



07000701

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

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

SEC FILE NUMBER
8- 48226

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 01/01/06 AND ENDING 12/31/06
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Chestnut Securities, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

One Financial Center

(No. and Street)

Boston

Massachusetts

02110

(City)

(State)

(Zip Code)

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

Albert A. Holman, III

617-832-8600

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

DiCicco, Gulman & Company LLP

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

150 Presidential Way

Woburn

Massachusetts

(Address)

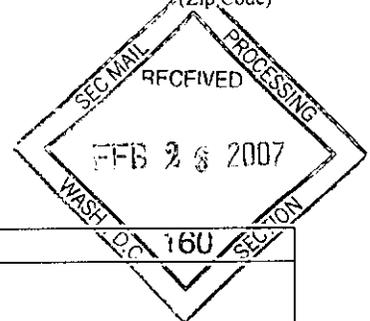
(City)

(State)

PROCESSED
MAR 12 2007
1 FILED IN
0180
FINANCIAL

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.

aw

OATH OR AFFIRMATION

I, Albert A. Holman, III, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Chestnut Securities, Inc., 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:

[Handwritten Signature]

Signature

President

Title

[Handwritten Signature: Donnie R. Currie]

Notary Public

My commission expires 3/17/2011

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.

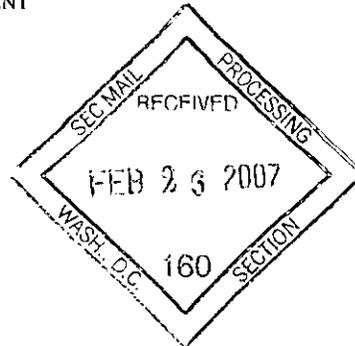
**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

CHESTNUT SECURITIES, INC.
SEC FILE NO.: 8-48226

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006

INDEPENDENT AUDITORS' REPORT AND
SUPPLEMENTAL INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL

FILED IN ACCORDANCE WITH RULE 17a-5(e)(3)
AS A PUBLIC DOCUMENT



CHESTNUT SECURITIES, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2006

Table of Contents

Facing Page	1
Oath or Affirmation	2
Independent Auditors' Report	3
Financial Statements:	
Statement of Financial Condition	4
Statement of Operations	5
Statement of Cash Flows	6
Statement of Changes in Shareholder's Equity	7
Notes to Financial Statements	8 - 10
Supplementary Information:	
Schedule I Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission	11
Schedule II Computation for Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission	12
Exhibit A Report of Independent Auditors on Internal Control Required by SEC Rule 17a-5	13 - 14



DiCICCO, GULMAN & COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

150 PRESIDENTIAL WAY, SUITE 510 WOBURN, MASSACHUSETTS 01801

TELEPHONE (781) 937-5300 • FACSIMILE (781) 937-5100 • WWW.DGCCPA.COM

Independent Auditors' Report

Board of Directors

Chestnut Securities, Inc.

We have audited the accompanying statement of financial condition of Chestnut Securities, Inc. as of December 31, 2006, and the related statements of operations, cash flows, and changes in shareholder's equity, 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 Chestnut Securities, Inc. 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 statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Di Cicco, Gulman & Company LLP

February 6, 2007

CHESTNUT SECURITIES, INC.

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2006

ASSETS

Cash and cash equivalents	\$ 96,333
Marketable securities, at fair value	<u>46,185</u>
	<u>\$ 142,518</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

Liabilities:

Accounts payable and accrued expenses	<u>\$ 1,200</u>
---------------------------------------	-----------------

Shareholder's equity:

Common stock, no par; 1,000 shares authorized; 380 shares issued and outstanding	102
Additional paid-in capital	301,000
Accumulated deficit	(180,364)
Accumulated other comprehensive income	<u>20,580</u>
	<u>141,318</u>
	<u>\$ 142,518</u>

The accompanying notes are an integral part of the financial statements.

CHESTNUT SECURITIES, INC.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

Revenues:

Investment banking fees	\$ 1,427,612
Investment income	11,783
Reimbursement for expenses incurred	<u>29,484</u>

Total revenues	<u>1,468,879</u>
----------------	------------------

Expenses:

Reimbursable expenses incurred	29,484
Administrative	43,630
Legal and accounting	13,611
Regulatory fees and expenses	<u>13,012</u>

Total expenses	<u>99,737</u>
----------------	---------------

Net income	<u><u>\$ 1,369,142</u></u>
-------------------	----------------------------

The accompanying notes are an integral part of the financial statements.

CHESTNUT SECURITIES, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

Cash flows from operating activities:

Net income	<u>\$ 1,369,142</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Due from affiliate	22,152
Accounts payable and accrued expenses	<u>1,092</u>
Total adjustments	<u>23,244</u>
Net cash provided by operating activities	<u>1,392,386</u>

Cash flows from financing activities:

Distributions to shareholder	<u>(1,500,000)</u>
Net cash used in financing activities	<u>(1,500,000)</u>

Net decrease in cash and cash equivalents (107,614)

Cash and cash equivalents, beginning of year 203,947

Cash and cash equivalents, end of year \$ 96,333

The accompanying notes are an integral part of the financial statements.

CHESTNUT SECURITIES, INC.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2006

	Common Stock		Additional paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholder's Equity
	Number of Shares	Amount				
Balance, January 1, 2006	380	\$ 102	\$ 301,000	\$ (49,506)	\$ 27,165	\$ 278,761
Comprehensive income:						
Net Income	-	-	-	1,369,142	-	1,369,142
Other comprehensive income:						
Holding loss on marketable securities	-	-	-	-	(6,585)	(6,585)
Total comprehensive income					\$ 1,362,557	
Distributions					(1,500,000)	(1,500,000)
Balance, December 31, 2006	380	\$ 102	\$ 301,000	\$ (180,364)	\$ 20,580	\$ 141,318

The accompanying notes are an integral part of the financial statements.

CHESTNUT SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Nature of Business

Chestnut Securities, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission and a member of the National Association of Securities Dealers. The Company does not carry security accounts for customers or perform custodial functions related to customer securities. The Company intends to sell securities, principally for clients of a related organization, Chestnut Partners, Inc., which provides financial consulting services, and general investment banking advice, including acting as a financial advisor for merger and acquisition assignments.

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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company maintains cash in demand deposit accounts with federally insured banks. At times, the balances in these accounts may exceed federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk related to cash.

The Company has defined cash equivalents as money market funds and highly liquid investments, with original maturities of ninety days or less, that are not held for sale in the ordinary course of business. Cash equivalents may include investments which are not insured or otherwise guaranteed by the U.S. Government.

Securities

All securities are deemed by management to be "available for sale." Securities classified as "available for sale" are carried in the financial statements at fair value. The fair values of investments for which exchange quotations are readily available are valued at the last sales price, or if no current sales price exists, at the closing bid price. Securities for which exchange quotations are not readily available are valued using dealer-supplied valuations or at their fair value as determined in good faith under consistently applied procedures established by and under the general supervision of the Company's management.

Realized gains and losses on the disposition of securities and declines in value, judged to be other than temporary, are determined using the specific identification method and included in earnings in the statement of operations.

Unrealized gains and losses on marketable securities are reported as a separate component of comprehensive income in the statement of changes in shareholder's equity and as a separate component of shareholder's equity on the balance sheet. Gains or losses realized on the disposition of marketable securities, which had been reported as unrealized in a prior year, are reflected in other comprehensive income as a reclassification adjustment.

CHESTNUT SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Securities (Continued)

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Company employs a systematic methodology that considers available evidence in evaluating potential impairment of investments. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Income Taxes

The Company elected to be treated as an "S" Corporation for income tax purposes and the sole shareholder has consented to include the Company's income or loss in his individual income tax return. Accordingly, there is no provision for income taxes included in the financial statements.

Note 2 - Marketable Securities, at Fair Value

Marketable securities consists of 1,500 shares of common stock held in NASDAQ Stock Market, Inc.

The cost and fair value of marketable securities "available for sale" are as follows:

Cost	\$ 25,605
Gross unrealized gains	<u>20,580</u>
Fair value	<u>\$ 46,185</u>

Unrealized gains on marketable securities consist of:

Net unrealized gains, beginning	\$ 27,165
Net unrealized gains related to securities sold during the year	-
Net depreciation of securities held at year end	<u>(6,585)</u>
	<u>\$ 20,580</u>

Note 3 - Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the percentage of aggregate indebtedness to net capital, both as defined, shall not exceed 1500 percent. At December 31, 2006 the Company had net capital of \$134,390, which was \$129,390 in excess of its net capital required of \$5,000.

CHESTNUT SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4 - Related Party Transactions

Reimbursable Expenses

An entity under common control with the Company (the "Affiliate") pays certain expenses on behalf of clients of the Company which are reimbursed to the Company by the clients. In turn, the Company reimburses the Affiliate.

Administrative Expenses

The Company has an agreement with the Affiliate whereby the Affiliate has agreed to fund certain administrative expenses of the Company. Under the agreement, the Company reimburses the Affiliate for its share of the administrative expenses funded on the Company's behalf. In 2006, the Company reimbursed the Affiliate for administrative expenses incurred in the amount of \$42,000.

SUPPLEMENTARY INFORMATION

SCHEDULE I

CHESTNUT SECURITIES, INC.

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
OF THE SECURITIES AND EXCHANGE COMMISSION
AS OF DECEMBER 31, 2006

Net capital	
Total shareholder's equity qualified for net capital	\$ 141,318
Deductions and/or charges	<u>-</u>
Net capital before haircuts on securities position	141,318
Haircuts on securities	<u>(6,928)</u>
Net capital	<u>\$ 134,390</u>
Aggregate indebtedness	<u>\$ 1,200</u>
Computation of basic net capital requirement	
Minimum net capital required	<u>\$ 5,000</u>
Percentage of aggregate indebtedness to net capital	<u>1%</u>
Reconciliation with Company's computation (included in Part II of Form X-17A-5 as of December 31, 2006)	
Net capital, as reported in Company's Part II (unaudited) FOCUS report	\$ 134,390
Net audit adjustments	<u>-</u>
Net capital per above	<u>\$ 134,390</u>

SCHEDULE II

CHESTNUT SECURITIES, INC.

**COMPUTATION FOR DETERMINATION OF RESERVE
REQUIREMENTS UNDER RULE 15c3-3 OF THE
SECURITIES AND EXCHANGE COMMISSION
AS OF DECEMBER 31, 2006**

The Company claims exemption to the Reserve Requirement Rule under the provision of Rule 15c3-3(k).



DI CICCICO, GULMAN & COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

150 PRESIDENTIAL WAY, SUITE 510 WOBURN, MASSACHUSETTS 01801

TELEPHONE (781) 937-5300 • FACSIMILE (781) 937-5100 • WWW.DGCCPA.COM

EXHIBIT A

Report of Independent Auditors on Internal Control Required By SEC Rule 17a-5

Board of Directors
Chestnut Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Chestnut Securities, Inc., (the "Company") as of and for the year ended December 31, 2006, 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 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 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

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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America 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 purposed 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, 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, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers 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.

Di Cicco, Hulman & Company LLP

February 6, 2007

END