 2004, 2003, 2002 and 2001, respectively. Return on equity for 2005 was 10.2%, compared to 8.1%, 5.4%, 4.4% and 3.2% in 2004, 2003, 2002 and 2001, respectively.



ZIEGLER 2005 ANNUAL REPORT – LETTER TO THE SHAREHOLDERS

The Ziegler Companies, Inc. is pleased to announce that its 2005 results mark five consecutive years of increasing net income and earnings per share. Net income has increased 188% from \$1,314,000 in 2001 to \$3,789,000 in 2005. Earnings per share have jumped 273% from \$.55 in 2001 to \$2.05 in 2005.

During 2001-2005, earnings per share grew at a compounded annual rate of 39%. During the same timeframe, return on equity increased 219% from 3.2% in 2001 to 10.2% in 2005.

The excellent progress in net income, earnings per share and return on equity is attributable to four primary factors:

- **Focused execution of our strategic plan.** An important aspect of our strategic plan is to dominate increasing market segments; our not-for-profit senior living finance team generated 44% of the underwriting volume in its market during 2005.
- **Increased emphasis on generation of fee based revenues.** During 2005, we acquired an asset management firm, Burnham, Sullivan & Associates; the acquisition contributed to a 19% increase in assets under management.
- **Ability to leverage our collective proprietary knowledge and experience.** In 2005, we successfully harvested four seed capital investments and continued to realize attractive returns on our private equity investments.
- **Continued optimization of our capital structure.** Since 2001, we have continued our effort to optimize our capital structure while providing an opportunity for our shareholders to sell their shares at favorable prices (accomplished by our successful tender offers in 2004 and 2005 and our ongoing share repurchase programs).

2005 was a strong year for Ziegler. Revenues increased 19% to \$94,202,000 and net income rose 20% to \$3,789,000. 2005 also marked continued recognition by the financial markets of Ziegler's enhanced franchise value. During 2005, our stock (ZCOI) rose 20% to \$22.00 per share. During the past two years, Ziegler's stock price has increased 54%.

We remain confident in Ziegler's future. The Company is positioned well in its major growth segment of healthcare finance. Our 2001-2005 track record and momentum will provide a strong foundation for us in 2006. We are committed to sustaining our consistent progress in generating increasing revenues, net income, earnings per share and return on equity.

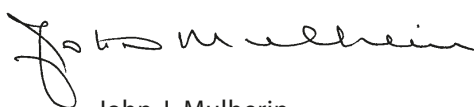
Four major priorities will guide our efforts in 2006 to help ensure continued growth in our franchise value:

- Achieve aggressive revenue, profitability and return on equity goals.
- Leverage our proprietary knowledge to enhance penetration in existing sectors.
- Adopt more growth-firm behaviors via accelerating our proprietary risk taking activities and improving our diversification through selective liftouts, alliances and acquisitions.
- Enhance strategic cohesion within the firm by sharpening our positioning for our Investment Services Group and introducing a Customer Relationship Management system.

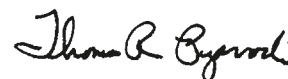
We appreciate your confidence in Ziegler and reaffirm our objective of ethically maximizing shareholder value. We continue to believe in the power of our vision statement — *advancing health, wealth and well-being through tailored financial solutions.*



Bernard C. Ziegler III
Chairman



John J. Mulherin
Chief Executive Officer



Thomas R. Paprocki
President

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The Ziegler Companies, Inc.

**Audited Consolidated Financial Statements and Footnotes
and
Other Information
As of December 31, 2005 and 2004, and
For the Years Ended December 31, 2005 and 2004**

Address

250 East Wisconsin Avenue
Milwaukee, Wisconsin 53202

**Total Shares Outstanding
At February 28, 2006**

1,643,603

**REPORT OF CERTIFIED
INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Directors
The Ziegler Companies, Inc.

We have audited the accompanying consolidated statement of financial condition of The Ziegler Companies, Inc. and subsidiaries (the "Company") as of December 31, 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year 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 audit. The financial statements as of and for the year ended December 31, 2004 were audited by other auditors whose report dated February 14, 2005 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of 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 audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Milwaukee, Wisconsin
March 3, 2006

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2005 AND 2004

(In thousands, except per share amounts)

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 23,604	\$ 27,173
Securities owned	82,778	25,474
Net receivable for unsettled trades	67,628	2,820
Receivables, net	5,631	4,288
Notes receivable, net	60,045	34,050
Other investments	15,208	17,902
Deferred income taxes	754	626
Land, buildings and equipment, at cost, net of accumulated depreciation of \$10,353 and \$9,404, respectively	3,552	3,335
Goodwill and other intangible assets	3,624	2,565
Other assets	<u>4,438</u>	<u>3,354</u>
Total assets	<u>\$267,262</u>	<u>\$121,587</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Short-term notes payable	\$ 8,229	\$ 6,305
Note payable to bank	6,075	2,425
Securities sold under agreements to repurchase	7,177	9,895
Payable to broker-dealers	119,265	6,729
Accrued compensation	21,417	14,172
Accounts payable, accrued expenses and other liabilities	6,503	3,556
Long-term debt	<u>44,070</u>	<u>24,455</u>
Total liabilities	<u>212,736</u>	<u>67,537</u>
Minority interest	19,592	16,749
Commitments		
Stockholders' 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	6,284	6,226
Retained earnings	57,765	54,949
Treasury stock, at cost, 1,914 and 1,686 shares, respectively	(32,617)	(27,315)
Unearned compensation	<u>(42)</u>	<u>(103)</u>
Total stockholders' equity	<u>34,934</u>	<u>37,301</u>
Total liabilities and stockholders' equity	<u>\$267,262</u>	<u>\$121,587</u>

See accompanying notes to consolidated financial statements.

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(In thousands, except per share amounts)

	<u>2005</u>	<u>2004</u>
Revenues:		
Investment banking	\$40,768	\$32,119
Commissions	20,463	18,204
Investment management and advisory fees	15,986	13,605
Interest and dividends	7,856	5,868
Net trading profits	2,480	4,116
Other income	<u>6,649</u>	<u>5,231</u>
	<u>94,202</u>	<u>79,143</u>
Expenses:		
Employee compensation and benefits	53,786	45,502
Promotional	5,306	4,631
Communications and data processing	5,064	4,901
Occupancy	4,512	4,507
Professional and regulatory	3,505	2,231
Interest	2,922	1,840
Investment manager and other	2,868	2,196
Brokerage commissions and clearing fees	2,725	2,822
Other	<u>1,996</u>	<u>2,043</u>
	<u>82,684</u>	<u>70,673</u>
Income before income taxes and minority interest	11,518	8,470
Minority interest in net income of subsidiaries	<u>(5,079)</u>	<u>(3,456)</u>
Income before income taxes	6,439	5,014
Provision for income taxes	<u>2,650</u>	<u>1,869</u>
Net income	<u>\$ 3,789</u>	<u>\$ 3,145</u>
Per share data:		
Basic earnings per share	\$ 2.05	\$ 1.60
Diluted earnings per share	\$ 2.02	\$ 1.59

See accompanying notes to consolidated financial statements.

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Unearned Compen- sation</u>	<u>Total</u>
BALANCE, December 31, 2003	\$3,544	\$6,226	\$52,837	\$(22,266)	\$(261)	\$40,080
Net income	-	-	3,145	-	-	3,145
Dividends declared (\$.52 per share)	-	-	(1,033)	-	-	(1,033)
Cost of treasury stock purchased (267,009 shares)	-	-	-	(5,084)	-	(5,084)
Proceeds from exercise of stock options (2,667 shares)	-	-	-	40	-	40
Restricted stock forfeitures (333 shares)	-	-	-	(5)	5	-
Amortization of unearned compensation	-	-	-	-	153	153
BALANCE, December 31, 2004	3,544	6,226	54,949	(27,315)	(103)	37,301
Net income	-	-	3,789	-	-	3,789
Dividends declared (\$.52 per share)	-	-	(973)	-	-	(973)
Cost of treasury stock purchased (241,427 shares)	-	-	-	(5,499)	-	(5,499)
Stock issued as compensation (12,722 shares)	-	57	-	193	-	250
Proceeds from exercise of stock options (300 shares)	-	1	-	4	-	5
Amortization of unearned compensation	-	-	-	-	61	61
BALANCE, December 31, 2005	<u>\$3,544</u>	<u>\$6,284</u>	<u>\$57,765</u>	<u>\$(32,617)</u>	<u>\$ (42)</u>	<u>\$34,934</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, 2005 AND 2004
(In thousands)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,789	\$ 3,145
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,207	1,372
Provision (reduction) for receivables allowances	59	(39)
Provision for notes receivable allowances	60	253
(Gain) loss on sale of property and equipment	146	(57)
Compensation expense paid in stock	311	153
Deferred income tax	(128)	919
Minority interest in net income of subsidiaries	5,079	3,456
Change in assets and liabilities:		
Decrease (increase) in -		
Securities owned	(57,304)	(7,617)
Net receivable for unsettled trades	(64,808)	(2,820)
Receivables, net	(1,401)	650
Other assets	(1,099)	(130)
Increase (decrease) in -		
Payable to broker-dealers	112,536	324
Accrued compensation	7,245	2,127
Other liabilities and deferred items	<u>2,947</u>	<u>(1,331)</u>
Net cash provided by operating activities	<u>8,639</u>	<u>405</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from-		
Sale of property and equipment	8	1,938
Payments received on notes receivable	12,686	7,000
Sales/paydowns of other investments	18,183	14,342
Payments for-		
Issuances of notes receivable	(38,741)	(5,201)
Capital expenditures	(1,564)	(879)
Purchases of other investments	(15,490)	(7,676)
Acquisition of intangible assets	<u>(1,059)</u>	<u>-</u>
Net cash (used in) provided by investing activities	<u>(25,977)</u>	<u>9,524</u>

See accompanying notes to consolidated financial statements.

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont'd.)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In thousands)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from -		
Issuance of short-term notes payable	\$46,826	\$30,591
Short-term bank borrowing	15,985	32,326
Securities sold under agreements to repurchase	12,055	5,678
Issuance of long-term debt	20,020	-
Minority interest capital contributions	4,230	1,013
Exercise of employee stock options	5	40
Payments for -		
Maturities of short-term notes payable	(44,901)	(28,500)
Repayments of short-term bank borrowing	(12,335)	(29,901)
Securities sold under agreements to repurchase	(14,773)	(9,452)
Repayments of long-term debt	(405)	(405)
Purchase of treasury stock	(5,499)	(5,089)
Minority interest capital distributions	(6,466)	(2,615)
Cash dividends	<u>(973)</u>	<u>(1,033)</u>
Net cash provided by (used in) financing activities	<u>13,769</u>	<u>(7,347)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,569)	2,582
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>27,173</u>	<u>24,591</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$23,604</u>	<u>\$27,173</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid during the year	\$2,626	\$ 1,953
Income taxes paid during the year	3,281	1,399

See accompanying notes to consolidated financial statements.

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(1) Organization and Nature of Business-

The Ziegler Companies, Inc. ("ZCO") and its wholly and partially owned subsidiaries (collectively, the "Company") are principally engaged in investment banking, financial advisory, investment advisory, asset management, retail brokerage, fixed income institutional sales and trading, 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 National Association of Securities Dealers, Inc.

(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"), Ziegler Financing Corporation ("ZFC"), Ziegler Healthcare Capital, LLC ("ZHC"), and ZHP I, LLC ("ZHP") a general partnership. The Company's consolidated financial statements also include the accounts of Ziegler Equity Funding I, LLC ("ZEF"), 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 and ZHC is the management company. ZHF I is a Small Business Investment Company ("SBIC") regulated by the Small Business Administration ("SBA"). ZEF is 32% owned by qualified officers and employees of the Company. The Company's consolidated financial statements include a 16% equity investment in Ziegler Healthcare Fund II, LLC ("ZHF II"), for which ZHC is the management company. Ziegler Healthcare Capital II, LLC, the former management company of ZHF II, was merged into ZHC during 2005. The investment in ZHF II is accounted for using the equity method of accounting. On May 31, 2005, ZCO contributed net assets to ZCM that were received as a dividend from BCZ. The net assets were related to the asset management business of BCZ and totaled \$2,916 consisting of \$2,019 of intangible assets, \$897 of net accounts receivable, and \$92 of other assets, net of \$92 of liabilities. ZCM will conduct the primary asset management business of the Company while the broker-dealer business will remain in BCZ. All significant intercompany balances and transactions are eliminated in consolidation.

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 strategic consulting, merger and acquisition, and 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 \$236 and \$254 at December 31, 2005 and 2004, respectively.

Commission Income and 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. Substantially all commission income and related expenses are recorded on a trade date basis. Although commissions are generally associated with individual securities transactions and the dollar amount of the transactions, the Company also earns and records commission income based on the value of assets in certain customer accounts.

Investment Management and Advisory Fees-

The Company earns investment management and advisory fees for investment advice and administrative services provided. 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.

Investment advisory and performance reporting services provided to independent financial advisors and institutions have specific expenses associated with those services. Those expenses include fees paid to the investment managers, outside independent financial advisors servicing the client, and custodians specifically related to the accounts. The expenses associated with those payments are included in investment manager and related fees.

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 Statement of Financial Condition.

Securities owned are valued at fair value based on market prices or, in the event there is no readily identifiable market, fair value as determined by management based upon market prices of similarly traded securities and other relevant factors. Unrealized gains or losses are reflected in income.

Allowances for Receivables and Notes Receivable-

The Company reviews receivables and notes receivable for potential losses. The amounts due for receivables include the estimated potential losses. At December 31, 2005 and 2004, the allowance for receivables was \$65 and \$6, respectively, and the allowance for notes receivable was \$189 and \$378, respectively.

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.

Depreciation-

The Company provides for depreciation of assets using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Furniture, fixtures, and equipment are 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. Depreciation expense was \$1,193 and \$1,359 in 2005 and 2004, respectively.

Other Investments-

Other investments consists primarily of proprietary investments of the Company and include collateralized mortgage obligations ("CMOs"), equity investments and partnership interests. The CMOs consist of fixed rate and variable rate securities. The fixed rate CMOs are considered available-for-sale securities. Unrealized gains and losses, if any, are reflected in other comprehensive income. Declines in value below cost that are considered other-than-temporary, if any, are reported as a reduction to net income in the period in which it is determined that such impairment occurred. No other-than-temporary impairment was recorded in 2005 or 2004. CMOs that have a variable rate of interest are considered trading securities. Any gain or loss in these securities is reported as a reduction in net income in the current period. Equity investments and partnership interests are valued at fair value as determined by management.

Goodwill and Other Intangible Assets-

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, and other intangible assets total \$3,624 as of December 31, 2005. During 2005 the Company acquired intangible assets consisting of an asset management portfolio and other intangible assets associated with the purchase of an investment advisory firm which were valued at \$1,059. Both the goodwill and other intangible assets are classified as indefinite-life intangible assets and are not amortized.

The Company periodically evaluates the carrying amount of its goodwill and other intangible assets, considering such factors as historical profitability and projected future cash flows to determine whether the value of the assets is impaired. During 2005 or 2004 there was no impairment. The goodwill and other intangible assets are related to the Investment Services operating segment.

Repurchase Agreements-

Transactions involving sales of securities under agreements to repurchase are accounted for as collateralized financings. Current transactions involve the financing of collateralized mortgage obligations. Collateral is valued monthly, and the Company receives payments from the counterparty when repayments of the collateral exceed the amount of the repurchase agreement.

Derivative Financial Instruments-

In accordance with Statements of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, derivatives are recognized at fair value in the Statement of Financial Condition. There are no significant derivative financial instruments at December 31, 2005.

Stock-Based Compensation-

The Company accounts for stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. No stock-based employee compensation cost related to stock options is reflected in net income, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The pro forma effect on net income and earnings per share had the Company applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation related to stock options is presented below. There were no stock options issued in 2005 or 2004. The Black-Scholes option pricing model was used in all years when options were granted.

	For the Years Ended December 31,	
	<u>2005</u>	<u>2004</u>
Net income, as reported	\$3,789	\$3,145
Deduct: Total employee compensation expense determined under fair value based method for stock options, net of related tax effects	<u>(31)</u>	<u>(34)</u>
Pro forma net income	<u>\$3,758</u>	<u>\$3,111</u>
Earnings per share:		
Basic-as reported	<u>\$2.05</u>	<u>\$1.60</u>
Basic-pro forma	<u>\$2.03</u>	<u>\$1.58</u>
Diluted-as reported	<u>\$2.02</u>	<u>\$1.59</u>
Diluted-pro forma	<u>\$2.01</u>	<u>\$1.58</u>

Comprehensive Income-

Other comprehensive income refers to revenues, expenses, gains and losses that under accounting principles generally accepted in the United States of America are included in other comprehensive income, but excluded from net income. There are no items of other comprehensive income in 2005 or 2004; therefore, comprehensive income equals net income for all years presented.

Fair Value of Financial Instruments-

The financial instruments of the Company are reported in the Consolidated Statements of Financial Condition at market or fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments, with the exception of notes receivable and long-term debt. The fair value of notes receivable, net of allowances, was \$60,020 and \$34,049 at December 31, 2005 and 2004, respectively. The discount rates used to calculate the fair value of notes receivable were based on the Company's current loan rates. The Company uses various means to determine fair value of the notes including current interest rates, the credit profile of the issuer, the term of the note, and discounted cash flow analysis depending upon the circumstances. The fair value of long-term debt at December 31, 2005 and 2004 was \$43,921 and \$24,563, respectively, which was determined based on current market rates offered on bonds and discounted cash flow analysis.

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.

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.

New Accounting Pronouncements-

Share-Based Payment-

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) ("123R"), "Share-Based Payment," an amendment of FASB Statements No. 123, "Accounting for Stock-Based Compensation," and 95, "Statement of Cash Flows." SFAS No. 123R also supersedes APB Opinion No. 25. SFAS No. 123R will require compensation cost relating to share-based payment transactions to be recognized in the consolidated financial statements, effective for the Company's first annual reporting period beginning after December 15, 2005. The Company has not yet completed its evaluation of the standard, but anticipates that it will not result in a material reduction in earnings or basic and diluted earnings per share.

Reclassifications-

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

(3) Investment in EnvestNet-

The Company owns common stock representing an approximate 12% ownership interest in the EnvestNet Group, Inc. ("EnvestNet"). EnvestNet in turn has an approximate 41% ownership interest in Envestnet Asset Management Group, Inc. ("EAM"), a successor corporation after a series of business combinations. The structure of EnvestNet and EAM ownership equity includes a substantial number of preferred shares, with rights and liquidation preferences superior to the rights of common shareholders including the Company. Those superior rights include rights to receive preferred dividends which accumulate and other preferred returns in the event of the sale or liquidation of EnvestNet or EAM. There is no market for EnvestNet's common stock and the shareholder agreement associated with the common stock contains restrictions on its transfer.

The fair value of the EnvestNet common stock is estimated by management of the Company. In making this determination management evaluates relevant factors including the amount of dilution the Company has experienced since its investment in EnvestNet, EAM's prospects for growth, EAM's available capital, EAM's cash flows, and EAM's success in gathering and retaining assets under administration and increasing revenue. The Company regularly reviews financial information provided by EAM to estimate the valuation of its investment in EnvestNet. The Company believes that the financial information supplied by EAM is reliable, but the Company has not undertaken independent verification of the information. EAM also obtained and

furnished to the Company an independent third party going concern valuation of EAM as of December 31, 2004. A subsequent valuation has not been done due to EnvestNet's representation to the Company that there have been no market transactions that have occurred that would be relevant in the valuation of EAM since the last valuation.

In March 2005, EAM negotiated an arrangement with an unaffiliated third party whereby EAM issued new shares of EAM preferred stock. The unaffiliated third party is engaged in the business of financial services. The price at which the shares were issued was a price that implied a valuation of EAM significantly below the valuation of the independent third party valuation consultant, and would imply an impairment of the Company's investment. However, Company management is of the opinion that the favorable purchase price is indicative of EAM's desire to strategically partner with the third party. It was anticipated that the third party would provide substantial assets to EAM's assets under advisement and would also provide endorsements to other firms seeking the services EAM has to offer. Assets under advisement have since increased due to the influence and association with this new investor. In conjunction with the unaffiliated third party investment, several existing investors also increased their investments in EAM. The issuance of these additional shares did not significantly dilute the Company's indirect investment in EAM. The benefits of the favorable relationship with the unaffiliated third party investor lead the Company to believe that its current investment in EnvestNet has not been further impaired by this transaction.

In December 2005, EAM authorized a potential increase in stock options for management of EAM as an employee retention tool. The arrangement is referred to as a "ratchet." The purpose of the ratchet is to compensate the employees who currently have options or own shares in the event that EAM is sold. The ratchet would not apply in the event of an initial public offering which would result in a higher return for management's ownership interest, but is designed to compensate EAM management owners for the difference in value for their ownership interest with respect to a sale versus an initial public offering. Although the ratchet would reduce the proceeds to the Company in the event of a sale over a small range of potential sale prices, it did not have a significant affect on the estimated fair value of EAM as determined by the Company.

During 2005 EAM continued to integrate the operations of the business combinations of the previous year, and continued to increase its total customer base and its assets under advisement. Based on information furnished to the Company by EAM, during 2005 EAM successfully increased revenues, reduced the monthly operating deficits of its combined subsidiaries and achieved positive monthly cash flows from operations. The Company believes that the carrying value of its investment in EnvestNet common stock approximates fair value at December 31, 2005. See Note 7.

Despite the fact that the Company believes that the net carrying value of EnvestNet common stock of \$4,724 approximates fair value at December 31, 2005, the annual accrual of cumulative preferred dividends in arrears reduces the value of the Company's holdings. The accrual of dividends may require the Company to record impairment write-downs in the future. Such write-downs of the Company's investment in EnvestNet would also include consideration of changes in the estimated enterprise value of EAM, of future EAM issuance of dilutive securities, or of the continued accumulation of dividends in arrears, among other factors. While such write downs would not represent actual cash flows, they could materially affect the financial condition or results of operations of the Company. If any impairment is determined to exist in the future it would be accounted for as a loss in the Company's Consolidated Statements of Income.

(4) Securities Owned-

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

	<u>2005</u>	<u>2004</u>
Municipal bonds	\$75,350	\$18,552
Preferred stocks	3,925	4,713
Corporate bonds	3,503	1,445
Other	-	764
	<u>\$82,778</u>	<u>\$25,474</u>

Municipal bonds consist primarily of revenue bonds issued by state and local governmental authorities related to continuing care retirement communities and healthcare facilities. Included in municipal bonds at December 31, 2005 are \$37,198 from eight issuers in Illinois; \$9,695 from three issuers in Arizona; \$8,647 from three issuers in Oklahoma; and \$7,762 from two issuers in Pennsylvania. Included in municipal bonds at December 31, 2004 are \$7,490 of bonds from one issuer in Oklahoma; \$3,887 of bonds from two issuers in Florida; \$2,266 of bonds from one issuer in Wisconsin; \$2,101 of bonds from one issuer in Ohio. Municipal bonds, other than variable rate demand notes, are generally unrated and have no independent publicly quoted market. Included in municipal bonds at December 31, 2005 are \$35,110 of variable rate demand notes and \$40,240 of fixed rate securities. Municipal bonds at December 31, 2004 were \$18,552 of fixed rate securities. Fixed rate securities are generally those underwritten by the Company and are valued at fair value as determined by management.

Corporate bonds consist primarily of taxable bonds issued by churches, schools and healthcare facilities. Corporate bonds are unrated and have no independent publicly quoted market. Corporate bonds are valued at fair value as determined by management.

(5) Notes Receivable-

Notes receivable at December 31 consist of the following:

	<u>2005</u>	<u>2004</u>
SBA-qualified borrowers	\$58,357	\$31,941
Employees (see Note 11)	1,096	1,434
Former employees (see Note 11)	170	553
Other	<u>611</u>	<u>500</u>
	60,234	34,428
Allowance	<u>(189)</u>	<u>(378)</u>
	<u>\$60,045</u>	<u>\$34,050</u>

ZHF I, in its capacity as an SBIC, extends credit to qualifying small businesses using funds from investors, which includes the Company, and funds drawn from the SBA. The notes receivable are not guaranteed by the SBA, but are collateralized by a first or second lien on real estate or other business assets. The notes are amortized over 5 to 25 years and are at a fixed rate of interest. Typically the notes require a balloon payment after a term of 3 to 7 years. All loans from SBA-qualified borrowers are current as to principal and interest payments. The funds from the SBA are recorded as long-term debt in the Consolidated Statements of Financial Condition. See Note 10.

(6) Allowance for Notes Receivable-

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

	<u>2005</u>	<u>2004</u>
Beginning balance	\$378	\$ 125
Provision for losses	60	253
Write-offs	<u>(249)</u>	<u>-</u>
Ending balance	<u>\$189</u>	<u>\$378</u>

(7) Other Investments-

Other investments at December 31 consist of the following:

	<u>2005</u>	<u>2004</u>
Collateralized mortgage obligations (CMOs)		
Variable rate	\$ 4,310	\$ 5,307
Fixed rate	3,065	4,863
Investment in EnvestNet, net of valuation allowance of \$4,776	4,724	4,724
Other	<u>3,109</u>	<u>3,008</u>
	<u>\$15,208</u>	<u>\$17,902</u>

The Company classifies the variable rate CMOs as trading securities and marks them to market, as necessary. At December 31, 2005 and 2004, cost approximated market value with no unrealized gains or losses. In order to mitigate the potential for unrealized market losses, the Company may enter into interest rate swap agreements. Marks to market of both variable rate CMOs and interest rate swap agreements are recorded in current income. During 2005, the Company recorded gains of \$6 on the variable rate CMOs and losses of \$94 on the interest rate swap agreements. There were no gains or losses recorded in 2004. The Company had no outstanding interest rate swap agreements at December 31, 2005 or 2004. Proceeds from the prepayment of principal on the variable rate CMOs were \$997 and \$533 in 2005 and 2004, respectively.

The Company classifies the fixed rate CMOs as available-for-sale securities. Because of the nature of the underlying mortgage obligations, the market values of the fixed rate CMOs can be difficult to determine, but management estimates the fair values as recorded in the Consolidated Statement of Financial Condition as approximating par value at December 31, 2005 and 2004. Proceeds from the prepayment of principal on the fixed rate CMOs were \$1,798 and \$8,830 in 2005 and 2004, respectively. There was no gain or loss on the prepayments. All fixed rate CMOs have a stated maturity date greater than 10 years. The Company finances both variable and fixed rate CMOs using repurchase agreements. See Note 9.

The investment in EnvestNet consists of 9,681,784 shares of common stock, originally valued at \$9,500 for which a valuation allowance has been established. In conjunction with receipt of the EnvestNet stock, the Company became party to an EnvestNet shareholders' agreement which restricts the Company's ability to sell the stock. There is no public market for the stock. The Company owns less than 20% of the EnvestNet common stock on a fully diluted basis at December 31, 2005 and 2004, and does not exert significant influence over EnvestNet. See Note 3.

Other includes a 16% equity investment in ZHF II, determined to be a variable interest entity in accordance with FASB Interpretation No. 46R ("FIN 46R"). The Company has also determined that it is not the primary beneficiary in ZHF II. ZHF II is in the business of making first mortgage loans to senior living facilities. It began operations on June 30, 2004. The Company has contributed \$820 as part of its total subscription of \$1,900 which represents a 16% share of the total equity and has recorded a loss of \$112 as the Company's share of the losses, resulting in a carrying value of \$708 at December 31, 2005. ZHF II is managed by ZHC, a wholly owned subsidiary of the Company. ZHC earns a management fee determined as a percentage of the total of loan commitments from banks and equity commitments of shareholder members of ZHF II. Neither the Company nor any of its consolidated subsidiaries guarantee any debt or other obligations of ZHF II. The Company's maximum exposure to loss resulting from its involvement with ZHF II is its capital commitment of \$1,900 and any earned but deferred or uncollected fees. There were \$39 of deferred fees at December 31, 2005. The investment in ZHF II is accounted for using the equity method of accounting.

Other also includes partnership interests. The partnership interests are valued at fair value as determined by management.

(8) Payable to Broker-Dealers-

The Company's broker-dealer subsidiary, BCZ, clears its proprietary and customer transactions through other broker-dealers on a fully disclosed basis. The relationship with BCZ's primary clearing broker results in amounts payable for transaction processing, inventory purchases, and losses on securities transactions offset

by fees earned, commissions, inventory sales and profits on securities transactions. The amounts payable to the primary clearing broker of \$119,064 and \$6,729 at December 31, 2005 and 2004, respectively, relate primarily to the financing of securities owned by BCZ. Securities with a market value of \$150,406 and \$27,499 at December 31, 2005 and 2004, respectively, collateralize the amounts payable to the clearing broker. The market value of securities at December 31, 2005 includes securities owned of \$82,778 and securities traded, but not yet contractually settled of \$67,628. The market value of securities at December 31, 2004 includes securities owned of \$24,679 and securities traded, but not yet contractually settled of \$2,820.

(9) 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. During 2005 and 2004, average outstanding balances were approximately \$7,168 and \$5,882, respectively and maximum borrowings were \$9,620 and \$6,841, respectively. The average interest rate on commercial paper outstanding at December 31, 2005 was approximately 5.2%.

The Company uses repurchase agreements to finance other investments. Repurchase agreements are classified in the Consolidated Statements of Financial Condition as securities sold under agreements to repurchase. The collateral under these agreements consists of CMOs backed by various U.S. government agencies. The maximum borrowings under these agreements were \$21,573 and \$13,446 in 2005 and 2004, respectively. The interest rate at December 31, 2005, was 4.5%, and will vary with the market rate of interest. See Note 7.

The Company had a bank line of credit for short-term bank borrowing at December 31, 2005 and 2004 totaling \$30,000 and \$20,000, respectively. In accordance with normal banking practices, this line may be withdrawn at the discretion of the lender and is payable on demand. Both credit facilities have restrictive covenants that require, among other things, the Company to maintain a specified level of tangible net worth. Interest on the \$30,000 facility is 30 day LIBOR plus 225 basis points, which was 6.6% at December 31, 2005.

The Company finances securities owned through its clearing relationship. Funds are borrowed at the federal funds rate plus 50 basis points, which was approximately 4.5% at December 31, 2005, and are due under normal margin arrangements for securities inventory. During 2005 and 2004, average outstanding balances were \$8,780 and \$5,996, respectively, and maximum borrowings outstanding were \$119,085 and \$87,160, respectively. The clearing agent financing is included in payable to broker-dealers in the Consolidated Statements of Financial Condition. See Note 8.

(10) Long-term Debt-

Long-term debt at December 31, 2005 and 2004, consists of the following:

	<u>2005</u>	<u>2004</u>
Bank term loan; payable in quarterly installments; due November, 2007; interest at 30-day LIBOR plus 250 basis points	\$ 810	\$ 1,215
SBA Debentures:		
Due March, 2012; interest at 7.209%	2,700	2,700
Due September, 2012; interest at 5.536%	4,530	4,530
Due March, 2013; interest at 5.494%	7,860	7,860
Due September, 2013; interest at 5.741%	8,150	8,150
Due September, 2015; interest at 5.042%	11,020	-
Due March, 2016; interest rate to be determined	<u>9,000</u>	<u>-</u>
	<u>\$44,070</u>	<u>\$24,455</u>

The bank term loan bears interest at a floating rate of 30-day LIBOR plus 250 basis points until maturity. The interest rate at December 31, 2005 was 6.9%. The bank term loan is due in quarterly installments of \$101

through November 4, 2007. The bank term loan has the same covenants and other requirements as the bank line of credit and is unsecured. See Note 9.

ZHF I, the 11% owned limited partnership of the Company, is an SBIC. In its capacity as an SBIC, ZHF I extends credit to qualifying small businesses using funds from investors, which includes the Company, and funds from the SBA. The funds from the SBA are drawn down from a total available commitment to ZHF I from the SBA of \$56,700. ZHF I incurred a fee of \$567 for the commitment which has been deferred and is being amortized over ten years, the approximate period any debt associated with the commitment will be outstanding. The remaining available commitment from the SBA at December 31, 2005 is \$13,440. ZHF I may apply for an additional \$3,400 commitment from the SBA after all funds related to the current commitment are invested.

ZHF I periodically draws on the SBA commitment to fund qualifying loans. The draws are pooled semi-annually by the SBA with other loans and offered to the public as a certificate guaranteed by the SBA at which time the interest rate and maturity date on the debentures are determined. The interest rate on the debentures, when pooled, approximates the ten year treasury rate plus approximately 60 basis points. Prior to pooling, an interim interest rate applies which is a weighted average interest rate approximating LIBOR plus 140 basis points, or approximately 5.0%. The SBA pools debentures semi-annually in March and September. Debentures are due ten years from the pooling date and may be prepaid after five years without penalty.

ZHF I has extended notes to qualified small businesses totaling \$58,357 and \$31,941 as of December 31, 2005 and 2004, respectively. The notes are structured to fund all interest on the debentures and be paid in conjunction with the repayment terms of the debentures. See Note 5.

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

2006	\$ 405
2007	405
2008	-
2009	-
2010	-
Thereafter	<u>43,260</u>
	<u>\$44,070</u>

(11) Related Party Transactions-

The Company sponsors the North Track family of mutual funds (the "Funds") and provides investment advisory, distribution, and administrative services to the Funds through its subsidiaries. Certain Company officers also serve as officers of the Funds. Total fees for services provided to the Funds were \$8,235 and \$7,821 in 2005 and 2004, respectively, and are included in investment management and advisory fees, commissions, and other income in the Consolidated Statements of Income. Amounts due from the Funds were \$1,452 and \$1,418 at December 31, 2005 and 2004, respectively, and are included in receivables in the Consolidated Statements of Financial Condition.

The Company leased office space in 2005 and 2004 to Envestnet Asset Management, Inc. ("EAMI"), a subsidiary of EAM. Total fees for these services were \$105 and \$59 in 2005 and 2004, respectively.

The Company, in order to attract qualified investment consultants to the retail brokerage operation, has extended credit to certain investment consultant employees and former employees upon commencement of employment with the Company. The credit is in the form of notes signed by the individual investment consultants. The balance of notes receivable, net of allowances for uncollectible amounts, is \$238 and \$650 as of December 31, 2005 and 2004, respectively, and is included in notes receivable in the Consolidated Statements of Financial Condition. Note receivable balances of \$81, net of allowances, at December 31, 2005 relate to investment consultants who are no longer employees. The notes vary in maturity from three to five years, maturing in 2006 to 2008, and are at market rates of interest. See Notes 5 and 6.

ZCO has extended credit to certain employees in conjunction with their participation as investors in ZEF, a private equity fund sponsored by the Company. The credit is in the form of notes signed by individual employees totaling \$939 and \$1,009 at December 31, 2005 and 2004, respectively, and is included in notes receivable in the Consolidated Statements of Financial Condition. The notes are payable to ZCO through 2008, are with full recourse to the employee, are at market rates of interest and are secured by the underlying securities. See Note 5.

The Company provides accounting, management services and loan origination to private equity funds sponsored by the Company. Total fees received under these arrangements were \$833 and \$144 in 2005 and 2004, respectively. A total of \$898 and \$444 are due from the Funds and are included in receivables in the Consolidated Statements of Financial Condition at December 31, 2005 and 2004, respectively.

(12) Retirement Plans-

The Company maintains contributory profit sharing plans for substantially all full-time employees and certain part-time employees. The plans provide for a guaranteed Company match equal to 50% of employee contributions up to 6% of defined compensation and a discretionary annual Company contribution up to 6% of defined compensation for each year. The annual discretionary Company contributions are at the discretion of the Board of Directors. The annual discretionary contributions were 5% in 2005 and 3% in 2004. Retirement plan expense of the Company was \$1,891 and \$1,554, in 2005 and 2004, respectively.

(13) Income Taxes-

The provision for income taxes from continuing operations for the years ended December 31 consisted of the following:

	<u>2005</u>	<u>2004</u>
Current federal provision	\$2,164	\$ 943
Current state provision	<u>614</u>	<u>7</u>
Total current provision	<u>2,778</u>	<u>950</u>
Deferred federal (benefit) provision	(51)	487
Deferred state (benefit) provision	<u>(77)</u>	<u>432</u>
Total deferred (benefit) provision	<u>(128)</u>	<u>919</u>
Total provision	<u>\$2,650</u>	<u>\$1,869</u>

The following are reconciliations of the statutory federal income tax rates to the effective income tax rates:

	<u>2005</u>	<u>2004</u>
Statutory federal income tax rate	34.0%	34.0%
State income taxes, net of related federal tax benefit	5.5	5.8
Tax-exempt interest income, net of related nondeductible interest expense	(2.3)	(4.2)
Nondeductible business expenses	2.0	1.9
Other, net	<u>2.0</u>	<u>(0.2)</u>
Effective income tax rate	<u>41.2%</u>	<u>37.3%</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>2005</u>	<u>2004</u>
Deferred tax assets:		
Deferred compensation	\$1,009	\$1,093
Accrued expenses	740	399
Allowance for losses	102	151
State net operating loss carryforwards	58	24
Alternative minimum tax credit	<u>-</u>	<u>85</u>
Total deferred tax assets	<u>1,909</u>	<u>1,752</u>
Deferred tax liabilities:		
Deferred gain	(940)	(940)
Deferred income	(146)	-
Goodwill amortization	(39)	(159)
Fixed assets	<u>(30)</u>	<u>(27)</u>
Total deferred tax liabilities	<u>(1,155)</u>	<u>(1,126)</u>
Net deferred tax assets	<u>\$ 754</u>	<u>\$ 626</u>

The Company has deferred tax assets generated from state net operating loss carryforwards which expire beginning 2013.

Realization of the deferred tax asset over time is dependent upon the Company generating sufficient taxable earnings in future periods. In determining that the realizability of deferred tax assets are more likely than not, the Company gave consideration to a number of factors including recent earnings history, expected future earnings, the reversal of deferred tax liabilities, tax planning strategies, and expiration dates associated with net operating loss carryforwards. Management believes it is more likely than not the Company will realize the benefits of these deferred tax assets.

(14) Stock-Based Compensation Plans-

In April 1998, the Company established the 1998 Stock Incentive Plan (the "1998 Plan") for key employees of the Company. Stock options, restricted stock and stock appreciation rights may be granted under the 1998 Plan. A total of 435,000 shares were issuable under the 1998 Plan. Shares subject to an option or stock appreciation rights which expire, terminate, or are cancelled or forfeited for any reason under the 1998 Plan are available for the regranting of awards. A total of 112,333 stock options, restricted stock or stock appreciation rights were available for granting under the 1998 Plan as of December 31, 2005.

Restricted Stock-

The Company has issued restricted common stock to certain key employees under the 1998 Plan. Upon issuance, an employee's ownership of shares is subject to full or partial forfeiture in accordance with a vesting schedule. The grants vest in three to five years following the date of grant. The total market value on the date of grant is recorded as unearned compensation, a separate component of stockholders' equity. Unearned compensation is amortized to expense over the respective vesting periods. All unvested shares are forfeited if an employee is terminated for any reason.

A summary of restricted stock vesting and the related compensation expense is as follows:

	<u>2005</u>	<u>2004</u>
	(number of shares)	
Unvested at beginning of year	19,493	32,740
Forfeited	-	(333)
Vested	<u>(12,577)</u>	<u>(12,914)</u>
Unvested at end of year	<u>6,916</u>	<u>19,493</u>
Compensation expense included in net income	<u>\$61</u>	<u>\$153</u>

Stock Options-

Substantially all outstanding options have a fixed exercise price equal to the market price of the Company common stock on the date of grant. The vesting period for the options varies from immediate vesting to vesting over a period of eight years and the options are exercisable over a period of 10 years after which they expire. Currently outstanding options expire on various dates ranging from 2008 to 2013. Unexercised options are forfeited on termination of employment subject to certain exceptions related to death, disability, and termination without cause.

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

	<u>Options Outstanding</u>	
	<u>Number</u>	<u>Price*</u>
Balance, December 31, 2003	252,750	\$18.13
Exercised	(2,667)	15.12
Forfeited	<u>(16,700)</u>	18.32
Balance, December 31, 2004	233,383	18.15
Exercised	(900)	18.13
Forfeited	<u>(1,133)</u>	16.91
Balance, December 31, 2005	<u>231,350</u>	18.15

*Weighted Average

At December 31, 2005, all outstanding options were exercisable at prices ranging from \$14.00 to \$19.38 per share and a weighted average price of \$18.15 per share with a weighted average life of 3.9 years. The total options currently vested and exercisable at December 31, 2005, is 121,683 at a weighted average exercise price of \$17.55. All currently vested options may be exercised at a price below \$22.00, the last transaction price recorded in 2005.

Stock Appreciation Rights-

During 2005 and 2004 the Company granted stock appreciation rights (“SARs”) to outside directors of the Company’s Board of Directors under the 1998 Plan. A summary of SARs activity is as follows:

	<u>SARs Outstanding</u>	
	<u>Number</u>	<u>Base Amount*</u>
Balance, December 31, 2003	-	\$ -
Granted	<u>8,000</u>	18.00
Balance, December 31, 2004	8,000	18.00
Granted	<u>8,000</u>	19.50
Balance, December 31, 2005	<u>16,000</u>	18.75

*Weighted Average

The SARs each relate to one share of Company common stock, vest immediately upon grant, are payable in cash, and expire ten years from date of grant. The value of an SAR is determined by the fair market 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. Total expense associated with SARs was \$52 and \$8 in 2005 and 2004, respectively.

(15) 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 capital. BCZ has elected to use the alternative method permitted by the Rule, which requires that BCZ maintain minimum net capital, as defined, equal to the greater of \$250 or 2% of aggregate debit balances arising from customer transactions, as defined. At December 31, 2005, BCZ had net capital of approximately \$15,127 which was approximately \$14,877 in excess of its required minimum net capital. Such net capital requirements could restrict the ability of BCZ to pay dividends to ZCO. BCZ has not paid cash dividends to ZCO in 2005 or 2004.

(16) Operating Segments-

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

The Capital Markets segment consists of the Company's fixed income and preferred stock institutional sales and trading, risk management and financial advisory, and corporate and public finance services. Sales credits associated with underwritten offerings are reported in the Investment Services Group when sold through retail distribution channels and in the Capital Markets Group when sold through institutional distribution channels.

The Investment Services segment sells a wide range of financial products through its retail branch distribution network, including equity and fixed income securities, affiliated and non-affiliated mutual funds, annuities, insurance products, and portfolio management and related administrative services. The Investment Services segment also provides investment advisory services to the affiliated mutual funds (the North Track Funds) and asset management services for institutional and individual clients.

The Corporate segment includes the Company's proprietary investment and corporate financing activities and unallocated corporate revenues and expenses. Corporate proprietary investment activities include the investment in CMOs described in Note 7, the activities and share of income related to the Company's partially owned entities, accounting and management service fees from private equity funds, and the net investment in EnvestNet. The effect on net income before taxes after the adjustment for minority interests is reflected below. Revenues related to minority interests were \$9,176.

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 and operating costs are based on methodologies which consider the size of the operation, the number of personnel, and other relevant factors.

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

	<u>2005</u>	<u>2004</u>
Revenues:		
Capital Markets	\$41,936	\$30,662
Investment Services		
Asset Management	12,741	11,418
Wealth Management	<u>27,644</u>	<u>28,528</u>
	40,385	39,946
Corporate	<u>11,881</u>	<u>8,535</u>
	<u>\$94,202</u>	<u>\$79,143</u>
Income (loss) before income taxes		
Capital Markets	\$ 7,765	\$ 4,151
Investment Services		
Asset Management	301	1,242
Wealth Management	<u>(38)</u>	<u>919</u>
	263	2,161
Corporate	<u>(1,589)</u>	<u>(1,298)</u>
	<u>\$ 6,439</u>	<u>\$ 5,014</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.

(17) Commitments and Contingent Liabilities-

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. In order to mitigate the risk of holding recently underwritten debt securities, the Company attempts to obtain commitments to sell the debt securities to customers. At December 31, 2005, the Company had no outstanding firm commitments to purchase debt securities.

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 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 8.

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 \$493 and \$383 at December 31, 2005 and 2004, respectively.

In the normal course of business ZHF I, the Company's 11% owned entity, makes commitments to originate loans. At December 31, 2005, ZHF I had \$4,400 of outstanding commitments to originate loans.

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. The Company also leases office

and computer equipment under noncancellable agreements. Rental expense for 2005 and 2004 was \$4,364 and \$3,892, respectively. Future minimum lease payments which extend through 2010 and thereafter, are:

2006	\$3,795
2007	3,592
2008	1,939
2009	1,614
2010	994
Thereafter	839

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 businesses. As of December 31, 2005, the Company had been named as a respondent to an arbitration claim from a retail customer alleging inappropriate professional advice pertaining to financial matters. As a result of the arbitration that occurred early in 2006 and the resulting settlement, the Company determined that its accrual for this matter was adequate as of December 31, 2005. The Company is also a defendant in other lawsuits incidental to its securities and other 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 1997, the Company served as underwriter for an issue of municipal bonds (“Bonds”), whose proceeds were used to advance refund an already outstanding issue of Bonds. In 2004, the Internal Revenue Service (“IRS”) notified the conduit issuer of the Bonds that it intended to examine the 1997 transaction for compliance with the arbitrage rules under the federal tax code. The examination was concluded early in 2006, and the IRS has indicated to the issuer that, in the view of the IRS, the arbitrage analysis of 1997 was improper with respect to a security in the refunding escrow. The issuer has conducted settlement negotiations with the IRS, and has reached a settlement in principle with the IRS. The Company has agreed to contribute to the settlement of the tax controversy, and established an accrual for this purpose as of December 31, 2005. The Company is awaiting the final agreement of all parties and final settlement with the IRS, but believes that its accrual for this matter is adequate as of December 31, 2005.

(18) Earnings per Share-

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

	<u>2005</u>	<u>2004</u>
Net income	<u>\$ 3,789</u>	<u>\$3,145</u>
<u>Basic</u>		
Weighted average shares outstanding	<u>1,851</u>	<u>1,963</u>
Basic earnings per share	<u>\$2.05</u>	<u>\$1.60</u>
<u>Diluted</u>		
Weighted average shares outstanding - Basic	1,851	1,963
Effect of dilutive securities:		
Restricted stock	3	8
Stock options	<u>19</u>	<u>3</u>
Weighted average shares outstanding - Diluted	<u>1,873</u>	<u>1,974</u>
Diluted earnings per share	<u>\$2.02</u>	<u>\$1.59</u>

Under the terms of the recently adopted 2005 Employee Stock Purchase Plan (the “2005 ESPP”), the Company obtained purchase commitments for 116,635 shares of Company common stock from Company employees. The shares will be purchased from the Company’s treasury stock at \$22.50 per share, the price paid by the Company to shareholders in the tender offer that closed on December 19, 2005. Total shares outstanding of 1,629,845 at December 31, 2005 will increase by the amount of shares purchased by employees under the 2005 ESPP. The purchases are expected to be finalized in March 2005.

(19) Acquisition

The Company acquired Burnham, Sullivan & Associates, Inc. (“BSA”), an investment advisory firm with offices in Chicago, Illinois and Grand Rapids, Michigan. BSA managed approximately \$500 million of assets for both institutional and high net worth individual clients. The acquisition closed on August 15, 2005. The purchase price for the acquisition is payable over six years and is based primarily on the revenues generated from the assets managed as the result of the acquisition as well as additional asset management contracts and related assets that are added over the term of the purchase price payment agreement. The first payment was due in January, 2006, and succeeding payments are due in January of the following years. The total of the first payment was \$691.

MANAGEMENT'S DISCUSSION

Business and Operating Segments

The Ziegler Companies, Inc. ("ZCO" and the "Parent"), through its wholly and partially owned subsidiaries (collectively, the "Company"), is engaged in financial services activities. These financial services activities are conducted through three operating segments: Capital Markets, Investment Services and Corporate. Refer to Note 16 of the Notes to Consolidated Financial Statements for financial information related to the operating segments.

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

The Investment Services business segment consists of two operating business units: Asset Management and Wealth Management. Asset Management provides investment advisory services to affiliated mutual funds (the North Track Funds) and private accounts of institutional and individual clients. Wealth Management offers a wide range of financial products and financial planning services to retail and institutional clients through its broker distribution network, including equity and fixed-income securities, affiliated and non-affiliated mutual funds, real estate investment trusts, private placement of alternative investments, annuities and other insurance products. Wealth Management is the primary retail distribution channel for religious institution and private school bonds and other taxable and tax-exempt bonds underwritten by the Capital Markets segment. Asset Management activities are conducted primarily through Ziegler Capital Management, LLC ("ZCM"). Wealth Management activities are conducted through BCZ.

The Corporate business segment consists primarily of the proprietary investment and corporate financing activities of the Company and includes the unallocated corporate administrative activities. The proprietary investment activities of the Corporate segment include the ownership and operations of Ziegler Healthcare Capital, LLC, a management company, and the partial ownership of Ziegler Healthcare Fund I, LP; Ziegler Healthcare Fund II, LLC; and Ziegler Equity Funding I, LLC; all of which are private equity investments and are included in the "Principles of Consolidation" paragraph of Note 2 of the Notes to Consolidated Financial Statements. The Company has also been active in creating, managing, and administering other private equity investments which the Company has privately placed with investors. Those investments include Ziegler Equity Funding II, LLC; Ziegler Equity Funding III, LLC; Ziegler Healthcare Fund III, LLC; Ziegler Investment Fund I, LLC; and Ziegler Healthcare Real Estate Fund I, LLC.

As of December 31, 2005 approximately 341 persons were employed full time and 26 persons were employed part time by the Company and its subsidiaries.

Results of Operations – Comparison of 2005 to 2004

(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 should not be considered representative of future results. The Company has attempted to establish a size of operations and related cost structure that is appropriate for anticipated future business activity. Certain fixed operating costs cannot be reduced quickly should business activity decline or remain at lower levels for an extended period. The Company continuously reviews its business structure and attempts to make adjustments accordingly.

As presented in Note 16 of the Notes to Consolidated Financial Statements, the Company had an increase in revenue of \$15,059 to \$94,202 in 2005. The Capital Markets segment, the Asset Management business in the Investment Services segment and Corporate Segment all had increases in revenue in 2005. The following are primary factors:

1. Increased bond underwriting volume;
2. Increased revenue from increased assets under management;
3. Increased interest income on notes receivable; and
4. Increased investment gains on private equity investments.

Capital Markets activity has historically been uneven during the course of the year. Fiscal year 2005 started out very slowly and closed with a very high volume of transactions. Capital Markets revenues totaled \$41,936 in 2005 compared to \$30,662 in 2004, an increase of 37%. This was accomplished by generating a bond underwriting volume of \$3.1 billion compared to \$2.2 billion in 2004. A combination of new projects being financed, the higher cost of new projects, and refinancing of already outstanding bonds for existing projects all contributed to the increased bond underwriting volumes. As interest rates rise, refinancing activity will likely diminish. New project activity is impacted less by economic factors and more by the demand and demographic aspects of particular projects. Increased fee revenues from risk management advisory services, oftentimes in conjunction with bond underwritings, and the remarketing of municipal variable rate demand notes also contributed to the increased revenues. Alternatively, net trading profits declined in 2005 as the result of an uncertain market environment and limited activity. The substantial bond underwriting volume produced an increase in income before income taxes for the Capital Markets segment.

Activity in the Investment Services segment, consisting of the Asset Management and Wealth Management businesses, was not as strong. This segment experienced an increase in revenues of \$439 to \$40,385 in 2005. Client assets under management increased approximately \$500 million as the result of the acquisition of an investment advisory firm in June of 2005. Increased sales of client asset management services were largely offset by reductions as clients withdrew funds. Many institutional clients place funds with the Asset Management group that are received in a bond underwriting and are to be used for construction projects. The funds are withdrawn as the construction progresses. Mutual fund assets under management did not change significantly during 2005 due to the fact that increases in assets under management due to sales of mutual funds were offset by redemptions. Total assets under management increased from \$2.7 billion at the beginning of the year to \$3.2 billion at December 31, 2005. Average assets under management for 2005 was \$2.8 billion compared to \$2.5 billion in 2004. Asset Management revenues increased \$1,323 to \$12,741 in 2005 as a result of the increases noted above. However, net income before income taxes decreased due to the integration costs of the acquisition (see Note 19 of the Notes to Consolidated Financial Statements), increased sales distribution capacity and promotional efforts, and increased legal fees associated with the creation of ZCM and the development of new products.

Wealth Management group revenues decreased \$884 to \$27,644 in 2005. The decline in revenues was primarily due to a lower volume of bonds underwritten by the Company and sold through the Company's retail distribution system. The concentration of underwriting activity at the end of the year also hindered the ability of investment consultants to sell bonds. There was also a lower volume of religious institution and private school taxable bonds during 2005 compared to 2004, which are sold exclusively through the Company's retail distribution system. Mutual fund, alternative investment, equity, and annuity commissions which were approximately 56% of revenues in 2005 did not change significantly from 2004. Asset-based fees in the Wealth Management group increased. The Wealth Management group's small net loss before income taxes was due to the overall lower volume of revenues, especially with respect to the lower volume of bonds underwritten by the Company, as well as increased expenses associated with litigation and the recruitment of investment consultants.

Corporate segment revenues increased \$3,346 to \$11,881 in 2005. The increase in revenues are primarily due to the increased interest income in ZHF I as the result of the increase in notes receivable related to SBA lending activities. Partnership investment gains also contributed to the increased revenues. Interest income from the investments in CMOs have declined as the principal has been repaid. The Company has not

reinvested in CMOs to any significant extent due to the inability to replace the higher rate CMOs being repaid with similar securities. The loss before income taxes was affected by increased legal expenses that were not allocated to the other segments.

The Company's total expenses increased \$12,011 to \$82,684. Employee compensation and benefits increased \$8,284 primarily due to increased compensation related to the high volume of activity in the Capital Markets segment. Also contributing to the increase was an increase in the profit sharing payments to employees from 3% to 5% of eligible compensation, the addition of compensation for employees obtained in the acquisition in 2005, an increase in sales distribution capacity in our Asset Management group, and the annual salary increase generally applicable to all employees. Professional fees increased \$1,274 primarily due to fees associated with various legal matters, interest expense increased due to increased rates and higher average debt balances during the course of the year, and activities associated with seminars, travel and sponsorships increased overall promotional expenses. The Company's net income increased by \$644 from \$3,145 to \$3,789 in 2005. The earnings per share increased \$.45 per basic share and \$.43 per diluted share as a result of both increased net income and a decrease in weighted average shares outstanding. The decrease in shares outstanding occurred primarily as the result of the Company's recent tender offers, one of which closed in July 2004 and one in December 2005.

Liquidity and Capital Resources

(Dollars are expressed in thousands unless specifically indicated otherwise.)

The Company's business is providing financial services. Adequate 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 as well as meet the regulatory net capital requirements of its broker-dealer subsidiary, BCZ. In 2005, the Company met all such requirements.

In the opinion of management, the Company's capital resources and available sources of credit are adequate for present and anticipated future operations. The Company intends to continue to investigate acquisition opportunities as a means of expanding its business. Such opportunities may require the Company to arrange for additional sources of capital. There is no assurance that additional sources of capital will be available.

BCZ acts as a remarketing agent for approximately \$5.4 billion of municipal variable rate demand notes ("VRDNs") consisting of variable rate bonds within 288 bond issues, most of which BCZ previously underwrote. A total of approximately \$4.9 billion can be tendered to BCZ at the option of the holder on seven days advance notice, and approximately \$124 million can be tendered without 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. Approximately \$323 million of the securities subject to remarketing are auction rate securities. The Company's broker-dealer subsidiary, BCZ, makes a market in the auction rate securities by conducting an auction over specified periods. Auction rate securities adjust their rates every seven to thirty-five days. BCZ is not contractually obligated to repurchase bonds, but may do so to facilitate the auction process. 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 activities through its clearing broker under the clearing broker's margin financing arrangements.

The Company repurchases its own common stock from time-to-time based upon prevailing market prices. In January 2006, the Company's board of directors approved the future purchase of up to 200,000 shares of Company stock in market or private transactions, under terms considered reasonable by management. Through its share buyback programs, the Company repurchased 833 shares in 2005 for a total of \$16 in share repurchase transactions excluding shares repurchased in the tender offer discussed below. The Company will evaluate future share repurchase opportunities giving consideration to cash availability, 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.

On November 3, 2005, the Company initiated an issuer tender offer. A total of 240,594 shares were tendered by shareholders and purchased by the Company at the purchase price of \$22.50 per share. The total cost of the repurchased shares, including the administrative costs of the tender offer, was \$5,483. The total cost was funded through short-term bank borrowing. The Company intends to repay the short-term bank borrowing from sales of Company stock to employees through the recently adopted 2005 Employee Stock Purchase Plan ("2005 ESPP") discussed below, dividends from BCZ as allowed by regulatory rules, and cash generated from operations.

The Company adopted the 2005 ESPP to provide an opportunity for employees to share in greater ownership of the Company. The employees were offered the opportunity to purchase the shares using a five-year note offered by the Company at a price of \$22.50 per share. The Company is currently arranging a credit facility with a bank to finance the leverage extended to employees. Employees have committed to purchase 116,635 shares for a total of approximately \$2,624. Approximately \$1,746 will be financed using leverage and the balance of the shares will be purchased with cash. All purchases are expected to be finalized in March 2006. As a result, total shares outstanding of 1,643,603 as of February 28, 2006, will increase by the amount of shares purchased by employees of 116,635. Shares outstanding may also be affected by the Company share repurchase program and stock-based compensation as discussed in Note 14 of the Notes to Consolidated Financial Statements.

The Parent also finances fixed and variable rate CMOs using a securities sold under agreement to repurchase arrangement commonly referred to as a repurchase agreement. The CMOs serve as collateral for the repurchase agreement. As securities which serve as collateral are paid down, the counterparty collects the payments, reduces the liability for the repurchase agreement covered by the collateral, and remits the balance to the Parent. The Parent earns the difference between the interest earned on the CMOs and the interest paid to the repurchase agreement counterparty.

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 customers and are limited by the availability of customers who wish to invest in these unrated short-term notes payable at the interest rates offered by the Company. The Company maintains this facility as a source of additional liquidity and to reduce its reliance on higher interest rate borrowing alternatives.

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 is able to lend funds to qualifying small businesses using its own capital and funds borrowed from the SBA on favorable terms. The SBA granted ZHF I leverage of up to \$56,700. Interest received on loans to small businesses is scheduled to be sufficient to fund the interest due on the debentures due the SBA, as well as provide for administrative expenses and a return to investors for contributed capital. Repayment terms on the notes from the qualifying small businesses, including prepayment penalties, are structured to approximately correspond to the repayment terms on the debentures due the SBA. Prepayments of loans can also be redeployed to future notes being originated. At December 31, 2005, ZHF I had a remaining approved leverage commitment from the SBA of up to \$13,440 and may apply for an additional \$3,400 commitment from the SBA after all funds related to the current commitment are invested.

ZFC and BCZ, as 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 its revolving loan agreement to fund loans to either subsidiary. The Parent lends on a subordinated basis to BCZ in the event of a need for a temporary increase in 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 has contracted with a third party for the financing of B Share sales for its affiliated mutual funds, the North Track Funds. B Shares are mutual fund shares sold at net asset value to the investor, but subject to a contingent deferred sales charge typically for eight years after the original date of purchase. The third party financier advances the amount of the commission payable to the selling broker and in return receives the right to the 12b-1 fees paid on the B Shares for the eight years following date of purchase. There are certain "events of termination" in the contract with the third party that would allow for the third party to terminate the financing relationship. Among the "events of termination" is the discontinuation of 12b-1 fees, which is a current topic of

discussion within the industry and by the SEC. Should 12b-1 fees be discontinued, the Company would be required to assume the future financing duties itself, should the Company feel it was appropriate to continue to distribute B Shares of the North Track Funds. There is no assurance that 12b-1 fees will not be discontinued or that the Company is capable of financing the securities.

The Company continues to evaluate various strategic alternatives, including internal expansion, recruitment, acquisitions and strategic mergers within the financial services industry. The financing of any acquisitions will depend upon the structure of the specific transaction. The Company may obtain financing from a bank or other provider of debt, use treasury stock or cash, or arrange some other means to finance an acquisition. The Company contemplates a continued emphasis in proprietary investing and in sponsoring additional alternative investments for its clients.

Five Year Summary of Financial Data (Unaudited):

	For the years ended December 31,				
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
(Dollars in thousands except per share amounts)					
Operating Revenues.....	\$94,202	\$79,143	\$74,275	\$67,440	\$80,679
Net Income	3,789	3,145	2,173	1,820	1,314
Basic Earnings Per Share.....	2.05	1.60	1.01	0.81	0.55
Diluted Earnings Per Share.....	2.02	1.59	1.01	0.81	0.55
Cash Dividends Declared Per					
Share of Common Stock.....	0.52	0.52	0.52	0.52	0.52
Balance sheet data as of the end of the year:					
Total Assets ^(a)	267,262	121,587	120,951	137,799	185,956
Long-Term Obligations	44,070	24,455	24,860	16,115	3,300
Short-Term Notes Payable.....	8,229	6,305	4,214	4,682	3,375
End of Year Shareholders' Equity.....	34,934	37,301	40,080	40,042	42,855
Book Value Per Share.....	21.43	\$20.07	\$18.88	\$18.27	\$17.85

(a) Total assets for 2002 and 2001 were adjusted to conform to current year presentation.

Quarterly Consolidated Results of Operations for 2005 and 2004 (Unaudited):

<u>2005 Quarter Ended</u>	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
(Dollars in thousands except per share amounts)				
Revenues.....	\$15,535	\$17,191	\$25,863	\$35,653
Expenses	14,696	15,888	21,980	30,119
Net income (loss).....	(378)	389	1,691	2,087
Basic and diluted income per share	\$(0.20)	\$ 0.21	\$ 0.91	\$ 1.14
<u>2004 Quarter Ended</u>	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
(Dollars in thousands except per share amounts)				
Revenues.....	\$17,087	\$17,758	\$21,292	\$23,006
Expenses	15,487	16,423	18,546	20,217
Net income.....	541	483	778	1,343
Basic income per share	\$ 0.26	\$ 0.23	\$ 0.42	\$ 0.73
Diluted income per share	\$ 0.26	\$ 0.23	\$ 0.42	\$ 0.72

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

	<u>Quarter Ended</u>			
	<u>Mar. 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
<u>Calendar year 2005</u>				
Stock price range:				
High Sales Price	21.50	21.00	22.50	22.00
Low Sales Price	18.50	19.00	18.00	17.00
 <u>Calendar year 2004</u>				
Stock price range:				
High Sales Price	18.00	18.00	19.50	20.50
Low Sales Price	14.25	15.05	17.50	18.30

Forward-Looking Statements

Certain matters discussed herein contain forward-looking statements that involve risks and uncertainties, including (without limitation): the effect of economic and market conditions, such as demand for investment advisory, banking and brokerage services in the markets served by the Company; pricing of services; resolving IRS inquiries concerning municipal bond issuer practices; successful management of regulatory and legal risks and requirements; successful defense of litigation; interest rates; successful implementation and management of repurchase and interest rate swap agreements; retention of key employees; profitable operations of the institutional trading desks; competition; return of the Company's investment in EnvestNet common stock; the ability to collect receivables and realize the value of investments; the Company's ability to realize the value of goodwill and other 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; 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; and the ability to successfully remarket municipal variable rate demand notes without the use of the third party liquidity providers. 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; or (iii) the Company's analysis is correct. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

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DIRECTORS & EXECUTIVE OFFICERS

Directors

B.C. Ziegler III

Chairman, The Ziegler Companies, Inc.
President, Ziegler/Limbach, Inc.
West Bend, Wisconsin,
a business development and management firm

D.A. Carlson, Jr.

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

P.R. Kellogg

Director
IAT Syndicate Reinsurance Company,
a reinsurance company

J.J. Mulherin

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

B.E. Needles, Jr.

Professor of Accountancy, DePaul University;
Principal, Vice President and Secretary of Needles &
Powers, a textbook development company;
Principal, Vice President and Secretary of Needles &
Powers, an executive training company;
Immediate Past President, International Association
of Accounting Education and Research;
Senior Vice-Chair (Chair-Elect), Board of Directors,
Illinois CPA Society

R. Douglas Ziegler

Director Emeritus

Executive Officers

The Ziegler Companies, Inc.

J.J. Mulherin

Chief Executive Officer

T.R. Paprocki

President

D.A. Carlson, Jr.

Vice Chairman

B.K. Andrew

Senior Managing Director and
Chief Investment Officer

G.P. Engle

Senior Managing Director and
Chief Administrative Officer

S.C. O'Meara

Senior Managing Director,
General Counsel and Corporate Secretary

T.S. Ross

Senior Managing Director and Chief Credit Officer

J.C. Vredenburg

Senior Vice President and Chief Financial Officer

Officers

B.C. Ziegler and Company

J.J. Mulherin

Chief Executive Officer

T.R. Paprocki

President

G.P. Engle

Senior Managing Director and
Chief Administrative Officer

S.C. O'Meara

Senior Managing Director,
General Counsel and Corporate Secretary

J.C. Vredenburg

Senior Vice President and Chief Financial Officer

T.S. Ross

Senior Managing Director and Chief Credit Officer

B.K. Andrew

Senior Managing Director and
Chief Investment Officer

D.A. Carlson, Jr.

Senior Managing Director
Capital Markets Group

D.P. Frank

Senior Managing Director
Service and Technology Group

H. Hakewill

Senior Managing Director
Marketing and Communications Group

D.G. Stoeffel

Senior Managing Director
Asset Management Group

K.M. Jackson

Senior Managing Director
Co-head, Wealth Management Group

J.C. Todd

Senior Managing Director
Co-head, Wealth Management Group

L.E. Lynch

Managing Director
Human Resources Group

Subsidiaries & Divisions

B.C. Ziegler and Company

Corporate Headquarters

250 East Wisconsin Avenue
Suite 2000
Milwaukee, Wisconsin 53202-4298
(414) 978 6400

Capital Markets Offices

Church and School Headquarters

250 East Wisconsin Avenue
Milwaukee, Wisconsin 53202-4298
(414) 978 6400

Denver, Colorado
Columbus, Ohio

Healthcare and

Senior Living Headquarters

One South Wacker Drive
Suite 3080
Chicago, Illinois 60606-4617
(312) 263 0110

Scottsdale, Arizona
Baltimore/Washington, D.C.
St. Petersburg, Florida
Cleveland, Ohio
New York, New York
Milwaukee, Wisconsin

Wealth Management Offices

Scottsdale, Arizona
Denver, Colorado
Orlando, Florida
Chicago, Illinois
Rockford, Illinois
Grand Rapids, Michigan
Minnetonka, Minnesota
Appleton, Wisconsin
Green Bay, Wisconsin
Madison, Wisconsin
Mequon, Wisconsin
Milwaukee, Wisconsin (2)
Sheboygan, Wisconsin
Wausau, Wisconsin
West Bend, Wisconsin

Ziegler Capital Management LLC

250 East Wisconsin Avenue
Milwaukee, Wisconsin 53202-4298
(414) 978 6400

Ziegler Financing Corporation

1185 Avenue of the Americas
32nd Floor
New York, New York 10036-2601
(212) 512 0400

Ziegler Healthcare Capital LLC

1040 Broad Street, Suite 3B
Shrewsbury, New Jersey 07702
(732) 578 0533

Managed Private Investment Funds

Ziegler Equity Funding I LLC
Ziegler Equity Funding II LLC
Ziegler Equity Funding III LLC
Ziegler Healthcare Fund I LP
Ziegler Healthcare Fund II LLC
Ziegler Healthcare Fund III LLC
Ziegler Healthcare Real Estate Fund I LLC
Ziegler Meditech Equity Partners LP

INVESTOR INFORMATION

Corporate Offices

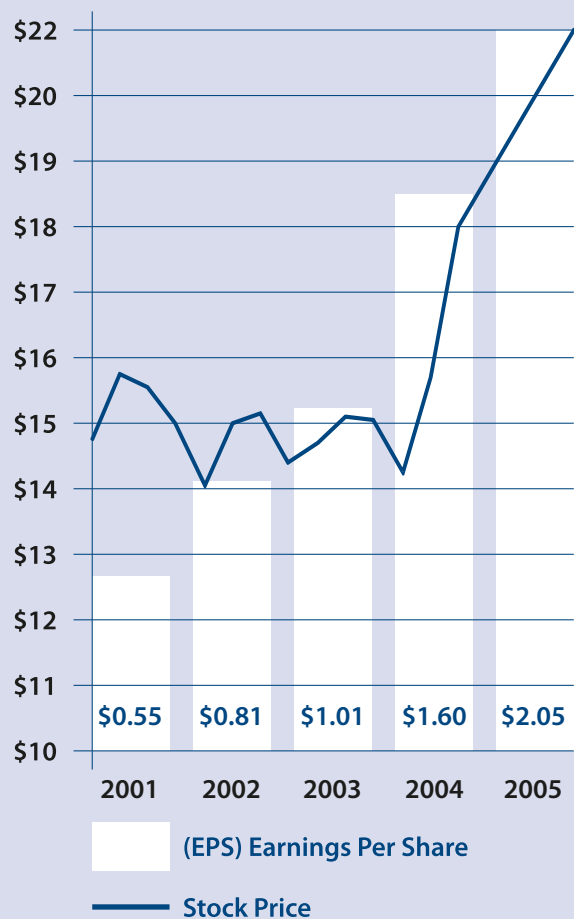
250 East Wisconsin Avenue
Suite 2000
Milwaukee, WI 53202-4298
(414) 978 6400

Annual Meeting

The annual meeting of shareholders will be held at 9:30 a.m., Tuesday, May 23, 2006, at Quarles & Brady, 411 East Wisconsin Avenue, Milwaukee, Wisconsin.

Earnings Per Share/Stock Price

The Ziegler Companies, Inc. common stock (ZCOI) trades on pinksheets.com. During 2005, our stock rose 20% to finish the year at \$22.00 per share. During 2001-2005, earnings per share grew at a compounded annual rate of 39%. The repurchase of common stock by the Company has also had a beneficial effect on the EPS and stock price during this time period.



Cash Dividends

Cash dividends paid during 2005 and 2004 were as follows:

Per Share	2005	2004
February		\$0.13
March	\$0.13	
May	0.13	0.13
August	0.13	0.13
November	0.13	
December		0.13
Total	\$0.52	\$0.52

Bernard C. Ziegler

Gerald J. Gagner

During 2005, we lost two esteemed members of The Ziegler Companies family.

Bernie Ziegler was a director emeritus, having previously served as our chairman. The son of our founder, B.C. Ziegler, and the father of our current chairman, Bernie provided outstanding business, civic and charitable leadership for our firm and his community for over 30 years. We will miss his greatest legacy—his genuine caring for people.

Jerry Gagner joined our Board of Directors in 2000 and served on the Organization & Compensation and Audit Committees. Throughout his tenure, he consistently and effectively represented the interests of our shareholders. His business savvy and sense of humor will be missed.

Quarterly Earnings Releases

Ziegler's quarterly news releases are posted promptly on our web site (www.ziegler.com) upon approval by our Board of Directors. At www.ziegler.com, simply click on "About Us" and then click on "News/Press;" the most recent news release will be listed first within "News/Press."



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