WEDBUSH MORGAN SECURITIES INC.

(SEC Identification No. 8-12987)

Statement of Financial Condition
(Unaudited)

March 31, 2009

The Company's audited statement of financial condition as of June 30, 2008, filed pursuant to S.E.C. Rule 17a-5, is available for examination at the Company's Los Angeles office and at the Los Angeles regional office of the Securities and Exchange Commission.

WEDBUSH MORGAN SECURITIES INC.

Statement of Financial Condition

March 31, 2009

Assets

Cash and cash equivalents	$	29,538,000
Cash segregated		149,233,000
Short-term investments segregated		1,236,000,000
Receivables:		
Brokers, dealers and clearing organizations		350,563,000
Customers, collateralized by securities		262,685,000
Other		16,915,000
Total receivables		630,163,000
Less allowance for doubtful receivables		(6,825,000)
Net receivables		623,338,000
Securities owned		42,293,000
Securities owned segregated		183,802,000
Intangibles		4,489,000
Other assets		4,966,000
	$	2,273,659,000

Liabilities and Stockholder's Equity

Bank loan payable	$	—
Payables:		
Brokers, dealers and clearing organizations		367,732,000
Customers		1,650,273,000
Securities sold, not yet purchased		2,880,000
Accounts payable and accrued liabilities		47,199,000
Total liabilities		2,068,084,000
Commitments and contingent liabilities		
Stockholder's equity:		
Preferred stock, $100.00 par value. Authorized 10,000,000 shares; (Series A Preferred Stock, $100 liquidation preference); 143 shares outstanding		14,000
Common stock, $0.10 par value. Authorized 20,000,000 shares; 7,000,000 shares issued and outstanding		700,000
Additional paid-in capital		8,287,000
Parent treasury stock, 6,381 shares		(102,000)
Retained earnings		196,676,000
Total stockholder's equity		205,575,000
	$	2,273,659,000

See accompanying notes to Statement of Financial Condition.

(1) Summary of Significant Accounting Policies

Wedbush Morgan Securities Inc. (Company) is an investment bank registered with the U.S. Securities and Exchange Commission as a securities broker dealer. The Company is wholly owned by WEDBUSH, Inc.

(a) Use of Estimates

In preparing the statement of financial condition, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of financial condition. Actual results could differ materially from those estimates.

(b) Securities Transactions

The Company records its securities transactions on a trade date basis.

(c) Cash and Cash Equivalents

“Cash and cash equivalents” include Company investments in money market funds.

(d) Cash Segregated

“Cash segregated” represents deposits held in money market deposit accounts at banks segregated for the exclusive benefit of customers in compliance with regulatory requirements.

(e) Short-Term Investments Segregated

“Short-term investments segregated” consists of securities purchased under agreements to resell which are treated as financing transactions and are carried at the amounts at which the securities will subsequently be resold, as specified in the related agreements. It is the policy of the Company to obtain collateral with a fair value equal to or in excess of the principal amount loaned under resell agreements. These investments are held in segregated accounts for the exclusive benefit of customers and brokers in compliance with regulatory requirements.

(f) Receivables and Allowance for Doubtful Receivables

An allowance is established for amounts due from customers to the degree to which the receivable is unsecured. The Company also establishes a general allowance against accounts receivable for amounts that it determines in its best estimate may become uncollectible. Factors considered by management in determining the amount of the allowance include past experience, degree of concentration and quality of collateral.

(g) Financial Instruments

Substantially all of the Company’s financial instruments, including “Securities owned”, “Securities owned segregated” and “Securities sold, not yet purchased,” are carried at fair value, based on publicly reported bid and offer quotations, or amounts approximating fair value. Assets, including securities borrowed or purchased under agreements to resell and certain receivables, are carried at fair value or contracted amounts that approximate fair value

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due to the short period to maturity. Similarly, liabilities, including securities loaned and certain other payables, are carried at amounts approximating fair value.

Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to the use of observable inputs and lowest priority to the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are based on market pricing data obtained from sources independent of the Company. Unobservable inputs reflect the Company's judgment about the assumptions market participants would use in pricing the asset or liability. The three levels of the fair value hierarchy based on observability of inputs are as follows:

Level 1 – Valuations based on quoted prices available in active markets for identical assets or liabilities. This category includes U.S. Government and exchange-traded securities.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are considered observable, either directly or indirectly. This category includes U.S. agency, municipal, corporate debt, and mortgage-backed securities.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. This category includes private equity investments and limited partnerships.

(h) Securities Owned Segregated

"Securities owned segregated" includes U.S. treasury securities and securities guaranteed by the U.S. government held in segregated accounts for the exclusive benefit of customers in compliance with regulatory requirements.

(i) Intangibles

Intangibles consist of excess purchase price over the fair value of assets acquired. Intangibles for investment executive relationships and non-compete agreements are amortized using the straight-line method over four years.

(j) Income Taxes

The Company recognizes deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company joins in the filing of a consolidated tax return for federal tax purposes and in combined returns for certain states where such filing is required or permitted. The Company is

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also a party to a tax allocation agreement with its parent, whereby its share of consolidated or combined tax liabilities is determined as if the Company had filed separate returns.

(k) Accounting Developments

The Financial Accounting Standards Board (FASB) issued several new accounting pronouncements, none of which is expected to have any material impact on the Company's financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109). FIN 48 establishes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In October 2008, the FASB proposed issuing a FASB Staff Position (FSP) that deferred the effective date of FIN 48 for nonpublic enterprises to fiscal periods beginning after December 15, 2008; therefore, the Company will fully adopt the provisions of the interpretation beginning July 1, 2009.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements required under other accounting pronouncements but does not change existing guidance as to whether or not a financial instrument is carried at fair value. The Company adopted the provisions of SFAS 157 on July 1, 2008. In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FAS 157-2). FAS 157-2 defers the effective date of SFAS 157, *Fair Value Measurements,* to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company will adopt the provisions of FAS 157-2 beginning July 1, 2009. In October 2008, the FASB issued FSP No. FAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FAS 157-3). FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and addresses the use of judgment in determining whether a transaction in a dislocated market represents fair value, the inclusion of market participant risk adjustments when an entity significantly adjusts observable market data based on unobservable inputs, and the degree of reliance to be placed on broker quotes or pricing services. FAS 157-3 was effective immediately upon issuance. In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FAS 157-4), provides guidance for determining whether a market is inactive and a transaction is distressed in order to apply the existing fair value measurement guidance in FAS 157. FAS 157-4 is effective for fiscal periods ending after June 15, 2009; therefore, the Company will fully adopt the provisions of the Staff Position in the fourth quarter of Fiscal 2009.

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In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141R). SFAS 141R expands the definition of transactions and events that qualify as business combinations; requires that the acquired assets and liabilities be recorded at the fair value determined on the acquisition date with changes thereafter reflected in revenue; and requires acquisition costs to be expensed as incurred. In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FAS 141R-1). FAS 141R-1 requires acquired assets and liabilities that arise from contingencies be recognized at the fair value determined on the acquisition date. If fair value cannot be determined, the acquired contingencies are recognized if estimable and probable. SFAS 141R and FAS 141R-1 are effective for any business combinations initiated by the Company after July 1, 2009.

In February 2008, the FASB issued FSP No. FAS No. 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (FAS 140-3). FAS 140-3 addresses whether an initial transfer of a financial asset and a repurchase financing should be viewed as two separate transactions or as one "linked" transaction. The Staff Position includes a "rebuttable presumption" that presumes linkage of the two transactions unless the presumption can be overcome by meeting certain criteria, including that the transferred asset must be readily obtainable in the marketplace. FAS 140-3 will be effective for fiscal years beginning after November 15, 2008 and will apply only to original transfers made after that date; therefore, the Company will fully adopt the provisions of the interpretation beginning July 1, 2009.

In April 2009, the FASB issued FSP No. FAS 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FAS 107-1), which requires an entity to provide qualitative and quantitative information on a quarterly basis about fair estimates for any financial instruments not measured on the balance sheet at fair value. FAS 107-1 is effective for fiscal periods ending after June 15, 2009; therefore, the Company will fully adopt the provisions of the Statement in the fourth quarter of Fiscal 2009.

(2) Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations result from the Company's normal trading and securities borrowing and lending activities and consist of the following:

Securities failed to deliver	$	5,623,000
Deposits paid on securities borrowed		337,226,000
Amounts due from brokers and dealers through clearing organizations		1,570,000
Deposits with clearing organizations		6,144,000
Total receivables	$	350,563,000

Securities failed to receive	$	5,460,000
Deposits received for securities loaned		361,845,000
Other		427,000
Total payables	$	367,732,000

Deposits are paid for securities borrowed and are received for securities loaned based on the approximate fair value of the related securities. Fails to deliver and fails to receive represent the contractual value of securities that have not been delivered or received on or before the settlement date.

(3) Receivables from and Payables to Customers

Amounts receivable from and payable to customers include amounts due or held on cash and margin transactions. The value of securities owned by customers and held as collateral for the receivables is not reflected in the statement of financial condition.

(4) Financial Instruments

The following table presents the Company's financial instruments measured at fair value on a recurring basis as of March 31, 2009:

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	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:				
Securities owned	$			
U.S. government securities	481,000	—	—	481,000
U.S. agency and municipal securities	—	20,613,000	—	20,613,000
Corporate debt securities	—	979,000	—	979,000
Corporate equities	20,119,000	—	—	20,119,000
Listed options	101,000	—	—	101,000
Total Securities Owned	20,701,000	21,592,000	—	42,293,000
Securities owned segregated				
U.S. government securities	183,802,000	—	—	183,802,000
Total securities owned segregated	183,802,000	—	—	183,802,000
Liabilities:				
Securities sold, not yet purchased				
U.S. agency and municipal securities	—	30,000	—	30,000
Corporate debt securities	—	1,660,000	—	1,660,000
Corporate equities	1,190,000	—	—	1,190,000
Total Securities sold, not yet purchased	1,190,000	1,690,000	—	2,880,000

(5) Intangibles

The following is a summary of intangibles as of March 31, 2009:

	Acquistion Date		Amount
Excess of Purchase Price Over Assets Acquired:			
Peacock, Hislop, Stanley & Givens	October 2008	$	2,322,000
First Wall Street Corp.	December 2008		2,570,000
Less accumulated amoritzation			(403,000)
Total intangibles		$	4,489,000

On October 24, 2008, the Company acquired the assets of Peacock, Hislop, Stanley & Givens for approximately $2.7 million in stock and cash. The acquisition was accounted for as a purchase and resulted in approximately $2.3 million of intangibles. There is also a three-year contingency for additional consideration.

On December 31, 2008, the Company acquired the assets of First Wall Street Corp. for approximately $3 million in stock and cash. The acquisition was accounted for as a purchase and resulted in approximately $2.6 million of intangibles. There is also a three-year contingency for additional consideration.

On January 12, 2009, the Company announced an agreement to acquire for approximately $1.5 million the assets of Pacific Growth Equities, LLC. The acquisition is subject to pending approval from the Financial Industry Regulatory Authority. The acquisition did not create any intangible assets.

Any contingent payments will be additional purchase consideration and reflected in intangibles.

(6) Preferred Stock

The Company, as well as the Series A preferred shareholders, may redeem, at the option, the preferred stock at a liquidation preference price of $100 per share plus accumulated and unpaid dividends. The preferred shares are non-voting and are entitled to a 4% dividend, on a cumulative basis, per year of the outstanding liquidation preference.

(7) Net Capital Requirement

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method permitted by the rule, which requires the maintenance of minimum net capital, as defined, equal to the greater of $1,000,000 or 2% of aggregate debit balances arising from customer transactions, as defined.

The alternative method prohibits withdrawal of equity capital or payment of cash dividends if net capital does not exceed 5% of aggregate debit items and also prohibits withdrawal of subordinated capital if net capital does not exceed 4% of aggregate debit items. At March 31, 2009, the Company had net capital of $149,424,000 that was 147% of aggregate debit items and $147,389,000 in excess of the $2,035,000 required minimum net capital at that date.

(8) Bank Credit Lines

The Company has uncommitted lines of credit with banks, at market rates of interest. At March 31, 2009, there were no loans outstanding under these credit lines.

(9) Employee Stock Options and Awards

The parent company has a stock option and awards plan, under which the Company is authorized to issue shares of parent common stock. The plan's terms and conditions, including vesting, are determined by the parent's board of directors, and restrictions may be applied to awards under the plan. Generally, options are issued at the fair value of the underlying parent common stock on the grant date, become exercisable ratably over 4 years, and expire 5 years after the option becomes

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exercisable. Restricted awards in parent common stock are also granted and may vest over periods ranging up to 4 years.

(10) Profit-Sharing Retirement Plans

At March 31, 2009, the Company had two trusteed defined contribution retirement plans. The Wedbush Morgan Securities Inc. Commissioned Employees' PS Retirement Plan (the CPS Plan) is qualified under Section 401(k) of the Internal Revenue Code and covers eligible employees compensated on a commission and/or incentive basis. The Company's annual contributions are a specified percentage of the voluntary employee contributions and are not required if earnings do not exceed defined levels.

The Wedbush Morgan Securities Inc. Employees' PS Retirement Plan (the PS Plan) covers substantially all salaried employees. The Company's annual contributions under the Plan are determined by the board of directors, and are based on a percentage of employee compensation.

(11) Federal and State Income Taxes

Income taxes receivable of $287,000 at March 31, 2009 are included in "Other assets" on the statement of financial condition.

Temporary differences and carryforwards, which give rise to deferred tax assets and liabilities, consist of the following:

Deferred tax assets:		
Allowance for doubtful receivables	$	2,781,000
Legal reserves		1,501,000
Other		1,173,000
Total deferred tax assets		5,455,000
Less deferred tax liabilities:		
Unrealized gain not taxable		(1,047,000)
Allowance for expenses not yet incurred		(411,000)
Total deferred tax liability		(1,458,000)
Net deferred tax assets	$	3,997,000

Net deferred taxes assets are included in "Other assets" on the statement of financial condition.

As of March 31, 2009, management has reviewed all of its current and deferred tax assets in accordance with the procedures established by SFAS No. 109, *Accounting for Income Taxes*, to assess whether a valuation allowance should be established for those tax assets. The Company's management believes that it is more likely than not that the net deferred tax assets will be realized.

(12) Commitments and Contingent Liabilities

(a) Legal Matters

The Company is subject to ongoing litigation and claims in the normal course of its business. Management accrues for the settlement of such litigation and claims when a liability is deemed probable and estimable. In the opinion of management, the potential and threatened claims in which the Company is involved are not expected to have a material impact on the Company's financial position or results of operations.

(b) Lease Commitments

The Company's operations are conducted in leased premises under lease agreements requiring minimum annual payments as follows:

Fiscal year ending:		
2010	$	7,149,000
2011		5,691,000
2012		2,961,000
2013		2,345,000
2014		1,296,000
Thereafter		668,000
	$	20,110,000

Certain of these leases have escalation clauses and renewal options.

(13) Risks Related to Financial Instruments

In the normal course of business, the Company is involved in the execution, settlement, and financing of various customer and principal securities transactions. Customer activities are transacted on a cash, margin, or delivery-versus-payment basis. Securities transactions are subject to the risk of counterparty or customer nonperformance. However, transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the fair value of the security through settlement date or to the extent of margin balances.

The Company also has contractual commitments arising in the ordinary course of business for securities loaned; securities sold, not yet purchased; repurchase agreements; securities transactions on a when-issued basis; and underwritings. Each of these financial instruments contains varying degrees of risk whereby the fair values of the securities underlying the financial instruments may be in excess of the contract amount. The settlement of these transactions is not expected to have a material effect upon the Company's financial condition.

(14) Related-Party Transactions

In the normal course of business, employees, officers, directors and affiliates may buy and sell securities through the Company. At March 31, 2009, included in "Receivables from customers" and "Payables to customers" on the statement of financial condition, were receivables from officers and directors of $12,539,000 and from affiliates of $40,452,000, and payables to officers and directors of

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$7,712,000 and to affiliates of $2,919,000. Receivables from officers, directors, and affiliates are at what management believes to be market terms and rates of interest and are collateralized by securities.

Net notes receivable from employees and other receivables from affiliates of $9,110,000 at March 31, 2009 are included in “Other receivables” on the statement of financial condition. Notes receivable from employees are generally from recruiting activities, noninterest bearing, and forgiven over a period of three to five years.

Deposits held and payable to employees of $155,000 at March 31, 2009 are included in “Accounts payable and accrued liabilities”.