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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- 13752

FACING PAGE

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

FEB 27 2004

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Tower Square Securities, Inc.**

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

OFFICIAL USE ONLY  
FIRM I.D. NO.

One Cityplace - 18th Floor

(No. and Street)

Hartford,

(City)

CT

(State)

06103

(Zip Code)

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

John M. Lavery

(860) 308-6786

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG LLP

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

One Financial Plaza

(Address)

Hartford

(City)

CT

(State)

06103-4103

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 24 2004

FOR OFFICIAL USE ONLY

THOMSON  
FINANCIAL

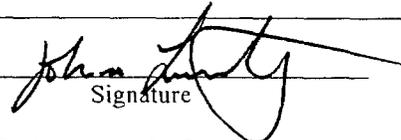
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

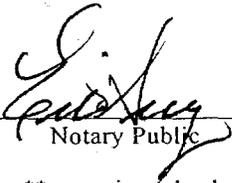
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OATH OR AFFIRMATION

I, John M. Lavery, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Tower Square Securities, Inc., as of December 31, 20 03, 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.

  
Signature

Chief Financial Officer & Treasurer  
Title

  
Notary Public

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).

# TOWER SQUARE SECURITIES, INC.

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KPMG LLP  
One Financial Plaza  
Hartford, CT 06103-4103

## Independent Auditors' Report

The Board of Directors of  
Tower Square Securities, Inc.:

We have audited the accompanying statement of financial condition of Tower Square Securities, Inc. as of December 31, 2003 and 2002, and the related statements of operations, changes in shareholder's equity, changes in subordinated borrowings, and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tower Square Securities, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 24, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

**TOWER SQUARE SECURITIES, INC.**

Statement of Financial Condition

December 31, 2003 and 2002

Assets	<u>2003</u>	<u>2002</u>
Cash	\$ 444,628	2,303,339
Short-term securities, at amortized cost	1,999,765	1,497,832
Variable annuities	7,685,259	5,634,129
Receivable from financial institutions	—	641,420
Receivable from broker/dealers	360,233	125,360
Income tax receivable from affiliate	2,293,405	2,086,967
Secured demand note receivable	11,000,000	11,000,000
Deferred tax asset	3,725,898	3,058,723
Other assets	1,313,581	722,441
Total assets	\$ 28,822,769	27,070,211
<b>Liabilities and Shareholder's Equity</b>		
Liabilities:		
Deferred compensation plan payable to representatives	\$ 7,691,868	5,633,814
Commissions and allowances payable	517,507	832,918
Accrued licensing fees	—	433,058
Due to affiliate	888,759	1,422,936
Note payable under a subordinated demand note collateral agreement	11,000,000	11,000,000
Other liabilities	1,428,809	1,541,313
Total liabilities	21,526,943	20,864,039
Commitments and contingent liabilities		
Shareholder's equity:		
Common stock: \$100 par value, 10,000 shares authorized; 1,000 shares issued and outstanding	100,000	100,000
Additional paid-in capital	18,789,396	16,289,396
Accumulated deficit	(11,593,570)	(10,183,224)
Total shareholder's equity	7,295,826	6,206,172
Total liabilities and shareholder's equity	\$ 28,822,769	27,070,211

See accompanying notes to financial statements.

**TOWER SQUARE SECURITIES, INC.**

Statement of Operations

For the years ended December 31, 2003 and 2002

	2003	2002
Revenues:		
Sales commissions	\$ 47,856,364	48,461,381
12b-1 fees	(91,391)	2,037,342
Interest income	6,503	20,982
Gain (loss) on variable annuities	1,323,998	(1,293,831)
Other income	302,672	683,399
	49,398,146	49,909,273
Expenses:		
Commissions	41,709,817	41,880,300
Compensation benefit from variable annuities	1,323,998	(1,293,831)
General and administrative	8,648,292	8,728,837
	51,682,107	49,315,306
Income (loss) before income taxes	(2,283,961)	593,967
Income tax (benefit) expense	(873,615)	303,699
Net (loss) income	\$ (1,410,346)	290,268

See accompanying notes to financial statements.

**TOWER SQUARE SECURITIES, INC.**

Statement of Changes in Shareholder's Equity

For the years ended December 31, 2003 and 2002

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at December 31, 2001	\$ 100,000	14,789,396	(10,473,492)	4,415,904
Net income	—	—	290,268	290,268
Capital contribution	<u>—</u>	<u>1,500,000</u>	<u>—</u>	<u>1,500,000</u>
Balance at December 31, 2002	\$ 100,000	16,289,396	(10,183,224)	6,206,172
Net loss	—	—	(1,410,346)	(1,410,346)
Capital contribution	<u>—</u>	<u>2,500,000</u>	<u>—</u>	<u>2,500,000</u>
Balance at December 31, 2003	<u>\$ 100,000</u>	<u>18,789,396</u>	<u>(11,593,570)</u>	<u>7,295,826</u>

See accompanying notes to financial statements.

**TOWER SQUARE SECURITIES, INC.**

Statement of Changes in Subordinated Borrowings

For the years ended December 31, 2003 and 2002

Subordinated borrowings at December 31, 2003 and 2002

\$ 11,000,000

See accompanying notes to financial statements.

**TOWER SQUARE SECURITIES, INC.**

Statement of Cash Flows

For the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Net (loss) income	\$ (1,410,346)	290,268
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred taxes	(667,175)	2,788,218
Changes in operating assets and liabilities:		
Receivable from financial institutions	641,420	87,291
Receivable from broker/dealers	(234,873)	115,237
Income tax receivable from affiliate	(206,438)	(1,795,842)
Other assets	(591,140)	(81,422)
Deferred compensation plan payable to representatives	2,058,054	(213,620)
Commissions and allowances payable	(315,411)	(430,618)
Accrued licensing fees	(433,058)	148,673
Due to affiliate	(534,177)	816,570
Other liabilities	(112,504)	(5,979,599)
Total adjustments	(395,302)	(4,545,112)
Net cash used in operating activities	(1,805,648)	(4,254,844)
Cash flows from investing activities:		
Net change in variable annuities	(2,051,130)	196,183
Net change in short-term securities	(501,933)	3,497,154
Net cash (used in) provided by investing activities	(2,553,063)	3,693,337
Cash flows from financing activities:		
Capital contribution	2,500,000	1,500,000
Net cash provided by financing activities	2,500,000	1,500,000
Net change in cash	(1,858,711)	938,493
Cash at beginning of the year	2,303,339	1,364,846
Cash at end of the year	\$ 444,628	2,303,339
<b>Supplemental disclosure of cash flow information:</b>		
Income taxes received from affiliate	\$ —	688,680

**Supplemental information of noncash investing and financing activities:**

During 2003, the \$3 million note due April 28, 2004 was amended to extend the maturity date to April 28, 2008.

During 2002, the \$3 million note due September 30, 2002 was amended to extend the maturity date to September 30, 2005.

See accompanying notes to financial statements.

# TOWER SQUARE SECURITIES, INC.

Notes to Financial Statements

December 31, 2003 and 2002

## (1) **Basis of Presentation**

Tower Square Securities, Inc. (Tower Square) is an introducing broker/dealer registered under the Securities Exchange Act of 1934. Tower Square is an indirect wholly owned subsidiary of The Travelers Insurance Company (TIC), which is an indirect wholly owned subsidiary of Citigroup, Inc. Tower Square's principal activity is to facilitate the sale of variable annuity, variable universal life and other investment products and advisory services through independent registered representatives.

## (2) **Summary of Significant Accounting Policies**

### (a) ***Income Recognition***

Commission revenue and expense for general securities are recognized on the trade date of the underlying securities transactions.

Commission revenue and expense for mutual funds are recognized when received from mutual fund companies.

Tower Square recognizes first year commission revenue and related commission expenses upon the satisfactory completion of the application process for the purchase of flexible and single premium deferred annuities and variable universal life insurance contracts. Renewal commission revenues and related commission expenses are recognized when the renewal commissions are received.

### (b) ***Valuation of Investments***

Short-term securities are carried at amortized cost, which approximates fair value.

Variable annuities are recorded at contract value, which approximates fair value. Gains/losses included in the contract value are recorded in the statement of operations.

### (c) ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and benefits and expenses during the reporting period. Actual results could differ from those estimates.

**TOWER SQUARE SECURITIES, INC.**

Notes to Financial Statements

December 31, 2003 and 2002

**(3) Income Taxes**

The federal and state income tax (benefit) provision for the years ended December 31, 2003 and 2002 consisted of the following:

	<b>2003</b>	<b>2002</b>
Current:		
Federal	\$ (179,455)	(2,215,997)
State	(26,985)	(268,522)
Deferred:		
Federal	(579,962)	2,479,996
State	(87,213)	308,222
Total federal and state income tax (benefit) provision	\$ (873,615)	303,699

For 2003, the effective tax rate is less than the statutory rate due to the state income benefit. For 2002, the effective tax rate is in excess of the statutory tax rate due to the state income tax provision and expenses incurred which cannot be deducted from federal income taxes.

Beginning in tax year 2001, Tower Square was included in the consolidated federal income tax return of Citigroup Inc as part of a tax sharing agreement. Federal income taxes are allocated to each member of the consolidated group on a separate return basis adjusted for credits and other amounts required by the consolidation process. Any resulting liability will be paid currently by Tower Square. Any credits for losses will be paid to Tower Square to the extent that such credits are for tax benefits that have been utilized in the consolidated tax return. Tower Square is a wholly-owned subsidiary of Plaza LLC, which is 100% owned by TIC, an indirect wholly-owned subsidiary of Citigroup, Inc.

Management believes that the realization of the recognized net deferred tax asset of \$3.7 million is more likely than not to be realized based on management's expectation of Citigroup, Inc. and subsidiaries generating sufficient taxable income to absorb any losses caused by the reversal of these deductible temporary differences.

The components of the deferred income tax asset are as follows:

	<b>2003</b>	<b>2002</b>
Deferred tax asset:		
Deferred compensation plan	\$ 3,193,166	2,391,597
Bad debt	172,890	172,890
Other	360,842	494,236
Total	\$ 3,725,898	3,058,723

# TOWER SQUARE SECURITIES, INC.

## Notes to Financial Statements

December 31, 2003 and 2002

### (4) Short-Term Securities

Short-term securities are financial instruments with maturities of less than 90 days. The securities are carried at amortized cost, which approximates fair value. At December 31, 2003 and 2002, Tower Square held the following financial instruments:

	<u>2003</u>	<u>2002</u>
Commercial paper	\$ <u>1,999,765</u>	<u>1,497,832</u>

### (5) Deferred Compensation Plan Payable to Representatives

Tower Square sponsors a nonqualified deferred compensation plan for its registered representatives. The Plan provides registered representatives with the ability to defer compensation to a retirement date on a tax-advantaged basis. Contributions received are invested in variable annuities and are part of the assets of Tower Square. The ultimate benefits will be based on the return of the underlying investments. The obligation of Tower Square to pay all benefits under the Plan is fully guaranteed by TIC. Tower Square does not make any contributions to the plan. Amounts deferred under this plan were \$1,366,494, and \$1,252,965 in 2003 and 2002, respectively.

### (6) Net Capital Requirements

Tower Square is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2003, Tower Square had net capital of \$9,535,755, which is in excess of its net capital requirement of \$701,796. Tower Square's ratio of aggregate indebtedness to net capital was 1.10 to 1.00 at December 31, 2003.

As an introducing broker/dealer Tower Square is exempt from the provisions of Rule 15c3-3 of the Securities Exchange Act of 1934 under the provisions of Paragraph (k)(2)(ii) thereof and from Rule 17a-13 of the Securities Exchange Act of 1934 under the provisions of Paragraph (a) thereof.

# TOWER SQUARE SECURITIES, INC.

## Notes to Financial Statements

December 31, 2003 and 2002

Tower Square has entered into three separate Secured Demand Note Collateral Agreements with TIC. During 2003 the \$3 million note due April 28, 2003 was amended to extend the maturity date to April 28, 2008. All notes are collateralized by marketable securities as noted below:

	<u>Par Value</u>	<u>Fair Value</u>
	(in millions)	
As of December 31, 2003:		
\$5 million note due August 31, 2004	\$ 6.0	6.4
\$3 million note due September 30, 2005	3.5	5.1
\$3 million note due April 28, 2008	<u>4.0</u>	<u>5.1</u>
	\$ <u>13.5</u>	<u>16.6</u>
As of December 31, 2002:		
\$5 million note due August 31, 2004	\$ 6.0	6.6
\$3 million note due September 30, 2005	3.5	5.1
\$3 million note due April 28, 2003	<u>4.0</u>	<u>5.3</u>
	\$ <u>13.5</u>	<u>17.0</u>

The secured demand notes provide Tower Square with additional capital toward meeting the minimum net capital requirement under Rule 15c3-1. The corresponding liability "Note payable under a subordinated demand note collateral agreement" is subordinated to the claims of the general creditors and is noninterest bearing. To the extent that the subordinate borrowings are required for Tower Square's continued compliance with the minimum net capital requirements under Rule 15c3-1, they may not be repaid.

### (7) **Contingent Liabilities and Commitments**

In the ordinary course of its business, Tower Square is a defendant or co-defendant in various litigation and arbitration matters incidental to and typical of the business in which it is engaged. In the opinion of Tower Square's management, the ultimate resolution of these matters would not be likely to have a material adverse effect on Tower Square's results of operations, financial condition or liquidity.

During 2002, Tower Square settled two claims for certain civil actions that related to the activities of a former registered representative for approximately \$5 million, which was accrued for in 2001.

**TOWER SQUARE SECURITIES, INC.**

Notes to Financial Statements

December 31, 2003 and 2002

**(8) Related Party**

TIC, under an expense sharing agreement with Tower Square, incurs certain expenses, principally administrative salaries, employee benefits, data processing, and general and administrative expenses. These expenses are allocated to Tower Square by TIC. It is the intention that TIC neither realize a profit nor incur a loss as a result of the expense sharing agreement with Tower Square. TIC allocated \$10,031,356 and \$9,310,354 of expenses to Tower Square in 2003 and 2002, respectively.

Net amounts payable to TIC were \$888,759 and \$1,422,936 at December 31, 2003 and 2002, respectively. Revenue from TIC for the years ending December 31, 2003 and 2002 was approximately 54% and 63% of total revenue, respectively.

**(9) Concentration of Credit Risk**

At December 31, 2003, Tower Square held Secured Demand Note Collateral Agreements with TIC totaling \$11 million, which represents a concentration of credit risk.

## TOWER SQUARE SECURITIES, INC.

Computation of Net Capital  
Pursuant to Rule 15c3-1 of the Securities and Exchange Commission

As of December 31, 2003

Net capital:	
Total shareholder's equity	\$ 7,295,826
Additions:	
Note payable subordinate to claims of general creditors	11,000,000
Deductions and/or charges:	
Deferred tax asset	3,725,898
Income tax receivable from affiliate	2,293,405
Receivable from broker/dealers	360,233
Other assets	<u>1,227,746</u>
Net capital after deductions	10,688,544
Haircut on variable annuities	<u>1,152,789</u>
Net capital after deductions and haircut	<u><u>\$ 9,535,755</u></u>
Aggregate indebtedness	<u><u>\$ 10,526,943</u></u>
Computation of basic net capital requirement:	
Minimum net capital required:	
Greater of 6-2/3% of aggregate indebtedness or \$50,000	<u><u>\$ 701,796</u></u>
Excess net capital	<u><u>\$ 8,833,959</u></u>
Ratio: Aggregate indebtedness to net capital	<u><u>1.10 to 1.00</u></u>

Note: The above computation does not differ materially from the computation of net capital and basic net capital requirement under Rule 15c3-1 as of December 31, 2003 filed with the National Association of Securities Dealers on January 27, 2004.



KPMG LLP  
One Financial Plaza  
Hartford, CT 06103-4103

**Independent Auditors' Report on Internal  
Control Required by SEC Rule 17a-5**

The Board of Directors of  
Tower Square Securities, Inc.:

In planning and performing our audit of the financial statements and supplemental schedule of Tower Square Securities, Inc., for the year ended December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with auditing standards generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc. and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 24, 2004