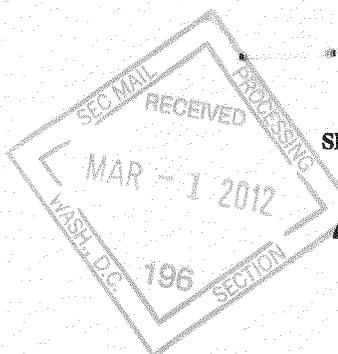




12012709

BB  
3/24



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

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: April 30, 2013  
Estimated average burden  
hours per response..... 12.00

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

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 01/01/11 AND ENDING 12/31/11  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

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

OFFICIAL USE ONLY

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

FIRM I.D. NO.

15415 CLAYTON RD

(No. and Street)

BALLWIN

(City)

MO

(State)

63011

(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

(Address)

(City)

(State)

63005

(Zip Code)

CHECK ONE:

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)

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, WILLIAM L. MEYER, 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, 2011, 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]  
Signature  
President  
Title

[Signature]  
Notary Public

STACY R. SCHAEFER  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for St. Charles County  
My Commission Expires: June 02, 2014  
Commission Number: 10396100

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 Flow.
- (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, 2011 and 2010

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' 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	8-14
Supplementary Information Pursuant to SEC Rule 17a-5	
Computation of Net Capital	15
Computation of Net Capital Requirement	16
Schedule of Aggregate Indebtedness	16
Report on Internal Accounting Control	17-19



LLC  
CERTIFIED  
PUBLIC  
ACCOUNTANTS

*Independent Auditors' Report*

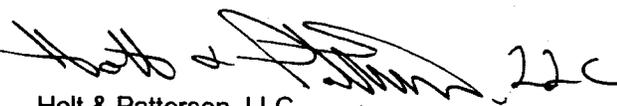
Board of Directors and Stockholders  
Cutter & Company Brokerage, Inc.  
Ballwin, MO

We have audited the accompanying statement of financial condition of Cutter & Company Brokerage, Inc. (a corporation) as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements and supplemental information are the responsibility of the Company'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 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 audits provide 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, 2011 and 2010, 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 15-19 are 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 statement 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  
February 24, 2012

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, 2011 and 2010

**ASSETS**

	2011	2010
<b>CURRENT ASSETS</b>		
Cash	\$ 312,610	\$ 394,088
Marketable Securities Owned, at Market Value	90,870	84,975
Accounts Receivable	288,822	327,789
Broker Advances	3,241	5,974
Notes Receivable - Brokers	-	50,000
Prepaid Expenses	32,064	14,219
	<b>727,607</b>	<b>877,045</b>
<b>TOTAL CURRENT ASSETS</b>		
<b>FIXED ASSETS</b>		
Furniture and Fixtures	58,902	56,258
Equipment	25,963	25,963
Improvements	43,715	70,979
Computer and Software	112,450	101,068
Accumulated Depreciation	(186,475)	(172,033)
	<b>54,555</b>	<b>82,235</b>
<b>TOTAL FIXED ASSETS</b>		
<b>OTHER ASSETS</b>		
Deferred Tax Benefit	33,389	27,144
Deposits	125,486	34,738
	<b>158,875</b>	<b>61,882</b>
<b>TOTAL OTHER ASSETS</b>		
<b>TOTAL ASSETS</b>	<b>\$ 941,037</b>	<b>\$ 1,021,162</b>

**CUTTER & COMPANY BROKERAGE, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
December 31, 2011 and 2010

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	2011	2010
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 9,313	\$ 21,424
Accrued Wages and Commissions	162,832	192,109
401(k) Payable	26,025	56,357
Corporate Income Tax Payable	68	1,104
<b>TOTAL CURRENT LIABILITIES</b>	<b>198,238</b>	<b>270,994</b>
 <b>LONG TERM LIABILITIES</b>	 -	 -
 <b>TOTAL LONG TERM LIABILITIES</b>	 -	 -
 <b>TOTAL LIABILITIES</b>	 <b>198,238</b>	 <b>270,994</b>
 <b>STOCKHOLDERS' EQUITY</b>		
Common Stock, \$1 par value, 30,000 shares authorized, 5,333 shares issued and outstanding	5,333	5,333
Additional Paid-in Capital	124,515	124,515
Retained Earnings	753,675	737,743
Accumulated Other Comprehensive Income	(123,791)	(133,354)
Current Earnings	(16,933)	15,931
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>742,799</b>	<b>750,168</b>
 <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	 <b>\$ 941,037</b>	 <b>\$ 1,021,162</b>

**CUTTER & COMPANY BROKERAGE, INC.**

STATEMENT OF INCOME

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
<b>INCOME</b>				
Commission and Fee Income	\$ 8,764,433	99.96	\$ 7,895,933	99.92
Dividend Income	30	0.00	114	0.00
Interest Income	3,704	0.04	6,282	0.08
<b>TOTAL INCOME</b>	<u>8,768,167</u>	<u>100.00</u>	<u>7,902,329</u>	<u>100.00</u>
<b>OPERATING EXPENSES</b>				
Advertising	35,588	0.41	60,469	0.77
Leads	530	0.01	6,276	0.08
Auto Expense	497	0.01	167	0.00
Bank Charges	827	0.01	449	0.01
Charitable Contributions	4,285	0.05	6,699	0.08
Club Dues	12,300	0.14	19,161	0.24
Clearing Charges and Exchange Fees	415,388	4.74	380,640	4.82
Outside Brokers Commissions	6,263,849	71.44	5,479,243	69.34
Depreciation Expense	15,499	0.18	17,593	0.22
Dues and Subscriptions	53,119	0.61	52,855	0.67
HRA Expense	3,256	0.04	448	0.01
401(k) Expense	67,778	0.77	91,379	1.16
Promotions	7,732	0.09	13,409	0.17
Insurance	40,842	0.47	46,260	0.59
Interest Expense	1,133	0.01	1,268	0.02
Accounting and Audit Fees	19,080	0.22	13,112	0.17
Legal and Professional Fees	1,802	0.02	518	0.01
Licenses Expense	51,874	0.59	2,065	0.03
Business Meetings	16,778	0.19	8,674	0.11
Meals and Entertainment	12,586	0.14	13,213	0.17
Miscellaneous Expense	1,106	0.01	2,648	0.03
Office Expense	27,128	0.31	30,740	0.39
Payroll Taxes	71,466	0.82	67,960	0.86
Payroll Services	4,987	0.06	3,885	0.05
Postage and Delivery	12,903	0.15	11,829	0.15
Registration Fees	9,542	0.11	27,658	0.35
Rent Expense	275,242	3.14	198,293	2.51
Repairs and Maintenance	53,131	0.61	66,788	0.85
Salaries	1,251,623	14.27	1,147,058	14.52
Office Supplies	13,317	0.15	14,083	0.18
De Minimis Fringes	6,953	0.08	2,489	0.03
Copier Contract Expense	11,536	0.13	11,692	0.15
Phone and Communication	23,846	0.27	21,683	0.27
Travel	10,160	0.12	11,653	0.15
Training and Professional Development	5,899	0.07	6,583	0.08
Recruitment	37,941	0.43	50,002	0.63
Outside Consulting	1,248	0.01	200	0.00
Other Taxes	1,249	0.01	1,927	0.02
<b>TOTAL OPERATING EXPENSES</b>	<u>8,844,020</u>	<u>100.87</u>	<u>7,891,069</u>	<u>99.86</u>
<b>INCOME FROM OPERATIONS</b>	<u>\$ (75,853)</u>	<u>(0.87)</u>	<u>\$ 11,260</u>	<u>0.14</u>

See auditors' report and notes to financial statements  
Holt & Patterson, LLC

**CUTTER & COMPANY BROKERAGE, INC.**

## STATEMENT OF INCOME

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
<b>OTHER INCOME</b>				
Miscellaneous Income	\$ 2,267	0.03	2,525	0.03
Loyalty Incentive	100,000	1.14	-	-
Rental Income	93	0.00	10,400	0.13
Gain on Sale - Market Security	<u>(27,415)</u>	<u>(0.31)</u>	<u>2,333</u>	<u>0.03</u>
<b>TOTAL OTHER INCOME</b>	<u>74,945</u>	<u>0.85</u>	<u>15,258</u>	<u>0.19</u>
<b>OTHER EXPENSES</b>				
Penalties and Fines	3	0.00	39	0.00
Loss on Sale of Asset	<u>14,797</u>	<u>0.17</u>	<u>-</u>	<u>-</u>
<b>TOTAL OTHER EXPENSES</b>	<u>14,800</u>	<u>0.17</u>	<u>39</u>	<u>-</u>
<b>INCOME BEFORE TAXES</b>	<u>(15,708)</u>	<u>(0.18)</u>	<u>26,479</u>	<u>0.34</u>
<b>INCOME TAX</b>				
Federal Income Tax Expense	7,058	0.08	6,809	0.09
State Income Tax Expense	2,953	0.03	2,935	0.04
Deferred Federal Income Tax Expense (Benefit)	(6,276)	(0.07)	574	0.01
Deferred State Income Tax Expense (Benefit)	<u>(2,510)</u>	<u>(0.03)</u>	<u>230</u>	<u>0.00</u>
<b>TOTAL INCOME TAX</b>	<u>1,225</u>	<u>0.01</u>	<u>10,548</u>	<u>0.13</u>
<b>NET INCOME(LOSS)</b>	<u>\$ (16,933)</u>	<u>(0.19)</u>	<u>\$ 15,930</u>	<u>0.20</u>

**CUTTER & COMPANY BROKERAGE, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
For the Years Ended December 31, 2011 and 2010

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE AT DECEMBER 31, 2010	\$ 5,333	\$ 124,515	\$ 753,675	\$ (133,354)	<u>\$ 750,169</u>
COMPREHENSIVE INCOME					
Net Income			(16,933)		<u>(16,933)</u>
Other Comprehensive Income:					
Unrealized Gains (Losses) on Securities					
Unrealized Holding Gains (Losses) Arising During the Period				12,105	12,105
Less: Reclassification Adjustment Income Tax Expense Related to Other Comprehensive Income				(2,542)	<u>(2,542)</u>
Total Other Comprehensive Income:					<u>9,563</u>
TOTAL COMPREHENSIVE INCOME					<u>742,799</u>
ISSUANCE OF COMMON STOCK	-	-			-
DIVIDENDS DECLARED					-
BALANCE AT DECEMBER 31, 2011	<u>\$ 5,333</u>	<u>\$ 124,515</u>	<u>\$ 736,742</u>	<u>\$ (123,791)</u>	<u>\$ 742,799</u>

**CUTTER & COMPANY BROKERAGE, INC.**

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ (16,933)	\$ 15,931
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	15,499	17,593
Deferred Income Tax Expense (Benefit)	(8,786)	804
Loss (Gain) on Sale of Fixed Asset	14,797	-
Loss (Gain) on investments	27,415	-
Decrease (Increase) in Accounts Receivable	38,965	3,806
Decrease (Increase) in Investment Account		
Decrease (Increase) in Prepaid Expenses	(6,437)	21,702
Decrease (Increase) in Deposits	(90,748)	(551)
Decrease (Increase) in Other Assets	52,733	(50,456)
Increase (Decrease) in Accounts Payable	(12,111)	(570)
Increase (Decrease) in Accrued Expenses	(59,609)	(108,070)
Increase (Decrease) in Corporate Income Tax Payable	(1,036)	1,079
Total Adjustments	<u>(29,318)</u>	<u>(114,663)</u>
NET CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES	<u>(46,251)</u>	<u>(98,733)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Marketable Securities	(27,545)	-
Purchase of Fixed Assets	<u>(14,025)</u>	<u>(32,664)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(41,570)</u>	<u>(32,664)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from stock sold	<u>6,344</u>	-
NET CASH USED IN FINANCING ACTIVITIES	<u>6,344</u>	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(81,478)	(131,397)
CASH AND CASH EQUIVALENTS, beginning of year	<u>394,088</u>	<u>525,485</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 312,610</u>	<u>\$ 394,088</u>
<b>Supplemental Disclosure:</b>		
Interest Paid	<u>\$ 1,133</u>	<u>\$ 1,268</u>
Corporate Income Tax Paid	<u>\$ 10,375</u>	<u>\$ 2,745</u>

**CUTTER & COMPANY BROKERAGE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2011 and 2010

**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 Financial Industry Regulatory Authority (FINRA). 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 owes 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.

**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, 2011 and 2010. Bad debt expense at December 31, 2011 and 2010 was \$-0-, respectively.

**Advertising Costs:**

Non-direct-response advertising costs are expensed in the year incurred. The Company did not incur any direct-response advertising costs during the period ended December 31, 2011 and 2010.

See auditors' report

**CUTTER & COMPANY BROKERAGE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2011 and 2010

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Marketable Securities:**

Marketable securities are stated at the lower of aggregate cost or market. Market value and cost at December 31, 2011 and 2010, was as follows:

	2011	2010
<b>Cost</b>	\$ 247,569	\$ 253,778
<b>Market Value</b>	\$ 90,870	\$ 84,975

**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, 2011 and 2010 was \$15,499 and \$17,593, respectively.

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

**Useful Lives for Purposes of:**

Classification	Depreciation	2011	2010
Furniture & Fixtures	5-7 years	\$ 58,902	\$ 56,258
Equipment	5-7 years	25,963	25,963
Building Improvements	39 years	43,715	70,979
Computers	5 years	112,450	101,068
Subtotal		241,030	254,268
Less: Accumulated Depreciation- Fixtures & Equipment		(174,163)	(161,726)
Less: Accumulated Depreciation- Improvements		(12,312)	(10,307)
Subtotal		(186,475)	(172,033)
<b>Total</b>		\$ 54,555	\$ 82,235

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.

**NOTE 2: RETIREMENT PLAN**

At the beginning of 2006, the Company elected to adopt a safe harbor plan for the Company match and still maintain the discretionary profit sharing plan contributions for all eligible employees. With this plan, the Company match changed to match 100% of the first 3% withheld and 50% of the next 4<sup>th</sup> and 5<sup>th</sup> percent elected to defer. At December 31, 2011 and 2010, the Company elected to contribute an overall percentage of 2.2% and 5.2% of gross wages, respectively to the profit sharing plan. The employer match, profit sharing plan contribution and fees charged to operation for the years ended December 31, 2011 and 2010 was \$67,778 and \$91,379, respectively.

See auditors' report

**CUTTER & COMPANY BROKERAGE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2011 and 2010

**NOTE 3: DEFERRED TAXES:**

The Company has adopted FASB Accounting Standards Codification 740-10, 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:

	2011	2010
Depreciation	\$ (25,647)	\$ (40,153)
Contributions (expires 2015)	526	1,494
Capital Loss (expires 2016)	27,415	-0-
Other Comprehensive Income Attributable to Unrealized Holding Losses on Securities	156,698	168,803
Total	\$ 158,992	\$ 130,144

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, 2011 and 2010, the Company had total long-term deferred tax assets of \$33,389 and \$27,144, respectively.

**NOTE 4: INCOME TAXES**

The Company implemented FASB Accounting Standards Codification 740-10, Income Taxes. Included in this is a requirement under Accounting for Uncertainty in Income Taxes that realization of an uncertain income tax position must be "more likely than not" (i.e. greater than 50% likelihood of receiving a benefit or expense) before it should be recognized in the financial statements as the amount most likely to be realized assuming a review by the authorities having all relevant information and applying current conventions. The code section also clarifies the financial statement classification of potential tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits or expense. The Company assessed its federal and state tax positions and determined there were no uncertainties or possible related effects that need to be recorded as of or for the year ended December 31, 2011 and 2010.

The federal and state income tax returns for the Corporation for 2008, 2009, 2010 and 2011 are subject to examination by the respective taxing authorities generally for three years after they are filed.

The Company's policy for reporting interest and penalties related to income taxes is to expense as they are incurred. The Company feels there is a more likely than not chance that all tax positions will be fully recognized; therefore, no provision for potential interest or penalties on these tax positions have been made. The total penalties and interest the Company paid for 2011 and 2010 was \$3 and \$39, respectively. These amounts were due to late tax payments and not because of disputed tax positions.

See auditors' report

**CUTTER & COMPANY BROKERAGE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2011 and 2010

**NOTE 5: COMMITMENTS AND CONTINGENCIES**

The Company has obligations under operating leases with initial non-cancelable terms in excess of one year. Future aggregate annual rental for office space at December 31, 2011, is approximately

2012	\$	178,397
2013		7,622
2014		7,622
2014		7,622
2015		7,622
2016		6,352

During June 2010 the Company entered into a lease agreement through June 2013, with an option of a month-to-month lease at the end of the term, with a 5% increase price. During 2011 the Company renegotiated the terms of the lease agreement to decrease the square footage. The re-negotiation required the Company to pay a buyout. In lieu of a cash payment the Company paid for improvements to the building. These improvements were recorded as rent expense totaling \$61,442.

The amended lease was entered into on December 1, 2011, with an optional one year renewal.

Rent expense charged to operations for the years ended December 31, 2011 and 2010, was \$275,242 and \$198,293, respectively.

In October 2011, the Company entered into a lease agreement good through October 2016 to lease copier equipment, with an optional one year renewal.

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 judgments resulting from said litigation or arbitration.

**NOTE 6: RELATED PARTY TRANSACTIONS**

The Company leases the building from with Cutter & Company Real Estate Holding, LLC which is owned by the stockholders. See Note 5.

**NOTE 7: 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, 2011 and 2010, the Company had the following allowable net capital of \$519,864 and \$467,260, respectively, which was \$469,864 and \$417,260 in excess of the minimum required. The percentage of aggregate indebtedness to net capital at December 31, 2011 and 2010, was 38% and 58%, respectively.

See auditors' report

**CUTTER & COMPANY BROKERAGE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2011 and 2010

**NOTE 8: SIGNIFICANT CONCENTRATIONS**

Generally accepted accounting principles require disclosure of current vulnerabilities due to certain concentrations. Those matters include the following:

**Major Brokers**

The Company has one broker that makes up 25%, respectively, during 2011 and 2010 of the total outside broker commission paid out. While this is a significant concentration, it is less of a concern because the Company only retains ten percent of the brokers' gross revenues.

**NOTE 9: FAIR VALUE MEASUREMENT**

Included in the financial statements are certain financial instruments carried at fair value. The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale. FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market rates and volatilities, spreads and yield curves. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010.

*Common stocks, corporate bonds, and U.S. government bonds and securities* – Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds* – Valued at the net asset value (NAV) of shares held by the Company at year-end.

See auditors' report

**CUTTER & COMPANY BROKERAGE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2011 and 2010

**NOTE 9: FAIR VALUE MEASUREMENT (Continued)**

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables sets forth by level, within the fair value hierarchy, the Company's assets at fair value:

Description	<u>12/31/2011</u>	Quoted Prices in Activate Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities				
Equity securities	\$ 53,370	\$ 53,370	\$ -0-	\$ -0-
Total trading securities	<u>53,370</u>	<u>53,370</u>	<u>-0-</u>	<u>-0-</u>
Private equity investments	37,500	-0-	-0-	37,500
Total	<u>\$ 90,870</u>	<u>\$ 53,370</u>	<u>\$ -0-</u>	<u>\$ 37,500</u>

Description	<u>12/31/2010</u>	(Level 1)	(Level 2)	(Level 3)
Trading securities				
Equity securities	\$ 42,787	\$ 42,787	\$ -0-	\$ -0-
Total trading securities	<u>42,787</u>	<u>42,787</u>	<u>-0-</u>	<u>-0-</u>
Private equity investments	42,188	-0-	-0-	42,188
Total	<u>\$ 84,975</u>	<u>\$ 42,787</u>	<u>\$ -0-</u>	<u>\$ 42,188</u>

Level 3 Assets Year Ended December 31, 2011

Balance, beginning of year	\$ 42,188
Unrealized gains (losses)	(4,688)
Balance, end of year	<u>\$ 37,500</u>

See auditors' report

**CUTTER & COMPANY BROKERAGE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

For the Years Ended December 31, 2011 and 2010

**NOTE 10: OTHER INCOME**

During 2011 the Company agreed to renew its' contract with one of their service providers. In exchange for renewing their contract, they have received a loyalty incentive totaling \$100,000. The service provider has agreed to pay this amount for two consecutive years if the contract is upheld.

**NOTE 11: DATE OF MANAGEMENT REVIEW**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosures through February 24, 2012, the date of the management representation letter and the date the financial statements were available to be issued.

See auditors' report

**CUTTER & COMPANY BROKERAGE, INC.**  
**COMPUTATION OF NET CAPITAL**  
As of December 31, 2011

Net Capital Computation:

Stockholders' Equity	\$ 742,799
Deductions and/or charges	
<hr/>	
Total Stockholders' Equity Qualified for Net Capital	742,799
Less: Non-allowable Assets:	
Property and Equipment	54,555
Other Assets	95,739
Accounts Receivable	32,571
Prepaid Expenses	32,064
Haircut on securities	8,006
Subtotal	<u>222,935</u>
Net Capital	<u><u>\$ 519,864</u></u>

**CUTTER & COMPANY BROKERAGE, INC.**  
**COMPUTATION OF NET CAPITAL REQUIREMENT**  
As of December 31, 2011

Minimum Net Capital Required (6 2/3% of Aggregate Indebtedness)	\$	13,217
Minimum Dollar Net Capital Required	\$	50,000
Net Capital Requirement (Greater of the Above)	\$	50,000
Excess Net Capital	\$	469,864
Percentage of Aggregate Indebtedness to Net Capital		38 %
Percentage of Debt to Debt-Equity		N/A

**SCHEDULE OF AGGREGATE INDEBTEDNESS**

Accounts Payable	\$	9,313
Income Taxes Payable		68
Accrued Expenses		188,857
	\$	<u>198,238</u>

**RECONCILIATION WITH COMPANY'S COMPUTATION**

Net capital, as reported in Company's Part II (Unaudited)		
FOCUS Report	\$	489,185
Net audit adjustments		30,679
	\$	<u>519,864</u>



***Report on Internal Control Required by SEC Rule 17a-5(g)(1)***

Board of Directors  
Cutter & Company Brokerage, Inc.

In planning and performing our audit of the financial statements of Cutter & Company Brokerage, Inc. (the Company), as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's 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 consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the 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 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 previously 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.

260 CHESTERFIELD INDUSTRIAL BLVD.

CHESTERFIELD, MO 63005

PHONE 636/530-1040

FAX 636/530-1101

Because of inherent limitations in internal control and 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 deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

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. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses.

However, we identified the following generally accepted accounting principal deficiencies in internal control that we consider to be material weakness, as defined above. These conditions were considered in determining the nature, timing and extent of the procedures performed in our audit of the financial statement of Cutter & Company Brokerage, Inc. as of and for the year ended December 31, 2011 and this report does not affect our report thereon dated February 24, 2011.

### **Organizational Structure**

The size of the Company's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. The president should continue to remain involved in the financial affairs of the Company in order to provide an overview of transactions and the internal control structure.

### **Internal Control Structure**

We are required to give consideration to the Company's ability to prepare financial statements and related note disclosures, as well as the oversight of the financial reporting process by those charges with governance. The Company does not have in place controls that would assure the preparation of internal financial statements and related note disclosures in accordance with generally accepted accounting principles. The Company engages the independent auditors to draft the financial statements, which includes drafting the primary financial statements and disclosures, as well as performing procedures to ensure that the disclosures are complete. Once drafted, the financial statements are submitted to the Company for review and approval. While this practice is common and practical, we must inform those charged with governance that this must be considered a material weakness in internal control since the financial statement preparation cannot be performed in-house.

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, as described in the second paragraph of this report, were adequate at December 31, 2011, to meet the SEC's objectives.

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

A handwritten signature in black ink, appearing to read "Holt & Patterson, LLC". The signature is stylized and cursive.

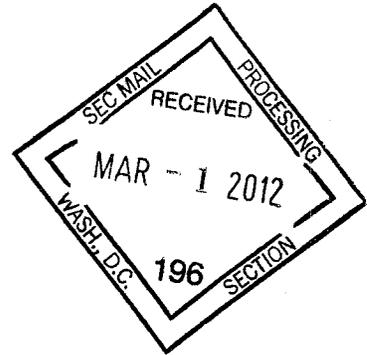
Holt & Patterson, LLC  
Chesterfield, MO 63005  
February 24, 2012

260 CHESTERFIELD INDUSTRIAL BLVD.

CHESTERFIELD, MO 63005

PHONE 636/530-1040

FAX 636/530-1101



**CUTTER & COMPANY BROKERAGE, INC.**

SIPC Supplemental Report

For the Year Ended

December 31, 2011

**SIPC-7**

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION  
P.O. Box 92185 Washington, D.C. 20090-2185  
202-371-8300

**General Assessment Reconciliation**

For the fiscal year ended December 31, 20 11  
(Read carefully the instructions in your Working Copy before completing this Form)

**SIPC-7**

(33-REV 7/10)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

039590 FINRA DEC  
CUTTER & CO BROKERAGE INC 19\*19  
D/B/A CUTTER & COMPANY INC  
15415 CLAYTON RD  
BALLWIN MO 63011-3125

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

2. A. General Assessment (item 2e from page 2)

\$ 14523

B. Less payment made with SIPC-6 filed (exclude interest)

( 7456 )

7-28-11  
Date Paid

C. Less prior overpayment applied

( 7067 )

D. Assessment balance due or (overpayment)

\_\_\_\_\_

E. Interest computed on late payment (see instruction E) for \_\_\_\_\_ days at 20% per annum

\_\_\_\_\_

F. Total assessment balance and interest due (or overpayment carried forward)

\$ 7067

G. PAID WITH THIS FORM:

Check enclosed, payable to SIPC  
Total (must be same as F above)

\$ 7067

H. Overpayment carried forward

\$( \_\_\_\_\_ )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

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

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Cutter AND COMPANY BROKERAGE, INC.  
(Name of Corporation, Partnership or other organization)

Debra Castelloni  
(Authorized Signature)

CEO  
(Title)

Dated the 28 day of February, 20 11

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

Dates: \_\_\_\_\_  
Postmarked \_\_\_\_\_ Received \_\_\_\_\_ Reviewed \_\_\_\_\_  
Calculations \_\_\_\_\_ Documentation \_\_\_\_\_ Forward Copy \_\_\_\_\_  
Exceptions: \_\_\_\_\_  
Disposition of exceptions: \_\_\_\_\_

**DETERMINATION OF "SIPC NET OPERATING REVENUES"  
AND GENERAL ASSESSMENT**

Amounts for the fiscal period  
beginning 01/01, 2011  
and ending 12/31, 2011

**Item No.**

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

Eliminate cents  
\$ 8843112

**2b. Additions:**

- (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.
- (2) Net loss from principal transactions in securities in trading accounts.
- (3) Net loss from principal transactions in commodities in trading accounts.
- (4) Interest and dividend expense deducted in determining item 2a.
- (5) Net loss from management of or participation in the underwriting or distribution of securities.
- (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.
- (7) Net loss from securities in investment accounts.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
27415  
27415

Total additions

**2c. Deductions:**

- (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.
- (2) Revenues from commodity transactions.
- (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.
- (4) Reimbursements for postage in connection with proxy solicitation.
- (5) Net gain from securities in investment accounts.
- (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.
- (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).
- (8) Other revenue not related either directly or indirectly to the securities business.  
(See Instruction C):

2379567  
\_\_\_\_\_  
373375  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
218610

Rental & Other Misc. Income  
(Deductions in excess of \$100,000 require documentation)

- (9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income. \$ (5902)
- (ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960). \$ 89968

Enter the greater of line (i) or (ii)

Total deductions

89968  
3061520  
5809007  
\$ 14523

d. SIPC Net Operating Revenues

e. General Assessment @ .0025

(to page 1, line 2.A.)



February 24, 2012

To the Board of Directors of Cutter & Company Brokerage, Inc.  
15414 Clayton Rd.  
Ballwin, MO 63011

LLC  
CERTIFIED  
PUBLIC  
ACCOUNTANTS

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2011, which were agreed to by Cutter & Company Brokerage, Inc. and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you with the other specified parties in evaluating Cutter & Company Brokerage, Inc.'s compliance with the applicable instructions of the Assessment Reconciliation (Form SIPC-7). Cutter & Company Brokerage, Inc.'s management is responsible for the Cutter & Company Brokerage, Inc.'s compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries, including the cash disbursements journal, noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2011, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2011 noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences;
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers, including an income statement for the period, supporting the adjustments noting no differences; and

260 CHESTERFIELD INDUSTRIAL BLVD.

CHESTERFIELD, MO 63005

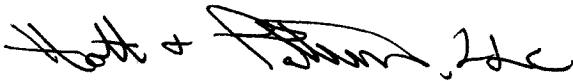
PHONE 636/530-1040

FAX 636/530-1101

5. Compared the amount of any overpayments applied to the current assessment with the Form SIPC-7 on which it was originally computed noting this was not applicable.

We were not engaged to, and did not conduct an examination, the objectives of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.



Holt & Patterson, LLC