

Powerful Insight.



To Our Valued Partners:

No one can deny that it's been a difficult year for all of us.....



Our clients and the world at large have felt the effects of declining markets and an economy on the verge of crisis. In times like these, we believe that the best way to survive, and even to thrive, is to rely on the power of knowledge.

We arm ourselves and our clients with information and facts, gained by in-depth analysis and research, and supported by strong personal relationships. An open dialogue, transparency and consistent communication are truly the best defense in uncertain environments. By sharing our expertise with you, we strive to help you fully understand your situation, stay abreast of available solutions and make the best choices about your future.

Throughout good times and bad, we remain committed to our fundamental principles and to our overriding mission: to help our clients achieve their goals. That commitment helped Mesirow Financial weather the financial storm of the past year, just as we have over the past seven decades.

As a private, independent and employee-owned firm, we can stay focused on our clients. Independence allows us to react quickly to challenges, as well as opportunities. It fosters innovation, which is critical as we continue to evolve and grow. Our diversification and wide range of high-quality products and services enable us to meet many of our clients' needs. We empower our professionals, who often work in teams, to find new ways to work with and serve clients. As a result, we've created a decentralized organization, with a singular mission of providing exceptional performance and superior client service. This platform attracts great people, who want to grow their business with the support of our resources and infrastructure, and control their own destinies.

Despite the uncertain environment, we are confident that we can survive just about anything, and that tremendous opportunities await us. We have a strong balance sheet and operate with

modest debt. Equally important, we are well-positioned for the future, and plan to continue to invest in products and services that our clients need and value.

On the following pages, I asked our professionals to discuss the major themes affecting clients today. Our aim is to provide you with the benefit of the best of our knowledge and insight. We are committed to standing by you during the tough times, and hope to grow with you in the future. We look forward to the journey ahead.

Sincerely,

A handwritten signature in dark blue ink that reads "James C. Tyree". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

James C. Tyree
Chairman and Chief Executive Officer

Mesirow Financial At a Glance

Mesirow Financial is a diversified financial services firm with offices across the country and in London. Founded in 1937, we are a private company with 1,200 employees, one-third of whom are shareholders. We aim to help our clients – **individuals, corporations, institutions, public sector entities, broker/dealers and investment advisors** – meet their financial goals with a multitude of high-quality products and services.

Investment Management

- Advanced Strategies
- Private Equity
- Currency
- Commodities
- Real Estate, Direct
- Real Estate, Multi-Manager Strategies
- U.S. Value Equity
- International Equity
- Fixed Income
- Institutional Sales and Marketing
- Investment Advisory
- Retirement Plan Advisory
- Investment Strategies

Investment Services

- Institutional Sales and Trading
- Broker/Dealer and Investment Advisor Services
- Investment Brokerage

Insurance Services

- Property and Casualty
- Employee Benefits
- Life and Disability
- Private Client Insurance
- Structured Settlements

Investment Banking

- Corporate Investment Banking
- Public Finance
- Sale-Leaseback Capital

Consulting

- Mesirow Financial Consulting
 - Corporate Recovery
 - Litigation and Investigative Services
 - Valuation Services
 - Interim Management
 - Operations and Performance Improvement
 - Distressed M&A and Capital Raising Services
 - Alternative Investment Services
 - Due Diligence Services
 - Technology Advisory Services
- Compensation and Executive Benefit Strategies

Real Estate

- Development Services

With expertise across a wide range of disciplines, Mesirow Financial's professionals can offer broad perspectives and valuable insight, especially during uncertain times. Throughout the year, we bring our clients a variety of ideas to help them put past events into context and take advantage of future opportunities.

On the following pages, we asked our professionals to share their views on three key themes: risk, innovation and the value of independent advice.



Alan Abramson
INVESTMENT ADVISORY



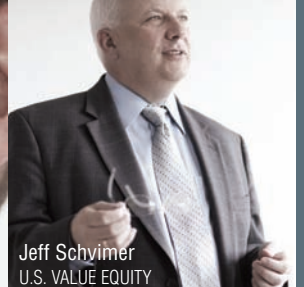
Mark Newlin
FIXED INCOME



Ben Pickering
CONSULTING



Larry Lattig
CONSULTING



Jeff Schvimer
U.S. VALUE EQUITY



Jonathon Dues
INVESTMENT STRATEGIES



Jill Rasinski
INSTITUTIONAL SALES AND MARKETING

"The primary focus of most institutional investors changed [to] capital preservation."
—Marty Kaplan
ADVANCED STRATEGIES



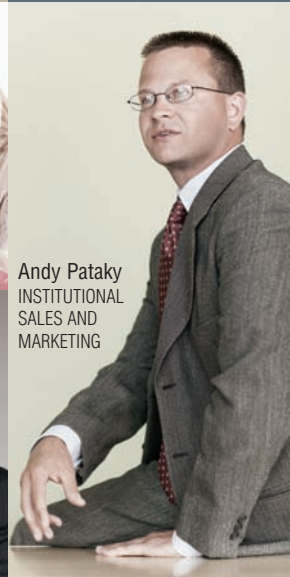
Terry Athas
OFFICE OF THE CHAIRMAN



Tom Hynes
INSTITUTIONAL SALES AND MARKETING



Laurie Sandman
EMPLOYEE BENEFITS



Andy Pataky
INSTITUTIONAL SALES AND MARKETING



Mike Szkatulski
REAL ESTATE DEVELOPMENT

— Risk —

Managing risk has always been important, and the recent market and economic turmoil has done much to underscore the need to fully appreciate and understand the risks around us. How has the recent financial upheaval affected today's risk environment?

Ralph Tuliano [CONSULTING]: Prior to the credit crisis, many companies were able to mask operational or capital structure issues by taking on more debt. Now that the period of high liquidity is over, such issues must be addressed through other means, which may involve a fundamental restructuring of the business.

Chris Reagan [RETIREMENT PLAN ADVISORY]: But for companies that sponsor retirement plans, the risk doesn't end there. Business struggles and downsizing, combined with ongoing legislative changes and dramatic losses in retirement plan assets, have significantly increased

"While the appetite for insurance risk has gone down for businesses, the opposite trend is surfacing for individuals."

—Richard Price
PRESIDENT
AND COO



the focus on retirement plans and the probability of litigation against fiduciaries.

What do those challenges mean for employees?

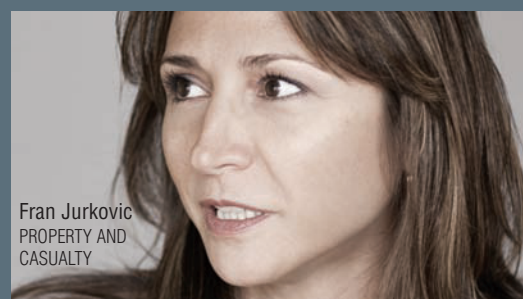
Dana Mikstay [LIFE AND DISABILITY]: Companies that have downsized may be relying more heavily on a small number of key employees who are truly vital to the firm's success. As a result, the loss of any of those key players could potentially cause a financial blow that could be far greater than the effects of the market downturn.

Greg Giles [COMPENSATION AND EXECUTIVE BENEFIT STRATEGIES]: Companies struggling financially are reevaluating all costs, and many feel they are not in a position to give bonuses or raise pay. As a result, we're seeing zero growth – or even reductions – in compensation.

Is the landscape any different for institutional investors?

Gary Klopfenstein [CURRENCY]: Currency risk is inherent in investing overseas. When returns from international markets were strong, institutions could get away with ignoring their currency exposure. But today's high levels of volatility increase the impact of currency fluctuations on overall returns.

Josh Daitch [REAL ESTATE, MULTI-MANAGER STRATEGIES]: Buyers now require a huge discount to buy risky assets. Sellers, on the other hand, believe that assets will soon be worth what they paid for them. This difference



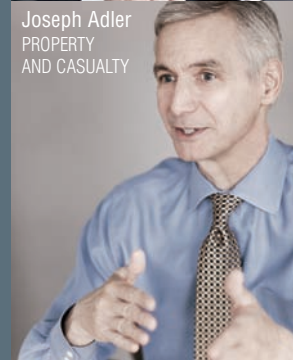
Fran Jurkovic
PROPERTY AND
CASUALTY



Robert Gaddi
INSTITUTIONAL
SALES AND TRADING



Michael
Mackey
PROPERTY
AND CASUALTY



Joseph Adler
PROPERTY
AND CASUALTY



Linda
Meyer
ADVANCED
STRATEGIES



Michael
Thatcher
CONSULTING



Paul Meier
CURRENCY

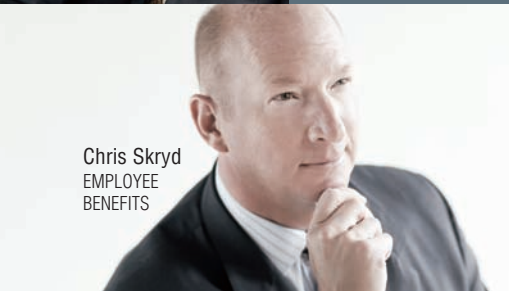


Larry Cohen
INVESTMENT
ADVISORY



John Baccich
INSTITUTIONAL
SALES AND TRADING

Risk



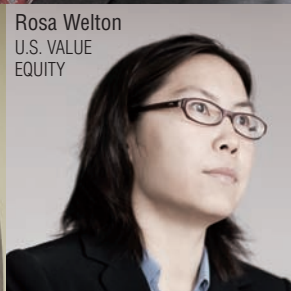
Chris Skryd
EMPLOYEE
BENEFITS



Vijay Chopra
INTERNATIONAL
EQUITY



Marisa Peck
CURRENCY



Rosa Welton
U.S. VALUE
EQUITY

“Investors generally accepted as truth that higher risk means higher reward.”

—Leila Heckman
INTERNATIONAL EQUITY



creates a massive gap between bid and ask, which is keeping the real estate market from functioning efficiently.

How have investors' feelings about risk changed?

Mike Crowe [U.S. VALUE EQUITY]:

We had seen a long period of over-confidence, where investors ignored risk. The risk premium had all but disappeared as securities with widely differing risk profiles were priced similarly. Then sentiment swung to the other extreme, as investors sought certainty above all else.

Leila Heckman [INTERNATIONAL

EQUITY]: In addition, until last year, investors expected that equities, with their higher risk/reward profile, would outperform more conservative investments. Investors generally accepted as truth that higher risk means higher reward. But we were reminded that there are no guarantees.

Steve Luetger [FIXED INCOME]: The bond market had lost favor as investors allocated more of their assets to securities with higher potential reward. Now we're seeing renewed interest in bonds and the important role they play in a diversified portfolio.

How have those feelings affected their actions?

Marty Kaplan [ADVANCED STRATEGIES]:

The primary focus of most institutional investors changed: rather than maximizing risk-adjusted returns as a primary objective, most focused on capital preservation.

Gerry Levin [SALE-LEASEBACK CAPITAL]:

Real estate investors were reminded that values can go down as well as up. Now investors are gravitating toward higher-quality investments and accepting lower returns for peace of mind.

How has the appetite for risk changed outside of the financial markets?

Richard Price [PRESIDENT AND COO]:

The faltering economy has decreased the ability of previously strong businesses to withstand the cost of insurance claims. While their appetite for risk has gone down, the opposite trend is surfacing for individuals, who are accepting higher deductibles in an effort to reduce premiums.

What is the biggest challenge your clients are currently facing?

Daitch: Pension funds and endowments rely on returns from their investment portfolios to meet their financial obligations. As investment returns have plummeted, these institutions are facing unprecedented challenges to pay their bills.

Jeff Golman [CORPORATE INVESTMENT BANKING]: Companies are facing a similar squeeze. We're seeing heightened threats from operating losses as well as balance sheet pressures, as a recession wreaks havoc on business revenues and battered banks constrict the financing companies need to support their operations.

Mike Szkatulski [REAL ESTATE

DEVELOPMENT]: When financing was readily available, the parties involved in a real estate transaction were generally pulling in the same direction. Today, with a lot more at stake and less wiggle room, reconciling the multiple interests and objectives has become more challenging.

Mark Kmety [EMPLOYEE BENEFITS]: On top of it all is uncertainty about what's to come. Companies that provide a health care benefit to employees are facing some big unknowns, complicating the task of planning for the future. While the Obama administration works to enact health care reform legislation, many questions remain about what provisions the final bill will contain and how they will affect employer costs. In the meantime, health care insurance premiums continue to rise.

What can best help clients navigate these challenges?

Alasdair Cripps [REAL ESTATE, DIRECT]: Due diligence can't be emphasized enough. Although it's always important to "do your homework," investors have more on the line than ever and need to be sure they accurately assess the amount of risk and the potential for



"Companies that provide a health care benefit to employees are facing some big unknowns, complicating the task of planning for the future."

—Mark Kmety
EMPLOYEE
BENEFITS

growth of each investment. That due diligence includes both quantitative and qualitative measurements to identify macro trends as well as local market movements that will affect the risk/reward equation.

Heckman: I agree. It's all part of having a disciplined approach. People tend to get swept up in emotion when they invest. That's one of the reasons financial markets are inefficient. But by remaining faithful to a comprehensive process that includes diligent research and analysis, we can help identify inefficiencies and remove emotion from the process.

— Innovation —



Tricia
Blackwell
INVESTMENT
ADVISORY




Bryan McCoy
INSTITUTIONAL SALES
AND TRADING



Darren DeRisi
INSTITUTIONAL SALES
AND TRADING



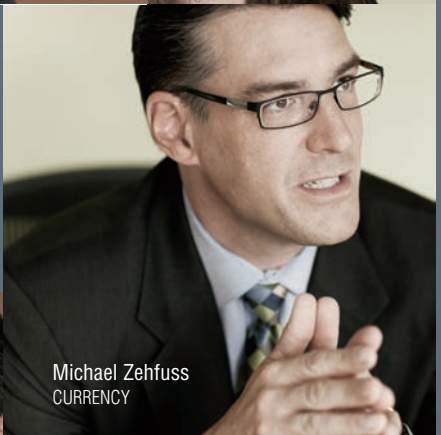
Kathryn
McGlynn
CONSULTING



Marty Kaplan
ADVANCED STRATEGIES

"We have broadened our searches for prospective buyers into unexpected places."

—Jeff Golman
CORPORATE INVESTMENT BANKING



Michael Zehfuss
CURRENCY



Greg Karczewski
REAL ESTATE DEVELOPMENT




Dominick
Mond
INSTITUTIONAL
SALES AND
TRADING




Jordan Scher
INVESTMENT ADVISORY



Richard Stein
REAL ESTATE
DEVELOPMENT



Garry Cohen
SALE-LEASEBACK
CAPITAL



Michael Barrett
PRIVATE EQUITY



Dominic
Adducci
REAL ESTATE
DEVELOPMENT



Courtney
Wilson Haynes
PRIVATE EQUITY



Jeff Sobczynski
REAL ESTATE,
MULTI-MANAGER
STRATEGIES



Tom
Macina
ADVANCED
STRATEGIES

Steve Vogt
ADVANCED STRATEGIES

True innovation comes from facing a unique problem and devising a novel solution that works, or works better than anything else. What have you done differently to help clients in this challenging environment?

Kmety: We're performing extremely targeted benchmarking studies of the benefits companies are offering. As the perceived value of a given benefits package will vary widely not only by type of firm, but also by region, these studies give clients a true peer benchmark they can use to determine precisely how valuable their programs need to be to be competitive and attract the talent they need.

Golman: We've explored a variety of nontraditional options for bridging the gap between buyers and sellers, such as equity partnerships to finance an acquisition or expansion, or setting a schedule of deferred payouts linked to specific milestones after a deal closing.

We have also broadened our searches for prospective buyers into unexpected places, understanding that the best-suited buyer may be a company in a different industry or a different country.

Mikstay: By creatively structuring life and disability policies, we've helped companies provide their employees with valuable insurance benefits as a cost-effective alternative to pay raises. We've also used these tools to help individuals and families to create and preserve wealth.

Levin: As attractive financing from Wall Street firms became more difficult to secure, we began seeking out alternative sources, such as regional banks and insurance companies. These sources generally have more conservative lending models, but are today offering relatively competitive pricing.

Those are great ideas for companies. What about for institutional clients?

Bruce Young [INSTITUTIONAL SALES AND TRADING]: As many overextended Wall Street firms were exiting various market sectors, we moved in. We added new products – convertibles, emerging markets, interest rates (government bond trading) and Build America Bonds – as well as proven professionals to our team, to give our clients access to more choices and greater expertise.

Klopfenstein: We expanded our currency management team, adding both client service and trading professionals. We also enhanced our reporting to include more risk metrics. With a greater level of detail, these reports provide clients with information they need to fully understand their exposures and respond to boards of directors, who today are asking more questions about downside risk.



Dan Howell
PRIVATE
EQUITY

Edna Lee
CONSULTING



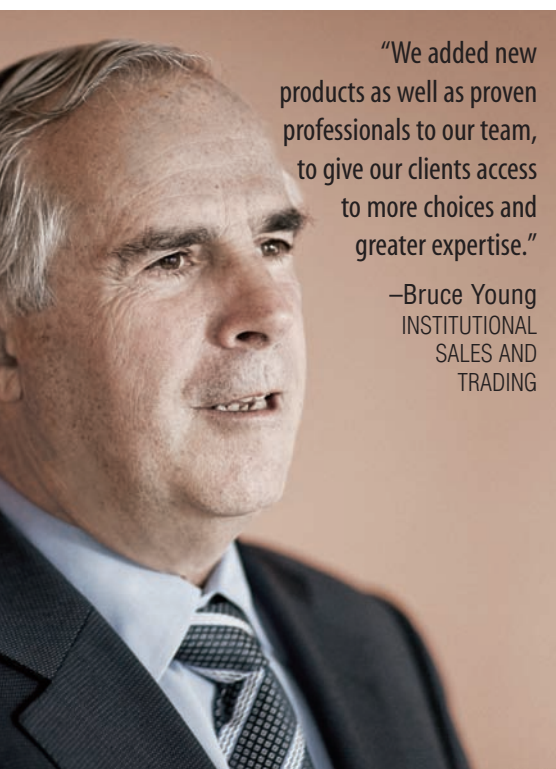
Innovation



Barbara Pokorny
CURRENCY

Yolanda Moore
CURRENCY

Marc Sacks [PRIVATE EQUITY]: With liquidity hard to come by, we've invested in more defensive strategies, lowering both the risk and the return sides of the equation. While the past year has been difficult for the public markets, there have been brief windows of opportunity to buy at deep discounts.



"We added new products as well as proven professionals to our team, to give our clients access to more choices and greater expertise."

—Bruce Young
INSTITUTIONAL
SALES AND
TRADING

Difficult environments often mean potential rewards for those who know where to look. What opportunities have recently emerged?

Golman: While underperforming businesses may be forced to sell or liquidate, that creates opportunities for healthy companies to grow. Companies can take advantage of low valuations to make strategic acquisitions or buy weakened competitors.

Szkatulski: Clearly, there are substantial losses in real estate, but as valuations reset we'll begin to see tremendous values. The opportunities for development will lie primarily in converting existing real estate assets to different uses or different markets.

Which sectors do you currently consider attractive?

Luetger: Investors in non-Treasury bond sectors have been handsomely rewarded recently. And despite massive tightening, the yield spreads in those

sectors (with the exception of mortgages) remain wide enough to offer the potential for further exceptional returns. In addition, the generous lending terms of government programs that were designed to bring liquidity to the marketplace may afford attractive opportunities.

Cripps: The apartment sector may offer attractive institutional real estate investment opportunities. In contrast to loans for home purchases, low-level financing for apartment rental is still available through Fannie Mae and Freddy Mac. In addition, while the dearth of financing for new building construction is keeping apartment supply at a virtual standstill, demand will likely rise in the future as echo boomers leave the nest.

Kaplan: Extreme volatility has created opportunities across the credit universe (namely distressed fixed income, such as corporate credit, mortgage securities, high yield, bank debt) that we expect to continue over the next few years. However, we also expect continued short-term negative market fluctuations. That's why credit and stock selection, as well as a disciplined investment process, will be more critical than ever.

How will the recent turmoil affect your clients in the long run?

Tuliano: The painful lessons learned from the credit crisis will yield positive consequences as well: in the form of increased vigilance, improved lending or investment criteria and, ultimately, economic stability. In addition, we are seeing entire industries undergo fundamental changes that will help restore long-term viability to the system as a whole.

Szkatulski: As assets are recapitalized with less leverage and a greater

appreciation of risk, values of existing properties will continue to fall. At the same time, the cost of new construction will rise. As a result, it will take some time before the markets fully absorb the current real estate capacity and the economy gains strength enough to justify higher rents and new development.

Michael Annin [INVESTMENT STRATEGIES]: In the future, retirement income-guarantee products will be priced higher to compensate the insurance companies for taking on the risk. Guarantees won't be as rich and will be more expensive.

Norm Malter [PROPERTY AND CASUALTY]: Virtually all businesses are keenly sensitive to the financial implications of risk – including the costs of insurance claims and premiums. They are trying to strike just the right balance between how much risk to assume themselves and how much to transfer through insurance.

Klopfenstein: Volatility in the currency markets will likely continue for years.

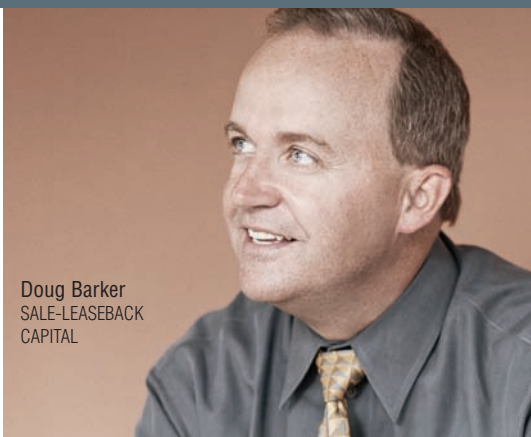
That means institutions that invest overseas may need tighter risk management policies and investment guidelines that take into account the effect of currency on an overall portfolio.

Price: As shareholder losses increase the risks of lawsuits against company managements, we will likely see rising demand and prices for management liability coverage, including fiduciary liability as well as directors and officers insurance.

What's your outlook for the future of your industry?

Szkatulski: Not all real estate development firms will survive. Those that do will need to be well capitalized and flexible in the creation of new business plans.

Ruth Hannenberg [B/D AND IA SERVICES]: The clearing industry consolidation that has been evident for the past 10 years recently gained momentum. Clearing firms are now fewer in number, but larger in size, and that trend will likely continue. As many



of the experienced, independent firms leave the industry, the clearing landscape will be made up of a much narrower range of choices, with few that are able to offer high-quality service and personalized attention.

Julie Vander Weele [INVESTMENT ADVISORY]: The consolidation in the financial industry has heightened interest in working with independent firms. Individual investors want to know the firm they work with and to feel that their advisor understands their needs.

Reagan: After years of a migration from defined benefit plans to defined contribution plans, today we're witnessing the emergence of managed products that combine elements of both. Rather than a single à la carte menu of investment choices, retirement plan sponsors may begin to offer employees both do-it-yourself and do-it-for-me options.

Annin: The landscape of retirement product providers will change as a result of instability among insurance



"Institutions that invest overseas may need tighter risk management policies."

—Gary Klopfenstein
CURRENCY

companies, and today's biggest names may not remain dominant. Successful companies will have figured out how to meet the new needs of the baby boom generation, who were burned by the market declines, but still hold a tremendous amount of wealth. Tomorrow's products will help employees not only save for retirement but also spend wisely once they get there.

Dominick Mondì [INSTITUTIONAL SALES AND TRADING]: Volatility has become a way of life, whether it's interest rates, credit risk or the changing dynamic in new issue products. The reasonable model for success will be an experienced sales force (timely execution), providing liquidity and maintaining an appropriate dose of humility.



Paul Baker
INSTITUTIONAL
SALES AND
TRADING

Innovation



Ellen Rose
INVESTMENT
ADVISORY



Ruth Hannenberg
B/D AND IA SERVICES



Diane Swonk
CHIEF ECONOMIST

“Realistic expectations can set the stage for making sound long-term asset allocation decisions.”

—Mike Crowe
U.S. VALUE EQUITY



Josh Daitch
REAL ESTATE,
MULTI-MANAGER
STRATEGIES



Tom Landis
REAL ESTATE,
MULTI-MANAGER
STRATEGIES



Rocky Pontikes
CORPORATE
INVESTMENT
BANKING



Todd Krzyskowski
PUBLIC FINANCE



Olga
Camargo
ECONOMIC
ANALYSIS

— Independent Advice —



Peter Hegel
FIXED INCOME



Felicia Rauls
COMMODITIES



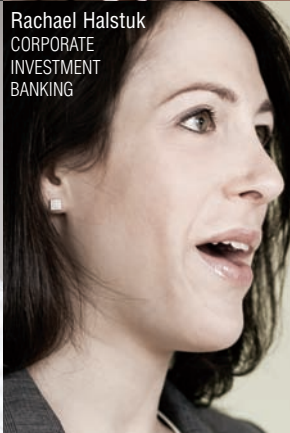
Tom Willis, Jr.
COMMODITIES



Steve Luetger
FIXED INCOME



Brock LaMarca
INVESTMENT
ADVISORY



Rachael Halstuk
CORPORATE
INVESTMENT
BANKING



Tim Ewing
U.S. VALUE EQUITY



Marc Sacks
PRIVATE EQUITY

Reactions to the recent crises have exposed some conflicts of interest among institutions that participate in or oversee other participants in the financial sector. Why is independent advice so valuable?

Levin: With traditional sources of capital in short supply, companies looking to monetize their existing real estate assets will need the help of experienced experts to find financing alternatives and objectively evaluate the risks and rewards of each.

Tuliano: A primary goal for stakeholders is to maximize value and establish a course for future success. In our experience, unbiased, objective and credible advice can be very important in achieving that goal.

Golman: Without any agenda other than to serve clients well, an independent advisor has the flexibility to advise companies against deals that may not be in their best interests. That objective positioning often requires financial independence as well, since a firm with a strong balance sheet isn't compelled to complete every possible transaction for the sake of generating fees.



“Companies that want to be successful in the long run need to find cost-effective ways to retain and reward their most valuable employees.”

—Greg Giles
COMPENSATION AND
EXECUTIVE BENEFIT STRATEGIES

Sacks: Over the past several years, investors got involved in investment vehicles they didn't fully comprehend and took risks they didn't fully appreciate. With the insight that comes from experience, an independent advisor can help clients identify where opportunities lie as well as which might be too good to be true.

What advice are you giving your clients today?

Daitch: We're reminding clients that real estate values are driven by supply and demand. Nobody makes land, so the supply is ultimately limited. And we believe that demand will return in the future. The key is to survive through the lean times in order to have a seat at the table when the cycle shifts and demand outstrips supply again.

Cripps: I agree. Because real estate is not a liquid asset, time is a key factor for cultivating investment gains. Unlike market timing, which is difficult to do well, staying active in the market brings the benefit of awareness of the moving

parts – such as pricing levels, financing and deal sizes as well as the buyers and sellers. That capital market awareness is invaluable for making sound investment decisions.

Brock LaMarca [INVESTMENT ADVISORY]: When clients sell in panic, a paper loss becomes a real loss. That's why we always work hard to keep emotion out of investment decisions. A disciplined investment process, including a clearly articulated investment policy statement that spells out needs, goals and risk tolerance, helps clients stick to their plan.

Mikstay: More and more, I've been talking to clients about the value of life, disability and long-term care insurance as tools for overall financial planning. Especially during uncertain times, these vehicles can help add predictability to a financial plan, whether clients are seeking to fund future taxes, create immediate liquidity or pay long-term care expenses.

Hannenber: Many of our broker/dealer and investment advisor clients, who have been seeing revenues from previously reliable sources shrink or dry up entirely, need to shift their focus to alternative areas for growth. We're working with those firms to take advantage of opportunities created by the recent industry upheaval to expand their businesses, including attracting new clients and new producers, and finding alternative products that address clients' heightened desire for safety.

What will your clients need most to be successful in the future?

Giles: Companies that want to be successful in the long run need to find cost-effective ways to retain and reward

their most valuable employees. Those are the people who are most at risk to be recruited away when the economy recovers.

Malter: Under pressure to cut expenses and do more with less, many insurance companies have cut staff, making it more challenging to serve their clients well. That's why individuals and companies need an independent advocate with the infrastructure to support their needs.

Crowe: At any given point, investors are generally either too optimistic or too pessimistic about the market. Having realistic expectations – of overall equity performance and volatility as well as correlations between asset classes –

can set the stage for making sound long-term asset allocation decisions.

Luetger: Clients need transparency, regardless of the economic or market conditions. Many investors have only recently come to recognize the full value of knowing where their assets are invested and how that allocation fits with their overall goals.

Thank you all for your time and valuable input. With so much at stake for individuals and organizations, any single decision can have a critical impact on their futures. By giving our clients the benefit of our expertise, insight and perspective, we can help them navigate any environment.

Leslie McLeod
EMPLOYEE BENEFITS



Peggy Tyner
ADVANCED STRATEGIES



Les Coney
OFFICE OF THE CHAIRMAN



George Meillarec
INSTITUTIONAL SALES AND TRADING



Tom Willis, Sr.
COMMODITIES



Sean Harte
COMMODITIES

Independent Advice

Operations Review

Although the recession and declining equity markets made this past year one of the most difficult in recent history, Mesirow Financial remained strong due to its conservative positioning and long-term client relationships. Each of our businesses was affected by the overall economic downturn. While the declining stock market depressed values in some of our investment management businesses, the market volatility fueled growth in other businesses. These counterbalancing effects allowed us to not only manage the downturn, but also to take advantage of opportunities to grow and expand in some areas where opportunities existed.

Highlights from the fiscal year ended March 31, 2009 include:

- Unconsolidated revenues were \$467 million, a decrease of 5 percent from \$491 million last year. Declines in some of our businesses were largely offset by record performance in our Institutional Sales and Trading, Insurance Services and Currency Management businesses as well as solid contributions from Advanced Strategies and Private Equity. (Revenues, after the consolidation of certain limited partnerships required under generally accepted accounting principles, were a negative \$516 million.)
- Stockholders' equity, held by approximately 300 of our senior employees, increased 2 percent to \$250 million, compared with \$246 million at the beginning of the year.

- Market conditions increased our focus on cost containment across the firm, leading us to evaluate and justify every expenditure. We also engaged a procurement specialist to analyze our core purchasing to ensure we are following best practices.
- For our clients, we reached out more than ever this year, providing information and analysis on unfolding events. Diane Swonk, our chief economist, issued a record number of communications and provided near-daily commentary to the national financial press.
- We maintained the majority of our assets under management, seeing only a 10 percent decline between 2008 and 2009. Total assets under management were \$28.9 billion at fiscal year-end. As of June 30, 2009, assets have already increased to \$30.8 billion.
- Our employee count was stable. While some departments contracted, others expanded, namely Institutional Sales and Trading, Consulting and Public Finance. We now have approximately 1,200 employees in 30 offices across the country and in London. With the ability to attract outstanding individuals and teams who can introduce new client relationships to the firm, we adjusted our growth strategy this year to focus on recruiting talented professionals.
- In 2007 and 2008, we solidified our long-term strategic relationship with The PrivateBancorp via an investment

in the equity of the company. The recent decline in value of all financial stocks caused unrealized losses in the fair value of this investment as of March 31, 2009.

- Our office in London, established in 2007 to help us serve an increasingly global client base, expanded this past year to serve as an overseas base for our Advanced Strategies and Currency businesses.
- We were pleased to name Gary C. Klopfenstein, head of Currency, and Dominick J. Mondini, manager of Municipal Bond Sales and Trading, to our Executive Committee, in recognition of their increasing contributions to our organization.
- After much planning, our new Chicago corporate headquarters is scheduled to be completed in December 2009. The building will allow us to more efficiently accommodate the majority of our employees, previously located in two separate Chicago buildings. Located at 353 North Clark, our new home offers state-of-the-art technology and a welcoming atmosphere, making it a true reflection of our institutionally strong, yet highly personal organization.
- Divisional revenues, reported on an unconsolidated basis, totaled \$482 million. After the mark-to-market of a minority position in an outside investment, net revenues were \$467 million.

Investment Management

HIGHLIGHTS

- Revenues from our Investment Management Division totaled \$218 million, a 15 percent decrease from last year, while assets under management declined modestly to \$28.9 billion. Our continued focus on due diligence enabled us to avoid the major issues in the news. And we believe that we are well-positioned for the future, as a premier multi-asset-class money manager serving a growing number of institutional, corporate and private clients across the globe.
- In Advanced Strategies we maintained strong performance relative to the industry and ended the fiscal year with approximately \$10 billion in assets as a result of effective risk management. Throughout the global upheaval, we continued to build for future growth, further investing in our research capabilities. We also expanded our London office to increase our international research capabilities and better serve our growing international client base.
- Success in our Private Equity business led to revenue growth as well as expanded relationships with many of the premier partnerships in the industry. Total committed capital under management in both partnership and direct funds reached more than \$2.7 billion, allowing us to capitalize on many opportunities and serving as proof that the foundation we've built over the past several years is yielding returns.

- We achieved significant growth in our Currency business, as assets under management rose to \$8.4 billion, with an additional \$1.7 billion in hedged currency risk for internally managed assets. As one of the pioneers in the field, our team drew on innovative portable alpha, hedge maintenance and overlay products to effectively assist clients in managing their currency exposures. In an era when clients are increasingly concerned about risk, we have the expertise to help them manage exposures and generate potential alpha.
- The Commodities business launched last year has accumulated approximately \$300 million in assets. We strengthened our capabilities this year with both passive and active product offerings, addressing a growing interest among our institutional clients.
- Another newly launched business, Real Estate, Multi-Manager Strategies, ended fiscal 2009 with nearly \$300 million in assets in both international and domestic funds. The real estate market declines had more of an impact on our Real Estate, Direct, business by delaying its progress. As the market rebounds, this new offering will leverage our direct investment and real estate expertise to offer clients a solution for real estate allocations.

- Assets under management in our U.S. Value Equity business ended the year at \$1 billion, amid an extremely difficult market. As Michael Crowe, chief investment officer, adjusted his focus to dedicate all of his time to portfolio management, we expanded our capabilities and added strong research analysts.
- During the year, we expanded into the International Equity business, through the addition of an award-winning team from Bear Stearns. The group, led by Dr. Leila Heckman and John Mullin in New York, offers Global Plus, EAFE Plus, International Plus and Emerging Markets portfolio options.
- Search activity has been increasing in the fixed income market as investors seek alternatives to equities. As a result, assets under management in our Fixed Income business at year-end were \$3.5 billion.
- In Institutional Sales and Marketing, our team of professionals raised more than \$750 million in assets in an extremely difficult market. They continue to work directly with our clients and the consultant community to provide access to and guidance on all of our institutional products.

■ Despite a decrease in assets, revenues from Investment Advisory decreased by only 9 percent last year. Cost-cutting, as well as efforts to continue streamlining our focus on creating personalized investment portfolios that meet our clients' financial objectives, aided in mitigating the effects of market turmoil. We ended the year with nearly \$3.4 billion in assets under management. At the same time, we increased our emphasis on the Retirement Plan Advisory business, assisting plan sponsors with their retirement plan needs.

■ The financial crisis slowed progress in our Investment Strategies business, as clients delayed buying decisions. However, we see solid opportunities emerging with major companies and a strong interest in plan sponsor consulting.

BUSINESSES

ADVANCED STRATEGIES

Diversified alternative asset management utilizing extensive quantitative, qualitative and back-office due diligence to identify and monitor hedge fund managers throughout the world. We offer multi-strategy, multi-manager commingled portfolios as well as customized accounts designed to provide solutions to an investor's specific risk and return objectives.

PRIVATE EQUITY

Diversified private equity portfolios through partnership and direct/co-investment programs. Using our deep network of relationships with premier private equity firms in both the United States and Europe, we can offer access to top-tier venture capital and private equity managers.

CURRENCY

Active and passive currency management services for global institutions. Programs are tailored to match specific currencies, benchmarks, risk tolerances and return objectives.

COMMODITIES

Commodity investment strategies to meet a range of objectives. Absolute return commodities and financial futures strategies, as well as long-only commodities strategies, are designed to provide institutions with high-quality returns, diversification, protection against inflation and exposure to opportunities in commodities and financial futures.

REAL ESTATE, DIRECT

Compelling value-added investment opportunities in the real estate market, with a current emphasis on the multifamily market. We seek to identify assets with unrealized potential in all phases of the real estate cycle, purchase them at appropriate prices and unlock their inherent values by applying sound investment strategies.

REAL ESTATE, MULTI-MANAGER STRATEGIES

Broadly diversified portfolio of opportunistic and value-added real estate private equity managers. We offer clients the ability to create tailored, globally diversified, non-core real estate portfolios through our extensive pipeline of top-tier real estate private equity firms in the United States and abroad.

U.S. VALUE EQUITY

A range of value equity portfolios segmented by market capitalization, designed to potentially outperform the market over time and help preserve principal in difficult market environments. Across all our portfolios, we emphasize strict adherence to our disciplined investment strategy and rigorous fundamental analysis.

INTERNATIONAL EQUITY

A disciplined top-down approach to allocation based on intensive quantitative research. We implement our allocation through the selection of baskets of securities from across all developed and emerging equity markets, designed to achieve an optimal risk/reward balance.

FIXED INCOME

A suite of fixed income strategies that are duration neutral with respect to interest rates. We work with clients to determine their optimal portfolio duration, then rely on careful sector rotation, yield curve management and security selection designed to capture the bulk of available incremental returns. Our approach incorporates direct client access to the professionals who make investment decisions on their behalf.

INSTITUTIONAL SALES AND MARKETING

Hands-on guidance for public, corporate and Taft-Hartley pension funds, foundations, endowments and public sector entities. Highly sensitive to the risk/return objectives as well as asset/liability challenges faced by institutional investors, our team helps these organizations and their consultants to identify and understand the most valuable strategies for their unique circumstances.

INVESTMENT ADVISORY

Discretionary investment portfolio management services to help individuals, families, corporations and nonprofit organizations achieve their financial goals. As fiduciaries, we act in our clients' best interests at all times and pay careful attention to the long-term suitability of the investment decisions we make on their behalf.

RETIREMENT PLAN ADVISORY

Comprehensive corporate retirement plan consulting services that provide a documented process of prudent oversight and due diligence to help control fiduciary risk. In addition to careful evaluation of plan vendors and investment options, quarterly reporting, fee analysis and benchmarking, we use our deep expertise to offer innovative strategies to help a company's employees grow assets and reach financial security.

INVESTMENT STRATEGIES

Robust asset allocation and fund selection strategies for insurance companies, mutual fund complexes, broker/dealers and 401(k) plan providers, recordkeepers and plan sponsors; actively managed mutual fund portfolios for individual investors. Our proprietary PrecisionAlpha™ process targets multi-style and multi-capitalization alpha-generating funds that have the potential to produce excess return with a given level of risk.

Investment Services

HIGHLIGHTS

- The extremely slow equities market and shift toward fixed income products helped our Investment Services business increase revenues to \$119 million.
- Our Institutional Sales and Trading business expanded in nearly every area, increasing our distribution capabilities and growing our municipal department at a time when many firms left the business. Revenues increased by 75 percent over the prior year.
- We expanded our product offerings in our Broker/Dealer and Investment Advisor Services business to attract firms seeking personalized service and better serve existing clients. With customized products and state-of-the-art technology, we are well-positioned to help firms achieve their goals.
- Revenues declined 24 percent in Investment Brokerage. We continue to maintain a smaller, more focused team of professionals who can aptly serve individuals who seek quality securities execution services.

BUSINESSES

INSTITUTIONAL SALES AND TRADING

Advice and execution in debt-related securities. Our proprietary trading capabilities, coupled with experienced sales and analytical professionals, provide liquidity and distribution to a broad base of financial institutions, including money managers, hedge funds, mutual funds, insurance companies and pension funds. Access to diverse resources enhances performance potential.

BROKER/DEALER AND INVESTMENT ADVISOR SERVICES

Execution, clearing and custody as well as a broad range of technology tools for broker/dealers and investment advisors. Through best-of-breed technology, we offer practice management solutions that can help firms meet their goals.

INVESTMENT BROKERAGE

Nondiscretionary execution and brokerage services. We follow a step-by-step process to help clients determine their objectives, build and maintain an investment portfolio, and monitor performance.

Insurance Services

HIGHLIGHTS

- Insurance Services produced revenues of \$91 million, on par with last year and a strong result given the economic environment. During the year, we experienced growth in many of our Property and Casualty practice specialties. We maintained our infrastructure and staff to assist our clients and provide them with a high level of service in this environment.
- Our Employee Benefits business developed strategic relationships with partners who offer our clients an array of valuable products and services to address benefit plan compliance, communication, administration, wellness and other plan needs.
- We remained active in our Life and Disability group, punctuated by the successful completion of several assignments for clients of our other businesses.
- Our Private Client Insurance practice continued to grow by offering expertise on sophisticated coverages and valuable possessions.
- Despite the recession and low interest rate environment, structured settlements continue to be used as a viable settlement product to hedge our clients exposure and provide security to plaintiffs. We anticipate measured growth as we continue to strengthen our partner relationships.

BUSINESSES

PROPERTY AND CASUALTY

Comprehensive property and casualty insurance programs to help companies reduce the long-term cost of risk; Surety expertise to help clients with their bond portfolio management. Our highly specialized practice groups examine each business to evaluate exposures, then deliver cost-effective solutions to help protect against loss.

EMPLOYEE BENEFITS

Competitive, comprehensive employee benefits, including group insurance, health promotion and wellness, voluntary benefits, key executive plans and technology advancement. We work with each organization to develop, enhance or expand programs that will satisfy its fiscal and benefits needs and the needs of its employees, while streamlining administration and increasing employees' awareness and appreciation of benefits.

LIFE AND DISABILITY

Insurance programs to enhance company operations and help families achieve their planning goals. For businesses, we design and implement creative strategies to help attract and retain valuable employees. For individuals, we use insurance as a tool to help protect loved ones and pursue wealth protection and financial planning goals.

PRIVATE CLIENT INSURANCE

Sophisticated insurance coverages and risk management services to help protect property and other valuable assets. A team of specialists works with each individual client to identify exposures and analyze coverage options and costs before recommending a program to help minimize loss.

STRUCTURED SETTLEMENTS

Consultative settlement planning guidance and management. With specialized knowledge of workers' compensation, medical malpractice, general liability, environmental and labor claims, we design and implement innovative negotiation strategies for complex settlements.

Investment Banking

HIGHLIGHTS

- In fiscal 2009, our Investment Banking Division posted revenues of \$10 million, a 49 percent decrease from \$19 million a year ago.
- In Corporate Investment Banking, revenues declined substantially from the prior year, as liquidity evaporated in the marketplace and business valuations declined. We've recently seen a slight increase in activity and believe that the relationships forged with many strategic buyers, private equity firms and trade industry businesses over the years bode well for future engagements.
- Along with the municipal professionals we added in Institutional Sales and Trading, we added Public Finance professionals to serve an expanded marketplace for innovative financial structures. While our professionals continue to serve many noteworthy and long-term clients, these assignments will be supplemented by new advisory and underwriting assignments looking for both service and distribution capabilities.
- An acquisition of a portfolio of 29 retail stores in September 2008 contributed to the increase in Sale-Leaseback Capital revenues of 50 percent over the prior year. Our ability to actively repackage a property portfolio allows us to respond to the needs of our clients with innovative financing solutions.

BUSINESSES

CORPORATE INVESTMENT BANKING

Investment banking services including M&A advisory, restructuring, board of directors advisory, fairness and solvency opinions, and private capital raising. With an exclusive focus on middle-market transactions, we offer our clients high-quality investment banking experience and advice.

PUBLIC FINANCE

Analytical, structuring and debt placement expertise to a wide range of issuers of taxable and tax-exempt debt. The members of our experienced banking team are dedicated to creating and implementing cost-effective, long-term solutions to the unique challenges facing each of our clients.

SALE-LEASEBACK CAPITAL

Purchases of real estate assets to help companies monetize real estate holdings. Acting as a principal, we originate and structure transactions to meet the precise needs of each corporation, addressing complex accounting issues and the dynamic capital market.

Consulting

HIGHLIGHTS

- The firm's Consulting Division posted a 38 percent increase in revenues to nearly \$44 million compared with \$32 million for fiscal 2008.
- Mesirow Financial Consulting's strategic growth and thoughtful investments enabled the firm to effectively serve clients in all major markets.
- We are currently advising stakeholders in many of the largest multinational restructurings in the world, including Lyondell Chemical Company (LyondellBasell Industries), Chrysler LLC and Aleris International, Inc., among others.
- We've been recognized as a leader in our industry with awards from several turnaround and restructuring organizations as well as leadership roles for our professionals at the American Bankruptcy Institute and the Association of Insolvency and Restructuring Advisors.
- The economy and pressure on executive compensation tempered the Compensation and Executive Benefit Strategies business. The unit responded by adding new lines of business and offering strategic insight to our clients.

BUSINESSES

MESIROW FINANCIAL CONSULTING

Corporate Recovery

Consulting services designed to address complete financial and operational restructuring needs. Our professionals' knowledge and experience provide critical insight for all stakeholders, with the aim of securing the most advantageous solutions in a timely, efficient and effective manner.

Litigation and Investigative Services

Assistance with the financial, economic and accounting matters related to complex business disputes, including: fraud and forensic investigations; financial and economic damages; and expert testimony. Our services extend to advice and guidance during all phases of litigation, including arbitration and negotiation, as well as legislation and regulatory matters.

Valuation Services

A complete range of services, including intellectual property, structured finance leasing, tangible asset and business valuations. Our professionals offer unbiased analysis and advice that can serve as the basis for key business decisions and meet stringent regulatory requirements.

Interim Management

Assistance to troubled or underperforming companies by assuming key management positions, including chief restructuring officer and related roles. With expertise in crisis leadership, we help underperforming companies address immediate managerial and operational problems, and set a foundation for future success.

Operations and Performance Improvement

Innovative advisory services encompassing a broad range of performance issues, including revenue enhancement, cost reduction and resource management solutions. We examine all operational aspects of underperforming companies and tailor comprehensive improvement plans. Using a hands-on approach, we help identify opportunities to enhance overall performance and increase shareholder value.

Distressed M&A and Capital Raising Services

Transaction and financing services involving businesses in transition. Leveraging our deep industry experience, we assist clients in securing replacement financing and in executing purchase or sale transactions involving underperforming companies.

Alternative Investment Services

Assistance to asset managers in applying AMC's Best Practices guidelines in areas such as disclosure, valuation, risk management, operations and compliance. We help asset managers capitalize on opportunities to support and strengthen business operations and investor protections.

Due Diligence Services

Comprehensive consulting services addressing a broad range of operational, financial and transaction-related needs.

Technology Advisory Services

Consulting services providing effective technology solutions, including complex data analytics and electronic discovery. Our professionals work with clients to assess technical challenges, communicate the findings and propose innovative solutions while adhering to demanding deadlines.

COMPENSATION AND EXECUTIVE BENEFIT STRATEGIES

Creative executive compensation and benefit solutions to help businesses recruit, retain, motivate and reward key talent. Working collaboratively with senior management and compensation committees, we analyze available alternatives in light of a company's objectives, then design and implement plans to balance executives' compensation expectations with employer resources.

Real Estate

HIGHLIGHTS

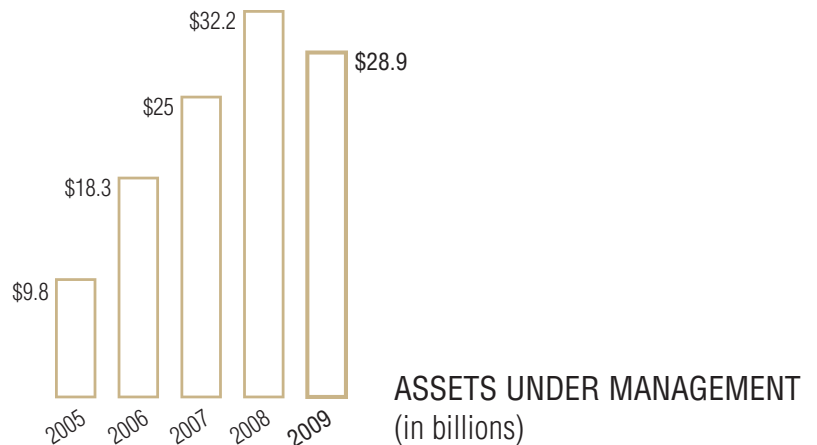
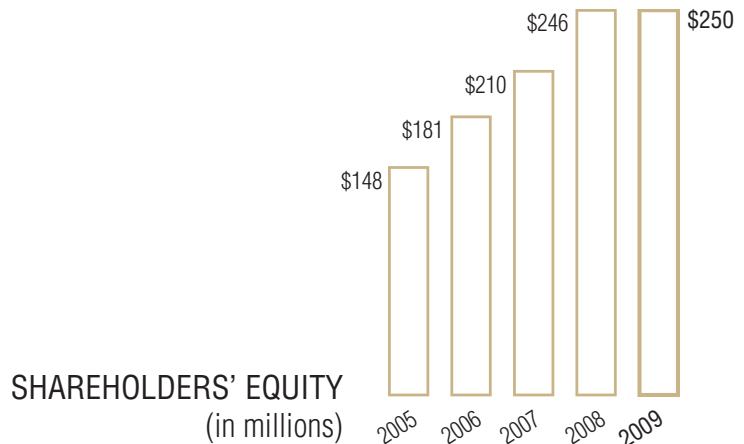
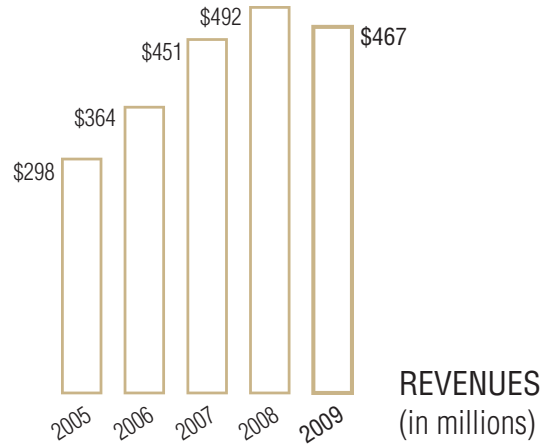
- Fiscal 2009 continued to be a difficult year for our Real Estate business. We refocused our core business on development projects and are concluding various existing consulting assignments.
- As a result of this change in business focus, operating revenues declined to \$2.3 million, excluding non-operating losses. In addition, the business was affected by accounting requirements that require the deferral of certain related-party income from certain consolidated development projects over several years.

BUSINESSES

DEVELOPMENT SERVICES

Real estate development services for corporations, public entities, institutions and individuals. Combining a structured process with an entrepreneurial approach, we carefully define core objectives and focus on the critical issues that drive strategy and impact value. In that way, we aim to deliver best-of-class projects on budget and on schedule. Our impressive list of active projects includes 353 North Clark, Walton on the Park, R+D 659 (Chicago, Ill.) and Central Park East (Phoenix, Ariz.)

Financial Highlights



Mesirow Financial Holdings, Inc. and Subsidiaries

Consolidated Statements of Financial Condition, March 31

	2009	2008
Assets		
Cash and cash equivalents	\$ 113,997,000	\$ 113,613,000
Cash and securities segregated in compliance with federal and other regulations	78,158,000	84,297,000
Receivables from:		
Customers	63,645,000	116,751,000
Brokers, dealers and clearing organizations	43,374,000	59,268,000
Others	43,153,000	54,636,000
Deposits with clearing organizations	8,636,000	8,611,000
Securities owned, at fair value	127,389,000	121,053,000
Investments in and advances to affiliates	22,025,000	36,637,000
Investments of limited partnerships	5,173,517,000	7,507,653,000
Property, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of \$67,484,000 and \$57,880,000	23,169,000	18,903,000
Intangible assets, at cost less accumulated amortization of \$22,394,000 and \$20,462,000	10,686,000	12,555,000
Goodwill	53,682,000	53,238,000
Other assets	88,982,000	62,568,000
Total assets	\$ 5,850,413,000	\$ 8,249,783,000
Liabilities and Stockholders' Equity		
Liabilities:		
Payables to:		
Customers	\$ 136,833,000	\$ 180,569,000
Brokers, dealers and clearing organizations	6,284,000	20,096,000
Bank loans and overdrafts	57,553,000	64,700,000
Securities sold, not yet purchased, at fair value	26,419,000	39,061,000
Liabilities of limited partnerships	652,859,000	242,408,000
Accounts payable, accrued expenses and other liabilities	209,911,000	229,484,000
Notes and loans payable	24,951,000	27,007,000
Total liabilities	1,114,810,000	803,325,000
Minority interests in limited partnerships	4,485,425,000	7,200,790,000
Stockholders' equity	250,178,000	245,668,000
Total liabilities and stockholders' equity	\$ 5,850,413,000	\$ 8,249,783,000

The accompanying notes are an integral part of these Consolidated Statements of Financial Condition.

Mesirow Financial Holdings, Inc. and Subsidiaries

Notes to the Consolidated Statements of Financial Condition

NOTE 1

Summary of Significant Accounting Policies

A summary of the significant accounting policies that have been followed in preparing the accompanying Consolidated Statements of Financial Condition of Mesirow Financial Holdings, Inc. and Subsidiaries (the "Company") is set forth below.

Nature of Business

The Company is a diversified financial services firm headquartered in Chicago, Illinois. The Company provides financial services to individuals, corporations, public sector entities, institutions and broker/dealers in the following areas:

- Investment Management
- Investment Services
- Insurance Services
- Investment Banking
- Consulting
- Real Estate

Principles of Consolidation

The Consolidated Statements of Financial Condition include the accounts of Mesirow Financial Holdings, Inc., its wholly owned subsidiaries, and certain limited partnerships and limited liability companies as described below. All intercompany transactions and balances have been eliminated.

Management Estimates

The preparation of the Consolidated Statements 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 Consolidated Statements of Financial Condition. The most significant estimates relate to fair value measurements, the accounting for goodwill and identifiable intangible assets and the valuation of long-lived assets. Actual results could differ from those estimates.

Securities Transactions

Proprietary transactions are reflected in the Consolidated Statements 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 transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash or other securities. The Company receives collateral in the form of cash or other securities for securities loaned transactions.

Cash Equivalents

The Company considers all money market accounts and highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Cash and Securities Segregated in Compliance with Federal and Other Regulations

Cash and securities segregated in compliance with federal and other regulations

consist of premiums collected for remittance to insurance companies and amounts segregated under Securities and Exchange Commission regulations.

Investments in and Advances to Affiliates

Investments in and advances to affiliates include limited partnerships that are accounted for by the equity method, which is cost adjusted by the Company's share of earnings or losses since acquisition date. Also included are other investments that are carried at fair value.

Limited Partnerships

In December 2003, the Financial Accounting Standards Board (FASB) issued FIN No. 46(R), *Consolidation of Variable Interest Entities (revised December 2003) – an interpretation of ARB No. 51 (FIN 46(R))*. FIN 46(R) addresses the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to a Variable Interest Entity (VIE) and generally would require that the assets, liabilities and results of operations of a VIE be consolidated into the financial statements of the enterprise that has a controlling financial interest in it. The interpretation provides a framework for determining whether an entity should be evaluated for consolidation based on voting interests or significant financial support provided to the entity (variable interest). The Company considers all investments in limited partnerships as similar entities to determine whether the entity is a VIE and, if so, whether the Company's involvement with the entity results in a variable interest in the entity. If the Company is determined to have a variable interest in the entity, an analysis is performed to determine whether the Company is the primary beneficiary and therefore requires consolidation of the VIE into the Consolidated Statements of Financial Condition.

For non-VIE limited partnership investments, the Company consolidates partnerships for which it is the general partner if there are no provisions in the partnership agreement that would allow the limited partners to remove the general partner through the approval by a simple majority of the limited partners in accordance with Emerging Issues Task Force (EITF) Issue No. 04-05, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*.

Investments of limited partnerships include investments in private investment funds and partnerships, related invested cash, and real estate and other assets. Investments in private investment funds and partnerships consist principally of hedge fund of funds and private equity investments. Investments in private investment funds and partnerships are valued at fair value, as determined by management. Investments in real estate limited partnerships are recorded at cost, which primarily comprises land and construction in progress costs. Certain funds and partnerships are consolidated with up to a three month lag.

In determining fair value for hedge fund of funds, the Company generally utilizes the valuations of the underlying private investment funds. The underlying private investment funds value securities and other financial instruments at fair value. The estimated fair values of certain types of investments of the underlying private investment funds, which may include private placements and other investments for which prices are not readily available, are determined by the manager or sponsor of the respective private investment funds and may not reflect amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. Net asset valuations are provided

Notes to the Consolidated Statements of Financial Condition

to the Company monthly by these investment funds and are net of management and incentive allocations/fees.

Private equity investments are carried at fair value. In the absence of readily available market values, fair value is estimated by management and is the amount that can be reasonably expected to be received upon the current sale of the investments although there is not necessarily any intention to sell the investments at the date of valuation. These estimated values may differ from actual values when realized and the difference could be material.

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, investments in hedge fund of funds, private equity funds, real estate partnerships 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.

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are carried at cost, net of accumulated depreciation and amortization. Depreciation and amortization are recognized using primarily the straight-line method over the useful lives of the assets, which range from three to seven years, or, for leasehold improvements, through the shorter of the estimated useful life or terms of the related leases, which range from one to 13 years.

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposal is less than its carrying amount.

Current market conditions have had a negative impact on the estimated fair value of most commercial and residential real estate assets. Should market conditions continue to deteriorate, or should management's assumptions change, additional impairment charges may be required in future periods, and such charges could be material.

Goodwill and Intangible Assets

Intangible assets with finite lives are amortized over the expected period of benefit. As of March 31, 2009 and 2008, the carrying value of these assets, primarily customer lists, was \$10,686,000 and \$12,555,000, respectively. The Company is amortizing these customer lists over their estimated useful lives, which vary from one to fifteen years from the date of acquisition. As of March 31, 2009, the weighted average amortization period of the intangible assets was approximately 11 years.

Goodwill and intangible assets with indefinite lives are not amortized but are subject to analysis for impairment at least annually. At March 31, 2009 and 2008, the Company had goodwill of \$53,682,000 and \$53,238,000, respectively. During the years ended March 31, 2009 and 2008, all significant additions in the carrying amount of the Company's goodwill were the result of contingent payments or prior year's business acquisitions.

Income Taxes

The Company files a consolidated income tax return that includes all of its wholly owned subsidiaries. Income taxes are determined using the asset and

Mesirow Financial Holdings, Inc. and Subsidiaries

Notes to the Consolidated Statements of Financial Condition

liability approach for financial accounting and reporting, which requires that deferred taxes be adjusted to reflect the tax rates that will be in effect when the deferred items are expected to be realized.

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. The standard establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact SFAS 160 will have on its Consolidated Statements of Financial Condition.

In December 2007, the FASB issued SFAS No. 141, revised 2007 (SFAS 141R), *Business Combinations*. SFAS 141R broadens the guidance of SFAS 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other business. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed and interests transferred as a result of business combinations. SFAS 141R expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for the Company on April 1, 2009. The Company does not anticipate that SFAS 141R will have a material impact on its Consolidated Statements of Financial Condition.

On April 1, 2008, the Company adopted 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 Consolidated Statements 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 Consolidated Statements of Financial Condition.

In December 2008, the FASB issued Staff Position FIN 48-3 (FIN 48), *Effective Date of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. 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 FIN 48 will have a material impact on its Consolidated Statements of Financial Condition.

In April 2009, the FASB issued FSP FAS 157-4 (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 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 annual reporting period ending after June 15, 2009. The Company is currently evaluating the effects that FSP FAS 157-4 will have on its Consolidated Statements of Financial Condition.

In June 2009, the FASB issued SFAS No. 166 (SFAS 166), *Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140*, which requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the impact that the adoption of SFAS 166 will have on its Consolidated Statements of Financial Condition.

In June 2009, the FASB issued SFAS No. 167 (SFAS 167), *Amendments to FASB Interpretation No. 46(R)*, which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the impact that the adoption of SFAS 167 will have on its Consolidated Statements of Financial Condition.

NOTE 2

Acquisitions and Dispositions of Business

The Company acquired a compensation strategies business in May 2007 and an insurance customer list in January 2008. The acquisitions have been accounted for using the purchase method of accounting for business combinations. The acquisitions were made with cash of \$3,501,000 and are reflected as of the date of the acquisition in goodwill of \$1,476,000, intangible assets of \$2,350,000, other assets of \$20,000 and accounts payable and accrued expenses of \$70,000, and long-term payables of \$275,000.

Acquisition costs are in large part allocated to goodwill as the Company believes the future economic benefit of the acquisitions is a direct result of the expansion of the Company's service offerings. Goodwill is subject to an annual test of impairment as described in Note 1 and will be generally amortized for tax purposes over a life of 15 years. The purchase price allocated to intangible assets, which comprise customer lists, a non-competition agreement and a technology license, is amortized over their expected period of benefit ranging from one to 15 years.

Notes to the Consolidated Statements of Financial Condition

NOTE 3

Fair Value of Financial Instruments

At March 31, 2009, the Company's assets and liabilities measured at fair value consisted 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	6,542,000	119,563,000	1,284,000	127,389,000
Investments in and advances to affiliates	15,455,000	—	—	15,455,000
Private investment funds and partnerships	33,936,000	7,177,000	4,258,752,000	4,299,865,000
Total assets	\$ 55,933,000	\$ 126,740,000	\$ 4,260,036,000	\$ 4,442,709,000
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	8,218,000	18,182,000	19,000	26,419,000
Interest rate derivative, included in liabilities of limited partnerships	—	15,073,000	—	15,073,000
Total liabilities	\$ 8,218,000	\$ 33,255,000	\$ 19,000	\$ 41,492,000

The following table presents assets measured at fair value on a nonrecurring basis as of March 31, 2009:

Description	As of March 31, 2009	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments in limited partnership	\$ 316,467,000	\$ —	\$ —	\$ 316,467,000
Investments in and advances to affiliates	4,533,000	—	—	4,533,000

In accordance with the provisions of SFAS No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-lived Assets, as amended*, investments in limited partnerships were written down to their fair value of \$316,467,000 at March 31, 2009.

In accordance with Accounting Principles Board (APB) No. 18, *The Equity Method of Accounting for Investments in Common Stock*, investments in and advances to affiliates were determined to be impaired and written down to their fair value of \$4,533,000 at March 31, 2009.

The fair value of all other financial instruments reflected in the Consolidated Statements of Financial Condition (consisting primarily of receivables from and payables to broker/dealers, clearing organizations and customers, and bank loans) except for notes and loans payable approximates the carrying value due to the short-term nature of the financial instruments and characteristics of the financial instrument. The fair value of the Company's notes and loans payable, including debt secured by real estate investments, was approximately \$352,227,000 and \$139,270,000 as of March 31, 2009 and 2008, respectively.

Mesirow Financial Holdings, Inc. and Subsidiaries

Notes to the Consolidated Statements of Financial Condition

NOTE 4

Receivable From and Payable to Brokers, Dealers and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations consisted of the following at March 31:

	2009	2008
Deposits paid for securities borrowed	\$ 15,796,000	\$ 14,665,000
Securities failed to deliver	9,958,000	6,009,000
Amounts receivable from clearing organizations for settled securities	13,398,000	32,057,000
Amounts receivable for unsettled trades	3,043,000	—
Amounts receivable from correspondent broker/dealers	1,179,000	6,537,000
Total receivables	\$ 43,374,000	\$ 59,268,000

	2009	2008
Securities failed to receive	\$ 2,819,000	\$ 8,607,000
Amounts payable to clearing organizations for settled securities	320,000	1,105,000
Amounts held as margin and escrow deposits for correspondent broker/dealers	1,702,000	6,077,000
Amounts payable for unsettled trades	—	2,414,000
Commissions payable to correspondent broker/dealers	1,443,000	1,893,000
Total payables	\$ 6,284,000	\$ 20,096,000

NOTE 5

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements consisted of the following at March 31:

	2009	2008
Furniture and fixtures	\$ 16,804,000	\$ 16,481,000
Equipment	28,832,000	26,467,000
Software	7,137,000	6,536,000
Leasehold improvements	28,618,000	27,299,000
Construction in progress	9,262,000	—
	90,653,000	76,783,000
Less accumulated depreciation and amortization	67,484,000	57,880,000
Total	\$ 23,169,000	\$ 18,903,000

NOTE 6

Limited Partnerships

The Company, through certain of its subsidiaries, serves as general partner in various private investment funds and private equity and real estate partnerships. These partnerships invest primarily in other private investment funds and

partnerships, debt and equity securities of privately held businesses, office build-ings, shopping centers, commercial and residential land developments and apartments.

The investments and liabilities of limited partnerships as of March 31 were as follows:

	2009	2008
Private investment funds and partnerships	\$ 4,299,865,000	\$ 7,196,217,000
Invested cash	384,165,000	117,544,000
Real estate and other assets	489,487,000	193,892,000
Total investments of limited partnerships	\$ 5,173,517,000	\$ 7,507,653,000
Funds awaiting investment	\$ 29,820,000	\$ 6,208,000
Debt secured by real estate investments	354,852,000	112,263,000
Payables	268,187,000	123,937,000
Total liabilities of limited partnerships	\$ 652,859,000	\$ 242,408,000

As of March 31, 2009, a subsidiary of the Company was not in compliance with debt covenants relating to certain long-term debt of the related real estate partnerships. The related real estate has been pledged as collateral for the long-term debt. The lenders have not taken actions regarding the event of default and continue to fund the projects as scheduled.

Affiliated Partnerships

Investments in and advances to affiliates of \$22,025,000 and \$36,637,000 at March 31, 2009 and 2008, respectively, represent the Company's interest in those affiliates.

The Company earns commissions, management and other fees from these affiliated partnerships and private equity and investment funds.

NOTE 7

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 of \$57,500,000 are collateralized by securities owned of approximately \$95,568,000. In pledging securities owned, 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.

NOTE 8

Credit Facilities and Notes and Loans Payable

Pursuant to an Amended Credit Agreement dated March 31, 2009, the Company has a revolving credit facility and letter of credit commitments (Syndicated Credit Facility) for an aggregate of \$90,000,000 of credit facilities that bear interest at the lower of the prime rate (3.25% as of March 31, 2009) or a LIBOR option. The Syndicated Credit Facility includes letters of credit totaling \$32,316,000, of which \$29,256,000 is reserved for the real estate businesses. The Syndicated Credit Facility matures on May 19, 2010.

Pursuant to an Amended Credit Agreement dated March 31, 2009, the Company has two term loans (collectively "Term Loans") aggregating \$25,000,000, one of which requires monthly principal payments and matures

Notes to the Consolidated Statements of Financial Condition

on May 20, 2010 and another that matures on May 20, 2015. Both term loans require monthly interest payments at the prime rate less .5% or a LIBOR option. As of March 31, 2009, \$23,103,000 was outstanding on the Term Loans, net of deferred financing fees. Scheduled principal payments on the Term Loans are \$1,667,000, \$9,444,000 and \$12,500,000, for the fiscal years ending 2010, 2011 and 2016, respectively.

On June 17, 2009, the Syndicated Credit Facility was amended to include a new term loan (New Term Loan) that will be used to fund future capital expenditures. The New Term Loan will have a facility of up to \$35,000,000. In connection with this amendment, the total credit facility was reduced by \$15,000,000, which includes a \$5,000,000 reduction of a related bank loan disclosed in Note 7.

The Amended Credit Agreement and Term Loans contain affirmative and negative covenants relating to the business and financial condition of the Company and its subsidiaries, including the maintenance of a ratio of net income to principal payments on indebtedness and tangible net worth levels. At March 31, 2009, all covenant requirements were met. The Company has pledged all the outstanding capital stock of certain of its wholly owned subsidiaries under the terms of the Syndicated Credit Facility and securities and cash under the Term Loans as of March 31, 2009.

On May 21, 2008, the Syndicated Credit Facility and Term Loans replaced a credit facility and term loan. As of March 31, 2008, a term loan totaling \$24,107,000 was outstanding.

In addition, notes and loans payable at March 31, 2009 and 2008, include \$1,848,000 and \$2,900,000 of notes with varying maturities resulting from acquisitions. The principal amounts of this indebtedness are subject to adjustment based upon the future revenues of the acquired entities, as defined by the respective acquisition agreements. The ultimate principal amounts that may be due are limited by the revenue earned by the acquired entities over a specified time frame. The total amount recorded as indebtedness in connection with these acquisitions represents current estimates of amounts that will be paid.

NOTE 9 Commitments

The Company leases office space and equipment under leases expiring at various dates through 2022. The approximate annual rental commitments under non-cancelable operating leases as of March 31, 2009, are as follows:

Years Ending March 31	
2010	\$ 14,102,000
2011	5,487,000
2012	4,969,000
2013	3,833,000
2014	2,751,000
Thereafter	11,498,000
Total	\$ 42,640,000

The Company is obligated for additional rentals based upon increases in operating expenses for certain office premises.

NOTE 10 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 a subsidiary of the Company was a syndicate member. In addition, along with most other insurance brokerage firms of any size, the Company has been served with subpoenas and other requests for information from various state insurance regulators, including Illinois, as well as the Illinois Attorney General, in connection with their investigations of the long-standing industry-wide practice of earning contingent commissions from insurance carriers, as well as being named in one lawsuit seeking class action status raising this issue in one aspect of the Company's insurance brokerage business. The Company has been making disclosure of its practices regarding the receipt of contingent commissions to its clients since April 2004 and believes that it is not in violation of current laws and regulations. It is not presently possible to assess the likelihood or amount of financial losses or penalties that might ultimately be incurred if this issue or this or similar lawsuits are resolved in a manner adverse to the Company. 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, these actions will not result in any material adverse effect on the Consolidated Statements of Financial Condition of the Company.

The Company is contingently liable for a letter of credit to satisfy clearing organization requirements. This letter of credit is in the amount of \$10,000,000 as of March 31, 2009, 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 FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34*. 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 Consolidated Statements of Financial Condition.

The Company enters into guaranty agreements with its partners (collectively as "guarantors") in various real estate development and consulting projects, whereby the guarantors are jointly and severally liable. These guaranties consist primarily of payment guaranties, completion guaranties and environmental indemnifications that are established either for contract procurement, securing construction financing or guarantying the completion of the project to benefit either the lenders or the investors. The guaranties are collateralized by the property under development, as well as the fees generated by the development team. The durations are typically short-term in nature, with maturity dates of less than five years after commencement. On any completion guaranty, the guaranty is mitigated by the guaranty given by the general contractor to the joint venture on the specific project. The maximum potential amount of future payments the Company could be required to make under the guaranties totaled approximately \$10,274,000 as of March 31, 2009. The maximum potential amount of future payments the Company could be required to make under the completion guaranties and environmental indemnifications cannot be quantified.

Mesirow Financial Holdings, Inc. and Subsidiaries

Notes to the Consolidated Statements of Financial Condition

because of the nature of the guaranty. The fair value of these guaranties was immaterial to the Company's Consolidated Statements of Financial Condition.

NOTE 11

Financial Instruments with Market 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 Consolidated Statements 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 recorded in the Consolidated Statements 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 derivative financial instruments is insignificant to the Company's Consolidated Statements of Financial Condition. The Company had no commitments to sell securities in connection with exchange-traded financial futures contracts at both March 31, 2009 and 2008.

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 nonperformance by the customer or counterparty. At both March 31, 2009 and 2008, the fair value of securities failed to receive approximated the amounts owed in the Consolidated Statements 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 Consolidated Statements of Financial Condition.

The Company's securities transactions include securities purchased under agreements to resell and securities borrowing arrangements that 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 and 2008, margin securities of approximately \$60,936,000 and \$132,856,000, respectively, were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had repledged approximately \$18,369,000 and \$23,802,000 of that collateral as of March 31, 2009 and 2008, respectively.

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-market 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.

NOTE 12

Income Taxes

Deferred income taxes are attributable to temporary differences relating primarily to provisions for asset impairment, deferred compensation, investments in partnerships, amortization of intangibles and bad debt allowances.

Net deferred tax assets included in other assets on the Consolidated Statements of Financial Condition at March 31, 2009 and 2008, were \$44,191,000 and \$26,360,000, respectively. At March 31, 2009, the net deferred tax asset comprised \$57,093,000 of deferred tax assets offset by \$12,902,000 of deferred tax liabilities. At March 31, 2008, the net deferred tax asset comprised \$36,697,000 of deferred tax assets offset by \$10,337,000 of deferred tax liabilities.

No valuation allowance has been recorded to reduce the carrying amounts of deferred tax assets because, in the opinion of management, it is more likely than not that such assets will be realized.

Notes to the Consolidated Statements of Financial Condition

NOTE 13

Employee Benefit Plans

The Company has a 401(k) savings plan (the "Plan") for the benefit of all eligible employees. Contributions to the Plan by employees are voluntary and will be matched by the Company at a rate of 50% of the first 4% of compensation up to a maximum of \$3,000. Effective January 1, 2009, the Company suspended the matching contribution.

The Company has non-qualified deferred compensation plans for certain employees, which allow voluntary employee contributions and require employer contributions if an individual participant's production exceeds a prescribed level.

NOTE 14

Stockholders' Equity and Net Capital Requirements

The Company's Amended and Restated Stockholders' Agreement dated July 1, 2007, (the "Agreement") allows certain employees and certain other investors to purchase shares of the Company's voting or nonvoting common stock. The Agreement restricts the transferability of the stock, provides for the repurchase of the stock upon the occurrence of certain events, such as death, disability, retirement or termination of employment, and provides certain rights and obligations in the event of a sale of the Company. Shares of voting and non-voting common stock have identical rights and privileges, other than voting and conversion rights.

Certain of the Company's subsidiaries are subject to the capital requirements of various regulatory agencies. At March 31, 2009 and 2008, all such subsidiaries were in compliance with these requirements. One of the Company's subsidiaries is subject to the Securities and Exchange Commission's Uniform Net Capital Rule and has elected to operate under the "alternative method," whereby the subsidiary is required to maintain "net capital" equivalent to \$1,500,000 or 2% of "aggregate debit items," whichever is greater, as these terms are defined. At March 31, 2009, the subsidiary had net capital and a net capital requirement of \$47,464,000 and \$1,500,000, respectively. At March 31, 2008, the subsidiary

had net capital and a net capital requirement of approximately \$33,744,000 and \$2,029,000, respectively.

The Company has 250,000 authorized shares of voting and nonvoting common stock, \$1.00 par value. As of March 31, 2009, 94,675 voting shares were issued and outstanding and 64,137 nonvoting shares were issued and outstanding. As of March 31, 2008, 95,927 voting shares were issued and outstanding and 64,733 nonvoting shares were issued and outstanding.

As of March 31, 2009, stockholders' equity includes accumulated other comprehensive loss of \$295,000.

NOTE 15

Related Party Transactions

As of March 31, 2009 and 2008, the Company owned shares of common stock in PrivateBancorp, Inc. ("PrivateBancorp") with a carrying value of \$22,632,000 and \$42,510,000, respectively. PrivateBancorp is considered a related party due to an officer of the Company serving as a board member on PrivateBancorp's Board of Directors. Certain shares in PrivateBancorp are included in investments in and advances to affiliates and investments in limited partnerships on the Company's Consolidated Statements of Financial Condition as follows:

	2009	2008
Investments in and advances to affiliates	\$ 15,455,000	\$ 27,712,000
Investments in limited partnerships	7,177,000	14,798,000

PrivateBancorp is a party to a bank loan with a line of credit totaling \$50,000,000 included in Note 7 and to the Syndicated Credit Facility disclosed in Note 8. As of March 31, 2009 and 2008, no amounts were outstanding.

Under various arrangements, the Company provides certain insurance brokerage and wealth management advisory services to PrivateBancorp.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial condition of Mesirow Financial Holdings, Inc. and its subsidiaries (the "Company") as of March 31, 2009 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audits. We did not audit the financial statements of certain limited partnerships as of and for the year ended December 31, 2008 (included in the Company's March 31, 2009 consolidated statement of financial condition) which statements reflect total assets constituting approximately 10 percent of the consolidated total assets. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these limited partnerships, is based solely on the reports of the other auditors.

We conducted our audits 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 statements are free of material misstatement. An audit includes considera-

tion 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 statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements and the reports of the other auditors present fairly, in all material respects, the financial position of Mesirow Financial Holdings, Inc. and its subsidiaries as of March 31, 2009 and 2008 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Chicago, Illinois
July 24, 2009

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PRESIDENT AND COO

Richard S. Price*

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