

SEC

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3/26

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

SEC FILE NUMBER  
 8-66559

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 1/1/06 AND ENDING 12/31/06  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: BACE Capital Advisors, LLC

OFFICIAL USE ONLY  
 FIRM I.D. NO.

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

8400 E. Prentice Avenue, Suite 1380

(No. and Street)

PROCESSED

Denver

(City)

CO

(State)

80111

(Zip Code)

MAR 29 2007

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

Thomas D. Heule

303-751-4444

(Area Code - Telephone Number)

THOMSON  
FINANCIAL

**B. ACCOUNTANT IDENTIFICATION**

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

Harding and Hittesdorf, P.C.

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

600 S. Cherry St., Suite 815 Denver

(Address)

(City)

CO

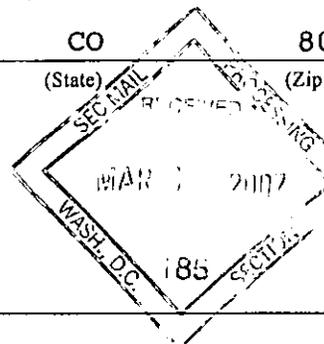
(State)

80246

(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)

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AS  
3/26

OATH OR AFFIRMATION

I, Thomas D. Heule, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BACE Capital Advisors, LLC, as of December 31, 20 06, 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:

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

Thomas Heule  
Signature  
President  
Title

[Signature]  
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 auditors' report on internal accounting control.

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

BACE CAPITAL ADVISORS, LLC  
(SEC File No. 8-66559)

Financial Statements and Supplemental  
Schedules for the Years Ended December 31, 2006 and 2005  
and Independent Auditors' Report and  
Supplemental Report on Internal  
Accounting Control

# HARDING AND HITTESDORF, P.C.

Certified Public Accountants

600 S. Cherry Street, Suite 815  
Denver, Colorado 80246  
(303) 393-0888  
FAX (303) 393-0894  
www.hhcpafirm.com



## INDEPENDENT AUDITORS' REPORT

To The Members'  
BACE Capital Advisors, LLC  
Greenwood Village, Colorado

We have audited the accompanying statements of financial condition of BACE Capital Advisors, LLC (a limited liability company) as of December 31, 2006 and 2005, and the related statements of operations, changes in members' equity and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 of 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 audits.

We conducted our audits in accordance with audit 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 presents fairly, in all material respects, the financial position of BACE Capital Advisors, LLC at December 31, 2006 and 2005, 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 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.

A handwritten signature in cursive script, appearing to read 'Harding and Hittesdorf, P.C.'.

HARDING AND HITTESDORF, P.C.  
Certified Public Accountants

February 9, 2007

BACE CAPITAL ADVISORS, LLC

STATEMENTS OF FINANCIAL CONDITION

ASSET

|                | <u>DECEMBER 31,</u> |                  |
|----------------|---------------------|------------------|
|                | <u>2006</u>         | <u>2005</u>      |
| CURRENT ASSET: |                     |                  |
| Cash           | <u>\$ 291,560</u>   | <u>\$ 34,845</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

|                           |                   |                  |
|---------------------------|-------------------|------------------|
| CURRENT LIABILITIES:      |                   |                  |
| Accounts payable          | \$ 250            | \$ 640           |
| Accrued expenses          | <u>100,000</u>    | <u>-</u>         |
| Total current liabilities | 100,250           | 640              |
| MEMBERS' EQUITY           | <u>191,310</u>    | <u>34,205</u>    |
|                           | <u>\$ 291,560</u> | <u>\$ 34,845</u> |

See accompanying notes to financial statements.

BACE CAPITAL ADVISORS, LLC

STATEMENTS OF OPERATIONS

|  | <u>YEARS ENDED</u>  |                  |
|--|---------------------|------------------|
|  | <u>DECEMBER 31,</u> |                  |
|  | <u>2006</u>         | <u>2005</u>      |
| REVENUES   | \$ 556,401          | \$ 214,803       |
| OPERATING EXPENSES:                              |                     |                  |
| Commission expense                               | 228,375             | -                |
| Consulting expense                               | 12,044              | 65,009           |
| Overhead charges paid to related entity (Note C) | 8,837               | 9,000            |
| Professional fees                                | 8,012               | 12,449           |
| Travel and entertainment                         | 5,453               | 45,981           |
| Miscellaneous operating expenses                 | 4,906               | 1,601            |
| Filing and registration fees                     | 4,765               | 8,737            |
| Advertising                                      | -                   | 1,559            |
|  | <u>272,392</u>      | <u>144,336</u>   |
| NET INCOME                                       | <u>\$ 284,009</u>   | <u>\$ 70,467</u> |

See accompanying notes to financial statements.

BACE CAPITAL ADVISORS, LLC

STATEMENT OF CHANGES IN MEMBERS' EQUITY

|                                      |    |                       |
|--------------------------------------|----|-----------------------|
| Members' equity at January 1, 2005   | \$ | 22,738                |
| Members' contributions               |    | 8,901                 |
| Members' distributions               |    | (67,901)              |
| Net income                           |    | <u>70,467</u>         |
| Members' equity at December 31, 2005 |    | 34,205                |
| Members' contributions               |    | 9,375                 |
| Members' distributions               |    | (136,279)             |
| Net income                           |    | <u>284,009</u>        |
| Members' equity at December 31, 2006 | \$ | <u><u>191,310</u></u> |

See accompanying notes to financial statements.

BACE CAPITAL ADVISORS, LLC

STATEMENTS OF CASH FLOWS

|   | YEARS ENDED  |           |
|---|--------------|-----------|
|   | DECEMBER 31, |           |
|   | 2006         | 2005      |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                   |              |           |
| Net income  | \$ 284,009   | \$ 70,467 |
| Adjustments to reconcile net income to net cash provided by operations: |              |           |
| Decrease in accounts payable  | (390)        | 640       |
| Increase in accrued expenses  | 100,000      | -         |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                               | 383,619      | 71,107    |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                   |              |           |
| Members' contributions  | 9,375        | 8,901     |
| Members' distributions  | (136,279)    | (67,901)  |
| NET CASH USED FOR FINANCING ACTIVITIES                                  | (126,904)    | (59,000)  |
| NET INCREASE IN CASH  | 256,715      | 12,107    |
| CASH AT BEGINNING OF YEAR   | 34,845       | 22,738    |
| CASH AT END OF YEAR   | \$ 291,560   | \$ 34,845 |

See accompanying notes to financial statements.

BACE CAPITAL ADVISORS, LLC

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

A. Summary of Significant Accounting Policies

Organization

BACE Capital Advisors, LLC (the Company) is a Colorado limited liability company formed for the purpose of conducting investment banking services in the form of mergers and acquisitions and private placements of securities.

Cash and Cash Equivalents

The Company considers cash on hand and investments with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of temporary cash investments. The Company restricts temporary cash investments to financial institutions with high credit standing. Such temporary cash investments are often in excess of the FDIC insurance limit.

Income Taxes

The Company is not a taxpaying entity for federal or state income tax purposes. Accordingly, no income tax expense has been recorded in the financial statements. Income of the Company is taxed to the members' in their individual returns.

Advertising Costs

Advertising costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

BACE CAPITAL ADVISORS, LLC

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

B. Significant Clients

The Company generally derives significant revenue from a few key clients. However, the makeup of the Company's client base varies from year to year. Accordingly, an annual concentration in revenue from the same clients is remote. The Company derived approximately 90% of total revenue from two clients in 2006 and 88% of total revenue from four clients in 2005.

C. Transactions with Related Entities

The Company shares office space with a related entity. The Company paid \$8,837 in 2006 and \$9,000 in 2005 for the personal property, utilities and office space to the related party. The members' of the Company feel that this amount represents a reasonably approximate valuation of the personal property, utilities and office space provided.

D. Statutory Requirements

Pursuant to Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain minimum net capital as defined under such rule. At December 31, 2006, the Company's net capital was \$191,310 and the required net capital was \$6,683.

The Company is exempt from certain provisions of Rule 15c3-3 of the Securities Exchange Act of 1934 and, accordingly, is not required to maintain a "Special Account for Exclusive Benefit of Customers". Such exemption is in accordance with paragraph (k) (2) (i) of the Rule.

BACE CAPITAL ADVISORS, LLC

SUPPLEMENTAL SCHEDULE OF COMPUTATION OF NET CAPITAL,  
MINIMUM NET CAPITAL REQUIRED, AND AGGREGATE INDEBTEDNESS

DECEMBER 31, 2006

COMPUTATION OF NET CAPITAL AND MINIMUM NET CAPITAL REQUIRED

|  |                  |
|--|------------------|
| MEMBERS' EQUITY  | \$191,310        |
| DEDUCTIONS:  |                  |
| Nonallowable assets  | ( - )            |
| NET CAPITAL  | <u>\$191,310</u> |
| MINIMUM NET CAPITAL REQUIRED (greater of 6-2/3%<br>of aggregate indebtedness or \$5,000) | <u>\$ 6,683</u>  |

AGGREGATE INDEBTEDNESS

|  |                  |
|--|------------------|
| TOTAL LIABILITIES AND AGGREGATE INDEBTEDNESS   | <u>\$100,250</u> |
| RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL | <u>. 0.524:1</u> |

There is no difference between the above net capital computation and the corresponding computation included in the Company's Form X-17A-5 Part IIA Filing.

BACE CAPITAL ADVISORS, LLC

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3

DECEMBER 31, 2006

The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k) (2) (i) of the Rule.

SCHEDULE II

# HARDING AND HITTESDORF, P.C.

Certified Public Accountants

600 S. Cherry Street, Suite 815  
Denver, Colorado 80246  
(303) 393-0888  
FAX (303) 393-0894  
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February 9, 2007

To The Members'  
BACE Capital Advisors, LLC  
Greenwood Village, Colorado

In planning and performing our audit of the financial statements of BACE Capital Advisors, LLC (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 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 (the "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 and net capital under Rule 17a-3(a)(11); and
2. 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 the quarterly securities examinations, counts, verifications, and comparisons, and the 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; and
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3;

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 control 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 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 internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls 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 generally accepted principles 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 purpose described in the first, second, and third 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 SEC, National Association of Securities Dealers, 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.

*Harding and Hittesdorf, P.C.*

HARDING AND HITTESDORF, P.C.  
Certified Public Accountants

END