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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER  
8-13028

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**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 1/1/01 AND ENDING 12/31/01  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Kimelman & Baird, LLC

OFFICIAL USE ONLY  
FIRM ID. NO.

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

100 Park Avenue

(No. and Street)

New York,

New York

10017

(City)

(State)

(Zip Code)

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

Sheila Baird

212-686-0021

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Malakoff, Wasserman & Pecker, CPA, PC

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

One Old Country Road

Carle Place,

New York

11514

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 20 2002

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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).

F 7/18

OATH OR AFFIRMATION

I, Sheila Baird, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kimelman & Baird, LLC, 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, except as follows:

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

Sheila Baird  
Signature  
Member  
Title

Patricia Kimelman  
Notary Public

PATRICIA KIMELMAN  
Notary Public, State of New York  
No. 31-4617649  
Qualified in New York County  
Commission Expires Oct. 31, ~~1999~~ 2005

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 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 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 15c3-1 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).

KIMELMAN & BAIRD, LLC  
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DECEMBER 31, 2001

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*Malakoff, Wasserman & Pecker, C.P.A., P.C.*

*Certified Public Accountants*

*One Old Country Road, Carle Place, N.Y. 11514*

*Arnold M. Malakoff, C.P.A.  
Clifford R. Wasserman, C.P.A., J.D.  
Edward J. Pecker, C.P.A.*

*Telephone: (516) 741-5700  
Fax: (516) 741-5779*

INDEPENDENT AUDITOR'S REPORT

To the Members of

Kimelman & Baird, LLC

We have audited the accompanying statement of financial condition of Kimelman & Baird, LLC as of December 31, 2001, and the related statements of income, changes in members' capital, and cash flows for the year 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 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 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 statements presentation. We believe that our audit provides 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 Kimelman & Baird, LLC at December 31, 2001, and the results of its operations and its cash flows for the year 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 on page 9 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.

*Malakoff, Wasserman & Pecker, CPA, P.C.*

February 14, 2002

KIMELMAN & BAIRD, LLC  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2001

Page 2

ASSETS

Cash	\$	67,508
Receivable from broker-dealers:		
Commissions		88,480
Credit balances		22,528
Receivable from non-customers		1,069,434
Prepaid expenses		35,106
Equipment, at cost (net of accumulated depreciation of \$37,903)		9,565
Notes receivable - related parties		23,596
Restricted securities owned, at fair value (cost \$86,588)		48,722
Security deposit		34,633
Other assets		11,836
		<hr/>
Total assets	\$	<u><u>1,411,408</u></u>

LIABILITIES AND MEMBERS' CAPITAL

Accounts payable and accrued liabilities	\$	139,493
Commitments and contingencies		
Members' capital		<hr/> 1,271,915
Total liabilities and members' capital	\$	<u><u>1,411,408</u></u>

See notes to financial statements.

KIMELMAN & BAIRD, LLC  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2001

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Revenues:

Commissions	\$ 922,251
Investment advisory fees	1,360,206
Private placement fees	125,000
Loss on trading of securities	(84,075)
Interest and dividends	2,825
Research income	15,000
Other income	749
	<hr/>
	2,341,956

Expenses:

Registered representatives' compensation	387,819
Clerical and administrative employee expenses, net of reimbursements	303,060
General partners' compensation	192,000
Communication costs	193,461
Occupancy costs	201,371
Promotional costs	169,688
Taxes other than income taxes	47,036
Keogh plan contribution	77,686
Office expenses	76,548
Insurance	90,344
Professional fees	29,390
Dues, subscriptions and research	68,734
Other expenses	34,942
Interest expense	296
Depreciation	11,633
	<hr/>

Total expenses 1,884,008

Income before unincorporated business taxes 457,948

Unincorporated business taxes 22,798

Net income \$ 435,150

See notes to financial statements.

KIMELMAN & BAIRD, LLC  
STATEMENT OF CHANGES IN MEMBERS' CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2001

Page 4

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Balance at January 1, 2001, as reflected on Form X-17a-5	\$ 836,765
Net income	<u>435,150</u>
Balance at December 31, 2001	<u><u>\$ 1,271,915</u></u>

See notes to financial statements.

KIMELMAN & BAIRD, LLC  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2001

Page 5

Cash Flows From Operating Activities:	
Net income	\$ 435,150
Adjustments to reconcile net income to net cash provided by operating activities:	
Loss on sale of securities	217,266
Unrealized depreciation on securities sold	(154,845)
Proceeds from sale of securities	91,351
Cost of securities purchased	(50,020)
Depreciation	11,633
Unrealized depreciation on securities	21,654
(Increase) decrease in operating assets:	
Receivables from brokers or dealers	2,207
Receivables from non-customers	(451,278)
Prepaid expenses	(22,374)
Other assets	(5,000)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	<u>(76,239)</u>
Net cash provided by operating activities	<u>19,505</u>
Cash Flows From Investing Activities :	
Purchase of equipment	<u>(11,369)</u>
Increase in cash	8,136
Cash at beginning of year	<u>59,372</u>
Cash at end of year	<u>\$ 67,508</u>

Supplemental cash flow information:

Unincorporated business taxes paid	\$ <u>51,847</u>
Interest paid	\$ <u>296</u>

See notes to financial statements.

KIMELMAN & BAIRD, LLC  
NOTES TO FINANCIAL STATEMENTS

Page 6

Note A - ORGANIZATION

Kimelman & Baird, LLC (the "Company") is a broker-dealer registered with the Securities and Exchange Commission (SEC) and a member of the National Association of Securities Dealers (NASD). The Company is a New York limited liability company.

Note B - SIGNIFICANT ACCOUNTING POLICIES

Securities Transactions

Commission income and expenses are recorded on a settlement date basis. Proprietary securities transactions are recorded on the trade date, as if they had settled.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

Marketable securities are valued at market value, and restricted securities owned are valued at fair value as determined by the Company's clearing broker-dealer.

Commissions

Commissions and related clearing expenses are recorded on a settlement date basis.

Investment Advisory Income

Investment advisory fees are received quarterly but are recognized as earned on a pro rata basis.

Income Taxes

The Company is taxed as a partnership. No provision has been made for Federal, New York State or New York City income taxes since such taxes are the liability of the individual members. Provision has been made for New York City unincorporated business taxes.

KIMELMAN & BAIRD, LLC  
NOTES TO FINANCIAL STATEMENTS

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Note B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

Depreciation is provided by use of the Modified Accelerated Cost Recovery System pursuant to the Internal Revenue Code, as amended. Depreciation calculated under this method does not differ materially from depreciation provided on the straight-line basis.

Note C - NOTES RECEIVABLE

The Company has advanced \$23,596 to IGENE Biotechnology, Inc. pursuant to a series of demand notes. A member of Kimelman & Baird, LLC is the Chairman of the Board of Directors of IGENE Biotechnology, Inc. In addition the Company is the owner of 1,082,704 shares of common stock of IGENE Biotechnology, Inc.

Note D - PROFIT SHARING PLAN

The Company covers all of its eligible employees with a profit sharing plan. Contributions to this plan are determined annually, at the discretion of the Company, subject to Internal Revenue Service guidelines.

For the year ended December 31, 2001 the Company incurred a cost of \$77,686 with regard to this plan.

Note E - COMMITMENTS

The Company is obligated under an operating lease for office space as follows:

Years ending December 31,

2002	\$ 285,485
2003	294,585
2004	294,585
2005	294,585
2006	294,585
Thereafter	<u>196,390</u>
	<u>\$1,660,215</u>

KIMELMAN & BAIRD, LLC  
NOTES TO FINANCIAL STATEMENTS

Page 8

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Note E -        COMMITMENTS (continued)

The lease contains an escalation clause with regard to real estate taxes and operating expenses.

Rent expense for 2001 amounted to \$201,371, net of sublet income.

Note F-        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, both as defined, shall not exceed 15 to 1.

At December 31, 2001, the Company had net capital of \$39,023, which was \$29,723 in excess of its required net capital of \$9,300.

KIMELMAN & BAIRD, LLC  
 COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
 OF THE SECURITIES AND EXCHANGE COMMISSION  
 FOR THE YEAR ENDED DECEMBER 31, 2001

Page 9

Members' capital		\$ <u>1,271,915</u>
Deductions for nonallowable assets:		
Restricted securities, at market		48,722
Receivables from non-customers		1,069,434
Notes receivable - related parties		23,596
Prepaid expenses		35,106
Equipment, net		9,565
Security deposit		34,633
Other assets		<u>11,836</u>
		<u>1,232,892</u>
Tentative net capital		39,023
Haircuts on securities		0
Undue concentration charge		<u>0</u>
Net capital		39,023
Minimum dollar net capital required		<u>9,300</u>
Excess net capital		<u><u>\$ 29,723</u></u>
Reconciliation with Company's computation (included in Part II of Form x-17a-5 as of December 31, 2001)		
Net capital, as reported in Company's part II (unaudited) FOCUS report		\$ 110,378
Audit adjustments to record additional accruals		<u>(71,355)</u>
Net capital per above		<u><u>\$ 39,023</u></u>
Aggregate Indebtedness:		
Items included in statement of financial condition:		
Accounts payable and accrued liabilities		\$ <u>139,493</u>
Total aggregate indebtedness		<u><u>\$ 139,493</u></u>
Percentage of aggregate indebtedness to net capital		<u><u>357%</u></u>

*Malakoff, Wasserman & Pecker, C.P.A., P.C.*

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Members of

Kimelman & Baird, LLC

In planning and performing our audit of the financial statements of Kimelman & Baird, LLC, (the "Company") for the year ended December 31, 2001, 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 compliance with 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 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, management is required to make estimates and judgments 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 generally accepted accounting principles. 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, 2001 to meet the SEC'S objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC 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.

*Malakoff, Wasserman & Pecker, CPA, P.C.*

February 14, 2002