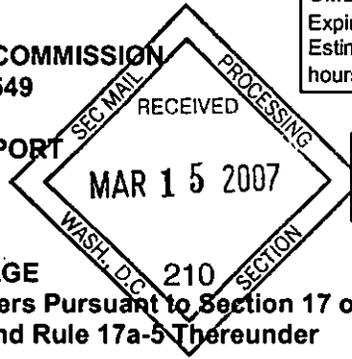




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UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

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



OMB APPROVAL OMB Number: 3235-0123 Expires: February 28, 2010 Estimated average burden hours per response12.00

SEC FILE NUMBER 8-42415

FACING PAGE 210 Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT AS OF 12/31/06 MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

CUTLER GROUP, L.P.

OFFICIAL USE ONLY FIRM ID. NO.

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

220 Montgomery Street, Suite 600 (No. and Street)

San Francisco (City)

California (State)

94104 (Zip Code)

PROCESSED

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

APR 09 2007

Adam Walls

(312) 347-3633 (Area Code - Telephone No)

THOMSON FINANCIAL

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ryan & Juraska, Certified Public Accountants

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

141 West Jackson Boulevard, Suite 3520 (Address)

Chicago (City)

Illinois (State)

60604 (Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

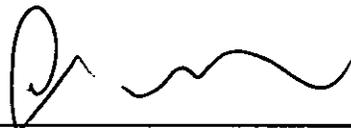
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

Handwritten signature/initials

OATH OR AFFIRMATION

I, Adam R. Walls, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of Cutler Group, L.P. as of December 31, 2006 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



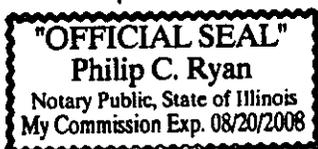
Signature

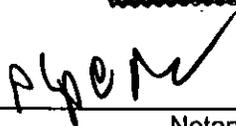
Managing Director

Title

Subscribed and sworn to before me this

14th day of March, 2007





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 Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors.
- (g) Computation of Net Capital for Brokers and Dealers pursuant to Rule 15c3-1.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers 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.
- (o) Independent Auditors' Report on Internal Accounting Control.
- (p) Schedule of Segregation Requirements and Funds in Segregation – Customers' Regulated Commodity Futures Accounts Pursuant to CFTC Rule 1.10(d)2(iv).

**For conditions of confidential treatment of certain portions of this filing, see Section 240.17a-5(e)(3).

CUTLER GROUP, L.P.
(A California Limited Partnership)

**STATEMENT OF FINANCIAL CONDITION
AND SUPPLEMENTARY SCHEDULES
PURSUANT TO SEC RULE 17a-5(d)**

as of December 31, 2006
AVAILABLE FOR PUBLIC INSPECTION



RYAN & JURASKA
Certified Public Accountants
141 West Jackson Boulevard
Chicago, Illinois 60604
Tel: 312.922.0062
Fax: 312.922.0672

INDEPENDENT AUDITORS' REPORT

To the Partners of
Cutler Group, L.P.

We have audited the accompanying statement of financial condition of Cutler Group, L.P. (the "Partnership") as of December 31, 2006, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this financial statement 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 statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Cutler Group, L.P. as of December 31, 2006, 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 statement taken as a whole. The information contained in the supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statement, 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 our audit of the basic financial statement and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statement taken as a whole.

Chicago, Illinois
March 13, 2007

CUTLER GROUP, L.P.
(A California Limited Partnership)

STATEMENT OF FINANCIAL CONDITION
as of December 31, 2006

ASSETS

Cash	\$ 62,901
Receivables from broker-dealer	145,663,672
Securities owned, at market	387,766,522
Memberships and stock in exchanges, at cost (market value \$3,980,000)	804,000
Furniture and equipment (net of accumulated depreciation of \$650,550)	196,984
Investment in broker-dealer	<u>20,000</u>
	<u>\$ 534,514,079</u>

LIABILITIES AND PARTNERS' CAPITAL

Liabilities	
Securities sold, not yet purchased, at market	\$ 510,658,931
Accounts payable and accrued expenses	<u>804,958</u>
	<u>511,463,889</u>
Partners' Capital	
General partner	407,702
Limited partners	<u>22,642,488</u>
	<u>23,050,190</u>
	<u>\$ 534,514,079</u>

See accompanying notes.

CUTLER GROUP, L.P.
(A California Limited Partnership)

NOTES TO STATEMENT OF FINANCIAL CONDITION
as of December 31, 2006

1. Organization

Cutler Group, L.P. (the "Partnership"), a California limited partnership, was organized on February 1, 1994. The Partnership is a broker-dealer registered with the Securities and Exchange Commission and is a member of the NYSE Arca, the Philadelphia Stock Exchange (the "PHLX") and the Chicago Board Options Exchange (the "CBOE"). The Partnership is a market maker on the PHLX and the CBOE and engages primarily in the proprietary trading of exchange-traded equity securities and equity options contracts.

2. Summary of Significant Accounting Policies

Revenue Recognition and Securities Valuation

Securities transactions and related revenue and expenses are recorded on a trade date basis. Securities owned and securities sold, not yet purchased, are recorded in the statement of financial condition at market value, with related unrealized profit or loss included in net trading gain in the statement of operations.

Income Taxes

No provision has been made for federal income taxes, as the taxable income of the partnership is included in the respective income tax returns of the partners.

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 could differ from those estimates.

Depreciation

Depreciation of furniture and computer equipment is computed using the straight-line method for financial reporting and the straight line and accelerated methods for income tax purposes.

The General Partner

The Partnership's general partner is Trent Cutler Capital, LLC (the "General Partner"). The General Partner conducts and manages the business of the Partnership.

CUTLER GROUP, L.P.
(A California Limited Partnership)

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued
as of December 31, 2006

3. Securities Owned and Sold, Not Yet Purchased

Marketable securities owned and sold, not yet purchased, consist of trading securities at market value, as follows:

	<u>Owned</u>	<u>Sold, Not Yet Purchased</u>
Stocks	\$ 258,356,864	\$ 366,521,229
Options	<u>129,409,658</u>	<u>144,137,702</u>
	<u>\$ 387,766,522</u>	<u>\$ 510,658,931</u>

4. Partnership Agreement

Profit and Loss Allocations

All profits and losses are allocated quarterly, after allocations to the Self-Backed Traders (see Note 7), with a maximum of 40% to the General Partner and a minimum of 60% to the limited partners, subject to the following:

- a. Profits shall first be allocated to limited partners in proportion to their respective ownership percentages as of the first day each calendar quarter to remove unrecouped losses for such limited partners.
- b. The General Partner will be allocated a maximum of 40% of all remaining profits and losses. The General Partner's allocation is credited to the General Partner's capital account as of the end of each calendar quarter. However, it is not withdrawable by the General Partner until the end of each calendar year. The General Partner's allocation is subject to recoupment by the limited partners in a subsequent calendar quarter within the same calendar year where there is a loss in such subsequent calendar quarter.
- c. After the maximum 40% General Partner allocation, the remaining net profits and losses for each calendar quarter are allocated to the limited partners in proportion to their respective ownership percentages as of the first day of such calendar quarter.
- d. The General Partner's loss within a calendar year is limited to the General Partner's profit for that year. Thereafter, remaining losses are allocated to the limited partners based on their respective ownership percentages.

CUTLER GROUP, L.P.
(A California Limited Partnership)

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued
as of December 31, 2006

5. Distributions and Withdrawals

The Partnership is not required to make distributions, but may do so at the discretion of the General Partner. A limited partner may request a withdrawal of his or her entire capital account, or any portion thereof, as of the end of any calendar quarter, by giving 30 days prior written notice to the General Partner; provided that the limited partner maintained his or her investment for a minimum six month period. The General Partner may accept withdrawal requests of shorter notice at its discretion.

6. Credit Concentration

At December 31, 2006, a significant credit concentration consisted of approximately \$22.7 million, representing the market value of the Partnership's trading accounts carried by its clearing broker, Merrill Lynch Professional Clearing Corp. Management does not consider any credit risk associated with this net receivable to be significant.

7. Agreements and Related-Party Transactions

The Partnership has a Joint Back Office ("JBO") clearing agreement with Merrill Lynch Professional Clearing Corp. ("ML-PRO"). The agreement allows JBO participants to receive favorable margin treatment as compared to the full customer margin requirements of Regulation T. As part of this agreement, the Partnership has invested \$20,000 in the preferred shares of ML-PRO. The Partnership's investment in ML-PRO is reflected as investment in broker-dealer in the statement of financial condition. Under the rules of the Pacific Exchange, Inc., the agreement requires that the Partnership maintain a minimum net liquidating equity of \$1 million with ML-PRO, exclusive of its preferred stock investment.

The Partnership has entered into trading agreements with certain of its traders (the "Self-Backed Traders"). Under these agreements, the Self-Backed Traders have agreed to contribute capital to fund their trading activities. The Self-Backed Traders receive a percentage of the "net revenues" (trading gains less expenses) of their respective trading accounts, as defined in the trading agreements. Such allocations are credited to the respective limited partner capital accounts of the Self-Backed Traders. The Self-Backed Traders' profit allocations are deducted from total partnership income before determining the net profit or loss to be allocated to the partners on a pro rata basis. At December 31, 2006, the Self-Backed Traders' capital totaled approximately \$10,159,000 of the total partnership capital of \$23,050,190.

CUTLER GROUP, L.P.
(A California Limited Partnership)

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued
as of December 31, 2006

8. Derivative Financial Instruments and Off-Balance Sheet Risk

In the normal course of business the Partnership enters into transactions in derivative financial instruments and other financial instruments with off-balance sheet risk that include exchange-traded equity and index options and short stocks. All derivative instruments are held for trading purposes. All positions are reported in the accompanying statement of financial condition at market value and gains and losses from derivative financial instruments are included in net trading gain in the statement of operations.

Options grant the purchaser, for the payment of a premium, the right to either purchase from or sell to the writer a specified instrument under agreed terms. As a writer of options, the Partnership receives a premium in exchange for bearing the risk of unfavorable changes in the price of the financial instruments underlying the options.

Securities sold, not yet purchased, represent obligations of the Partnership to deliver specified securities and thereby create a liability to repurchase the securities in the market at prevailing prices. These transactions may result in off-balance sheet risk as the Partnership's ultimate obligation to satisfy its obligation for securities sold, not yet purchased may exceed the amount recognized in the statement of financial condition.

Risk arises from the potential inability of counterparties to perform under the terms of the contracts (credit risk) and from changes in the values of the underlying financial instruments (market risk). The Partnership is subject to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Partnership attempts to minimize its exposure to credit risk by monitoring brokers with which it conducts investment activities. In management's opinion, market risk is substantially diminished when all financial instruments are aggregated.

9. Net Capital Requirements

The Partnership is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15(c)3-1) and various exchange rules. Under the highest requirement, the Partnership is required to maintain "net capital" equal to the greater of \$1,000,000 or 6 and 2/3% of "aggregate indebtedness", as defined.

At December 31, 2006, the Partnership had net capital and net capital requirements of \$21,334,128 and \$1,000,000, respectively.

SUPPLEMENTAL SCHEDULES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART III**

BROKER OR DEALER: CUTLER GROUP, L.P.

as of **December 31, 2006**

COMPUTATION OF NET CAPITAL

1.	Total ownership (from Statement of Financial Condition- Item 1800)	\$	<u>23,050,190</u>	[3480]
2.	Deduct: Ownership equity not allowable for net capital			[3490]
3.	Total ownership equity qualified for net capital	\$	<u>23,050,190</u>	[3500]
4.	Add:			
	A. Liabilities subordinated to claims of general creditors allowable in computation of net capital			[3520]
	B. Other (deductions) or allowable subordinated liabilities			[3525]
5.	Total capital and allowable subordinated liabilities			[3530]
6.	Deductions and/or charges:			
	A. Total non-allowable assets from Statement of Financial Condition (Note B and C) (See detail below)	\$	<u>1,020,984</u>	[3540]
	1. Additional charges for customers' and non-customers' security accounts			[3550]
	2. Additional charges for customers' and non-customers' commodity accounts			[3560]
	B. Aged fail-to-deliver			[3570]
	1. Number of items _____ [3450]			
	C. Aged short security differences- less reserved of _____ [3460]			[3580]
	2. Number of items _____ [3470]			
	D. Secured demand note deficiency			[3590]
	E. Commodity futures contract and spot commodities proprietary capital charges			[3600]
	F. Other deductions and/or charges			[3610]
	G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7)and (c)(2)(x)			[3615]
	H. Total deduction and/or charges	\$	<u>(1,020,984)</u>	[3620]
7.	Other additions and/or allowable credits (List)			[3630]
8.	Net Capital before haircuts on securities positions	\$	<u>22,029,206</u>	[3640]
9.	Haircuts on securities (computed, where applicable pursuant to 15c3-1(f)):			
	A. Contractual securities commitments			[3660]
	B. Subordinated securities borrowings			[3670]
	C. Trading and Investment securities			
	1. Bankers' acceptance, certificates of deposit, and commercial paper			[3680]
	2. U.S. and Canadian government obligations			[3690]
	3. State and municipal government obligations			[3700]
	4. Corporate obligations			[3710]
	5. Stocks and warrants			[3720]
	6. Options			[3730]
	7. Arbitrage			[3732]
	8. Other securities		\$ <u>695,078</u>	[3734]
	D. Undue concentration			[3650]
	E. Other (List)			[3736]
		\$	<u>(695,078)</u>	[3740]
10.	Net Capital	\$	<u>21,334,128</u> OMIT PENNIES	[3750]

Non-Allowable Assets (line 6.A):

Exchange memberships	\$	804,000
Fixed assets, net		196,984
Investment in broker-dealer		<u>20,000</u>
	\$	<u>1,020,984</u>

Note: There are no material differences between the audited computation of net capital and that per the Company's amended FOCUS report as filed.

CUTLER GROUP, L.P.
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
PURSUANT TO RULE 15c3-3
as of December 31, 2006

The Partnership did not handle any customer cash or securities during the year ended December 31, 2006 and does not have any customer accounts.

CUTLER GROUP, L.P.
COMPUTATION FOR DETERMINATION OF PAIB RESERVE REQUIREMENTS
PURSUANT TO RULE 15c3-3
as of December 31, 2006

The Partnership did not handle any proprietary accounts of introducing brokers during the year ended December 31, 2006 and does not have any PAIB accounts.

CUTLER GROUP, L.P.
INFORMATION RELATING TO THE POSSESSION OR CONTROL
REQUIREMENTS UNDER RULE 15c3-3
as of December 31, 2006

The Partnership did not handle any customer cash or securities during the year ended December 31, 2006 and does not have any customer accounts.



RYAN & JURASKA
Certified Public Accountants
141 West Jackson Boulevard
Chicago, Illinois 60604
Tel: 312.922.0062
Fax: 312.922.0672

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

To the Partners of
Cutler Group, L.P.

In planning and performing our audit of the financial statements of Cutler Group, L.P. (the "Company") as of December 31, 2006, we considered its internal control structure, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control.

Also, as required by Rule 17A-5(g)(1) of the Securities and Exchange Commission (the "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
- (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 an internal control structure 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 internal control structure policies and procedures, 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 an internal control structure 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 accordance 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. However, for the period October 1, 2006 to December 13, 2006 the Company failed to keep current books and records. The Company took immediate measures to correct the deficiency and the books and records were current at December 31, 2006.

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, 2006 to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the National Association of Securities Dealers 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.

Ryan & Juraska

Chicago, Illinois
March 13, 2007

END