

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

10/30/14

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



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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 July 1, 2013 AND ENDING June 30, 2014  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Network 1 Financial Securities, Inc.

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

2 Bridge Avenue, Building 2, Penthouse

OFFICIAL USE ONLY	
FIRM ID NO.	

(No. and Street)

Red Bank

New Jersey

07701

(City)

(State)

(Zip Code)

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

William R. Hunt, Jr.

(732) 758-9001

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Liggett, Vogt & Webb, P.A.

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

432 Park Ave South, 10<sup>th</sup> Floor

(Address)

New York

(City)

New York

(State)

10016

(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)

10/30/14

OATH OR AFFIRMATION

I, Willan R. Hunt, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm Network 1 Financial Securities, Inc. as of June 30, 2014, 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:

Table with 6 columns of account numbers: 56279570, 28957292, 74979419, 45563583, 69143997, 71941071; 16640738, 23728477, 17356838, 72595546, 85723921, 47231568; 21840220, 71262256, 57718965, 14234245, 87885167, 47617704; 47784115, 28888745, 76491325, 51697460, 55332973, 68495548; 57255455, 48362146, 60051159, 83273529, 61034373, 85273529, 36202738

Signature of Willan R. Hunt, Jr.
CFO
Title

Signature of Notary Public
My Commission Expires February 05, 2018

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 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 15c3-3 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).

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors  
Network 1 Financial Securities, Inc.  
Red Bank, New Jersey

We have audited the accompanying financial statements of Network 1 Financial Securities, Inc. (a Texas corporation), which comprise the statement of financial condition as of June 30, 2014, and the related statements of income, changes in shareholder's equity and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements and supplemental information. Network 1 Financial Securities, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included 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 also 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 condition of Network 1 Financial Securities, Inc. as of June 30, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Schedule I, Computation of Net Capital Under Rule 15c3-1, Schedule II, Computation for Determination of Reserve Requirements Under Rule 15c3-3 (exemption) and Schedule III, Information for Possession or Control Requirements Under Rule 15c3-3 (exemption), has been subjected to audit procedures performed in conjunction with the audit of Network 1 Financial Securities, Inc.'s financial statements. The supplemental information is the responsibility of Network 1 Financial Securities, Inc.'s management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 of the Securities Exchange Act of 1934. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Liggett Vogt & Webb, P.A.*

Liggett, Vogt & Webb P.A.

New York, New York  
August 28, 2014

NETWORK 1 FINANCIAL SECURITIES, INC.  
STATEMENT OF FINANCIAL CONDITION  
As of June 30, 2014

ASSETS

Cash	\$	338,493
Deposit with clearing organization		298,183
Due from affiliates		340,712
Advances to registered representatives		97,006
Loans receivable, net		385,423
Due from clearing organization		561,469
Securities, at fair value		130,321
Prepaid expenses		52,758
Property and equipment, net		77,387
TOTAL ASSETS		\$ 2,281,752

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Line of credit	\$	30,000
Commissions payable		551,647
Capital leases payable		11,534
Accounts payable, accrued expenses and other liabilities		286,303
TOTAL LIABILITIES		879,484

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Series A Preferred stock, \$1.00 par value, 8% coupon; 1,000,000 shares authorized; 215,000 shares issued and outstanding		215,000
Series B Preferred stock, \$1.00 par value; 4,000,000 shares authorized; none issued and outstanding		-
Common stock, Class A \$.01 par value; 10,000,000 shares authorized; 1,643,930 shares issued and 1,141,430 outstanding		16,439
Common stock, Class B \$.01 par value, non- voting; 2,000,000 shares authorized; 150,878 shares issued 140,528 shares outstanding		1,509
Common stock, Class C \$.01 par value; 3,000,000 shares authorized; none issued and outstanding		-
Additional paid-in capital		2,015,391
Treasury stock at cost; Class A 502,500 shares and Class B 10,350 shares		(5,129)
Accumulated deficit		(840,942)
TOTAL STOCKHOLDERS' EQUITY		1,402,268
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	2,281,752

*(the accompanying notes are an integral part of these financial statements)*

NETWORK 1 FINANCIAL SECURITIES, INC.  
STATEMENT OF OPERATIONS  
For the Year Ended June 30, 2014

REVENUES

Commissions	\$ 6,381,636
Investment advisory	112,632
Investment banking	3,614,996
Net dealer inventory gain	586,941
Interest income	14,126
Transfer fees and clearing services	463,678
Other income	2,354
	11,176,363
TOTAL REVENUES	11,176,363

OPERATING EXPENSES

Commissions	7,774,921
Employee compensation and benefits	1,010,329
Office expenses	555,238
Clearing and execution expenses	361,598
Occupancy and related expenses	258,575
Communications and data processing	150,543
Professional fees	139,309
Litigation settlement	100,000
Licenses and permits	72,846
Interest	2,323
Depreciation and amortization	335,088
	10,760,770
TOTAL OPERATING EXPENSES	10,760,770

INCOME BEFORE INCOME TAXES	415,593
PROVISION FOR INCOME TAXES	9,337
NET INCOME	\$ 406,256

*(the accompanying notes are an integral part of these financial statements)*

NETWORK 1 FINANCIAL SECURITIES, INC.  
STATEMENT OF STOCKHOLDERS' EQUITY  
For the Year Ended June 30, 2014

	Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Treasury Stock at Cost	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
BALANCE - J June 30, 2013	215,000	\$ 215,000	1,643,930	\$ 16,439	150,878	\$ 1,509	\$ 1,965,391	\$ (5,129)	\$ (1,247,198)	\$ 946,012
Capital contributions							50,000			50,000
Net income	0				0		0		406,256	406,256
BALANCE - J June 30, 2014	<u>215,000</u>	<u>\$ 215,000</u>	<u>1,643,930</u>	<u>\$ 16,439</u>	<u>150,878</u>	<u>\$ 1,509</u>	<u>\$ 2,015,391</u>	<u>\$ (5,129)</u>	<u>\$ (840,942)</u>	<u>\$ 1,402,268</u>

*(the accompanying notes are an integral part of these financial statements)*

NETWORK 1 FINANCIAL SECURITIES, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 406,256
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	23,572
Amortization of deferred compensation	311,516
Changes in operating assets and liabilities	
Deposit with clearing organization	6,643
Due from affiliates	(257,138)
Advances to registered representatives	(450)
Securities	(49,231)
Securities sold short	(17,250)
Due from clearing organization	(322,349)
Prepaid	(52,758)
Commissions payable	311,729
Accounts payable, accrued expenses and other liabilities	201,659
TOTAL ADJUSTMENTS	55,943
NET CASH PROVIDED BY OPERATING ACTIVITIES	562,199

CASH FLOWS USED IN INVESTING ACTIVITIES

Advances and loans receivable	(209,866)
Purchase of property and equipment	(84,434)
NET CASH (USED IN) INVESTING ACTIVITIES	(294,300)

CASH FLOWS FROM FINANCING ACTIVITIES

Capital contributions from parent	50,000
Repayment of notes payable and capital lease obligations	(2,787)
NET CASH PROVIDED BY FINANCING ACTIVITIES	47,213
NET INCREASE IN CASH	315,112

<u>CASH</u> - Beginning of year	23,381
<u>CASH</u> - End of year	\$ 338,493

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during year:	
Interest	\$ 1,293
Income taxes	\$ 5,837

*(the accompanying notes are an integral part of these financial statements)*

**NETWORK 1 FINANCIAL SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 1 – ORGANIZATION**

Network 1 Financial Securities, Inc. (the “Company”) was organized as a Texas corporation on March 15, 1983 and is registered as a broker-dealer with the Securities and Exchange Commission (SEC), the State of Texas and various other states. The Company is an introducing broker-dealer that clears all transactions with and for customers on a fully disclosed basis with a clearing broker. The Company is a member of the Financial Industry Regulatory Authority (FINRA).

On June 9, 2009, the Company completed a merger transaction with, International Smart Sourcing, Inc. (“ISSI”) an inactive publicly registered shell corporation with no significant assets or operations. ISSI was incorporated in February 1998 in Delaware. As a result of the reverse merger, Network 1 Financial Securities, Inc. (“NETW”) became a wholly owned subsidiary of ISSI. The Network 1 Financial Securities, Inc. shareholders acquired control of ISSI. Upon completion of the reverse merger transaction, ISSI changed its name to Network 1 Financial Group, Inc.

The effects of this reverse merger were not reflected in these financial statements and reflect this departure from the accounting principles generally accepted in the United States of America for the current and previous year’s financial statements. The accounting principles generally accepted in the United States of America require that the effects of the reverse merger would be recognized by restating the Company’s stockholders equity.

The Company was required to file with the Financial Industry Regulatory Authority (“FINRA”), an application pursuant to FINRA Rule 1017 (the “1017 Application”) to obtain approval for the sale of up to one hundred percent (100%) of the Company. The Company filed the initial 1017 Application on February 6, 2009, subsequently withdrew the 1017 Application and re-filed the 1017 application on April 2, 2009. FINRA approved the 1017 application on October 30, 2009

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of the 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 the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**

Customer security transactions and the related commission income and expense are recorded as of the trade date. Investment banking revenues 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 fees earned from providing financial advisory services. Investment banking management fees are recorded on the offering date, sales concessions on the settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable. Customers who are financing their transaction on margin are charged interest. The Company’s margin requirements are in accordance with the terms and conditions mandated by its clearing firm. The interest is billed on the average daily balance of the margin account.

Net dealer inventory gains result from securities transactions entered into for the account and risk of the Company. Net dealer inventory gains are recorded on a trade date basis.

The Company generally acts as an agent in executing customer orders to buy or sell listed and over-the-counter securities in which it does not make a market, and charges commissions based on the services the Company provides to its customers. In executing customer orders to buy or sell a security in which the Company makes a market, the Company may sell to, or purchase from, customers at a price that is substantially equal to the current inter-dealer market price plus or minus a mark-up or mark-down. The Company may also act as agent and execute a customer's purchase or sale order with another broker-dealer market-maker at the best inter-dealer market price available and charge a commission. Mark-ups, mark-downs and commissions are generally priced competitively based on the services it provides to its customers. In each instance the commission charges, mark-ups or mark-downs, are in compliance with guidelines established by the FINRA.

Marketable securities are carried at fair value, with changes in value included in the statement of income in the period of change. Fair value is generally determined by quoted market prices. Non-marketable securities are valued at fair value as determined by management.

NETWORK 1 FINANCIAL SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with an original maturity of three months or less when purchased, to be cash equivalents.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets, which range from five to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the leases. Maintenance and repairs are charged to expense as incurred; costs of major additions and betterments that extend the useful life of the asset are capitalized. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation or amortization are removed from the accounts and any gain or loss on disposal is recognized.

Fair Value of Financial Instruments

The Company adopted the provisions of ASC 820, “Fair Value Measurements”, which defines fair value for accounting purposes, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements. Fair value is defined as an exit price, which is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date. The degree of judgment utilized in measuring the fair value of assets and liabilities generally correlates to the level of pricing observability. Financial assets and liabilities with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and require less judgment in measuring fair value. Conversely, financial assets and liabilities that are rarely traded or not quoted have less price observability and are generally measured at fair value using valuation models that require more judgment. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency of the asset, liability or market and the nature of the asset or liability. As of June 30, 2014, the Company has categorized its financial assets and liabilities measured at fair value into a three-level hierarchy in accordance with ASC 820.

Impairment of Long-Lived Assets

The Company assesses the recoverability of its long lived assets, including property and equipment when there are indications that the assets might be impaired. When evaluating assets for potential impairment, the Company first compares the carrying amount of the asset to the asset’s estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the asset’s estimated future cash flows (discounted and with interest charges). If the carrying amount exceeds the asset’s estimated futures cash flows (discounted and with interest charges), the loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets. Based on its assessments, the Company did not incur any impairment charges for the year ended June 30, 2014.

Concentrations of Credit Risk

The Company is engaged in trading and providing a broad range of securities brokerage and investment services to a diverse group of retail and institutional clientele, as well as corporate finance and investment banking services to corporations and businesses. Counterparties to the Company’s business activities include broker-dealers and clearing organizations, banks and other financial institutions. The Company uses clearing brokers to process transactions and maintain customer accounts on a fee basis for the Company. The Company uses one clearing broker for substantially all of its business. The Company permits the clearing firms to extend credit to its clientele secured by cash and securities in the client’s account. The Company’s exposure to credit risk associated with the non-performance by its customers and counterparties in fulfilling their contractual obligations can be directly impacted by volatile or illiquid trading markets, which may impair the ability of customers and counterparties to satisfy their obligations to the Company. The Company has agreed to indemnify the clearing brokers for losses they incur while extending credit to the Company’s clients. It is the Company’s policy to review, as necessary, the credit standing of its customers and each counterparty. Amounts due from customers that are considered uncollectible by the clearing broker are charged back to the Company by the clearing broker when such amounts become determinable.

**NETWORK 1 FINANCIAL SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2014

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Upon notification of a charge back, such amounts, in total or in part, are then either (i) collected from the customers, (ii) charged to the broker initiating the transaction and included in other receivables in the accompanying balance sheet, and/or (iii) charged as an expense in the accompanying statements of operations, based on the particular facts and circumstances.

The maximum potential amount for future payments that the Company could be required to pay under this indemnification cannot be estimated. However, the Company believes that it is unlikely it will have to make any material payments under these arrangements and has not recorded any contingent liability in the financial statements for this indemnification.

The Company maintains cash with major financial institutions. The Federal Deposit Insurance Corporation (“FDIC”) insures up to up to \$250,000 are insured by the FDIC at each institution. At times such amounts may exceed the FDIC limits. At June 30, 2014 the Company had no uninsured cash bank balances. The Company believes it is not exposed to any significant credit risks for cash.

Advances to Registered Representatives

The Company extends unsecured credit in the normal course of business to its registered representatives. The determination of the amount of uncollectible accounts is based on the amount of credit extended and the length of time each receivable has been outstanding, as it relates to each individual registered representative. The allowance for uncollectible amounts reflects the amount of loss that can be reasonably estimated by management and is included as part of operating expenses in the accompanying statements of operations. As of June 30, 2014, the Company has reserved approximately \$90,000 for any potential non-collection.

Income Taxes

In accordance with ASC 740, “Income Taxes,” The Company accounts for income taxes under the liability method. Deferred income tax assets and liabilities are determined based on the estimated future tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as measured by current enacted tax rates. The Company periodically assess whether it is more likely than not that they will generate sufficient taxable income to realize the deferred tax assets. The Company records a valuation allowance, as necessary, to reduce the deferred tax assets to the amount of future tax benefit that The Company estimates is more likely than not to be realized. The Company believes that their estimates are reasonable; however, the final outcome of tax matters may be different from than the estimates reflected in their financial statements.

The Company’s records tax benefits for positions that they believe are probable of being sustained under such examinations. Regularly, the Company assesses the potential outcome of such examinations to determine the adequacy of their income tax accruals. The Company adjusts their income tax provision during the period in which they determine that the actual results of the examinations may differ from their estimates. Changes in tax laws and rates are reflected in their income tax provision in the period in which they occur.

**NOTE 3 – SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED, AT MARKET**

The following table shows the market values of the Company's investment securities owned and securities sold, but not yet purchased as of June 30, 2014

	Securities Owned	Securities Sold but not Purchased
Securities (other than clearing firm deposit)	\$ 130,321	\$ -

Securities sold, but not yet purchased commit the Company to deliver specified securities at predetermined prices. The transactions may result in market risk since, to satisfy the obligation, the Company must acquire the securities at market prices, which may exceed the values reflected in the statements of financial condition. As of June 30, 2014, the Company had \$0 securities sold, but not yet purchased.

**NETWORK 1 FINANCIAL SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2014

**NOTE 4 – DEPOSIT WITH CLEARING ORGANIZATION**

The following represents amounts on deposit with COR Clearing (“COR”), formerly Legent Securities, in the Company’s clearing broker inventory account:

Cash	\$	258,395
Marketable securities, net of fair value adjustment of \$11,893		39,788
Total	\$	<u>298,183</u>

The marketable securities are primarily comprised of corporate stocks. Marketable securities on deposit with COR are reflected at fair value. The Company is required to maintain a deposit balance of \$100,000 with COR of cash and securities.

**NOTE 5 – DUE FROM AFFILIATES**

As of June 30, 2014, due from affiliates consisted of the following:

National Financial Services Group, Inc. (*)	\$	1,860
Network 1 Financial Group Corp. (*)		338,852
Total	\$	<u>340,712</u>

(\*) Represents amounts due from an affiliates whose officers and shareholders are officers and shareholders’ of the Company.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment, net, consists of the following at June 30, 2014:

Equipment	\$	195,834
Furniture and fixtures		76,555
Total		<u>272,389</u>
Less: accumulated depreciation		(195,002)
Property and Equipment - Net	\$	<u>77,387</u>

Depreciation expense for the year ended June 30, 2014 was approximately \$ 23,572.

**NOTE 7 – CAPITAL LEASE OBLIGATION**

The asset and liability under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is included in property and equipment and is amortized over the estimated life of the asset. The interest rate under the lease is 6.89% and is imputed based on the lessor’s implicit rate of return. The capital lease is payable in monthly installments of \$210, including interest through September 2015. In June 2014, the Company entered into a lease agreement for equipment for \$7,939 payable at \$204 per month until September 2017.

Amortization of assets held under the capital lease is included in depreciation expense.

**NETWORK 1 FINANCIAL SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2014

**NOTE 7 – CAPITAL LEASE OBLIGATION (Continued)**

At June 30, 2014, the future lease payments under the capital lease are as follows:

Fiscal Year Ending June 30,	<u>Amount</u>
2015	4,965
2016	3,526
2017	2,448
2018	595
Total minimum lease payments	<u>\$ 11,534</u>

**NOTE 8 – LINE OF CREDIT**

The Company’s bank line is payable on demand. The maximum amount the Company could borrow is \$100,000, indebtedness under the line of credit provides for interest at the bank’s prime rate, plus 1.0%. As of June 30, 2014, the amount outstanding under this credit facility was \$30,000. Indebtedness under the credit agreement is collateralized by substantially all of the assets of the Company and officers personal guarantee. The Company did not reduce the debt by 40% of the outstanding balance per year in 2013 on the anniversary date as required by the loan documents. The bank has not enforced this requirement and the Company can not speculate if and when the bank will require the Company to reduce the outstanding balance. The Company will pay \$1,000 plus interest per month commencing July 2014 until the balance is extinguished.

**NOTE 9 – INCOME TAXES**

As of June 30, 2014, the Company had net operating loss carryforwards available to offset future taxable income of approximately \$2.0 million. These net operating losses which, if not utilized, begin expiring in 2023. At June 30, 2014 the Company has a deferred tax asset, which consists primarily of temporary differences relating to net operating losses. Deferred income taxes reflect the net tax effects of operating loss and tax credit carryforwards and temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. ASC 740 requires that a valuation allowance be established when it is “more likely than not” that all, or a portion of, deferred tax assets will not be realized.

A review of all available positive and negative evidence needs to be considered, including a company’s performance, the market environment in which the company operates the length of carryback and carryforward periods, and expectations of future profits, etc.

The Company believes that uncertainty exists with respect to future realization of the deferred tax assets and has established a valuation allowance for the full amount as of June 30, 2014.

**NOTE 10 – BENEFIT CONTRIBUTION PLAN**

The Company sponsors a 401K profit sharing plan that covers substantially all of its employees. The plan provides for a discretionary annual contribution, and is allocated in proportion to compensation. In addition, each participant may elect to contribute to the Plan by way of a salary deduction. An employee becomes fully vested in the Company’s contribution after 6 years. A participant is fully vested in their own contributions. For the year ended June 30, 2014, the Company made no discretionary contributions to the Plan.

**NETWORK 1 FINANCIAL SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 11 – STOCKHOLDERS' EQUITY**

**Shares Authorized**

The Company's authorized number of shares of capital stock is 20,000,000 issuable in series with rights, preferences, privileges and restrictions as determined by the Board of Directors.

**Series A Preferred Stock**

As of June 30, 2014, the Company has 1,000,000 shares authorized, of 8% Series A preferred stock \$1.00 par value, and 215,000 shares are issued and outstanding.

The Series A preferred stock is redeemable at the option of the Company's Board of Directors at 125% of the issuance price plus any dividends earned but unpaid and after one year outstanding. The Series A preferred stock is non-voting and non-cumulative. Of the 215,000 shares issued, 99,000 shares are owned by National Financial Services Group, Inc., an affiliated Company, whose officers and shareholders' are officers and shareholders of the Company and 31,000 were owned by HT Ardinger and Son an indirect owner of the Broker Dealer. For the year ended June 30, 2014 the Company paid no dividends with respect to the preferred stock.

The preferred stock shareholders are entitled to a bonus dividend at the discretion of the board of directors based on the profitability of the firms market making investment activities minus certain deductions. No bonus dividends were declared for the year ended June 30, 2014.

**Series B Preferred Stock**

As of June 30, 2014, the Company has 4,000,000 shares authorized, of Series B preferred stock \$1.00 par value, none issued and outstanding. The class B preferred stock is non-voting.

**Class A Common Stock**

As of June 30, 2014, the Company has 10,000,000 shares of class A common stock, \$0.01 par value authorized. 1,643,930 shares are issued and 1,141,430 shares are outstanding. The class A common stock is voting.

**Class B Common Stock**

As of June 30, 2014, the Company has 2,000,000 shares of class B common stock, \$0.01 par value authorized, 150,878 shares are issued and 140,528 shares are outstanding. The class B common stock is non-voting and is convertible to class A voting stock on a 1:1 ratio upon 75% member approval of the Board of Directors.

**Class C Common Stock**

As of June 30, 2014, the Company has 3,000,000 shares of class C common stock, \$0.01 par value authorized, none issued and outstanding. The class C common stock is non-voting.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

**Litigation**

On July 25, 2013, the Company received notice of a filing for arbitration naming the Company, the former clearing firm, and two officers and a register representative of the broker dealer. The Claimant is seeking rescission of notes issued to them in the amount of \$345,000 by a company partially owned by the officers, a register representative and the claimant which is defunct. The claimant is also seeking losses that may have occurred in their brokerage account to be determined at a later date. Network 1 Financial Securities was not the placement agent of the said notes. Network 1 Financial Securities has retained counsel to rigorously defend itself. As of August 6, 2014, the Company settled the arbitration through mediation for a payment of \$100,000 due October 5, 2014. As of June 30, 2014, the Company has accrued the settlement liability.

In determining whether to establish a liability, the Company's management uses its judgment to determine the probability that losses have been incurred and a reasonable estimate of the amount of the losses. In making these decisions, we base our judgments on our knowledge of the situations, consultations with legal counsel and our historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution. However, accruals are reviewed regularly and are adjusted to reflect our estimates of the impact of developments, rulings, advice of counsel and any other information pertinent to a particular matter. Because of the inherent difficulty in predicting the ultimate outcome of legal and regulatory actions, we cannot predict with certainty the eventual

**NETWORK 1 FINANCIAL SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2014

loss or range of loss related to such matters. If our judgments prove to be incorrect, our liability for losses and contingencies may not accurately reflect actual losses that result from these actions, which could materially affect results in the period other expenses are ultimately determined.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)**

The Company may be involved in other legal proceedings in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

Lease Commitments

The Company leases its corporate office facility in Red Bank, NJ and Syosset, NY under an operating lease assigned to Network 1 Financial Group, Inc. expiring in June 2015 and August 2017 and respectively. Rent expense for the year ended June 30, 2014 was \$245,819.

**NOTE 14 – FAIR VALUE MEASUREMENTS**

ASC 820 defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes the following three levels of inputs that may be used:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

Level 3: Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The table below summarizes the fair values of financial assets that are measured on a recurring basis at fair value as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Securities held for resale, at market	\$ 70,275	\$ 60,046	\$ -	\$ 130,321
Marketable securities with clearing organization	39,788	-	-	39,788
<b>Total</b>	<b>\$ 110,063</b>	<b>\$ 60,046</b>	<b>\$ -</b>	<b>\$ 170,109</b>

**NOTE 15 – NET CAPITAL REQUIREMENTS**

The Company is a registered broker-dealer and is subject to the SEC's Uniform Net Capital Rule 15c3-1. This requires that the Company maintain minimum net capital of \$100,000 and also requires that the ratio of aggregate indebtedness, as defined, to net capital, shall not exceed 15 to 1.

As of June 30, 2014, the Company's net capital exceeded the requirement by approximately \$260,367.

Advances, dividend payments and other equity withdrawals are restricted by the regulations of the SEC, and other regulatory agencies are subject to certain notification and other provisions of the net capital rules of the SEC. The Company qualifies under the exemptive provisions of Rule 15c3-3 as the Company does not carry security accounts for customers or perform custodial functions related to customer securities.

NETWORK 1 FINANCIAL SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 16 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were available to be issued, which is the same date as the independent auditors' report

As of August 6, 2014, the Company settled the arbitration through mediation for a payment of \$100,000 due October 5, 2014. As of June 30, 2014, the Company has accrued the settlement liability.

In July 2014, the Company has agreed to pay \$1,000 plus interest per month to pay off the line of credit.

**SUPPLEMENTATRY INFORMATION**

**NETWORK 1 FINANCIAL SECURITIES, INC.**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**AS OF JUNE 30, 2014**

SCHEDULE I: Computation of Net Capital Under Rule 15c3-1.

NET CAPITAL	
Total stockholders' equity	\$ 1,402,268
Deductions and/or charges:	
Non-allowable assets:	
Due from affiliates	340,712
Advances to registered representatives	97,006
Prepaid expenses	52,758
Loans receivable	385,423
Property and equipment	77,387
Marketable securities, restricted	70,793
	<u>1,024,079</u>
NET CAPITAL BEFORE HAIRCUTS AND SECURITIES	378,189
Haircuts of securities	
Trading and investment securities:	
Other securities	14,416
Blockage charges	3,406
	<u>17,822</u>
NET CAPITAL	<u>\$ 360,367</u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT	
Minimum net capital required	100,000
Excess net capital	260,367
Excess net capital at 1000%	240,367
AGGREGATE INDEBTEDNESS	
Items included in statement of financial condition:	
Line of credit	30,000
Commissions payable	491,190
Securities sold short	-
Capital leases	11,534
Accounts payable, accrued expense and other liabilities	346,760
TOTAL AGGREGATE INDEBTEDNESS	<u>\$ 879,484</u>

Ratio: aggregate indebtedness to net capital 2 to 1

RECONCILIATION WITH COMPANY'S COMPUTATION (Included in Part II of Form X-17a-5 as of June 30, 2014)

Net capital as reported in unaudited FOCUS report as filed	\$ 466,493
Difference in other liabilities	(104,342)
Difference in other securities haircuts	(1,784)
Net capital per above	<u>\$ 360,367</u>

**NETWORK 1 FINANCIAL SECURITIES, INC.**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**AS OF JUNE 30, 2014**

**SCHEDULE II: COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS UNDER RULE 15c3-3**

The Company is exempt from the provision of rule 15c3-3 and for the year ended June 30, 2014, the Company was in compliance with the conditions of exemption.

**SCHEDULE III: INFORMATION FOR POSSESSION OR CONTROL REQUIREMENTS UNDER RULE 15c3-3**

The Company is exempt from the provision of rule 15c3-3 and for the year ended June 30, 2014, the Company was in compliance with the conditions of exemption.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors  
Network 1 Financial Securities, Inc.  
Red Bank, New Jersey

We have reviewed management's statements, included in the accompanying Exemption Report, in (1) which Network 1 Financial Securities, Inc. identified the following provisions of 17 C.F.R. §15c3-3(k) under which Network 1 Financial Securities, Inc. claimed an exemption from 17 C.F.R. §240.15c3-3 (k) (2) (ii) "All customer transactions cleared through another broker-dealer on a fully disclosed basis" (the "exemption provisions") and (2) Network 1 Financial Securities, Inc. stated that Network 1 Financial Securities, Inc. met the identified exemption provisions throughout the most recent fiscal year without exception. Network 1 Financial Securities, Inc.'s management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about Network 1 Financial Securities, Inc.'s compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k) (2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

*Liggett Vagt & Webb, P.A.*

LIGGETT, VOGT & WEBB, P.A.

New York, New York  
August 28, 2014

**INDEPENDENT ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT  
ON SCHEDULE OF ASSESSMENT AND PAYMENTS (FORM SIPC-7)**

The Board of Directors  
Network 1 Financial Securities, Inc.  
Red Bank, New Jersey

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments (Form SIPC-7) to the Securities Investor Protection Corporation (SIPC) for the year ended June 30, 2014, which were agreed to by Network 1 Financial Securities, Inc. , and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc. and SIPC, solely to assist you and the other specified parties in evaluating Network 1 Financial securities Inc.'s compliance with the applicable instructions of Form SIPC-7. Network 1 Financial Securities, Inc.'s management is responsible for Network 1 Financial Securities, Inc.'s compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the Public Company Accounting Oversight Board (United States). The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries, noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended June 30, 2014 , as applicable, with the amounts reported in Form SIPC-7 for the year ended June 30, 2014 , noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers, noting no differences;
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*Liggett Vagt & Webb, P.A.*  
LIGGETT, VOGT & WEBB, P.A.

New York, New York  
August 28, 2014

NETWORK 1 FINANCIAL  
SECURITIES, INC.

September 12, 2014

Securities and Exchange Commission  
Attention: Registrations Branch  
Mail Stop 8031  
100 F Street  
Washington, DC 20549

Securities and Exchange Commission  
Attention: Andrew Calamari, Regional Director  
Brookfield Place  
200 Vesey Street, Suite 400  
New York, NY 10281-1022

Reference: Affirmation Letter for Exemption 15c3-3 (Audit)

To Whom It May Concern:

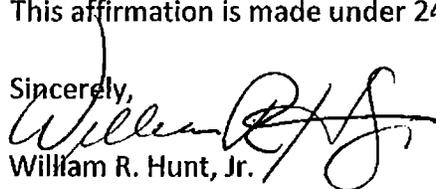
Network 1 Financial Securities (NETW) clears its business on a fully disclosed basis with COR Clearing LLC.

NETW utilizes the exemption under SEC 240-15c3-3 (k) (iii) The Firm promptly transmits all funds and delivers all securities received in connection with its activities as a broker or dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers. as a not clearing broker. NETW does not maintain custody of client funds or securities for the fiscal year ending June 30, 2014.

NETW met this exemption throughout its most recent year without exception.

This affirmation is made under 240-15c3-3 by the undersigned.

Sincerely,

  
William R. Hunt, Jr.  
President, COO, CFO

CC: Kelli Wilson- FINRA District 9  
581 Main Street 7<sup>th</sup> Floor  
Woodbridge, NJ 07095

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