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FORM X-17A-5
PART III

FACING PAGE
Information Required of Brokers and Dealers
Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17c-1
Thereunder

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REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
First Union Securities, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS:
(Do not use P.O. Box No.)

301 South College Street, 8th Floor

(No. and Street)

Charlotte

(City)

NC

(State)

28288-0602

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Alan L. Maxwell

(704) 715-5320

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
(Name - if individual, state last, first, middle name)

KPMG LLP

2300 Three Wachovia Center
(ADDRESS) Number and Street

Charlotte
City

NC
State

28202
Zip Code

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED
APR 02 2002
THOMSON
FINANCIAL

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

AMF
4/1/2002

OATH OR AFFIRMATION

I, Scott L. Ilario, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of First Union Securities, Inc. as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.

Scott Ilario

Name *Scott Ilario*
Title *President*

Steven W. Brown

Notary Public

My Commission Expires 12/28/05

This report ** contains (check all applicable boxes):

- (a) Facing Page
- (b) Statement of Financial Condition
- (c) Statement of Income
- (d) Statement of Cash Flows
- (e) Statement of Changes in Stockholder's Equity of Partners' or Sole Proprietor's Capital
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirement Pursuant to Rule 15c3-3
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3
- (j) A Reconciliation, including appropriate explanation, of the computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A Rule 15c3-3
- Schedule of Segregation Requirements and Funds in Segregation Pursuant to Commodity Exchange Act
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation
- (l) An Oath or Affirmation
- (m) A Copy of the SIPC Supplemental Report
- (n) A Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit

** For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3)



401 South Tryon Street
Suite 2300
Charlotte, NC 28202-1911

Independent Auditors' Report

Board of Directors
First Union Securities, Inc.:

We have audited the accompanying statement of financial condition of First Union Securities, Inc. (the Company), a subsidiary of Wachovia Corporation, as of December 31, 2001, that you are filing pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 and Regulation 1.10 of the Commodity Exchange Act. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit of a statement of financial condition includes examining, on a test basis, evidence supporting the amounts and disclosures in that statement of financial condition. An audit of a statement of financial condition also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of First Union Securities, Inc. as of December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 25, 2002



FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Statement of Financial Condition

December 31, 2001

(In thousands, except share data)

Assets

Cash	\$	2,648
Securities purchased under agreements to resell		10,380,340
Securities owned, at market value (\$5,029,464 pledged as collateral)		5,254,658
Receivable from broker-dealers and clearing organizations		3,480,642
Receivable from customers		33,687
Net deferred income tax asset		97,635
Accrued interest receivable		81,940
Property, equipment and leasehold improvements, net		65,754
Goodwill, net		73,970
Other assets		553,020
Total assets		<u>20,024,294</u>

Liabilities and Stockholder's Equity

Liabilities:		
Securities sold under agreements to repurchase		13,156,890
Securities sold, not yet purchased, at market value		2,070,940
Payable to broker-dealers and clearing organizations		2,393,143
Payable to banks		14,997
Payable to customers		67,264
Accrued interest payable		36,206
Other liabilities		581,727
Total liabilities		<u>18,321,167</u>
Subordinated borrowings		462,500
Stockholder's equity		<u>1,240,627</u>
Total liabilities and stockholder's equity	\$	<u>20,024,294</u>

See accompanying notes to statement of financial condition.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

(1) Summary of Significant Accounting Policies

(a) Organization

First Union Securities, Inc. (the "Company"), is a wholly owned subsidiary of Everen Securities Holdings, Inc. ("Everen Holdings"), which is a wholly owned subsidiary of Everen Capital Corporation ("Everen"). Everen is a wholly owned subsidiary of Wachovia Corporation (the "Holding Company"). The Holding Company was formerly known as First Union Corporation. On September 1, 2001, First Union Corporation merged with Wachovia Corporation and changed its name to Wachovia Corporation. The Holding Company is registered with the Federal Reserve Board as a financial holding company in accordance with the Gramm-Leach-Bliley Act of 1999 ("GLBA").

The Company is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the New York Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. In addition, the Company is also a futures commission merchant subject to regulation under the Commodity Exchange Act. The Company engages in a wide variety of securities activities in accordance with its status as an affiliate of a financial holding company under the provisions of the GLBA. In general, securities sold by the Company are not bank deposits and are not insured by the Federal Deposit Insurance Corporation.

The Company clears its retail brokerage customers' transactions through First Clearing Corporation ("FCC") on a fully-disclosed basis. FCC is a wholly owned subsidiary of the Holding Company. The Company self clears its institutional and proprietary transactions.

(b) 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 treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts. The carrying value of repurchase and reverse repurchase agreements approximates their fair value. These transactions are primarily repurchase agreements of United States Government and agency securities and corporate bonds. The Company's exposure to credit risk associated with the nonperformance of customers in fulfilling these contractual obligations can be directly affected by volatile trading markets, which may impair the customers' ability to satisfy their obligations to the Company.

It is the Company's policy to obtain possession of securities purchased under agreements to resell. The Company manages the credit risk associated with these transactions by monitoring the market value of the collateral obtained, including accrued interest, and by requesting additional collateral when deemed appropriate. Securities purchased under agreements to resell of \$54,265,000 have been segregated in a special reserve bank account for the exclusive benefit of customers under Rule 15c3-3 of the SEC.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

(c) *Securities Transactions*

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

(d) *Securities Lending Activity*

Securities borrowed and securities loaned are generally reported as collateralized financing transactions. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned are recorded at the amount of collateral received. 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.

(e) *Futures, Forwards, Option Contracts and Other Financial Instruments*

Derivative financial instruments are used for trading purposes, including economic hedges of trading instruments, and are recorded at fair value. Fair values for exchange traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter derivative financial instruments, principally interest rate swaps, forwards and options, are based on quoted market prices for similar instruments, pricing models and discounted cash flow analyses.

(f) *Benefit Plans*

Substantially all employees with one year of service are eligible for participation in the noncontributory defined benefit pension plan and the matched savings plan of the Holding Company. In addition, the Holding Company provides postretirement benefits, principally healthcare, to employees and their beneficiaries and dependents. The Holding Company allocates expense to the Company for the defined benefit pension plan, matching savings plan and postretirement benefits based on employee compensation of the Company and the total cost incurred with respect to the plans on a consolidated basis. The actuarial and plan asset information pertaining to the employees of the Company is not segregated in the Holding Company's retirement and postretirement plan calculations and is therefore not available.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

(g) *Income Taxes*

The operating results of the Company are included in the consolidated federal income tax return of the Holding Company. Current federal income tax expense is calculated at statutory rates and paid to the Holding Company. State income tax laws do not generally permit consolidated income tax returns; accordingly, applicable state income tax returns are filed by the Company.

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

(h) *New Accounting Pronouncements*

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of SFAS 125*, which revised the criteria for accounting for securitizations and other transfers of financial assets and collateral, and introduced new disclosures. The disclosure requirements were effective for years ended after December 15, 2000. The remaining provisions of SFAS 140 were adopted by the Company in 2001.

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Also under SFAS 141, identified assets acquired in a purchase business combination must be separately valued and recognized on the balance sheet if they meet certain requirements.

Under the provision of SFAS 142, goodwill and identified intangible assets with indefinite useful lives are not subject to amortization but are subject to impairment testing on an annual basis, or more often if events or circumstances indicate possible impairment. The Company will adopt the provisions of SFAS 141 and 142 on January 1, 2002 and will cease amortizing existing goodwill at that time.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

(i) *Other*

The Company's financial instruments are either carried at fair value or are considered to be stated at fair value due to their short-term nature.

The preparation of the statement of financial condition in conformity with 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.

(2) **Receivable from and Payable to Customers**

The balances represent the net amounts receivable from and payable to customers in connection with normal cash transactions. The amounts receivable from customers are generally collateralized by securities, the value of which is not reflected in the accompanying statement of financial condition. At December 31, 2001, \$216,000 of customer receivables were unsecured.

(3) **Receivable from and Payable to Broker-Dealers and Clearing Organizations**

Receivable from and payable to broker-dealers and clearing organizations consist of the following at December 31, 2001:

	<u>(In thousands)</u>
Receivable from broker-dealers and clearing organizations:	
Securities failed to deliver	\$ 1,093,768
Deposits paid for securities borrowed	2,285,882
Other	100,992
	<u>\$ 3,480,642</u>

	<u>(In thousands)</u>
Payable to broker-dealers and clearing organizations:	
Securities failed to receive	\$ 1,100,289
Deposits received for securities loaned	1,221,060
Unsettled regular way transactions	21,160
Other	50,634
	<u>\$ 2,393,143</u>

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

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

At December 31, 2001, securities owned and securities sold, not yet purchased consist of trading securities at market value, as follows:

	(In thousands)	
	Securities Owned	Securities Sold, Not Yet Purchased
Bankers' acceptances, commercial paper and certificates of deposit	\$ 8,246	—
U.S. Government and agency obligations	1,961,699	536,758
State and municipal government obligations	74,020	—
Corporate obligations	1,746,846	329,009
Collateralized mortgage obligations and asset-backed securities	1,022,207	48,710
Equity securities	233,569	951,430
Other	208,072	205,033
Total	\$ 5,254,658	2,070,940

U.S. Government and agency obligations with a market value of \$316,680,000 at December 31, 2001, have been pledged to secure margin requirements with respect to futures and options transactions. Securities owned at December 31, 2001, included debt securities issued by the Holding Company with a market value of \$58,197,000.

(5) Collateral Arrangements

The Company has accepted securities, which it is permitted to repledge or sell, as collateral for securities borrowed transactions and for securities purchased with agreements to resell transactions. At December 31, 2001 the fair value of this collateral was \$12,687,030,000, all of which had been repledged or sold by the Company. The collateral is received primarily from other broker-dealers or institutional customers and is used by the Company to enter into securities lending agreements for securities sold with agreements to repurchase transactions and settlements related securities sold short, not yet purchased.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

(6) Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements consist of the following at December 31, 2001:

	<u>(In thousands)</u>
Furniture and equipment	\$ 54,363
Communications and computer equipment	76,114
Property and leasehold improvements	47,713
	178,190
Less: accumulated depreciation and amortization	112,436
	\$ 65,754

(7) Payable to Banks

In the normal course of business, the Company borrows funds to finance securities owned and securities not yet delivered. At December 31, 2001, the Company had available \$600,000,000 in secured and unsecured lines of credit with various unaffiliated banks and \$500,000,000 with an affiliated bank. Of these amounts, \$14,997,000 was outstanding with unaffiliated banks and none was outstanding with the affiliated bank at December 31, 2001. One of the Company's lines of credit of \$280,000,000 is committed and secured. This line, of which none was outstanding at December 31, 2001, requires the maintenance of certain covenants, primarily that net capital is at least \$70,000,000 in excess of required net capital under SEC Rule 15c3-1, total capital is at least \$700,000,000 plus 50% of cumulative positive net income earned for each fiscal quarter end, and the ratio of net capital to aggregate debit items is not less than six percent. At December 31, 2001, the Company was in compliance with the covenants.

(8) Subordinated Borrowings

At December 31, 2001, the Company was indebted to the following:

	<u>(In thousands)</u>
Holding Company	
Subordinated note due January 31, 2008; variable rate of 2.3% at December 31, 2001	\$ 100,000
Subordinated note due January 31, 2008; variable rate of 2.3% at December 31, 2001	97,500
Revolving subordinated note facility of \$200,000 due January 31, 2008; variable rate of 2.3% at December 31, 2001	200,000
Everen	
Revolving subordinated note facility of \$50,000 due June 30, 2007; variable rate of 3.63% at December 31, 2001	50,000
Unaffiliated lender	
Subordinated note due January 26, 2004; 7.18% fixed rate	15,000
	\$ 462,500

FIRST UNION SECURITIES, INC.
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Notes to Statement of Financial Condition

December 31, 2001

The \$15,000,000 fixed rate subordinated note is payable in three equal annual installments beginning January 26, 2002.

All subordinated borrowings are available in computing net capital under the SEC's Uniform Net Capital Rule. To the extent that such borrowings are required for the Company's continued compliance with *minimum net capital requirements*, they may not be repaid.

Management believes that the fair value of the subordinated notes at December 31, 2001, approximate their carrying value.

(9) **Income Taxes**

The sources and tax effects of temporary differences that give rise to significant portions of deferred income tax assets (liabilities) at December 31, 2001, are as follows:

	<u>(In thousands)</u>
Accrued expenses, deductible when paid	\$ 26,465
Deferred compensation	79,959
Post retirement medical	5,637
Other	<u>4,334</u>
Deferred income tax assets	<u>116,395</u>
Prepaid pension	(15,111)
Other	<u>(3,649)</u>
Deferred income tax liabilities	<u>(18,760)</u>
Net deferred income tax asset	\$ <u><u>97,635</u></u>

The realization of the net deferred income tax asset may be based on utilization of carrybacks to prior taxable periods, the anticipation of future taxable income in certain periods and the utilization of tax planning strategies. Management has determined that it is more likely than not that the net deferred income tax asset can be supported by carrybacks to federal taxable income in the two-year federal carryback period and by expected future taxable income which will exceed amounts necessary to fully realize remaining deferred income tax assets resulting from the scheduling of temporary differences.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

The Internal Revenue Service (the "IRS") is currently examining the Holding Company's federal income tax returns for the years 1997 through 1999. In addition, in November 2001, the IRS issued reports related to the examination of the Holding Company's 1994 to 1996 federal income tax returns. Although the amount of any ultimate liability with respect to such examinations cannot be determined, in the opinion of management any such liability will not have a material impact on the Company's financial position or results from operations. In 1999, the IRS examination of the Holding Company's federal income tax returns for the years 1991 through 1993 was settled with no significant impact on the Company's financial position.

At December 31, 2001, the Company had income taxes payable to the Holding Company of \$22,230,000 which is included in other liabilities.

(10) Transactions with Affiliated Parties

The following items present the Company's significant transactions with affiliated parties. These transactions are executed under terms which management believes approximates the fair value of such services.

(a) Securities Purchased Under Agreements to Resell

The Company enters into securities purchased under agreements to resell transactions with affiliates of which \$2,409,729,000 is outstanding at December 31, 2001. The agreements are due on demand. Included in accrued interest receivable at December 31, 2001, is \$1,018,000, due from affiliates.

(b) Securities Sold Under Agreements to Repurchase

The Company enters into securities sold under agreements to repurchase transactions with affiliates of which \$272,371,000 is outstanding at December 31, 2001. The agreements are due on demand. Included in accrued interest payable at December 31, 2001, is \$5,000, due to affiliates.

(c) Services Provided by the Company to Affiliates

The Company acts as an agent for First Union National Bank providing various services. Included in other assets at December 31, 2001, \$72,289,000 of receivables are related to transactions with affiliates.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

(d) Interest Rate Swaps

The Company has entered into interest rate swap transactions (swaps) and options on interest rate swaps (swaptions) with First Union National Bank to hedge securities owned. At December 31, 2001, the notional value of these swaps and swaptions is \$809,941,000 and \$21,000,000, respectively. The estimated fair value at December 31, 2001, is \$(12,610,000) and \$(558,000), respectively, which is included in other liabilities in the accompanying statement of financial condition.

(e) Clearing Services

The Company has entered into a fully disclosed clearing agreement with FCC to clear its retail securities transactions. At December 31, 2001, receivables from broker dealers and clearing organizations includes \$38,436,000 due from FCC in connection with the fully disclosed clearing arrangement.

(f) Fails to Deliver and Fails to Receive

The Company enters into securities transactions with First Union National Bank, an affiliate registered as a Government Securities Dealer. At December 31, 2001, fails to deliver of \$134,984,000 and fails to receive of \$55,952,000 resulting from these transactions are included in receivables from and payable to broker-dealers and clearing organizations, respectively.

(11) Derivatives, Commitments and Contingent Liabilities

The Company is a party to derivative financial instruments and commitments in the normal course of business to meet the financing needs of customers, conduct trading activities and manage market risks. These derivative financial instruments include futures, options, swaps, swaptions, forward commitments to purchase and sell securities, securities purchased and sold on a when-issued basis (when-issued securities) and firm underwriting commitments. These instruments and commitments involve, to varying degrees, elements of credit and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the terms of the contract. Market risk is the possibility that a change in interest rates will cause an unfavorable change in the value of a financial instrument.

The Company controls the credit risk arising from these instruments and commitments through its credit approval process and through the use of risk control limits and monitoring procedures. It evaluates each customer's or other broker-dealer's creditworthiness on a case-by-case basis. If collateral is deemed necessary to reduce credit risk, the amount and nature of the collateral obtained is based on management's credit evaluation of the other party. Based on the Company's assessment of each of its counterparties, collateral was not required by the Company at December 31, 2001.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

The notional principal or contractual amounts of derivative financial instruments with off-balance sheet risk exceed the probable loss that could arise from counterparty default or changes in interest rates. The fair value derivative financial instruments represents the estimated unrealized gain (asset) or loss (liability) and is recorded in other assets or other liabilities in the statement of financial condition. The Company does not currently anticipate any material losses as a result of these transactions. The market risk associated with trading financial instruments, including derivatives, the prices of which are constantly fluctuating, is managed by imposing limits as to the type, amounts and degree of risk that traders may undertake. These limits are approved by senior management, and the risk positions of traders are reviewed on a daily basis to monitor compliance with the limits. As of December 31, 2001, derivative financial instruments and their related fair values are as follows:

	(In thousands)	
	Estimated Fair Value Asset (Liability)	Contract or Notional Amount
Forward and futures contracts	\$ (5,149)	1,054,466
Interest rate swaps	(12,610)	809,941
Swaptions	(558)	21,000
Purchased options	209,692	3,727,814
Written options	(206,653)	2,456,974

Forward and futures contracts are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. Options are contracts that allow the holder of the option to purchase or sell a financial instrument at a specified price and within a specified period of time from the seller or writer of the option. As a writer of options, the Company receives a premium at the outset and then bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The average fair values for forward and futures contracts, swaps, and options contracts during 2001 was approximately \$18,305,000.

In the normal course of business, the Company enters into debt and equity underwriting commitments. Transactions relating to such underwriting commitments that were open at December 31, 2001, and were subsequently settled had no material impact on the Company's financial condition or results of operations.

During the year ended December 31, 2001, FUSI securitized approximately \$1,350,000,000 of debt securities. FUSI did not retain any interests in the securitization, and has no continuing involvement with the securitized assets.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

The Company introduces certain of its customer transactions to an affiliated clearing broker, FCC, with whom it has a correspondent relationship for clearance and depository services in accordance with the terms of the clearance agreement. In connection therewith, the Company has agreed to indemnify FCC for losses that FCC may sustain as a result of the failure of the Company's customers to satisfy their obligations in connection with their securities transactions. As of December 31, 2001, substantially all customer obligations were collateralized by securities with a market value in excess of the obligations.

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 position.

The Company leases office space primarily related to its branch network and offices under operating leases expiring at various dates through 2011. Minimum future rental payments required under such leases, that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2001 are as follows:

<u>Years ending December 31,</u>	<u>Operating Leases (In Thousands)</u>
2002	\$ 66,501
2003	59,719
2004	50,702
2005	39,711
2006	33,928
After 2006	63,361

Minimum future rental commitments do not include operating leases entered into by the Holding Company for which the Company shares rent expense. The Holding Company allocates rent expense to the Company for its share of rent expense incurred under these operating leases.

(12) Net Capital

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company maintain minimum net capital, as defined, or 2 percent of combined aggregate debit balances arising from customer transactions. At December 31, 2001, the Company had net capital of \$287,800,000 which was 847.2% of aggregate debit balances and \$286,800,000 in excess of required net capital.

FIRST UNION SECURITIES, INC.
(A subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2001

(13) Subsequent Event

The Company's parent, First Union Corporation merged with Wachovia Corporation on September 1, 2001 and changed its name to Wachovia Corporation. Wachovia Corporation has a subsidiary broker dealer named Wachovia Securities Inc. ("WSI"). The business of WSI is being transferred to the Company and FCC. Such transfer is currently scheduled for May, 2002. Upon completion of the transfer of the retail business, the Company plans to change its name to Wachovia Securities, Inc.