



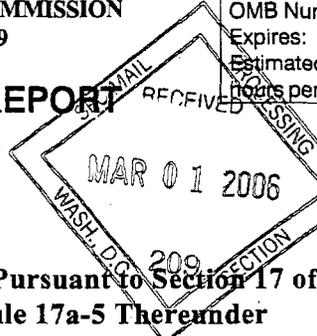
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AB 3/29/06

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



SEC FILE NUMBER  
~~8-31461~~

8-31461

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: **Cuttone and Company, Inc.**

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

**111 Broadway**

(No. and Street)

**New York**

**NY**

**10006**

(City)

(State)

(Zip Code)

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

**Charles Keckler**

**(212) 374-9797**

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**Raich Ende Malter & Co. LLP**

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

**1375 Broadway, 15th Floor**

**New York**

**NY**

**10018**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

JUN 08 2006

THOMSON  
FINANCIAL

**FOR OFFICIAL USE ONLY**

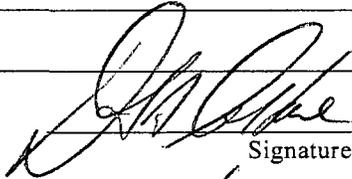
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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, Donato A. Cuttone, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Cuttone and Company, 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:

  
Signature  
President/CEO  
Title

Ant B Aldo

Notary Public

Comm #01AL6079509

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 15c3-1 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).

**CUTTONE & COMPANY, INC.**  
*Financial Statements*  
*December 31, 2005*

# CUTTONE & COMPANY, INC.

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December 31, 2005

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders  
Cuttone & Company, Inc.

We have audited the accompanying statement of financial condition of Cuttone & Company, Inc. (the "Company") as of December 31, 2005, and the related statements of income, changes in stockholders' equity 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 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 Cuttone & Company, Inc. at December 31, 2005, 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 accompanying supplementary information is presented for purposes of additional analysis and to comply with the requirements of Rule 17a-5 of the Securities Exchange Act of 1934 and is not a required part of the basic financial statements. 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.

*Raich Ende Malter & Co. LLP*

**RAICH ENDE MALTER & CO. LLP**  
New York, New York  
February 3, 2006

# CUTTONE & COMPANY, INC.

Statement of Financial Condition  
December 31, 2005

## ASSETS

<i>Cash and Cash Equivalents</i>	\$ 1,219,146
<i>Receivables From Brokers and Clearing Organizations</i>	2,181,883
<i>U.S. Treasury Bills</i> - at market value (cost \$294,229)	296,271
<i>Furniture, Equipment and Leasehold Improvements</i> - net of accumulated depreciation and amortization of \$412,874	90,636
<i>Other Assets</i>	534,016
	<hr/>
	\$ 4,321,952

## LIABILITIES AND STOCKHOLDERS' EQUITY

### *Liabilities*

Accrued expenses and other liabilities	\$ 1,340,977
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### *Commitments and Contingencies*

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### *Stockholders' Equity*

Common stock - \$1.00 par value - 2,000 shares authorized, 1,000 shares issued and outstanding	1,000
Additional paid-in capital	213,286
Retained earnings	2,766,689
	<hr/>
	2,980,975
	<hr/>
	\$ 4,321,952

# **CUTTONE & COMPANY, INC.**

*Statement of Income*  
*For the Year Ended December 31, 2005*

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## **Revenues**

Commissions	\$ 24,173,050
Other income	171,185
Interest and dividends	109,895
	<u>24,454,130</u>

## **Expenses**

Salaries and bonuses	12,705,521
Payroll taxes and employee benefits	462,277
Error account	527,676
Commissions paid	521,852
Clearance charges	558,459
NYSE dues and expenses	928,946
NYSE membership lease expense	843,383
Interest paid for use of subordinated memberships	59,097
Telephone	469,217
Quotron	2,090,615
Professional fees	1,365,903
Insurance	444,575
Rent	189,121
Office and other	2,257,188
	<u>23,423,830</u>

**Income Before Provision For State and Local Taxes** 1,030,300

**Provision For State and Local Corporate Taxes** 112,821

**Net Income** \$ 917,479

# CUTTONE & COMPANY, INC.

Statement of Changes in Stockholders' Equity  
For the Year Ended December 31, 2005

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance</b> - January 1, 2005	\$ 1,000	\$ 213,286	\$ 3,582,929	\$ 3,797,215
<b>Net income</b>	-	-	917,479	917,479
<b>Distributions</b>	-	-	(1,733,719)	(1,733,719)
<b>Balance</b> - December 31, 2005	<u>\$ 1,000</u>	<u>\$ 213,286</u>	<u>\$ 2,766,689</u>	<u>\$ 2,980,975</u>

See notes to financial statements.

# CUTTONE & COMPANY, INC.

Statement of Cash Flows  
For the Year Ended December 31, 2005

## Cash Flows From Operating Activities

Net income	\$ 917,479
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	122,004
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables from brokers	(23,473)
Other	123,671
Increase (decrease) in:	
Accrued expenses and other liabilities	229,602
	<u>1,369,283</u>

## Cash Flows From Investing Activities

Acquisition of furniture, equipment and leasehold improvements	(206,740)
Purchase and redemption of U.S. Treasury Bills - net	(105,567)
	<u>(312,307)</u>

## Cash Flows From Financing Activities

Distributions to stockholders	<u>(1,733,719)</u>
-------------------------------	--------------------

## (Decrease) in Cash and Cash Equivalents

(676,743)

## Cash and Cash Equivalents - beginning of year

1,895,889

## Cash and Cash Equivalents - end of year

\$ 1,219,146

## Supplemental Cash Flow Information

Cash paid for:

Interest \$ 59,097

Taxes \$ 228,768

See notes to financial statements.

# CUTTONE & COMPANY, INC.

Notes to Financial Statements  
December 31, 2005

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## 1 - ORGANIZATION AND BUSINESS

Cuttone & Company, Inc. (the "Company") was incorporated on January 20, 1984 under the laws of the State of New York where it also maintains its office.

The Company is registered with the Securities and Exchange Commission as a broker/dealer pursuant to the Securities Exchange Act of 1934 and is a member of the New York Stock Exchange.

The Company executes orders on behalf of other brokerage firms and is approved to do a public customer business. Currently the Company carries no customer accounts.

## 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Cash Equivalents** - For purposes of the Statement of Cash Flows, the Company considers all short term debt securities purchased with a maturity of three months or less as well as money market funds, to be cash equivalents.
- b. **Revenue Recognition** - Commission revenue and related expenses are recorded on a settlement date basis. The use of settlement rather than trade date does not materially affect the results of operations.
- c. **Depreciation and Amortization** - Furniture, equipment and leasehold improvements are stated at cost. Furniture and equipment are depreciated using accelerated methods. The use of accelerated rates does not materially affect the results of operations. Leasehold improvements are amortized over the term of the office space lease.
- d. **Income Taxes** - The company with the consent of its stockholders, has elected to be taxed as an S corporation as provided for by the Internal Revenue Code. Under S corporation status, the Company's net income for federal and state purposes is taxed to its shareholders.
- e. **Use of 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. The estimates and assumptions affect the reported amounts of assets and liabilities and the 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 - RECEIVABLES AND PAYABLES TO BROKERS

The clearing and depository operations for the Company's securities transactions are provided by various Clearing Brokers pursuant to clearance agreements.

At December 31, 2005 the amount due from the Clearing Brokers represents cash deposits maintained at the Clearing Broker and commission revenue earned.

### 4 - EQUIPMENT, FIXTURES AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements are stated at cost and are summarized as follows:

Furniture and equipment	\$ 477,928
Leasehold improvements	<u>25,582</u>
	503,510
Less: Accumulated depreciation and amortization	<u>412,874</u>
	<u>\$ 90,636</u>

Depreciation expense for the year ended December 31, 2005 amounted to \$122,005.

### 5 - COMMITMENTS AND CONTINGENCIES

The Company leases its office facility under the terms of an operating lease dated December 12, 2003, which will expire seven years after occupancy which was May 8, 2003. Future minimum lease payments under this operating lease, at December 31, 2005 are as follows:

<i>For the Years Ended</i>	
<u>December 31,</u>	
2006	\$ 188,571
2007	\$ 198,449
2008	\$ 205,137
2009	\$ 208,580
2010	\$ 69,912

Rental expense for the year ended December 31, 2005 was \$189,122.

During the year, the Company leased New York Stock Exchange seats and guaranteed the payments on several of those leases. The unexpired portion of those leases, the latest of which expires December 22, 2006, was \$325,886 at December 31, 2005.

### 6 - CONCENTRATION

The Company maintains cash balances at financial institutions subject to Federal Deposit Insurance Corporation ("FDIC") regulations. At times, amounts on deposit exceed the FDIC insurance limit of \$100,000. As of December 31, 2005, the Company's cash balances on deposit exceeded the insured limits by \$515,563.

**7 - NET CAPITAL REQUIREMENTS**

As a member of the New York Stock Exchange, the Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires that the Company maintain minimum net capital, as defined, and aggregate indebtedness and debt-to-debt equity ratios. At December 31, 2005, the Company had net capital of \$2,147,057, which was \$2,035,947 in excess of its required net capital of \$111,110.

# CUTTONE & COMPANY, INC.

Supplementary Information - Computation of Net Capital Pursuant to  
Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission  
December 31, 2005

Schedule I

## COMPUTATION OF NET CAPITAL

Total stockholder's equity qualified for net capital	\$ 2,980,975
Deductions:	
Non-allowable assets - assets not readily convertible to cash:	
Receivable from brokers and clearing organizations	192,796
Equipment, fixtures and improvements - net book value	90,636
Other	534,016
	<u>817,448</u>
Net capital before haircuts	<u>2,163,527</u>
Haircuts on securities:	
All other securities	16,470
	<u>16,470</u>
Net Capital	<u>\$ 2,147,057</u>

## COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

### Computation of Aggregate Indebtedness

Accrued expenses and other liabilities	\$ 1,340,977
Balance of guaranteed obligations on New York Stock Exchange membership leases	<u>325,668</u>
<b>Total Aggregate Indebtedness</b>	<u>\$ 1,666,645</u>
<b>Minimum Net Capital Requirement</b> - 6.67% of adjusted aggregate indebtedness	<u>\$ 111,110</u>
<b>Net Capital Requirement</b> - greater of minimum net capital requirement or \$5,000	<u>\$ 111,110</u>
<b>Net Capital in Excess of Requirement</b>	<u>\$ 2,035,947</u>
<b>Ratio of Aggregate Indebtedness to Net Capital</b>	<u>0.78 to 1</u>

There were no differences noted between the computation of net capital under Rule 15c3-1 of the Securities Exchange Act of 1934 as reported above and as contained in the unaudited FOCUS report dated January 26, 2006 as filed by the Company.

**CUTTONE & COMPANY, INC.**

*Supplementary Information - Computation For Determination of Reserve Requirements  
Under Rule 15c3-3 of the Securities and Exchange Commission  
December 31, 2005*

*Schedule II*

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The provisions of Rule 15c3-3 are not applicable to the Company as of December 31, 2005 in accordance with Rule 15c3-3(k)(2)(ii).

**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL REQUIRED BY SEC RULE 17A-5**

To the Board of Directors and Stockholders  
Cuttone & Company, Inc.

In planning and performing our audit of the financial statements of Cuttone & Company, Inc. (the "Company"), for the year ended December 31, 2005, 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 basic 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 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 and recordation of differences required by Rule 17a-13.
2. 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.
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customer as required by Rule 15c3-3.

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 judgments by management are required 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 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 any 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.

To the Board of Directors and Stockholders  
Cuttone & Company, Inc.  
Page Two

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 one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by 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 the 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, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, New York Stock Exchange, and other regulatory agencies which 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.



**RAICH ENDE MALTER & CO. LLP**  
New York, New York  
February 3, 2006