Mesirow Financial is built with:

> Enduring Characteristics that define who we are
> Enduring Values that guide our actions
> Enduring Solutions that help our clients succeed
Fiscal 2011 was a mixed year for Mesirow Financial. While strong from a business perspective, this year was one of immense sadness as we lost our CEO, chairman and dear friend Jim Tyree. Jim’s contributions to our firm, and his impact on each of us personally, were immeasurable. Yet we found strength in one another and a united belief in our mission that has allowed us to emerge an even stronger organization.

That fortitude was instilled in us by Jim, leaving us not only grateful but also well prepared to carry on his legacy. Having worked closely with him for decades, I am honored to lead Mesirow Financial, a firm with a long history and a dynamic future. We have a cohesive management team, a strong financial position, loyal clients and committed employees.

Financially, we are in a great position. In fact, fiscal 2011 was our best year ever due to our steadfast focus on pretax return on capital to increase shareholder value. We have a solid balance sheet and available cash to seize opportunities to grow.

(continued)
Our vision for the future is to continue to build and strengthen our core businesses – Investment Management, Global Markets, Insurance Services and Consulting – to meet our clients’ needs. We seek to grow organically and through acquisitions, adding complementary products and services, and recruiting talented professionals who share our passion. We will also continue to enhance our global presence by expanding into key markets. Just this year we announced a joint venture in Abu Dhabi, and we are opening an office in Hong Kong. These opportunities are a reflection of our strategy to align with the right partners and select locations where our clients benefit from a local presence in a major market.

Our employees have shown they too are committed to Mesirow Financial. Our recent employee stock offering garnered record participation, reflecting widespread confidence in our future. We guard and protect our culture and strive to make our organization a great place to work. In doing so, we attract motivated employees who care about their communities and each other.

In every business, we aim to offer solutions our clients value and to provide outstanding performance within the context of long-term relationships. We will stay true to the principles that have helped us to endure through good times and bad – the distinguishing characteristics that define our firm and the core values that guide us.

The theme of this year’s annual report is *Built to Endure*. Since our firm’s beginning, we’ve focused on building an organization that is able to withstand market cycles and changing environments. We have done that by maintaining a conservative posture, and by offering a diverse range of capabilities and an entrepreneurial environment. We also stay close to our clients so we can understand their needs. As a result, the firm has thrived over the years, through financial crises, economic uncertainty and political gridlock, and we will continue to prosper.

Our newly appointed Management Committee plays an important role in continuing our growth strategy and building on our long history. In the next several pages, these individuals explore their connections to the principles that have contributed to our enduring success and to that of our clients.

In the past year, we found strength and endurance in adversity. Our resolve to grow the organization and serve our clients is stronger than ever. Thank you for your continued confidence in us.

Sincerely,

Richard S. Price
Chairman and Chief Executive Officer
James C. Tyree, who passed away on March 16, 2011, was an extraordinary, ordinary man. That unique combination endeared him not only to employees in our organization but also to people throughout the city of Chicago and indeed the world.

Jim's awards and accomplishments are too numerous to mention, yet what we remember most is how he lived his life. Jim was a remarkable human being who overcame significant obstacles and was not discouraged by challenges. He met each day with curiosity and optimism. Hope seemed to follow him everywhere.

Jim was extremely generous, with his time, resources, contacts and financial support. He wanted to make a difference in the world and help others. He was passionate about the causes and people he supported. He was also compassionate, which made him both a charismatic and inspirational leader and an effective fundraiser for organizations around the city and country.

With all his success Jim was still a humble man. He often said, with both candor and humility, that he was the sum total of everyone he met. He was proud of his modest beginning and believed it contributed to his character. And he would remind others that they should be grateful to those who had helped them along the way.

Probably Jim’s most notable characteristic was an unfailing sense of honesty and integrity. With Jim, there was never any question about doing what was right.

To us, Jim was truly one of a kind. His values drove us, his enthusiasm energized us and his courage moved us. We miss him dearly, but his legacy endures.
“Our industry changes constantly and in multiple dimensions, so our ability to adapt quickly is critical to our success. At Mesirow Financial, new ideas are brought directly to the management team, where we vet them, identify any conflicts and make a decision, so we can act immediately.”

Marty Kaplan, Advanced Strategies

“Employee ownership allows us to take a long-term view. Without public shareholders’ interests to contend with, we make the most of our ability to control the amount of capital we raise in order to focus on delivering maximum long-term performance for clients, rather than on earnings per share.”

Marc Sacks, Private Equity
Enduring Characteristics

> INDEPENDENT

As an independent firm, we are free from external agendas that would conflict with our goal of acting in the best interest of our clients. Unbeholden to anyone except our clients, we control our own destiny and invest for the long-term benefit of clients and employees.

With clear objectives, professionals at all levels of our organization are empowered to take decisive action. This nimbleness has played a particularly critical role during difficult periods, by allowing us to seize opportunities to expand our capabilities and strengthen our firm.

> EMPLOYEE-OWNED

The opportunity to share in the ownership of Mesirow Financial gives employees a deeply personal interest in the success of the firm, reinforcing our drive to perform. With our own capital invested in the firm’s future, we are committed to making prudent long-term decisions that balance growth with sound risk management.

Employee ownership allows us to attract and retain talented, self-motivated professionals, and it has been a key contributor to our culture. United in a common goal, we work together – both within and across our businesses – to develop solutions and improve outcomes for clients.
DIVERSIFIED

With a full range of financial services capabilities, Mesirow Financial offers comprehensive and integrated solutions for clients. Our broad array of expertise allows us to combine services to create the right solution for each client and each situation.

A diversified business structure enables us to provide multiple perspectives on industry trends and deep insight into complex problems. Clients have access to the talents of professionals with distinct but related areas of specialization.

WELL-CAPITALIZED

Through prudent risk management and moderate leverage, we have remained financially strong and stable over the years, with a solid capital position and consistent revenue growth.

Yet even more important than the amount of capital we have is how we utilize it. We take a long-term view of expenditures, and invest in capabilities that add value for clients. As our firm has grown, we have continuously enhanced not only our product and service offerings but also our information technology, legal, compliance, accounting, human resources, facilities and marketing capabilities. This robust infrastructure allows our professionals to focus their time and energy on serving clients, and provides them with the resources and support they need to succeed.
We form multidisciplined teams to bring the right combination of capabilities to each assignment. In addition, we bolster the value we offer by drawing on the skills of professionals from other business areas. By taking advantage of the firm’s depth and breadth of talent, we are able to achieve valuable synergies, and offer solutions to help our clients achieve multiple goals.

Ralph Tuliano, Mesirow Financial Consulting

“A strong balance sheet is important in any economy but essential in a weak one. Access to liquidity allows us to pursue opportunities that are a natural outcome of a downturn, and has been fundamental to our ability to act quickly and decisively.”

Kristie Paskvan, Accounting and Finance
“We seek to be a valuable strategic partner for our clients. To do that, we continuously explore how we can use our expertise to develop new products and strategies, and provide clients with thoughtful, relevant advice. We address risks they may not yet be aware of, suggest strategies they are not thinking about and offer ideas they have not yet heard.”

Gary Klopfenstein, Currency Management

“We’ve worked with some clients for decades, across as many as four generations. Those long-term relationships were founded on trust and are a testament to our focus on our clients, and to providing outstanding solutions that meet the needs of their families.”

Julie Vander Weele, Investment Advisory
> INNOVATION

Recognizing the value of new ideas, we empower our professionals to explore creative solutions. Our businesses operate as entrepreneurial enterprises, each with support from the rest of the organization. This structure gives each business the power to implement initiatives that will benefit their clients. By supporting innovation within each business, we set the stage for continuous improvement throughout the firm.

With our deeply seated entrepreneurial mindset, Mesirow Financial is uniquely equipped to be a valuable partner to our clients. Our way of thinking mirrors that of business owners and entrepreneurs, giving us the perspective to fully grasp their needs and challenges.

> LONG-TERM RELATIONSHIPS

Our long-term relationships – with clients, with partners and with one another – are at the root of our success. We make the most of our deep understanding of our clients to tailor products and services to suit their needs. At the same time, our strong relationships within our industries allow us access to valuable resources and information that benefit our clients.

Key to building and maintaining strong relationships is our team approach, where our professionals share responsibility for serving clients well. Both within and across businesses, we work collaboratively toward that goal.

We believe this culture of collaboration contributes to the long tenure of our employees, and gives our clients the benefit of working with the same professionals year after year, who have come to know them well.
> INTEGRITY

We work hard to earn and keep our clients’ trust. We know that our success hinges on our clients’ confidence that we will continue to do the right thing time and again.

By avoiding conflicts of interest, we can ensure we meet our high ethical standards. We align our interests with those of our clients in every dimension possible and establish incentives that motivate employees to perform for clients.

We cherish our reputation for honesty and transparency. Integrity has been a hallmark of our firm since its founding. It governs all our relationships – with one another as well as with our clients – and sustains a collaborative, productive working environment.

> SOCIAL RESPONSIBILITY

We believe that Mesirow Financial has an important responsibility to be a good corporate citizen. As a firm, we use our resources to give back to the community to further its civic, charitable, educational and environmental well-being. We actively support organizations and causes important to our clients and employees.

Our deeply engrained culture of caring – for clients, employees and our community – attracts professionals who are driven to help others and to be a force for positive change. Our employees act on their principles by serving on boards, volunteering time and providing financial resources. These actions unite us in a shared belief and bring us together quite literally to support our community.
We know there are no shortcuts to integrity but that it is earned every day, with every transaction. Critical to that equation is transparency. We aim to understand our clients’ investment parameters and offer products that truly fit their needs. In that way, we establish strong, sustainable and productive long-term relationships.

Bruce Young, Institutional Sales and Trading

Many Mesirow Financial professionals have long supported philanthropic organizations that are important to them personally. Our firm encourages and supports these efforts in multiple ways, including direct financial assistance. That support magnifies the impact each of us can make.

Dominick Mondi, Institutional Sales and Trading
While each of our distinguishing characteristics and core values is important to the firm, no single factor stands out. Instead, it is the combination of these principles, working in concert, that makes the firm special. Similarly, the breadth and depth of our capabilities are key to our success. By leveraging talent and resources across the firm, and exploiting synergies, we provide clients with a uniquely valuable service.

“Mesirow Financial’s broad scope and collaborative culture offer an exceptionally productive environment. We have the depth of resources to operate globally, yet we feel personally and jointly accountable for helping clients achieve their goals.”

Dennis Black, Legal and Compliance
## Financial Highlights

### Unconsolidated Revenue (millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>$451</td>
<td>$492</td>
<td>$526</td>
<td>$510</td>
<td>$510</td>
</tr>
</tbody>
</table>

### Stockholders’ Equity (millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>$210</td>
<td>$246</td>
<td>$250</td>
<td>$299</td>
<td>$302</td>
</tr>
</tbody>
</table>

### Assets Under Management (billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>$25.0</td>
<td>$32.2</td>
<td>$28.8</td>
<td>$40.3</td>
<td>$55.4</td>
</tr>
</tbody>
</table>
## Investment Management

### Alternatives – Multi-Manager

<table>
<thead>
<tr>
<th>Advanced Strategies</th>
<th>■ Hedge fund of funds management</th>
<th>■ Hedge fund of funds advisory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity</td>
<td>■ Partnership investment programs</td>
<td>■ Separately managed accounts</td>
</tr>
<tr>
<td>Real Estate</td>
<td>■ Diversified portfolios of real estate fund managers</td>
<td></td>
</tr>
</tbody>
</table>

### Alternatives – Direct

<table>
<thead>
<tr>
<th>Currency</th>
<th>■ Hedge maintenance</th>
<th>■ e-view Currency Advisor®</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>■ Currency overlay</td>
<td>■ Portable alpha</td>
</tr>
<tr>
<td>Commodities</td>
<td>■ Absolute return strategies</td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>■ Direct investment programs</td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>■ Diversified portfolios of real estate assets</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>■ Direct investment programs</td>
<td>■ Separately managed accounts</td>
</tr>
</tbody>
</table>

### Traditional

| U.S. Value Equity   | ■ Micro-cap value                | ■ Small-cap value            |
|                     | ■ Mid-cap value                  | ■ Large-cap value            |
|                     | ■ SMid-cap value                 | ■ All-cap value              |
| International Equity| ■ EAFE plus                      | ■ Global                     |
|                     | ■ Emerging markets              | ■ Global SRI                 |
|                     | ■ International                  | ■ Research                   |
| Fixed Income        | ■ Core total return              | ■ Government/credit          |
|                     | ■ Short                          | ■ Intermediate              |
|                     |                                 | government/credit            |
|                     |                                 | ■ Core plus                  |

### Advisory

<table>
<thead>
<tr>
<th>Investment Advisory</th>
<th>■ Discretionary fee-based investment management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Plan Advisory</td>
<td>■ Retirement plan advisory services</td>
</tr>
<tr>
<td>Investment Strategies</td>
<td>■ Fiduciary partnership services</td>
</tr>
<tr>
<td></td>
<td>■ Risk-based and target maturity asset allocation strategies</td>
</tr>
</tbody>
</table>
## Global Markets

<table>
<thead>
<tr>
<th>Institutional Sales and Trading</th>
<th>Distribution and proprietary trading of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Asset-backed securities</td>
</tr>
<tr>
<td></td>
<td>- Collateralized mortgage obligations</td>
</tr>
<tr>
<td></td>
<td>- Credit tenant lease loans</td>
</tr>
<tr>
<td></td>
<td>- Mortgage-backed securities</td>
</tr>
<tr>
<td></td>
<td>- Preferred stocks</td>
</tr>
<tr>
<td></td>
<td>- Convertible bonds</td>
</tr>
<tr>
<td></td>
<td>- Corporate bonds</td>
</tr>
<tr>
<td></td>
<td>- High yield securities</td>
</tr>
<tr>
<td></td>
<td>- Municipal bonds</td>
</tr>
<tr>
<td></td>
<td>- U.S. government and agency securities</td>
</tr>
</tbody>
</table>

| Public Finance                | - Public underwriting                      |
|                              | - Financial advisory services              |

| Investment Banking           | - Merger and acquisition advisory         |
|                              | - Capital markets                         |
|                              | - Restructuring and special situations    |
|                              | - Fairness and solvency opinions         |
|                              | - Board of directors advisory             |
|                              | - Special committee representation       |

| Credit Tenant Lease Finance  | - Long-term financing solutions           |

| Sale-Leaseback Capital      | - Sale-leaseback and other single-tenant transactions |
|                            | - Capital for companies with real estate holdings |
|                            | - Lease modification program for existing leases |
|                            | - Long-term passive real estate investments   |

| Investment Brokerage        | - Nondiscretionary, transaction-based investment services |

| Options Strategies          | - Strategies for controlling risk/reward potential |

| Clearing Services           | - Clearing, execution, financing and technology services |

## Insurance Services

| Property and Casualty       | - Program design, negotiation and implementation |
|                            | - Claims, loss control and risk management services |
|                            | - Focused practice groups in surety, healthcare, management liability, aviation and construction |

| Employee Benefits           | - Integrated human resources and payroll solutions |
|                            | - Program design, negotiation and implementation |
|                            | - Benefit design, cost and employee contribution benchmarking |
|                            | - Claim experience review, analysis and modeling |

| Life and Disability         | - Strategies to increase estate value and minimize taxes |
|                            | - Senior services |

| Private Client Insurance    | - Custom insurance programs for sizeable assets and liability exposures |

| Structured Settlements     | - Development and management of settlements |

## Consulting

| Financial Advisory         | - Corporate recovery |
|                            | - Valuation services |
|                            | - Due diligence services |
|                            | - Operations and performance improvement |
|                            | - Interim management |
|                            | - Alternative investment services |
|                            | - Technology advisory services |
|                            | - Litigation, investigative and intelligence services |

| Real Estate Consulting     | - Strategies for managing real estate assets |

| Compensation and Executive Benefit Strategies | - Plan design |
|                                               | - Plan financing |
|                                               | - Actuarial consulting services |
> **2011 Accomplishments**

Mesirow Financial performed well during the year, despite a sluggish economy and prevailing uncertainty about a recovery. Equally important, we continued to attract new clients and add skilled professionals to strengthen our capabilities. Highlights of fiscal 2011 include:

**Corporate**

> Sadly, James C. Tyree, our CEO of 17 years, passed away on March 16, 2011. Immediately thereafter, Richard S. Price was elected chairman and CEO.

> We solidified our management structure by expanding our board to 15 members and creating a 10-person Management Committee responsible for the strategic direction and growth of the firm. This committee evaluates all substantive business issues and makes recommendations to the board for action. The firm’s Executive Committee was replaced by a Business Managers Forum, whose goals are to share information, collaborate across the organization and help realize natural synergies.

> While fiscal 2011 was a year of record profitability, revenues prior to the consolidation of limited partnerships were $510 million, a decrease of 3% from fiscal 2010 revenues of $526 million. Rather than top-line growth, we focused on gathering assets, improving the profitability of several newer businesses and maximizing return on equity to enhance shareholder value.

> Stockholders’ equity, held by approximately 320 of our senior employees, was $302 million, compared with $299 million at the beginning of the year, after adjusting for the mandatory repurchase of stock owned by our former chairman and CEO. The stock was repurchased out of company capital.

> The number of professionals at the firm remained stable at 1,200. We expanded our London office to help us serve an increasing global client base. That location now includes representatives from our Advanced Strategies, Currency and Commodities and Real Estate fund of funds businesses.

> In February, we announced a joint venture with Mubadala Development Company in Abu Dhabi. Initially, the venture will focus on offering currency and commodity expertise to the Middle East, North Africa and South Asia.

> As part of our global strategy, Advanced Strategies announced plans to open an office in Hong Kong during fiscal 2012 to better serve our Asian clients.

> The company continued to expand its enterprise risk management with the formation and development of risk-specific oversight committees among our diverse businesses as well as the addition to staff on our internal audit team.
Investment Management

> Revenues from our Investment Management Division totaled $213 million, a 19% increase from last year, driven by new client inflows as well as improving asset values as the markets rebounded.

> Assets under management rose to $55.4 billion at year end, up 37% from $40.3 billion a year ago. Alternative investments constitute 80% of our overall assets. More than 60% of the firm’s assets and 16% of our revenues come from foreign clients.

> In Advanced Strategies, performance for the year was strong, with assets up 13.5%, driven by our credit strategies. Throughout the global economic upheaval, we continued to meet the needs of our clients while investing in our quantitative research capabilities and new product development.

> Efforts in our Private Equity business have continued to result in revenue growth as well as expanded investment access to partnership and direct private equity and venture capital investment opportunities.

> Assets under management in our Currency Management business rose to $25.7 billion, reflecting significant growth. As one of the pioneers in the field, we offer innovative portable alpha, hedge maintenance and overlay products that help clients effectively manage their currency exposures.

> The Commodities Management business launched two years ago has accumulated approximately $1.5 billion in assets. We have strengthened our product offerings with both passive and active commodity management capabilities, with a focus on new opportunities in Europe.

> The Real Estate, Multi-Manager and Direct groups are well-positioned in a depressed real estate market. In Multi-Manager, we completed several rounds of capital raising and ended fiscal 2011 with nearly $300 million in assets in our international and domestic funds. The Direct unit completed its second fund closing and is well positioned to reach its $250 million target.

> In U.S. Value Equity, products in incubation achieved top-tier results, and we continued our focus on strong performance in our key platforms, ending the year with $860 million in client assets under management.

> Activity has been strong in Fixed Income Management, which ended the fiscal year with assets under management of $3.4 billion. More than $500 million in additional assets were awarded during the fiscal year, but had not yet funded by March 31, 2011.

> In Institutional Sales and Marketing, our team of professionals raised more than $760 million in assets this year. Working with the consultant community as well as directly with clients, they facilitate access to all our institutional products.

> Assets under management in our Investment Advisory business increased nearly $1 billion to $5.7 billion at year end. We also strengthened our 401(k) retirement plan advisory capabilities by adding talented professionals.

> Our Investment Strategies business secured a dominant market position with our fiduciary partnership service in the defined contribution space. We now provide fiduciary oversight to over 9,000 plans and $11 billion in assets.
Global Markets

> Less volatility in several industries, as well as a difficult credit environment, led to a decline in Global Markets revenues to $153 million from $196 million.

> Although revenues were 28% lower for Institutional Sales and Trading, fiscal 2011 was still the second-best year in the group’s history. We added an office in San Francisco, allowing us to expand distribution of our product offerings to new institutional clients.

> Along with adding many new municipal sales and trading professionals, we expanded our Public Finance group to serve a growing client base looking for innovative financial structures. During fiscal 2011, we served as underwriter on more than 128 deals totaling more than $12.6 billion.

> In Investment Banking, revenues increased 16% to more than $7 million. Packaging, consumer products and industrials remain our core competencies, and we have a solid pipeline of future engagements. The group posted a record first quarter in fiscal 2012, closing four deals in one month alone.

> We began offering the private placement of quality credit leases in single-tenant occupied buildings through our new Credit Tenant Lease Finance business. This group closed seven transactions in fiscal 2011, totaling $161 million.

> Sale-Leaseback Capital completed the acquisition of 10 properties in the convenience store market in fiscal 2011, with three sold by mid-July 2011. The group developed a new business model and will begin aggregating a portfolio of these stores to eventually launch a fund for institutional investors. We have entered into an agreement with an institutional investment management company to raise $300 million in co-investment equity.

> Revenues increased 13.6% in Investment Brokerage due in part to the options strategies capability we added in 2010. Our smaller, more focused team of Investment Brokerage professionals serves individuals who seek nondiscretionary investment services on a commission basis.

> Custodied assets in our Clearing Services business increased 13.3% to $7.1 billion, despite a challenging market.
Insurance Services

> Insurance Services revenues were $88 million, nearly the same as last year. The economic downturn impacted many of our clients by lowering revenues and reducing headcounts, which had a downward effect on insurance premiums. Yet, we retained our ranking as the 23rd-largest agency in the nation.

> In Property and Casualty, we added $4.6 million in new business during fiscal 2011.

> Our Employee Benefits practice continued to focus on health care reform communication and education, and expansion of our consulting and human resources services. Affirming that our value proposition has traction in the marketplace, we added $2 million in new business during the fiscal year.

> Activity remained high in our Life and Disability group, helping our clients prepare for a changing tax environment in 2011 and 2012. Audit and analysis of existing client life insurance portfolios continued to be a large part of our activities. Corporate insurance needs, including keyperson and buy-sell coverages as well as executive benefit planning with life and long-term disability, increased in 2011.

> We focused on strengthening market share in Structured Settlements to position the group for further growth. Despite low interest rates, we have seen additional business from new professionals and have assisted our clients with other financial needs.

> In May 2011, an Insurance Management Committee was formed to provide overall leadership and strategic direction for our Insurance business. Norm Malter was named president of the agency and John Harney was appointed chief operating officer.

Consulting

> Our Consulting Division posted revenues of nearly $46.5 million, compared with $58.4 million for fiscal 2010, due largely to the uncertain economic recovery.

> While a lack of large corporate bankruptcies limited revenues in Mesirow Financial Consulting, we participated in an increased number of litigation engagements. By broadening our platform more than three years ago, we developed a flexible practice that is poised for growth in all market cycles. The first quarter of fiscal 2012 brought strong utilization levels.

> In an effort to reposition our Real Estate practice, we focused on bringing restructuring, litigation support, valuation and development management capabilities to the marketplace. Natural business synergies exist within Mesirow Financial Consulting, Credit Tenant Lease Finance and Investment Banking.

> Revenues from Compensation and Executive Benefit Strategies decreased to $2.7 million as incentive compensation for corporations remained soft. In 2011, corporate enrollment in COLI plans is expected to return to 2009 plan-contribution levels. Excess cash on corporate balance sheets continues to create opportunities to augment financing on nonqualified plan liabilities and generate additional revenue.
## Mesirow Financial Holdings, Inc. and Subsidiaries
### Consolidated Statements of Financial Condition, March 31, 2011 and 2010

<table>
<thead>
<tr>
<th>March 31,</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$163,735,000</td>
<td>$134,688,000</td>
</tr>
<tr>
<td>Cash and securities segregated in compliance with federal and other regulations</td>
<td>$77,660,000</td>
<td>$87,793,000</td>
</tr>
<tr>
<td>Securities borrowed</td>
<td>$52,059,000</td>
<td>$65,183,000</td>
</tr>
<tr>
<td>Receivables from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>$76,811,000</td>
<td>$71,125,000</td>
</tr>
<tr>
<td>Brokers, dealers and clearing organizations</td>
<td>$33,064,000</td>
<td>$21,013,000</td>
</tr>
<tr>
<td>Others</td>
<td>$56,134,000</td>
<td>$59,365,000</td>
</tr>
<tr>
<td>Deposits with clearing organizations</td>
<td>$5,305,000</td>
<td>$8,854,000</td>
</tr>
<tr>
<td>Securities owned, at fair value</td>
<td>$242,991,000</td>
<td>$207,021,000</td>
</tr>
<tr>
<td>Investments in and advances to affiliates</td>
<td>$24,475,000</td>
<td>$19,342,000</td>
</tr>
<tr>
<td>Investments of limited partnerships</td>
<td>$5,416,826,000</td>
<td>$5,213,384,000</td>
</tr>
<tr>
<td>Property, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of $55,603,000 and $48,553,000</td>
<td>$70,323,000</td>
<td>$72,055,000</td>
</tr>
<tr>
<td>Intangible assets, at cost less accumulated amortization of $24,841,000 and $23,660,000</td>
<td>$56,259,000</td>
<td>$55,719,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>$56,259,000</td>
<td>$55,719,000</td>
</tr>
<tr>
<td>Other assets</td>
<td>$67,960,000</td>
<td>$89,003,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$6,353,974,000</strong></td>
<td><strong>$6,109,988,000</strong></td>
</tr>
</tbody>
</table>

| **Liabilities and Equity** |           |           |
| Liabilities: |           |           |
| Payables to: |           |           |
| Customers | $129,605,000 | $124,875,000 |
| Brokers, dealers and clearing organizations | $30,625,000 | $58,232,000 |
| Bank loans and overdrafts | $143,870,000 | $104,088,000 |
| Securities sold, not yet purchased, at fair value | $65,945,000 | $64,855,000 |
| Liabilities of limited partnerships | $492,384,000 | $453,729,000 |
| Accounts payable, accrued expenses and other liabilities | $159,403,000 | $172,166,000 |
| Notes and loans payable | $40,428,000 | $56,675,000 |
| mandatorily redeemable stock | $48,240,000 | — |
| **Total liabilities** | **$1,110,500,000** | **$1,034,620,000** |
| Equity: |           |           |
| Mesirow Financial Holdings, Inc. stockholders’ equity | $301,853,000 | $298,919,000 |
| Non-controlling interests | $4,941,621,000 | $4,776,449,000 |
| **Total equity** | **$5,243,474,000** | **$5,075,368,000** |
| **Total liabilities and equity** | **$6,353,974,000** | **$6,109,988,000** |

The accompanying notes are an integral part of these Consolidated Statements of Financial Condition.
Notes to the Consolidated Statements of Financial Condition
March 31, 2011 and 2010

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:

- Global Markets
- Investment Management
- Insurance Services
- Consulting

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 prices for equivalent instruments.

Securities borrowed and securities loaned transactions are recorded on the Consolidated Statements of Financial Condition 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 which 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 in affiliates which are carried at fair value.

Limited Partnerships
The assets, liabilities and results of operations of a Variable Interest Entity (“VIE”) are consolidated into the Consolidated Statements of Financial Condition of the Company when the Company is considered to have controlling financial interest in it. A framework is used to determine 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.

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 and described below.

Investments in real estate limited partnerships are recorded at cost, which primarily comprise land, building 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 to the Company monthly by these investment funds and are net of management and incentive allocations/fees. The hedge fund of funds have the ability to liquidate their direct and indirect investments periodically, ranging from quarterly to tri-annually, depending on the provisions of the respective offering documents.

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. The private equity investments are structured with specific termination dates, however allow for specified extension periods to provide for orderly liquidation of remaining assets.

Liabilities of limited partnerships consist of funds awaiting investment, debt, and payables which are carried at amounts payable by the limited partnerships.

**Fair Value Measurements**

Fair value is defined 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.

In determining fair value, the Company 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 and obligations of U.S. government securities.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability either directly or indirectly for substantially the full term of the instrument, 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 (TBA’s) 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 certain high yield corporate debt, certain investments in hedge fund of funds, private equity investments and securities with inactive markets.

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

**U.S. government and agency securities** U.S. treasury securities are valued using quoted market prices and are generally classified as Level 1 in the fair value hierarchy. The fair value of agency issued debt securities is derived using market prices and recent trade activity gathered from independent dealer pricing services or brokers. TBA’s are generally valued using quoted market prices. Agency issued debt securities and TBA’s are generally classified as Level 2 in the fair value hierarchy.

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

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

**Municipal bonds** The fair value of municipal bonds is derived using recent trade activity, market price quotations and new issuance levels. In the absence of this information, fair value is calculated using comparable bond credit spreads. Current interest rates, credit events, and individual bond characteristics such as coupon, call features, maturity, and revenue purpose are considered in the valuation process. These bonds are generally classified as Level 2 in the fair value hierarchy.
Mortgage and asset backed securities Mortgage and asset backed securities are valued based on observable price or credit spreads for the particular security, or when price or credit spreads are not observable, the valuation is based on prices of comparable bonds or the present value of expected future cash flows. When estimating the fair value based upon the present value of expected future cash flows, the Company uses its best estimate of the key assumptions, including forecasted credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved, while also taking into account performance of the underlying collateral.

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

Private investment funds and partnerships Private investment funds and partnerships include hedge fund of funds and private equity funds that are valued at fair value. Private investment funds and partnerships are generally classified as Level 2, unless market inputs require significant subjectivity in which they are then classified as Level 3.

The Company calculates the fair value of its investments in affiliated and private investment funds through the use of the net asset value (the Fund’s pro-rata interest) reported to the Fund by the affiliated and private investment funds. Fund investments where fair value is the Fund’s pro-rata interests in the investment fund are classified as Level 2 investments. Furthermore, the Fund’s investments in side-pockets are classified as Level 3 investments.

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, over the shorter of the estimated useful life or terms of the related leases, which range from one to seventeen 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, 2011 and 2010, the carrying value of these assets, primarily customer lists, was $8,372,000 and $9,443,000, 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.

Goodwill and intangible assets with indefinite lives are not amortized but are subject to analysis for impairment at least annually. During the years ended March 31, 2011 and 2010, all additions in the carrying amount of the Company’s goodwill were
the result of contingent payments on 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 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.

**Reclassifications**
The Company reclassified Securities Borrowed on the Consolidated Statement of Financial Condition for 2010 to conform with the current year presentation. Securities Borrowed was previously included in Receivables from Brokers, Dealers and Clearing Organizations. The reclassification had no impact on consolidated assets.

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

On April 1, 2010, the Company adopted guidance issued by the Financial Accounting Standards Board (“FASB”) on issues related to VIEs. The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity’s involvement with such VIEs. The revised guidance also enhances the disclosure requirements for a reporting entity’s involvement with VIEs, including presentation on the Consolidated Statements of Financial Condition of assets and liabilities of consolidated VIEs which meet the separate presentation criteria and disclosure of assets and liabilities recognized in the Consolidated Statements of Financial Condition and the maximum exposure to loss for those VIEs in which a reporting entity is determined to not be the primary beneficiary but in which it has a variable interest. The guidance provides a limited scope deferral for a reporting entity’s interest in an entity that meets all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, Investment Companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset-backed financing entity or an entity that was formerly considered a qualifying special-purpose entity. The revised guidance also enhances the disclosure requirements for a reporting entity’s involvement with VIEs, including presentation on the Consolidated Statements of Financial Condition, if any.

On April 1, 2010, the Company adopted guidance issued by the Financial Accounting Standards Board (“FASB”) on issues related to VIEs. The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity’s involvement with such VIEs. The revised guidance also enhances the disclosure requirements for a reporting entity’s involvement with VIEs, including presentation on the Consolidated Statements of Financial Condition.
Note 2. Fair Value of Financial Instruments

At March 31, 2011 and 2010, the Company’s assets and liabilities measured at fair value consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equities</td>
<td>$6,600,000</td>
<td>$5,187,000</td>
<td>$629,000</td>
<td>$12,416,000</td>
</tr>
<tr>
<td>U.S. government and agency securities</td>
<td>$253,000</td>
<td>$52,535,000</td>
<td></td>
<td>$52,788,000</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td></td>
<td>$23,416,000</td>
<td>$969,000</td>
<td>$24,385,000</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td></td>
<td>$118,147,000</td>
<td></td>
<td>$118,147,000</td>
</tr>
<tr>
<td>Mortgage and asset backed securities</td>
<td></td>
<td>$34,544,000</td>
<td></td>
<td>$34,544,000</td>
</tr>
<tr>
<td>Mortgage-backed to-be-announced securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>$536,000</td>
<td>$175,000</td>
<td></td>
<td>$711,000</td>
</tr>
<tr>
<td>Securities owned</td>
<td>$7,389,000</td>
<td>$234,004,000</td>
<td>$1,598,000</td>
<td>$242,991,000</td>
</tr>
<tr>
<td>Investments in and advances to affiliates</td>
<td>$16,342,000</td>
<td></td>
<td></td>
<td>$16,342,000</td>
</tr>
<tr>
<td>Private investment funds and partnerships</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge fund of funds</td>
<td></td>
<td>$3,199,756,000</td>
<td>$241,647,000</td>
<td>$3,441,403,000</td>
</tr>
<tr>
<td>Private equity funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct investments</td>
<td>$8,614,000</td>
<td></td>
<td>$147,471,000</td>
<td>$156,085,000</td>
</tr>
<tr>
<td>Fund of funds</td>
<td></td>
<td></td>
<td>$1,148,461,000</td>
<td>$1,148,461,000</td>
</tr>
<tr>
<td>Other</td>
<td>$17,756,000</td>
<td></td>
<td></td>
<td>$17,756,000</td>
</tr>
<tr>
<td>Total private investment funds and partnerships</td>
<td>$26,370,000</td>
<td>$3,199,756,000</td>
<td>$1,537,579,000</td>
<td>$4,763,705,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$50,101,000</td>
<td>$3,433,760,000</td>
<td>$1,539,177,000</td>
<td>$5,023,038,000</td>
</tr>
</tbody>
</table>

| **Liabilities**      |         |         |         |          |
| Equities             | $5,819,000 |  |  | $5,819,000 |
| U.S. government and agency securities | $37,615,000 | $7,682,000 |  | $45,297,000 |
| Corporate bonds      |  | $1,370,000 |  | $1,370,000 |
| Municipal bonds      |  | $1,739,000 |  | $1,739,000 |
| Mortgage-backed to-be-announced securities |  | $11,720,000 |  | $11,720,000 |
| Securities sold, not yet purchased | $43,434,000 | $22,511,000 |  | $65,945,000 |
| Total liabilities    | $43,434,000 | $22,511,000 |  | $65,945,000 |
Transfers between Level 1 and Level 2 assets and liabilities were not significant for the year ended March 31, 2011.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>$14,238,000</td>
<td>$430,000</td>
<td>$172,000</td>
<td>$14,840,000</td>
</tr>
<tr>
<td>U.S. government and agency securities</td>
<td>—</td>
<td>$55,746,000</td>
<td>—</td>
<td>$55,746,000</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>—</td>
<td>$7,038,000</td>
<td>$1,020,000</td>
<td>$8,058,000</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>—</td>
<td>$91,935,000</td>
<td>—</td>
<td>$91,935,000</td>
</tr>
<tr>
<td>Mortgage and asset backed securities</td>
<td>—</td>
<td>$36,352,000</td>
<td>—</td>
<td>$36,352,000</td>
</tr>
<tr>
<td>Other</td>
<td>$90,000</td>
<td>—</td>
<td>—</td>
<td>$90,000</td>
</tr>
<tr>
<td>Securities owned</td>
<td>14,328,000</td>
<td>191,501,000</td>
<td>1,192,000</td>
<td>207,021,000</td>
</tr>
<tr>
<td>Investments in and advances to affiliates</td>
<td>14,643,000</td>
<td>—</td>
<td>—</td>
<td>14,643,000</td>
</tr>
<tr>
<td>Hedge fund of funds</td>
<td>—</td>
<td>3,471,086,000</td>
<td>275,252,000</td>
<td>3,746,338,000</td>
</tr>
<tr>
<td>Private equity funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct investments</td>
<td>2,429,000</td>
<td>7,158,000</td>
<td>110,395,000</td>
<td>119,982,000</td>
</tr>
<tr>
<td>Fund of funds</td>
<td>—</td>
<td>—</td>
<td>775,404,000</td>
<td>775,404,000</td>
</tr>
<tr>
<td>Other</td>
<td>6,742,000</td>
<td>—</td>
<td>—</td>
<td>6,742,000</td>
</tr>
<tr>
<td>Total private investment funds and partnerships</td>
<td>9,171,000</td>
<td>3,478,244,000</td>
<td>1,161,051,000</td>
<td>4,648,466,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$38,142,000</td>
<td>$3,669,745,000</td>
<td>$1,162,243,000</td>
<td>$4,870,130,000</td>
</tr>
</tbody>
</table>

| Liabilities | | | | |
| Equities | $5,654,000 | $390,000 | — | $6,044,000 |
| U.S. government and agency securities | 48,560,000 | — | — | 48,560,000 |
| Corporate bonds | — | 2,518,000 | — | 2,518,000 |
| Mortgage and asset backed securities | — | 251,000 | — | 251,000 |
| Mortgage-backed to-be-announced securities | — | 7,482,000 | — | 7,482,000 |
| Securities sold, not yet purchased | 54,214,000 | 10,641,000 | — | 64,855,000 |
| Interest rate derivative, included in liabilities of limited partnerships | — | 8,453,000 | — | 8,453,000 |
| Total liabilities | $54,214,000 | $19,094,000 | — | $73,308,000 |

Investments in limited partnerships with a carrying amount of $387,663,000 were written down to their fair value of $381,406,000 at March 31, 2010.

Investments in and advances to affiliates with a carrying amount of $2,663,000 were determined to be impaired and written down to their fair value of $2,455,000 at March 31, 2010.

At March 31, 2011, no impairment charges were recorded related to assets that are measured at fair value on a nonrecurring basis.

Included in liabilities of limited partnerships are a combined interest rate cap and floor that were entered into during 2006 to manage the underlying partnership’s exposure to interest rate changes associated with its variable rate debt based upon a notional balance of the estimated construction draws on the senior mortgage. Such exposure may arise from liabilities with a contractual variable rate based on the London Interbank Offered Rate (“LIBOR”). The interest rate floor is structured such that the partnership will make payments if LIBOR is below the agreed upon contractual rate and receive payments under the cap if above an agreed upon contractual rate. The interest rate cap and floor are valued using market-standard models and the inputs to the valuation model represent observable market data available at commonly quoted intervals for the full term of the contract. As of March 31, 2010, the notional balance for the interest rate cap and floor were each $343,130,000 with an estimated fair value of the cap and floor of zero and $8,453,000, respectively. There were no interest rate caps or floors outstanding as of March 31, 2011.

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 and overdrafts) 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
Notes to the Consolidated Statements of Financial Condition
March 31, 2011 and 2010

fair value of the Company’s notes and loans payable, including debt secured by real estate investments, was approximately $262,794,000 and $439,705,000 as of March 31, 2011 and 2010, respectively.

**Note 3. Receivables From and Payable to Brokers, Dealers and Clearing Organizations**

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities failed to deliver</td>
<td>$14,892,000</td>
<td>$6,916,000</td>
</tr>
<tr>
<td>Amounts receivable from clearing organizations for settled securities</td>
<td>12,341,000</td>
<td>8,539,000</td>
</tr>
<tr>
<td>Amounts receivable from correspondent broker/dealers</td>
<td>5,831,000</td>
<td>5,558,000</td>
</tr>
<tr>
<td><strong>Total receivables</strong></td>
<td><strong>$33,064,000</strong></td>
<td><strong>$21,013,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities failed to receive</td>
<td>$17,432,000</td>
<td>$12,024,000</td>
</tr>
<tr>
<td>Amounts payable to clearing organizations for settled securities</td>
<td>470,000</td>
<td>871,000</td>
</tr>
<tr>
<td>Amounts held as margin and escrow deposits for correspondent broker/dealers</td>
<td>2,180,000</td>
<td>1,871,000</td>
</tr>
<tr>
<td>Amounts payable for unsettled trades</td>
<td>8,869,000</td>
<td>41,990,000</td>
</tr>
<tr>
<td>Commissions payable to correspondent broker/dealers</td>
<td>1,674,000</td>
<td>1,476,000</td>
</tr>
<tr>
<td><strong>Total payables</strong></td>
<td><strong>$30,625,000</strong></td>
<td><strong>$58,232,000</strong></td>
</tr>
</tbody>
</table>

**Note 4. Property, Equipment and Leasehold Improvements**

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>$21,283,000</td>
<td>$20,562,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>31,946,000</td>
<td>31,123,000</td>
</tr>
<tr>
<td>Software</td>
<td>8,019,000</td>
<td>7,590,000</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>64,611,000</td>
<td>57,689,000</td>
</tr>
<tr>
<td>Construction in-progress</td>
<td>67,000</td>
<td>3,644,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>125,926,000</strong></td>
<td><strong>120,608,000</strong></td>
</tr>
</tbody>
</table>

**Note 5. 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 buildings, shopping centers, commercial and residential land developments and apartments.

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private investment funds and partnerships</td>
<td>$4,763,705,000</td>
<td>$4,648,466,000</td>
</tr>
<tr>
<td>Invested cash</td>
<td>166,203,000</td>
<td>159,657,000</td>
</tr>
<tr>
<td>Real estate and other assets</td>
<td>486,918,000</td>
<td>405,261,000</td>
</tr>
<tr>
<td><strong>Total investments of limited partnerships</strong></td>
<td><strong>$5,416,826,000</strong></td>
<td><strong>$5,213,384,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds awaiting investment</td>
<td>$64,188,000</td>
<td>$8,875,000</td>
</tr>
<tr>
<td>Debt secured by real estate investments</td>
<td>222,366,000</td>
<td>374,347,000</td>
</tr>
<tr>
<td>Payables</td>
<td>205,830,000</td>
<td>70,507,000</td>
</tr>
<tr>
<td><strong>Total liabilities of limited partnerships</strong></td>
<td><strong>$492,384,000</strong></td>
<td><strong>$453,729,000</strong></td>
</tr>
</tbody>
</table>

**Affiliated Partnerships**

Investments in and advances to affiliates of $24,475,000 and $19,342,000 at March 31, 2011 and 2010, respectively, represent the Company’s interest in those affiliates.

**Note 6. Bank Loans and Overdrafts**

Bank loans and overdrafts include demand notes, which bear interest at fluctuating rates based upon the broker call rate (2.00% at March 31, 2011 and 2010), and overdrafts. Demand notes of $143,800,000 and $103,700,000 are collateralized by securities owned of approximately $175,856,000 and $143,763,000 at March 31, 2011 and 2010, respectively. In pledging securities owned, the Company has not surrendered control. As of March 31, 2011 and 2010, the Company has unused secured and unsecured lines of credit with various banks totaling approximately $196,200,000 and $151,300,000, respectively.

**Note 7. Credit Facilities and Notes and Loans Payable**

Pursuant to an Amended Credit Agreement dated November 30, 2010, the Company has a revolving credit facility for an aggregate of $85,000,000 (Revolving Loan) and a term loan of
$35,000,000 (Syndicated Term Loan). The Revolving Loan bears
interest at the lower of the prime rate (3.25% as of March 31,
2011) or a LIBOR option as defined per the terms of the loan
agreement. The Revolving Loan includes letters of credit totaling
$2,502,000 as of March 31, 2011. The Revolving Loan and
Syndicated Term Loan mature on March 26, 2013. As of March 31,
2011 and 2010, the Syndicated Term Loan outstanding
balance was $28,000,000 and $35,000,000, respectively. No
amounts were outstanding on the Revolving Loan as of March 31,
2011 and 2010. Scheduled principal payments on the
Syndicated Term Loan are $7,000,000 and $21,000,000, for fiscal
years ending 2012 and 2013, respectively.

Pursuant to an Amended Credit Agreement dated June 4, 2010,
the Company has two term loans (collectively “Term Loans”)
aggregating $25,000,000, one of which requires monthly
principal payments and matures on March 26, 2013 and another
that matures on May 20, 2015. Both term loans require monthly
interest payments at either a prime rate option or LIBOR option
as defined per the terms of the loan agreement. As of March 31,
2011 and 2010, $12,500,000 and $21,806,000, respectively was
outstanding on the Term Loans as one note was fully repaid.
Scheduled principal payment on the remaining Term Loan is at
maturity on May 20, 2015.

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,
2011, 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, 2011.

In addition, notes and loans payable at March 31, 2011 and 2010,
include $539,000 and $668,000 of notes with varying maturities
resulting from acquisitions. The principal amount of these
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 8. Commitments

The Company leases office space and equipment under leases
expiring at various dates through 2026. The approximate
minimum lease payments under non-cancelable operating leases
as of March 31, 2011, are as follows:

<table>
<thead>
<tr>
<th>Years Ending March 31</th>
<th>Minimum Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$ 7,306,000</td>
</tr>
<tr>
<td>2013</td>
<td>6,309,000</td>
</tr>
<tr>
<td>2014</td>
<td>5,933,000</td>
</tr>
<tr>
<td>2015</td>
<td>5,511,000</td>
</tr>
<tr>
<td>2016</td>
<td>3,887,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>13,088,000</td>
</tr>
<tr>
<td>Total</td>
<td>$42,034,000</td>
</tr>
</tbody>
</table>

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

NOTE 9. Contingencies

Since 2005, the Company has been defending a party to a
purported class action relating to the long-standing industry-
wide practice of accepting contingent commissions from some
insurance carriers in connection with some lines of insurance
business. A settlement of that matter with a class of customers
designated for settlement purposes only received preliminary
approval from the court, the period for the settlement class to file
claims expired on June 6, 2011, and a hearing on the fairness of
the settlement and for final court approval is scheduled for early
September, 2011. Because no objections from members of the
settlement class were received by the claims deadline, it is
anticipated that final approval of the settlement will be granted by
the court at that hearing. This settlement, if approved, will not
result in any material effect on the Consolidated Statements of
Financial Condition of the Company.

In the normal course of business activities, the Company has
been named as a defendant in other various legal actions,
including actions against underwriting groups of which a
subsidiary of the Company was a syndicate member. In view of
the inherent difficulty of predicting the outcome of litigation and
other claims, the Company cannot state with certainly the
outcome of pending litigation or other claims. In the opinion of
management, these actions will not result in any material 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 $18,500,000 as of March 31, 2011, expires on
September 1, 2011, is renewable annually and is collateralized by
customer owned margin securities of approximately $23,103,000.
The Company, as a member of securities clearinghouses, provides certain financial guarantees. 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.

In connection with the Company’s former real estate development business, subsidiaries of the Company entered into a variety of guarantees of payment, completion or environmental indemnity with lenders to the projects. All of the Company’s real estate development projects have been sold or otherwise disposed of as of March 31, 2011. In connection with such transactions, the various guarantees previously issued were either released by the holder, satisfied in full or limited to matters for intentional wrong-doing and/or environmental indemnities. The Company and its subsidiaries are no longer involved in the operation of such projects, and the Company believes that the likelihood of liability for such matters is remote.

NOTE 10. 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 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.

TBAs provide for the delayed delivery of the underlying instrument. 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, 2011 and 2010.

The Company may be exposed to off-balance-sheet risk from the potential inability of customers or other counterparties to meet the terms of their contracts in connection with the clearance and settlement of securities and securities lending transactions. With respect to these activities the Company may be obligated to purchase the identical securities in the open market at prevailing prices in the event of non performance by the customer or counterparty. At both March 31, 2011 and 2010, 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
purposes are fiscal 2007 through 2011. It is the policy of the Company to recognize accrued interest and penalties related to uncertain tax positions in income tax expense.

NOTE 12. 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.

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 13. Stockholders’ Equity and Net Capital Requirements

The Company’s Amended and Restated Stockholders’ Agreement dated April 28, 2011 (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 nonvoting 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, 2011 and 2010, 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, 2011, the subsidiary had net capital and a net capital requirement of $60,106,000 and $1,500,000, respectively. At March 31, 2010, the subsidiary had net capital and a net capital requirement of $46,055,000 and $1,500,000, respectively.

Voting and non-voting common stock activities consist of the following for the years ended March 31, 2011 and 2010:
Notes to the Consolidated Statements of Financial Condition

March 31, 2011 and 2010

<table>
<thead>
<tr>
<th>Voting Common Stock, shares</th>
<th>Non-Voting Common Stock, shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, April 1, 2010</td>
<td>94,675</td>
</tr>
<tr>
<td></td>
<td>64,137</td>
</tr>
<tr>
<td>Issued</td>
<td>2,379</td>
</tr>
<tr>
<td></td>
<td>2,694</td>
</tr>
<tr>
<td>Converted</td>
<td>(1,000)</td>
</tr>
<tr>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Balance, March 31, 2010</td>
<td>96,054</td>
</tr>
<tr>
<td></td>
<td>67,831</td>
</tr>
<tr>
<td>Issued</td>
<td>2,036</td>
</tr>
<tr>
<td></td>
<td>3,585</td>
</tr>
<tr>
<td>Converted</td>
<td>(27,980)</td>
</tr>
<tr>
<td></td>
<td>27,980</td>
</tr>
<tr>
<td>Transferred to liabilities</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>(23,355)</td>
</tr>
<tr>
<td>Balance, March 31, 2011</td>
<td>70,110</td>
</tr>
<tr>
<td></td>
<td>76,041</td>
</tr>
</tbody>
</table>

During the year ended March 31, 2011, 23,355 non-voting common shares were transferred to Mandatorily Redeemable Stock on the Consolidated Statement of Financial Condition as the shares became mandatorily redeemable. These shares are reflected at their redemption value at March 31, 2011. The share redemption was completed on June 13, 2011.

NOTE 14. Related Party Transactions

As of March 31, 2011 and 2010, the Company owned shares of common stock in PrivateBancorp, Inc. (“PrivateBancorp”) with a carrying value of $24,331,000 and $21,801,000, respectively. PrivateBancorp are included in investments in and advances to affiliates and investments of limited partnerships on the Company’s Consolidated Statements of Financial Condition as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in and advances to</td>
<td>$16,342,000</td>
<td>$14,643,000</td>
</tr>
<tr>
<td>affiliates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in limited partnerships</td>
<td>7,989,000</td>
<td>7,158,000</td>
</tr>
</tbody>
</table>

PrivateBancorp is a party to a bank loan with a line of credit totaling $45,000,000 included in Note 6 and to the Syndicated Credit Facility disclosed in Note 7. As of March 31, 2011 and 2010, no amounts were outstanding.

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

NOTE 15. Subsequent Events

In accordance with the provisions set forth in FASB ASC Topic 855, management has evaluated subsequent events through June 30, 2011, the date the Consolidated Statement of Financial Condition was available to be issued. Management has determined that there are no material events that would require adjustment to or disclosure in the Company’s Consolidated Statements of Financial Condition.

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 subsidiaries (the “Company”) as of March 31, 2011 and 2010. 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 years ended December 31, 2010 and 2009 (included in the Company’s March 31, 2011 and 2010 consolidated statements of financial condition, respectively) which statements reflect total assets. The total assets of these limited partnerships constituted approximately 18 percent and 10 percent, respectively, of the consolidated total assets as of March 31, 2011 and 2010. 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, are 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial 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, based on our audits and the reports of the other auditors, such consolidated statements of financial condition present fairly, in all material respects, the financial position of Mesirow Financial Holdings, Inc. and subsidiaries as of March 31, 2011 and 2010 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Chicago, Illinois
June 30, 2011
We are Mesirow Financial – business leaders committed to our firm’s mission of helping our clients achieve their goals. We do that by partnering with clients and with one another. Knowing that each person makes a valuable contribution, we work together as a team to ensure our clients’ — and our own — enduring success.
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†Member, Management Committee
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