

Mesirow Financial, Inc.

*Statement of Financial Condition
as of March 31, 2011 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, 2011. 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, 2011, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Chicago, Illinois
May 26, 2011

Mesirow Financial, Inc. Statement of Financial Condition

March 31, 2011

Assets

Cash	\$	2,297,000
Cash segregated in compliance with federal and other regulations		49,000,000
Securities borrowed		52,059,000
Receivables from:		
Brokers, dealers and clearing organizations		29,180,000
Customers		51,179,000
Other		5,635,000
Deposits with clearing organizations		5,305,000
Securities owned, at fair value		242,991,000
Other assets		<u>1,943,000</u>
Total assets	\$	<u>439,589,000</u>

Liabilities and Stockholders' Equity

Liabilities:		
Bank loans and overdrafts	\$	143,850,000
Payables to:		
Brokers, dealers and clearing organizations		30,625,000
Customers		83,502,000
Securities sold, not yet purchased, at fair value		60,924,000
Accounts payable and accrued expenses		<u>28,092,000</u>
Total liabilities		346,993,000
Stockholders' equity:		
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
Additional paid-in capital		32,426,500
Retained earnings		<u>60,169,000</u>
Total stockholders' equity		<u>92,596,000</u>
Total liabilities and stockholders' equity	\$	<u>439,589,000</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 principally engaged in securities sales and trading, investment banking, retail brokerage and other related financial services. The Company provides 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 the valuation of securities owned and securities sold, not yet purchased. Actual results could differ from those estimates.

Securities Transactions and Revenue Recognition

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 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 arrangement 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, which relates primarily to deferred compensation is settled with MFH concurrent with current tax liabilities.

Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 740 defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. The Company has determined that no material uncertain tax positions exist as of March 31, 2011. The Company's open tax years for federal and state income purposes are fiscal 2007 through 2011.

Fair Value Measurements

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

The following outlines the valuation methodologies for the Company's material categories of assets and liabilities:

U.S. government and agency securities U.S. treasury securities are valued using quoted market prices and are generally classified as Level 1 in the fair value hierarchy. The fair value of agency issued debt securities is derived using market prices and recent trade activity gathered from independent dealer pricing services or brokers. Mortgage-backed to-be announced securities ("TBA's") are generally valued using quoted market prices. Agency issued debt securities and TBA's are generally classified as Level 2 in the fair value hierarchy.

Equities Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, they are classified as Level 1 in the fair value hierarchy, otherwise they are classified as Level 2 or 3.

Corporate bonds Corporate bonds are valued based on either the most recent observable trade and/or external quotes, depending on availability. Corporate bonds are generally classified as Level 2 or Level 3 in the fair value hierarchy.

Municipal bonds The fair value of municipal bonds is derived using recent trade activity, market price quotations and new issuance levels. In the absence of this information, fair value is calculated using comparable bond credit spreads. Current interest rates, credit events, and individual bond characteristics such as coupon, call features, maturity, and revenue purpose are considered in the valuation process. These bonds are generally classified as Level 2 in the fair value hierarchy.

Mortgage and asset backed securities Mortgage and asset backed securities are valued based on observable price or credit spreads for the particular security, or when price or credit spreads are not observable, the valuation is based on prices of comparable bonds or the present value of expected future cash flows. When estimating the fair value based upon the present value of expected future cash flows, the Company uses its best estimate of the key assumptions, including forecasted credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved, while also taking into account performance of the underlying collateral.

Mortgage and asset backed securities are classified as Level 3 in the fair value hierarchy if external prices or credit spreads are unobservable or if comparable trades/assets involve significant subjectivity related to property type differences, cash flows, performance and other inputs; otherwise, they are classified as Level 2 in the fair value hierarchy.

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.

Recent Accounting Pronouncements

On April 1, 2010, the Company adopted new amendments to the disclosure guidance related to fair value measurements. The amendments require disclosure of significant transfers between Level 1 and Level 2 as well as significant transfers in and out of Level 3 on a gross basis. The amendments also clarify existing disclosure requirements regarding the level of disaggregation of fair value measurements and inputs and valuation techniques. Beginning April 1, 2011, separate presentation of purchases, sales, issuances and settlements in the Level 3 reconciliation will also be required under the amendments to fair value accounting. This new accounting guidance does not change the classification hierarchy for fair value accounting. Further, it will have no impact on the Company's Statement of Financial Condition.

In July 2010, the Financial Accounting Standards Board ("FASB") issued new disclosure guidance on financing receivables and the allowance for credit losses. The new guidance requires further disaggregation of existing disclosures of loans and the allowance for credit losses by portfolio segment and class, and also requires new disclosures about credit quality, impaired loans, and past due and nonaccrual loans. The additional disclosures include more information, by type of receivable, on credit quality indicators, including aging and significant purchases and sales. The amendment is effective for interim and annual reporting periods ending on or after December 15, 2011. The Company is currently evaluating the impact that the adoption will have on its Statement of Financial Condition, if any.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

At March 31, 2011, the Company's assets and liabilities measured at fair value consist of the following:

	Level 1	Level 2	Level 3	Total
Assets:				
Equities	\$ 6,600,000	\$ 5,187,000	\$ 629,000	\$ 12,416,000
U.S. government and agency securities	253,000	52,535,000	—	52,788,000
Corporate bonds	—	23,416,000	969,000	24,385,000
Municipal bonds	—	118,147,000	—	118,147,000
Mortgage and asset backed securities	—	34,544,000	—	34,544,000
Other	536,000	175,000	—	711,000
Securities owned	<u>\$ 7,389,000</u>	<u>\$ 234,004,000</u>	<u>\$ 1,598,000</u>	<u>\$ 242,991,000</u>
Liabilities:				
Equities	\$ 798,000	\$ —	\$ —	\$ 798,000
U.S. government and agency securities	37,615,000	7,682,000	—	45,297,000
Corporate bonds	—	1,370,000	—	1,370,000
Municipal bonds	—	1,739,000	—	1,739,000
Mortgage-backed to-be-announced securities	—	11,720,000	—	11,720,000
Securities sold, not yet purchased	<u>\$ 38,413,000</u>	<u>\$ 22,511,000</u>	<u>\$ —</u>	<u>\$ 60,924,000</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, 2011 amounts receivable from and payable to brokers, dealers and clearing organizations include:

Securities failed to deliver	\$ 14,892,000
Amounts receivable from clearing organizations for settled securities	12,341,000
Amounts receivable from correspondent-broker/dealers	1,947,000
Total receivables	<u>\$ 29,180,000</u>

Securities failed to receive	\$ 17,432,000
Amounts payable to clearing organizations for settled securities	470,000
Amounts held as margin and escrow deposits for correspondent-broker/dealers	2,180,000
Amounts payable for unsettled trades	8,869,000
Commissions payable to correspondent-broker/dealers	1,674,000
Total payables	<u>\$ 30,625,000</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, 2011), and overdrafts. Demand notes outstanding as of March 31, 2011, of \$143,800,000 are collateralized by securities owned of approximately \$175,856,000. In pledging firm securities, the Company has not surrendered control. As of March 31, 2011, the Company has unused secured and unsecured lines of credit with various banks totaling approximately \$196,200,000.

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 Statement of Financial Condition 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 Statement of Financial Condition. However, the Company is unable to predict the outcome of these matters.

As of March 31, 2011, the Company is contingently liable for a letter of credit amounting to \$18,500,000 to satisfy clearing organization requirements. The letter of credit expires on September 1, 2011, is renewable annually, and is collateralized by customer owned margin securities of approximately \$23,103,000.

The Company, as a member of securities clearinghouses, provides guarantees that meet the accounting definition of a guarantee under ASC Topic 460. 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.

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, 2011 are \$220,000 and \$3,007,000, respectively, relating to the intercompany transactions described above, including income taxes receivable from MFH for approximately \$14,000.

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.

Included in the Company's unused bank lines (disclosed in Note 4) is a \$45,000,000 line of credit with PrivateBancorp, Inc. ("PrivateBancorp"). At March 31, 2011, securities owned with a fair value of approximately \$32,913,000 were pledged on this line. PrivateBancorp is considered a related party due to a former officer of MFH that served as a board member on PrivateBancorp's Board of Directors during 2011. As of March 31, 2011, no amounts were outstanding. Advances on the line of credit are secured by securities owned and a guaranty by MFH.

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 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.

TBAs provide for the delayed delivery of the underlying instrument. 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 TBAs. 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 financial instruments is insignificant to the Company's Statement of Financial Condition. The Company had no commitments to sell securities in connection with exchange traded financial futures contracts at March 31, 2011.

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, 2011, 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 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, 2011, customer margin securities of approximately \$78,835,000 were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had repledged approximately \$23,103,000 of that collateral as of March 31, 2011, principally on a letter of credit to satisfy clearing obligation requirements (See Note 5).

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, 2011, the Company has net capital and a net capital requirement of approximately \$60,106,000 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 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, 2011, the Company has segregated cash of \$46,000,000 under Rule 15c3-3 and has segregated cash of \$3,000,000 under PAIB. On April 4, 2011, an additional deposit of \$3,500,000 was made to satisfy the March 31, 2011 Rule 15c3-3 deposit requirement of \$45,291,000. No additional deposit was required to satisfy the March 31, 2011 PAIB deposit requirement of \$2,161,000.

10 SUBSEQUENT EVENTS

In accordance with the provisions set forth in FASB ASC Topic 855, management has evaluated subsequent events through the date the Statement of Financial Condition was issued. Management has determined that there are no material events that would require adjustment to or disclosure in its Statement of Financial Condition.

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.

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.
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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 Disclosure" or a written copy will be furnished to you upon request. Mesirow Financial, Inc., Member NYSE, SIPC.