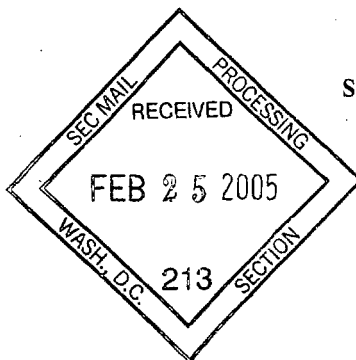


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SEC FILE NUMBER
8-65980

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 1/1/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: M1 ENERGY CAPITAL SECURITIES, L.L.C.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

1200 Smith St., Suite 1600

(No. and Street)

Houston

(City)

Texas

(State)

77002

(Zip Code)

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

Robert J. Wilson

713-439-7979

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Easley, Endres, Parkhill & Brackendorff, P.C.

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

1333 West Loop South, Suite 1400, Houston,

(Address)

(City)

Texas

(State)

77027

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 15 2005

THOMSON
FINANCIAL

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*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)

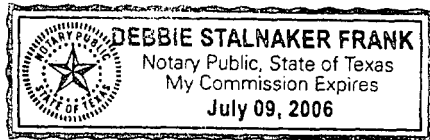
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

3/10/05

OATH OR AFFIRMATION

I, Robert J. Wilson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of M1 Energy Capital Securities, L.L.C., as of December 31, 2004, 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:

NONE



Debbie Stalnak Frank
Notary Public

Robert J. Wilson
Signature
Chief Financial Officer
Title

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 15c3-3 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.
- ☒ Report on the Internal Control Structure

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

M1 ENERGY CAPITAL SECURITIES, LLC

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

DECEMBER 31, 2004

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INDEPENDENT AUDITORS' REPORT

February 11, 2005

Member
M1 ENERGY CAPITAL SECURITIES, LLC
Houston, Texas

We have audited the accompanying statement of financial condition of M1 ENERGY CAPITAL SECURITIES, LLC as of December 31, 2004 and the related statements of income and member's equity, and cash flows 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 M1 ENERGY CAPITAL SECURITIES, LLC as of December 31, 2004, 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.

*Easley, Endres, Parkhill
& Brackendorff, P.C.*

M1 ENERGY CAPITAL SECURITIES, LLC

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2004

ASSETS

Cash and cash equivalents	\$ 7,128
Total assets	<u>\$ 7,128</u>

LIABILITIES AND MEMBER'S EQUITY

Liabilities	<u>\$ -0-</u>
Member's equity	
Member contributions	40,140
Retained earnings	<u>(33,011)</u>
Total member's equity	<u>7,129</u>
Total liabilities and member's equity	<u>\$ 7,129</u>

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

M1 ENERGY CAPITAL SECURITIES, LLC
STATEMENT OF INCOME AND MEMBER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2004

REVENUES

Interest income	\$ 15
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EXPENSES

Broker/dealer fees	3,924
Office and other operating expenses	<u>9,504</u>

Total operating expenses	<u>13,428</u>
--------------------------	---------------

NET INCOME (LOSS)	(13,413)
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MEMBER CONTRIBUTIONS	7,640
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MEMBER'S EQUITY, BEGINNING OF YEAR	<u>12,901</u>
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MEMBER'S EQUITY, END OF YEAR	<u><u>\$ 7,128</u></u>
------------------------------	------------------------

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

M1 ENERGY CAPITAL SECURITIES, LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$ (13,413)
----------	-------------

CASH FLOWS FROM INVESTING ACTIVITIES

-0-

CASH FLOWS FROM FINANCING ACTIVITIES

Member contributions	<u>7,640</u>
----------------------	--------------

Net increase (decrease) in cash	(5,773)
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CASH AND CASH EQUIVALENTS, Beginning of year	<u>12,901</u>
--	---------------

CASH AND CASH EQUIVALENTS, End of year	<u><u>\$ 7,128</u></u>
--	------------------------

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

M1 ENERGY CAPITAL SECURITIES, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

M1 ENERGY CAPITAL SECURITIES, LLC, a Delaware Limited Liability Company, (the "Company"), was formed on January 1, 2003.

The Company was approved as a member of the National Association of Securities Dealers ("NASD") on September 11, 2003. The Company's registration with the Texas State Securities Board is restricted to the sale of interests in direct participation programs. The Company does not hold customer cash and/or securities and is exempt from the reserve requirements of Securities and Exchange Commission ("SEC") Rule 15c3-3.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Company considers cash and highly liquid investments with maturities of three months or less when purchased to be cash and cash equivalents.

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.

Income Taxes

The Company is a single member limited liability company and is not a taxable entity for federal tax purposes. The Company's taxable income or loss is therefore passed-through to its member and reported on its tax return. Accordingly, no provision for federal income taxes has been recorded in these financial statements.

SUPPLEMENTAL
INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION REQUIRED
BY RULE 17A-5 OF THE SECURITIES AND EXCHANGE COMMISSION

February 11, 2005

Member
M1 ENERGY CAPITAL SECURITIES, LLC
Houston, Texas

We have audited the accompanying financial statements of M1 ENERGY CAPITAL SECURITIES, LLC as of and for the year ended December 31, 2004, and have issued our report thereon dated February 11, 2005. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in page 9 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.

*Easley, Endres, Parkhill
& Brackendorff, P.C.*

M1 ENERGY CAPITAL SECURITIES, LLC

COMPUTATION OF NET CAPITAL

PURSUANT TO SEC RULE 15c3-1

DECEMBER 31, 2004

Member's Equity	\$ 7,128
Deduct:	
Haircuts on marketable securities	<u>-0-</u>
Net capital pursuant to SEC Rule 15c3-1	<u>\$ 7,128</u>
Net capital requirement	<u>\$ 5,000</u>

STATEMENT PURSUANT TO PARAGRAPH (d)(4) OF SEC RULE 17a-5

There are no differences between this computation of net capital pursuant to Rule 15c3-1 and the corresponding computation prepared by M1 Energy Capital Securities, LLC and included in the Company's unaudited Part II A Focus report filing as of December 31, 2004.

STATEMENT OF OMITTED SUPPLEMENTAL DATA

The Computation for Determination of Reserve Requirements Pursuant to SEC Rule 15c3-3 and the Information Relating to Possession or Control Requirements Under Rule 15c3-3 have been omitted because M1 Energy Capital Securities, LLC is exempt from the requirements of SEC Rule 15c3-3 under condition (k)(2)(ii). The conditions of the exemption were being complied with as of December 31, 2004 and no facts came to our attention to indicate that the exemption had not been complied with during the fiscal year ended December 31, 2004.

See accompanying auditors' report.

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE

February 11, 2005

Member
M1 ENERGY CAPITAL SECURITIES, LLC
Houston, Texas

In planning and performing our audit of the financial statements and supplemental schedules of M1 ENERGY CAPITAL SECURITIES, LLC (the "Company") for the year ended December 31, 2004, we considered its internal control structure, including control activities 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 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including 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 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.
2. Recordation of differences required by rule 17a-13.
3. 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 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

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Houston, TX 77027
Phone: 713.622.0016
Fax: 713.622.5527

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 accordance 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, 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.

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 irregularities 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, 2004, to meet the SEC's objectives.

This report is intended solely for the use of the member, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the securities Exchange Act of 1934 in their regulation for registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Easley, Endres, Parkhill
& Brankendorff, P.C.*