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Washington, D.C. 20549

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

RECEIVED  
MAY 30 2003  
WASH. D.C. 155  
SECTION

SEC FILE NUMBER  
8-44401

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 04/01/02 AND ENDING 03/31/03  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Prebon Financial Products Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

101 Hudson Street

(No. and Street)

Jersey City

(City)

New Jersey

(State)

07302

(Zip Code)

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

Paul A. Valenti

(201) 557-5204

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

PricewaterhouseCoopers, LLP

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

1177 Avenue of the Americas

(Address)

New York

(City)

New York

(State)

10036

(Zip Code)

CHECK ONE:

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

PROCESSED

JUN 17 2003

THOMSON  
FINANCIAL

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\*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, Paul A. Valenti, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Prebon Financial Products Inc., as of March 31, 2003, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Paul a Valenti  
Signature

MICHAEL J. SCAGLUSO  
Notary Public, State of New York  
No. 30-4660654  
Qualified in Nassau County  
Commission Expires January 9, 2007

Chief Financial Officer  
Title

Michael J. Scagluso  
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).



# **Prebon Financial Products Inc.**

**Consolidated Statement of Financial Condition  
March 31, 2003**

**Report of Independent Accountants**

To the Board of Directors  
and Stockholder of  
Prebon Financial Products Inc.

In our opinion, the accompanying consolidated statement of financial condition presents fairly, in all material respects, the financial position of Prebon Financial Products Inc. and its subsidiary (the "Company") at March 31, 2003 in conformity with accounting principles generally accepted in the United States of America. 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 of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

May 27, 2003

**Prebon Financial Products Inc.**  
**Consolidated Statement of Financial Condition**  
**March 31, 2003**

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**Assets**

Cash and cash equivalents	\$ 6,048,729
Commissions receivable	4,759,487
Receivable from Parent	4,583,605
Deposit with clearing brokers	1,100,000
Receivable from clearing organizations	609,697
Other receivable	16,911

**Total assets** \$ 17,118,429

**Liabilities and stockholder's equity**

Accrued compensation and other accrued expenses	<u>\$ 7,848,392</u>
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**Total liabilities** 7,848,392

Stockholder's equity	<u>9,270,037</u>
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**Total liabilities and stockholder's equity** \$ 17,118,429

The accompanying notes are an integral part of this consolidated financial statement.

**Prebon Financial Products Inc.**  
**Notes to Consolidated Statement of Financial Condition**

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**1. Organization and Operations**

Prebon Financial Products Inc. (the "Company"), is a wholly owned subsidiary of Prebon Yamane (USA) Inc. (the "Parent"); an indirect wholly owned subsidiary of Prebon Group Limited, a United Kingdom company that is engaged principally in worldwide brokerage of financial products.

The Company is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and is a member of the National Association of Securities Dealers, Inc. (the "NASD"). The Company acts as agent, on a give-up basis, in the placement of equity index and other unlisted options among banks, corporations and other financial institutions. The Company's wholly-owned subsidiary, Prebon Energy, Inc. acts as an agent in the placement of energy products and related derivative transactions between energy producers, marketers, financial institutions and end users.

**2. Summary of Significant Accounting Policies**

**Basis of consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Prebon Energy, Inc. All material intercompany transactions and balances have been eliminated.

**Commissions receivable**

Commissions receivable are recorded on a trade date basis.

**Income taxes**

The Company and its ultimate U.S. Parent have a tax sharing agreement whereby Federal income taxes for the Company are determined on the basis of its separate taxable income. The Company is included in the consolidated Federal income tax return of its ultimate U.S. Parent and files its own New Jersey state tax return.

**Estimated fair value of financial instruments**

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments," requires the disclosure of the fair value of financial instruments including assets and liabilities recognized and not recognized in the consolidated statement of financial condition.

Management estimates that the fair values of financial instruments recognized in the consolidated statement of financial condition approximates their carrying value, as such financial instruments are either reported at fair value or are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

**Prebon Financial Products Inc.**  
**Notes to Consolidated Statement of Financial Condition**

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**3. Cash and Cash Equivalents**

Cash and cash equivalents includes cash segregated under federal regulations of \$6,096 and short-term investments of \$5,700,095. Short-term investments consist of a money market fund. These investments are carried at cost plus accrued interest, which approximates market value.

**4. Deposit with Clearing Brokers**

Amount represents cash and U.S. Treasury securities of approximately \$500,000 carried at cost plus accrued interest, which approximates market value, that are deposited with the Company's clearing brokers.

**5. Securities Transactions**

Under a purchase and resale agreement with a counterparty, the Company acquired government and agency securities under agreements to resell and the Company concurrently sold such securities to third parties under agreements to repurchase. The Company discontinued these transactions with the counterparty during the year.

**6. Related Party Transactions**

The Company reimburses the Parent for employee compensation and benefit costs paid by the Parent on the Company's behalf. The Parent makes disbursements on behalf of the Company for general and administrative expenses, such as rent, accounting and other administrative services, for which the Company reimburses the Parent through a service charge.

During the normal course of operations, the Company advances funds to its Parent. At March 31, 2003, the Company had a net receivable of \$4,583,605 relating to such advances and administrative charges.

During the year, management determined that \$12,000,000 of advances to the Parent were not likely to be fully repaid in the near future. Accordingly, \$12,000,000 were characterized as a deemed dividend. The balance receivable from Parent at March 31, 2003 is anticipated to be paid in the near future through services provided by the Parent.

**7. Net Capital Requirement**

As a registered broker-dealer, the Company is subject to Uniform Net Capital Rule 15c3-1 of the SEC which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both of which are defined terms, may not exceed 15 to 1. At March 31, 2003, the Company had net capital of \$4,456,364 which exceeded the minimum net capital requirement by \$4,167,724 and the Company's ratio of aggregate indebtedness to net capital was .97 to 1.

The Company is exempt from the provisions of Rule 15c3-3 (the "Rule") under the Securities Exchange Act of 1934 as the Company's activities are limited to those set forth in the conditions for exemption appearing in clause (i) of subparagraph (k)(2) of the Rule, and the Company maintains a "Special Account for the Exclusive Benefit of Customers."

**Prebon Financial Products Inc.**  
**Notes to Consolidated Statement of Financial Condition**

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**8. Employee Benefit Plans**

The Parent maintains a 401(k) profit-sharing plan (the "Plan") covering substantially all of the employees of the Company. The Company's contributions to the Plan are based upon a percentage of employees' contributions.

**9. Consolidated Subsidiary**

The Company's consolidated subsidiary has total assets of \$4,281,340, total liabilities of \$3,662,454 and stockholder's equity of \$618,886. The Company's subsidiary is not a "guaranteed subsidiary" for regulatory purposes. As a result, the subsidiary's assets, liabilities and stockholder's equity are not included in the Company's net capital computation.

**10. Contingencies and Commitments**

In the normal course of business, the Company may enter into contracts that contain various guarantees and indemnities including contracts where it executes, as agent, transactions on behalf of customers through a clearing broker on a fully disclosed basis. If the agency transactions brokered by the Company do not settle because of failure to perform by either counterparty, the Company may be required to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the underlying security is different from the contract amount of the transaction. The Company has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations. Although the right of the clearing broker to charge the Company applies to all trades executed through the clearing broker, the Company believes that there is no estimable amount assignable to its obligations pursuant to this right as any such obligation would be based on the future non-performance by one or more counterparties. At March 31, 2003, the Company has recorded no liabilities with respect to these obligations.