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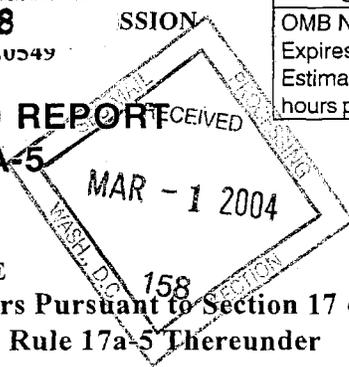
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**ANNUAL AUDITED REPORT**  
**FORM X-17A-5**  
**PART III**



SEC FILE NUMBER
8-53696

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 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Blue Bay Capital, Ltd.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

30 Broad Street

(No. and Street)

New York

New York

10004

(City)

(State)

(Zip Code)

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

Dale Garnett

(425) 882 - 2797

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Spicer Jeffries LLP

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

5251 S. Quebec St., Ste 200

Greenwood Village

Colorado

80111

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**PROCESSED**

**MAR 23 2004**

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THOMSON 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)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Dale Garnett, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Blue Bay Capital, Ltd. of December 31, 20 03, 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]
Signature
President
Title

[Signature]
Notary Public
JIH-JEN J. KING
COMMISSION EXPIRES
NOTARY PUBLIC
STATE OF WASHINGTON
9.8.04

- This report \*\* contains (check all applicable boxes)
[X] (a) Facing Page.
[X] (b) Statement of Financial Condition.
[X] (c) Statement of Income (Loss).
[X] (d) Statement of Cash Flows.
[X] (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
[X] (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
[X] (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 15c3-3 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.
[X] (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.
[X] (o) Independent Auditors' Report on Internal Accounting Control.

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

BLUE BAY CAPITAL, LTD.

REPORT PURSUANT TO RULE 17a-5(d)

YEAR ENDED DECEMBER 31, 2003

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Blue Bay Capital, Ltd.

We have audited the accompanying statement of financial condition of Blue Bay Capital, Ltd. as of December 31, 2003, and the related statements of operations, changes in shareholder's equity, 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 Blue Bay Capital, Ltd. as of December 31, 2003, 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 made for the purpose of forming an opinion on the financial statements taken as a whole. The information contained in the supplemental schedule listed in the accompanying table of contents is presented for purposes of additional analysis and is not required for a fair presentation of the financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Greenwood Village, Colorado  
February 19, 2004

BLUE BAY CAPITAL, LTD.

STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2003

ASSETS

Cash	\$	5 541
Receivables:		
Clearing broker		9 355
Related parties (Note 3)		8 807
Office equipment, at cost, net of accumulated depreciation of \$1,110		<u>1 667</u>
	\$	<u>25 370</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

**LIABILITIES:**

Accounts payable	\$	<u>644</u>
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**CONTINGENCIES (Note 5)**

**SHAREHOLDER'S EQUITY (Note 2):**

Common stock, no par value, 100		
shares authorized, issued and outstanding		78 740
Deficit		<u>(54 014)</u>

***TOTAL SHAREHOLDER'S EQUITY***

		<u>24 726</u>
	\$	<u>25 370</u>

BLUE BAY CAPITAL, LTD.

STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2003

REVENUE:

Investment banking and other \$ 38

EXPENSES:

Regulatory fees 15 219

Clearing costs 11 605

Professional fees 4 294

General and administrative 4 999

*Total expenses* 36 117

NET LOSS

\$ (36 079)

BLUE BAY CAPITAL, LTD.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY  
YEAR ENDED DECEMBER 31, 2003

	Common <u>Stock</u>	<u>Deficit</u>
BALANCE, December 31, 2002	\$ 42 795	\$ (17 935)
Contributions	35 945	-
Net loss	<u>-</u>	<u>(36 079)</u>
BALANCE, December 31, 2003	<u>\$ 78 740</u>	<u>\$ (54 014)</u>

The accompanying notes are an integral part of this statement.

**BLUE BAY CAPITAL, LTD.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2003**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net loss	\$ (36 079)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	555
Decrease in receivable from clearing broker	5 566
Decrease in other assets	205
Decrease in accounts payable and other liabilities	<u>(918)</u>
 <i>Net cash used in operating activities</i>	 <u>(30 671)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Contributions from shareholder	<u>35 945</u>
 <b>NET DECREASE IN CASH</b>	 5 274
 <b>CASH, at beginning of year</b>	 <u>267</u>
 <b>CASH, at end of year</b>	 <u><u>\$ 5 541</u></u>

NOTES TO FINANCIAL STATEMENTS

*NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

*Organization of Business*

Blue Bay Capital, Ltd. (the "Company") was incorporated in 2001, and is a securities broker-dealer registered with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc. In June 2003, all shares of the Company were purchased by an unrelated third party.

The Company, under Rule 15c3-3(k)(2)(ii), is exempt from the reserve and possession or control requirements of Rule 15c3-3 of the Securities and Exchange Commission. The Company does not carry or clear customer accounts. Accordingly, all customer transactions are executed and cleared on behalf of the Company by its clearing broker on a fully disclosed basis. The Company's agreement with its clearing broker provides that as clearing broker, that firm will make and keep such records of the transactions effected and cleared in the customer accounts as are customarily made and kept by a clearing broker pursuant to the requirements of Rules 17a-3 and 17a-4 of the Securities and Exchange Act of 1934, as amended (the Act). It also performs all services customarily incident thereto, including the preparation and distribution of customer's confirmations and statements and maintenance margin requirements under the Act and the rules of the Self Regulatory Organizations of which the Company is a member.

*Securities Transactions*

The Company records securities transactions and related revenue and expenses on a trade date basis.

*Depreciation*

The Company provides for depreciation of furniture and equipment on a straight-line basis over the estimated lives of the related assets of 5 years.

*Income Taxes*

The Company was an S-Corporation under the Internal Revenue Code until June 30, 2003 when the shares of the Company was sold to an unrelated third party. For the six months ended June 30, 2003, all income and expenses was reported by the Company's shareholder on its tax returns. Since June 30, 2003, the Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 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.

**NOTE 2 - NET CAPITAL REQUIREMENTS**

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. At December 31, 2003, the Company had net capital and net capital requirements of \$14,252 and \$5,000, respectively. The Company's net capital ratio (aggregate indebtedness to net capital) was .05 to 1. According to Rule 15c3-1, the Company's net capital ratio shall not exceed 15 to 1.

**NOTE 3 - RELATED PARTY TRANSACTIONS**

The Company has advanced its president \$8,807. The advances are non-interest bearing and have no due date. In addition, the Company has allocated \$1,000 for rent expense provided by the president.

**NOTE 4 - INCOME TAXES**

The Company has approximately \$26,000 of net operating losses expiring through 2023, which may be used to offset future taxable income. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax liabilities and assets as of December 31, 2003 are as follows:

Deferred tax liabilities	\$ -
Deferred tax assets:	
Net operating loss carry forward	\$ 8,800
Valuation allowance for deferred tax assets	(8,800)
	<u>\$ -</u>

The valuation allowance increased \$8,800 for the year ending December 31, 2003.

NOTES TO FINANCIAL STATEMENTS

(Continued)

***NOTE 5 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONTINGENCIES***

The Company's financial instruments, including cash, receivables and payables are carried at amounts that approximate fair value, due to the short term nature of those instruments.

In the normal course of business, the Company's customers' activities ("customers") through its clearing broker involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet risk. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations.

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

The Company bears the risk of financial failure by its clearing broker. If the clearing broker should cease doing business, the amounts due from this clearing broker could be subject to forfeiture.

**SUPPLEMENTARY INFORMATION**

BLUE BAY CAPITAL, LTD.

COMPUTATION OF NET CAPITAL PURSUANT TO  
UNIFORM NET CAPITAL RULE 15c3-1  
DECEMBER 31, 2003

**CREDITS:**

Shareholder's equity \$ 24 726

**DEBITS:**

Related party receivables 8 807

Office equipment, net 1 667

*Total debits* 10 474

**NET CAPITAL** 14 252

Minimum requirements of 6 2/3% of aggregate indebtedness  
of \$644 or \$5,000, whichever is greater 5 000

*Excess net capital* \$ 9 252

**AGGREGATE INDEBTEDNESS:**

Accounts payable \$ 644

**RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL** .05 to 1

NOTE: There are no material differences in the above computation of net capital with that included in the Company's corresponding unaudited Form X-17A-5 Part II Filing.

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

To the Board of Directors  
Blue Bay Capital, Ltd.

In planning and performing our audit of the financial statements and supplemental schedule of Blue Bay Capital, Ltd. for the year ended December 31, 2003, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a5(g)(1) of the Securities and Exchange Commission ("SEC"), we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Blue Bay Capital, Ltd. that we considered relevant to the objectives stated in rule 17a-5(g), (i) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3; and (ii) for safeguarding the occasional receipt of securities and cash until promptly transmitted to the Company's clearing organization. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13 or 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, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

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 judgements 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 conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure 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. This report recognizes that it is not practicable in an organization the size of Blue Bay Capital, Ltd. to achieve all the divisions of duties and cross-checks generally included in a system of internal accounting control and that alternatively greater reliance must be placed on surveillance by management.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures 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, 2003, to meet the SEC's objectives.

In addition, our review indicated that Blue Bay Capital, Ltd. was in compliance with the conditions of exemption from rule 15c3-3 pursuant to paragraph k(2)(ii) as of December 31, 2003, and no facts came to our attention to indicate that such conditions had not been complied with during the year.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange, Inc. and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



Greenwood Village, Colorado  
February 19, 2004