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

OMB APPROVAL

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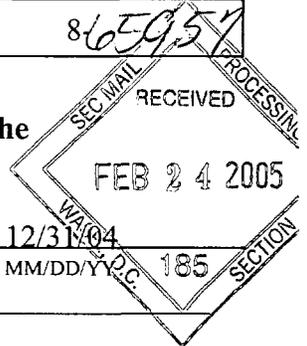
ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER

865957

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:

Capital Network Securities, LLC

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

2700 Via Fortuna, Suite 450

(No. and Street)

Austin

(City)

TX

(State)

78746

(Zip Code)

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

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

C F & Co., L.L.P.

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

14175 Proton Rd.

(Address)

Dallas

(City)

TX

(State)

75244

(Zip Code)

CHECK ONE:

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

PROCESSED  
MAR 11 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).

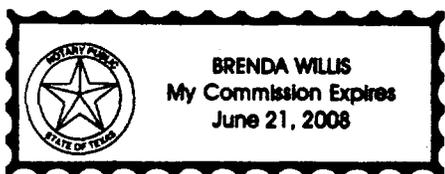
SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Alex Klingelberger, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Capital Network Securities, LLC, 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:

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



*Alex Klingelberger*  
\_\_\_\_\_  
Signature  
  
VP Finance  
\_\_\_\_\_  
Title

*Brenda Willis*  
\_\_\_\_\_  
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 Cash Flows
- (e) Statement of Changes in Stockholders' Equity or partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent auditor's report on internal control

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

CAPITAL NETWORK SECURITIES, LLC  
REPORT PURSUANT TO RULE 17a-5(d)  
YEAR ENDED DECEMBER 31, 2004

CAPITAL NETWORK SECURITIES, LLC

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*CF & Co., L.L.P.*  
CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Capital Network Securities, LLC

We have audited the accompanying statement of financial condition of Capital Network Securities, LLC, as of December 31, 2004, and the related statements of income, changes in member's equity, changes in liabilities subordinated to claims of general creditors, 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 Capital Network 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads 'CF &amp; Co., L.L.P.'.

CF & Co., L.L.P.

Dallas, Texas  
January 25, 2005

CAPITAL NETWORK SECURITIES, LLC  
Statement of Financial Condition  
December 31, 2004

**ASSETS**

Cash	\$ 32,164
Pre-paid expenses	5,361
Consulting/advisory fees receivable	25,491
Investment in non-marketable securities	<u>100</u>
	<u>\$ 63,116</u>

**LIABILITIES AND MEMBER'S EQUITY**

**Liabilities**

Accounts payable and accrued expenses	\$ 1,655
Franchise taxes payable	<u>1,700</u>
	<u>3,355</u>

**Member's equity**

Total member's equity	<u>59,761</u>
	<u>\$ 63,116</u>

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

CAPITAL NETWORK SECURITIES, LLC  
Statement of Income  
For the Year Ended December 31, 2004

**Revenues**

Investment banking	\$ 546,886
Investment advisory fees	<u>32,500</u>
	<u>579,386</u>

**Expenses**

Compensation and benefits	78,158
Commissions	152,470
Communications	3,002
Data processing	1,500
Occupancy and equipment costs	8,002
Promotional expense	75
Regulatory fees and expenses	5,266
Other expenses	<u>292,058</u>
	<u>540,531</u>

Income before income taxes	38,855
Income tax expense	<u>1,943</u>
Net income	<u>\$ 36,912</u>

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

CAPITAL NETWORK SECURITIES, LLC  
Statement of Changes in Member's Equity  
For the Year Ended December 31, 2004

Balance at December 31, 2003	\$ 22,849
Net income	<u>36,912</u>
Balance at December 31, 2004	<u>\$ 59,761</u>

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

CAPITAL NETWORK SECURITIES, LLC  
Statement of Changes in Liabilities Subordinated  
to Claims of General Creditors  
For the Year Ended December 31, 2004

Balance, at December 31, 2003	\$ -0-
Increases	-0-
Decreases	<u>-0-</u>
Balance, at December 31, 2004	<u>\$ -0-</u>

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

CAPITAL NETWORK SECURITIES, LLC  
Statement of Cash Flows  
For the Year Ended December 31, 2004

<b>Cash flows from operating activities</b>	
Net income	\$ 36,912
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Investment securities received for fees	(201)
Investment securities paid as compensation	101
Change in assets and liabilities:	
Increase in pre-paid expenses	(5,361)
Increase in consulting/advisory fess receivable	(15,241)
Decrease in accounts payable and accrued expenses	(384)
Increase in franchise taxes payable	<u>1,700</u>
Net cash provided (used) by operating activities	<u>17,526</u>
<b>Cash flows from investing activities</b>	
Net cash provided (used) by investing activities	<u>-0-</u>
<b>Cash flows from financing activities</b>	
Net cash provided (used) by financing activities	<u>-0-</u>
Net increase in cash	17,526
Cash at beginning of year	<u>14,638</u>
Cash at end of year	<u>\$ 32,164</u>

**Supplemental Disclosure of Cash Flow Information**

**Cash paid during the year for:**

Interest	<u>\$ -0-</u>
Income taxes	<u>\$ 243</u>

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

CAPITAL NETWORK SECURITIES, LLC

Notes to Financial Statements

December 31, 2004

Note 1 - Summary of Significant Accounting Policies

Capital Network Securities, LLC (the "Company") is a direct participation broker-dealer registered with the Securities and Exchange Commission under ("SEC") Rule 15c3-3(k)(2)(i). The Company is a member of the National Association of Securities Dealers ("NASD"). The Company is a Texas Limited Liability Company organized on March 20, 2003. The duration of the Company is perpetual. The Company's sole member is CN Group Holdings, LLC (the "Parent").

Investment banking revenues include or will include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include or will include fees earned from providing merger and acquisition and financial restructuring advisory services. Investment banking management fees at the time the underwriting is completed and the income is reasonably determinable.

Revenue from investment advisory fees are recognized as earned on a pro rata basis over the term of the contract. All other income is recognized upon completion of service.

The Company is disregarded as a separate entity for income tax purposes. Accordingly, the Company's net income or loss is passed through to its sole member and reported on the member's tax return.

Compensated absences have not been accrued because the amount cannot be reasonably estimated.

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.

Note 2 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on

CAPITAL NETWORK SECURITIES, LLC

Notes to Financial Statements

December 31, 2004

Note 2 - Net Capital Requirements, continued

a daily basis. At December 31, 2004, the Company had net capital of approximately \$28,809 and net capital requirements of \$5,000. The Company's ratio of aggregate indebtedness to net capital was .12 to 1. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

Note 3 - Possession or Control Requirements

The Company holds no customer funds or securities. There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of (SEC) Rule 15c3-3(k)(2)(i).

Note 4 - Related Party Transactions

Salaries, rent, and other overhead expenses are paid by the Parent. Such expenses aggregated \$91,271 in 2004. The Company also has pre-paid overhead expenses in the amount of \$5,361 as of December 31, 2004.

The Company paid management fees in the amount of \$269,000 during 2004.

Supplemental Information  
Pursuant to Rule 17a-5 of the  
Securities Exchange Act of 1934  
as of  
December 31, 2004

## Schedule I

CAPITAL NETWORK SECURITIES, LLC  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of December 31, 2004

### COMPUTATION OF NET CAPITAL

Total member's equity qualified for net capital	\$ 59,761
Add:	
Other deductions or allowable credits	<u>-0-</u>
Total capital and allowable subordinated liabilities	59,761
Deductions and/or charges	
Non-allowable	
Pre-paid expenses	(5,361)
Consulting/advisory fees receivable	<u>(25,491)</u>
Net capital before haircuts on securities positions	28,909
Haircuts on securities (computed, where applicable, pursuant to rule 15c3-1(f))	<u>(100)</u>
Net capital	<u>\$ 28,809</u>

### AGGREGATE INDEBTEDNESS

Items included in statement of financial condition	
Accounts payable and accrued expenses	\$ 1,655
Franchise taxes payable	<u>1,700</u>
Total aggregate indebtedness	<u>\$ 3,355</u>

**Schedule I (continued)**

CAPITAL NETWORK SECURITIES, LLC  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of December 31, 2004

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required (6 2/3% of total aggregate indebtedness)	<u>\$ 224</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 5,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 5,000</u>
Net capital in excess of required minimum	<u>\$ 23,809</u>
Excess net capital at 1000%	<u>\$ 28,473</u>
Ratio: Aggregate indebtedness to net capital	<u>.12 to 1</u>

**RECONCILIATION WITH COMPANY'S COMPUTATION**

There were no material differences in the computation of net capital under Rule 15c3-1 from the Company's computation.

## **Schedule II**

CAPITAL NETWORK SECURITIES, LLC  
Computation for Determination of Reserve Requirements Under  
Rule 15c3-3 of the Securities and Exchange Commission  
As of December 31, 2004

### **EXEMPTIVE PROVISIONS**

The Company has claimed an exemption from Rule 15c3-3 under section (k)(2)(i), in which the Company is a direct participation broker-dealer.

Independent Auditor's Report

On Internal Control

Required By SEC Rule 17a-5

Year Ended December 31, 2004



INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL REQUIRED BY SEC RULE 17a-5

The Board of Directors  
Capital Network Securities, LLC

In planning and performing our audit of the financial statements and supplemental schedules of Capital Network Securities, LLC (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 internal control.

Also, as required by rule 17a-5(g)(1) of the Securities 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 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 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 the preparation of financial statements in accordance 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 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 control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 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.



CF & Co., L.L.P.

Dallas, Texas  
January 25, 2005