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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER  
8-68043

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 01/01/2010 AND ENDING 12/31/2010  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: MORALES & CO. CAPITAL MARKETS, LLC

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

7878 STRATFORD LN.

(No. and Street)

ATLANTA

(City)

GA

(State)

30350

(Zip Code)

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

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

HLB GROSS COLLINS, P.C.

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

3300 CUMBERLAND BLVD ATLANTA

(Address)

(City)

GA

(State)

30339

(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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JD  
3/28

OATH OR AFFIRMATION

I, DAVID R. MORALES, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MORALES & CO. CAPITAL MARKETS, LLC, as of 12/31, 20 10, 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:

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

DRM  
Signature

CEO & MANAGING DIRECTOR  
Title

Richard L Keith  
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.

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

**MORALES & CO. CAPITAL MARKETS, LLC**  
**(A Development Stage Company)**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2010 and 2009**

**MORALES & CO. CAPITAL MARKETS, LLC**  
**(A Development Stage Company)**

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Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT**

To the Member of

Morales & Co. Capital Markets, LLC

We have audited the accompanying statement of financial conditions of

**MORALES & CO. CAPITAL MARKETS, LLC**  
(A Development Stage Company)

as of December 31, 2010 and 2009, and the related statements of income, changes in member's equity and cash flows for the years 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 audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide 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 Morales & Co. Capital Markets, LLC as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included on pages 9 through 11 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.

Atlanta, Georgia  
February 28, 2011

*HLB Gross Collins, P.C.*

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MORALES CO. CAPITAL MARKETS, LLC  
(A Development Stage Company)

STATEMENTS OF FINANCIAL CONDITION

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
	<b>ASSETS</b>	
Cash	\$ 6,888	\$ 26,475
Other assets	<u>147</u>	<u>147</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,035</u>	<u>\$ 26,622</u>
	<b>LIABILITIES</b>	
Accounts payable, related party	<u>\$ -</u>	<u>\$ 2,544</u>
	<b>MEMBER'S EQUITY</b>	
MEMBER'S EQUITY, including accumulated deficit	<u>7,035</u>	<u>24,078</u>
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<u>\$ 7,035</u>	<u>\$ 26,622</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

MORALES & CO. CAPITAL MARKETS, LLC  
(A Development Stage Company)

STATEMENTS OF INCOME

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUE:		
Interest income	\$ <u>2</u>	\$ <u>17</u>
TOTAL REVENUE	<u>2</u>	<u>17</u>
EXPENSES:		
Professional fees	17,625	18,743
Rent expense	3,816	2,544
Dues and subscriptions	150	-
Regulatory fees and assessments	912	1,098
Taxes, licenses and fees	150	-
Insurance	655	364
Bank charges	197	241
Other expenses	<u>540</u>	<u>61</u>
TOTAL EXPENSES	<u>24,045</u>	<u>23,051</u>
NET LOSS	<u>\$ (24,043)</u>	<u>\$ (23,034)</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

MORALES & CO. CAPITAL MARKETS, LLC  
(A Development Stage Company)

STATEMENTS OF CHANGES IN MEMBER'S EQUITY

Years Ended December 31, 2010 and 2009

	<b>Total Member's Equity</b>
<b>Balance at December 31, 2008</b>	\$ 15,112
Net loss	(23,034)
Capital contributions	<u>32,000</u>
<b>Balance at December 31, 2009</b>	24,078
Net loss	(24,043)
Capital contributions	<u>7,000</u>
<b>Balance at December 31, 2010</b>	<u><u>\$ 7,035</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**MORALES & CO. CAPITAL MARKETS, LLC**  
**(A Development Stage Company)**

**STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
CASH, BEGINNING OF YEAR	<u>\$ 26,475</u>	<u>\$ 15,112</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(24,043)	(23,034)
Adjustments to reconcile net loss to net cash used in operating activities		
Changes in assets (increase) decrease		
Other assets	-	(147)
Changes in liabilities increase (decrease)		
Accounts payable, related party	<u>(2,544)</u>	<u>2,544</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(26,587)</u>	<u>(20,637)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contributions	<u>7,000</u>	<u>32,000</u>
<b>NET (DECREASE) INCREASE IN CASH</b>	<u>(19,587)</u>	<u>11,363</u>
CASH, END OF YEAR	<u>\$ 6,888</u>	<u>\$ 26,475</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Interest received	<u>\$ 2</u>	<u>\$ 17</u>

**The accompanying Notes to Financial Statements are an integral part of these financial statements.**

MORALES & CO. CAPITAL MARKETS, LLC  
(Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2010 and 2009

(1) **Description of business**

Description of the business – Morales & Co. Capital Markets, LLC (the “Company”) is a broker-dealer registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”). The Company is a Georgia Limited Liability Company formed on March 4, 2008. The Company’s registration as a broker-dealer with the SEC became effective on April 20, 2009.

The Company is in the development stage, as planned principal operations are yet to commence. The Company has been primarily engaged in setting up as a broker dealer entity. This stage is characterized by expenditures for fulfilling the requirements to operate as an SEC registered broker dealer. Once the Company’s planned principal operations commence, its focus will be on serving small to mid-size private or publicly-traded companies, subsidiaries or divisions of large corporations and institutional investors in mergers and acquisition transactions (buying and selling) that could result in an exchange of securities.

(2) **Summary of significant accounting policies**

In June 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which was primarily codified into FASB ASC 105, *Generally Accepted Accounting Standards*. This standard is the single source of authoritative non-governmental U.S. generally accepted accounting principles (“GAAP”), superseding all existing accounting literature issued by existing FASB, American Institute of Certified Public Accountants (“AICPA”), Emerging Issues Task Force (“EITF”), and all other relevant accounting literature. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. This guidance is effective for financial statements issued for reporting periods that end after September 15, 2009. This guidance impacts the Company’s financial statements and related disclosures as all references to authoritative literature reflect the newly adopted codification.

Basis of preparation - These financial statements have been prepared in accordance with U.S. generally accepted accounting principles.

Estimates - The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates based on management’s knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

Revenue and cost recognition - Revenues from investment advisory and consulting services would be contingent upon the successful completion of services provided. Revenue will be recognized on the date of settlement or closing of a transaction and when the income is reasonably determinable. All related expenses arising from these transactions will also be recorded in the same period in which the revenues are earned.

MORALES & CO. CAPITAL MARKETS, LLC  
(Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2010 and 2009

(2) **Summary of significant accounting policies (continued)**

Cash - The Company considers all highly liquid investments with an original maturity of less than three months, and not held for sale in the ordinary course of business, to be cash and cash equivalents.

Concentration of credit risk - The Company maintains its cash and cash equivalents in bank accounts which at times may exceed federally insured limits. The Company does not believe it is exposed to any significant credit risk in such account.

Fair value of financial instruments - The financial instruments consist of cash, accounts payable and other short term assets. The book values of these financial instruments approximate their fair values, principally because of their short-term maturities.

Income Taxes - The Company is organized as a limited liability company for income tax purposes and has elected to be taxed as a proprietorship. The sole member of the Company is responsible for income taxes on the Company's taxable income. Accordingly, no provision or liability for federal income taxes has been included in the accompanying financial statements. The Company's policy is to make cash distributions for the payment of taxes by the member.

On July 13, 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (primarily codified by FASB ASC 740, *Income Taxes*). FASB ASC 740 provides guidance for how uncertain tax provisions should be recognized, measured, presented and disclosed in the financial statements. FASB ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions would "more-likely-than-not" be sustained if challenged by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year.

In September 2009, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, *Income Taxes (Topic 740) Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*. This ASU provides further guidance on the application of FASB ASC 740 as it relates to uncertainty in income taxes and eliminates certain disclosure requirements for nonpublic companies. This guidance is effective for financial statements issued for interim and annual periods that end after September 15, 2009.

Effective January 1, 2009, the Company adopted FASB ASC 740. The adoption of FASB ASC 740 did not have a material effect on the financial statements of the Company. Management has evaluated any tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions would "more-likely-than-not" be sustained if challenged by the applicable tax authority. Management is unaware of any unrecognized tax positions in existence as of December 31, 2010 and 2009.

**MORALES & CO. CAPITAL MARKETS, LLC**  
**(Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

**Years Ended December 31, 2010 and 2009**

**(3) Member's equity**

The Company was formed on March 4, 2008 as a limited liability company ("LLC") in accordance with the Georgia Limited Liability Company Act, and subject to the provisions of an Operating Agreement. The Company is a single-member LLC. The member made capital contributions of \$7,000 in 2010 and \$32,000 in 2009. There were no capital withdrawals in 2010 and 2009.

**(4) Net capital requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1, or 8 to 1 for twelve months after commencing business as a broker dealer (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2010, the Company had net capital of \$6,750, which was \$1,750 in excess of its required net capital of \$5,000. The Company's net capital ratio was 0 to 1 as of December 31, 2010. At December 31, 2009, the Company had net capital of \$23,931, which was \$18,931 in excess of its required net capital of \$5,000. The Company's net capital ratio was 0.11 to 1 as of December 31, 2009.

**(5) Related party transaction**

The Company leases office space from the sole member, under an operating lease agreement. Rent expense was \$3,816 in 2010 and \$2,544 in 2009. Unpaid rent due to the member was \$2,544 as of December 31, 2009.

The future minimum lease commitment is as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2011	\$ 3,816
2012	3,498
Total	<u>\$ 7,314</u>

**(6) Subsequent events**

The member made a capital contribution of \$6,000 on February 25, 2011.

The Company has evaluated subsequent events through February 28, 2011, the date which the financial statements were available to be issued, and has determined that there are no additional subsequent event matters that require recognition or disclosure in the financial statements.

**ADDITIONAL INFORMATION**

MORALES & CO. CAPITAL MARKETS, LLC  
(A Development Stage Company)

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE  
SECURITIES AND EXCHANGE COMMISSION

As of December 31, 2010

NET CAPITAL

Total member's equity	\$	7,035
Deductions and/or charges:		
Property and equipment		-
Accounts receivable		-
Accounts receivable, related party		-
Other asset		147
Other asset		<u>138</u>
Net Capital	\$	<u>6,750</u>
Aggregate indebtedness	\$	<u>-</u>
Computation of basic net capital requirement		
Minimum net capital required	\$	<u>5,000</u>
Excess net capital	\$	<u>1,750</u>
Ratio: Aggregate indebtedness to net capital		<u>0 to 1</u>

There are no material differences between the preceding computation and the Company's corresponding unaudited Part II of Form X-17A-5 as of December 31, 2010.

**MORALES & CO. CAPITAL MARKETS, LLC**  
**(A Development Stage Company)**

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS**  
**UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION**

**As of December 31, 2010**

The Company is exempt from the requirements of Securities and Exchange Commission Rule 15c3-3 as it is operating under the k(2)(i) exemption.

**MORALES & CO. CAPITAL MARKETS, LLC**  
**(A Development Stage Company)**

**INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS**  
**UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION**

**As of December 31, 2010**

The Company is exempt from the requirements of Securities and Exchange Commission Rule 15c3-3 as it is operating under the k(2)(i) exemption.



Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL REQUIRED BY  
SEC RULE 17a-5(g)(1) FOR A BROKER-DEALER CLAIMING AN EXEMPTION  
FROM SEC RULE 15c3-3**

To the Member of

Morales & Co. Capital Markets, LLC

In planning and performing our audit of the financial statements of Morales & Co. Capital Markets, LLC (the "Company") as of December 31, 2010 and 2009 and for the years then ended in accordance with U.S. generally accepted auditing standards, 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 on 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 (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 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 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 and 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

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 controls, 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 preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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Because of inherent limitations in internal control and 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.

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 deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control was for the limited purpose described in the first and second 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 previously.

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, as described in the second paragraph of this report, were adequate as of December 31, 2010 and 2009, to meet the SEC's objectives.

This report is intended solely for the information and use of the Member, management, the SEC, FINRA, 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.

Atlanta, Georgia  
February 28, 2011

HLB Gross Collins, P. C.