



Independent.
Connected.

2011
Annual Report



You probably recognize many of us at Davidson.

We are your friends and neighbors. We're the people you see driving home from work, walking into the hardware store or sitting nearby at our kids' basketball games. We share your concerns and fears and we also share your hopes and dreams. We understand what it's like to plan for a new house and set aside money for a great trip. Like you, we're mapping out the smartest ways to afford the things we want in life – a college tuition, the sale of a business or a comfortable retirement.

At Davidson, we believe many of those dreams can be possible if we take the right steps and work with the best partners. A strong financial plan is an important first step toward creating the world that each of us wants. And that's why we're here – to empower you to take those steps, and to guide you along the way.



... we believe in

people and in their capacity

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improve.



To Our Clients, Associates, Shareholders & Communities

As we begin Davidson Companies' 77th year, we are very aware of the challenges our industry and nation continue to face as the effects of the recession endure and our economy struggles with market volatility and high unemployment rates. Political divisiveness prevents our country from finding solutions to our rising national debt, and many other countries face similar problems without clear resolution in sight.



Clearly, these issues have affected consumer and investor confidence, and businesses such as ours.

At the same time, Davidson Companies is well-positioned to meet the challenges of the ongoing economic and political malaise. Despite the economic and market environment of recent years, we have been able to further diversify our business within the financial services sector and keep Davidson financially sound. We finished 2011 with little debt, a strong capital base and a balance sheet that is solid.

The events of recent years have shown the importance of financially stable investment firms like Davidson. We believe they have proven that Davidson's model as an independent and diversified firm, with a focus on our clients, associates and communities, is the right one for this time and for the regions in which we operate. We continue to believe that Davidson's associates represent our most important asset. We cannot emphasize enough the importance of working with the right people and maintaining our positive corporate culture.

Some notable developments and achievements during 2011 include:

- D.A. Davidson & Co.'s Individual Investor Group saw dividends in 2011 from its focus on efficiency and from the investments made in the last few years for future growth. Our Individual Investor Group exceeded financial expectations by achieving record revenues, and also strengthened its leadership ranks with several key hires and promotions during the year.
- Davidson Trust Co. and Davidson Investment Advisors, two other businesses serving the individual investor, also enjoyed strong performances in 2011. Davidson Trust's assets under management increased to \$629 million as a result of its expansion to Seattle, where considerable growth opportunity exists. Davidson Investment Advisors also exceeded



The members of Davidson's Brokered CD Underwriting Group are shown in their California office. From left to right are: Don Saunders, Managing Director; Rob Fitzgerald, Vice President; and John Sutorius, Vice President.

expectations, maintained its assets under management and built upon its strategic push into the institutional market.

- In our Equity Capital Markets Group, our institutional research analysts won several awards in 2011 for their analysis and stock-picking expertise. The accolades included the Most Productive Brokerage Award from *The Financial Times*, which recognized Davidson's strong showing overall for a firm of our size. Despite a difficult year, our mergers and acquisition advisory business remained strong and we further expanded our research coverage, with 16 analysts providing research on more than 250 companies.
- Although Davidson's Fixed Income Capital Markets business was affected by softness in public finance activity in 2011, it participated in more than \$2.1 billion in financings for the year, thanks to the relative financial strength of public entities in the regions we serve. Ruan Securities of Des Moines, Iowa, which we acquired in 2009 and which is now a division of D.A. Davidson, enjoyed another strong year and contributed significantly to operating results.
- Consistent with our long-term strategy, our investments in technology and training brought new equipment and software to almost everyone at Davidson in 2011. We also expanded initiatives in professional development for many associates. These investments have provided our professionals with the tools necessary for exceptional client service.
- As always, in good times and bad, we supported the important causes in our communities. We did so by encouraging our associates to donate their time, by matching their contributions and by providing additional support to organizations that are important to our mission.

In closing, we want to note that the reduced size of this annual report has freed us to focus our resources on areas that more directly benefit you, our clients and shareholders, such as technology and tools for our financial professionals.

We realize that these recent years have been difficult for many of our clients. Although 2011 fell short of our expectations, we are optimistic and confident in our approach to the business of investment and finance, our commitment to our clients and the power of free market capitalism. Most important, we believe in people and in their capacity to innovate, adapt and improve. We see it every day in the work of our associates and in the perseverance of our clients. Thank you for your loyalty and business. We look forward to working alongside you toward the brighter days that lie ahead.



Ian B. Davidson
Chairman



William A. Johnstone
President & Chief Executive Officer

About Us

D.A. Davidson & Co.

■ Individual Investor Group

We offer a broad range of investment services, products and solutions to investors, families, businesses and non-profit clients. We provide wealth management, financial planning and investment advisory services, as well as securities transactions, working with an investment approach based on personalized service. Our more than 320 Financial Consultants and their professional staffs work from a growing branch office system in the Northwest, Rocky Mountain and Midwest regions.

■ Equity Capital Markets Group

Our team has extensive experience in sales, trading, research, investment banking and syndicate. Davidson's award-winning analysts bring rigorous fundamental analysis and deep industry expertise to their research. Sales, trading and market-making teams provide clients with quality execution and liquidity in over 400 stocks. We also connect clients with financial opportunities by assisting in raising capital for middle market and emerging businesses and providing merger and acquisition services. Whether it's finding dependable execution services or an advisor to guide you through the complexities of raising capital, selling your business or going public, you can turn to Davidson.

■ Fixed Income Capital Markets Group

We specialize in the fixed income market through fixed income banking, distribution and advisory services. We provide a uniquely client-oriented approach in public finance, underwriting, and trading and sales services. Our expertise extends across a broad range of areas, including governments, utilities, alternative energy, higher education, public and charter schools, health care, housing and real estate, specialty districts, resorts, tribal financing and more. We build long-term relationships with clients, whether you're an investment manager, insurance company, regional bank, municipal client or individual investor.

Davidson Fixed Income Management, Inc.

Davidson Fixed Income Management provides a comprehensive array of fixed income advisory services to public sector entities and nonprofit institutions nationwide. Using a structured and disciplined investment process, we focus on managing high-quality, short-term fixed income portfolios primarily comprised of U.S. Treasury and agency securities. Our team also provides mutual fund sub-advisory services to the Tax-Free Fund of Colorado and the Tax-Free Trust of Oregon.

Davidson Investment Advisors, Inc.

In today's volatile world, investors are more attuned to the risk of financial markets while also wanting to be rewarded for the risk they take. Davidson Investment Advisors' experience, knowledge, and focus on risk-adjusted returns have served our clients well through market fluctuations. We provide professional asset management advisory services to private investors, foundations, endowments, public entities, corporations and trusts, employing a consistent, repeatable and time-tested standard. Our team approach allows us to leverage our professionals' considerable experience, which we combine with a commitment to understanding client needs.

Davidson Trust Co.

Davidson Trust Co. is a full-service trust company offering a holistic approach to planning that includes wealth planning, employee benefit, investment management and personal trust services for individuals, businesses and institutional clients. Whether you are working toward your lifetime goals or shaping your legacy for the future, our staff of experienced trust professionals is committed to serving you with integrity, personalized service and a compassionate approach.

Financial Highlights

Davidson Companies	2011	2009	2007	2005	2003	2001
Total assets (millions)	\$286.7	\$239.6	\$250.8	\$216.4	\$181.8	\$215.3
Shareholders' equity (millions)	\$147.1	\$130.8	\$117.5	\$84.5	\$71.5	\$75.9
Book value per share	\$17.93	\$15.68	\$13.73	\$10.40	\$8.60	\$8.48
Assets under management (billions)	\$28.8	\$25.9	\$24.8	\$18.0	\$12.8	\$11.9
Net revenue (millions)	\$248	\$211	\$212	\$159	\$114	\$123
Davidson associates	1,078	1,073	930	868	702	750
Office locations	65	65	53	51	39	39

D.A. Davidson & Co.

Assets under management (billions)	\$22.1	\$19.4	\$19.7	\$20.5	\$16.2	\$10.3
Public finance— volume of transactions closed (billions)	\$2.1	\$3.0	\$4.1	\$3.8	\$0.8	0.7
Investment banking— volume of transactions closed (billions)	\$1.2	\$1.7	\$2.1	\$1.5	\$0.8	\$0.3

Davidson Fixed Income Management, Inc.

Assets under management (billions)	\$5.1	\$4.3	\$3.6	\$2.0	NA	NA
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Davidson Investment Advisors, Inc.

Assets under management (millions)	\$974	\$916	\$1,040	\$976	\$871	\$832
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Davidson Trust Co.

Assets under management (millions)	\$629	\$599	\$839	\$767	\$709	\$778
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For the independent auditor's report and consolidated statement of financial condition for 2011, visit <http://auditedfinancials.davidsoncompanies.com>

Independent. Connected.

An independent company is free to choose its own path, trust its own vision and follow its values, beliefs and time-honored traditions. Because we have these freedoms, we at Davidson Companies serve your best interests, providing objective analysis and advice with the strong ethics and integrity you expect from your financial professionals.

Davidson is an employee-owned group of four financial services firms that complement each other, providing a bridge to the financial services you may

need at different times. Our diverse businesses also form a strong financial foundation, one in which our clients can be confident as they invest in and plan for their financial futures.

As we begin 2012, Davidson continues to grow. We are seizing opportunities to hire talented professionals who offer the deep expertise you need. More important, we have concentrated



Brian Clancy, left, and Paul Condrat, Portfolio Managers for Davidson Investment Advisors' Multi-Cap Equity Investment Strategy, are shown in our Seattle office. The strategy also is the basis for the Davidson Multi-Cap Equity Fund.



Harris Verner, seated, is co-trustee of the Harriet G. Fredericks Foundation, a foundation to benefit the blind in Pennsylvania that has chosen Davidson Trust Co. to also serve as co-trustee. At left is Kurt Anderson, Senior Vice President, Financial Consultant for D.A. Davidson & Co. in our Port Angeles, Washington office, and Mona Frisk, Vice President, Trust Officer in our Seattle office.

** Refer to disclaimer to the left.*

** Clients photographed for this report have all agreed to do so and were not compensated for the use of their images. Their experiences as clients may not be representative of the experiences of all clients.*

on hiring individuals who are truly interested in the needs of our clients and can apply a long-term perspective.

To help our professionals do just that, we have launched the most aggressive systems upgrades in our firm's history. We are now able to communicate with you and each other more efficiently than ever before from offices equipped with practical resources and security. Beyond technology, we have expanded the services, products and financial tools we offer our clients.

We recognize that for Davidson to continue standing apart from the crowd, we must consistently deliver exceptional, personalized service that makes a real difference to the people we serve. As valuable as it is to our identity and our operation, independence alone is not enough for us to achieve our vision for the future. We must also nurture our relationships with each of you. It doesn't matter if you are the manager of a large institutional account, an attorney referring your clients to our companies, a representative of a government seeking financial counsel or an investor who needs personal financial advice. We are working every day to make your life easier by connecting you with the financial solutions you need.



Jim Zeutenhorst, City Administrator in Sanborn, Iowa, at left, stands with Scott Stevenson, Public Finance Banker for Ruan Securities, a Des Moines-based division of D.A. Davidson & Co. The pair is visiting an electric substation built with bond financing completed by our Ruan division.

** Refer to disclaimer on opposite page.*

Community Connections

John Huber finds motivation everywhere he looks. As a father, he's compelled to work toward a great future for his son and daughters. As a native Montanan, he recognizes the importance of building upon the potential in his own hometown. And as a longtime volunteer, he sees first-hand the benefits of collaborating with others to create a stronger community, finding inspiration to do more himself.

"Once I witnessed some of these lifelong volunteers, I felt the need to join in and help," he said.

That sense of responsibility, and the action it inspires, is why John is our most recent winner of the Bragg Lewis Knutson Community Service Award. The highest honor given to a Davidson Companies employee, the award celebrates an outstanding commitment to volunteerism.

John's volunteer work is extensive. He has organized work parties, led cancer fund golf tournaments and has spent hours seeking sponsorships for fundraising events. As a Vice President, Financial

Consultant, he is often called upon to help nonprofits consider financial decisions. And he is a past President of the Animal Foundation of Great Falls, a position that allowed him to work on development of a new animal shelter designed to improve animal welfare and adoption rates.

John's work ethic is shared by Davidson's other top award winners, Paul Eichwald and Jack McLaughlin. They are winners of the Ian B. Davidson Cultural Excellence Award, which recognizes two employees who exemplify characteristics we value such as professionalism, ethics and community responsibility. Paul, Senior Vice President, Financial Consultant in Missoula, Montana, and Jack, Vice President, Public Finance Banker in Spokane, Washington, were chosen for outstanding leadership throughout long careers. Importantly, both work not just with great conviction, but also with humor.

At Davidson, we are fortunate to work alongside role models such as these, and we thank them.



John Huber, with his trusted dog, Rosscoe, visits the dog park developed by the Animal Foundation of Great Falls. John's work with the Foundation and other groups has earned him our company's highest award.

At Davidson Companies, we recognize how important it is to treat each client as if that person is someone we've known our whole lives. Often, that's because we have. We believe in relationships for the long term. That philosophy, paired with our status as an independent firm, has allowed us to do our best work for you without hesitation, whether that work involves connecting a business with a selling opportunity, an institutional investor with a great research idea or an individual investor with a financial map for retirement.

We view our nearly 1,100 professionals at Davidson as one team comprised of diverse backgrounds, talents and strengths. We work collaboratively to provide what we believe are personalized, workable and innovative solutions to the often-complex financial challenges you face.

**We're here to make a difference in your life,
one relationship at a time.**



*Don Beatty,
a longtime
D.A.
Davidson &
Co. client,
discusses his
investments
with Lynda
Morin, Vice
President,
Financial
Consultant
and Branch
Manager in
Great Falls,
Montana.*

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page 6.*

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- D.A. Davidson & Co.
- Davidson Investment Advisors, Inc.
- Davidson Trust Co.
- Davidson Fixed Income Management, Inc.



A WISE ENVIRONMENTAL CHOICE

Throughout our offices, Davidson Companies has a deep-felt appreciation for, and commitment to, the natural environment. You can help by asking to receive electronic annual reports and statements. This option provides timely delivery of information and decreases our dependence on paper, printing and mailing.