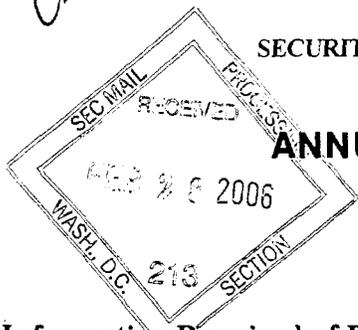


CM

3/6/06



SECURIT



ON

06002855

ANNUAL REPORT
FORM X-17A-5
PART III

OMB APPROVAL
OMB Number: 3235-0123
Expires: January 31, 2007
Estimated average burden
hours per response..... 12.00

SEC FILE NUMBER
8- 39590

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 01/01/05 AND ENDING 12/31/05
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CUTTER & COMPANY BROKERAGE, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

15510 OLIVE STREET, 2ND FLOOR

(No. and Street)

CHESTERFIELD

(City)

MO

(State)

63017

(Zip Code)

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

DEBORAH CASTIGLIONI

636-537-8770

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

HOLT & PATTERSON, LLC

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

260 CHESTERFIELD INDUSTRIAL BLVD. CHESTERFIELD, MO 63017

(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 27 2006
THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

*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)

[Handwritten signature]

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, MICHAEL PATTERSON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CUTTER & COMPANY BROKERAGE, INC., as of DECEMBER 31, 20 05, 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:

NONE

Patricia M. Hayes, NOTARY PUBLIC
State of Missouri, County of St. Charles
My Commission Expires March 13, 2006

[Signature]
Signature

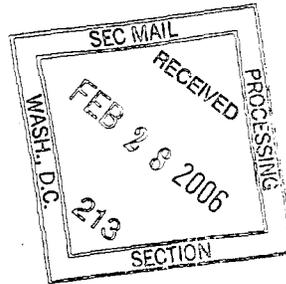
President
Title

Patricia M. Hayes 2-28-06
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~~. CASH FLOWS
- (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 15c3-1 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).



CUTTER & COMPANY BROKERAGE, INC.
Audited Financial Statements
For the Years Ended
December 31, 2005 and 2004

TABLE OF CONTENTS

	<u>Page</u>
Accountant's Audit Report	1
Financial Statements:	
Statement of Financial Condition	2-3
Statement of Income	4-5
Statement of Changes in Stockholders' Equity	6
Statement of Cash Flows	7
Notes to Financial Statements	8-11
Supplementary Information Pursuant to SEC Rule 17a-5	
Computation of Net Capital	12
Computation of Net Capital Requirement	13
Schedule of Aggregate Indebtedness	13
Report on Internal Accounting Control	14-15



February 24, 2006

The Board of Directors
Cutter & Company Brokerage, Inc.
Chesterfield, Missouri

We have audited the accompanying statement of financial condition of Cutter & Company Brokerage, Inc. (a corporation) as of December 31, 2005 and 2004 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. 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 statement presentation. 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 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 Cutter & Company Brokerage, Inc. as of December 31, 2005 and 2004, 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 the supplemental information located on pages 12 and 13 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.

Holt & Patterson, LLC

260 CHESTERFIELD INDUSTRIAL BLVD.

CHESTERFIELD, MO 63005

PHONE 636/530-1040

FAX 636/530-1101

CUTTER & COMPANY BROKERAGE, INC.
STATEMENT OF FINANCIAL CONDITION
December 31, 2005 and 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash	\$ 52,865	\$ 94,043
Marketable Securities Owned, at Market Value	145,547	126,078
Notes Receivable	0	45,000
Accounts Receivable	384,188	261,131
Prepaid Expenses	42,946	42,737
Deferred Tax Benefit	34,624	36,911
TOTAL CURRENT ASSETS	<u>660,170</u>	<u>605,900</u>
FIXED ASSETS		
Furniture and Fixtures	58,497	58,497
Equipment	38,897	52,515
Leasehold Improvements	24,701	24,701
Building Improvements	149,232	149,232
Computer	98,570	88,902
Accumulated Depreciation	<u>(207,258)</u>	<u>(218,021)</u>
TOTAL FIXED ASSETS	<u>162,639</u>	<u>155,826</u>
OTHER ASSETS		
Deposits	<u>35,520</u>	<u>33,019</u>
TOTAL ASSETS	<u>\$ 858,329</u>	<u>\$ 794,745</u>

See Accountant's Report

The accompanying notes are an integral part of this statement

CUTTER & COMPANY BROKERAGE, INC.
STATEMENT OF FINANCIAL CONDITION
December 31, 2005 and 2004

	2005	2004
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 12,561	\$ 9,777
Accrued Wages and Commissions	165,259	141,173
401(k) Payable	54,343	30,002
Corporate Income Tax Payable	<u>25</u>	<u>11,925</u>
TOTAL CURRENT LIABILITIES	<u>232,188</u>	<u>192,877</u>
 LONG TERM LIABILITIES		
Deferred Tax Liability	<u>9,111</u>	<u>5,970</u>
TOTAL LONG TERM LIABILITIES	<u>9,111</u>	<u>5,970</u>
TOTAL LIABILITIES	<u>241,299</u>	<u>198,847</u>
 STOCKHOLDER'S EQUITY		
Common Stock, \$1 par value, 30,000 shares authorized, 5,000 shares issued and outstanding	5,000	5,000
Additional Paid in Capital	12,456	12,456
Retained Earnings	780,802	730,677
Accumulated Other Comprehensive Income	(194,173)	(202,362)
Current Earnings	<u>12,945</u>	<u>50,127</u>
TOTAL STOCKHOLDER'S EQUITY	<u>617,030</u>	<u>595,898</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 858,329</u>	<u>\$ 794,745</u>

See Accountant's Report

The accompanying notes are an integral part of this statement.

CUTTER & COMPANY BROKERAGE, INC.
STATEMENT OF INCOME
For the Years Ended
December 31, 2005 and 2004

	2005	Percent	2004	Percent
	Amount		Amount	
INCOME				
Commission and Fee Income	\$ 4,882,448	100.00	\$ 3,990,944	98.88
Miscellaneous income	<u>0</u>	<u>0.00</u>	<u>45,151</u>	<u>1.12</u>
TOTAL INCOME	<u>4,882,448</u>	<u>100.00</u>	<u>4,036,095</u>	<u>100.00</u>
 OPERATING EXPENSES				
Advertising	5,846	0.12	9,880	0.24
Auto Expense	0	0.00	153	0.00
Bad Debt Expense	78,303	1.60	0	0.00
Bank Charges	142	0.00	172	0.00
Charitable Contributions	3,373	0.07	1,455	0.04
Club Dues	16,522	0.34	15,403	0.38
Clearing Charges and Exchange Fees	372,063	7.62	346,544	8.59
Outside Brokers Commissions	3,039,538	62.25	2,465,793	61.09
Depreciation Expense	25,984	0.53	23,307	0.58
Dues and Subscriptions	30,985	0.63	23,625	0.59
HRA Expense	420	0.01	0	0.00
401(k) Expense	60,157	1.23	33,845	0.84
Promotions	12,787	0.26	7,780	0.19
Insurance	49,521	1.01	61,751	1.53
Interest Expense	1,363	0.03	1,314	0.03
Accounting and Audit Fees	7,431	0.15	8,750	0.22
Legal And Professional Fees	12,862	0.26	9,154	0.23
Licenses Expense	569	0.01	854	0.02
Business Meetings	306	0.01	0	0.00
Meals and Entertainment	15,513	0.32	14,691	0.36
Miscellaneous Expense	388	0.01	0	0.00
Office Expense	8,004	0.16	11,160	0.28
Taxes - Other	0	0.00	655	0.02
Taxes - Payroll	48,522	0.99	46,858	1.16
Payroll Services	3,090	0.06	3,233	0.08
Penalties and Fines	0	0.00	22	0.00
Postage and Delivery	8,634	0.18	9,894	0.25
Registration Fees	14,647	0.30	10,508	0.26
Rent Expense	100,340	2.06	111,390	2.76
Repairs and Maintenance	39,837	0.82	34,383	0.85
Salaries	834,885	17.10	643,082	15.93
Outside Consulting	0	0.00	9,666	0.24
Office Supplies	8,818	0.18	12,212	0.30
Deminimis Fringes	1,693	0.03	4,158	0.10
Copier Contract Expense	6,924	0.14	6,778	0.17
Phone and Communication	22,931	0.47	22,509	0.56

See Accountant's Report

The accompanying notes are an integral part of this statement.

CUTTER & COMPANY BROKERAGE, INC.
STATEMENT OF INCOME
For the Years Ended
December 31, 2005 and 2004

	2005		2004	
	Amount	Percent	Amount	Percent
Travel	\$ 10,019	0.21	\$ 9,244	0.23
Training and Professional Development	9,634	0.20	1,796	0.04
Recruitment	3,000	0.06	1,331	0.03
Personal Property Taxes	<u>1,051</u>	<u>0.02</u>	<u>1,030</u>	<u>0.03</u>
TOTAL OPERATING EXPENSES	<u>4,856,102</u>	<u>99.46</u>	<u>3,964,380</u>	<u>98.22</u>
Income From Operations	<u>26,346</u>	<u>0.54</u>	<u>71,715</u>	<u>1.78</u>
OTHER INCOME				
Interest and Dividend Income	<u>4,376</u>	<u>0.09</u>	<u>1,145</u>	<u>0.03</u>
TOTAL OTHER INCOME	<u>4,376</u>	<u>0.09</u>	<u>1,145</u>	<u>0.03</u>
OTHER EXPENSES				
Settlement Expense	7,500	0.15	0	0.00
Loss on Sale of Asset	<u>773</u>	<u>0.02</u>	<u>0</u>	<u>0.00</u>
TOTAL OTHER EXPENSES	<u>8,273</u>	<u>0.17</u>	<u>0</u>	<u>0.00</u>
Income Before Taxes	<u>22,449</u>	<u>0.46</u>	<u>72,860</u>	<u>1.81</u>
INCOME TAX				
Federal Income Tax Expense	4,492	0.09	16,132	0.40
Missouri Income Tax Expense	1,872	0.04	4,928	0.12
Deferred Federal Income Tax Expense (Benefit)	2,243	0.05	1,195	0.03
Deferred State Income Tax Expense (Benefit)	897	0.02	478	0.01
TOTAL INCOME TAX	<u>9,504</u>	<u>0.19</u>	<u>22,733</u>	<u>0.56</u>
Net Income (Loss)	<u>\$ 12,945</u>	<u>0.27</u>	<u>\$ 50,127</u>	<u>1.24</u>

See Accountant's Report

The accompanying notes are an integral part of this statement.

CUTTER & COMPANY BROKERAGE, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2005 and 2004

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE AT DECEMBER 31, 2004	\$ 5,000	\$ 12,456	\$ 780,802	\$ (202,362)	\$ 595,896
COMPREHENSIVE INCOME					
Net Income			\$ 12,945		\$ 12,945
Other comprehensive income:					
Unrealized gains (losses) on securities					
Unrealized holding gains (losses) arising during the period					\$ 10,476
Less: reclassification adjustment					
Income tax expense related to other comprehensive income					\$ (2,287)
Total other comprehensive income:				\$ 8,189	\$ 8,189
TOTAL COMPREHENSIVE INCOME					\$ 617,030
ISSUANCE OF COMMON STOCK					
DIVIDENDS DECLARED					
BALANCE AT DECEMBER 31, 2005	<u>\$ 5,000</u>	<u>\$ 12,456</u>	<u>\$ 793,747</u>	<u>\$ (194,173)</u>	<u>\$ 617,030</u>

See Accountant's Report
The accompanying notes are an integral part of this statement

CUTTER & COMPANY BROKERAGE, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	<u>\$12,945</u>	<u>\$50,127</u>
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	25,984	23,307
Deferred income tax expense (benefit)	3,140	1,672
Gain on exchange of marketable securities owned	(1,181)	294
Loss (gain) on sale of fixed asset	773	
Decrease (increase) in notes receivable	45,000	(45,000)
Decrease (increase) in accounts receivable	(123,057)	11,553
Decrease (increase) in income tax receivable	0	0
Decrease (increase) in prepaid expenses	(209)	(1,860)
Decrease (increase) in deposits	(2,501)	(294)
Increase (decrease) in accounts payable	2,784	(2,485)
Increase (decrease) in accrued expenses	48,427	(16,821)
Increase (decrease) in corporate income tax payable	(11,900)	2,783
Total Adjustments	<u>(12,740)</u>	<u>(26,851)</u>
NET CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES	<u>205</u>	<u>23,276</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(7,813)	
Purchase of fixed assets	<u>(33,571)</u>	<u>(20,558)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(41,384)</u>	<u>(20,558)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
NET CASH USED IN FINANCING ACTIVITIES	<u>0</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(41,179)	2,718
CASH AND CASH EQUIVALENTS, beginning of year	<u>94,044</u>	<u>91,326</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$52,865</u></u>	<u><u>\$94,044</u></u>
 Supplemental Disclosure:		
Interest paid	<u>\$1,363</u>	<u>\$1,314</u>
Corporate income tax paid	<u>\$33,045</u>	<u>\$18,302</u>

See Accountant's Report
The accompanying notes are an integral part of this statement

CUTTER & COMPANY BROKERAGE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

Note 1: Summary of Significant Accounting Policies

Business operations:

Cutter & Company Brokerage, Inc. is a broker/dealer registered with the Securities and Exchange Commission (SEC) and is a member of various exchanges and the National Association of Securities Dealers (NASD). The Company was formed for the purpose of trading and dealing in stocks, bonds and all other types of securities. The Company does not hold funds or securities for customers, or owe money for securities to customers and does not otherwise carry customer accounts. Accordingly, the Company is exempt from SEC Rule 15c3-3 under the K(2)(ii) exemption.

Accounting method:

The accrual method of accounting is utilized by recognizing income when earned and expenses when incurred. For income tax purposes, the Company reports under the accrual basis of accounting.

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 amounts reported in the financial statements and accompanying notes. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

Concentrations of credit risk:

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

At times throughout the year, the Company may maintain certain bank accounts in excess of the FDIC insured limits.

Cash equivalents:

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

The Company had a non-cash transactions for the year ended December 31, 2005 and 2004 consisting of the write-off of almost fully depreciated computer equipment for \$37,519 and \$5,313 respectively.

Marketable Securities:

Marketable securities are stated at the lower of aggregate cost or market. Market value and cost at December 31, 2005 and 2004 was as follows:

	2005	2004
Cost	\$ 302,240	\$ 293,661
Market Value	\$ 145,547	\$ 126,078

See Accountants' Report

CUTTER & COMPANY BROKERAGE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

Notes Receivable:

Notes receivable relates to promissory notes from an employee of the Company. The unsecured notes are payable in monthly installments of \$7,500, with all unpaid principal and interest due on April 7, 2005. Interest is computed at 10% per annum. In 2005 the employment was terminated and this note receivable was written off to bad debt.

Accounts Receivable:

The Company has elected to use the reserve method in accounting for bad debts. Under this method, all uncollectible accounts are charged to the allowance account and the bad debt expense is determined by adjusting the balance in the allowance account to a reserve considered reasonable by management. No allowance for doubtful accounts was considered necessary at December 31, 2005 and 2004. The bad debt expense balance at December 31, 2005 and 2004 was \$78,303 and \$0 respectively. The entire balance in bad debt for 2005 was due to write offs of advances deemed uncollectible for two brokers that terminated in 2005.

Property and Equipment:

Depreciation of property and equipment is provided for in the financial statements using the straight-line and accelerated methods over the estimated useful lives of the assets. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense charged to operations for the year ended December 31, 2005 and 2004 was \$25,984 and \$23,307, respectively.

Property and equipment are summarized by the major classification as follows:

Classification	Useful Lives for Purposes of Depreciation	2005	2004
Furniture and Fixtures		\$ 58,497	\$ 58,497
Equipment	5-7 years	38,897	52,515
Leasehold Improvements	5-7 years	24,701	24,701
Building Improvements	39 years	149,232	149,232
Computers	39 years	98,570	88,902
Subtotal	5 years	369,897	373,847
Less: Accumulated Depreciation – Fixtures and Equipment		(151,506)	(168,949)
Less: Accumulated Depreciation – Leasehold		(55,752)	(49,072)
Subtotal		(207,258)	(218,021)
Total		\$ 162,639	\$ 155,826

See Accountants' Report

CUTTER & COMPANY BROKERAGE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

The Company has not recorded depreciation in accordance with generally accepted accounting principles. The effects of this departure from generally accepted accounting principles are not material.

Income Taxes:

The company has adopted SFAS 109, Accounting for Income Taxes, to account for deferred income taxes. Deferred taxes are computed based on the tax liability or benefit in future years of the reversal of temporary differences in the recognition of income or deduction of expenses between financial and tax reporting purposes. The difference between tax expense and taxes currently payable is reflected in the balance sheet as deferred taxes. The items resulting in deferred taxes are as follows:

	<u>2005</u>	<u>2004</u>
Depreciation	\$(43,386)	\$ (28,430)
Capital Loss Carryforward Expiring in 2007	3,208	3,208
Capital Loss Carryforward Expiring in 2006	4,974	4,974
Other Comprehensive Income attributable to Unrealized holding Losses on Securities	156,693	167,583
Total	<u>\$121,489</u>	<u>\$ 147,335</u>

Deferred tax assets and/or liabilities are classified as current and noncurrent based on the classification of the related asset or liability for financial reporting purposes, or based on the expected reversal date for deferred taxes that are not related to an asset or liability. At December 31, 2005 and 2004, the Company had total current deferred tax assets of \$34,624 and \$36,911, respectively and total long-term deferred tax liabilities of \$9,111 and \$5,970, respectively.

NOTE 2: RETIREMENT PLAN

In 1999 the Company adopted a 401(k) Employee Pension for all employees meeting eligibility and electing to participate. The company matches 10% on the first 6% of compensation an employee elects to defer. In addition, the company has the discretion each year to elect to make a profit sharing plan contribution for all eligible employees. At December 31, 2005 and 2004, the company elected to contribute an overall percentage of 7.2% and 5.4% respectively to the profit sharing plan. The employer match and profit sharing plan contribution charged to operations for the years ended December 31, 2005 and 2004 was \$60,157 and \$33,845, respectively. The amount for 2005 increased due to an increase in eligible employees compensation and an increase in the profit sharing plan contribution percentage.

NOTE 3: COMMITMENTS AND CONTINGENCIES

The Company has obligations under operating leases with initial non-cancelable terms in excess of one year. Aggregate annual rentals for office space at December 31, 2005 are approximately \$103,474 for 2006, and \$61,693 for 2007. The lease on office space expires July 30, 2007. Aggregate annual rentals for the copier equipment lease at December 31, 2005 is approximately \$1,472. The lease on the copier equipment expires on April 1, 2006.

Rent expense charged to operations for the years ended December 31, 2005 and 2004 was \$ 107,264 and \$ 118,168, respectively.

In the normal course of business, the Company is party to litigation and arbitration actions involving their broker activities. It is management's opinion that sufficient reserves have been provided for the financial statements and that errors and omission insurance coverage is adequate to provide for any significant judgements resulting from said litigation or arbitration.

See Accountants' Report

CUTTER & COMPANY BROKERAGE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

NOTE 4: NET CAPITAL REQUIREMENTS

The Company is subject to the Uniform Net Capital Rule of the Securities and Exchange Commission. Under the Rule, the Company's aggregate indebtedness to all other persons cannot exceed 1500 percent of net capital. The Rule also requires that equity capital may not be withdrawn or cash dividends paid if the Company's net capital would fail to exceed 120 percent of the minimum dollar amount required. At December 31, 2005 and 2004, the Company had the following allowable net capital of \$287,700 and \$216,595, respectively, which was \$237,700 and \$ 166,595 in excess of the minimum required. The percentage of aggregate indebtedness to net capital at December 31, 2005 and 2004 was 84% and 89%, respectively.

See Accountants' Report

SUPPLEMENTARY INFORMATION

CUTTER & COMPANY BROKERAGE, INC.
COMPUTATION OF NET CAPITAL
As of December 31, 2005

Net Capital Computation:

Stockholders' Equity	\$	617,030
Deductions and/or charges		
<hr/>		
Total stockholders' equity qualified for net capital		617,030
Less: Non-allowable assets:		
Property and Equipment		162,639
Other Assets		76,083
Accounts Receivable		34,320
Prepaid Expenses		42,946
Haircut on securities		13,342
Subtotal		<u>329,330</u>
Net Capital	<u>\$</u>	<u>287,700</u>

See Accountant's Report
The accompanying notes are an integral part of this statement

CUTTER & COMPANY BROKERAGE, INC.
COMPUTATION OF NET CAPITAL REQUIREMENT
As of December 31, 2005

Minimum Net Capital Required (6 2/3% of Aggregate Indebtedness)	\$	16,087
Minimum Dollar Net Capital Required	\$	50,000
Net Capital Requirement (Greater of the Above)	\$	50,000
Excess Net Capital	\$	237,700
Percentage of Aggregate Indebtedness to Net Capital		84 %
Percentage of Debt to Debt-Equity	N/A	

SCHEDULE OF AGGREGATE INDEBTEDNESS

Accounts Payable	\$	12,561
Income Taxes Payable		25
Accrued Expenses		228,713
	<u>\$</u>	<u>241,299</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

Net capital, as reported in Company's Part II (Unaudited)

FOCUS Report	\$	278,459
Net audit adjustments		9,241
	<u>\$</u>	<u>287,700</u>

See Accountant's Report
The accompanying notes are an integral part of this statement



February 24, 2006

The Board of Directors
Cutter & Company Brokerage, Inc.
Chesterfield, Missouri

In planning and performing our audit of the consolidated financial statements and supplemental schedules of Cutter & Company Brokerage, Inc. for the years ended December 31, 2005 and 2004, 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 (or aggregate debits) 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 the 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 judgements by management are required to assess the expected benefits and related costs of controls and 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 the 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.

260 CHESTERFIELD INDUSTRIAL BLVD.

CHESTERFIELD, MO 63005

PHONE 636/530-1040

FAX 636/530-1101

See Accountants' Report

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, 2005 and 2004, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, NASD and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1937 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.


Holt & Patterson, LLC