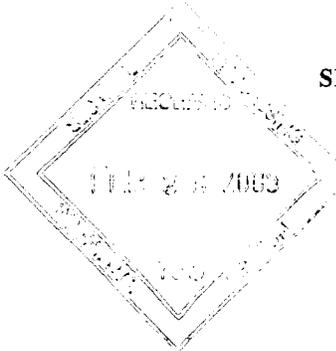


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**ANNUAL AUDITED REPORT
 FORM X-17A-5
 PART III**

SEC FILE NUMBER
 8- 50214

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 01/01/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: M Holdings Securities, Inc.

OFFICIAL USE ONLY
 FIRM I.D. NO.

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

1125 NW Couch St., Suite 900

(No. and Street)

Portland

OR

97209

(City)

(State)

(Zip Code)

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

Dave Schutt

503-232-6960

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers

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

1300 SW Fifth Avenue, Suite 3100

Portland

OR

97201

(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 17 2005
 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)

SEC 1410 (06-02)

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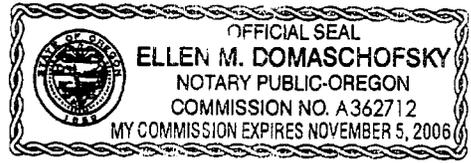
OATH OR AFFIRMATION

I, David Schutt, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of M Holdings Securities, Inc., 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

David Schutt
Signature
Financial Principal
Title

Ellen M. Domaschofsky
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 15c3-3 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.

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

M Holdings Securities, Inc.
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PricewaterhouseCoopers LLP
1300 SW Fifth Avenue
Suite 3100
Portland OR 97201
Telephone (971) 544 4000
Facsimile (971) 544 4100

Report of Independent Auditors

To the Board of Directors of
M Holdings Securities, Inc.

In our opinion, the accompanying statements of financial condition and the related statements of operations, of changes in stockholder's equity and of cash flows present fairly, in all material respects, the financial position of M Holdings Securities, Inc. (the "Company") at December 31, 2004 and 2003, 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. 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 of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were 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 and 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.

PricewaterhouseCoopers LLP

February 10, 2005

M Holdings Securities, Inc.
Statements of Financial Condition
December 31, 2004 and 2003

| | 2004 | 2003 |
|--|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 5,101,890 | \$ 5,727,550 |
| Commissions receivable | 2,772,563 | 3,096,399 |
| Accounts receivable | 863,097 | 76,682 |
| Property and equipment, net | 150,921 | 313,865 |
| Deferred expenses | 1,925,895 | 1,853,105 |
| Deposits with clearing organizations and others | 145,000 | 70,000 |
| Prepaid expenses and other assets | 65,068 | 23,625 |
| Total assets | <u>\$11,024,434</u> | <u>\$11,161,226</u> |
| Liabilities | | |
| Accounts payable | \$ 451,371 | \$ 257,309 |
| Payable to parent | 1,868,481 | 394,421 |
| Commissions payable | 5,745,952 | 7,374,343 |
| Total liabilities | <u>8,065,804</u> | <u>8,026,073</u> |
| Stockholder's Equity | | |
| Common stock, no par value, 10 shares issued and outstanding, 1,000 shares authorized at December 31, 2004 and 2003 | 25,000 | 25,000 |
| Additional paid-in capital | 14,246,645 | 12,046,645 |
| Accumulated deficit | (11,313,015) | (8,936,492) |
| Total stockholder's equity | <u>2,958,630</u> | <u>3,135,153</u> |
| Total liabilities and stockholder's equity | <u>\$11,024,434</u> | <u>\$11,161,226</u> |

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

M Holdings Securities, Inc.
Statements of Operations
For the Years Ended December 31, 2004 and 2003

| | 2004 | 2003 |
|---|-----------------------|-----------------------|
| Revenues | | |
| Insurance commissions | \$ 81,721,754 | \$ 75,520,202 |
| Investment advisory fees | 6,586,761 | 5,574,783 |
| Mutual fund transactions | 4,367,440 | 2,687,801 |
| Equity transactions | 455,919 | 376,640 |
| Dividends and interest income | 41,697 | 20,755 |
| | <u>93,173,571</u> | <u>84,180,181</u> |
| Expenses | | |
| Registered representatives compensation | 90,064,578 | 81,383,520 |
| Employee compensation and benefits | 2,516,772 | 1,942,049 |
| Outside professional services | 1,152,673 | 1,211,907 |
| Office expenses | 778,450 | 607,409 |
| General and administrative | 702,872 | 837,707 |
| Recruiting and relocation | 176,035 | 48,892 |
| Travel | 127,487 | 142,016 |
| Marketing | 16,947 | 37,347 |
| Education | 14,280 | 18,513 |
| | <u>95,550,094</u> | <u>86,229,360</u> |
| Total expenses | 95,550,094 | 86,229,360 |
| Net loss | <u>\$ (2,376,523)</u> | <u>\$ (2,049,179)</u> |

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

M Holdings Securities, Inc.
Statements of Changes in Stockholder's Equity
For the Years Ended December 31, 2004 and 2003

| | <u>Common Stock</u> | | <u>Additional</u> | <u>Accumulated</u> | <u>Totals</u> |
|---|---------------------|------------------|----------------------------------|------------------------|---------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Paid-In</u> <u>Capital</u> | <u>Deficit</u> | |
| Balances at January 1, 2003 | 10 | \$ 25,000 | \$ 10,046,645 | \$ (6,887,313) | \$ 3,184,332 |
| Net loss | - | - | - | (2,049,179) | (2,049,179) |
| Additional capital contribution from Parent | - | - | 2,000,000 | - | 2,000,000 |
| Balances at January 1, 2004 | 10 | 25,000 | 12,046,645 | (8,936,492) | 3,135,153 |
| Net loss | - | - | - | (2,376,523) | (2,376,523) |
| Additional capital contribution from Parent | - | - | 2,200,000 | - | 2,200,000 |
| Balances at December 31, 2004 | <u>10</u> | <u>\$ 25,000</u> | <u>\$ 14,246,645</u> | <u>\$ (11,313,015)</u> | <u>\$ 2,958,630</u> |

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

M Holdings Securities, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2004 and 2003

| | 2004 | 2003 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Net loss | \$(2,376,523) | \$(2,049,179) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation | 249,600 | 404,169 |
| Loss on disposal of property, plant and equipment | - | 45,424 |
| Amortization of deferred expenses | 207,316 | 191,267 |
| Capitalization of deferred expenses | (280,106) | (363,568) |
| Changes in operating assets and liabilities | | |
| Commissions receivable | 323,836 | (397,052) |
| Accounts receivable | (786,415) | 219,612 |
| Deposits with clearing organizations and others | (75,000) | - |
| Prepaid expenses and other assets | (41,443) | 21,930 |
| Accounts payable | 194,062 | 99,487 |
| Payable to parent | 1,474,060 | 71,099 |
| Commissions payable | (1,628,391) | 3,813,100 |
| Net cash (used in) provided by operating activities | <u>(2,739,004)</u> | <u>2,056,289</u> |
| Cash flows from investing activities | | |
| Purchases of property and equipment | <u>(86,656)</u> | <u>(243,977)</u> |
| Cash flows from financing activities | | |
| Proceeds from additional capital contribution from Parent | <u>2,200,000</u> | <u>2,000,000</u> |
| Net (decrease) increase in cash and cash equivalents | (625,660) | 3,812,312 |
| Cash at beginning of year | <u>5,727,550</u> | <u>1,915,238</u> |
| Cash at end of year | <u>\$ 5,101,890</u> | <u>\$ 5,727,550</u> |

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

M Holdings Securities, Inc.
Notes to Financial Statements

1. Basis of Presentation and Significant Accounting Policies

Organization and nature of business

M Holdings Securities, Inc. (the "Company"), an Oregon corporation, was incorporated on March 21, 1997. The Company is registered as a securities broker pursuant to the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers ("NASD"). The Company is a wholly owned subsidiary of M Financial Holdings Incorporated (the "Parent"). The Parent's primary operating subsidiary is M Life Insurance Company (dba "M Financial Re"). M Financial Re assumes and retrocedes life insurance contract risks. The life insurance contracts are produced for certain direct writing companies by agents who are shareholders in the Parent ("Member Firms"). The Company has been appointed as exclusive agent and distributor for M Fund, Inc., a registered investment company and an affiliate of the Company's Parent. M Fund, Inc. offers its shares to separate accounts of certain insurance companies as the underlying funding vehicle for certain life insurance policies offered by Member Firms of the Parent. The Company commenced retail operations in May 2000.

Basis of presentation

The Company is engaged in a single line of business as an introducing broker-dealer, which comprises several classes of services, including insurance and investment advisory business, and agency transactions.

Commissions

Commissions related to insurance, mutual fund and equity transactions, and related clearing expenses are recorded on a trade-date basis as securities transactions occur. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded gross on the Statement of Financial Condition.

Investment advisory income

Investment advisory fees are recognized as earned on a pro rata basis over the term of the contract.

Accounts receivable

Management believes the amount of any uncollectible accounts receivable is immaterial at December 31, 2004 and 2003; accordingly, no provision for uncollectible accounts has been recorded.

Advertising costs

Advertising costs are expensed as incurred.

Cash and cash equivalents

The Company's cash consists of bank deposits and money market instruments. For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a remaining maturity of three months or less, when purchased, to be cash equivalents.

M Holdings Securities, Inc.
Notes to Financial Statements, Continued

1. Basis of Presentation and Significant Accounting Policies (Continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recorded upon placement in service, using the double-declining-balance method over estimated useful lives of three to seven years. The half-year convention is applied in the year of purchase.

The Company capitalizes software purchased from third parties if the related software product under development has reached technological feasibility. Costs incurred prior to the establishment of technological feasibility are expensed as incurred. The Company amortizes software over a three-year period.

Deferred expenses

The Company has deferred expenses associated with the acquisition and generation of new insurance business under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* and SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*.

The deferred expenses vary with and are primarily related to the acquisition of new business and have been deferred to the extent that such costs are deemed recoverable through future revenues. These expenses include certain costs associated with the acquisition and generation of new insurance business. Deferred expenses related to variable life products are amortized with interest in relation to the present value, using the assumed crediting rate of expected gross profits on the products reinsured by M Financial Re. Retrospective adjustments of these amounts are recognized in the event that the Parent revises its estimates of current or future gross profits and losses, including investment gains and losses related to changes in market interest rates.

Changes in deferred expenses for the years ended December 31, 2004 and 2003 are as follows:

| | 2004 | 2003 |
|--------------------------------------|---------------------|---------------------|
| Balances at beginning of year | \$ 1,853,105 | \$ 1,680,804 |
| Capitalization of costs incurred | 280,106 | 363,568 |
| Amortization of deferred expenses | <u>(207,316)</u> | <u>(191,267)</u> |
| Balances at end of year | <u>\$ 1,925,895</u> | <u>\$ 1,853,105</u> |

M Holdings Securities, Inc.
Notes to Financial Statements, Continued

1. Basis of Presentation and Significant Accounting Policies (Continued)

Deferred expenses (continued)

The determination of expected future gross profits and losses is based on historical gross profits and management's estimates and assumptions regarding future investment spreads, maintenance expenses, mortality and persistency of the block of business. The accuracy of the estimates and assumptions are impacted by several factors, including factors outside the control of management, such as movements in interest rates. It is reasonably possible that conditions impacting the estimates and assumptions will change in the near term and that these changes may result in future adjustments to deferred expenses.

Income taxes

The Company is included in the consolidated federal income tax return filed by the Parent. The Company recognizes deferred income taxes for the tax consequences in future years of the differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end, on statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets, if any, to their estimated realizable value.

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 disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Property and Equipment

At December 31, 2004 and 2003, property and equipment consisted of the following:

| | 2004 | 2003 |
|-------------------------------|-------------------|-------------------|
| Capitalized software | \$ 1,926,402 | \$ 1,839,745 |
| Equipment | 185,674 | 185,674 |
| Furniture and fixtures | 2,237 | 2,237 |
| | <u>2,114,313</u> | <u>2,027,656</u> |
| Less accumulated depreciation | 1,963,392 | 1,713,791 |
| | <u>\$ 150,921</u> | <u>\$ 313,865</u> |

M Holdings Securities, Inc.
Notes to Financial Statements, Continued

3. Deposits with Clearing Organization and Others

The Company settles commissions and other transactions through another broker dealer, Pershing LLC, on a fully disclosed basis.

The Company follows the guidance prescribed in a SEC No-Action Letter (the "Letter") dated November 3, 1998, which allows introducing broker-dealers to include assets in the proprietary account of an introducing broker-dealer ("PAIB assets") as allowable assets in their net capital computations, providing the clearing broker-dealer establishes a separate reserve account for PAIB assets in accordance with SEC Rule 15c3-3 and both the introducing broker-dealer and the clearing broker-dealer enter into a written agreement in accordance with the Letter. On September 6, 1999, the Company and Pershing LLC entered into a written agreement in accordance with the provisions of the Letter. The agreement requires Pershing LLC to calculate the reserve requirement in accordance with the Letter.

At December 31, 2004 and 2003, Pershing LLC computed the reserve requirement for proprietary accounts of the introducing broker-dealer. The amount held on deposit in the Company's reserve bank account was \$100,000 and \$25,000 at December 31, 2004 and 2003, respectively, (included in Deposits with clearing organizations and others in the Statement of Financial Condition).

At December 31, 2004 and 2003, the Company held \$20,000 on deposit with the National Securities Clearing Corporation (included in Deposits with clearing organizations and others in the Statement of Financial Condition).

4. Net Capital and Reserve Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company maintain minimum net capital as defined, equal to the greater of \$250,000 or 2% of the aggregate debit balances arising from customer transactions, as defined. The net capital rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debits. At December 31, 2004 and 2003, the Company had net capital of \$486,387 and \$694,764, which was \$236,387 and \$444,764 in excess of its required net capital of \$250,000.

The Company is exempt from the provisions of Rule 15c3-3 under paragraph (k)(2)(ii) of the Rule because all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

M Holdings Securities, Inc.
Notes to Financial Statements, Continued

5. Related-Party Transactions

The Company's Parent, M Financial Holdings Incorporated, allocates certain overhead and indirect expenses to the Company. These overhead and indirect expenses include those expenses related to shared occupancy, equipment, utilities, employees, supplies and administrative costs of the Company. Direct expenses of the Company were incurred and expensed by the Company. Such direct expenses included registration, assessments, fees, advertising and marketing, taxes, insurance, compensation related to production and supplies, which were specific to the Company. All expenses are paid by the Parent and then reimbursed by the Company to the Parent. The Company, by mutual agreement with the Parent, has established a minimum net capital balance of \$300,000. To the extent that the reimbursement of expenses will cause net capital to decline below \$300,000, the Parent will make additional capital contributions to maintain a net capital balance of \$300,000. At December 31, 2004 and 2003, approximately \$1,868,000 and \$394,000, respectively, was payable to the Parent for expenses.

The Company incurred a net loss of approximately \$2,377,000 and \$2,049,000 for the years ended December 31, 2004 and 2003, respectively. Management recognizes that the Company will continue to rely on capital contributions from the Parent to fund operations until the revenue base is sufficient to cover operating expenses and required net capital. Contributions of capital from the Parent were \$2,200,000 and \$2,000,000 for the years ended December 31, 2004 and 2003, respectively. The Parent has represented that it will continue to provide financial support to the Company until such time that the revenues earned are sufficient enough to cover the Company's operating expenses.

At December 31, 2004 and 2003, the Company had approximately \$798,000 and \$1,228,000, respectively, in commissions payable to Management Compensation Group Northwest, LLC (dba "M Benefit Solutions"), a wholly owned subsidiary of the Parent. The commission expense between related parties (included in registered representatives compensation in the Statement of Operations) amounted to approximately \$3,075,000 and \$3,933,000 for the years ended December 31, 2004 and 2003, respectively.

6. Income Taxes

The Company's financial results directly impact the Parent's calculation of incentive compensation payable to its producers. The Company's losses directly reduce the amount of the incentive compensation expense payable by the Parent. Accordingly, the losses sustained by the Company do not provide a tax benefit to the Parent and ultimately are not realizable.

M Holdings Securities, Inc.
Notes to Financial Statements, Continued

6. Income Taxes (Continued)

The reconciliation of the amounts computed by applying the statutory U.S. federal income tax rate of 34% in 2004 and 2003, to net loss is as follows:

| | 2004 | 2003 |
|---|------------------|------------------|
| Computed "expected" tax benefit | \$ 807,544 | \$ 696,721 |
| Increase (decrease) in tax resulting from miscellaneous permanent differences | <u>(9,262)</u> | <u>-</u> |
| Federal income tax benefit | 798,282 | 696,721 |
| Valuation allowance | <u>(798,282)</u> | <u>(696,721)</u> |
| Federal income tax incurred | <u>\$ -</u> | <u>\$ -</u> |

The temporary differences that give rise to significant components of the deferred tax assets and liabilities at December 31, 2004 and 2003, relate to the following:

| | 2004 | 2003 |
|---------------------------------|--------------------|--------------------|
| Deferred tax assets | | |
| Start up cost | \$ 65,464 | \$ 222,575 |
| Net operating loss carryover | 4,717,027 | 3,800,710 |
| Other | <u>177,377</u> | <u>113,552</u> |
| Total deferred tax asset | <u>4,959,868</u> | <u>4,136,837</u> |
| Deferred tax liabilities | | |
| Deferred expenses | (654,804) | (630,055) |
| Valuation allowance | <u>(4,305,064)</u> | <u>(3,506,782)</u> |
| Net deferred tax asset | <u>\$ -</u> | <u>\$ -</u> |

As noted above, management has fully reserved against its net deferred tax asset as the Company's results of operations do not provide a realizable tax benefit.

7. Concentrations of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker dealers, insurance companies 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 credit worthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

8. Disclosures about Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosures of fair value information about financial instruments, and includes assets and liabilities recognized or not recognized in the Statement of Financial Condition, for which it is practicable to estimate their fair value. The financial instruments of the Company are reported in the Statement of Financial Condition at market or fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments.

9. Commitments and Contingencies

The Company clears all of its securities transactions through clearing brokers, the clearing brokers have the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations.

As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to the right. At December 31, 2004 and 2003, the Company has recorded no liabilities with regard to the right. During 2004 and 2003 the Company had not paid the clearing broker any amount related to these guarantees.

In addition, the Company has the right to pursue collection from the counterparties who do not perform under their contractual obligations. The Company monitors the credit standing of the clearing brokers and all counterparties with which it conducts business.

**Supplementary Information Pursuant to Rule 17a-5 of the
Securities Exchange Act of 1934**

M Holdings Securities, Inc.
Computation of Net Capital under Rule 15c3-1 of the
Securities and Exchange Commission
December 31, 2004

Schedule I

| | As Filed in Part II Focus Report |
|---|---|
| Net capital | |
| Total stockholder's equity | \$2,958,630 |
| Less nonallowable assets | |
| Property and equipment | 150,921 |
| Deferred expenses | 1,925,895 |
| Accounts receivable | 305,359 |
| Prepaid expenses and other assets | 65,068 |
| Deposits with clearing organizations and others | 25,000 |
| Net capital | <u>\$ 486,387</u> |
| Computation of alternative net capital requirement | |
| Minimum dollar net capital requirement | \$ 250,000 |
| Excess net capital | 236,387 |

The computation of net capital as of December 31, 2004, included in the (unaudited) Focus report filed with the Securities and Exchange Commission does not differ materially from the above computations.

M Holdings Securities, Inc.
Computation for Determination of Reserve Requirement and
Information Relating to Possession or Control Requirements for
Brokers or Dealers Pursuant to Rule 15c3-3
December 31, 2004

Schedule II

The Company is exempt from the provisions of Rule 15c3-3 under paragraph (k)(2)(ii) of the Rule because all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

**Report of Independent Auditors on Internal Control
Required by SEC Rule 17a-5**

To the Board of Directors of
M Holdings Securities, Inc.

In planning and performing our audit of the financial statements and supplementary information of M Holdings Securities, Inc. (the "Company") for the year ended December 31, 2004, we considered its internal control, 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.

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 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 debits and net capital under SEC Rule 17a-3(a)(11);
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; and
3. 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. 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
2. 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 second paragraph of this report. 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 second paragraph of this report, 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 accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the second paragraph of this report.

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.

Our consideration of internal control would not necessarily disclose all matters in internal control 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 one or more of the specific internal control components 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 internal control, 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 information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., 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.

PricewaterhouseCoopers LLP

February 10, 2005