



STATEMENT OF FINANCIAL CONDITION



First Clearing, LLC

(A wholly owned limited liability company of Wachovia Securities Financial Holdings, LLC)

June 30, 2009

(Unaudited)

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Wachovia Securities Financial Holdings, LLC)

Statement of Financial Condition

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(Unaudited, in thousands)

Assets		
Cash and cash equivalents		\$ 136,967
Cash segregated under federal and other regulations		154,052
Receivable from brokers, dealers and clearing organizations		1,453,919
Receivable from customers, net of allowance		4,266,014
Receivable from correspondent clearing firms		65,203
Receivable from affiliates		65,473
Securities owned, at fair value		5,164
Other assets		251,747
Total assets		<u>\$ 6,398,539</u>
 Liabilities and Member's Equity		
Short-term borrowings		\$ 261,878
Payable to brokers, dealers and clearing organizations		1,941,252
Payable to customers		2,442,952
Payable to correspondent clearing firms		242,937
Securities sold, not yet purchased, at fair value		4,822
Payable to affiliates		37,552
Accrued expenses and other liabilities		79,502
Total liabilities		<u>5,010,895</u>
Commitments and contingent liabilities (see Note 15)		
Member's equity		<u>1,387,644</u>
Total liabilities and member's equity		<u>\$ 6,398,539</u>

See accompanying notes to the statement of financial condition.

FIRST CLEARING, LLC
(A Wholly Owned Limited Liability Company
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Notes to Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

(1) Organization and Basis of Presentation

First Clearing, LLC (the Company) is a wholly owned limited liability company of Wachovia Securities Financial Holdings, LLC (WSFH). WSFH is a majority owned consolidated subsidiary of Wells Fargo & Company (Wells Fargo). Effective December 31, 2008, Wachovia Corporation (Wachovia) merged with and into Wells Fargo. Wells Fargo was the surviving corporation in the merger.

WSFH serves as the holding company for the retail brokerage and clearing businesses contributed by Wachovia and Prudential Financial, Inc. (Prudential) and is headquartered in St. Louis, Missouri. Final ownership percentages in the joint venture between Wachovia and Prudential have not been determined due to the January 1, 2008 contribution of the A.G. Edwards retail brokerage business (A.G. Edwards division). Until determined, all joint venture activities, since that date, of WSFH are allocated to Wachovia and Prudential at 77% and 23%, respectively. WSFH's principal operating subsidiaries are Wells Fargo Advisors, LLC (WFALLC), formerly known as Wachovia Securities, LLC, Wells Fargo Advisors Financial Network, LLC (FINET), formerly known as Wachovia Securities Financial Network, LLC and the Company.

Prudential has the right to require Wells Fargo to purchase all (but not less than all) of its interests in WSFH upon any of the following events: (i) upon bankruptcy of, intentional breach by or a change of control, (ii) upon occurrence of broker contribution date with respect to a large retail brokerage combination in which Wells Fargo or any of its affiliates is the combining party, or (iii) upon expiration of lookback period with respect to contribution of large retail broker as to which Prudential has exercised its lookback option.

On December 4, 2008, Prudential announced its intention to exercise its rights under the lookback option to put its interests in the joint venture to Wells Fargo at the end of the lookback period and, on June 17, 2009, Prudential provided written notice to Wells Fargo of its exercise of this lookback option. Under the terms of the joint venture agreements, the expected closing of the put transaction will occur on or about January 1, 2010.

The Company is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company's primary activities are those of a clearing broker-dealer for WFALLC and FINET, and for unaffiliated correspondent broker-dealers. WFALLC and FINET introduce on a fully-disclosed basis substantially all of their customer transactions to the Company with whom each has correspondent relationships for clearance and depository services established in accordance with the terms and conditions of their respective clearance agreements.

The preparation of the statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

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(2) Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

Securities Transactions

Proprietary securities transactions in regular-way trades are recorded on the trade-date, as if they had settled. Customer securities transactions are recorded on a settlement date basis.

Securities owned and securities sold, not yet purchased are carried at fair value on a trade date basis.

Securities and commodities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Statement of Financial Condition as the Company does not have title to these assets.

Securities Lending Activities

Securities borrowed and securities loaned are generally reported as collateralized financing transactions and are recorded in the accompanying Statement of Financial Condition at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Fair Value

Receivable from brokers, dealers and clearing organizations, receivable from customers, receivable from correspondent clearing firms, short-term borrowings, payable to brokers, dealers and clearing organizations, payable to customers, payable to correspondent clearing firms, and payable to affiliates are recorded at amounts that approximate fair value. The fair value of these items is not materially sensitive to shifts in market interest rates because of the limited term to maturity of many of these instruments and/or their variable interest rates.

The Company categorizes its assets and liabilities that are accounted for at fair value in the statement of financial condition into a fair value hierarchy as defined by U.S. generally accepted accounting principles. The fair value hierarchy is directly related to the amount of subjectivity associated with the inputs utilized to determine the fair value of these assets and liabilities. See Note 7 for further information.

Income Taxes

The Company is a single member limited liability company and is treated as a disregarded entity pursuant to Treasury Regulation Section 301.7701-3 for federal income tax purposes. Generally, disregarded entities are not subject to entity-level federal or state income taxation and, as such, the

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Company is not required to provide for income taxes under SFAS No. 109, *Accounting for Income Taxes*. The Company's taxable income primarily becomes taxable to the respective members of WSFH due to the treatment of WSFH as a non-taxable flow-through partnership entity for federal income tax purposes. However, certain states and foreign jurisdictions do subject the Company to entity-level taxation as a single member limited liability company; therefore, the related state and foreign taxes have been provided on a small portion of the Company's taxable income.

(3) Cash Segregated Under Federal and Other Regulations

At June 30, 2009, the Company segregated \$154,049 of cash in a special reserve bank account for the benefit of customers under SEC Rule 15c3-3 (the Customer Protection Rule). The Company performs the computation for assets in the proprietary accounts of its introducing brokers (PAIB) in accordance with the customer reserve computation set forth in the Customer Protection Rule, so as to enable introducing brokers to include PAIB assets as allowable assets in their net capital computations, to the extent allowable under SEC Rule 15c3-1 (the Net Capital Rule).

(4) Collateral

The Company accepts collateral under securities borrowed agreements and for credit extended to customers which it is permitted to repledge or sell. At June 30, 2009, the fair value of this collateral approximated \$6,401,281, of which approximately \$3,129,810 had been repledged by the Company. The collateral is received primarily from other broker-dealers and customers and is used by the Company primarily to enter into securities lending agreements and to effectuate short sales made by customers.

(5) Receivable from and Payable to Brokers, Dealers and Clearing Organizations

Receivable from and payable to brokers, dealers and clearing organizations consist of the following at June 30, 2009:

Receivable from brokers, dealers and clearing organizations:

Securities failed to deliver	\$	148,316
Deposits paid for securities borrowed		1,251,852
Other		53,751
	\$	<u>1,453,919</u>

Payable to brokers, dealers and clearing organizations:

Securities failed to receive	\$	148,135
Deposits received for securities loaned		1,755,448
Other		37,669
	\$	<u>1,941,252</u>

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(6) Receivable from and Payable to Customers

Receivable from and payable to customers represent balances arising in connection with normal cash and margin transactions. At June 30, 2009, receivable from customers consists primarily of margin loans to customers of \$3,592,789, and payable to customers consists primarily of \$2,011,332 of customer free credits.

The Company has established an allowance for doubtful accounts to offset amounts deemed uncollectible from unsecured customer balances receivable. At June 30, 2009, receivable from customers is reported net of the allowance for doubtful accounts of \$18,290.

(7) Securities Owned and Securities Sold, Not Yet Purchased

At June 30, 2009, securities owned and securities sold, not yet purchased consist of the following, at fair value:

	Securities owned	Securities sold, not yet purchased
Certificates of deposit and commercial paper	\$ 101	\$ 415
U.S. government and agency obligations	13	44
State and municipal government obligations	9	3,437
Corporate obligations	569	68
Stocks and warrants	2,990	858
Other securities	1,482	—
Total	<u>\$ 5,164</u>	<u>\$ 4,822</u>

The Company groups its financial assets and liabilities measured at fair value in three levels, based on markets in which these assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques in which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models, option pricing models, and similar techniques.

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Where significant inputs are unobservable in the market due to limited activity or a less liquid market, securities valued using models with such inputs are classified in Level 3 of the fair value hierarchy. The Company has no assets classified in Level 3.

The balances of assets and liabilities measured at fair value by level as of June 30, 2009, are as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Securities owned	\$ <u>5,164</u>	\$ <u>13</u>	\$ <u>5,151</u>	\$ <u>-</u>
Securities sold, not yet purchased	\$ <u>4,822</u>	\$ <u>44</u>	\$ <u>4,778</u>	\$ <u>-</u>

(8) Short-Term Borrowings

Short-term borrowings consist of outstanding bank drafts of \$261,878 at June 30, 2009.

At June 30, 2009, the Company had available \$325,000 in uncommitted unsecured lines of credit with various unaffiliated financial institutions, \$1,000,000 in uncommitted secured lines of credit with Wachovia Bank, N.A., \$1,000,000 in uncommitted unsecured lines of credit with WSFH and \$1,000,000 in uncommitted unsecured lines of credit with WFALLC.

The entire line of credit from Wachovia Bank, N.A. and \$250,000 of the lines of credit from unaffiliated financial institutions are also available to WFALLC. In addition, \$250,000 of the lines of credit from unaffiliated financial institutions is available to WSFH.

At June 30, 2009, the Company had \$64,500 outstanding on lines of credit with Wachovia Bank, N.A., unaffiliated lines of credit or lines of credit with WFALLC. WFALLC and WSFH had no balances outstanding on the above lines of credit.

Unsecured loans generally bear interest at a rate that varies with the federal funds rate and are payable on demand. For the six months ended June 30, 2009, the weighted average interest rate on these loans outstanding was 2.14%.

(9) Subordinated Borrowings

The Company has a \$250,000 subordinated revolving line of credit with Wells Fargo. The line bears interest at a rate to be negotiated at the time of each advance, and all advances are due to be repaid no later than December 19, 2013. Borrowings under this subordinated line are allowable in computing net capital under the SEC's Net Capital Rule. To the extent these borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. There were no borrowings on this line of credit during 2009.

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(10) Net Capital

The Company is subject to the Net Capital Rule, which requires the maintenance of minimum net capital, as defined. The Company has elected to use the alternative method, permitted by the Net Capital Rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$1,500 or 2% of aggregate debit balances arising from customer transactions, as defined. At June 30, 2009, the Company had net capital of \$788,895 which was \$695,831 in excess of its required minimum net capital of \$93,064. At June 30, 2009 the Company's net capital balance was 16.95% of aggregate debit balances.

(11) Retirement and Stock Compensation Plans

Retirement Plans

Substantially all employees of the Company with one year of service are eligible for participation in various matched savings plans. These plans permit eligible employees to contribute up to 30% of eligible contributions, as defined. On approval of the board of directors, employee contributions to the matched savings plans may be matched up to 6% of the employee's eligible compensation, as defined. For 2009, the board of directors approved a matching level of 6% of eligible compensation.

In addition, Wells Fargo provides postretirement benefits, principally health care and long term disability, to former employees of the Company who retired on or before December 31, 2007 and their beneficiaries and dependents. Expenses are allocated to the Company for postretirement benefits based on employee compensation and the total cost incurred with respect to postretirement benefits on a consolidated basis. The actuarial and plan asset information pertaining to the employees of the Company is not segregated in Wells Fargo's postretirement plan calculation and is therefore not available.

(12) Transactions with Affiliated Parties

Services Provided by Affiliates

The Company has entered into service agreements with certain affiliates under which the Company receives technology and systems, operations and administrative support services, temporary staffing services and other general and administrative services.

Clearing Services

The Company provides retail clearing services for its affiliates, WFALLC and FINET. The Company collects revenues from customers on behalf of WFALLC and FINET from which it deducts its retail clearing service fees. At June 30, 2009, the Company owed \$84,438 to WFALLC and \$6,507 to FINET which are included in payable to correspondent clearing firms in the Statement of Financial Condition.

In conjunction with the retail clearing services provided to WFALLC and FINET, the Company rebates all interest income earned on margin balances of WFALLC and FINET retail customer relationships to WFALLC and FINET net of the interest expense incurred by the Company to finance those margin loans.

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The Company has entered into a service agreement with Prudential Investment Management Services LLC (PIMS), a subsidiary of Prudential, under which PIMS provides execution, clearance and other services to the Company on behalf of WFALLC, FINET and unaffiliated correspondent broker-dealers, with respect to investment companies available through certain of their mutual fund wrap account products and programs, and transactions in shares of open-end investment companies. Pursuant to this agreement, the Company receives fees from PIMS based on invested customer balances. At June 30, 2009, related to the PIMS agreement, fees earned but not received of \$23,693 are included in other assets, and expenses incurred but not yet paid of \$4,577 are included in accrued expenses and other liabilities in the Statement of Financial Condition.

Money Market and Bank Sweep

The Company earned fees from Prudential for the period ended June 30, 2009, for servicing customers invested in Prudential sponsored money market funds and for certain asset management product related administrative services.

The Company has arrangements with Evergreen Investment Management Co. (Evergreen), an affiliated mutual fund company, in which it receives revenue for servicing customers invested in Evergreen money market funds. Included in other assets is \$3,527 which represents a receivable from Evergreen related to settlement of overnight deposit balances.

The Company has arrangements with affiliated banks under which it offers a bank deposit product to which customers' available cash balances are swept into overnight deposit accounts.

Other

At June 30, 2009, the Company has a \$60,000 note receivable from WSFH, a direct parent of FCLLC, which is included in the receivable from affiliates in the Consolidated Statement of Financial Condition.

The Company earns fees from providing support and services in connection with client assets under third-party management, including mutual funds. Certain mutual funds may be affiliated with the Company.

At June 30, 2009, the Company had a net payable balance to Wells Fargo and its affiliates totaling \$37,552.

The transactions with affiliates described above and the effect thereof on the accompanying statement of financial condition may not necessarily be indicative of the effect that might have resulted from dealing with non-affiliated parties.

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(13) Dividends

Pursuant to the Retail Brokerage Formation Agreement (the Agreement) by and between Wachovia and Prudential (the Members), WSFH, the Company's parent, is obligated to distribute to the Members 70% of its consolidated net earnings each quarter, determined in accordance with U.S. generally accepted accounting principles, before deduction for any expense related to the amortization of intangible assets (Distributable Cash). Since the amount of Distributable Cash retained by WSFH has now exceeded \$263 million, the Members may now elect to receive up to 30% additional distributions as defined in the Agreement.

The Company's earnings constitute a material portion of Distributable Cash. For the six months ended June 30, 2009, the Company declared and paid no dividends to WSFH.

The Company's ability to make capital and certain other distributions is subject to the rules and regulations of the SEC, FINRA and various other regulatory agencies, exchanges and clearing organizations.

(14) Financial Instruments with off-balance sheet risk

In the normal course of business, the Company's activities involve the execution, settlement and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contractual obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event a customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

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(15) Commitments and Contingent Liabilities

Litigation

The Company has been named as a defendant in various legal actions arising from its normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to such matters cannot be determined, in the opinion of management, based on the opinions of counsel, any such liability will not have a material impact on the Company's financial statements. Wachovia and Prudential have agreed to indemnify the Company for any losses due to a claim against the Company which arises from an action, omission to act, condition or event that first occurred prior to July 1, 2003 whether or not such action, omission, condition or event continues after July 1, 2003. The Company will not, however, be indemnified by Wachovia or Prudential for a claim that arises from any such action, omission, condition or event to the extent it continues to occur following the 270th day after July 1, 2003.

Other Contingencies

Some contracts that the Company enters into in the normal course of business include indemnification provisions that obligate the Company to make payments to the counterparty or others if certain events occur. These contingencies generally relate to changes in the value of underlying assets, liabilities, or equity securities or upon the occurrence of events, such as an adverse litigation judgment or an adverse interpretation of the tax law. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. Since there are no stated or notional amounts included in the indemnification clauses and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur, the Company is not able to estimate the maximum potential amount of future payments under these indemnification clauses. There are no amounts reflected on the Statement of Financial Conditions as of June 30, 2009, related to these indemnifications.

(16) Subsequent Event

In May 2009, the Financial Accounting Standards Board adopted Statement of Financial Accounting Standard No. 165, *Subsequent Events* (SFAS 165). SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occurred after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which the entity has evaluated subsequent events and the basis for selecting that date: that is, whether that date represents the date the financial statements were issued or available to be issued. In connection with the adoption of SFAS 165, the Company has evaluated the effects of events that have occurred subsequent to June 30, 2009 through August 28, 2009, the date the Company issued its financial statements. During this period, there have been no material events that would require disclosure in our financial statements.