



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 51393

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **FTN Financial Securities Corp.**

OFFICIAL USE ONLY
FIRM I.D. NO.

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

845 Crossover Lane, Suite 150

(No. and Street)

Memphis

(City)

Tennessee

(State)

38117

(Zip Code)

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

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG

(Name - if individual, state last, first, middle name)

401 South Tryon Street, Suite 2300

(Address)

Charlotte

(City)

North Carolina

(State)

28202

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 17 2003

FOR OFFICIAL USE ONLY

**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)

OATH OR AFFIRMATION

I, Donald A. Ritcheson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FTN Financial Securities Corp., as of December 31, 20 02, 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, except as follows:

NONE

Donald A. Ritcheson
Signature

Chief Financial Officer
Title

Guendalyn M. ...
Notary Public
My Commission Expires 10-12-04

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements 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 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (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

The Board of Directors and Stockholder
FTN Financial Securities Corporation:

We have audited the accompanying statement of financial condition of FTN Financial Securities Corporation (the Company), a wholly owned subsidiary of First Tennessee Bank National Association, as of December 31, 2002, that you are filing pursuant to Rule 17a-5 of the Securities Exchange Act of 1934. This statement of financial condition 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 this 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 FTN Financial Securities Corporation as of December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 14, 2003



FTN FINANCIAL SECURITIES CORPORATION
(A wholly owned subsidiary of First Tennessee Bank National Association)

Statement of Financial Condition

December 31, 2002

Assets

Cash and cash equivalents	\$	17,172,944
Cash segregated for regulatory purposes		1,000,000
Securities owned, at market value		39,827,407
Securities purchased under agreements to resell		59,111,453
Receivable from customers		17,385,705
Receivable from brokers and dealers		32,030,484
Deposit with clearing organization		250,000
Accrued interest receivable		549,517
Furniture, equipment, and leasehold improvements, net		933,484
Receivable from Midwest Research Securities Corporation		1,209,566
Deferred tax asset		227,250
Other assets		406,916
	\$	<u>170,104,726</u>

Liabilities and Stockholder's Equity

Liabilities:

Securities sold, not yet purchased, at market value	\$	42,109,972
Short-term borrowings from Parent		37,350,000
Payable to customers		19,520,804
Payable to brokers and dealers		9,534,629
Payable to clearing organization, net		288,933
Payable to MWR Partners Limited		1,209,566
Accrued compensation and benefits		13,011,341
Due to First Tennessee Bank National Association		4,389,841
Accrued interest payable		528,340
		<u>127,943,426</u>

Stockholder's equity:

Common stock, \$1 par value per share; 1,000 shares authorized, issued and outstanding		1,000
Additional paid-in capital		32,762,632
Retained earnings		9,397,668
		<u>42,161,300</u>
Total stockholder's equity	\$	<u>170,104,726</u>

See accompanying notes to statement of financial condition.

FTN FINANCIAL SECURITIES CORPORATION

Notes to Statement of Financial Condition

December 31, 2002

(1) Organization and Significant Accounting Policies

(a) *Organization and Operations*

FTN Financial Securities Corporation (the Company), a Tennessee corporation, was formed on October 30, 1998, to act as an underwriter, broker, and dealer of certain debt and equity instruments, including municipal bonds, government and government agency securities, mortgage-backed securities, common and preferred stocks, and other asset-backed securities, and derivatives thereof. The Company also engages in investment banking services. The Company was capitalized on January 19, 1999, as a wholly owned subsidiary of First Tennessee Bank National Association (FTBNA), which is a wholly owned subsidiary of First Tennessee National Corporation (FTNC).

On October 18, 2002, the Company divested its Midwest Research Division into a separate legal operating entity under the name Midwest Research Securities Corporation. This was affected through the issuance of a distribution to FTBNA of approximately \$22.2 million, consisting of \$13.3 million in goodwill, \$7 million in cash and approximately \$1.9 million in other prepaid and fixed assets, representing the carrying amounts for assets attributable to the Midwest Research Division. Midwest Research Securities Corporation is now a wholly owned subsidiary of FTBNA.

The Company is registered as a securities dealer with the Securities and Exchange Commission (SEC), the National Association of Securities Dealers, Inc. (NASD), the Municipal Securities Rule Making Board (MSRB) and with various state agencies. As such, the Company is subject to the rules and regulations of these federal and state regulatory agencies. As a subsidiary of a national bank, the Company is also subject to the rules and regulations of the Office of the Comptroller of the Currency (OCC).

(b) *Securities purchased under agreements to resell*

Transactions involving short-term purchases of securities under agreements to resell (reverse repurchase agreements) are generally entered into with two third party broker-dealers. These agreements are accounted for as collateralized financings except where the Company does not have an agreement to sell the same or substantially the same securities before maturity at a fixed or determinable price. It is the Company's policy to obtain possession of the securities purchased under agreements to resell, consisting primarily of United States government and agency securities and corporate bonds.

(c) *Securities Transactions*

Securities transactions are recorded on trade date, as if they had settled.

Securities owned and securities sold, not yet purchased are valued at market value using quoted market prices as determined through third party pricing services.

FTN FINANCIAL SECURITIES CORPORATION

Notes to Statement of Financial Condition

December 31, 2002

(d) Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements consist of leasehold improvements, office furniture and fixtures, computer equipment, and other electronic data processing equipment.

(e) Use of Estimates

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the 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) Income Taxes

The Company calculates its income tax provision under the terms of a tax sharing arrangement with FTNC, with whom it files a consolidated tax return. For federal income taxes, the Company provides intercompany charges or credits in lieu of income taxes as if the company filed on a separate return basis. For state income taxes, the Company provides intercompany charges or credits in lieu of income taxes based on the Company's income before such charges or credits and the applicable state tax rate, adjusted by the combined apportionment factor utilized in the FTNC consolidated Tennessee state tax return. Taxes paid in other states where the Company operates is adjusted for in the FTNC consolidated Tennessee state tax return. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing enacted tax laws and rates. Certain tax benefits not otherwise recognizable on a stand-alone basis may be recognized to the extent they may be utilized by the consolidated group. As of December 31, 2002, the Company had deferred federal tax assets of \$227,250 and deferred state tax liabilities of \$19,195. As of December 31, 2002, \$70,105 was due to FTBNA for payment of income taxes and is reflected on the Company's statement of financial condition as a component of Due to First Tennessee Bank National Association.

(3) Receivables from and Payable to Customers, Broker-Dealers and Clearing Organizations

Receivables from and payable to customers and broker-dealers consist primarily of securities failed to deliver and securities failed to receive and securities transactions which have yet to reach their settlement date.

(4) Fair Value of Financial Instruments

As of December 31, 2002, securities owned and securities sold short, not yet purchased consist of trading securities at market value as follows:

	Securities owned	Securities sold, not yet purchased
Corporate obligations	\$ 24,472,649	30,188,713
U.S. Government and agency obligations	13,568,268	11,605,983
Equity and other securities	1,786,490	315,276
Total	\$ 39,827,407	42,109,972

FTN FINANCIAL SECURITIES CORPORATION

Notes to Statement of Financial Condition

December 31, 2002

(5) Collateral Arrangements

The Company has accepted securities, which it is permitted to repledge or sell, as collateral for securities purchased with agreements to resell transactions. At December 31, 2002, the fair value of this collateral was \$57,364,845, of which \$37,575,736 had been repledged or sold by the Company. The collateral is primarily received from other broker-dealers and is used by the Company to hedge against its long inventory position and to settle related securities sold short, not yet purchased.

(6) Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements consist of the following at December 31, 2002:

Furniture and equipment	\$	205,140
Communications and computer equipment		377,826
Leasehold improvements and other fixed assets		<u>480,660</u>
		1,063,626
Less accumulated depreciation and amortization		<u>(130,142)</u>
	\$	<u><u>933,484</u></u>

(7) Transactions with Related Parties

(a) Lines of Credit

Effective May 21, 2002, the Company renewed and increased its line of credit agreement with FTBNA, which has a maximum principal balance of \$125,000,000 and matures on May 31, 2003. Borrowings are payable monthly, including interest at a variable rate equal to the one-month LIBOR rate plus 0.50% (1.88% as of December 31, 2002). Based on the terms of the related security agreement, collateral of up to 125% of the outstanding principal balance is required to be pledged. The collateral percent may vary based on the mix of the security inventory. At December 31, 2002, securities inventory with a fair value of approximately \$43,249,000 were pledged as collateral to secure these borrowings.

During the year, the Company did not receive any advances on its Revolving Subordinated Loan Agreement with FTNC. This line of credit has a maximum principal balance of \$10,000,000 and matures on June 18, 2009. Borrowings mature one year from the date of advance including interest at the Prime rate. Borrowings under this agreement 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 without the prior approval of the NASD. There were no such borrowings outstanding at December 31, 2002.

FTN FINANCIAL SECURITIES CORPORATION

Notes to Statement of Financial Condition

December 31, 2002

(b) Other Related Party Transactions

FTBNA and FTNC provide the Company certain accounting, administrative, audit, and legal functions for a fee payable monthly pursuant to various administrative services agreements between the Company and FTBNA and FTNC. In addition, the Company leases office space and furniture and fixtures from FTBNA under a similar agreement.

The Company's cash is held in non-interest bearing checking accounts with FTBNA.

Certain employees operate under an informal employee-sharing arrangement between the Company and FTBNA. Salaries and other compensation for those employees that incur time related to both Company and FTBNA operating activities are allocated based on management's discretion.

Employees of the Company participate in certain benefit programs sponsored by FTBNA or FTNC, including a defined benefit pension plan, a contributory savings plan and a post-retirement medical plan, as well as medical and group life insurance plans. A portion of the cost of these benefit programs has been allocated to the Company based upon the number of employees, salary levels, and other relevant measures. The actuarial and plan asset information pertaining to the employees of the Company is not segregated in FTBNA or FTNC pension and post-retirement calculations and is therefore not available.

As a result of the Company's acquisition of the assets of Midwest Research - Maxus Group Limited (Midwest) on January 2, 2001, the Company had contractually agreed to make certain annual performance-based payments to certain of the former owners of Midwest. Such payments are calculated as a percentage of the Midwest Research Division net earnings for each of the three years ending December 31, 2001, 2002, and 2003. As of December 31, 2002, payments due to the former owners of the Midwest Research Division under this arrangement totaled \$1,209,566. Concurrent with the divestiture of the Midwest Research Division by the Company on October 18, 2002, the new entity Midwest Research Securities Corporation agreed to reimburse the Company for amounts paid by the Company related to its agreement with Midwest. As of December 31, 2002, \$1,209,566 is receivable from Midwest Research Securities Corporation related to this agreement.

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

(8) Regulatory Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital, as defined. The Company has elected to use the alternative method permitted by this rule, which requires that minimum net capital be maintained at the greater of \$250,000 or 2% of aggregate debit items computed in accordance with the Formula for Determination of Reserve Requirements pursuant to Rule 15c3-3 of the Act, as defined, plus additional amounts required for brokers and dealers engaged in market making activities. At December 31, 2002, the Company's net capital, as defined, totaled \$22,405,168, which was \$21,877,668 greater than its required net capital of \$527,500.

FTN FINANCIAL SECURITIES CORPORATION

Notes to Statement of Financial Condition

December 31, 2002

In accordance with Rule 15c3-3 of the Act, as required, the Company segregates certain funds or qualified securities in accounts designated for the exclusive benefit of customers. Based on the Computation for Determination of Reserve Requirement at December 31, 2002, no funds were required to be segregated. However, at December 31, 2002, the Company voluntarily segregated \$1,000,000 of cash for the exclusive benefit of customers.

(9) Commitments and 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 in the event certain events occur. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. Since there are no stated or notional amounts included in the indemnification clauses and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur, the Company is not able to estimate the maximum potential amount of future payments under these indemnification clauses. There are no amounts reflected on the statement of financial condition as of December 31, 2002, related to these indemnifications.