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UNITED STATES AND EXCHANGE COMMISSION Washington D.C. 20549

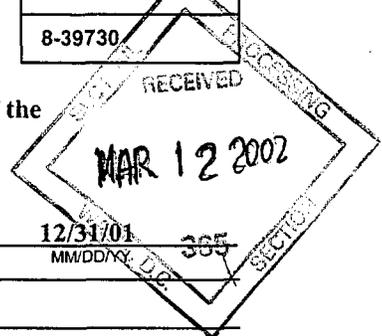
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ANNUAL AUDITED REPORT FORM X-17A-5 PART III

|                 |
|-----------------|
| SEC FILE NUMBER |
| 8-39730         |

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 01/01/01 AND ENDING 12/31/01

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

LAFAYETTE INVESTMENTS, INC

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

655 FIFTEENTH, N.W., SUITE 825

|                   |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM ID NO.       |

WASHINGTON DC 20005 (City) (State) (Zip Code)

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

LAWRENCE JUDGE

(202) 628 - 1455

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

KAISER, SCHERER & SCHLEGEL, PLLC

1899 L STREET, NW, SUITE 1100 WASHINGTON DC 20036 (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 21 2002

|                       |                   |
|-----------------------|-------------------|
| 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 (3-91)

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Handwritten signature and date 3/19

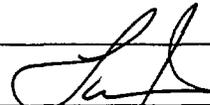
OATH OR AFFIRMATION

I, LAWRENCE JUDGE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedule pertaining to the firm of

LAFAYETTE INVESTMENTS, INC., as of

DECEMBER 31, 20 01, 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:

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

  
\_\_\_\_\_  
Signature

VICE PRESIDENT  
Title

Susan C. Gerstman  
Notary Public

*my commission expires 7/14/02*

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 of 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).

# **Lafayette Investments, Inc.**

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**Report and Statements of  
Financial Condition  
December 31, 2001 and 2000**

# Lafayette Investments, Inc.

## Table of Contents

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### **Independent Auditor's Report**

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**KAISER SCHERER & SCHLEGEL, PLLC**  
Certified Public Accountants

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Suite 1100  
Washington, D.C. 20036  
Tel: 202-466-4656  
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E-mail: kss@kssacct.com

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To the Board of Directors and Shareholders  
**Lafayette Investments, Inc.**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statements of financial condition of **Lafayette Investments, Inc.** (a Delaware corporation) as of December 31, 2001 and 2000. These financial statements are the responsibility of the **Lafayette Investments, Inc.**'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 statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. 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 statements of financial condition referred to above present fairly, in all material respects, the financial position of **Lafayette Investments, Inc.** as of December 31, 2001 and 2000 in conformity with accounting principles generally accepted in the United States of America.

*Kaiser Scherer & Schlegel, PLLC*

February 8, 2002

# Lafayette Investments, Inc.

## Statements of Financial Condition

| <i>December 31,</i>                                                                       | 2001                | 2000                |
|-------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Assets</b>                                                                             |                     |                     |
| Cash and cash equivalents                                                                 | \$ 869,061          | \$ 382,232          |
| Deposits (Note 3)                                                                         | 49,336              | 48,999              |
| Receivable from clearing broker                                                           | 27,897              | 16,080              |
| Securities owned (Note 5)                                                                 |                     |                     |
| Marketable, at market value                                                               | 7,416,806           | 7,870,103           |
| Not readily marketable, at estimated<br>fair value                                        | 22,100              | 29,862              |
| Fixed assets, net (Note 4)                                                                | 37,687              | 57,832              |
| Income taxes receivable                                                                   | 64,253              | 26,362              |
| Other assets                                                                              | 108,985             | 123,046             |
| <b>Total assets</b>                                                                       | <b>\$ 8,596,125</b> | <b>\$ 8,554,516</b> |
| <b>Liabilities and Shareholders' equity</b>                                               |                     |                     |
| <b>Liabilities</b>                                                                        |                     |                     |
| Payable to clearing broker (Note 6)                                                       | \$ 6,828,446        | \$ 6,299,814        |
| Accounts payable, accrued expenses and<br>other liabilities                               | 247,962             | 237,857             |
| Note payable                                                                              | 366,385             | 732,770             |
| Deferred income taxes (Note 9)                                                            | 38,794              | 43,451              |
| <b>Total liabilities</b>                                                                  | <b>7,481,587</b>    | <b>7,313,892</b>    |
| <b>Shareholders' equity (Note 11 and 12)</b>                                              |                     |                     |
| Common stock, \$.01 par value; 10,000<br>authorized, 637 shares issued and<br>outstanding | 6                   | 6                   |
| Paid in capital                                                                           | 375,583             | 375,583             |
| Retained earnings                                                                         | 738,949             | 865,035             |
| <b>Total shareholders' equity</b>                                                         | <b>1,114,538</b>    | <b>1,240,624</b>    |
| <b>Total liabilities and shareholders' equity</b>                                         | <b>\$ 8,596,125</b> | <b>\$ 8,554,516</b> |

*The accompanying notes are an integral part of these financial statements.*

# Lafayette Investments, Inc.

## Notes to Financial Statements

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### 1. Organization

Lafayette Investments, Inc. ("Lafayette") was incorporated in March 1988, under the laws of the state of Delaware. Lafayette, which is registered under the Securities Exchange Act of 1934 as a broker-dealer, introduces and forwards all customer accounts to a broker who clears the accounts on a fully disclosed basis. Lafayette is also a registered investment adviser under the Investment Advisers Act of 1940.

### 2. Significant Accounting Policies

#### Securities Transactions

Securities transactions and the related revenues and expenses are reflected in the financial statements on a settlement date basis, which is generally three business days after trade date. Revenue and expenses on a trade date basis are not materially different from revenue and expenses on a settlement date basis.

Marketable securities are reported at market value and securities not readily marketable are reported at fair value as determined by management. The resulting difference between cost and market (or fair value) is included in income.

#### Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the valuation of investment securities and fixed assets for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

# Lafayette Investments, Inc.

## Notes to Financial Statements

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**2. Significant Accounting Policies (continued)**

**Cash and Cash Equivalents**

Lafayette considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are principally held on deposit with Lafayette's clearing broker. Cash, cash equivalents and deposits are carried at cost which approximates fair value.

**Depreciation**

Fixed assets consist of furniture, equipment and software. Depreciation of furniture and computer equipment is recorded on an accelerated basis over a seven-year life and five-year life, respectively. Software is amortized on a straight-line basis over three years.

**Significant 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 expenses during the reporting period. Actual results could differ from those estimates.

**3. Deposits**

Lafayette's agreement with its clearing broker provides for a deposit of approximately \$50,000 as a condition for the carrying of Lafayette's introduced accounts. The deposit is in the form of a money market instrument.

# Lafayette Investments, Inc.

## Notes to Financial Statements

### 4. Property and Equipment

Property and equipment consisted of the following:

| <i>December 31,</i>                       | <b>2001</b>      | <b>2000</b>      |
|-------------------------------------------|------------------|------------------|
| Furniture and fixtures                    | \$ 59,336        | \$ 59,336        |
| Office equipment                          | 58,387           | 88,127           |
| Computer hardware                         | 66,177           | 122,640          |
| Computer software                         | 41,358           | 39,777           |
| <b>Fixed assets at cost</b>               | <b>225,258</b>   | <b>309,880</b>   |
| Accumulated depreciation and amortization | (187,571)        | (252,048)        |
| <b>Fixed assets, net</b>                  | <b>\$ 37,687</b> | <b>\$ 57,832</b> |

Depreciation and amortization expense for the years ended December 31, 2001 and 2000 was \$24,643 and \$30,182, respectively.

### 5. Securities Owned

Marketable securities owned consist of trading and investment securities and are carried at quoted market values. The marketable securities balance includes the following:

| <i>December 31,</i>             | <b>2001</b>         | <b>2000</b>         |
|---------------------------------|---------------------|---------------------|
| State and municipal obligations | \$ 6,752,465        | \$ 6,366,690        |
| Corporate stocks                | 165,725             | 161,500             |
| U.S. Government obligations     | 498,616             | 1,341,913           |
|                                 | <b>\$ 7,416,806</b> | <b>\$ 7,870,103</b> |

Securities not readily marketable include investment securities which are restricted for sale, not listed on an exchange or for which there is no independent publicly quoted market.

# Lafayette Investments, Inc.

## Notes to Financial Statements

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5. **Securities Owned (continued)** The balance of marketable securities would have been \$5,749,428 and \$5,128,783 at December 31, 2001 and 2000, respectively, if transactions were accounted for on a trade date basis.
6. **Payable to Clearing Broker** Lafayette's clearing broker provides financing, collateralized by state and municipal obligations and corporate bonds, at the broker call rate of 3.0% at December 31, 2001 and 7.75% at December 31, 2000. Lafayette earns interest on the bonds during the period in which they are held in inventory.
7. **Note Payable** The note payable balance at December 31, 2001 and 2000 was \$366,385 and \$732,770, respectively. It is unsecured, bears interest at 7.5% and is payable in one principal installment of \$366,385, plus accrued interest, on May 17, 2002.
8. **Related Parties** Certain shareholders of Lafayette are also members of Lafayette Equity, LLC, which is the general partner of Lafayette Investments, L.P., an investment partnership formed in 2000. Lafayette received reimbursements of administrative costs totaling \$168,000 during the year ended December 31, 2001 and reimbursements of organization and administrative costs totaling \$192,519 during the year ended December 31, 2000 from Lafayette Equity, LLC and Lafayette Equity Fund, L.P.
9. **Income Taxes** The provision for income taxes differs from the amount that would be obtained by applying Federal statutory rates primarily due to local income taxes and interest revenue earned on U.S. Treasury securities which is not taxed at the local level. Deferred income taxes are the result of temporary differences between the financial statement carrying amounts of assets and liabilities and their tax basis, and mainly related to differences between the basis of fixed assets and investments for financial and income tax purposes.

# Lafayette Investments, Inc.

## Notes to Financial Statements

**9. Income Taxes  
(continued)**

The provision for income tax expense (benefit) for the years ended December 31, 2001 and December 31, 2000 consists of the following:

|          | 2001        |             |             |
|----------|-------------|-------------|-------------|
|          | Federal     | State       | Total       |
| Current  | \$ (37,711) | \$ (13,998) | \$ (51,709) |
| Deferred | (12,237)    | 7,580       | (4,657)     |
|          | \$ (49,948) | \$ (6,418)  | \$ (56,366) |

|          | 2000       |             |            |
|----------|------------|-------------|------------|
|          | Federal    | State       | Total      |
| Current  | \$ 240,695 | \$ 67,942   | \$ 308,637 |
| Deferred | (189,090)  | (83,811)    | (272,901)  |
|          | \$ 51,605  | \$ (15,869) | \$ 35,736  |

**10. Employee  
Retirement  
Plans**

Lafayette maintains two defined contribution retirement plans: a 401(k) Profit Sharing Plan and a Money Purchase Pension Plan (the MPP Plan). Lafayette is responsible for managing assets for both plans which are maintained with the clearing broker. Lafayette makes contributions to the 401(k) Plan on a discretionary basis and to the MPP Plan based on a percentage of employees' compensation. For the years ended December 31, 2001 and 2000, Lafayette's expenses for both plans were approximately \$146,300 and \$147,700, respectively. At December 31, 2001 and 2000, Lafayette had a liability for unfunded employer contributions of \$142,594 and \$141,864, respectively.

# Lafayette Investments, Inc.

## Notes to Financial Statements

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### 11. Net Capital Requirements

Lafayette is subject to the Securities and Exchange Commission Uniform Net Capital 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 and 2000, Lafayette had net capital of \$452,863 and \$700,740, respectively, which was \$352,863 and \$600,740, respectively, in excess of its required net capital of \$100,000. Lafayette's aggregate ratio of indebtedness to net capital at December 31, 2001 and 2000 was 1.36 to 1 and 1.39 to 1, respectively.

### 12. Stock Options

On February 5, 1996, Lafayette granted an option to an employee to purchase 50 shares of common stock at \$900 per share, the approximate fair value at the date of grant. The options are vested over a five year period and may be exercised within a ten year period from date of grant as long as the optionee remains employed at Lafayette.

In 1997, Lafayette adopted the 1997 Stock Option Plan (the 1997 Plan). The maximum number of shares that may be optioned and sold under the 1997 Plan is 1,113. The 1997 Plan will have a term of ten years. Options granted under the 1997 Plan can have an exercise period of up to ten years. The 1997 Plan provided for the grant of stock options to employees and consultants of Lafayette. Pursuant to the 1997 Plan, options may be incentive stock options within the meaning of Section 442 of the Code or nonstatutory stock options, although incentive stock options may be granted only to employees. Unless determined otherwise by the Plan Administrator, all options are nontransferable.

During 1998, Lafayette granted options to employees to purchase 200 shares at an exercise price of \$1,668 per share. The exercise price approximated the fair market value at the date the options were granted. The options vested one-third at the date of grant and the remaining two-thirds vest ratably over a five year period. The options may be exercised within ten years from the date of grant.

# Lafayette Investments, Inc.

## Notes to Financial Statements

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### 12. Stock Options (continued)

Lafayette has elected to account for the 1997 Plan under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Accordingly, no compensation expense has been recognized for the stock options.

Had compensation expense for the 1997 Plan been determined based on the fair value of the options at the grant date consistent with the methodology prescribed under Statement of Financial Standards No. 123, "Accounting for Stock-Based Compensation", the Company's net income would have been decreased by approximately \$8,000 and \$13,000 in 2001 and 2000, respectively.

### 13. Concentration of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

### 14. Commitments

Lafayette leases office space, equipment and access to financial data under various operating lease agreements. Lafayette incurred expenses of \$332,155 in 2001 and \$337,018 in 2000 relating to operating leases.

Following is a summary of minimum annual lease commitments as of December 31, 2001:

*Year ended December 31,*

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|      |            |
|------|------------|
| 2002 | \$ 254,699 |
| 2003 | 249,751    |
| 2004 | 246,273    |
| 2005 | 251,183    |

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\$ 1,001,906

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