

**THE ZIEGLER COMPANIES, INC.**

200 South Wacker Drive  
Chicago, Illinois 60606

Financial and other information for the first quarter  
ended March 31, 2009  
(June 4, 2009)

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

	March 31, 2009 (Unaudited)	December 31, 2008
(In thousands except per share amounts)		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 17,174	\$ 24,431
Securities owned, at fair value	134,117	24,351
Net receivable for unsettled trades	—	3,669
Receivable from clearing broker	—	2,131
Receivables, net	8,018	10,627
Notes receivable, net	27,455	29,656
Other investments	14,579	14,362
Deferred income taxes	1,388	1,472
Furniture, equipment and leasehold improvements, at cost, net of accumulated depreciation of \$12,460 and \$12,127, respectively	8,577	9,010
Intangible assets, net	2,992	3,017
Goodwill	2,239	2,239
Other assets	<u>9,269</u>	<u>8,206</u>
Total assets	<u>\$225,808</u>	<u>\$133,171</u>
<b>LIABILITIES</b>		
Short-term notes payable	\$ 3,281	\$ 3,424
Short-term bank borrowing	8,330	6,480
Net payable for unsettled trades	39,655	—
Payable to clearing broker	73,621	—
Accrued compensation	3,312	11,642
Accounts payable, accrued expenses and other liabilities	8,408	11,714
Long-term debt	<u>45,155</u>	<u>54,275</u>
Total liabilities	<u>181,762</u>	<u>87,535</u>
Commitments		
<b>EQUITY</b>		
Ziegler Shareholders' equity:		
Preferred stock, \$1 par, 500 shares authorized, none issued	—	—
Common stock, \$1 par, 7,500 shares authorized, 3,544 shares issued	3,544	3,544
Additional paid-in capital	8,561	8,579
Retained earnings	62,911	64,379
Treasury stock, at cost, 2,256, and 2,268 shares, respectively	(49,348)	(49,540)
Accumulated other comprehensive income	128	—
Notes receivable for purchase of common stock	<u>(489)</u>	<u>(771)</u>
Total Ziegler shareholders' equity	<u>25,307</u>	<u>26,191</u>
Noncontrolling interest in equity of subsidiaries	<u>18,739</u>	<u>19,445</u>
Total equity	<u>44,046</u>	<u>45,636</u>
Total liabilities and equity	<u>\$225,808</u>	<u>\$133,171</u>

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	<u>For the Three Months Ended</u>	
	<u>March 31,</u> <u>2009</u>	<u>March 31,</u> <u>2008</u>
(In thousands except per share amounts)		
Revenues:		
Investment banking	\$ 4,927	\$ 7,728
Net trading profits	4,182	1,481
Investment management and advisory fees	2,574	3,256
Commissions	2,132	3,174
Interest and dividends	1,776	3,421
Other income	<u>1,101</u>	<u>1,357</u>
Total revenues	16,692	20,417
Expenses:		
Employee compensation and benefits	12,958	11,246
Communications and data processing	1,493	1,559
Occupancy	1,267	1,386
Professional and regulatory	1,149	1,030
Interest	807	1,727
Promotional	596	1,506
Brokerage commissions and clearing fees	524	518
Other	<u>405</u>	<u>740</u>
Total expenses	<u>19,199</u>	<u>19,712</u>
Income (loss) before income taxes	(2,507)	705
Less: Income attributable to the noncontrolling interest	<u>(164)</u>	<u>(517)</u>
Income (loss) before income taxes	(2,671)	188
Benefit from income taxes	<u>(1,203)</u>	<u>(180)</u>
Net income (loss) attributable to Ziegler	<u>\$ (1,468)</u>	<u>\$ 368</u>
Ziegler per share data:		
Basic earnings (loss) per share	\$ (1.14)	\$ 0.29
Diluted earnings (loss) per share	\$ (1.14)	\$ 0.27

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	<u>For the Three Months Ended</u>	
	<u>March 31,</u> <u>2009</u>	<u>March 31,</u> <u>2008</u>
(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (1,468)	\$ 368
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	512	544
Provision for receivable allowances	—	37
Compensation expense related to note forgiveness	135	—
Compensation expense paid in stock	174	483
Unrealized loss on other investments	44	49
Equity in income of partially owned entities	(42)	(78)
Noncontrolling interest in net income of subsidiaries	164	517
Changes in assets and liabilities:		
Decrease (increase) in:		
Securities owned	(109,766)	100,835
Net receivable for unsettled trades	3,669	31,742
Receivables, net	2,609	(1,440)
Receivable from clearing broker	2,131	(9,425)
Other assets	(1,072)	789
Increase (decrease) in:		
Net payable for unsettled trades	39,655	—
Payable to clearing broker	73,621	(120,174)
Accrued compensation	(8,330)	(30,238)
Accounts payable, accrued expenses and other liabilities	<u>(3,306)</u>	<u>(2,636)</u>
Net cash used in operating activities	(1,270)	(28,627)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Payments received on notes receivable	2,071	3,544
Sales/paydowns of other investments	92	232
Payments for:		
Issuance of notes receivable	—	(894)
Capital expenditures	(50)	(648)
Sale of operations, net of cash received	—	(609)
Purchase of other investments	<u>(99)</u>	<u>(1,487)</u>
Net cash provided by investing activities	2,014	138

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
(Unaudited)

	For the Three Months Ended	
	March 31, 2009	March 31, 2008
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Issuance of short-term notes payable	\$ 2,320	\$ 18,198
Short-term bank borrowing	3,260	13,165
Payments received on notes receivable for purchase of common stock	282	239
Exercise of stock options	-	27
Payments for:		
Maturities of short-term notes payable	(2,463)	(17,332)
Repayments of short-term bank borrowing	(1,410)	(18,230)
Noncontrolling interest capital distributions	(870)	-
Repayments of long-term debt	(9,120)	(12,629)
Purchase of treasury stock	-	(5,914)
Net cash used in financing activities	(8,001)	(22,476)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,257)	(50,965)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	24,431	57,701
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 17,174	\$ 6,736
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest paid during the period	\$ 681	\$ 2,350
Income taxes (refund) during the period	\$ (128)	\$ 196
 <b>SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:</b>		
Issuance of long-term debt in exchange for common stock	\$ -	\$ 702

ADDITIONAL FINANCIAL INFORMATION (Unaudited)  
(Dollars in thousands except per share data)  
March 31, 2009

The Ziegler Companies, Inc. ("ZCO", "Ziegler" or the "Parent") 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, private equity, venture capital, and related financial services. This financial information for the three months ended March 31, 2009, has been prepared by the Company without audit. The Company believes that the financial information reflects all adjustments which are, in the opinion of management, necessary to present a fair statement of the results for the periods presented. All such adjustments are of a normal recurring nature. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Certain prior year amounts may have been reclassified to conform with current year presentation.

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"); ZHP I, LLC, a general partner ("ZHP"); Ziegler Medical Devices, LLC ("ZMD"); Ziegler Healthcare Real Estate Fund Management IV, LLC, a general partner ("ZHREFM"); and Ziegler Healthvest Management, LLC ("ZHM"), a general partner. ZMD owns a 20% interest in Ziegler Meditech Partners, LLC ("ZMP"), the general partner of Ziegler Meditech Equity Partners, LP ("Meditech"), of which ZMP holds a 1% interest. ZHREFM is the general partner of Ziegler Healthcare Real Estate Fund IV, LP, a partnership formed for the purpose of investing in medical real estate. ZHM is the general partner of Ziegler HealthVest Partners, LP, and Ziegler HealthVest Partners (Parallel), LP (together "ZHVP"), both partnerships formed for the purpose of making equity and equity-linked investments in companies related to the healthcare services, healthcare information management and technology, and wellness sectors. The Company's consolidated financial statements also include the accounts of Ziegler Equity Funding I, LLC ("ZEF I"), a 68% owned entity, and Ziegler Healthcare Fund I, LP ("ZHF I"), an 11% owned entity through both a direct and indirect relationship for which ZHP is the general partner. ZHF I is a Small Business Investment Company ("SBIC") regulated by the Small Business Administration ("SBA"). ZEF I is 32% owned by officers and employees of the Company. The Company's consolidated financial statements include a 16% equity investment in Ziegler Healthcare Fund II, LLC ("ZHF II") and a 20% equity investment in Ziegler Equity Funding IV, LLC ("ZEF IV"), for which BCZ is the manager. ZEF IV is 80% owned by qualified officers and employees of the Company. The investments in ZHF II and ZEF IV are accounted for using the equity method of accounting. All significant intercompany balances and transactions are eliminated in consolidation.

All financial information, including the information in the management's discussion of operations and other Company information, should be read in conjunction with the audited consolidated financial statements, the notes thereto, and management's discussion included in the Company's 2008 Annual Report.

#### Fair Value

Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. In valuing financial assets and liabilities, the Company uses techniques believed to be appropriate for each

particular financial asset or liability to estimate fair value. These techniques require some degree of judgment. These techniques utilize assumptions that market participants would use in pricing the asset or liability. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than financial instruments that are thinly traded or not quoted. In accordance with SFAS No. 157, the criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability.

In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") SFAS No. 157-2, *Effective Date of FASB Statement No. 157*. FSP SFAS No. 157-2 delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are not remeasured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008 (January 1, 2009 for the Company), and interim periods within those fiscal years. The adoption of FSP SFAS No. 157-2 does not have a material impact on the Company's consolidated financial statements.

In October 2008, the FASB issued FSP SFAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. FSP SFAS No. 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company adopted FSP SFAS No. 157-3 on January 1, 2008. See the Company's 2008 Annual Report for information regarding the impact the adoption of this interpretation had on the Company's consolidated financial statements.

To differentiate between the approach to fair value measurements, SFAS No. 157 uses a fair value hierarchy and describes three levels used to classify fair value measurements:

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

The following table presents the valuation of the Company's financial instruments measured at fair value on a recurring basis as of March 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	<u>\$ 17,174</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17,174</u>
Securities owned:				
Municipal bonds - variable rate	\$102,470	\$ —	\$ —	\$102,470
Municipal bonds - fixed rate	—	29,509	—	29,509
Preferred stock	240	—	—	240
Corporate bonds	—	477	—	477
Other securities	<u>1,421</u>	<u>—</u>	<u>—</u>	<u>1,421</u>
	<u>\$104,131</u>	<u>\$29,986</u>	<u>\$ —</u>	<u>\$134,117</u>
Notes receivable	<u>\$ —</u>	<u>\$ —</u>	<u>\$26,694</u>	<u>\$ 26,694</u>
Other investments:				
Private equity investments	\$ —	\$ —	\$ 4,283	\$ 4,283
Seed capital investments	—	—	3,623	3,623
Investment in Ridgestone	—	—	2,734	2,734
Investment in ZHVP	—	—	1,000	1,000
Other	<u>264</u>	<u>30</u>	<u>129</u>	<u>423</u>
	<u>\$ 264</u>	<u>\$ 30</u>	<u>\$11,769</u>	<u>\$ 12,063</u>
Mortgage Servicing Rights	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 91</u>	<u>\$ 91</u>
Long-term debt	<u>\$ —</u>	<u>\$ —</u>	<u>\$47,823</u>	<u>\$ 47,823</u>

Assets and liabilities are considered Level 3 in the fair value hierarchy when their value is determined using pricing models, discounted cash flow methodologies, and similar techniques, and for which at least one significant model assumption or input is unobservable. Level 3 assets and liabilities also include those instruments for which the determination of fair value requires significant management judgment or estimation.

The following table presents the summary of changes in financial assets measured at fair value using Level 3 inputs for the quarter ended March 31, 2009 and required to be reported at fair value in the Consolidated Statements of Financial Condition.

	<u>Private Equity Investments</u>	<u>Seed Capital Investments</u>	<u>Investment in Ridgestone</u>
Balance, beginning of period	4,116	3,520	2,625
Unrealized gains or (losses) included in other comprehensive income	—	103	109
Purchases, issuances and settlements	<u>167</u>	<u>—</u>	<u>—</u>
Balance, March 31, 2009	<u>4,283</u>	<u>3,623</u>	<u>2,734</u>

	Investment In <u>ZHVP</u>	Other Investment: <u>Other</u>	Mortgage Servicing <u>Rights</u>
Balance, beginning of period	1,001	197	95
Amortization included in other expense	—	—	(4)
Unrealized losses included in other Income	—	(68)	—
Purchases, issuances and settlements	<u>(1)</u>	<u>—</u>	<u>—</u>
Balance, March 31, 2009	<u>1,000</u>	<u>129</u>	<u>91</u>

#### Noncontrolling Interest

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. The objective of SFAS No. 160 is to improve the financial information provided in consolidated financial statements. SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 also changes the way the consolidated income statement is presented, establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that does not result in deconsolidation, requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated, and expands disclosures in the consolidated financial statements in order to clearly identify and distinguish between the interest of the parent's owners and the interest of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for the Company in 2009. SFAS No. 160 does not have any material impact on the Company's consolidated financial statements. However, SFAS No. 160 modifies the manner in which the Company reports on the minority interest as the minority interest will be reclassified as a component of equity.

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

With respect to the partially owned entities in the consolidation process described above, the Company does not have access or a right to the assets of the partially-owned entities nor is the Company responsible for the liabilities of the partially-owned entities. Only the partially-owned and consolidated entities, ZHF I and ZEF I, have access to the assets and are legally responsible for the liabilities of their respective entities. At March 31, 2009, the assets of the partially-owned entities totaled \$47,762 of which \$15,013 consisted of cash and cash equivalents, \$28,498 consisted of notes and other receivables, and \$4,251 consisted of investments and other assets. At March 31, 2009, the liabilities of the partially-owned entities totaled \$26,514 of which \$25,440 consisted of SBA debentures. The Company's only exposure to loss related to the partially-owned entities is its net investment in the entities, which is \$4,058 at March 31, 2009.

## Comprehensive Income

Statement of Financial Accounting Standards ("SFAS") No. 130, *Reporting Comprehensive Income*, establishes standards for reporting and display of comprehensive income and its components (revenue, gains and losses) in a full set of general purpose financial statements. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income and other comprehensive income, including unrealized gains and losses on investments, shall be reported, net of their related tax effect, to arrive at comprehensive income.

There were no items of comprehensive income for the three months ended March 31, 2008. Comprehensive income for the three months ended March 31, 2009 is as follows:

Net loss		(\$1,468)
Other comprehensive income		
Unrealized gain on available-for-sale securities included in Other investments	212	
Income tax expense related to items of other comprehensive income	<u>84</u>	
Other comprehensive income, net of tax		<u>(128)</u>
Comprehensive loss		<u>(\$1,340)</u>

## Net Capital Requirements

As the Company's registered broker-dealer, B. C. Ziegler and Company ("BCZ") is subject to the Securities and Exchange Commission Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net regulatory capital. BCZ has elected to use the alternative method permitted by the Rule, which requires that BCZ maintain minimum net regulatory capital, equal to the greater of \$250 or 2% of aggregate debit balances arising from customer transactions, as defined. At March 31, 2009 BCZ had net regulatory capital of \$4,828 which was \$4,578 in excess of its required minimum net regulatory capital. Such net capital requirements could restrict the ability of BCZ to pay dividends to ZCO.

## Commitments and Contingent Liabilities

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

In the normal course of business the Company enters into firm underwriting commitments for the purchase of debt securities. The debt securities associated with any such commitments are reflected in both securities owned and the net receivable or payable for unsettled trades on the Consolidated Statements of Financial Condition. Transactions relating to commitments that were subsequently settled after the end of the period had no material effect on the financial statements as of March 31, 2009.

In the normal course of business, Ziegler Healthcare Fund I, LP

("ZHF I"), the Company's 11% owned Small Business Investment Company ("SBIC"), made commitments to originate loans. ZHF I has completed its lending activity as an SBIC and is no longer making commitments to originate loans.

In the normal course of business, Ziegler Financing Corporation ("ZFC"), whose activities include FHA loan originations, makes commitments to originate loans. As of March 31, 2009, ZFC had no outstanding commitments to originate FHA loans. ZFC may contract with a third party to fund the loan originations. Loans originated by ZFC are generally sold to third party investors.

#### Other Investments/Proprietary Investing

The Company creates and manages a variety of private equity venture capital and alternative investment funds. These funds are offered to qualified retail and institutional investors. The funds target investments in the healthcare sectors and include seed capital for new senior living communities, acquisitions of medical office buildings, venture capital for mid and late-stage medical device companies, and private equity for for-profit health care among other investments. The Company has selectively made proprietary investments in these funds as well as direct investments in various private equity "seed capital" projects that may also be an investment of the funds. The Company has an equity investment in Ridgestone Financial Services, Inc. as discussed in the 2008 Annual Report. These investments are included in Other Investments in the Consolidated Statements of Financial Condition.

Each of the proprietary investments made by the Company carries the risks associated with any investment of this illiquid and long-term nature. Although the Company carefully reviews and evaluates each investment prior to the commitment of funds, the progress of the investment, the timing of returns, and the potential loss of principal are subject to factors beyond the Company's control. In particular, direct private equity seed capital investments are for the pre-finance development and marketing of continuing care retirement communities ("CCRC") to potential residents of these communities. The Company participates with other investors to provide the relatively significant capital requirements for these seed capital projects. Once a seed capital project has reached a specified level of presales and deposits for the occupancy of living units in the CCRC, the developer can access permanent construction financing if such financing is available at interest rates suitable for the project. When permanent construction financing can be obtained for a project, the seed capital investment and related investment return is paid to the seed capital investors. Each project is evaluated based on the total cost of the project and related project financing. If interest rates are above those originally projected and acceptable to make the project financially viable, the project may be discontinued and the original seed capital investment would be a total loss. Current interest rate market circumstances have added uncertainty as to the ability to obtain acceptable project financing for seed capital projects.

Over the course of the pre-finance development and marketing period, certain seed capital projects had fallen behind their presale schedules. The circumstances associated with the sub-prime mortgage market, residential real estate prices, interest, liquidity, and other factors including the state of the overall economy may be having an indirect effect on the progress of these seed capital investments. As a result, the seed capital investments have exceeded the typical 18 to 30 month duration of time from initial investment to the return on that investment. There is the possibility that any seed capital investment may not reach the construction financing stage and the original investment would be a total loss. At March 31, 2009, the Company had six private equity seed capital project investments totaling a cost of \$3,520 whose fair value of \$3,623 is included in Other investments in the Consolidated Statements of Financial Condition. The balance of \$3,623 excludes \$1,000 for a seed capital investment that is unlikely to reach the financing stage and would then be a total loss. The results of the seed capital proprietary investing activities are included in the Corporate segment.

## 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 expenses of the operating units in each operating segment as well as an allocation of indirect administrative and operating costs.

Operating segment financial information is as follows:

	<u>Three Months Ended</u>	
	<u>March 31,</u> <u>2009</u>	<u>March 31,</u> <u>2008</u>
Revenues:		
Capital Markets	\$ 7,673	\$9,823
Investment Services	7,535	8,236
Corporate	<u>1,484</u>	<u>2,358</u>
Total	<u>\$16,692</u>	<u>\$20,417</u>
Income (Loss) Before Income Taxes:		
Capital Markets	\$(2,050)	\$ 266
Investment Services	(520)	70
Corporate	<u>(101)</u>	<u>(148)</u>
Total	<u>\$(2,671)</u>	<u>\$ 188</u>

## Earnings per Share Calculation

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

	<u>For the Three Months Ended</u>	
	<u>March 31,</u> <u>2009</u>	<u>March 31,</u> <u>2008</u>
Net income (loss)	<u>\$(1,468)</u>	<u>\$ 368</u>
<u>Basic</u>		
Weighted average shares outstanding	<u>1,285</u>	<u>1,252</u>
Basic income (loss) per share	<u>\$ (1.14)</u>	<u>\$0.29</u>
<u>Diluted</u>		
Weighted average shares outstanding-		
Basic	1,285	1,252
Effect of dilutive securities:		
Stock options	-	94
Restricted stock	<u>-</u>	<u>1</u>
Weighted average shares outstanding-		
Diluted	<u>1,285</u>	<u>1,347</u>
Diluted income (loss) per share	<u>\$ (1.14)</u>	<u>\$0.27</u>

## MANAGEMENT'S DISCUSSION

(Dollars are expressed in thousands, except per share amounts and where specifically indicated otherwise.)

### **Business and Operating Segments**

The Ziegler Companies, Inc. ("ZCO" or the "Parent"), through its wholly-owned subsidiaries and partially-owned and controlled 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.

### **Business/Economic Environment**

The businesses of the Company are sensitive to financial market conditions which have been exceptionally volatile during 2008 and into 2009. The Company is exposed to the fluctuations in the market and the related liquidity issues associated with these and other factors creating the volatility in the markets. Underwriting of unrated tax-exempt bonds, a significant business of the Company, remains at a standstill. Current credit spreads for unrated tax-exempt bonds are very high compared to historic rates. Potential borrowers must evaluate the viability of project financing as rates begin to decrease and allow for the underwriting of bonds to support the projects. The Company also must make a determination as to whether there will be sufficient liquidity among institutional investors to allow for sufficient demand to purchase bonds underwritten by the Company. Each of these factors are important and there are factors that indicate that these difficult circumstances may be easing, although liquidity issues continue to limit industry demand.

### **Results of Operations for the Quarter Ended March 31, 2009**

(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 scope of operations and related cost structure that is appropriate for anticipated future business activity. The Company continuously reviews its business structure and related costs and makes adjustments accordingly.

The Company had an 18% decrease in total revenues of \$3,725 to \$16,692 in the first quarter of 2009 compared to \$20,417 in the first quarter of 2008. A decrease in investment banking revenues, interest, and asset management fees were the primary reasons for the decrease which was partially offset by an increase in net trading profits. Secondary trading activity was strong in the first quarter and received impetus from the addition of commission-based traders.

Total expenses decreased by 4% or \$513 to \$19,199 in the first quarter of 2009 compared to \$19,712 for the same period in 2008. An increase in employee compensation and benefits of \$1,712 was primarily due to increased commissions on increased trading income. Other expense categories decreased as the result of cost reduction measures. The Company incurred a loss before taxes of \$2,671 in the first quarter of 2009 compared to income before taxes of \$188 in the first quarter of 2008. The Company incurred a loss of \$1,468 after tax benefits in the first quarter of 2009 compared to net income of \$368 after tax benefits in 2008.

Capital Markets segment revenues were impacted by the economic environment and the continuing illiquidity in the market for unrated tax-exempt municipal bonds. Total revenues were \$7,673 in 2009 compared to \$9,823 in 2008, a decrease of \$2,150 or 22%. Bond underwriting was \$217 million of par value of bonds underwritten in 2009 compared to \$141 million in 2008. However, the underwriting

spread was significantly less due to the structure of the bonds underwritten and yielded \$2,966 less underwriting revenues in the first quarter of 2009 compared to the first quarter of 2008. Interest income decreased due to lower municipal inventory volumes related to the Company's activity as a remarketing agent and decreased interest rates on the securities held in inventory. Trading profits increased during the first quarter of 2009 compared to the same period in 2008 partially offsetting other revenue decreases. Total expenses increased \$166 in 2009 compared to 2008. Compensation and benefits expense increased primarily due to higher commissions related to higher trading profits. Administrative expense allocations were \$1,213 in 2009 compared to \$2,158 in 2008. Capital Markets loss before income taxes was \$2,050 in 2009 compared to income before income taxes of \$266 for the same period in 2008.

Investment Services segment revenues decreased \$701 in the first quarter of 2009 compared to the first quarter of 2008. Declines in commission revenues, and investment management and advisory fees were offset by increases in retail secondary trading profits. Lower retail securities sales volumes and a sales mix of products that generated less commission revenues during the period were primary reasons for the decline. Assets under management, from which investment management and advisory fees are derived, averaged \$2.6 billion in the first quarter of 2009 compared to \$3.4 billion in the first quarter of 2008. Investment Services segment expenses decreased \$111 in 2009 compared to 2008. Lower retail securities transaction activity and related revenues resulted in a decrease in commission-based compensation and benefits. Promotional costs decreased as the result of reduced activity and cost reduction measures. Administrative expense allocations were \$768 in 2009 compared to \$572 in 2008. Investment Services segment loss before income taxes was \$520 in 2009 compared to income before income taxes of \$70 in 2008.

Corporate segment revenues were \$1,484 in the first quarter of 2009 compared to \$2,358 in the first quarter of 2008. A total of \$1,090 of revenues in 2009 and \$1,708 of revenues in 2008 related to interest income, loan participation fees, and exit fees on notes receivable held by ZHF I, the partially-owned SBIC included in the consolidated Company amounts, and are related to SBA lending activities. ZHF I is no longer extending credit to borrowers and its loan portfolio is decreasing as loans are repaid. As a result, its revenues are declining. The decrease in revenues unrelated to ZHF I is due to a decline in the market value of investments held and lower interest earned on money market fund investments. Total expenses decreased in the first quarter of 2009 compared to the first quarter of 2008. The corporate segment loss before income taxes was \$101 in 2009 compared to \$148 in 2008.

### **Liquidity and Capital Resources**

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 while satisfying the regulatory net capital requirements of its broker-dealer subsidiary, BCZ. In the first quarter of 2009, the Company met all such applicable requirements.

The Company continues to monitor its regulatory net capital. In the opinion of management, the Company's capital and available sources of credit are currently adequate for present and anticipated future operations. Unanticipated losses in the broker-dealer or business circumstances associated with an unusual increase in inventories or other balances affecting net capital might cause regulatory net capital to be reduced to such a level as to limit or impair Company and related broker-dealer operations.

BCZ acts as a remarketing agent for approximately \$7.2 billion of municipal VRDNs consisting of 372 issues, most of which BCZ previously underwrote. A total of approximately \$6.9 billion of such VRDNs have a put option feature and can be tendered to BCZ at the option of the holder on seven days advance notice, and

approximately \$217 million can be tendered without notice. The VRDNs are also supported by a third party liquidity provider, generally a commercial bank from which the holder of the security can obtain liquidity, if desired. Approximately \$78 million are auction rate securities which BCZ is not obligated to repurchase from holders, but may choose to do so subject to financing, liquidity and regulatory capital considerations.

The Company provides opportunities for employees to own shares in the Company, primarily through compensation plans and the exercise of existing stock options granted in prior years and assisting employees to finance share purchases. During the first three months of 2009, a total of 12,609 shares were issued as compensation and valued at \$173, the aggregate market price on the date of payment.

The Company repurchases its own common stock from time-to-time. In July 2007, the Company's Board of Directors approved the repurchase of up to 200,000 shares of Company common stock in market or private transactions, under terms considered reasonable by management. At March 31, 2009, the Company had the ability to purchase 183,954 shares under the July 2007 authorization. The Company will evaluate future share repurchase opportunities giving consideration to cash availability, business alternatives, working capital liquidity needs, and other relevant factors. The use of cash for share repurchases may limit the Company's ability to expand current operations or to acquire or develop new business operations.

As noted in the Company's 2009 Annual Report, the Company was in violation of the debt service coverage ratio covenant as of December 31, 2008. The bank waived the violation of the covenant, did not demand payment of the term notes or the revolving credit facility, or change the requirements for use of the credit facilities. The bank also eased the covenants for 2009 which are measured at the end of each quarter. The Company was in compliance with its covenants as of March 31, 2009.

**Selected Financial Data**

(Dollars in thousands except per share amounts)

	For the Three Months Ended			
	2009	2008		
	Mar. 31	Dec. 31	Sept. 30	June 30
Operating Revenues.....	\$16,692	\$24,006	\$18,035	\$19,244
Net Income (Loss).....	(1,468)	(1,247)	(546)	124
Basic Earnings (Loss) Per Share.....	(1.14)	(0.98)	0.44	0.10
Diluted Earnings (Loss) Per Share...	(1.14)	(0.98)	0.44	0.09
Balance sheet data as of the end of the period:				
Total Assets.....	225,808	133,171	306,706	175,070
Short-Term Notes Payable.....	3,281	3,424	7,532	5,289
Long-Term Obligations.....	45,155	54,275	54,957	53,815
Long-Term Obligations Excluding SBA Debentures	19,715	20,685	21,367	20,225
Shareholders' Equity.....	25,307	26,191	27,419	28,130
Book Value Per Share <sup>(a)</sup> .....	\$20.01	\$21.13	\$22.11	\$23.20
Total Employees.....	324	317	345	350

<sup>(a)</sup>Book value per share is calculated by adding back the notes receivable for purchase of common stock to end of period shareholders' equity.

The Company's Common Stock is thinly traded under the symbol "ZGCO" in the over-the-counter (OTC) market (Pink OTC Markets Inc.). The following information is based on the closing prices in the over-the-counter market and reports of shares traded.

	Quarter Ended			
	2009	2008		
	Mar. 31	Dec. 31	Sept. 30	June 30
Stock closing price range:				
High Closing Price	\$20.00	\$25.50	\$31.50	\$36.00
Low Closing Price	\$11.00	\$20.85	\$29.00	\$31.00

As of April 30, 2009, the Company had 1,288,330 shares outstanding.

### Results of Votes of Security Holders

The Company held its annual meeting on Tuesday, May 5, 2009 for which a proxy statement was sent to shareholders of record at the close of business on March 27, 2009. A brief description of the matter voted upon is as follows:

To elect two directors for terms expiring at the 2012 Annual Meeting of Shareholders.

A total of 1,283,699 shares were outstanding as of the record date. A total of 1,058,372 shares were entitled to vote after adjustment for the limitation on voting rights imposed on a large shareholder by the Company's Amended and Restated Articles of Incorporation. A total of 857,749 shares were represented by valid proxy at the meeting. Each shareholder was offered the opportunity to vote "for" the director nominees or "withhold authority" to vote. When "withhold authority" is marked on the proxy card, it is counted towards a quorum, but not counted as a vote for the election of directors. The voting results were as follows:

	For	Withhold Authority
John J. Mulherin	778,212	79,537
Belverd E. Needles, Jr.	783,407	74,342

The following directors continued their terms in office: Donald A. Carlson, Jr.; Thomas R. Paprocki; Peter R. Kellogg; Geoffrey B. Shields.

### Forward-Looking Statements

Certain matters discussed herein contain forward-looking statements that involve risks and uncertainties, including (without limitation): the effect of the economic conditions and the current uncertainties that exist; the effect of market conditions, such as demand for investment advisory, banking, brokerage and financial advisory services in the markets served by the Company; pricing of services; resolving IRS inquiries concerning municipal bond issuer practices and other matters; 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 on certain investments made by the Company; the ability to collect receivables and realize the value of investments; the Company's ability to realize the value of 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 ability to distribute proprietary mutual and exchange-traded 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 and the use of the third party liquidity providers under limited circumstances. Forward-looking statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially from those contemplated in the statements. Readers are cautioned not to place undue reliance on the forward-looking statements. When used in written documents or oral presentations, the terms "believe," "estimate," "expect," "may," "possible," and similar expressions are intended to identify forward-looking statements. There can be no assurance that: (i) the Company has correctly measured or identified all of the factors affecting these markets or the extent of their likely impact; (ii) the publicly available information with respect to these factors on which the Company's analysis is based is complete or accurate information; or (iii) the Company's analysis is correct. The Company undertakes no obligation to publicly update or revise any forward-looking statements.