

Mesirow Financial, Inc.

(SEC I.D. No. 8-28816)

*Statement of Financial Condition
as of March 31, 2009 and Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Mesirow Financial, Inc.
Chicago, Illinois

We have audited the accompanying statement of financial condition of Mesirow Financial, Inc. (the "Company") as of March 31, 2009. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such statement of financial condition presents fairly, in all material respects, the financial position of Mesirow Financial, Inc. at March 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Chicago, Illinois
May 22, 2009

Mesirow Financial, Inc. Statement of Financial Condition

March 31, 2009

Assets		Liabilities and Stockholders' Equity	
Cash	\$ 5,821,000	Bank loans and overdrafts	\$ 57,505,000
Cash segregated in compliance with federal and other regulations	51,000,000	Payables to:	
Receivables from:		Brokers, dealers and clearing organizations	6,292,000
Brokers, dealers and clearing organizations	43,382,000	Customers	91,758,000
Customers	39,983,000	Securities sold, not yet purchased, at fair value	26,419,000
Other	3,965,000	Accounts payable and accrued expenses	<u>30,752,000</u>
Deposits with clearing organizations	8,635,000	Total liabilities	212,726,000
Securities owned, at fair value	127,389,000	Stockholders' equity:	
Other assets	<u>915,000</u>	Common stock, 1,000 Class A voting common shares and 1,000 Class B non-voting common shares each \$1.00 par value; 500 Class A voting shares issued and outstanding	500
Total assets	<u>\$ 281,090,000</u>	Additional paid-in capital	22,426,500
		Retained earnings	<u>45,937,000</u>
		Total stockholders' equity	<u>68,364,000</u>
		Total liabilities and stockholders' equity	<u>\$ 281,090,000</u>

The accompanying notes are an integral part of this Statement of Financial Condition.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies that have been followed in preparing the accompanying Statement of Financial Condition is set forth below.

Nature of Business

Mesirow Financial, Inc. (the "Company") is a registered securities broker/dealer providing services to closely held and mid-sized public and private businesses, select institutions and correspondent broker/dealers. The Company is 80% owned by Mesirow Financial Holdings, Inc. ("MFH") and 20% owned by Mesirow Financial Services, Inc. ("MFS"), a wholly-owned subsidiary of MFH.

Management Estimates

The preparation of the Statement of Financial Condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the Statement of Financial Condition. The most significant estimates relate to securities owned and securities sold, not yet purchased. Actual results could differ from those estimates.

Securities Transactions

Proprietary transactions are reflected in the Statement of Financial Condition on a trade date basis. Customer transactions are recorded on a settlement date basis. Securities owned and securities sold, not yet purchased are carried at fair value. Fair value is generally based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations or price activity for equivalent instruments.

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received and are included in receivables from and payables to brokers, dealers and clearing organizations in the Statement of Financial Condition. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash or securities. The Company receives collateral in the form of cash or securities for securities loaned transactions.

Income Taxes

The Company is a member of a consolidated group for federal and state income tax purposes. A tax-sharing agreement between the Company and MFH provides for federal and state income taxes to be determined on a separate company basis. The Company's net deferred income tax asset relates primarily to deferred compensation and is included in payable to affiliates as such asset is settled with MFH concurrent with current tax liabilities.

Fair Value Measurements

The Company adopted Statement of Financial Accounting Standards Board No. 157 (SFAS 157) *Fair Value Measurements*, effective April 1, 2008. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

SFAS 157 also establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is categorized into three levels based on the inputs as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. The types of assets and liabilities that are categorized by the Company as Level 1 generally include exchange traded equities, obligations of U.S. governments and agency securities;

Level 2 inputs are inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs. The types of assets and liabilities that are categorized by the Company as Level 2 generally include corporate debt, municipal debt, mortgage and asset backed securities, mortgage-backed to-be-announced securities (TBAs) and certain equities that are traded over the counter;

Level 3 inputs are unobservable inputs for the asset or liability and typically reflect the Company's assumptions that it believes market participants would use in pricing the asset or liability. The types of assets and liabilities that are categorized by the Company as Level 3 generally include high yield corporate debt and securities with inactive markets.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

New Accounting Pronouncements

On January 1, 2008, the Company adopted the Financial Accounting Standards Board (FASB) SFAS No. 159 (SFAS 159), *Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, which provides entities the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value option was elected in earnings at each subsequent reporting date. The Company did not elect the fair value measurement option under SFAS 159 for any of its financial assets or liabilities and, as a result, there was no impact on the Company's Statement of Financial Condition.

In March 2008, the FASB issued SFAS No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities*. The standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Company on April 1, 2009. The Company does not anticipate that the impact of SFAS 161 will have a material impact on its Statement of Financial Condition.

In December 2008, the FASB issued Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). The Company has elected to defer the application of FIN 48 for the year ended March 31, 2009. The Company evaluates its uncertain tax positions, if any, using the provisions of FASB Statement 5, *Accounting for Contingencies*. FIN 48 is effective for the Company on April 1, 2009. The Company does not anticipate that the FIN 48 will have a material impact on its Statement of Financial Condition.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP 157-4 was issued to provide additional guidance for estimating fair value when the volume and level of activity have significantly decreased and to provide guidance on identifying circumstances that indicate a transaction is not orderly. In addition, FSP FAS 157-4 requires an entity to disclose the inputs and valuation techniques used to measure fair value and provide a discussion of changes in valuation techniques and related inputs, if any, during the period. FSP FAS 157-4 is effective for the Company's interim reporting periods ending after June 15, 2009. The Company is currently evaluating the effects that FSP FAS 157-4 will have on its Statement of Financial Condition.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

At March 31, 2009, the Company's assets and liabilities measured at fair value consist of the following:

	Level 1	Level 2	Level 3	Total
Assets:				
Equities	\$ 6,224,000	\$ 982,000	\$ 455,000	\$ 7,661,000
Corporate bonds	—	20,486,000	829,000	21,315,000
Municipal bonds	—	38,883,000	—	38,883,000
Mortgage and asset backed securities	—	58,365,000	—	58,365,000
Mortgage-backed to-be-announced securities	—	401,000	—	401,000
Other	318,000	446,000	—	764,000
Securities owned	<u>\$ 6,542,000</u>	<u>\$ 119,563,000</u>	<u>\$ 1,284,000</u>	<u>\$ 127,389,000</u>
Liabilities:				
Equities	\$ —	\$ 1,621,000	\$ 19,000	\$ 1,640,000
U.S. government and agency securities	8,218,000	—	—	8,218,000
Corporate bonds	—	3,750,000	—	3,750,000
Mortgage and asset backed securities	—	489,000	—	489,000
Mortgage-backed to-be-announced securities	—	11,891,000	—	11,891,000
Other	—	431,000	—	431,000
Securities sold, but not yet purchased	<u>\$ 8,218,000</u>	<u>\$ 18,182,000</u>	<u>\$ 19,000</u>	<u>\$ 26,419,000</u>

The fair value of all other financial instruments reflected in the Statement of Financial Condition (consisting primarily of receivables from and payables to broker/dealers, clearing organizations and customers, as well as bank loans) approximates the carrying value due to the short-term nature of the financial instruments and repricing policies followed by the Company.

3. RECEIVABLE FROM AND PAYABLE TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS

At March 31, 2009 amounts receivable from and payable to brokers, dealers and clearing organizations include:

Deposits paid for securities borrowed	\$ 15,796,000
Securities failed to deliver	9,958,000
Amounts receivable from clearing organizations for settled securities	13,398,000
Amounts receivable from unsettled trades	3,043,000
Amounts receivable from correspondent-broker/dealers	1,187,000
Total receivables	<u>\$ 43,382,000</u>
Securities failed to receive	\$ 2,819,000
Amounts payable to clearing organizations for settled securities	320,000
Amounts held as margin and escrow deposits for correspondent-broker/dealers	1,702,000
Commissions payable to correspondent-broker/dealers	1,451,000
Total payables	<u>\$ 6,292,000</u>

4. BANK LOANS AND OVERDRAFTS

Bank loans and overdrafts include demand notes, which bear interest at fluctuating rates based upon the broker call rate (2.00% at March 31, 2009), and overdrafts. Demand notes outstanding as of March 31, 2009, of \$57,505,000 are collateralized by securities owned of approximately \$95,568,000. In pledging firm securities, the Company has not surrendered control. As of March 31, 2009, the Company has unused secured and unsecured lines of credit with various banks totaling approximately \$227,500,000.

5. CONTINGENCIES

In the normal course of business activities, the Company has been named as a defendant in various legal actions, including actions against underwriting groups of which the Company was a syndicate member. In view of the inherent difficulty of predicting the outcome of litigation and other claims, the Company cannot state with certainty the outcome of pending litigation or other claims. In the opinion of management, based on consultation with legal counsel, these actions will not result in any material adverse effect on the financial position of the Company.

In the normal course of business activities, the Company is subject to regulatory examinations or other inquiries. These matters could result in censures, fines or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's financial condition. However, the Company is unable to predict the outcome of these matters.

As of March 31, 2009, the Company is contingently liable for a letter of credit amounting to \$10,000,000 to satisfy clearing organization requirements. The letter of credit expires on September 1, 2009, is renewable annually, and is collateralized by customer owned margin securities of approximately \$18,369,000.

The Company, as a member of securities clearinghouses, provides guarantees that meet the accounting definition of a guarantee under FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirement, for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. Under the standard membership agreements, members are required to guarantee the performance of members who become unable to satisfy their obligations. The Company's liability under these agreements could exceed the amounts it has posted as collateral. However, since the event is remote and not quantifiable, no contingent liability is carried on the Statement of Financial Condition.

6. EMPLOYEE BENEFIT PLANS

The Company participates in a 401(k) savings plan of an affiliate (the "Plan") which covers all eligible employees, as defined in the Plan. Contributions to the Plan by employees are voluntary and will be matched by the Company at a rate of fifty percent of the first four percent of compensation up to a maximum of \$3,000. Effective January 1, 2009, the Company terminated the matching contribution.

The Company has a nonqualified deferred compensation plan for certain employees which allows voluntary employee contributions and requires employer contributions if individual participant production exceeds prescribed levels.

7. RELATED PARTY TRANSACTIONS

The Company provides clearing and execution services to affiliates. The Company also pays MFH for management services in accordance with formal agreements.

The Company uses office facilities that are leased by MFS and furniture, equipment (including computer and software related assets) and leasehold improvements owned by MFH.

General and administrative costs were allocated by an affiliate based on the number of employees and actual usage.

Included in other assets and accounts payable and accrued expenses at March 31, 2009 are \$141,000 and \$10,864,000, respectively, relating to the intercompany transactions described above.

From time to time, the Company pays dividends to MFH. Such dividends may require regulatory approval and may be limited by the Company's net capital at the time of the dividend. In April 2009, the Company paid a dividend of \$3,000,000 to MFH. No dividends were paid during the year ended March 31, 2009.

Included in the Company's unused bank lines (disclosed in Footnote 4) is a \$50,000,000 line of credit with PrivateBancorp, Inc. (PrivateBancorp). PrivateBancorp is considered a related party due to an officer of MFH serving as board member on PrivateBancorp's Board of Directors. As of March 31, 2009, no amounts were outstanding. Advances on the line of credit are secured by securities owned and a guaranty by MFH. At March 31, 2009, securities owned with a fair value of approximately \$47,023,000 were pledged.

8 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

In the normal course of business, the Company enters into transactions in financial instruments with varying degrees of off-balance-sheet risk. These financial instruments include options, exchange traded financial futures contracts, and mortgage-backed to-be-announced securities (TBAs). The trading of these financial instruments is conducted with other registered broker/dealers located in the United States. These financial instruments involve elements of off-balance sheet market risk in excess of the amounts recognized in the Statement of Financial Condition. Market risk is the potential change in value of the financial instrument caused by unfavorable changes in interest rates or the fair values of the securities underlying the instruments. The Company monitors its exposure to market risk through a variety of control procedures, including daily review of trading positions.

The Company seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels and, pursuant to such guidelines, may require customers to deposit additional cash or collateral, or to reduce positions, when deemed necessary. The Company also establishes credit limits for customers engaged in futures activities and monitors credit compliance. Additionally, with respect to the Company's correspondent clearing activities, introducing correspondent firms generally guarantee the contractual obligations of their customers. Further, the Company seeks to reduce credit risk by entering into netting agreements with customers, which permit receivables and payables with such customers to be offset in the event of a customer default.

Futures and TBAs provide for the delayed delivery of the underlying instrument. Futures contracts are executed on an exchange and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk. The credit risk for TBAs is limited to the unrealized market valuation gains/losses recorded in the Statement of Financial Condition.

The Company may hedge a portion of its fixed income trading inventories with options, exchange traded financial futures contracts, and mortgage-backed to-be-announced securities. The contractual amount of these instruments reflects the extent of the Company's involvement in the related financial instrument and does not represent the risk of loss due to counterparty nonperformance. The extent of utilization of these derivative financial instruments is insignificant to the Company's financial condition. The Company had no commitments to sell securities in connection with exchange traded financial futures contracts at March 31, 2009.

The Company may be exposed to off-balance sheet risk from the potential inability of customers or other counterparties to meet the terms of their contracts in connection with the clearance and settlement of securities and securities lending transactions. With respect to these activities the Company may be obligated to purchase the identical securities in the open market at prevailing prices in the event of non-performance by the customer or counterparty. At March 31, 2009, the fair value of securities failed to receive approximated the amounts owed in the Statement of Financial Condition.

Securities sold, not yet purchased represent obligations of the Company to deliver specified securities at the contracted price, and thereby create a liability to purchase the securities in the market at prevailing prices. These transactions may result in off-balance sheet risk as the Company's ultimate liability to satisfy its obligation for securities sold, not yet purchased may exceed the amount recognized in the Statement of Financial Condition.

The Company's securities transactions include securities purchased under agreements to resell and securities borrowing arrangements which are generally collateralized by cash or securities and are executed with other broker/dealers. In the event counterparties to transactions do not fulfill their obligations, the Company could be exposed to credit risk to the extent such obligations are not collateralized.

In the normal course of business, the Company may deliver securities as collateral in support of various collateralized financing sources such as bank loans, securities loaned and securities sold under agreements to repurchase. In the event the counterparty is unable to meet its contractual obligation to return securities delivered as collateral, and the Company is obligated to replace or deliver such securities, the Company may incur a loss up to the amount by which the fair value of those securities exceeds the value of the loan or other collateral received or in the possession or control of the Company.

As of March 31, 2009, margin securities of approximately \$60,936,000 were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had pledged approximately \$18,369,000 of that collateral as of March 31, 2009.

To minimize the potential impact of counterparty nonperformance and market exposure in connection with its transactions in financial instruments, the Company monitors the credit standing of each counterparty with whom it does business. It also marks to fair value all customer and proprietary positions on a daily basis and monitors margin collateral levels for compliance with regulatory and internal guidelines, requesting and obtaining additional cash margin or other collateral when deemed appropriate.

9 REGULATORY REQUIREMENTS

The Company, as a registered broker-dealer, is subject to the Securities and Exchange Commission's (SEC) Uniform Net Capital Rule. Under this rule, the Company has elected to operate under the "alternative method", whereby the Company is required to maintain "net capital" of \$1,500,000 or two percent of "aggregate debit items", whichever is greater, as these terms are defined. At March 31, 2009, the Company has net capital and a net capital requirement of approximately \$47,464,000 and \$1,500,000, respectively.

The Company, as a clearing broker, is subject to Rule 15c3-3 of the SEC which requires segregation of funds in a special reserve account for the benefit of customers (Rule 15c3-3) and to an SEC no-action letter dated November 3, 1998 which requires a reserve for the proprietary accounts of introducing brokers (PAIB). At March 31, 2009, the Company has segregated cash of \$49,500,000 under Rule 15c3-3 and has segregated cash of \$1,500,000 under PAIB. On April 2, 2009, an additional deposit of \$9,500,000 was made to satisfy the March 31, 2009 Rule 15c3-3 deposit requirement of \$54,827,000, and an additional deposit of \$500,000 was made to satisfy the March 31, 2009 PAIB deposit requirement of \$1,429,000.

We are providing the information below at the request of FINRA Regulation, Inc., a securities self-regulatory organization:

- The FINRA Regulation's Public Disclosure Program Hotline number is 1-800-289-9999.
- The FINRA Regulation website address is www.finra.org.
- An investor brochure that describes FINRA's Public Disclosure program can be obtained by calling the number shown above, or by accessing the FINRA's website and clicking on the "About Your Broker" button, followed by the "Public Disclosure Brochure" button.

Pursuant to SEC Rule 10b-10, as amended in October 1995, all broker/dealers are required to disclose their policies with respect to payment for order flow practices. Under the SEC's broad definition, payment for order flow may include all forms of arrangements compensating broker/dealers for directing order flow, including monetary payment, reciprocal agreements, services, property, or any other benefit that results in remuneration, compensation or consideration to a broker/dealer in return for routing of customer orders as well as exchange rebates and credits. Therefore please be advised of the following:

In certain cases, Mesirow Financial, Inc. participates in programs which result in our receipt of remuneration, compensation or other consideration for the placing of orders with other broker/dealers, exchanges, and market centers for execution. Mesirow Financial, Inc. also participates in programs which result in other broker/dealers' receipt of remuneration, compensation or other consideration for the placing of orders with Mesirow Financial, Inc. for execution. Additional information regarding the source and nature of the compensation will be furnished upon written request to Mesirow Financial's customer service department.

Although this is an accepted industry practice, at all times we are committed to achieving the best execution for our clients.

Mesirow Financial, Inc.
350 North Clark Street
Chicago, Illinois 60610
312-595-6000

The Statement of Financial Condition filed pursuant to Rule 17a-5(d) under the Securities and Exchange Act of 1934 is available for inspection at the Company's main office during regular business hours and at the Chicago regional office of the Securities and Exchange Commission.

Information about Mesirow Financial Inc.'s order routing practices can be found on our Website, www.mesirowfinancial.com by clicking SEC Disclosures or a written copy will be furnished to you upon request. Mesirow Financial, Inc., Member NYSE, SIPC.