



# Consolidated Statement of Financial Condition

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## **Wells Fargo Advisors, LLC**

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

June 30, 2009

(Unaudited)

**WELLS FARGO ADVISORS, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Consolidated Statement of Financial Condition

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(Unaudited)

**WELLS FARGO ADVISORS, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)  
Consolidated Statement of Financial Condition  
June 30, 2009  
(Unaudited, in thousands)

<b>Assets</b>	
Cash and cash equivalents	\$ 878,611
Cash segregated under federal and other regulations	40,013
Securities purchased under agreements to resell	411,006
Receivable from brokers, dealers and clearing organizations	267,863
Securities owned, at fair value	1,032,470
Property, equipment and leasehold improvements, net	362,129
Receivable from affiliates	74,772
Loans and notes receivable from financial advisors, net	1,761,777
Goodwill and other intangible assets	5,879,565
Other assets	267,741
Total assets	<u>\$ 10,975,947</u>

<b>Liabilities and Member's Equity</b>	
Securities sold under agreements to repurchase	\$ 67,941
Payable to brokers, dealers and clearing organizations	50,760
Payable to customers	21,973
Securities sold, not yet purchased, at fair value	159,850
Payable to affiliates	64,923
Accrued compensation and benefits	457,262
Deferred compensation plan liabilities	611,438
Accrued expenses and other liabilities	390,528
Total liabilities	<u>1,824,675</u>
Commitments and contingent liabilities (see Note 17)	
Subordinated borrowings	417,000
Member's equity	8,734,272
Total liabilities and member's equity	<u>\$ 10,975,947</u>

See accompanying notes to the consolidated statement of financial condition.

**WELLS FARGO ADVISORS, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

**(1) Organization and Basis of Presentation**

Wells Fargo Advisors, LLC (the Company), formerly doing business as Wachovia Securities, LLC, 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 the Company, First Clearing, LLC (FCLLC) and Wells Fargo Advisors Financial Network, LLC (FINET), formerly known as Wachovia Securities Financial Network, LLC.

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), a futures commission merchant with the Commodity Futures Trading Commission (CFTC), a member of the Financial Industry Regulatory Authority (FINRA) and is a member of the National Futures Association (NFA). The Company's business activities include securities and commodities brokerage, investment advisory and asset management services.

The Company clears substantially all customer security transactions through FCLLC on a fully-disclosed basis. The Company clears its commodities transactions through Prudential Futures Derivatives, LLC on a fully-disclosed basis and its foreign currency denominated transactions through an affiliated company.

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

The consolidated statement of financial condition includes the accounts of Wells Fargo Advisors, LLC and its subsidiaries. All material intercompany balances have been eliminated in consolidation.

The preparation of the consolidated 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 Consolidated Statement of Financial Condition. Actual results could differ from those estimates.

#### (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 trade date, as if they had settled. Customers' securities transactions are recorded on a settlement date basis. Securities owned by customers are not reflected in the Consolidated Statement of Financial Condition as the Company does not have title to these assets.

Securities owned and securities sold, not yet purchased are carried at fair value, and securities not readily marketable are carried at estimated fair value.

##### ***Securities Purchased/Sold Under Agreements to Resell/Repurchase***

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements) or sales of securities under agreements to repurchase (repurchase agreements) are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. These transactions are primarily repurchase agreements of U. S. government and agency securities and corporate bonds. The Company offsets resale agreements and repurchase agreements with the same counterparty executed under legally enforceable netting agreements that meet the accounting requirements of the right of offset. The Company manages the credit risk associated with these transactions by monitoring the fair value of the collateral obtained, including accrued interest, and by requesting additional collateral when deemed appropriate. It is the Company's policy to obtain possession of securities purchased under agreements to resell.

##### ***Fair Value***

Securities purchased under agreements to resell, receivable from brokers, dealers and clearing organizations, receivable from affiliates, loans and notes receivable from financial advisors, short-term borrowings, securities sold under agreements to repurchase, payable to brokers, dealers and clearing organizations, payable to affiliates and subordinated borrowings are recorded at amounts

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

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 and/or the variable interest rates of many of these instruments.

The Company categorizes its assets and liabilities that are accounted for at fair value in the Consolidated 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.

#### ***Property, Equipment and Leasehold Improvements***

Property, equipment and leasehold improvements are recorded at cost, net of accumulated depreciation and amortization. Depreciation of property and equipment is recognized on a straight-line basis using estimated useful lives which generally range from three to eight years. Leasehold improvements are amortized over the lesser of the estimated useful life of the improvement or the remaining term of the lease. The Company periodically reviews the estimated useful lives of its fixed assets.

#### ***Goodwill and Other Intangible Assets***

Goodwill is not subject to amortization but is subject to impairment testing on an annual basis, or more frequently, if events or circumstances indicate possible impairment. This test involves comparing the fair value of the business to its carrying amount. If the fair value is less than the carrying amount, further testing is required to measure the amount of impairment.

Identified intangible assets that have a finite useful life are amortized in a manner that approximates the estimated decline in the economic value of the identified intangible assets. Identified intangible assets are periodically reviewed to determine whether there have been any events or circumstances to indicate the recorded amount is not recoverable. If the valuation of the intangible assets of the Company is less than their carrying amount, a loss is recognized to reduce the carrying amount to fair value, and when appropriate, the amortization period is also reduced.

#### ***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 Company is not required to provide for income taxes under SFAS No. 109, *Accounting for Income Taxes*. The Company's taxable income 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.

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

#### *Other*

Other assets consist primarily of accrued revenue, interest receivable and prepaid and deferred expenses. Accrued expenses and other liabilities consist primarily of trade payables.

#### **(3) Cash Segregated Under Federal and Other Regulations**

At June 30, 2009, cash of \$40,013 has been segregated in a special reserve bank account for the benefit of customers under SEC Rule 15c3-3 (the Customer Protection Rule). At June 30, 2009, no cash or securities were required to be segregated under the Commodity Exchange Act (CEA) as there were no funds deposited by customers held by the Company or funds accruing to customers owned by the Company as a result of trades or contracts.

#### **(4) 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:

##### *Receivable from brokers, dealers and clearing organizations:*

Receivable from clearing organization	\$	136,807
Receivable from unsettled securities transactions		131,056
	\$	<u>267,863</u>

##### *Payable to brokers, dealers and clearing organizations:*

Payable to clearing organization	\$	50,281
Other		479
	\$	<u>50,760</u>

#### **(5) Payable to Customers**

Payable to customers represent balances arising in connection with normal cash transactions, primarily customer free credits.

#### **(6) Loans and Notes Receivable from Financial Advisors**

Loans and notes receivable from financial advisors represent amounts provided to financial advisors primarily as recruitment and retention incentives in addition to amounts provided for attaining certain production levels and assets under management. Certain amounts provided to financial advisors as loans or notes receivable are forgiven or repaid either as a percentage of the financial advisor's gross production or on a fixed repayment schedule.

The Company has established an allowance for doubtful accounts to offset amounts deemed uncollectible from financial advisors who are no longer employed by the Company. Loans and

**WELLS FARGO ADVISORS, LLC**

Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

notes receivable from financial advisors are reported net of the allowance for doubtful accounts of \$79,932 at June 30, 2009.

**(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:

	<b>Securites owned</b>	<b>Securities sold, not yet purchased</b>
Bankers' acceptances, commercial paper, and certificates of deposit	\$ 16,015	\$ 1,640
U.S. government and agency obligations	174,184	102,926
State and municipal government obligations	149,749	2,680
Corporage obligations	64,156	44,785
Stocks and warrants	627,665	7,819
Other securities	701	-
Total	\$ 1,032,470	\$ 159,850

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.

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.

**WELLS FARGO ADVISORS, LLC**

Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

The balances of assets and liabilities measured at fair value 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	\$ 1,032,470	\$ 48,624	\$ 983,846	\$ -
Cash equivalents *	429,746	429,746	-	-
Total	<u>\$ 1,462,216</u>	<u>\$ 478,370</u>	<u>\$ 983,846</u>	<u>\$ -</u>
Securities sold, not yet purchased	<u>\$ 159,850</u>	<u>\$ 102,942</u>	<u>\$ 56,908</u>	<u>\$ -</u>

\* represents money market fund investments

**(8) Property, Equipment and Leasehold Improvements**

Property, equipment and leasehold improvements consist of the following at June 30, 2009:

Property and leasehold improvements	\$ 349,890
Communications and computer equipment	7,220
Furniture and equipment	27,150
	<u>384,260</u>
Accumulated depreciation and amortization	(22,131)
	<u>\$ 362,129</u>

**(9) Goodwill and Other Intangible Assets**

Goodwill and other intangibles assets consist of the following at June 30, 2009:

Goodwill	\$ 5,123,285
Other intangibles	756,280
	<u>\$ 5,879,565</u>

At June 30, 2009, the gross carrying value of the customer relationship intangible assets and the related accumulated amortization amounted to \$993,618 and \$237,338, respectively. These intangible assets have accelerated amortization periods ranging from 15 to 23 years. The Company's most recent impairment evaluation indicated that none of the Company's goodwill or intangible assets that do not have a finite useful life was impaired.

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

#### **(10) Short-term Financing**

At June 30, 2009, the Company had available \$250,000 in uncommitted unsecured lines of credit with various unaffiliated financial institutions. The full amount of these lines of credit is also available to FCLLC and WSFH. At June 30, 2009, the Company, FCLLC, and WSFH had no balances outstanding on these unaffiliated lines of credit.

In addition, the Company had available \$1,000,000 in an uncommitted secured line of credit with Wachovia Bank, N.A., an affiliated financial institution. The line of credit with Wachovia Bank, N.A. is collateralized by securities owned by the Company. The entire line of credit with Wachovia Bank, N.A. is also available to FCLLC. At June 30, 2009, FCLLC had \$64,500 outstanding on this line of credit.

#### **(11) Subordinated Borrowings**

At June 30, 2009, the Company was indebted to The Prudential Insurance Company of America, a subsidiary of Prudential, for a \$417,000 subordinated note due June 30, 2013. The note carries an interest rate that varies based on the London Interbank Offering Rate. At June 30, 2009, the interest rate was 2.26%. Interest on the principal balance of this note is paid quarterly in accordance with the subordinated loan agreement.

The Company also has a \$300,000 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. At June 30, 2009, the Company had no borrowings outstanding on this line of credit.

These subordinated borrowings are available in computing net capital under SEC Rule 15c3-1 (the Net Capital Rule). To the extent that these borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

#### **(12) 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. The Company is also subject to the net capital requirements of CFTC Regulation 1.17. At June 30, 2009, the Company had net capital of \$644,160 which was \$642,660 in excess of its required net capital of \$1,500.

The Consolidated Statement of Financial Condition as of June 30, 2009, reflects \$15,409 of assets and liabilities attributable to subsidiaries and the elimination of intercompany balances which are not reflected in the unaudited statement of financial condition contained in Part II of Form X-17A-5 which is prepared on an unconsolidated basis (See Note 16).

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

#### **(13) Retirement, Stock and Deferred 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 compensation, 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 and its subsidiaries who retired on or before December 31, 2007 and their beneficiaries and dependents. Expenses are allocated to the Company and its subsidiaries 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.

##### ***Deferred Compensation Plans***

The Company maintains an unfunded deferred compensation plan in which a select group of management or highly compensated employees are participants, as defined. For salary and commission deferrals, the minimum deferral percentage is 5% with a maximum of 85%. The plan also contains company-provided incentive awards which are subject to specific vesting dates. No new voluntary deferrals are being added to the plan during 2009. At June 30, 2009, the liability associated with this plan was \$179,221 and is included in deferred compensation plan liabilities in the Consolidated Statement of Financial Condition.

The Company maintains an unfunded deferred compensation plan that is open to all other Wells Fargo Advisor employees. For salary deferrals, the minimum deferral percentage is 1% with a maximum of 75%. For incentive deferrals, the minimum is 1% with a maximum of 90%. No new voluntary deferrals are being added to the plan during 2009. At June 30, 2009, the liability associated with this plan was \$53,964 and is included in deferred compensation plan liabilities in the Consolidated Statement of Financial Condition.

The Company maintains an unfunded deferred compensation plan that contains company provided incentive awards, which are subject to specific vesting dates. At June 30, 2009, the liability associated with this plan was \$69,176 and is included in deferred compensation plan liabilities in the Consolidated Statement of Financial Condition.

The Company maintains an unfunded excess profit sharing plan in which legacy A.G. Edwards financial advisors and certain other employees are participants. The plan has various vesting periods. At June 30, 2009, the liability associated with this plan amounted to \$191,701 and is

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

included in deferred compensation plan liabilities in the Consolidated Statement of Financial Condition. This plan was frozen to new contributions in December 2008.

The Company maintains an unfunded deferred compensation plan in which eligible legacy Wachovia financial advisors are participants. This plan permitted the participant to defer up to 85% of eligible incentive earnings, as defined. This plan was frozen to new contributions in January 2005. At June 30, 2009, the liability associated with this plan amounted to \$58,224 and is included in deferred compensation plan liabilities in the Consolidated Statement of Financial Condition.

The Company maintains various unfunded deferred compensation plans in which financial advisors participated. These plans were frozen to new contributions. At June 30, 2009, the liability associated with these plans amounted to \$59,151 and is included in deferred compensation plan liabilities in the Consolidated Statement of Financial Condition.

Certain of the deferred compensation plans noted above allow the participants to select a rate of return option which tracks the return on selected financial instruments. The Company attempts to economically hedge its exposure by purchasing investments which track the participants' returns. These assets totaled \$613,812 at June 30, 2009, and are included in securities owned, at fair value in the Consolidated Statement of Financial Condition.

#### **(14) Transactions with Affiliated Parties**

##### ***Service Agreements***

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

The Company has entered into a service agreement with Evergreen Asset Management Co., LLC, (Evergreen Advisor), an affiliated company, under which Evergreen Advisor provides advisory services to the Company.

The Company has entered into a managed account program service agreement with Prudential Investments, LLC (PI), a subsidiary of Prudential, under which the Company receives certain reporting, research, sales support, and information systems services. The Company has also entered into other service agreements with Prudential.

##### ***Clearing Services***

The Company has entered into a fully-disclosed clearing agreement with FCLLC to clear substantially all of its securities transactions. FCLLC collects revenues from customers on the Company's behalf from which it deducts its clearing service fees. At June 30, 2009, included in receivable from brokers, dealers, and clearing organizations in the Consolidated Statement of Financial Condition is \$136,807 related to these transactions. FCLLC trades and settles securities

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

on the behalf of the Company. At June 30, 2009, the Company had \$50,281 payable to FCLLC related to these securities trading transactions.

FCLLC has entered into a clearing agreement with Prudential Investment Management Services LLC (PIMS), a subsidiary of Prudential, under which PIMS provides execution, clearance and other services to FCLLC on behalf of the Company, FINET and unaffiliated correspondent broker-dealers, with respect to investment companies available through certain of the Company's mutual fund wrap account products and programs, and transactions in shares of open-end investment companies. Pursuant to this agreement, FCLLC receives fees from PIMS based on invested customer balances.

#### ***Money Market and Bank Sweep***

The Company earns fees from Prudential 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 Corporation (Evergreen), an affiliated mutual fund company, in which it receives various fees for servicing customers invested in Evergreen money market funds.

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.

#### ***Referral fees***

The Company earns fees from affiliates for referring customers to affiliated banks. The Company also pays affiliated banks referral fees for introducing its customers to the Company.

#### ***Other***

At June 30, 2009, the Company made available \$500,000 in uncommitted unsecured lines of credit with WSFH.

At June 30, 2009, the Company has a demand note receivable from Everen Capital Corporation, a subsidiary of Wells Fargo and an indirect parent of the Company, totaling \$48,054 which is included in 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 has other amounts payable to Prudential, Wells Fargo and other affiliates totaling approximately \$18,555.

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

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

#### (15) 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 and exchanges.

#### (16) Consolidated Subsidiaries

The following is a summary of certain financial information of the Company's consolidated subsidiaries at June 30, 2009:

	<u>Wells Fargo Advisors, LLC stand alone</u>	<u>Other Subsidiaries</u>	<u>Eliminations/ Other</u>	<u>Wells Fargo Advisors, LLC Consolidated</u>
Total assets	\$ 10,991,356	\$ 31,326	\$ (46,735)	\$ 10,975,947
Member's equity	8,734,272	28,174	(28,174)	8,734,272

The Company prepares Part II of Form X-17A-5 on an unconsolidated basis. Accordingly, \$15,409 of assets and liabilities have been excluded from the computation of net capital pursuant to the Net Capital Rule (See Note 12).

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

#### (17) Commitments and Contingent Liabilities

##### *Lease Obligations*

The Company leases office space primarily related to its branch network and home offices under operating leases expiring at various dates through 2020. Minimum future rental payments required under such leases and minimum future sublease income to be received that have initial or remaining non-cancelable lease terms in excess of one year at June 30, 2009 are as follows:

Years ending December 31:	<b>Operating leases</b>	<b>Non-cancelable subleases</b>
2009	\$ 106,488	\$ 25,481
2010	200,537	51,098
2011	174,864	52,009
2012	150,005	51,813
2013	127,537	42,179
Thereafter	204,590	43,188

Minimum future rental commitments do not include operating leases entered into by affiliates for which the Company shares rent expense. Expense is allocated to the Company for its share of rent expense incurred under these operating leases that have not been included in the minimum future rental payments above.

Some of the Company's leases contain escalation clauses and renewal options.

##### *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 consolidated financial position. 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 270<sup>th</sup> day after July 1, 2003.

##### *Auction Rate Securities*

In August 2008, Wachovia announced the Company had reached settlements in principle with various state regulators and the Securities and Exchange Commission (SEC) in their respective investigations of sales practice and other issues related to the sales of auction rate securities (ARS) by the Company. Auction rate securities are debt instruments with long-term maturities, but which reprice through auction on a more frequent basis. Without admitting or denying liability, the

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited, Dollars in thousands)

agreements in principle require that the Company, acting as agent for WFSH and not as principal, purchase certain ARS sold to customers in accounts at the Company, reimburse investors who sold ARS purchased at the Company for less than par, provide liquidity loans to customers at no net interest until the ARS are repurchased, offer to participate in special arbitration procedures with customers who claim consequential damages from the lack of liquidity in ARS and refund refinancing fees to certain municipal issuers who issued ARS and later refinanced those securities through the Company. The Company, without admitting or denying liability, agreed to pay aggregate fines of \$50,000 to the state regulatory agencies related to this matter.

#### ***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 Consolidated Statement of Financial Condition as of June 30, 2009, related to these indemnification clauses.

The Company introduces, on a fully-disclosed basis, substantially all of its customer transactions to an affiliated clearing broker-dealer, with whom it has a correspondent relationship for clearance and depository services in accordance with the terms of its clearance agreement. In connection therewith, the Company has agreed to indemnify the affiliated broker-dealer for losses that they may sustain as a result of the failure of the Company's customers to satisfy their obligations in connection with their securities and/or commodities transactions. At June 30, 2009, substantially all customer obligations were collateralized by securities with a fair value in excess of the obligations.

#### **(18) 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.