INTERESTS ALIGNED
GOALS ACHIEVED

Mesirow Financial 2013 Annual Report
Despite improving market conditions and continued low interest rates, the economy struggled to gain momentum over the last year, tempering consumer confidence. We recognize that in challenging environments like this, clients seek trusted advisors to provide information and ideas that lead to sound financial decisions. In good times and bad, Mesirow Financial partners with our clients, a position that has not only differentiated our firm in the marketplace, but also enabled us to grow over our 70-year history.

This year, we refined our firm’s strategic plan to help ensure that we are poised to continue to provide our clients with superior products and services. Given changes in our industry and increased competitive and regulatory pressures, we focused on developing a more comprehensive growth strategy as well as a formalized approach to the firm’s management and operations. Much was accomplished, and the process has united and energized our management team. Specifically, we further defined our CEO authority, ownership, governance and enterprise risk management as well as created a solid plan focused on the growth and future of Mesirow Financial.

Range of Capabilities Applied to Solve Client Problems

With expertise in Investment Management, Global Markets, Insurance Services and Consulting, we help institutions, corporations and private clients across the globe with a range of high-quality solutions. Each business contributes to the firm’s success, and our portfolio’s synergies bring greater capabilities, integrated solutions and unique perspectives to our clients. In addition, our firm’s product and market diversification helps us achieve consistent, long-term performance, and clients benefit from working with a stable team of reliable professionals.

Get to know Mesirow Financial and what we can do for you.

Richard S. Price, Chairman and Chief Executive Officer
As an independent investment manager, Mesirow Financial is among the top alternative investment managers in the world, the second-largest manager of U.S. pension funds worldwide, among the top five managers of currency assets, and an expert in quantitative manager selection and fiduciary services. We are also a specialized institutional fixed income sales and trading firm and a leader in middle-market investment banking and public finance. In insurance, we rank among the top consutants in the nation. And we are proud to be a premier financial advisor in some of the largest, most complex bankruptcies and related litigation matters in the United States.

We are strongly committed to entrepreneurial growth and investing in new businesses, especially within our core competencies. We deploy capital with careful thought and invest in businesses that offer profitable growth opportunities, provide consistent performance and allow us to deliver more comprehensive solutions to our clients. Our efforts in fiscal 2014 will focus on introducing new products and investment strategies, adding specific expertise and expanding our sales and distribution capabilities.

The strong institutional infrastructure of our shared services departments provides superior services to the enterprise, yet allows our businesses the entrepreneurial spirit and freedom to act quickly. Our goal is to leverage our investments and increase efficiency across the organization by extending best practices in client relationship management, talent management and technology solutions, while uniting the firm and building on our position as a leading global financial services organization.

Financially, our businesses have performed well. Revenues, prior to the consolidation of limited partnerships for the year ended March 31, 2013, increased 4% to $510 million, compared with $491 million a year ago. We also achieved our fourth consecutive year of record profitability, led by outstanding performance from our hedge fund of funds, institutional sales and trading, private equity, direct real estate, insurance and consulting businesses.

We have a strong balance sheet, available lines of credit and enough resources to execute our growth plans and expand as opportunities arise. As part of our strategic review last year, we determined that we had ample capital, which led us to declare a first-ever special dividend to our shareholders. After that payment, shareholders’ equity ended the year at $354 million.

Our 1,200 employees operate from our headquarters in Chicago and major offices in New York, San Francisco, Miami, London, Hong Kong and as part of a joint venture in Abu Dhabi. Building on our Chicago roots and Midwestern sensibilities, we will continue to expand globally, as international clients and markets play an increasingly important role. In fact, 70% of assets under management and 17% of revenues are generated by foreign clients in 37 countries.

Solutions Delivered by Passionate Professionals
Our businesses operate with autonomy, yet they work collaboratively for our clients and operate within the overarching values and leadership norms that differentiate Mesirow Financial in the marketplace.

An important attribute of our firm, independence, aligns our interests with clients, retains and motivates our professionals and enables free thinking. In the following pages of this report, you’ll see that because our interests are aligned with those of our clients, goals are achieved. We focus entirely on our clients and find the best solutions for each situation without distraction from Wall Street expectations or conflicts of interest.

Employee-ownership is another key driver of our culture. It motivates our professionals and aligns their success with that of our organization. As partners to one another, we operate with accountability, clarity of purpose and reliability, and reward those who embrace our way of doing business. And we provide a collegial environment, so our employees enjoy coming to work and serving our clients every day.

As a result, we build long-term relationships with our employees and with clients who are pleased to work with the same quality professionals year after year. In stark contrast to many large institutions, we focus on providing personalized attention and have an unwavering commitment to integrity. Our word matters, and we realize honesty and transparency are the cornerstones for building trust. Our relationships also extend outside the organization, as a corporate citizen committed to investing in the communities in which we live and work.

I am truly inspired by the commitment of our board of directors and personally driven to help our professionals achieve our clients’ goals. Thank you for the privilege and opportunity of working with you.

Sincerely,

Richard S. Price
Chairman and Chief Executive Officer
In Australia, where pension funds are large relative to the local asset markets, superannuation funds invest a substantial share of their assets in international markets, creating exposure to fluctuations in global currencies. Like many institutional investors with this kind of exposure, Australian superannuation funds had traditionally managed this risk by hedging a portion of it, focusing on getting the most cost-efficient trade execution possible. But as the Australian dollar appreciated to unprecedented levels – reaching and surpassing parity with the U.S. dollar – fund managers sought a more comprehensive currency management strategy to help ensure optimal overall fund performance.

Our Currency Management team worked with the funds to develop a three-tiered solution to systematically manage the hedges most efficiently. In addition to verifying that transactions received the best possible execution, the team performed quantitative analyses to determine the optimal hedge structure, including the relative benefits of hedging each currency in the portfolio at a given point in time, the timing and frequency of adjustments to hedge positions in response to market movements and the timing of alterations to the underlying hedge ratio. A third tier included careful management of additional portfolio risks, including cash flow settlements, residual currency risk and counterparty risk.

Developing this comprehensive and integrated solution began with a strong strategic partnership.
The overall value of an investment rests on two factors: performance, which drives value up, and costs (or fees), which pull in the opposite direction. Clients – such as firefighter, police, health care and other unions – that invest in hedge fund strategies have been increasingly focused on the fees they pay to underlying hedge fund managers and advisors. Minimizing investment management and advisory fees is important to clients because every basis point saved shows up in clients' portfolios as higher return and ultimately more cash available for their pension beneficiaries.

As a key strategic initiative over the past 18 months, our Advanced Strategies team has worked hard to source new managers and negotiate aggressively with existing managers to ensure that we and our clients pay a fair price for investment services. Negotiations have focused on lowering management and incentive fees, and also on using hurdle rates, which ensure that clients pay incentive fees only when an underlying manager exceeds a predefined rate of return.

This strategic initiative has resulted in fee savings for our clients. While the industry convention is to pay hedge fund managers a 2% management fee and 20% of profits, our clients pay an average rate of 1.46% in underlying manager fees. Incentive fees are also lower, based on lower incentive fee rates and newly established hurdle rates. This savings can go to improving the funded status of pension plans, shoring up bank, insurance company and sovereign fund reserves, and helping individuals meet their retirement goals.
Having invested time, energy and emotion into building a technology company, the two founders wished for their business to survive, even if one of them were to die prematurely. Their succession plan included corporate-owned life insurance (COLI) policies on both individuals, which would allow the company to purchase shares of stock from the estate of a deceased partner.

Believing that the company was well protected in the event of their deaths, they asked our Life Insurance professionals to ensure that the same was true for their families.

A thorough review of their overall insurance portfolios allowed our team to confirm that the partners’ personal coverages were appropriate for their needs. However, the team also discovered that the COLI was not compliant with a new tax regulation – potentially exposing the business to an enormous liability.

That regulation, which went into effect in August 2006, requires employers that issue COLI to collect a signed notice-and-consent form from each covered individual before the policy is issued. The requirement applies to all types of COLI – including key person, deferred compensation and succession planning coverage. Without this simple step, upon the death of one of the owners, the otherwise tax-free death proceeds could have been subject to tax at ordinary income rates – a liability that could have cost the business thousands of dollars.

Our professionals replaced the noncompliant policies, obtained the appropriate forms and provided the owners with confidence that their sweat equity was protected.
What’s the value of a bond no one is willing to buy? Four clients of our Institutional Sales and Trading team held zero-coupon municipal bonds that originally were issued in the late 1990s to finance an unsuccessful regional tollway project. Despite an aggressive restructuring of the debt after the tollway developer filed for bankruptcy, the bond issue continued to miss growth projections. As neither current bondholders nor potential new investors could gauge how much the securities were worth, the market for these distressed securities evaporated, leaving our clients with a large liquidity deficiency.

Several of our municipal bond specialists set about to fill the knowledge gap. They performed a comprehensive analysis of transactions, revenues and cash flow to determine the current value of the complex restructured securities, as well as their potential future value under a variety of different payment, arrears and rate-of-return scenarios. This detailed data allowed the team to calculate a cash bid that was attractive to bondholders. Over a several-week period, the team accumulated nearly $200 million in par value of bonds, providing our clients with the liquidity they needed.

The team then sold the full portfolio of bonds to new buyers, who relied on our detailed analysis to understand both the risk and the underlying value in these complex securities.
A woman nearing retirement had important decisions to make about her state pension plan. Should she start collecting benefits early? Should she elect a lump sum payout or monthly installments adjusted for inflation? Should she opt for spousal or children’s benefits?

Without clear right answers or a lot of time to figure it out, she turned to our Private Client Wealth Management professionals for help.

The Wealth Management team considered several options, including managing the assets themselves in a rollover IRA, and performed financial modeling of each scenario. After careful analysis, the team advised our client to maintain her assets in the pension fund and collect monthly installment payments at retirement. The team collected less in management fees but felt strongly that it represented the best possible outcome for our client.
After creditors criticized the settlement proposal that was to serve as the foundation of a reorganization plan in a major Chapter 11 bankruptcy, the court appointed an independent examiner to investigate whether the amount — $750 million in cash — would be sufficient to address the viable claims.

Mesirow Financial Consulting was engaged as financial advisor to assist the examiner and his counsel in what was described by the bankruptcy judge presiding over the case as “an enormous undertaking.” The 10-month investigation encompassed dozens of transactions between and among the company, its subsidiaries, its parent and other related parties over a period of approximately seven years representing billions of dollars; more than nine million pages of documents; interviews of 83 witnesses; and 66 meetings with stakeholders. Mesirow Financial Consulting evaluated evidence involving solvency, valuation, forensic accounting, tax, electronic discovery and other areas in the context of the residential mortgage industry.

The team determined that while certain previously identified claims were unlikely to prevail, other transactions represented potentially viable claims that could lead to damages of as much as $5.5 billion. These findings were compiled in a 2,200-page report that was described by the court as a “masterful job.”

Even before its release, the report created powerful momentum toward consensus among the opposing parties, who reached a comprehensive settlement of $2.1 billion. As a result, the debtors were able to avoid years of extensive litigation and take a giant step toward exiting bankruptcy.
A sound plan can help ensure success. Applying this principle to our philanthropic objectives, Mesirow Financial Community Relations has taken a strategic approach to giving. While the cornerstone of our community involvement continues to be supporting the causes that are important to our employees and clients, we have recently begun to focus a segment of our philanthropic investments toward achieving the greatest possible positive impact in a targeted area.

As a first step, we identified education as a top priority for our efforts, recognizing that knowledge and skills are the foundation for economic stability and success. Second, we committed to targeting our efforts on a single community to magnify the lasting impact. In partnership with United Way of Metropolitan Chicago, we actively support a multipronged approach to strengthening Brighton Park, a struggling neighborhood on the Southwest Side of Chicago. This community, which suffers from economic stagnation, maintains a thriving neighborhood council committed to making the most of donated resources to improve outcomes for families and businesses. Our efforts are targeted primarily on three neighborhood middle schools with an average low-income student population of more than 92%, in neighborhoods where fewer than half of parents earned a high school degree.

Our strategy includes programs that bolster the academic success of students and strengthen the entire community. These initiatives include:
- Financial support for a program that places neighborhood parents as teachers’ aides in the classroom, providing skills and job training; this type of program has a history of academic success for students, and positive economic impacts for communities.
- One-on-one mentoring with students at our Chicago headquarters through Big Brothers Big Sisters.
- Collections of school supplies and other donations from our employees.
- Professional guidance to help parents secure employment.
- Introductions of other organizations to the needs of Brighton Park.
- Volunteer service days to paint and clean schools, beautify surrounding areas, plant community gardens and work directly with students and parents.

In-depth research and ongoing feedback from United Way provides clear information about the effectiveness of our efforts and allows us to focus our time and resources where they will do the most good.
Mesirow Financial’s performance in fiscal 2013 was very strong, with revenues, prior to the consolidation of limited partnerships, of $510 million, up 4% from $491 million last year. Profitability reached its fourth consecutive record.

Stockholders’ equity, held primarily by nearly 300 employees, was $354 million, after the payment of a special one-time dividend to shareholders in December 2012.

Assets under management grew 25% to $77.3 billion from $61.7 billion in fiscal 2012, as we continued to meet the needs of an increasing number of public and private pension plans, public sector entities, sovereign wealth funds, insurance companies, endowments, foundations and others.

After exiting the correspondent clearing business in fiscal 2012, we made the strategic decision to outsource our remaining back-office clearing services. We are partnering with market leaders to provide us with exceptional clearing services as well as access to leading technology solutions.

We named Tom Macina, senior managing director, to our board of directors and management committee in recognition of his valuable contributions to our hedge fund of funds business. Tom’s investment banking and consulting background will be a great addition to the board.

During the year, we increased our focus on talent management and development. From recruitment to retirement, we added formalized programs that identify and develop talent in our organization.

Reflecting an important aspect of our culture, we donated more than $1 million to hundreds of charitable organizations this year and launched a new strategic focus on education.

Our program that supports the arts community, Mesirow Financial Presents!, held two successful fundraising performances, and planned an exciting season for fiscal 2014.

Once again our corporate band, Cassius King, participated in the Fortune Battle of the Corporate Bands competition, winning the regionals. They will compete in the finals at the Rock and Roll Hall of Fame in September.

On a separate but related note, many of our employees actively support the James Tyree Foundation, named in honor of our former chairman. In its first year, the organization raised more than $550,000 for innovative educational initiatives, about which Jim was so passionate.
INVESTMENT MANAGEMENT
Alternative Investment Management Direct
As a global leader in alternative investments, we created a more cohesive platform for our Direct Alternative Strategies to capitalize on secular trends and create innovative investment solutions for sophisticated global investors. As part of this initiative, we formed an Investment Solutions Group to provide multi-asset class products with a quantitative focus.

In Currency Management, assets under advisement increased more than 40% to nearly $50 billion, with significant growth in both passive and active risk management largely from Switzerland and Australia.

Also during the year, our joint venture in Abu Dhabi secured regulatory approval and began onboarding clients.

In our Direct Real Estate business, we closed our first value fund in June 2012 with $379 million in equity, exceeding targets.

Multi-Manager
In our Advanced Strategies hedge fund of funds business, we created a new strategy to focus on exploiting dislocations and niche opportunities in the capital markets.

Our Private Equity team was selected for a large separately managed account, based on strong performance in both our partnership and direct funds.

Traditional and Advisory
Our U.S. Equity team continued its intensive research process and focus to help identify value in a volatile market, resulting in a strong 2013.

Fixed Income Management experienced growth in assets under management, with several new clients attracted by the group’s strong and consistent performance.

A team of long-term advisors took a leadership role in Private Client Wealth Management to establish a consistent platform of delivering comprehensive wealth management and financial planning services for clients as well as to increase collaboration among advisors. Putting clients first by focusing on achieving their financial goals continues to be the reason affluent individuals work with our trusted advisors.

We added to our Retirement Plan Advisory business by securing several large 401(k) plans.

Market reception to our fiduciary partnership offering in Investment Strategies has been very positive, and the group now advises more than $21 billion in participant assets.

GLOBAL MARKETS
Our Global Markets business was led by continued strong performance from our Fixed Income Sales and Trading business, which added experienced salespeople and traders in Chicago and on both coasts.

In Public Finance, we expanded our footprint throughout the country with inaugural underwriting assignments for several municipalities in Texas, New York, New Jersey and Wisconsin.

Credit Tenant Lease Finance had a solid year, capitalizing on opportunities to serve clients and contacts of our real estate, consulting, sale-leaseback, public finance and investment management businesses.

Investment Banking posted a record year while also closing transactions in its recently added health care and aerospace and defense industry specializations. Its paper and packaging practice also performed well in terms of revenue generated and transactions completed.

Sale-Leaseback Capital had a significant advance in activity with large engagements in the convenience store and health care markets. In one transaction, the team worked closely with credit tenant lease and fixed income sales and trading to provide debt financing for a major acquisition.

INSURANCE
Performance was at an all-time high in our Insurance Division. In Property and Casualty, we formalized new practice groups in education, nonprofit, organized labor, and privacy and network security. We also focused on business development, strategic marketing and operations management improvements, and added technology partnerships that benefit our clients.
### CONSULTING
- **Mesirov Financial Consulting** successfully completed a record year, buoyed by large bankruptcy engagements, including AMR and ResCap, which resulted in exceptionally strong utilization levels. The firm was selected as both Turnaround Firm of the Year and Restructuring Firm of the Year by M&A Advisor, due to its outstanding work.
- Performance also was strong in Compensation and Executive Benefit Strategies, as nonqualified plans continue to play an important role in executive retention, especially in rising tax environments.

### INSURANCE, continued
- In addition to assisting clients with education about and compliance with health care reform, our Employee Benefits group completed its first full-year marketing. FIRSTHR. Clients have responded positively to our new integrated human resource solutions platform.
- In Life and Disability, we focused on our supplemental life and disability offerings for corporations as well as using life insurance as a gift-leveraging tool for individuals.
- Our Private Client Insurance business created two specialty groups to provide a focused approach to high net worth clients and family offices as well as condos and collections of art, cars and other valuables.
- We continued to refine our client mix in Structured Settlements by focusing on complex cases and excess insurance, and collaborating with our claims department to identify clients that can utilize our expertise.

### FinancialStatement

**MESIROW FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES**

Consolidated Statements of Financial Condition, March 31, 2013 and 2012

<table>
<thead>
<tr>
<th>March 31, 2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
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<tr>
<td>Cash and cash equivalents</td>
<td>$87,391,000</td>
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<tr>
<td>Cash and securities segregated in compliance with federal and other regulations</td>
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<tr>
<td>Securities borrowed</td>
<td>57,820,000</td>
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<td>Receivables from: Customers</td>
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<tr>
<td>Brokers, dealers and clearing organizations</td>
<td>37,648,000</td>
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<td>Others</td>
<td>72,658,000</td>
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<tr>
<td>Deposits with clearing organizations</td>
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<tr>
<td>Securities owned, at fair value</td>
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<tr>
<td>Other investments</td>
<td>5,217,000</td>
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<tr>
<td>Investments of limited partnerships</td>
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<tr>
<td>Property, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of $73,278,000 and $63,955,000</td>
<td>65,050,000</td>
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<tr>
<td>Intangible assets, at cost less accumulated amortization of $26,951,000 and $25,948,000</td>
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<td>Goodwill</td>
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<tr>
<td>Other assets</td>
<td>46,410,000</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>$6,742,789,000</td>
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<table>
<thead>
<tr>
<th><strong>Liabilities and Equity</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables to: Customers</td>
<td>$55,334,000</td>
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<tr>
<td>Brokers, dealers and clearing organizations</td>
<td>59,453,000</td>
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<tr>
<td>Bank loans</td>
<td>138,900,000</td>
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<td>Securities sold, not yet purchased, at fair value</td>
<td>63,492,000</td>
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<tr>
<td>Liabilities of limited partnerships</td>
<td>783,056,000</td>
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<tr>
<td>Accounts payable, accrued expenses and other liabilities</td>
<td>123,610,000</td>
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<tr>
<td>Notes and loans payable</td>
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<tr>
<td><strong>Total liabilities</strong></td>
<td>1,224,045,000</td>
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<tr>
<td><strong>Equity:</strong> Mesirov Financial Holdings, Inc. stockholders’ equity</td>
<td>354,146,000</td>
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<tr>
<td>Non-controlling interests</td>
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<td><strong>Total equity</strong></td>
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<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>$6,742,789,000</td>
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The accompanying notes are an integral part of these Consolidated Statements of Financial Conditions.
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
- Global Markets
- Insurance Services
- Consulting Services

The Company historically cleared trades for unaffiliated correspondent broker/dealers and charged fees for its services. In November 2011, Mesirow Financial, Inc., a wholly-owned subsidiary of the Company, entered into an agreement to refer all of its correspondent broker/dealer accounts to another brokerage firm. The consideration consisted of an initial payment dependent on the number and amount of correspondent accounts that converted to the brokerage firm’s platform, and a second amount based on aggregate revenues of the business transferred from the period beginning May 1, 2012 through April 30, 2013.

### 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 Consolidated Statements of Financial Condition in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assessments 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 securities owned and securities sold, not yet purchased. 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. The Company receives collateral in the form of cash 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 cash equivalents 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.

### Other Investments
Other investments include investments in and advances to affiliates, including 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 exchange traded equity securities 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 variable 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.

### Fair Value Measurement

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 own assumptions for inputs market participants would use in pricing the asset or liability 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 in active markets for identical assets or liabilities.
- **Level 2** inputs are quoted prices for similar assets or 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.
- **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 complex financial instruments, non-transparent derivative instruments, private equity and real estate investments, real estate fund of funds, hedge fund of funds, and other investments with no active market.

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

- **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**.
- **Private Equity Fund Investments**
  - Investments in non-VIE partnerships include investments in private investment funds and partnerships, related invested cash, real estate and other assets. Investments in private investment funds and direct investments are valued at fair value, as determined by management and described below. Investments in real estate are recorded at cost, which primarily comprises land, building and construction in progress costs. Certain private investment funds are consolidated with up to a three month lag.
  - In determining fair value for hedge fund of funds, private equity fund of funds and real estate fund of funds, the Company generally utilizes the valuations of the underlying private investment funds. The underlying private investment funds value significant financial instruments at fair value. The Company categorizes the investments in various levels of the fair value hierarchy based on 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 or quarterly by these investment fund entities 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 daily to tri-annually, depending on the provisions of the respective offering documents.
  - Private equity and real estate direct investments, primarily consisting of securities, real estate and other financial instruments, 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 and real estate investments are structured with specific termination dates, but the investments allow for specified extension periods to provide for orderly liquidation of remaining assets.

- **Liabilities of limited partnerships consist of funds awaiting investment, debt secured by real estate investments, debt secured by direct real estate investments, and payables. Debt secured by direct real estate investments is carried at fair value.**

- **Cash Equivalents**
  - Cash equivalents are comprised of cash balances and cash equivalents.
  - 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.

- **Other Investments**
  - Other investments include investments in and advances to affiliates, including 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 exchange traded equity securities 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 variable 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.

- **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**.

- **Private Equity Fund Investments**
  - Investments in non-VIE partnerships include investments in private investment funds and partnerships, related invested cash, real estate and other assets. Investments in private investment funds and direct investments are valued at fair value, as determined by management and described below. Investments in real estate are recorded at cost, which primarily comprises land, building and construction in progress costs. Certain private investment funds are consolidated with up to a three month lag.
  - In determining fair value for hedge fund of funds, private equity fund of funds and real estate fund of funds, the Company generally utilizes the valuations of the underlying private investment funds. The underlying private investment funds value significant financial instruments at fair value. The Company categorizes the investments in various levels of the fair value hierarchy based on 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 or quarterly by these investment fund entities 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 daily to tri-annually, depending on the provisions of the respective offering documents.
  - Private equity and real estate direct investments, primarily consisting of securities, real estate and other financial instruments, 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 and real estate investments are structured with specific termination dates, but the investments allow for specified extension periods to provide for orderly liquidation of remaining assets.

- **Liabilities of limited partnerships consist of funds awaiting investment, debt secured by real estate investments, debt secured by direct real estate investments, and payables. Debt secured by direct real estate investments is carried at fair value.**

- **Cash Equivalents**
  - Cash equivalents are comprised of cash balances and cash equivalents.
  - 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.

- **Other Investments**
  - Other investments include investments in and advances to affiliates, including 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 exchange traded equity securities 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 variable 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.
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 data gathered from independent dealer pricing services or brokers. TBAs are generally valued using quoted market prices. Agency issued debt securities and TBAs are classified as Level 2 in the fair value hierarchy.

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. When prices or price 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 for comparable trades/assets are involved significant subjective judgments 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 Private investment funds include hedge fund of funds, private equity fund of funds and real estate fund of funds that are valued at fair value. Private investment funds 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 which the Company has the ability to redeem its investment at net asset value at, or within three months of the reporting date are classified as Level 2 investments. Furthermore, the Fund's investments in side-pockets are classified as Level 3 investments.

Direct investments Private equity and real estate direct investments primarily consist of investments in securities, real estate and other financial instruments valued at fair value. 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 amount 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 instances, 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. No impairment charges were recorded during the years ended March 31, 2013 and 2012.
Notes to the Consolidated Statements of Financial Condition—March 31, 2013 and 2012

NOTE 2. Fair Value of Financial Instruments

At March 31, 2013 and 2012, the Company’s assets and liabilities measured at fair value consist of the following:

### At March 31, 2013

<table>
<thead>
<tr>
<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>
</tr>
<tr>
<td>Equities</td>
<td>$6,738,000</td>
<td>$1,346,000</td>
<td>$32,000</td>
</tr>
<tr>
<td>U.S. government and agency securities</td>
<td>—</td>
<td>69,443,000</td>
<td>—</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>—</td>
<td>34,643,000</td>
<td>749,000</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>—</td>
<td>138,356,000</td>
<td>—</td>
</tr>
<tr>
<td>Mortgage and asset-backed securities</td>
<td>—</td>
<td>17,620,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Other</td>
<td>99,000</td>
<td>1,000</td>
<td>—</td>
</tr>
<tr>
<td><strong>Securities owned</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments of limited partnerships</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge fund of funds</td>
<td>—</td>
<td>2,650,169,000</td>
<td>141,212,000</td>
</tr>
<tr>
<td>Private equity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct investments</td>
<td>10,281,000</td>
<td>—</td>
<td>232,385,000</td>
</tr>
<tr>
<td>Fund of funds</td>
<td>—</td>
<td>—</td>
<td>1,556,398,000</td>
</tr>
<tr>
<td>Real Estate:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct investments</td>
<td>—</td>
<td>—</td>
<td>609,727,000</td>
</tr>
<tr>
<td>Fund of funds</td>
<td>—</td>
<td>—</td>
<td>177,084,000</td>
</tr>
<tr>
<td>Other</td>
<td>9,340,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total investments of limited partnerships</strong></td>
<td>19,691,000</td>
<td>2,650,169,000</td>
<td>2,716,806,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$26,438,000</td>
<td>$2,911,578,000</td>
<td>$2,717,588,000</td>
</tr>
</tbody>
</table>

| **Liabilities** | | | |
| Equities | $296,000 | $— | $— | $296,000 |
| U.S. government and agency securities | 47,513,000 | 8,602,000 | — | 56,115,000 |
| Corporate bonds | — | 5,887,000 | — | 5,887,000 |
| Municipal bonds | — | — | 570,000 | 570,000 |
| Other | 524,000 | — | — | 524,000 |
| Securities sold, not yet purchased | 48,433,000 | 15,059,000 | — | 63,492,000 |
| **Liabilities of limited partnerships** | — | 332,121,000 | 332,121,000 | 332,121,000 |
| **Total liabilities** | $48,433,000 | $15,059,000 | $332,121,000 | $395,613,000 |

Transfers between Level 1 and Level 2 assets and liabilities were not significant for the year ended March 31, 2013.

Transfers between Level 1 and Level 2 assets and liabilities were not significant for the year ended March 31, 2012.

For the years ended March 31, 2013 and 2012, no impairment charges were recorded related to assets that are measured at fair value on a nonrecurring basis.
The following table presents quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurements of Level 3 assets, excluding those based on net asset value reported by the affiliated and private investment funds.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Fair Value at March 31, 2013</th>
<th>Valuation Technique</th>
<th>Unobservable Inputs</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Bonds</td>
<td>$749,000</td>
<td>Discounted cash flow</td>
<td>Final litigation settlement value</td>
<td>1%–40%</td>
</tr>
<tr>
<td>Private Equity Direct Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Securities</td>
<td>$80,219,000</td>
<td>Market comparable companies</td>
<td>EBITDA multiples</td>
<td>6.6X–9.5X</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Revenue multiples</td>
<td>2.2X–8.9X</td>
</tr>
<tr>
<td>Equity Securities</td>
<td>$77,986,000</td>
<td>Recent Financings</td>
<td>Book Value multiples</td>
<td>0.85X</td>
</tr>
<tr>
<td>Limited Partnership and LLC Interest Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Private Equity Direct Investments</td>
<td>$270,000</td>
<td>Recent Financings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Private Equity Direct Investments</td>
<td>$232,385,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Direct Investments</td>
<td>$609,727,000</td>
<td>Discounted cash flow</td>
<td>Direct capitalization rate</td>
<td>5%–6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Terminal capitalization rate</td>
<td>5.75%–6.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Discount rate</td>
<td>8%–9.75%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Average market rental growth rate</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Average expense growth rate</td>
<td>3%</td>
</tr>
</tbody>
</table>

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 fair value of the Company’s notes and loans payable, including debt secured by real estate investments included in liabilities of limited partnerships, was approximately $242,744,000 and $266,086,000 as of March 31, 2013 and 2012, respectively.

NOTE 3. Receivables from and Payables 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>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities failed to deliver</td>
<td>$27,670,000</td>
<td>$14,566,000</td>
</tr>
<tr>
<td>Amounts receivable from clearing organizations for settled securities</td>
<td>9,906,000</td>
<td>8,515,000</td>
</tr>
<tr>
<td>Amounts receivable from correspondent broker/dealers</td>
<td>52,000</td>
<td>798,000</td>
</tr>
<tr>
<td><strong>Total receivables</strong></td>
<td>$37,648,000</td>
<td>$23,879,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities failed to receive</td>
<td>$21,833,000</td>
<td>$14,149,000</td>
</tr>
<tr>
<td>Amounts payable to clearing organizations for settled securities</td>
<td>418,000</td>
<td>101,000</td>
</tr>
<tr>
<td>Amounts held as margin and escrow deposits for correspondent broker/dealers</td>
<td>59,000</td>
<td>2,081,000</td>
</tr>
<tr>
<td>Amounts payable for unsettled trades</td>
<td>37,120,000</td>
<td>2,081,000</td>
</tr>
<tr>
<td>Commissions payable to correspondent broker/dealers</td>
<td>23,000</td>
<td>798,000</td>
</tr>
<tr>
<td><strong>Total payables</strong></td>
<td>$59,453,000</td>
<td>$24,556,000</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, 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>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Partnerships</td>
<td>$5,945,129,000</td>
<td>$5,899,996,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested cash</td>
<td>$145,822,000</td>
<td>$250,674,000</td>
</tr>
<tr>
<td>Real estate and other assets</td>
<td>412,731,000</td>
<td>412,212,000</td>
</tr>
<tr>
<td><strong>Total investments of limited partnerships</strong></td>
<td>$5,536,576,000</td>
<td>$5,230,013,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds awaiting investment</td>
<td>$22,011,000</td>
<td>$71,712,000</td>
</tr>
<tr>
<td>Debt secured by real estate</td>
<td>242,744,000</td>
<td>244,614,000</td>
</tr>
<tr>
<td>Debt secured by direct real estate investment</td>
<td>332,121,000</td>
<td>148,784,000</td>
</tr>
<tr>
<td><strong>Total liabilities of limited partnerships</strong></td>
<td>$783,956,000</td>
<td>$654,728,000</td>
</tr>
</tbody>
</table>

NOTE 6. Bank Loans

Bank loans include demand notes, which bear interest at fluctuating rates based upon the broker call rate (2.00% at March 31, 2013 and 2012). Demand notes of $138,900,000 and $101,900,000 are collateralized by securities owned of approximately $222,640,000 and $172,223,000 at March 31, 2013 and 2012, respectively. In pledging securities owned, the Company has not surrendered control. As of March 31, 2013 and 2012, subject to bank approval, and dependent upon collateral and credit requirements, the Company has available approximately $226,100,000 and $248,100,000, respectively in unused credit at various banks.

NOTE 7. Credit Facilities and Notes and Loans Payable

Pursuant to an Amended Credit Agreement dated March 8, 2013, the Company has a revolving credit facility for an aggregate of $90,000,000 (Revolving Loan). The Revolving Loan bears interest at the lower of the prime rate plus 1.25% (4.5% as of March 31, 2013) or LIBOR plus 2.25% (2.45% as of March 31, 2013). The Revolving Loan includes letters...
of credit totaling $1,185,000 as of March 31, 2013. The Revolving Loan matures on March 8, 2016. No amounts were outstanding on the Revolving Loan as of March 31, 2013 and 2012.

The term loan (Syndicated Term Loan) balance was paid in full in February 2013. As of March 31, 2013 and 2012, the Syndicated Term Loan outstanding balance was $9 and $21,000,000, respectively. 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 with the Company’s guidelines. The Company also monitors its exposure to default risk, contingent liabilities, 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’s default.

TBAs provide for the delayed delivery of the underlying instrument.

The Company hedges a portion of its fixed income trading inventories with options, exchange traded financial futures contracts, and TBAs. The contractual amount of these instruments reflects the extent of the Company’s involvement in the related financial instrument and does not represent the risk of loss due to counterparty nonperformance. The extent of utilization of these financial instruments is insignificant to the Company’s Consolidated Statements of Financial Condition.

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 is generally obligated to purchase the identical securities at the open market at prevailing prices in the event of non-performance by the customer or counterparty. At both March 31, 2013 and 2012, 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 borrowing arrangements, which are generally collateralized by cash or securities and are executed with other broker/dealers. In the event counterparties to transactions do not fulfill their obligations, the Company could be exposed to credit risk to the extent such obligations are not collateralized. In the normal course of business, the Company may deliver securities as collateral in support of various collateralized financing sources such as bank loans, securities loaned and sales. 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, 2013 and 2012, customer margin securities of approximately $60,760,000 and $63,560,000, respectively, were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had pledged approximately $2,768,000 and $7,527,000, respectively, of that collateral as of March 31, 2013 and 2012 to satisfy clearing obligation requirements.

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

**NOTE 11. Income Taxes**

Deferred income taxes are attributable to temporary differences relating primarily to deferred compensation, deferred rent, investments in partnerships, amortization of intangibles, depreciation of property, equipment and leasehold improvements, prepaid expenses, unearned revenue and bad debt allowances.

Net deferred tax assets included in other assets on the Consolidated Statements of Financial Condition at March 31, 2011, 2012, and 2013, were $8,590,000 and $11,029,000, respectively. At March 31, 2013, the Company’s net deferred tax assets comprised $41,187,000 of deferred tax assets partially offset by $32,597,000 of deferred tax liabilities. At March 31, 2012, the net deferred tax asset comprised $31,197,000 of deferred tax assets partially offset by $19,568,000 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.

**FASB ASC Topic 740** defines the threshold for recognizing the benefits of tax-return positions in the financial statements as “more-likely-than-not” to be sustained by the taxing authority and requires measurement of a tax position meeting the
more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. The Company has determined that no material uncertain tax positions exist as of March 31, 2013. The Company’s open tax years for federal income purposes are fiscal 2007 through 2012 and state income purposes are fiscal 2009 through 2012.

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 matched by the Company at a rate of 50% of the first 4% of compensation up to a maximum of $3,000. Prior to January 1, 2012, contributions to the Plan by employees were 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.

NOTE 13. Stockholders’ Equity and Net Capital Requirements
The Company’s Amended and Restated Stockholders’ Agreement dated August 15, 2012 (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.

At March 31, 2013 and 2012, the Company had preferred stock, $1 par value, 100,000 shares authorized, no shares issued or outstanding. The Company has voting and non-voting common stock, $1 par value, 250,000 shares authorized.

Voting and non-voting common stock activities consist of the following for the years ended March 31, 2013 and 2012:

<table>
<thead>
<tr>
<th>Voting Common Stock, shares</th>
<th>Non-Voting Common Stock, shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, April 1, 2011</td>
<td>79,110</td>
</tr>
<tr>
<td>Issued</td>
<td>2,973</td>
</tr>
<tr>
<td>Retired</td>
<td>(243)</td>
</tr>
<tr>
<td>Converted</td>
<td>14,380</td>
</tr>
<tr>
<td>Balance, March 31, 2012</td>
<td>87,463</td>
</tr>
<tr>
<td>Issued</td>
<td>3,168</td>
</tr>
<tr>
<td>Retired</td>
<td>(7,132)</td>
</tr>
<tr>
<td>Converted</td>
<td>(2,540)</td>
</tr>
<tr>
<td>Balance, March 31, 2013</td>
<td>85,222</td>
</tr>
</tbody>
</table>

Dividends of $300 per share on the Company’s common stock was declared and paid for the year ended March 31, 2013. As of the year ended March 31, 2012, 4,555 non-voting common shares were transferred to Accounts Payable, Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition as conditions were probable the shares would be redeemable at the March 31, 2012 redemption value.

Certain of the Company’s subsidiaries are subject to the capital requirements of various regulatory agencies. At March 31, 2013 and 2012, 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, 2013, the subsidiary has net capital and a net capital requirement of approximately $93,563,000 and $1,500,000, respectively. At March 31, 2012, the subsidiary had net capital and a net capital requirement of $79,750,000 and $1,500,000, respectively.

NOTE 14. Strategic Initiatives
During the year, the Company announced a plan to outsource back-office clearing and execution services to third party clearing firms. The Company anticipates that the total costs for restructuring will be approximately $989,000 and has not paid any of these costs.

NOTE 15. Subsequent Events
In accordance with the provisions set forth in FASB Accounting Standards Codification (“ASC”) Topic 855, management has evaluated subsequent events through June 14, 2013, the date the Consolidated Statements of Financial Condition were 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 its subsidiaries (the “Company”) as of March 31, 2013 and 2012, and the related notes to the consolidated statements of financial condition (the “consolidated financial statements”).

Management’s Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility
Our responsibility is to express an opinion on these consolidated financial 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, 2012 and 2011 (included in the Company’s March 31, 2013 and 2012 consolidated statements of financial condition, respectively) which statements reflect total assets. The total assets of these limited partnerships constituted approximately 23 percent and 22 percent, respectively, of the consolidated total assets as of March 31, 2013 and 2012. 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 consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, based on our audits and the reports of the other auditors, the consolidated statements of financial condition referred to above present fairly, in all material respects, the financial position of Mesirow Financial Holdings, Inc. and its subsidiaries as of March 31, 2013 and 2012 in accordance with accounting principles generally accepted in the United States of America.

/s/ Debioto & Trattler LLP
June 14, 2013

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Diane C. Swonik
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Francois R. Teissonnierre
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Daniel E. Well
Property and Casualty

Jack F. Williams
Consulting

James S. Wilson
Consulting

Kristin T. Winford
Consulting


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VICE CHAIRMAN
Jeffrey A. Golman*
Richard S. Mesirov
Howard M. Rossman*
Bruce J. Young*

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Ralph S. Tuliano
Stephen C. Vogt

* Member, Management Committee

* Member, Board of Directors
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Mesirow Financial Consulting, LLC
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Mesirow Financial World Ventures, LLC
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Mesirow Real Estate Investments, Inc.
Mesirow Realty Sale-Leaseback, Inc.
Mesirow Realty Services, Inc.

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Member NYSE, SIPC, FINRA

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