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SECURITIES 03014208 COMMISSION  
Washington, D.C. 20547

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

SEC FILE NUMBER  
8-491667

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 1/1/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Ambac Securities, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

905 Marconi Avenue JUN 08 2003  
Ronkonkoma, New York NY 11779  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Thomas Gandolfo (212) 208-3349  
(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)  
757 Third Avenue New York, New York 10017  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

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

**PROCESSED**  
**APR 15 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, Thomas Gandolfo, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Ambac Securities, Inc., 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:

Thomas J. Gandolfo  
Signature

Senior Vice President & Chief Financial Officer  
Title

Anne G. Gill  
Notary Public

**ANNE G. GILL**  
Notary Public, State of New York  
No. 02GI5044534  
Qualified in New York County  
Commission Expires May 30, 20 03

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.
- (o) Independent Auditors Report on Internal Controls

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



**AMBAC SECURITIES, INC.**  
(A Wholly Owned Subsidiary of  
Ambac Capital Corporation)

Statement of Financial Condition

December 31, 2002

(With Independent Auditors' Report)



345 Park Avenue  
New York, NY 10154

## Independent Auditors' Report

The Board of Directors and Shareholder  
Ambac Securities, Inc.:

We have audited the accompanying statement of financial condition of Ambac Securities, Inc., formerly Cadre Securities, Inc. (the Company) (a wholly owned subsidiary of Ambac Capital Corporation) as of December 31, 2002. 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 Ambac Securities, Inc. at December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

February 19, 2003

**AMBAC SECURITIES, INC.**  
(A Wholly Owned Subsidiary of  
Ambac Capital Corporation)

Statement of Financial Condition

December 31, 2002

**Assets**

|  |                     |
|--|---------------------|
| Cash and cash equivalents                                  | \$ 1,936,642        |
| Service fees receivable                                    | 221,613             |
| Fixed assets, net of accumulated depreciation of \$183,257 | 84,794              |
| State tax receivable                                       | 106,091             |
| Prepaid expenses and other assets                          | <u>73,646</u>       |
| Total assets   | <u>\$ 2,422,786</u> |

**Liabilities and Stockholder's Equity**

Liabilities:

|  |                  |
|--|------------------|
| Accrued expenses                           | \$ 939,946       |
| Federal tax liabilities due to parent, net | 7,858            |
| Due to affiliate                           | 88,794           |
| Due to Parent                              | <u>31,512</u>    |
| Total liabilities                          | <u>1,068,110</u> |

Stockholder's equity

|   |               |
|---|---------------|
| Common stock, par value \$0.01 per share, 10,000 shares<br>authorized and outstanding | 100           |
| Additional paid-in-capital  | 1,319,219     |
| Retained earnings   | <u>35,357</u> |

Total stockholder's equity 1,354,676

Total liabilities and stockholder's equity \$ 2,422,786

See accompanying notes to statement of financial condition.

**AMBAC SECURITIES, INC.**  
(A Wholly Owned Subsidiary of  
Ambac Capital Corporation)

Notes to Statement of Financial Statements

December 31, 2002

**(1) Background**

Ambac Securities, Inc.'s, formerly Cadre Securities, Inc., principal business is the marketing of local government investment pools and registered investment pools to various state school districts, hospital and health care organizations, park districts and municipalities. In addition, Ambac Securities, Inc. provides other investment services to the shareholders of the pools, including brokering certificates of deposit transactions and other short-term fixed income securities transactions with banks and other qualified financial institutions.

Ambac Securities, Inc. (Ambac or the Company) is registered as a broker/dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. (NASD)

Ambac is a wholly owned subsidiary of Ambac Capital Corporation (the Parent), which is a wholly owned subsidiary of Ambac Financial Group, Inc. (AFG)

In accordance with its filings with the Secretary of the State of Delaware and the NASD, effective April 1, 2002, Ambac Securities, Inc.'s name was officially changed from Cadre Securities, Inc.

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

*Principles of Presentation*

The accompanying statement of financial condition has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of a statement of financial condition in conformity with GAAP 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.

*Cash and Cash Equivalents*

The Company considers all short-term investments with a maturity at the date of purchase of three months or less to be cash equivalents.

During 2002, the Company entered into an agreement with First Southwest Company, who is a broker-dealer. The Company maintains a \$100,000 deposit account at First Southwest Company.

**(3) Income Taxes**

The Company is included in Ambac Financial Group, Inc.'s consolidated Federal income tax return. Pursuant to a tax sharing agreement with AFG, amounts assessed/reimbursed are based upon a separate return calculations made as if the Company had filed its own federal income tax returns on a stand alone basis. The federal income tax receivable and liability on the statement of financial condition represent due to/due from parent relating to the aforementioned agreement. The Company files its own state tax return.

**AMBAC SECURITIES, INC.**  
(A Wholly Owned Subsidiary of  
Ambac Capital Corporation)

Notes to Statement of Financial Statements

December 31, 2002

**(4) Fixed Assets, Net**

Fixed assets at December 31, 2002, consisted of the following:

|                                |    |                      |
|--------------------------------|----|----------------------|
| Computer equipment             | \$ | 252,141              |
| Furniture and fixtures         |    | <u>15,910</u>        |
|                                |    | 268,051              |
| Less: accumulated depreciation |    | <u>183,257</u>       |
|                                | \$ | <u><u>84,794</u></u> |

Depreciation of furniture and fixtures and equipment is provided over the estimated useful lives of the respective assets, ranging from 3 to 5 years.

**(5) Employee Benefits**

*Pension*

The Company is a participant in its Parent's defined benefit pension plan covering substantially all employees. Benefits are based on years of service and an employee's compensation during the last five years of employment. The funding policy is to contribute annually the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service-to-date but also for those expected to be earned in the future.

Substantially all employees of the Company are also covered by a defined contribution plan, for which contributions and costs are determined as 6% of each eligible employee's base salary, plus a matching Company contribution of 50% on contributions up to 6% of base salary, made by eligible employees to the plan, subject to Internal Revenue Code limitations.

*Annual Incentive Program*

The Parent maintains an annual incentive program which provides for awards to key officers and employees of the Company based upon predetermined criteria.

In addition to the annual incentive program offered to key officers and employees which the Parent maintains, Ambac maintains a sales compensation plan which provides incentive compensation to members of our sales team for achieving and exceeding objectives as well as performing their key responsibilities.

**AMBAC SECURITIES, INC.**  
(A Wholly Owned Subsidiary of  
Ambac Capital Corporation)

Notes to Statement of Financial Statements

December 31, 2002

**(6) Related Party Transactions**

In the ordinary course of business, the Company participates in a variety of administrative transactions with its affiliates. The nature of these transactions and their related effect on the Company's statement of financial condition at December 31, 2002 were as follows:

*Due to Affiliate*

Due to affiliate on the statement of financial condition represents the net aggregate amount due to Cadre Financial Services, Inc. (CFS), an affiliated company, for expenses paid by CFS on behalf of the Company.

On April 1, 2002, the Company entered into a service agreement with CFS to assure proper allocation of expenses between the two affiliates. The allocations of the shared expenses are based upon the services provided and the resources shared.

*Due to Parent*

Due to Parent on the statement of financial condition represents the net aggregate amount due to the Parent for estimated state income tax payments, employee health insurance and other payroll related charges made by the Parent on behalf of the Company.

**(7) Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, as defined, shall not exceed 15 to 1. At December 31, 2002, the Company had net capital, as adjusted, of \$874,429, which was \$774,429 in excess of its required net capital of \$100,000. The Company's ratio of aggregate indebtedness to net capital was 1.2 to 1.0.