BAIRD

Great outcomes. Done well.

2006 Annual Report



At Baird, we believe that creating great outcomes for our clients, our associates and the communities we serve is just one part of our job. How we do business is as important as the business we do. So while every outcome we deliver is founded on deep expertise and broad skills, it's real caring, honest communication and shared values that define our relationships.

That's the conviction behind "Great outcomes. Done well." And it's our commitment at every step along the way.

Cover photo: Rodney Tyson, Director of Business Development/Mergers & Acquisitions, Investment Banking
Lisa Keverian-Press, Senior Investment Consultant, Private Wealth Management



A message from Paul Purcell

In 2006, our associates once again proved the importance of a long-held value at Baird: our clients' success is our success. From that perspective, 2006 was a tremendously gratifying year, marked by record financial results, substantial investments in our businesses and meaningful acknowledgments.

Our dedication to helping clients achieve their goals propelled Baird to a third consecutive year of record revenues and operating income. Net revenues for 2006 totaled $656 million, up 4% from a year ago. Operating income of $94 million was 18% higher.

Our financial performance was echoed by meaningful recognition for the quality of outcomes we create for Baird clients and associates.

- For the third consecutive year, Baird ranked No. 1 for "overall sales and research quality" and "most trusted" research in the Greenwich Associates annual survey of U.S. small-cap and mid-cap fund managers.
- Baird was named "Middle Market Bank of the Year" by *Investment Dealers' Digest* for the strength and breadth of our international investment banking capabilities.
- In early 2007, Baird was recognized as one of the FORTUNE 100 Best Companies to Work For® for the fourth year in a row. We strongly believe that being one of the best companies to work *for* makes Baird one of the best companies to work *with*.

One of our greatest strengths as a firm is being independent and owned by our associates, whose entrepreneurial spirit and passion not only define how we do business, but also drive our growth. In 2006, we continued to increase our broad base of shareholders, so that 45% of our associates now own Baird stock. And all associates have a greater stake in the firm's success through changes in our retirement program, which give associates more control of their assets. We also made substantial progress in retiring debt assumed in 2004 when we became independent. With a prepayment in early 2006, we have paid off 42% of that debt.

Across all of our businesses, 2006 was a strong year:

- Total assets that we manage and oversee increased 14% to more than $71 billion, driven by strong asset growth at Baird Advisors and new business and rising markets in Private Wealth Management.
- Equity Capital Markets – Research, Institutional Equity Services and Investment Banking – posted record revenues for the fourth year in a row.
- With new capital commitments in 2006, our private equity partnerships have raised and managed a combined $1.8 billion in capital since inception.
- Fixed Income Capital Markets achieved records for trading volume as well as for the total value of transactions for which we served as financial advisor or underwriter.

"We strongly believe that being one of the best companies to work *for* makes Baird one of the best companies to work *with*."

We believe that continuing to improve our diversity efforts will be an important factor in our continued success. We recognize that a wide variety of perspectives allows us not only to better understand the needs of our clients and associates, but also to develop creative solutions. That's why we enhanced the firm's commitment to diversity through a series of initiatives in 2006 involving, among other things, awareness, recruiting, vendor selection, internships, mentoring and community involvement.

During 2006, we also completed research that helped us state more definitively what our clients and associates value most about working with Baird. The essence of those findings is captured in Baird's new brand position – "Great outcomes. Done well." – reflected on the cover of this year's annual report.

Our refreshed brand also communicates our enthusiasm with the progress we're making across all of our businesses to better serve Baird clients. That job is never finished, of course, but we are confident that we're moving closer to our vision of being the best middle-market financial institution in the world.

Over the past half-dozen years, we have made significant progress toward that goal. We've created a balance of five strong businesses that add dramatically to Baird's ability to be a competitive force in all types of market conditions. We're committed to expanding our businesses – in a thoughtful way – where we can help create great outcomes for more middle-market clients. However and wherever we grow in our efforts to be the best at what we do, one thing is certain. Being the best at *how* we deliver great outcomes – with honest communication, deep expertise and shared values – will always be at the core of our relationships with clients and fellow associates.



Paul E. Purcell
Chairman, President &
Chief Executive Officer

BAIRD

Did you
know?

71

BILLION DOLLARS

Baird managed and oversaw more than $71 billion in assets at the end of 2006, up 14% from a year earlier.



Left to right:
Nick Zarcone,
Karri Azukas,
Michele Jackson,
Tom Buttles,
Marcelline Klestil.

Did you know?

IN EARLY JANUARY 2007, BAIRD WAS RECOGNIZED AS ONE OF THE FORTUNE 100 BEST COMPANIES TO WORK FOR® FOR THE *FOURTH* CONSECUTIVE YEAR. A TRUE HONOR!

FORTUNE is a registered trademark of FORTUNE Magazine, a division of Time Inc.

Our Culture

Great outcomes begin with great people. At Baird, that means people who deeply believe that clients come first and quality is the measure of our success. That integrity is irreplaceable and *how* we succeed is as important as *if* we succeed. Who believe that the best financial advice is the result of expertise and teamwork, and that personal balance in home, work and community involvement is in everyone's best interests.

Private Wealth Management

We deliver comprehensive investment solutions to simplify our clients' complex financial lives. And while careful listening, deep expertise and insightful planning are common to all of our solutions, it is real caring and communication that lead to the best outcomes.



Courtesy of the Milwaukee Art Museum

Meade Owens
FINANCIAL ADVISOR,
ORLANDO

Gordon Owens
FINANCIAL ADVISOR,
ORLANDO

Mike Schroeder
DIRECTOR OF
PRIVATE WEALTH
MANAGEMENT

PRIVATE WEALTH MANAGEMENT REVENUES
(millions)



John Mabee
NATIONAL DIRECTOR,
BRANCH DEVELOPMENT

Jeff Bailey
BRANCH MANAGER, PEORIA
CHAIRPERSON,
BRANCH MANAGER
ADVISORY COUNCIL

Private Wealth Management

For most clients, financial complexity is a fact of life. Whether they are high-net-worth individuals or business owners, our clients need expert advice to arrive at the best solutions for their unique situations.

The strength of our Private Wealth Management team in addressing these concerns is founded on the strength of Baird itself – a client-focused culture that emphasizes teamwork to provide comprehensive, customized solutions. Our Financial Advisors use a consultative approach to understand clients' entire financial pictures, as well as their dreams and concerns. They have access to dedicated, in-house experts in areas such as financial planning, investment research and estate planning. With many of our advisors working on teams and earning advanced industry certifications, we are able to bring deep professional expertise to bear not only on developing a long-term wealth management strategy, but also on day-to-day account management.

At the end of 2006, our Financial Advisors managed and oversaw more than $56 billion in client assets, up 16% from a year earlier. Private Wealth Management revenues totaled $298 million, a 5% increase from 2005. At year's end, we served clients throughout the United States through nearly 600 Financial Advisors in 60 offices in 15 states.

Did you know?

56

BILLION DOLLARS

Baird Financial Advisors manage and oversee more than $56 billion in client assets, up 16% in the past year.

Solutions for complex lives

The business of investing has changed dramatically in recent years. For clients with substantial assets, great outcomes require more than asset allocation and portfolio management. Those capabilities must be complemented by financial, business succession and estate planning, as well as consideration of charitable giving and retirement planning.

Baird Financial Advisors are ideally suited to provide advice on the financial issues faced by their clients. While our Financial Advisors have an average of 16 years of industry experience, ongoing education is a priority. Nearly a third of our Financial Advisors have qualified as Senior Investment Consultants through a program offered by Baird at the University of Chicago's Graduate School of Business. Actively supported by Baird, many also pursue advanced industry designations in financial planning and retirement counseling that enable them to bring an even broader perspective to their clients' needs. Our Client Relationship Assistants also take advantage of expanded educational opportunities, and 70% hold securities licenses enabling them to provide a broader level of client service.



We also strongly promote the formation of teams among our Financial Advisors so they can combine their skills to better serve clients whose needs cross many disciplines. Approximately 42% of Baird Financial Advisors partner to leverage their complementary investment skills. The number of Financial Advisors on teams has more than tripled in the past three years.

To address complex situations, our Financial Advisors can call on in-house experts to help craft detailed strategies that meet the needs of individual clients. These specialists have expertise in key areas such as tax, education, retirement and estate planning, and insurance services. Whether providing these services from within Baird, or working closely with the clients' tax and legal advisors, our goal is to provide our clients with comprehensive wealth management advice.

In addition, our Financial Advisors and specialists work closely with outside advisors to assist corporate executives with issues such as restricted and control stock transactions, protective hedge strategies for concentrated equity positions, and company retirement plans. We also partner with other areas of Baird, such as Investment Banking and Private Equity, to assist with wealth management planning for corporate executives and clients who have recently realized significant liquidity by selling a business in the public or private markets.

Did you know?

16

YEARS

Our nearly 600 Financial Advisors have an average of 16 years of industry experience and have numerous ongoing opportunities for professional development.



Mary Zavaglia
SENIOR INVESTMENT CONSULTANT, TAMPA

Andy Hirsch
SENIOR INVESTMENT CONSULTANT, TAMPA

Research and sophisticated tools for great outcomes

HIGHLIGHTS

- Client assets managed and overseen by our Financial Advisors grew to more than $56 billion – an increase of 16% in 2006 and over 60% in the past four years.
- In one of our most successful years for recruiting, we welcomed 28 experienced Financial Advisors, more than in the previous two years combined.
- Financial Advisor education is ongoing. More than 70% of our Financial Advisors who have qualified as Baird Senior Investment Consultants have also taken advanced training in the past two years through our program at the University of Chicago's Graduate School of Business.

Just as we develop investment strategies for our clients, we have a strategy of our own in Private Wealth Management. It is designed to ensure that Baird clients and their Financial Advisors have access to outstanding research and sophisticated technologies to address investment needs. In 2006 and 2007, we are investing more than ever before to expand research capabilities and investment tools – all focused on providing great outcomes for clients.

Quality research is central to our goal of providing the best advice and solutions. At Baird, we are continuously investing in talent on our research and specialist teams and enhancing our research process across the spectrum of investment opportunities. We employ rigorous analysis to identify and monitor world-class money managers and mutual funds, in addition to researching individual equity and fixed income securities. And Baird's own award-winning equity research is supplemented with other highly regarded research to provide a broader universe of investment ideas.

To provide our Financial Advisors the ability to create and manage client-specific investment solutions that can include an array of products – many typically available only to institutional clients – Baird continues to expand the use of its proprietary ALIGN℠ technology. ALIGN provides a "household" view of a client relationship in which many accounts can be managed as a consolidated investment solution. The easy-to-understand, periodic reports give clients a clear view of how they are progressing toward their financial goals.



Jodi Ristau
PWM BUSINESS COORDINATOR

Gary Lents
BRANCH MANAGER, INDIANAPOLIS

Did you know?

70
PERCENT

As integral members of the team, 70% of our Client Relationship Assistants have earned securities licenses enabling them to provide a broader range of client service.

HIGHLIGHTS

- Baird was recognized nationally in *Barron's* and other publications as having some of the industry's top financial advisors.*
- In early 2007, we expanded our program to give Financial Advisors insights into the best practices intended to lead to consistently great outcomes for clients of all sizes.
- Baird ranked among the top four industry firms for quality of client statements in an independent, national survey by Dalbar, Inc. We are continuing to refine our statements, leveraging feedback from clients and their tax advisors.

* Select Financial Advisors recognized in *Barron's* and *Research* magazine through the Winner's Circle program, which includes "Top 100 Financial Advisors," "Top 100 Women Financial Advisors" and "Top-Ranked Advisor Teams in America," as well as state-by-state lists.

We're also making significant improvements across all accounts, looking for ways to improve our clients' experience with us from the time they establish a relationship with Baird. For clients who believe that "done well" means even greater simplicity, we improved client statements and confirmations in 2006 and are testing the electronic delivery of more account information in 2007.

In early 2007, we also introduced a new generation of financial planning software for Financial Advisors, enhancing their resources for developing comprehensive plans and communicating those ideas with clients. We will also deploy a new customer relationship management tool enabling Financial Advisors and Client Relationship Assistants to do an even more effective job in their day-to-day efforts on behalf of clients.



Capital Markets

Equity Capital Markets
Private Equity
Fixed Income Capital Markets

Great outcomes are built on great advice. Straightforward, insightful and objective advice, based on a deep understanding of each client's distinctive needs.


CAPITAL MARKETS REVENUES
(millions)
2006 $264
2005 $243
2004 $237
2003 $1
2002 $183
Patrick Spencer
MANAGING DIRECTOR,
LONDON INSTITUTIONAL
SALES
Mike Proudlock
CHAIRMAN,
PRIVATE EQUITY
EUROPE
John Fordham
CHAIRMAN,
EUROPEAN INVESTMENT
BANKING


Amy Junker
SENIOR RESEARCH ANALYST
John Kennedy
INSTITUTIONAL
INVESTMENT OFFICER
Todd Simons
INSTITUTIONAL TRADER

Equity Capital Markets

At Baird, we're passionate about creating great outcomes that exceed our clients' expectations. So it's gratifying to have our Institutional Sales, Equity Research and Investment Banking teams all recognized as "best in class" for the service we provide to our clients.

For the third consecutive year, Baird was named the "most trusted" provider of mid-cap investment research in the country in the 2006 Greenwich Associates survey* of U.S. small-cap and mid-cap fund managers. Baird was also identified as the "most important" provider of small-cap and mid-cap research and had the highest quality scores of any firm on Wall Street, including No. 1 rankings for "best insights that generate alpha," "overall sales quality," "overall research and analyst service quality" and "most useful conferences." In total, Baird ranked No. 1 in over two-thirds of the categories in this client-based survey.

Our Investment Banking team has extensive expertise in providing advisory and financing services to middle-market companies. Our deep industry-specific knowledge, strong transatlantic capabilities and commitment to superior client service enabled us to win the prestigious "Middle Market Bank of the Year" award for 2006 from *Investment Dealers' Digest*.

The expertise and client focus that contributed to these honors also produced the fourth consecutive year of record revenues for Equity Capital Markets, with revenues up 9% in 2006.

* Greenwich Associates U.S. Equity Investors – Small/Mid-Cap Funds, April 2006. Surveys conducted with 80 U.S. small-cap and mid-cap fund managers. Rankings based on top 25 research firms in survey.

Did you know?

NUMBER

1

For the third consecutive year, Baird ranked No. 1 for "overall sales and research quality" in the 2006 Greenwich Associates survey of small-cap and mid-cap fund managers.

Research

HIGHLIGHTS

- Baird earned the "most important research firm" ranking in the 2006 Greenwich Associates survey of small-cap and mid-cap managers.
- The Greenwich Associates survey also ranked Baird as No. 1 for "greatest knowledge of companies and industries" and "overall research and analyst service quality."
- Baird tied for third place in the number of awards won by research analysts in investment firms of *all* sizes in the Fifth Annual Forbes.com/StarMine Analyst Awards announced in 2006. In total, 11 of our analysts won 14 awards, far more than any other middle-market firm.

Quality research is central to our Equity Capital Markets business. While most of our competitors have cut their research budgets in the past five years, we've invested heavily to support our belief that fundamental, independent research is essential for the outcomes our clients expect and deserve.

Since 2000, we've increased the number of research professionals from 42 to 94, which has enabled us to expand coverage by an average of 10% a year in each of the past six years. Baird now follows more than 500 stocks across a wide range of industries, giving our clients deep, comprehensive coverage.

Baird's emphasis on objective, fundamental research continues to win accolades. A number of our analysts received honors in 2006 from prestigious publications such as *The Wall Street Journal* in its annual "Best on the Street" rankings. And the 2006 Greenwich Associates survey of small-cap and mid-cap portfolio managers placed Baird first in 12 of 17 categories. For the third consecutive year in this survey, Baird ranked No. 1 among all U.S. investment firms for "most trusted" research and "overall sales and research quality." In a similar 2006 survey of large-cap equity buyside analysts conducted by Greenwich Associates, Baird also took top honors for "most trusted" research, broadening our reputation for high-quality research across all market capitalizations.



Institutional Equity Services

HIGHLIGHTS

- Baird actively trades more than 275 listed stocks and makes a market in more than 600 over-the-counter (OTC) stocks. We rank among the top five investment banking firms in trading volume on over 125 of the OTC stocks.
- In addition to the important No. 1 ranking for "best insights that generate alpha," Baird took top honors in the 2006 Greenwich Associates survey for "overall sales quality," "sales professional capability" and "sales best tailors research to investment holdings."
- During 2006, Baird hosted five premier and specialty conferences, 50 private tours of companies, over 400 management trips to meet investors and more than 5,500 meetings between companies and institutional investors.

As a research-based firm, we are dedicated to getting money-making investment ideas in front of our clients. For Baird's Institutional Equity Services team, that means presenting investment insights with comprehensive knowledge of a client's strategies and interests. Our team approach to sales and trading is enhanced by state-of-the-art technologies for trading and relationship management. Moreover, ours is an experienced group of 95 professionals in the United States and the United Kingdom, with very low turnover. That ensures clients of knowledgeable, continuous coverage by professionals who know their specific needs.

Great outcomes also require great execution. The Baird team is deeply committed to providing best execution that combines price improvement, transaction speed, trading anonymity and capital liquidity to enhance performance for clients.

This combination of value-added coverage and execution drove substantial gains in Institutional Equity Services' market share among North American institutional investors and specialty managers. We also made excellent progress in European markets. Our London-based team has introduced an increasing number of institutional clients in key European markets to Baird research and provides superior access to companies' management teams. Revenues from our European institutional equity team have increased more than 20% in each of the past three years and contributed to Institutional Sales and Trading's 12th consecutive year of record revenues in 2006.



Did you know?

500

U.S. COMPANIES

Baird produces award-winning research on more than 500 U.S. companies. Research coverage has increased more than 50% in the past five years.

Nikki Mitchell
SENIOR EVENT PLANNER, CAPITAL MARKETS

Rob McCarthy
SENIOR RESEARCH ANALYST

Investment Banking

For the middle-market client looking for the right acquisition, a timely divestiture, a global opportunity or a creative financing, Baird has the comprehensive skills and experience that are the foundation of a successful outcome. Our deep industry knowledge and transaction expertise across major business sectors are enhanced by a team approach that spans the Atlantic seamlessly to find opportunities. Importantly, our senior bankers are directly involved to ensure first-class execution at every step of the engagement.

We were honored that Baird was named "Middle Market Bank of the Year" by *Investment Dealers' Digest* for our overall performance during 2006. This award reflects our broad, transatlantic capabilities – very unusual for a firm our size – and confirms that we are succeeding in our mission to be the pre-eminent investment bank serving the middle market.

In 2006, we advised on 44 M&A transactions with a total value of $4.7 billion. We maintained our strong position in the United States, while continuing to expand our capabilities in Europe. Through offices in London and Frankfurt, which are fully integrated with our U.S. team, we provide on-the-ground expertise and advice for clients looking to execute acquisitions or divestitures within the European Union as well as those interested in transatlantic transactions. In fact, over the past five years, European and transatlantic assignments have accounted for approximately one-third of our transactions.



Derrick Williams
INVESTMENT BANKER

Mark Micklem
INVESTMENT BANKER

Did you know?

115
PROFESSIONALS

Our investment banking team of more than 115 professionals in the United States and Europe is one of the largest international teams focused on the middle market.

HIGHLIGHTS

- Baird was named "Middle Market Bank of the Year" for 2006 by *Investment Dealers' Digest*, recognizing our expertise and international capabilities.
- In 2006, Baird was the advisor or underwriter for a total of 83 M&A and equity financings with a combined value of $9.2 billion.
- Over the past 10 years, Baird has advised on more than 380 M&A transactions with a total value of over $50 billion.
- Baird has managed more than 250 equity offerings in the past 10 years with a combined value exceeding $34 billion.

Baird is also a leading underwriter of public offerings and private placements for middle-market companies. We raised $4.5 billion for clients in 39 transactions in 2006, and we served as the lead or co-lead manager on more than 35% of these transactions. Our skill as an underwriter was recognized in 2006, when Baird was presented with the "Financing Transaction of the Year – Equity Award" at the Middle Market Financing Awards hosted by *The M&A Advisor*. This award was presented for our work on a large stock offering, and it acknowledged not only Baird's ability to create innovative solutions that support complex corporate strategies, but also our long-standing relationship with the client.

Investment Banking revenues set a record for the third consecutive year, with recent initiatives complementing our long-term strengths. Over the past four years, we have steadfastly built a team to focus on the important financial sponsors sector, which has become a major source of potential transactions. In 2006, more than half of our banking revenue was derived from transactions in which a financial sponsor was a key decision-maker in the investment bank selection. Our Real Estate team, established in 2004, was involved in 20 financing transactions that raised over $2.1 billion of capital for clients in 2006. We also continued to build our capabilities in 2006, establishing Financial Services and Corporate Restructuring teams.





Paul Carbone
DIRECTOR OF
BAIRD PRIVATE EQUITY

Gordon Pan
PARTNER,
BAIRD CAPITAL PARTNERS

Andrew Brickman
PARTNER,
BAIRD CAPITAL PARTNERS

Private Equity

Baird Private Equity has created a global platform to source, evaluate and enhance attractive investment opportunities in the United States and Europe. This platform is an important element in the great outcomes that our private equity partnerships create for our investors, which include insurers, pension funds, financial institutions and high-net-worth individuals. To date, the group has raised and managed more than $1.8 billion in capital.

To identify attractive trends and growth opportunities, the group complements its own deep industry knowledge in Business Services, Manufactured Products and Healthcare with the significant intellectual capital of Baird's research and investment banking professionals. With 213 investments since inception, including 52 companies currently in the portfolio, our Private Equity team brings both extensive investment expertise and strong operational experience to major business decisions. Our investment team includes 36 investment professionals in Baird Capital Partners and Baird Venture Partners in the United States and Baird Capital Partners Europe in the United Kingdom. They are complemented by 10 operating partners and senior advisors, as well as 22 operating professionals in Asia.

Our private equity funds deployed $119.5 million in 10 new investments during 2006 and completed 13 follow-on investments totaling $19.7 million. We generated more than $167.7 million in proceeds through the sale of five companies, the recapitalization of two more and the final collection of proceeds from prior sales.

Did you know?

1.8

BILLION DOLLARS

Since inception, our private equity funds have raised and managed a combined $1.8 billion in capital.

A global private equity platform

Value creation in Baird's private equity partnerships is driven by a host of factors – a thorough understanding of the opportunities available in our target industry sectors, a compelling strategic vision for portfolio companies and the resources to support management teams in the execution of their growth plans. Our investment professionals work in close partnership with the management teams of our portfolio companies. Portfolio companies also gain the insights of our operating partners and senior advisors, who are industry veterans with extensive experience in strategy, operations and management.

For middle-market companies, Baird's private equity partnerships offer a distinctive global resource – a knowledgeable, on-the-ground team in Asia. During 2006, we expanded Baird Asia's team to 22 operating professionals and added a Beijing office to those in Hong Kong and Shanghai. In addition, in early 2007, we formed a strategic relationship and established a presence in India. Our team in China and India constitutes one of the largest Asian operations supporting a middle-market private equity group. Our team, which has proven operating experience in Asia as well as a broad network of government and industry relationships, works exclusively with our portfolio companies to develop and implement Asia strategies. This may include distributing products into the region, developing sourcing relationships or establishing operations in Asia. In our experience, the right strategy in Asian markets has proven to be a very effective driver of the growth of revenues, operating income and, hence, portfolio company value.



Dave Pelisek
PARTNER,
BAIRD CAPITAL PARTNERS

Bill Filip
PARTNER,
BAIRD VENTURE PARTNERS

Did you know?

300

MILLION DOLLARS

In early 2007, we had a final closing on Baird Capital Partners Fund IV with $300 million in committed capital – the largest U.S. fund ever raised by Baird Private Equity.

Baird Private Equity partnerships

HIGHLIGHTS

- During 2006, our funds invested $139.2 million in portfolio companies and realized a total of $167.7 million from dispositions.
- Baird Private Equity had 52 active portfolio companies at year end: 12 in Baird Capital Partners, 18 in Baird Venture Partners and 22 in our European partnerships.
- Granville Baird's new German fund was launched and should begin investing during 2007.
- Our Asia team, in four locations in China and India, includes mechanical and electrical engineers, quality assurance professionals, logistics personnel and business process experts.

Baird operates three primary partnerships in the United States and the United Kingdom and has an affiliated fund in Germany.

BAIRD CAPITAL PARTNERS provides change-of-control and growth capital to U.S. middle-market companies in the Business Services and Manufactured Products sectors. BAIRD VENTURE PARTNERS invests in early- to growth-stage, U.S.-based companies in the Business Services and Healthcare/Life Sciences sectors.

During 2006, the former Granville Baird Capital Partners changed its name to BAIRD CAPITAL PARTNERS EUROPE, reflecting the close working relationship among our private equity teams in the United Kingdom, the United States and Asia. BAIRD CAPITAL PARTNERS EUROPE, which has a 36-year history, provides change-of-control capital to mid-size companies in the United Kingdom, with a particular interest in the Business Services and Manufactured Products sectors. In Germany, GRANVILLE BAIRD, which is affiliated with Baird Private Equity, manages funds that invest in middle-market growth companies in German-speaking countries.

Our U.S. partnerships made six new and 11 follow-on investments during the year for a total of $66.5 million. The European partnerships committed $72.7 million to six new and follow-on investments.




Cindy Neitzke
FIXED INCOME
GOVERNMENT TRADER
David Conley
PUBLIC FINANCE BANKER
John Payne
PUBLIC FINANCE BANKER

Fixed Income Capital Markets

For clients of Baird's Fixed Income Capital Markets group, whether in Public Finance or Sales and Trading, much of the activity that is the substance of superior outcomes takes place between transactions. Our Public Finance team of 43 professionals has deep expertise in all aspects of municipal finance – not just innovative financing techniques. We also help clients create a detailed picture of their fiscal future with expertise that ranges from budgeting and debt restructuring to referendum strategies and long-term capital planning.

Our Fixed Income Sales and Trading desks put their skills to work in a similar way for bond and mutual fund companies, investment advisors, insurance companies, commercial banks, trust departments and individual investors. Our goal is to understand their day-to-day and long-term needs, whether they are most interested in yield maximization, portfolio optimization or product innovation. Only then do we suggest the appropriate transactions with input from our product specialists. Sales and Trading also works closely with Public Finance to develop proprietary issues. In 2006, the team completed a number of transactions for port authorities, charter schools and economic development commissions that responded to client requests for larger financings at competitive yields.

Despite a challenging year industrywide for the fixed income market, Baird's Fixed Income Capital Markets revenues for 2006 were 4% higher than the previous year, as we continued to build our trading, underwriting and financial advisory services.

Did you know?

73

BILLION DOLLARS

Over the past five years, Baird was a senior manager, co-manager or financial advisor on more than $73 billion of municipal financings.

Public Finance

HIGHLIGHTS

- Nationwide, Baird ranked among the top 10, both as a financial advisor and as an underwriter of negotiated issues of $20 million or less.*
- For the fifth consecutive year, Baird was the No. 1 underwriter in the 11-state Midwestern region for negotiated issues of $20 million or less.*
- Baird continued its long tradition as Wisconsin's No. 1 underwriter and financial advisor, based on combined transaction volume.*
- Baird was the leading financial advisor in Michigan.*
- In Illinois and Ohio, Baird ranked No. 2 for negotiated primary and secondary education issues.*

* 2006 rankings from Thomson Financial Securities Data

Baird's Public Finance team has long been a trusted advisor and underwriter for municipalities, school districts, government agencies, companies and non-profit organizations. More recently, we have extended our services to charter schools, port authorities and economic development commissions. Our approach to high-quality solutions is to provide comprehensive advice on budgeting and financing issues, as well as long-term capital planning. That dedication to service has enabled us to add substantial value to clients issuing school bonds, infrastructure financings and other transactions that others often consider routine.

While Public Finance continued to work closely with municipal clients throughout the Midwest in 2006, we also expanded our presence in the economic development sector. We led the financing of the energy retrofit of a major manufacturing plant in Ohio. We were the sole underwriter of lease revenue bonds for a community development authority in Wisconsin. And, in what was an unusually complex transaction, our team acted as sole underwriter to help a West Virginia county create a new taxing authority to fund a major commercial development.

In 2006, Baird made additional investments in its Public Finance capabilities to meet the needs of clients. We added professionals with expertise in budgeting, modeling and referendum strategies. In addition, we hired seasoned public finance professionals in Columbus and opened a Cincinnati office, strengthening our capabilities for serving clients in Ohio, as well as throughout our marketplace.



Fixed Income Sales and Trading

HIGHLIGHTS

- In 2006, Baird was sole manager, co-manager or financial advisor for 740 issues with a total value of $17.3 billion, raising our five-year total to more than $73 billion.
- We have sales or trading offices in 15 U.S. cities, including a five-person operation in Albany, New York, which opened in 2006.
- Since 2000, we have significantly increased our trading commitment and broadened our Sales and Trading team, enabling Baird to become a major player in the secondary fixed income market.
- Our institutional sales force maintains strong relationships with clients throughout all 50 states.

Our Fixed Income Sales and Trading desk is an active participant in both the primary and secondary markets for taxable and tax-exempt securities. In 2006, the taxable portion of those markets continued to be challenged by a flat yield curve, higher interest rates and robust equity markets. Even so, our desks traded $62.8 billion in face value for clients such as financial institutions, insurance companies, municipalities and money managers during the year, more than double 2005 volumes.

Our Sales and Trading team of 90 professionals added skills in 2006 that further strengthen our ability to serve clients. We broadened our expertise on a variety of trading desks, notably in mortgage-backed securities, and added capabilities in agency underwriting. We also bolstered our team in portfolio strategies and analytics, which deepens our ability to help clients who don't have this capability in-house to maximize their investment returns.

As a team, the professional expertise in Baird's Sales and Trading and Public Finance groups makes an important difference to both issuers and investors. Public Finance's skills in creating innovative financings resulted in successful offerings for issuers that also met investors' needs for larger transactions and improved yields. As elsewhere at Baird, our emphasis is on well-researched, comprehensively presented investment ideas that are key to great outcomes for everyone involved in the transaction.

Did you know?

NUMBER

1

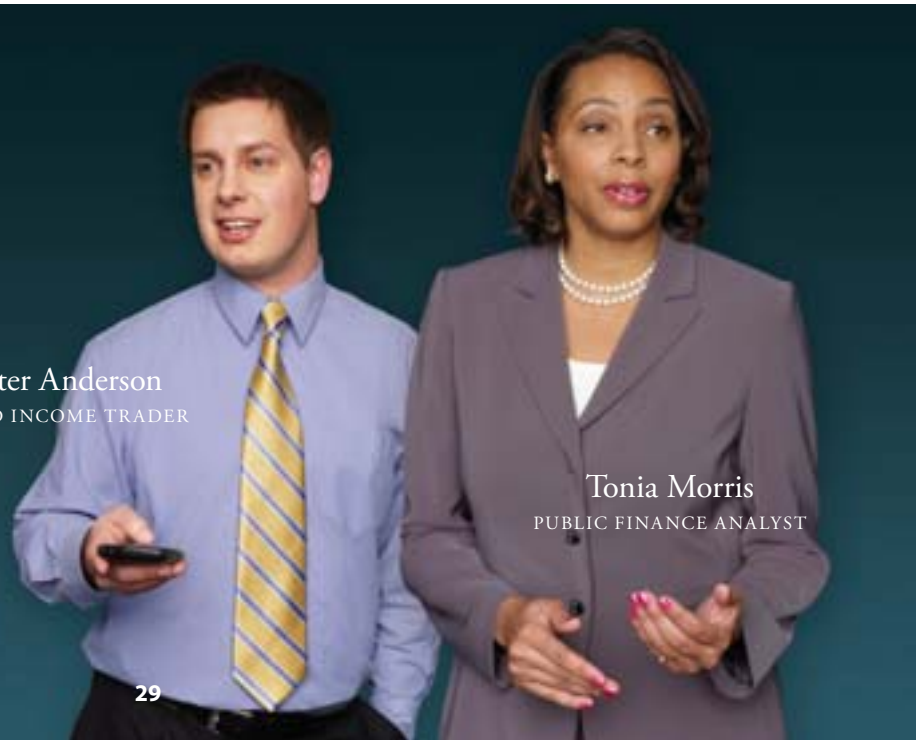
In 2006, Baird ranked as the No. 1:

• Underwriter of negotiated issues of $20 million or less in the Midwest

• Financial advisor and underwriter in Wisconsin, based on combined transaction volume

• Financial advisor in Michigan

Source: Thomson Financial



Peter Anderson
FIXED INCOME TRADER

Tonia Morris
PUBLIC FINANCE ANALYST

Asset Management

Baird Advisors
Baird Investment Management

Consistent, disciplined investing is only one aspect of achieving a great outcome for clients. How we help them get there – with teamwork, communication and the highest level of personal service – is what makes the journey worthwhile.



Location: Discovery World at Pier Wisconsin


Charlie Groeschell
SENIOR PORTFOLIO MANAGER
Dan Tranchita
SENIOR PORTFOLIO MANAGER
Warren Pierson
SENIOR PORTFOLIO MANAGER
Sharon deGuzman
PORTFOLIO MANAGER
Gary Elfe
DIRECTOR OF RESEARCH

Baird Advisors

Successful management of core fixed income portfolios is a blend of science and art. The science behind Baird Advisors' model is a risk-controlled approach based on pure, fundamental research. The art rests in seizing opportunities to add incremental value. It's a blend that has been very effective at producing competitive returns over full market cycles.

The art of our business also lies in managing the valued relationships we have with the many types of public and private clients who entrust their assets to Baird Advisors. Ours is a true team approach. Senior managers – some of whom have worked together for more than 25 years – have daily involvement in managing portfolios and relationships. And they are backed up by a seasoned team of fixed income investment professionals that ensures continuity of strategy and service, year after year.

Baird Advisors' consistent investment style, deep team coverage and strong track record have led to significant growth in recent years. Assets from new clients, increased flows from current relationships and strong investment performance all contributed to a 35% increase in assets under management during 2006 on top of an increase of nearly 40% the prior year. Assets totaled $12.6 billion at year's end, including assets in the five Baird bond funds managed by Baird Advisors.

Did you
know?

21
YEARS

Baird Advisors' nine portfolio managers have an average of 21 years of industry experience, most of it working together.


Chuck Severson
SENIOR PORTFOLIO MANAGER
Carla Cooper
SENIOR RESEARCH ANALYST
Bary Morgan
CHIEF INVESTMENT OFFICER
Todd Haschker
DIRECTOR OF SALES & BUSINESS MANAGEMENT

Baird Investment Management

Baird Investment Management has built a solid, 35-year record of performance as a manager of growth equity and balanced portfolios. At the heart of our investment strategy is an emphasis on quality growth companies, control of risk and investment for the long term. Direct access to senior portfolio managers and deep team understanding of client accounts and strategies underscore our dedication to creating great outcomes for our clients. These principles are consistently applied by all of our growth equity teams: small-cap, mid-cap and large-cap, for both separate accounts and Baird's three equity mutual funds.

We strengthened our already deep and talented team in 2006 with the addition of three research analysts, following the departure of several individuals involved in our large-cap strategy. Our 12-person team of portfolio managers and research analysts brings more than 160 years of collective experience to providing clients not only with competitive, risk-adjusted performance, but also outstanding account service.

At the end of 2006, we managed $1.2 billion for a diversified group of clients that includes public and private retirement plans, corporations, healthcare and religious organizations, foundations and high-net-worth individuals.

Did you know?

160

YEARS

Baird Investment Management's investment team encompasses six portfolio managers and six research analysts with more than 160 years of collective investment experience.

Our Community

Baird people are passionate about creating great outcomes for the communities we serve. Many associates have leadership roles in civic and charitable organizations. That's a commitment we encourage through our Baird Cares program, which offers every associate extra paid time off each year to volunteer in the community. Through the Baird Foundation, we support associates' charitable efforts with matching gifts. And we focus foundation contributions in the areas of health and human services, education and the arts, with a commitment to furthering diversity.

Did you know?

94

PERCENT

The percentage of Baird associates in the Milwaukee area who have contributed to the United Way of Greater Milwaukee and the United Performing Arts Fund has been 94% or higher in each of the past three years.



Left to right: Peter Kies, Paul Sittenfeld, Sue Bellehumeur, Tom Schmid, Peggy Hintz, Mary Van Volkinburg, Randy Lyon, Donna DeVaney, Owen Wrassman, Carrie Pok.

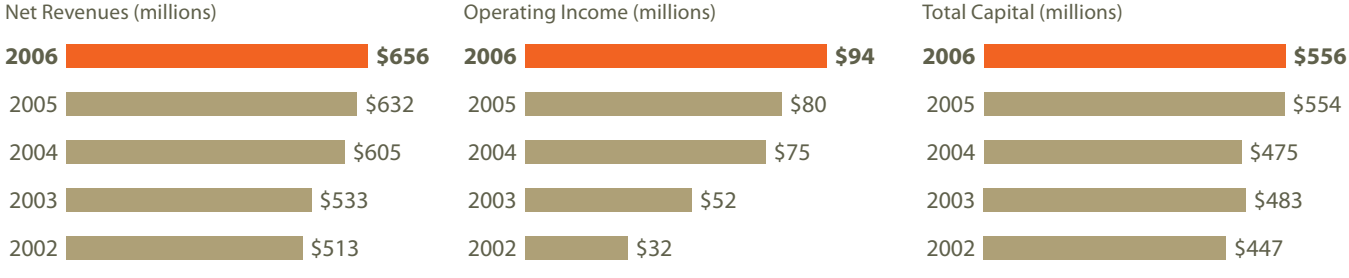
Financial Information

BAIRD HOLDING COMPANY: FINANCIAL HIGHLIGHTS

Baird Holding Company is the ultimate parent company of U.S.-based Robert W. Baird & Co. and London-based Robert W. Baird Group Ltd. Our primary businesses are wealth management, capital markets, asset management and private equity. Baird is fully independent and employee owned.

	Operating Results	Per Share Data		Financial Position		Other Data		
	Net Revenues (in millions)	Book Value (fully diluted)	Cash Dividends	Total Assets (in thousands)	Total Capital (in thousands)	Full-Time Associates	Financial Advisors	Private Wealth Management Offices
2006	**$ 656**	**$ 42.33**	**–**	**$ 1,681,384**	**$ 556,335**	**2,061**	**591**	**60**
2005	$ 632	$ 36.88	–	$ 1,311,486	$ 554,047	2,094	600	61
2004	$ 605	$ 32.20	–	$ 1,331,613	$ 475,106	2,177	632	64
2003	$ 533	$ 28.17	–	$ 1,129,875	$ 482,594	2,168	664	68
2002	$ 513	$ 25.30	–	$ 857,602	$ 446,707	2,264	713	69
2001	$ 519	$ 23.88	–	$ 1,210,451	$ 418,588	2,434	824	79
2000	$ 569	$ 22.38	–	$ 1,497,802	$ 319,068	2,684	779	77
1999	$ 477	$ 20.43	–	$ 1,164,900	$ 286,439	2,333	721	75
1998	$ 408	$ 17.55	–	$ 771,311	$ 241,972	1,922	658	74
1997	$ 381	$ 14.83	$ 1.83	$ 668,500	$ 185,285	1,707	614	67

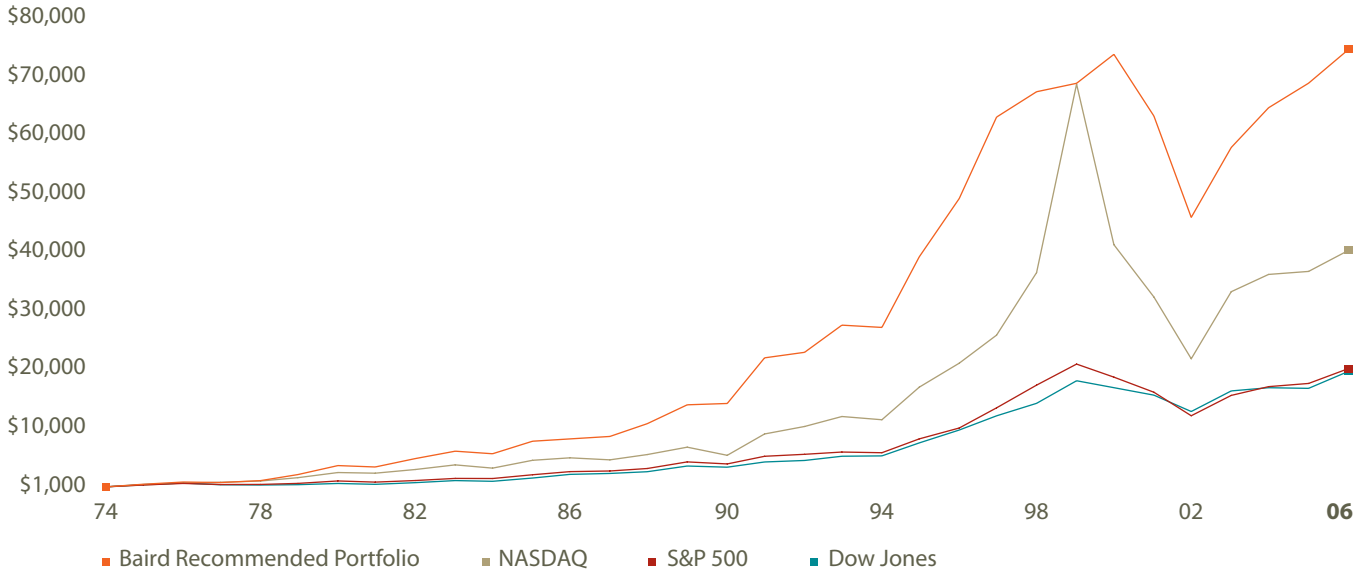
Amounts for 2000 and previous years are for Baird Financial Corporation. Revenues have been restated for comparability as the result of two transactions: the 2002 transfer of the Northwestern Mutual Investment Program to Northwestern Mutual, affecting revenues for 2001 and previous years, and the 2005 sale of our UK equity capital markets business that focused on small-cap companies, affecting 2000–2005 revenues. Per share amounts have been restated to give effect for the three-for-one stock split, effective November 30, 1999. Total Capital includes stockholders' equity, consolidated minority interest, consolidated subordinated debt and other consolidated debt having a maturity of at least one year. The regulatory net capital of Robert W. Baird & Co. (RWB), the principal operating subsidiary of Baird Holding Company, was $262 million at the end of 2006, and RWB's regulatory excess net capital was $254 million at the end of 2006.



Operating income is income before acquisition financing, amortization and taxes.

BAIRD RECOMMENDED PORTFOLIO – GROWTH OF $1,000 INVESTED

An investment of $1,000 in the Baird Recommended Portfolio at inception on December 31, 1974, would have grown to $73,807 at the end of 2006 compared with $40,363 for the NASDAQ Composite Index, $20,689 for the Standard & Poor's 500 Stock Index (S&P 500) and $20,225 for the Dow Jones Industrial Average. Since inception, the Baird Recommended Portfolio has achieved a 14.4% annualized return vs. 12.3% for NASDAQ, 9.9% for the S&P 500 and 9.9% for the Dow Jones index over the same period.



All performance data for research recommendations have been calculated without commissions or dividends. Details will be provided upon request. There is no guarantee that future performance of Baird Research recommendations will meet or exceed past performance. Returns to clients will vary, depending on securities purchased or sold. Equity securities carry risks that should be considered prior to investing.

Baird Recommended Portfolio
Since inception on December 31, 1974, to December 31, 2006, 1,239 issues were recommended in the Recommended Portfolio; 741 issues increased in value, while 490 declined and eight were unchanged. Performance results assume each security was purchased when recommended and sold when removed from the list. The Standard & Poor's 500 Stock Index, Dow Jones Industrial Average and NASDAQ Composite Index are unmanaged common stock indices used to measure and report value changes in the various stocks that comprise those indices. The companies included in Baird's Recommended Portfolio do not necessarily correlate to the companies comprising the various indices described above, either by industry sector, capitalization or other weightings.

Book Value (per share)

2006	**$42.33**
2005	$36.88
2004	$32.20
2003	$28.17
2002	$25.30

Associates

2006	**2,061**
2005	2,094
2004	2,177
2003	2,168
2002	2,264

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