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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 01/01/05 AND ENDING 12/31/05  
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.)

**12715 NE 36th Street**

(No. and Street)

**Bellevue**

(City)

**WA**

(State)

**98005**

(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, Suite 200**

(Address)

**Greenwood Village**

(City)

**CO**

(State)

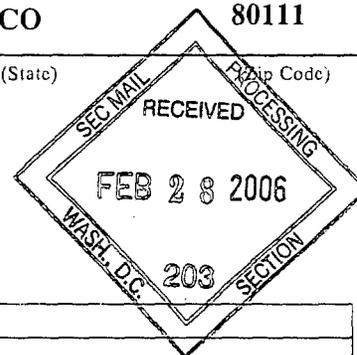
**80111**

(Zip Code)

CHECK ONE:

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

*PROCESSED*  
**MAY 01 2006**  
**THOMSON FINANCIAL**



**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)

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OATH OR AFFIRMATION

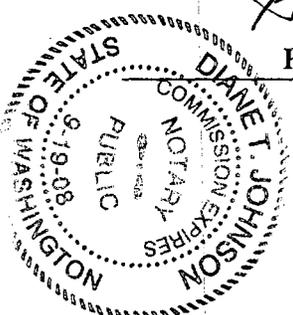
I, Dale Garnett, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Blue Bay Capital, Ltd., as of December 31, 2005, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

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

Dale Garnett  
Signature

President  
Title

Alana Johnson  
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(including reconciliation of X-17A-5 Part II filing with this Rule 17a-5(d) report, if applicable.)
- (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.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent Auditors' Report on Internal Accounting Control

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

BLUE BAY CAPITAL, LTD.

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CERTIFIED PUBLIC ACCOUNTANTS

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GREENWOOD VILLAGE, COLORADO 80111

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FAX: (303) 753-0338

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## INDEPENDENT AUDITORS' REPORT

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, 2005, 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, 2005, 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 index 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.

*Spicer Jeffries LLP*

Greenwood Village, Colorado  
February 21, 2006

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Network Worldwide

Spicer Jeffries is a member of MSI, a network of independent professional firms.

BLUE BAY CAPITAL, LTD.

STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2005

ASSETS

Cash	\$	11,621
Office equipment, at cost, net of accumulated depreciation of \$2,221		<u>556</u>
<i>Total assets</i>	\$	<u><u>12,177</u></u>

LIABILITIES AND SHAREHOLDER'S EQUITY

**LIABILITIES:**

Accounts payable	\$	<u>963</u>
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**CONTINGENCIES** (Note 5)

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

Common stock, no par value, 100 share authorized 100 shares issued and outstanding		140,240
Deficit		<u>(129,026)</u>
<i>Total shareholder's equity</i>		<u>11,214</u>
<i>Total liabilities and shareholder's equity</i>	\$	<u><u>12,177</u></u>

BLUE BAY CAPITAL, LTD.

STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005

REVENUE:

Investment banking and other \$ 983,761

EXPENSES:

Commissions 775,915

Officer salary 207,475

General and administrative 23,338

Professional fees 17,854

Regulatory fees 2,204

*Total expenses* 1,026,786

NET LOSS

\$ (43,025)

BLUE BAY CAPITAL, LTD.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Common Stock</u>	<u>Deficit</u>
<b>BALANCES, December 31, 2004</b>	\$ 105,240	\$ (86,001)
Contributions	35,000	-
Net loss	<u>-</u>	<u>(43,025)</u>
<b>BALANCES, December 31, 2005</b>	<u>\$ 140,240</u>	<u>\$ (129,026)</u>

The accompanying notes are an integral part of this statement.

BLUE BAY CAPITAL, LTD.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net loss	\$ (43,025)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	555
Decrease in employee advances	8,808
Increase in accounts payable	<u>680</u>
<i>Net cash used in operating activities</i>	(32,982)

**CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:**

Contributions from shareholder	<u>35,000</u>
--------------------------------	---------------

**NET INCREASE IN CASH** 2,018

**CASH, at beginning of year** 9,603

**CASH, at end of year** \$ 11,621

The accompanying notes are an integral part of this statement.

BLUE BAY CAPITAL, LTD.

NOTES TO FINANCIAL STATEMENTS

*NOTE 1 - ORGANIZATION AND 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 November 2004, all of the outstanding shares of the Company were purchased by an unrelated third party. The Company conducts corporate finance and general securities services.

*15c3-3 Exemption*

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.

*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 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.

*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.

BLUE BAY CAPITAL, LTD.

NOTES TO FINANCIAL STATEMENTS

(Continued)

**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, 2005, the Company had net capital and net capital requirements of \$10,658 and \$5,000, respectively. The Company's net capital ratio (aggregate indebtedness to net capital) was .09 to 1. According to Rule 15c3-1, the Company's net capital ratio shall not exceed 15 to 1.

**NOTE 3 - RELATED PARTY TRANSACTIONS**

In 2004, Company had advanced its president \$8,808 to pay for various operating expenses. The advance was non-interest bearing and due on demand. During 2005, the balance due from the president was paid as reimbursed expenses of the Company.

**NOTE 4 - INCOME TAXES**

The Company has approximately \$59,500 of net operating losses expiring at various dates through 2025, 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, 2005 are as follows:

Deferred tax liabilities	\$	<u>-</u>
Deferred tax assets:		
Net operating loss carry forward	\$	22,000
Valuation allowance for deferred tax assets		<u>(22,000)</u>
	\$	<u>-</u>

The valuation allowance increased \$2,000 for the year ending December 31, 2005.

BLUE BAY CAPITAL, LTD.

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.

The Company is engaged in various corporate financing and general securities 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.

**SUPPLEMENTARY INFORMATION**

BLUE BAY CAPITAL, LTD.

COMPUTATION OF NET CAPITAL  
PURSUANT TO NET CAPITAL RULE 15c3-1  
DECEMBER 31, 2005

**CREDIT:**

Shareholder's equity \$ 11,214

**DEBITS:**

Nonallowable asset:  
Office equipment, net 556

**NET CAPITAL** 10,658

Minimum requirements of 6-2/3% of aggregate indebtedness of  
\$963 or \$5,000, whichever is greater 5,000

*Excess net capital* \$ 5,658

**AGGREGATE INDEBTEDNESS:**

Accounts payable \$ 963

**RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL** 0.09 to 1

NOTE: There are no material differences between the above computation of net capital and the corresponding computation as submitted by the Company with the unaudited Form X-17A-5 as of December 31, 2005.



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

The Board of Directors  
Blue Bay Capital, Ltd.

In planning and performing our audit of the financial statements and supplementary information of Blue Bay Capital, Ltd. (the "Company") for the year ended December 31, 2005, 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 brokers. 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 judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in 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 any internal control structure or the practices and procedures referred to above, errors 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 errors 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, 2005, 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, 2005, 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 21, 2006