

THE ZIEGLER COMPANIES, INC.

200 South Wacker Drive
Chicago, Illinois 60606

Financial and other information for the second quarter
and six month period ended June 30, 2008
(August 29, 2008)

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

	June 30, 2008 (Unaudited)	December 31, 2007
(In thousands except per share amounts)		
ASSETS		
Cash and cash equivalents	\$ 20,065	\$ 57,701
Securities owned	36,459	112,654
Net receivable for unsettled trades	34,980	36,723
Receivables, net	5,785	12,603
Notes receivable, net	42,427	47,548
Other investments	13,325	8,293
Deferred income taxes	1,979	1,979
Furniture, equipment and leasehold improvements, at cost, net of accumulated depreciation of \$11,163 and \$10,713, respectively	9,845	10,072
Intangible assets	3,057	3,057
Goodwill	1,802	1,802
Other assets	<u>5,346</u>	<u>6,693</u>
Total assets	<u>\$175,070</u>	<u>\$299,125</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term notes payable	\$ 5,289	\$ 6,643
Short-term bank borrowing	2,120	24,900
Payable to broker-dealers	51,687	120,174
Accrued compensation	5,762	35,524
Accounts payable, accrued expenses and other liabilities	8,483	11,003
Long-term debt	<u>53,815</u>	<u>47,941</u>
Total liabilities	<u>127,156</u>	<u>246,185</u>
Minority interest	19,784	19,325
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	8,045	7,796
Retained earnings	66,172	65,680
Treasury stock, at cost, 2,295, and 2,119 shares, respectively	(48,779)	(42,289)
Notes receivable for purchase of common stock	<u>(852)</u>	<u>(1,116)</u>
Total stockholders' equity	<u>28,130</u>	<u>33,615</u>
Total liabilities and stockholders' equity	<u>\$175,070</u>	<u>\$299,125</u>

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	<u>For the Three Months Ended</u>	
	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
(In thousands except per share amounts)		
Revenues:		
Investment banking	\$ 5,916	\$14,491
Commissions	4,078	4,660
Investment management and advisory fees	3,217	3,613
Interest and dividends	2,258	2,516
Net trading profits	2,498	481
Other income	<u>1,277</u>	<u>2,377</u>
Total revenues	19,244	28,138
Expenses:		
Employee compensation and benefits	11,263	17,531
Communications and data processing	1,761	1,497
Occupancy	1,279	1,204
Professional and regulatory	1,129	751
Promotional	1,021	1,378
Interest	993	1,217
Brokerage commissions and clearing fees	457	425
Other expenses	<u>635</u>	<u>1,216</u>
Total expenses	<u>18,538</u>	<u>25,219</u>
Income before income taxes and minority interest	706	2,919
Minority interest in net income of subsidiaries	<u>(710)</u>	<u>(834)</u>
Income (loss) before income taxes	(4)	2,085
Provision for (benefit from) income taxes	<u>(128)</u>	<u>813</u>
Net income	<u>\$ 124</u>	<u>\$ 1,272</u>
Per share data:		
Basic earnings per share	\$ 0.10	\$ 0.76
Diluted earnings per share	\$ 0.09	\$ 0.72

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	<u>For the Six Months Ended</u>	
	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
(In thousands except per share amounts)		
Revenues:		
Investment banking	\$13,644	\$28,052
Commissions	7,252	10,019
Investment management and advisory fees	6,473	7,151
Interest and dividends	5,679	5,197
Net trading profits	3,979	966
Other income	<u>2,634</u>	<u>3,786</u>
Total revenues	39,661	55,171
Expenses:		
Employee compensation and benefits	22,509	34,048
Communications and data processing	3,317	2,865
Promotional	2,530	2,557
Interest	2,720	2,359
Occupancy	2,665	2,354
Professional and regulatory	2,159	1,454
Brokerage commissions and clearing fees	975	802
Other expenses	<u>1,375</u>	<u>2,082</u>
Total expenses	<u>38,250</u>	<u>48,521</u>
Income before income taxes and minority interest	1,411	6,650
Minority interest in net income of subsidiaries	<u>(1,227)</u>	<u>(1,860)</u>
Income before income taxes	184	4,790
Provision for (benefit from) income taxes	<u>(308)</u>	<u>1,860</u>
Net income	<u>\$ 492</u>	<u>\$ 2,930</u>
Per share data:		
Basic earnings per share	\$ 0.39	\$ 1.74
Diluted earnings per share	\$ 0.37	\$ 1.65

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	<u>Common Stock</u>	Additional <u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Notes Receivable</u>	<u>Total</u>
(Dollars in thousands, except per share amounts)						
Balance, December 31, 2007	\$3,544	\$7,796	\$65,680	\$(42,289)	\$(1,116)	\$33,615
Net income	-	-	492	-	-	492
Cost of treasury stock purchased (193,642 shares)	-	-	-	(6,759)	-	(6,759)
Common stock issued as compensation (16,051 shares)	-	238	-	243	-	481
Proceeds from exercise of stock options (1,500 shares)	-	4	-	23	-	27
Common stock sold to employees (190 shares)	-	4	-	3	-	7
Payments on notes receivable for purchase of common stock	-	-	-	-	264	264
Amortization of unearned compensation	-	3	-	-	-	3
Balance, June 30, 2008	<u>\$3,544</u>	<u>\$8,045</u>	<u>\$66,172</u>	<u>\$(48,779)</u>	<u>\$(852)</u>	<u>\$28,130</u>

THE ZIEGLER COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>For the Six Months Ended</u>	
	June 30, <u>2008</u>	June 30, <u>2007</u>
(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 492	\$ 2,930
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,075	656
Loss on sale of furniture and equipment	4	-
Reduction to receivable allowances	(7)	(23)
Compensation expense paid in stock	484	562
Minority interest in net income of subsidiaries	1,227	1,860
Changes in assets and liabilities:		
Decrease (increase) in:		
Securities owned	76,195	(30,738)
Net receivable for unsettled trades	1,743	5,788
Receivables, net	6,679	(1,027)
Other assets	1,311	(8)
Increase (decrease) in:		
Payable to broker-dealers	(68,487)	10,381
Net payable for unsettled trades	-	12,617
Accrued compensation	(29,242)	(11,446)
Accounts payable, accrued expenses and other liabilities	<u>(2,232)</u>	<u>(1,887)</u>
Net cash used in operating activities	(10,758)	(10,335)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Sale of furniture and equipment	15	-
Payments received on notes receivable	8,365	10,250
Sales of/distributions on other investments	263	169
Payments for:		
Issuance of notes receivable	(3,244)	(3,881)
Capital expenditures	(883)	(1,571)
Sale of operations, net of cash received	(609)	-
Purchase of other investments	<u>(5,296)</u>	<u>(606)</u>
Net cash (used in) provided by investing activities	(1,389)	4,361

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

	<u>For the Six Months Ended</u>	
	<u>June 30,</u>	<u>June 30,</u>
	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Issuance of short-term notes payable	\$24,403	\$28,329
Short-term bank borrowing	17,515	19,230
Payments received on notes receivable for purchase of common stock	264	406
Sales of common stock to employees	7	-
Exercise of stock options	27	64
Payments for:		
Maturities of short-term notes payable	(25,757)	(27,318)
Repayments of short-term bank borrowing	(22,490)	(17,115)
Minority interest capital distributions	(768)	(1,702)
Repayments of long-term debt	(12,633)	(3,285)
Purchase of treasury stock	(6,057)	(2,810)
Cash dividends paid	-	(229)
Net cash used in financing activities	(25,489)	(4,430)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(37,636)	(10,404)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	57,701	38,244
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$20,065	\$27,840
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid during the period	\$ 2,915	\$ 2,415
Income taxes paid during the period	\$ 340	\$ 2,056
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:		
Issuance of long-term debt in exchange for common stock	\$ 702	\$ 77
Conversion of short-term bank borrowing to long-term debt	\$17,805	\$ -

ADDITIONAL FINANCIAL INFORMATION (Unaudited)
(Dollars in thousands except per share data)
June 30, 2008

The Ziegler Companies, Inc. ("ZCO" 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. The financial information 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 six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. Certain prior year amounts have been reclassified to conform with current year presentation.

As of and for the period ended June 30, 2008, 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 ("ZHP"), and Ziegler Medical Devices, LLC ("ZMD"). 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. 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. The investments in ZHF II and ZEF IV are accounted for using the equity method of accounting. ZMD owns a 20% interest in Ziegler Meditech Partners, LLC ("ZMP"), the general partner of Ziegler Meditech Equity Partners, LP, of which ZMP holds a 1% interest. The Company divested itself of Ziegler Healthcare Capital, LLC ("ZHC") on January 1, 2008 and the impact on net income is insignificant. Prior to the divestiture, ZHC was included in the consolidated financial statements of the Company. 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 2007 Annual Report.

Securities Owned

Securities owned consisted of the following:

	June 30, <u>2008</u>	December 31, <u>2007</u>
Municipal bonds	\$26,462	\$ 95,902
Preferred stocks	4,920	8,079
Corporate bonds	3,085	6,361
Other	<u>1,992</u>	<u>2,312</u>
	<u>\$36,459</u>	<u>\$112,654</u>

Municipal bonds consist primarily of revenue bonds issued by state and local governmental authorities related to continuing care retirement communities and health care facilities. The decrease in municipal bonds is primarily due to a decrease in variable rate demand notes for which the Company acts as a remarketing agent.

Securities transactions that have not reached their contractual settlement date are recorded as net payable or receivable for unsettled trades on the Consolidated Statements of Financial Condition.

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 capital. BCZ has elected to use the alternative method permitted by the Rule, which requires that BCZ maintain minimum net capital, equal to the greater of \$250 or 2% of aggregate debit balances arising from customer transactions, as defined. At June 30, 2008 BCZ had net capital of \$11,753 which was \$11,503 in excess of its required minimum 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 June 30, 2008.

In the normal course of business, Ziegler Healthcare Fund I, LP ("ZHF I"), the Company's 11% owned Small Business Investment Company ("SBIC"), makes commitments to originate loans. At June 30, 2008, ZHF I had no outstanding 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 June 30, 2008, 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 also has an equity investment in Ridgestone Financial Services, Inc. as discussed in the 2007 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 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 the seed capital projects have reached a specified level of presales and deposits for the occupancy of living units in the CCRC, the developer can access permanent construction financing. Once the permanent construction financing is obtained, the seed capital investment and related investment return is paid to the seed capital investors.

Over the course of the pre-finance development and marketing period, certain seed capital projects have fallen behind their presale schedules. The circumstances associated with the sub-prime mortgage market, residential real estate prices, interest and other factors may be having an indirect effect on the progress of these seed capital investments. As a result, the seed capital investments may exceed the typical 18 to 30 month duration of time from initial investment to the return on that investment. There is also the possibility that a seed capital investment may not reach the construction financing stage and the original investment would be a total loss. At June 30, 2008, the Company had six private equity seed capital project investments totaling \$2,970, two of which totaling \$1,300 have fallen behind their development and presale schedules. In each case, the project developer has reconfigured the projects to accommodate market circumstances in an effort to help the sales process. The results of the seed capital proprietary investing activities are included in the Corporate segment.

Fair Value

Substantially all of the Company's financial instruments are carried at fair value or amounts that approximate fair value. In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. SFAS No. 157 provides a common definition of fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits the choice of measuring financial instruments and certain other items at fair value. The Company adopted the provisions of both SFAS No. 157 and 159 on January 1, 2008. The adoption of these provisions was not significant to the Company's consolidated financial condition or results of operations in 2008.

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. The Company moved an activity involved in the creation of private equity investments from the Capital Markets segment to the Corporate segment and reclassified prior year amounts to conform to the current year presentation.

Operating segment financial information is as follows:

	<u>Three Months Ended</u>	
	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
Revenues:		
Capital Markets	\$ 7,985	\$14,679
Investment Services	9,035	9,963
Corporate	<u>2,224</u>	<u>3,496</u>
Total	<u>\$19,244</u>	<u>\$28,138</u>
Income (Loss) Before Income Taxes:		
Capital Markets	\$ (40)	\$ 1,128
Investment Services	(30)	741
Corporate	<u>66</u>	<u>216</u>
Total	<u>\$ (4)</u>	<u>\$ 2,085</u>
	<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
Revenues:		
Capital Markets	\$17,807	\$28,215
Investment Services	17,272	20,225
Corporate	<u>4,582</u>	<u>6,731</u>
Total	<u>\$39,661</u>	<u>\$55,171</u>
Income Before Income Taxes:		
Capital Markets	\$ 226	\$ 2,632
Investment Services	41	1,810
Corporate	<u>(83)</u>	<u>348</u>
Total	<u>\$ 184</u>	<u>\$ 4,790</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 June 30 (shares in thousands):

	<u>For the Three Months Ended</u>	
	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
Net income	<u>\$124</u>	<u>\$1,272</u>
<u>Basic</u>		
Weighted average shares outstanding	<u>1,247</u>	<u>1,665</u>
Basic income per share	<u>\$0.10</u>	<u>\$0.76</u>
<u>Diluted</u>		
Weighted average shares outstanding- Basic	1,247	1,665
Effect of dilutive securities:		
Stock options	84	87
Restricted stock	<u>1</u>	<u>3</u>
Weighted average shares outstanding- Diluted	<u>1,332</u>	<u>1,755</u>
Diluted income per share	<u>\$0.09</u>	<u>\$0.72</u>
	<u>For the Six Months Ended</u>	
	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
Net income	<u>\$492</u>	<u>\$2,930</u>
<u>Basic</u>		
Weighted average shares outstanding	<u>1,249</u>	<u>1,688</u>
Basic income per share	<u>\$0.39</u>	<u>\$1.74</u>
<u>Diluted</u>		
Weighted average shares outstanding- Basic	1,249	1,688
Effect of dilutive securities:		
Stock options	88	81
Restricted stock	<u>2</u>	<u>3</u>
Weighted average shares outstanding- Diluted	<u>1,339</u>	<u>1,772</u>
Diluted income per share	<u>\$0.37</u>	<u>\$1.65</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. (the "Parent"), through its wholly-owned subsidiaries and partially-owned and controlled subsidiaries (collectively known as the "Company"), is engaged in financial services activities. These financial services activities are conducted through three operating segments: Capital Markets, Investment Services and Corporate.

Results of Operations for the Quarter Ended June 30, 2008

Total Company revenues decreased \$8,894 to \$19,244 in the second quarter of 2008 compared to \$28,138 in the second quarter of 2007. Lower underwriting volumes caused a decrease in investment banking revenue and was the primary reason for the decrease in revenues.

Total Company operating expenses decreased \$6,681 in the second quarter of 2008 compared to the second quarter of 2007. Decreases in employee compensation and benefits expense and related incentive-based compensation expense accruals as the result of lower revenues and decreased profitability were the primary reasons for the decreased operating expenses. The resulting net income for the Company was \$124 in the second quarter of 2008 compared to \$1,272 in the second quarter of 2007. The tax benefit in the second quarter of 2008 is due to a significant level of federally tax-exempt interest income.

Capital Markets segment revenues decreased \$6,694 primarily as the result of the decreased investment banking activity related to bond underwriting. Bond underwriting volume was \$403 million of par value in the second quarter of 2008 compared to \$1.1 billion of par value in the second quarter of 2007 resulting in a decrease of \$8,336 in underwriting revenues. An increase in trading activity and related trading profits was a partial offset to the decrease. Total expenses decreased \$5,526 in the second quarter of 2008 compared to the second quarter of 2007. Compensation and benefits expense decreased primarily due to lower incentive-based compensation related to the lower revenues and was slightly offset by higher interest expense. Administrative expense allocations were \$1,261 in the second quarter of 2008 compared to \$2,228 in the second quarter of 2007. Capital Markets had a loss before income taxes of \$40 in the second quarter of 2008 compared to income before income taxes of \$1,128 in the second quarter of 2007.

Investment Services segment revenues decreased \$928 in the second quarter of 2008 compared to the second quarter of 2007. Declines in commission revenues and investment management and advisory fees were partially offset by increases in retail secondary trading profits and the retail distribution of bonds underwritten by the Company. Assets under management, from which investment management and advisory fees are derived, averaged \$3.3 billion in the second quarter of 2008 compared to \$3.6 billion in the second quarter of 2007 and was \$3.2 billion at June 30, 2008. Total expenses decreased \$157 in the second quarter of 2008 as compared to the second quarter of 2007. Administrative expense allocations were \$1,263 in the second quarter of 2008 compared to \$1,460 in the second quarter of 2007. Investment Services segment loss before income taxes was \$30 in the second quarter of 2008 compared to income before income taxes of \$740 in the second quarter of 2007.

Corporate segment revenues were \$2,224 in the second quarter of 2008 compared to \$3,496 in the second quarter of 2007. A total of \$1,552 of revenues in 2008 and \$2,103 of revenues in 2007 relate to interest income and loan participation fees on notes receivable held by ZHF I, the partially-owned SBIC, and are related to SBA lending activities. The decrease in revenues unrelated

to ZHF I is due to lower alternative investment sales activity, real estate origination fees, and management fees. Total expenses decreased in the second quarter of 2008 compared to 2007. Compensation and benefit expense decreased due to lower incentive-based compensation expense resulting from decreased profitability. The Corporate segment income before income taxes was \$66 in the second quarter of 2008 compared to \$216 in the second quarter of 2007.

Results of Operations for the Six Months Ended June 30, 2008

Total Company revenues decreased \$15,510 to \$39,661 in the first six months of 2008 compared to \$55,471 in the first six months of 2007. Lower underwriting volumes and retail investment sales activity caused decreases in investment banking revenue and commissions and were the primary reasons for the decrease in revenues.

Total Company operating expenses decreased \$10,271 in the first six months of 2008 compared to the same period in 2007. Decreases in employee compensation and benefits related to incentive-based compensation expense accruals resulting from lower revenues and decreased profitability were the primary reasons for the decreased operating expenses. The resulting net income for the Company was \$492 in the first six months of 2008 compared to \$2,930 in the first six months of 2007. The tax benefit in the first six months of 2008 is due to a significant level of federally tax-exempt interest income.

Capital Markets segment revenues decreased \$10,408 primarily as the result of the decreased investment banking activity related to bond underwriting. Bond underwriting volume was \$542 million of par value in the first six months of 2008 compared to \$1.8 billion of par value in the first six months of 2007 resulting in a decrease of \$14,052 in underwriting revenues. The Company's current pipeline of underwriting transaction activity indicates a stronger second half of the year. Increasing activity as the year progresses is a more typical pattern of underwriting activity for the Company unlike 2007 when an extraordinary amount of bond refinancing activity provided much greater bond underwriting volume earlier in the year. Trading profits and interest income increased due to increased trading activity and higher inventory balances, respectively. Total expenses decreased \$8,002 in the first six months of 2008 compared to the first six months of 2007. Compensation and benefits expense decreased primarily due to lower incentive-based compensation related to the lower revenues. Administrative expense allocations were \$3,419 in the first six months of 2008 compared to \$4,450 in the same period of 2007. Capital Markets income before income taxes was \$226 in the first six months of 2008 compared to \$2,632 in the first six months of 2007.

Investment Services segment revenues decreased \$2,953 in the first six months of 2008 compared to the same period in 2007. Declines in commission revenues and investment management and advisory fees were partially offset by increases in retail secondary trading profits and the retail distribution of bonds underwritten by the Company. Assets under management, from which investment management and advisory fees are derived, averaged \$3.3 billion in the first six months of 2008 compared to \$3.6 billion in the first six months of 2007. Total expenses decreased \$1,184 in the first six months of 2008 as compared to the first six months of 2007. Administrative expense allocations were the largest decrease and were \$1,834 in the first six months of 2008 compared to \$3,041 in the first six months of 2007. Investment Services segment income before income taxes was \$41 in the first six months of 2008 compared to \$1,810 in the first six months of 2007.

Corporate segment revenues were \$4,582 in the first six months of 2008 compared to \$6,731 in the first six months of 2007. A total of \$3,260 of revenues in 2008 and \$4,429 of revenues in 2007 relate to interest income and loan participation fees on notes receivable held by ZHF I, the partially-owned SBIC, and are related to SBA lending activities. The decrease in revenues unrelated to ZHF I is due to lower alternative investment sales activity, real

estate origination fees, and management fees. Total expenses decreased in the first six months of 2008 compared to 2007. Compensation and benefit expense decreased due to lower incentive-based compensation expense resulting from decreased profitability. The Corporate segment loss before income taxes was \$83 in the first six months of 2008 compared to income before income taxes of \$348 in the first six months of 2007.

Minority Interests

The term "minority interest" refers to that portion of a consolidated company owned by third parties. The Company consolidates the full amount of assets and the full amount of the liabilities of the partially-owned entities 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 outside ownership is deducted in the "Minority interest" caption in the Consolidated Statements of Financial Condition. The Company consolidates 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 "Minority interest in net income of subsidiaries" in the Consolidated Statements of Income.

With respect to the partially owned entities in the consolidation process described above, the Company does not have access or a right to the assets of the partially-owned entities nor is the Company responsible for the liabilities of the partially-owned entities. Only the partially-owned entities, ZHF I and ZEF I, have access to the assets and are responsible for the liabilities of their respective entities. At June 30, 2008, the assets of the partially-owned entities totaled \$57,600 of which \$11,576 consisted of cash and cash equivalents and \$41,646 consisted of notes and other receivables. At December 31, 2007 the assets of the partially-owned entities totaled \$69,405 of which \$14,255 consisted of cash and cash equivalents and \$54,138 consisted of notes and other receivables. At June 30, 2008, the liabilities of the partially-owned entities totaled \$35,206 of which \$33,590 consisted of SBA debentures. At December 31, 2007, the liabilities of the partially-owned entities totaled \$47,564 of which \$45,980 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 \$4,288 at June 30, 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 six months of 2008, 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 absent any unforeseen adverse circumstances or events.

BCZ acts as a remarketing agent for approximately \$7.3 billion of municipal variable rate demand notes consisting of 368 issues, most of which BCZ previously underwrote. A total of approximately \$6.7 billion of such notes have a put option and can be tendered to BCZ at the option of the holder on seven days advance notice, approximately \$176 million can be tendered without notice, and approximately \$478 million is auction rate debt which BCZ is not obligated to repurchase from holders, but may 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. During the first six months of 2008, a total of 16,051 shares were issued as compensation to employees and valued at \$481, the current aggregate market price on the date of payment. A total of 1,500 shares were issued as the result of the exercise of stock options for which \$27 was received by the Company.

The Company repurchases its own common stock from time-to-time. In July 2007, the Company's Board of Directors approved the future repurchase of up to 200,000 shares of Company common stock in market or private transactions, under terms considered reasonable by management. The repurchase transaction associated with the tender and exchange offer initiated on November 12, 2007, and completed on December 14, 2007 was a separate repurchase of shares that did not count against the authorization and was separately approved by the Board of Directors. The repurchase of 168,025 shares for \$5,881 on January 3, 2008, as disclosed in the 2007 Annual Report and also in conjunction with the aforementioned tender offer, was also separately approved by the Board of Directors and is not counted against the 200,000 share authorization. During the first six months of 2008 the Company also repurchased 21,017 shares totaling \$735, of which 20,077 shares totaling \$703 were exchanged for senior subordinated notes issued by the Company bearing an interest rate of 8% with a 30 year term which were separately authorized by the Board of Directors and are not counted against the repurchase authorization. At June 30, 2008, the Company had the ability to purchase 193,860 shares under the July 2007 authorization. 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.

In a transaction subsequent to June 30, 2008, Ziegler family members sold their share holdings in the Company to a buying group of employees and the Company. A group of 35 employees purchased 155,510 shares of Company stock and the Company purchased 51,380 shares at a price of \$35.00 per share. The transaction was approved by the Board of Directors and does not reduce the share repurchase authorization discussed above.

Selected Financial Data

(Dollars in thousands except per share amounts)

	For the Three Months Ended			
	2008		2007	
	June 30	Mar. 31	Dec. 31	Sept. 30
Operating Revenues	\$19,244	\$20,417	\$30,174	\$29,706
Net Income	124	368	950	1,194
Basic Earnings Per Share	0.10	0.29	0.59	0.72
Diluted Earnings Per Share	0.09	0.27	0.56	0.68
	For the Three Months Ended			
	2008		2007	
	June 30	Mar. 31	Dec. 31	Sept. 30
Balance sheet data as of the end of the period:				
Total Assets.....	175,070	124,162	299,125	262,289
Short-Term Notes Payable.....	5,289	7,510	6,643	7,611
Long-Term Obligations.....	53,815	36,014	47,941	47,462
Stockholders' Equity.....	28,130	28,116	33,615	41,075
Book Value Per Share ^(a)	\$23.20	\$23.13	\$24.37	\$25.37
Total Employees.....	350	348	356	350

^(a)Book value per share is calculated by adding back the notes receivable for purchase of common stock to end of period stockholders' equity.

The Company's Common Stock is 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			
	2008		2007	
	June 30	Mar. 31	Dec. 31	Sept. 30
Stock closing price range:				
High Closing Price	\$36.00	\$39.00	\$36.00	\$33.00
Low Closing Price	\$31.00	\$35.00	\$28.00	\$27.00

As of July 31, 2008, the Company had 1,203,853 shares of common stock outstanding.

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, 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 Company tax matters; resolving state tax inquiries; 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 fixed income and equity markets; the ability to maintain sufficient liquidity through commercial paper issuance and the use of other credit facilities; the ability to retain and annually renew credit facilities; the ability to make scheduled principal and interest payments; and the ability to successfully remarket municipal variable rate demand notes without the use of 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 information; or (iii) the Company's analysis is correct. The Company undertakes no obligation to publicly update or revise any forward-looking statements.