

SECURITIES AND EXCHANGE COMMISSION
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OMB APPROVAL
OMB Number: 3235-0123
Expires: February 28, 2007
Estimated average burden
hours per response..... 12.00

SEC FILE NUMBER
8- 21817

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

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: Federal Street Capital, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

301 Edgewater Place, Suite 425

(No. and Street)

Wakefield
(City)

MA
(State)

01880
(Zip Code)

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

Andrew D. Clapp, President

(781) 295-4000

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Darmody, Merlino & Co., LLP

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

75 Federal Street, 15th Floor
(Address)

Boston
(City)

MA
(State)

02110
(Zip Code)

CHECK ONE:

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

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FINANCIAL

*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)

OATH OR AFFIRMATION

I, Andrew D. Clapp, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Federal Street Capital, 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:

Signature
President

Title

Notary Public

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (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.
- (o) Independent Auditor's Report on Internal Accounting Control

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

FEDERAL STREET CAPITAL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2006

FEDERAL STREET CAPITAL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2006

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Darmody, Merlino & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS

75 Federal Street, Boston, Massachusetts 02110-1997

JOHN P. DARMODY, CPA - 1938 - 1961
PHILIP P. MCDONNELL, CPA - 1962 - 1995

FRANK A. MERLINO, CPA
GEORGE J. MCDONALD, CPA
ROBERT J. BOYLE, CPA
A. DENNIS BARBO, CPA
MICHAEL L. MEYERS, CPA
JOSEPH G. FAVUZZA, CPA

(617) 426-7300
FAX (617) 426-2245
<http://www.darmodymerlino.com>

Independent Auditor's Report

To the Board of Directors and Stockholders
Federal Street Capital, Inc.
Wakefield, Massachusetts

We have audited the accompanying balance sheet of Federal Street Capital, Inc. (a Massachusetts corporation) as of December 31, 2006, and the related statements of operations and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial 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 Federal Street Capital, 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.

Darmody, Merlino & Co., LLP

February 21, 2007

FEDERAL STREET CAPITAL, INC.

BALANCE SHEET - DECEMBER 31, 2006ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 25,780
Due from related party	<u>16,667</u>

Total current assets	<u>\$42,447</u>
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LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accrued expenses	\$ 4,400
Due to related party	4,395
Deposits from customers	<u>1,000</u>

Total current liabilities	\$ 9,795
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STOCKHOLDERS' EQUITY:

Common stock, par value \$0.01 per share, authorized and issued 2,000 shares, 1,267.3 shares outstanding	13
732.7 shares in the treasury	(748)
Additional paid-in capital	42,485
Retained earnings - EXHIBIT B	<u>(9,098)</u>

Total stockholders' equity	<u>32,652</u>
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Total liabilities and stockholders' equity	<u>\$42,447</u>
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The accompanying notes are an integral part of these financial statements.

FEDERAL STREET CAPITAL, INC.STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2006

OPERATING REVENUES:		
Professional fees	\$22,200	
Placement fees	<u>60,918</u>	
Total operating revenues		\$ 83,118
OPERATING EXPENSES:		
Commission and consulting expenses	55,268	
Administrative services	19,800	
Accounting and auditing	8,700	
Regulatory fees and licenses	7,795	
Rent expense	6,000	
Insurance	2,861	
Legal expense	2,720	
Taxes	581	
Office expense	<u>522</u>	
Total operating expenses		<u>104,247</u>
OPERATING LOSS		(21,129)
OTHER INCOME:		
Interest income		<u>395</u>
NET LOSS		(20,734)
DEFICIT, JANUARY 1, 2006		11,636
DISTRIBUTIONS		<u>-</u>
RETAINED EARNINGS, DECEMBER 31, 2006 - EXHIBIT A		<u><u>\$ (9,098)</u></u>

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

FEDERAL STREET CAPITAL, INC.STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss		\$ (20,734)
Adjustment to reconcile net loss to net cash used in operating activities:		
Increase in deposits from customers	\$ 1,000	
Increase in due from related party	(16,667)	
Increase in due to related party	4,395	
Decrease in accrued expenses	<u>(593)</u>	
Total adjustments		<u>(11,865)</u>
Net cash used in operating activities		(32,599)

CASH FLOWS FROM FINANCING ACTIVITIES:

Additional capital contributions by shareholders		<u>36,000</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS

3,401

CASH AND CASH EQUIVALENTS, JANUARY 1, 2006

22,379

CASH AND CASH EQUIVALENTS, DECEMBER 31, 2006

\$ 25,780SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAID DURING THE YEAR FOR:

Income taxes		\$ 581
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The accompanying notes are an integral part of these financial statements.

FEDERAL STREET CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

Note 1: SUMMARY OF BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING
POLICIES

Organization:

The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD).

The Company's operations consist of selling private venture capital interests in various investments.

Cash and Cash Equivalents:

The Corporation considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Income Taxes:

The Company, with the consent of its stockholders, filed an election with the Internal Revenue Service to be classified as an S corporation for Federal and state income tax purposes. Consequently, the stockholders are generally taxed on their proportionate share of the Company's taxable income. These financial statements reflect only a minimum state income tax provision.

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FEDERAL STREET CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2006

Note 2: NET CAPITAL REQUIREMENTS

As a member of the National Association of Security Dealers and under Rule 15c3-1 of the Securities and Exchange Act of 1934, the Corporation is required to maintain net capital of \$5,000 or 1/5 of the aggregate indebtedness, whichever is greater. Aggregate indebtedness must not exceed net capital, as those terms are defined by a ratio of more than 15 to 1. At December 31, 2006, the Corporation had net capital and required net capital of \$32,652 and \$5,000, respectively, and its ratio of aggregate indebtedness to net capital was .30 to 1.

Note 3: RELATED PARTY TRANSACTIONS

Placement and professional fees are derived from the sale of venture capital interests in investments which the shareholders of the Corporation are also investors and managers. During the year ended December 31, 2006, the Company received \$66,451 and is owed \$16,667 in fees from the sale of these interests. The Company also paid \$50,873 and owes \$4,395 in commissions to officers and shareholders for their part in the placement and managing of these investments.

During the year, the Company entered into an agreement to rent office space from a related party for \$500 per month. For the year ended December 31, 2006, rental expense was \$6,000. Additionally, Federal Street Capital, Inc. has agreed to pay administrative fees to this related party. For the year ending December 31, 2006, these fees were \$19,800.

Note 4: DISCLOSURE OF SIGNIFICANT RISKS AND UNCERTAINTIES

Concentrations:

The Company operates principally in metropolitan Boston and New England. The Company had revenue of \$83,118 during 2006 from the sale of interests in venture capital entities under common control.