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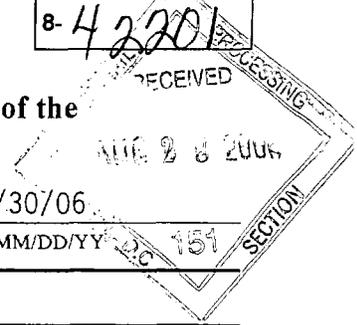
# ANNUAL AUDITED REPORT FORM X-17A-5 PART III

SEC FILE NUMBER
8-42201

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 07/01/05 AND ENDING 06/30/06  
MM/DD/YY MM/DD/YY



### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Mewbourne Securities, Inc.

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

3901 South Broadway

(No. and Street)

Tyler

TX

75701

(City)

(State)

(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\*

BDO Seidman, LLP

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

700 N. Pearl, Suite 2000

Dallas

TX

75201

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

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FINANCIAL

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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SEC 1410 (06-02)

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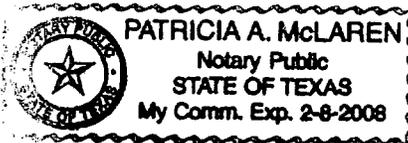
OATH OR AFFIRMATION

I, J. Roe Buckley, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Mewbourne Securities, Inc., as of June 30, 2006, 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:

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

Patricia A. McLaren  
Notary Public

J. Roe Buckley  
Signature  
President  
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.

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

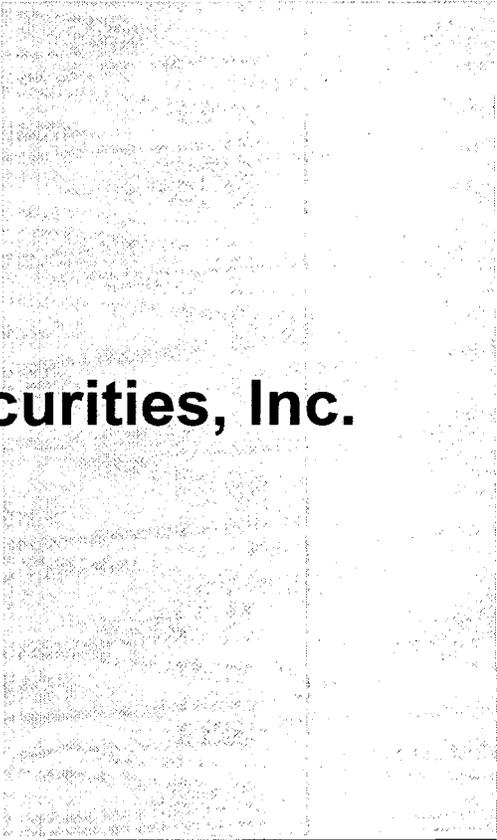
# **Mewbourne Securities, Inc.**

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**Statement of Financial Condition  
and Supplemental Information  
Filed Pursuant to SEC Rule 17a-5(e)(3)  
Under the Securities Exchange Act of 1934  
Year Ended June 30, 2006**



**BDO Seidman, LLP**  
Accountants and Consultants



**Mewbourne Securities, Inc.**

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**Statement of Financial Condition  
and Supplemental Information  
Filed Pursuant to SEC Rule 17a-5(e)(3)  
Under the Securities Exchange Act of 1934  
Year Ended June 30, 2006**

# Mewbourne Securities, Inc.

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## **Independent Auditors' Report**

Board of Directors  
Mewbourne Securities, Inc.

We have audited the accompanying statement of financial condition of Mewbourne Securities, Inc. (the Company), a wholly owned subsidiary of Mewbourne Holdings, Inc., as of June 30, 2006, and the related statements of operations, stockholder's equity, and cash flows for the year then ended that the Company is 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, 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 Mewbourne Securities, Inc. at June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information 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 of the Securities and Exchange Act of 1934. These schedules are the responsibility of the Company's management. 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.

*BDO Seidman, LLP*

Dallas, Texas  
August 1, 2006

# Mewbourne Securities, Inc.

## Statement of Financial Condition

<i>June 30,</i>		<b>2006</b>
<b>Assets</b>		
Cash and cash equivalents	\$	40,170
Marketable securities		17,940
<b>Total assets</b>	<b>\$</b>	<b>58,110</b>
<b>Liabilities and Stockholder's Equity</b>		
Accounts payable, affiliate	\$	898
Stockholder's equity:		
Common stock, \$.01 par value, 1,000 shares authorized issued and outstanding		10
Additional paid-in capital		174,881
<b>Accumulated deficit</b>		<b>(117,679)</b>
<b>Total stockholder's equity</b>		<b>57,212</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$</b>	<b>58,110</b>

*See accompanying notes to financial statements.*

# Mewbourne Securities, Inc.

## Statement of Operations

<i>Year ended June 30,</i>		<b>2006</b>
<b>Revenue</b>		
Interest income	\$	511
Gain on investments		7,449
		<b>7,960</b>
<b>Expenses</b>		
Registration fees		19,275
Insurance		462
Professional services		22,063
Office services		4,351
Other taxes		800
Other expenses		1,838
		<b>48,789</b>
Total expenses		<b>48,789</b>
Net loss	\$	<b>(40,829)</b>

*See accompanying notes to financial statements.*

# Mewbourne Securities, Inc.

## Statement of Stockholder's Equity

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	
<b>Balance at June 30, 2005</b>	1,000	\$ 10	\$ 149,881	\$ (76,850)	\$ 73,041
Capital contribution	-	-	25,000	-	25,000
Net loss	-	-	-	(40,829)	(40,829)
<b>Balance at June 30, 2006</b>	1,000	\$ 10	\$ 174,881	\$ (117,679)	\$ 57,212

*See accompanying notes to financial statements.*

# Mewbourne Securities, Inc.

## Statement of Cash Flow

<i>Year ended June 30,</i>	<b>2006</b>
<b>Cash flows from operating activities</b>	
Net loss	\$ (40,829)
Gain on investments	(7,449)
Adjustments to reconcile net loss to net cash used in operating activities:	
Changes in accounts payable, affiliates	(2,633)
Net cash used in operating activities	(50,911)
<b>Cash flows from investing activities</b>	
Stock warrants exercised	1,278
Purchase of marketable securities	(4,800)
Net cash used in investing activities	(3,522)
<b>Cash flows from financing activities</b>	
Capital contribution	25,000
Net cash provided by financing activities	25,000
Decrease in cash and cash equivalents	(29,433)
Cash and cash equivalents, beginning of year	69,603
Cash and cash equivalents, end of year	\$ 40,170

*See accompanying notes to financial statements.*

# Mewbourne Securities, Inc.

## Notes to Financial Statements

**1. Organization and Significant Accounting Policies**

Organization - Mewbourne Securities, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers ("NASD"). The Company is a Texas corporation that is a wholly-owned subsidiary of Mewbourne Holdings, Inc. ("MHI"). The Company facilitates the sponsorship of interests in certain oil and gas limited partnerships. The Company does not receive any fees in performing this function.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Revenue - Revenue consists of interest income earned on a money market account.

Cash and Cash Equivalents - The Company considers all highly liquid investments, those with original maturities of three months or less at the date of acquisition, to be cash equivalents.

Other Assets and Marketable Securities - During 2000, in connection with the NASDAQ securities offering, the Company as a member of the NASD exercised its right to acquire warrants to purchase 600 shares of common stock in the NASDAQ market. The warrants were purchased for \$3,300. During April 2006 and June 2005, the Company exercised its right to purchase the shares of NASDAQ common stock for 300 shares at \$15 and 300 shares at \$16, respectively. There are no warrants outstanding at June 30, 2006.

The investment in NASDAQ common stock is shown as marketable securities in the accompanying Statement of Financial Condition and is classified as trading. Accordingly, such securities are carried at fair value. In accordance with the provision of Rule

# Mewbourne Securities, Inc.

## Notes to Financial Statements

15c3-1, unrealized holding gains related to these securities have been included in the computation of net capital as defined.

### 2. Income Taxes

The Company is included in MHI's consolidated federal income tax return. Current income tax expense is calculated on a current basis at the MHI (consolidated) level and then allocated to the Company based on the ratio of its respective taxable income to the aggregate taxable income of all entities in the consolidated group that have taxable income. The Company reimburses MHI for its share of allocated taxes, but receives no reimbursement from MHI related to its allocated share of tax benefits.

Deferred income tax expense is calculated as if the company were a separate tax paying entity. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at the balance sheet date based on enacted tax laws and statutory tax rates applicable to periods in which the differences are expected to impact taxable income. Valuation allowances are necessary to reduce deferred tax assets to the amount expected to be realized. The company has not recorded any deferred taxes as of June 30, 2006.

Had the Company calculated current income tax expenses on a separate return basis, the Company would have recognized an income tax benefit of \$13,882 resulting in a net loss of \$26,947 for the year ended June 30, 2006. Under this method, the tax rate does not differ from the statutory rate.

### 3. Net Capital Requirements

Pursuant to the net capital provisions of the Uniform Net Capital Rule (Rule 15c3-1) of the Securities Exchange Act of 1934, the Company is required to maintain a minimum amount of net capital as defined under such provisions. At June 30, 2006 the Company had net capital of \$57,212 and a minimum net capital requirement of \$5,000.

The Company's net capital ratio (aggregate indebtedness to net capital) at June 30, 2006 approximated .02:1. The Company is required to maintain a net capital ratio of 15:1 or less.

# Mewbourne Securities, Inc.

## Notes to Financial Statements

The Company handled no customer securities or accounts during the period ended June 30, 2006, and accordingly is not subject to the requirements under SEC rule 15c3-3.

#### **4. Related Party Transactions**

Mewbourne Oil Company (MOC), an affiliate, provides a variety of services to the Company. MOC charges the Company for overhead reimbursements as well as accounting and other office services. Such charges are classified as office services on the accompanying Statement of Operations.

During the year ended June 30, 2006, the Company reimbursed MOC for overhead costs of \$4,351. Such reimbursements are included in office services on the Statement of Operations.

Accounts Payable, affiliate, at June 30, 2006, consisted entirely of reimbursements owed to MOC for expenses MOC paid on behalf of the Company.

#### **5. Subordinated Liabilities**

The Company had no subordinated liabilities at any time during the year ended June 30, 2006. Therefore, a statement of changes in liabilities subordinated to claims of general creditors has not been presented.

#### **6. Financial Condition and Liquidity**

The Company has historically generated operating losses and its activities have not provided the cash necessary to fund its operations or its financing and investing activities. As a result, the Company has been dependent upon MHI to contribute the capital necessary to fund its operations and its financing and investing activities. Management of the Company believes that it has sufficient cash on hand at June 30, 2006 to fund its operations and its financing and investing activities through June 30, 2007 without any additional capital contribution from MHI. In addition, although there is no legal or contractual requirement for it to do so, MHI has reaffirmed its ability and intent to provide additional capital contributions to the Company through at least June 30, 2007.

# Supplemental Schedule



# Mewbourne Securities, Inc.

## Schedule I – Computation of Net Capital as of June 30, 2006 under Rule 15c3-1 of the Securities and Exchange Commission

June 30, 2006

<b>Net Capital:</b>	<b>Amount</b>
Total stockholder's equity	\$ 57,212
Net capital before haircuts	57,212
Haircut on security position	(3,882)
Net capital	53,330
Less net capital requirement	(5,000)
<b>Excess net capital</b>	<b>\$ 48,330</b>
<b>Aggregate indebtedness</b>	<b>\$ 898</b>
<b>Ratio of aggregate indebtedness to net capital</b>	<b>2%</b>

### Statement Pursuant to Rule 17a-5(d)(4)

A reconciliation of the Company's computation of net capital as reported was not prepared as there are no material differences between the Company's computation of net capital included in its unaudited Form X-17A-5 Part II and the computation contained herein.

The Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 and the Information Relating to Possession or Control Requirements Under Rule 15c3-3 have been omitted because Mewbourne Securities, Inc. claims exemption from the requirements of Rule 15c3-3 under paragraph (k)(2)(i).



## **Independent Auditors' Report on Internal Control Required by Securities and Exchange Commission Rule 17a-5**

Board of Directors  
Mewbourne Securities, Inc.  
Tyler, Texas

In planning and performing our audit of the financial statements and supplemental schedules of Mewbourne Securities, Inc. (the Company), a wholly owned subsidiary of Mewbourne Holdings, Inc., for the year ended June 30, 2006, 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 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 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 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
2. Recordation of differences required by 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 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 accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of inherent limitations in internal control or the practices and procedures referred to above, error 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 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 misstatements caused by 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 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 June 30, 2006 to meet the SEC's objective.

This report is intended solely for the use of the Board of Directors, management, the SEC, the New York Stock Exchange, 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 to be and should not be used by anyone other than these specified parties.

Dallas, Texas  
August 1, 2006