

Mesirow Financial, Inc.

*SEC ID NO. 8-28816
Statement of Financial Condition
(Unaudited)*

September 30, 2007

(Filed pursuant to Rule 17a-5(d) under the Securities Exchange Act of 1934)

*The statement of financial condition filed pursuant
to Rule 17a-5(d) under the Securities Exchange Act of
1934 is available for inspection at the Company's office
and at the Chicago Regional Office of the Securities
and Exchange Commission*

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Statement of Financial Condition (unaudited)

September 30, 2007

Assets		Liabilities and Stockholders' Equity	
Cash	\$2,689,000	Liabilities	
Cash segregated in compliance with federal and other regulations	44,500,000	Bank loans and overdrafts	\$127,047,000
Receivables from:		Payables to:	
Brokers, dealers and clearing organizations	106,348,000	Brokers, dealers and clearing organizations	21,492,000
Customers	79,435,000	Customers	111,927,000
Other	3,740,000	Securities sold, not yet purchased, at fair value	91,745,000
Deposits with clearing organizations	8,044,000	Accounts payable and accrued expenses	<u>16,263,000</u>
Securities owned, at fair value	175,101,000	Total liabilities	368,474,000
Other assets	<u>3,231,000</u>	Stockholders' equity	<u>54,614,000</u>
Total assets	<u><u>\$423,088,000</u></u>	Total liabilities and stockholders' equity	<u><u>\$423,088,000</u></u>

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

Notes to Unaudited Statement of Financial Condition as of September 30, 2007

1. Summary of Significant Accounting Policies

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

Nature of Business

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

Securities Transactions and Revenue Recognition

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

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. 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.

Income Taxes

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

Management Estimates

The preparation of the Statement of Financial Condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the Statement of Financial Condition. Actual results could differ from those estimates.

2. Securities Owned and Securities Sold, Not Yet Purchased

At September 30, 2007 securities owned and securities sold, not yet purchased consist of the following:

	Securities Owned	Securities Sold, Not Yet Purchased
Equities	\$12,613,000	\$5,253,000
Corporate bonds	91,776,000	10,502,000
Municipal bonds	13,026,000	—
Collateralized mortgage obligations	56,569,000	34,480,000
Mortgage-backed to-be-announced securities	192,000	41,369,000
Other	<u>925,000</u>	<u>141,000</u>
	<u>\$175,101,000</u>	<u>\$91,745,000</u>

3. Receivable From and Payable to Brokers, Dealers and Clearing Organizations

At September 30, 2007 amounts receivable from and payable to brokers, dealers and clearing organizations include:

Deposits paid for securities borrowed	\$51,485,000
Securities failed to deliver	4,945,000
Amounts receivable from clearing organizations for settled securities	49,132,000
Amounts receivable from correspondent broker/dealers	<u>786,000</u>
Total receivables	<u>\$106,348,000</u>
Securities failed to receive	7,428,000
Amounts payable to clearing organizations for settled securities	1,820,000
Amounts held as margin and escrow deposits for correspondent broker/dealers	5,666,000
Commissions payable to correspondent broker/dealers	1,979,000
Amounts payable for unsettled trades	<u>4,599,000</u>
Total payables	<u>\$21,492,000</u>

4. Bank Loans and Overdrafts

Bank loans and overdrafts include demand notes, which bear interest at fluctuating rates based upon the broker call rate (6.5% at September 30, 2007), and overdrafts. Demand notes of \$125,600,000 are collateralized by securities owned of approximately \$182,013,000. In pledging firm securities, the Company has not surrendered control. As of September 30, 2007, the Company has unused secured and unsecured lines of credit with various banks totaling \$229,400,000.

5. Contingencies

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

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

As of September 30, 2007, the Company is contingently liable for a letter of credit amounting to \$21,000,000 to satisfy clearing organization requirements. The letter of credit expires on September 1, 2008, is renewable annually, and is collateralized by customer owned margin securities of approximately \$26,878,000.

The Company, as a member of securities clearinghouses, provides guarantees that meet the accounting definition of a guarantee under Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirement, for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Under the standard membership agreements, members are required to guarantee the performance of members who become

unable to satisfy their obligations. The Company's liability under these agreements could exceed the amounts it has posted as collateral. However, since the event is remote and not quantifiable, no contingent liability is carried on the Statement of Financial Condition.

6. Employee Benefit Plans

The Company participates in a 401(k) savings plan of an affiliate (the "Plan") which covers all eligible employees, as defined in the Plan. Contributions to the Plan by employees are voluntary and will be matched by the Company at a rate of fifty percent of the first four percent of compensation up to \$150,000.

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

7. Related Party Transactions

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

The Company uses office facilities that are leased by MFS. Furniture, equipment and leasehold improvements used by the Company are owned by MFH.

General and administrative costs (principally compensation expense) are allocated by an affiliate based on the number of employees and actual usage.

Included in other assets and accounts payable and accrued expenses at September 30, 2007 are \$1,617,000 and \$6,170,000, respectively, relating to the intercompany transactions described above.

From time to time, the Company pays dividends to Mesirow Financial Holdings, Inc. Such dividends require regulatory approval and may be limited by the Company's net capital at the time of the dividend.

8. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk

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

ments with customers, which permit receivables and payables with such customers to be offset in the event of a customer default.

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

The Company may hedge a portion of its fixed income trading inventories with options, exchange traded financial futures contracts, and mortgage-backed to-be-announced securities. The contractual amount of these instruments reflects the extent of the Company's involvement in the related financial instrument and does not represent the risk of loss due to counterparty nonperformance. The extent of utilization of these derivative financial instruments is insignificant to the Company's financial condition. The Company had no commitments to sell securities in connection with exchange traded financial futures contracts at September 30, 2007.

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 September 30, 2007, the market value of securities failed to receive approximated the amounts owed in the Statement of Financial Condition.

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

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

In the normal course of business, the Company may deliver securities as collateral in support of various collateralized financing sources such as bank loans, securities loaned and securities sold under agreements to repurchase. In the event the counterparty is unable to meet its contractual obligation to return securities delivered as collateral, and the Company is obligated to replace or deliver such securities, the Company may incur a loss up to the amount by which the market 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 September 30, 2007, margin securities of approximately \$89,972,000 were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had repledged approximately \$26,878,000 of that collateral as of September 30, 2007.

To minimize the potential impact of counterparty nonperformance and market exposure in connection with its transactions in financial instruments, the Company monitors the credit standing of each counterparty

with whom it does business. It also marks-to-market all customer and proprietary positions on a daily basis and monitors margin collateral levels for compliance with regulatory and internal guidelines, requesting and obtaining additional cash margin or other collateral when deemed appropriate.

9. Regulatory Requirements

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

At September 30, 2007, the Company has net capital and a net capital requirement of approximately \$32,135,000 and \$2,142,000, respectively.

The Company, as a clearing broker, is subject to Rule 15c3-3 of the Securities and Exchange Commission which requires segregation of funds in a special reserve account for the benefit of customers (Rule 15c3-3) and to a Securities and Exchange Commission no-action

letter dated November 3, 1998 which requires a reserve for the proprietary accounts of introducing brokers (PAIB). At September 30, 2007, the Company has segregated cash of \$41,000,000 under Rule 15c3-3 and has segregated cash of \$3,500,000 under PAIB. On October 2, 2007, an additional deposit of \$3,500,000 was made to satisfy the September 30, 2007 PAIB deposit requirement of \$6,395,000.

10. Fair Value of Financial Instruments

The Company believes that the carrying amount of its financial instruments is a reasonable estimate of fair value. As a registered broker/dealer, securities owned and securities sold, but not yet purchased are recorded at fair value using market quotations from various sources, including major securities exchanges and dealers. The fair value of all other financial instruments reflected in the Statement of Financial Condition (consisting primarily of receivables from and payables to broker/dealers, clearing organizations and customers, securities purchased under agreements to resell, securities sold under agreements to repurchase as well as bank loans) approximates the carrying value due to the short-term nature of the financial instruments and repricing policies followed by the Company.
