



# 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, 2011

(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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June 30, 2011  
(Unaudited, in thousands)

**Assets**

Cash and cash equivalents	\$ 285,784
Cash segregated under federal and other regulations	40,027
Securities purchased under agreements to resell	897,527
Receivable from brokers, dealers and clearing organizations	495,928
Securities owned, at fair value	1,231,238
Property, equipment and leasehold improvements, net	293,737
Receivable from affiliates	9,509
Loans and notes receivable from financial advisors, net	2,727,535
Goodwill and intangible asset, net	1,464,050
Other assets	361,696
Total assets	<u>\$ 7,807,031</u>

**Liabilities and Member's Equity**

Short-term borrowings	\$ 276
Securities sold under agreements to repurchase	156,929
Payable to customers	18,227
Securities sold, not yet purchased, at fair value	153,238
Payable to affiliates	119,256
Accrued compensation and benefits	496,851
Deferred compensation plan liabilities	849,810
Accrued expenses and other liabilities	267,825
Total liabilities	<u>2,062,412</u>
Commitments and contingent liabilities (see Note 17)	
Subordinated borrowings	120,000
Member's equity	5,624,619
Total liabilities and member's equity	<u>\$ 7,807,031</u>

See accompanying notes to Consolidated Statement of Financial Condition.

**WELLS FARGO ADVISORS, LLC**  
(A Wholly Owned Limited Liability Company of  
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Notes to Consolidated Statement of Financial Condition

June 30, 2011

(Unaudited, Dollars in thousands, except where noted)

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

Wells Fargo Advisors, LLC (the Company), is a wholly owned limited liability company of Wachovia Securities Financial Holdings, LLC (WSFH), a wholly owned consolidated subsidiary of Wells Fargo & Company (WFC). WSFH serves as the holding company for the retail brokerage and clearing businesses headquartered in St. Louis, Missouri. WSFH's principal operating subsidiaries are the Company, First Clearing, LLC (FCLLC) and Wells Fargo Advisors Financial Network, LLC (FINET).

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), and is a member of the Financial Industry Regulatory Authority (FINRA), the National Futures Association (NFA) and the Securities Investors Protection Corporation (SIPC). 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 Bache Commodities, LLC on a fully-disclosed basis. The Company self-clears its foreign currency denominated security transactions and certain repurchase and reverse repurchase agreements. 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 the trade date, as if they had settled. Customers' securities transactions are recorded on a settlement date basis. Customer securities and commodities positions are not reflected in the Consolidated Statement of Financial Condition as the Company does not have title to these assets.

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

#### ***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 reverse repurchase agreements of U.S. government agency mortgage backed securities. 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 and control 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 customers, and payable to affiliates are recorded at amounts that approximate fair value. The fair value of certain 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).

#### ***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 Intangible Asset***

Goodwill is the cost of an acquired company in excess of the fair value of identifiable net assets at the acquisition date. Goodwill is tested annually, or more frequently under certain conditions, for impairment at the reporting unit level. If the fair value of the reporting unit exceeds its carrying value, its goodwill is not deemed to be impaired. If the fair value is less than the carrying value, a

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further analysis is required to determine the amount of impairment, if any. The Company has only one reporting unit for purposes of valuing its goodwill.

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. 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.

#### ***Other***

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

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

At June 30, 2011, cash of \$40,027 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, 2011, cash or securities were not 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 Brokers, Dealers and Clearing Organizations**

Receivable from brokers, dealers and clearing organizations consist of the following at June 30, 2011:

*Receivable from brokers, dealers and clearing organizations:*

Receivable from broker-dealer	\$ <u>495,928</u>
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#### **(5) Payable to Customers**

At June 30, 2011, payable to customers represent customer credits of \$18,227 arising in connection with normal cash transactions.

## WELLS FARGO ADVISORS, LLC

### Notes to Consolidated Statement of Financial Condition

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

Loans and notes receivable from financial advisors represent amounts provided to financial advisors primarily as recruitment incentives and amounts provided for attaining certain production levels, assets under management, and current client financial plans. 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 notes receivable from financial advisors are reported net of the allowance for doubtful accounts of \$55,251 at June 30, 2011.

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

At June 30, 2011, securities owned and securities sold, not yet purchased consist of the following, at fair value:

	<u>Securities owned</u>	<u>Securities sold, not yet purchased</u>
Bankers' acceptances, commercial paper, and certificates of deposit	\$ 15,670	\$ 660
U.S. government and agency obligations	145,723	90,790
State and municipal government obligations	148,225	1,859
Corporate obligations	83,713	56,850
Stocks and warrants	837,907	3,079
Total	<u>\$ 1,231,238</u>	<u>\$ 153,238</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.

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- 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 that 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.

The Company evaluates the significance of transfers between levels based upon the financial instruments and size of the transfer relative to total assets, total liabilities or total income. For the period ended June 30, 2011, there were no significant transfers in or out of Levels 1 or 2.

The balances of assets and liabilities measured at fair value as of June 30, 2011, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Banker's acceptances, commercial paper, and certificates of deposit	\$ 15,670	\$ -	\$ 15,670
U.S. government & agency obligations	145,723	140,169	5,554
State and municipal government obligations	148,225	-	148,225
Corporate obligations	83,713	-	83,713
Stocks and warrants	837,907	-	837,907
Securities Owned	<u>\$ 1,231,238</u>	<u>\$ 140,169</u>	<u>\$ 1,091,069</u>
Banker's acceptances, commercial paper, and certificates of deposit	\$ 660	\$ -	\$ 660
U.S. government & agency obligations	90,790	90,790	-
State and municipal government obligations	1,859	-	1,859
Corporate obligations	56,850	-	56,850
Stocks and warrants	3,079	-	3,079
Securities sold, not yet purchased	<u>\$ 153,238</u>	<u>\$ 90,790</u>	<u>\$ 62,448</u>

## WELLS FARGO ADVISORS, LLC

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

Property, equipment and leasehold improvements consist of the following at June 30, 2011:

Property and leasehold improvements	\$ 335,331
Communications and computer equipment	7,211
Furniture and equipment	50,089
	<u>392,631</u>
Accumulated depreciation and amortization	(98,894)
Total	<u>\$ 293,737</u>

#### (9) Goodwill and Intangible Asset

Goodwill and intangible asset consists of the following at June 30, 2011:

Goodwill	\$ 1,236,291
Intangible asset, net	227,759
	<u>\$ 1,464,050</u>

On January 1, 2011, 100% of the ownership interest in an affiliate, Wells Fargo Investments, LLC (WFI) was contributed to the Company. Since this was a transaction between entities under common control, assets and liabilities were transferred at historical cost basis. As a result of the contribution, the Company's goodwill increased by the cost basis of WFI's goodwill of \$153,290.

At June 30, 2011, the gross carrying value of the brokerage relationship intangible asset and the related accumulated amortization amounted to \$389,000 and \$161,241, respectively. This intangible asset has an amortization period of ten years and uses an accelerated amortization method.

The Company's most recent impairment evaluation indicated that neither the Company's goodwill nor intangible assets was impaired.

#### (10) Short-term Financing

Short-term borrowings consist of \$276 in outstanding bank drafts as of June 30, 2011.

At June 30, 2011, the Company had available \$250,000 in an uncommitted unsecured line of credit with an unaffiliated financial institution. The full amount of the line of credit is also available to FCLLC and WSFH. At June 30, 2011, neither the Company, FCLLC nor WSFH had any balances outstanding on this line of credit.

The Company had available \$1,000,000 in an uncommitted secured line of credit with Wells Fargo Bank, N.A., an affiliated financial institution. The line of credit with Wells Fargo Bank, N.A. is collateralized by securities owned by the Company. The entire line of credit with Wells Fargo

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Bank, N.A. is also available to FCLLC. At June 30, 2011, neither the Company nor FCLLC had any balances outstanding on this line of credit.

At June 30, 2011, the Company had \$500,000 available in an uncommitted unsecured line of credit with WSFH. At June 30, 2011, the Company had no borrowings outstanding on this line of credit.

The Company had available \$50,000 in an uncommitted secured line of credit with WFC, an affiliated institution. At June 30, 2011, the Company had a \$24,690 balance outstanding on this line of credit. The interest on this loan is calculated using the WFC average cost of funds.

In addition, the Company had available \$50,000 in an uncommitted unsecured line of credit with Everen Capital Corporation (Everen), an affiliated institution. At June 30, 2011, the Company had a \$50,000 balance outstanding on this line of credit which is included on a net basis in payable to affiliates in the Consolidated Statement of Financial Condition.

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

The Company has \$120,000 outstanding on a subordinated loan agreement with WFC. This subordinated borrowing was assumed with the WFI contribution to the Company. The loan matures on January 31, 2012 with no scheduled principal payments until maturity. Each year the loan maturity date is automatically extended an additional year unless WFC provides notice at least seven months prior to the maturity date that the loan will not be extended. As of June 30, 2011, WFC has not provided such notice. Therefore, the maturity will automatically extend until January 31, 2013. Interest is paid quarterly and is based on 90-day LIBOR rate plus 0.25%.

The Company has a \$300,000 subordinated revolving line of credit with WFC. 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. There were no borrowings on this subordinated note during 2011.

Borrowings under these subordinated lines would be included 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.

#### **(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, 2011, the Company had net capital of \$771,745 which was \$770,245 in excess of its required net capital of \$1,500.

The Consolidated Statement of Financial Condition as of June 30, 2011 reflects \$5,240 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

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### (13) Employee Benefits and Deferred Compensation Plans

#### *Pension and Post-retirement Plans*

Certain employees of the Company are eligible to participate in the WFC noncontributory qualified defined benefit retirement plan, the Wells Fargo & Company Cash Balance Plan (Cash Balance Plan), which covers eligible employees of WFC. The benefits earned under the Cash Balance Plan were frozen effective July 1, 2009.

On April 28, 2009, the Board of Directors approved amendments to freeze the benefits earned under the WFC qualified and supplemental Cash Balance Plans and the Wachovia Corporation Pension Plan, a cash balance plan that covered eligible employees of the legacy Wachovia Corporation, and to merge the Wachovia Corporation Pension Plan into the qualified Cash Balance Plan. These actions became effective on July 1, 2009.

Prior to July 1, 2009, eligible employees' cash balance plan accounts were allocated a compensation credit based on a percentage of their qualifying compensation. The compensation credit percentage was based on age and years of credited service. The freeze discontinues the allocation of compensation credit for services after June 30, 2009. Investment credits continue to be allocated to participants based on their accumulated balances. Employees become vested in their Cash Balance Plan accounts after completing three years of eligible service.

WFC provides health care and life insurance benefits for certain retired employees and reserves the right to terminate or amend any of the benefits at any time.

#### *Defined Contribution Retirement Plans*

WFC sponsors a defined contribution retirement plan (the 401(k) Plan), which reflects the merging of the Wachovia Savings Plan effective December 31, 2009. There is also a frozen defined contribution plan resulting from a company acquired by Wachovia Corporation. No contributions are permitted to this frozen plan which merged into the 401(k) Plan on June 30, 2011. Under the 401(k) Plan, after one month of service, eligible employees may contribute up to 50% of their certified compensation, although there may be a lower limit for certain highly compensated employees in order to maintain the qualified status of the 401(k) Plan. Eligible employees who complete one year of service are eligible for matching company contributions, which are generally a 100% match up to 6% of an employee's qualifying compensation. Effective January 1, 2010, previous and future matching contributions are 100% vested for active participants.

In 2009, the 401(k) Plan was amended to permit discretionary profit sharing contributions. Based on 2010 earnings, WFC committed to make a contribution in shares of common stock to eligible employees' 401(k) Plan accounts equaling 2% of qualifying compensation.

#### *Deferred Compensation Plans*

The Company maintains various unfunded deferred compensation plans in which select groups of employees are participants, as defined by the individual plans. Certain plans include awards subject to specific vesting dates or salary deferrals as defined in the individual plans. At June 30, 2011, the

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liability associated with these plans was \$849,810 and is included as deferred compensation plan liabilities in the Consolidated Statement of Financial Condition.

Certain of the deferred compensation plans 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 \$826,471 at June 30, 2011, and are included in securities owned, at fair value in the Consolidated Statement of Financial Condition.

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

##### *Services Provided by Affiliates*

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.

The Company has agreements with WFC and its affiliates for general and administration services which are directly billed.

##### *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, 2011, included in receivable from brokers, dealers, and clearing organizations in the Consolidated Statement of Financial Condition is \$495,928 related to these transactions. FCLLC trades and settles securities on the behalf of the Company.

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

The Company has arrangements with Wells Fargo Fund Distributors, LLC (WF Funds), an affiliated mutual fund company, for which it receives various fees for servicing customers invested in WF Funds 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.

##### *Other*

At June 30, 2011, the Company has a demand note receivable from Everen totaling \$48,054 which is included on a net basis in payable to affiliates in the Consolidated Statement of Financial Condition.

At June 30, 2011, Wells Fargo Bank, N.A. had \$897,500 outstanding with the Company under reverse repurchase agreements.

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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, 2011, the Company has other amounts payable to WFC and other affiliates totaling approximately \$83,112, net, which is included in payable to affiliates in the Consolidated Statement of Financial Condition.

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.

#### (15) Dividends

For the period ended June 30, 2011, the Company declared and paid a dividend of \$600,000 to WSFH. The Company's ability to make capital and certain other distributions is subject to the rules and regulations of the SEC and FINRA.

#### (16) Consolidated Subsidiaries

The following is a summary of certain financial information of the Company's consolidated subsidiaries at June 30, 2011:

	Wells Fargo Advisors, LLC Unconsolidated	Other Subsidiaries	Eliminations/ Other	Wells Fargo Advisors, LLC Consolidated
Total assets	\$ 7,812,271	9,718	(14,958)	\$ 7,807,031
Members equity	5,624,619	14,958	(14,958)	5,624,619

The Company prepares Part II of Form X-17A-5 on an unconsolidated basis. Accordingly, \$5,240 of assets and liabilities have been excluded from the computation of net capital pursuant to the Net Capital Rule (see Note 12).

#### (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 2022. 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, 2011 are as follows:

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Years ending December 31:	<u>Operating leases</u>	<u>Non-cancelable subleases</u>
2011	\$ 98,381	\$ 23,898
2012	183,676	47,523
2013	162,120	40,845
2014	136,990	40,104
2015	71,284	2,525
Thereafter	100,160	1,138

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 and has 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.

#### ***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, 2011, 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, FCLLC, 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 FCLLC for losses that FCLLC may sustain as a result of the failure of the Company's customers to satisfy their obligations in

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connection with their securities transactions. At June 30, 2011, substantially all customer obligations were collateralized by securities with a fair value in excess of the obligations.

**(18) Subsequent Event**

The Company has evaluated the effects of events that have occurred subsequent to June 30, 2011 through August 29, 2011, the date the Company issued its Consolidated Statement of Financial Condition. During this period, there have been no material events that would require adjustment in or disclosure to the Consolidated Statement of Financial Condition.