

CPA/1/14

PUBLIC

SECURITIES AND EXCHANGE COMMISSION

SEC



14045410

SSION

RECEIVED

FEB 27 2014

DIVISION OF TRADING & MARKETS

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	March 31, 2016
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
B- 24040

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 01/01/13 AND ENDING 12/31/13
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Commonwealth Financial Network

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

29 Sawyer Road

(No. and Street)

Waltham

(City)

Massachusetts

(State)

02453-3483

(Zip Code)

OFFICIAL USE ONLY
FIRM I.D. NO.

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*

Marcum, LLP

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

53 State Street, 38th Floor

(Address)

Boston

(City)

Massachusetts

(State)

02109

(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)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

CPA/1/14

OATH OR AFFIRMATION

I, Paul Ims, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Commonwealth Financial Network, as of December, 31, 20 13, 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:

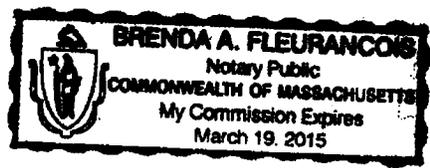


Signature
Controller

Title



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).



COMMONWEALTH FINANCIAL NETWORKSM
A REGISTERED SERVICE MARK OF
COMMONWEALTH EQUITY SERVICES, INC.

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2013 AND 2012

COMMONWEALTH FINANCIAL NETWORKSM
A REGISTERED SERVICE MARK OF
COMMONWEALTH EQUITY SERVICES, INC.

CONTENTS

Independent Auditors' Report 1-2

Financial Statements

Statements of Financial Condition 3

Notes to Financial Statements..... 4-14



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Commonwealth Financial NetworkSM
A Registered Service Mark for Commonwealth Equity Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Commonwealth Financial NetworkSM ("Commonwealth" or the "Company"), a Registered Service Mark for Commonwealth Equity Services, Inc., which comprise the statements of financial condition as of December 31, 2013 and 2012 that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.16 under the Commodity Exchange Act ("CEAct"), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Financial NetworkSM as of December 31, 2013 and 2012, in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Boston, MA
February 24, 2014

COMMONWEALTH FINANCIAL NETWORKSM

STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2013 AND 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 47,987,654	\$ 48,357,566
Restricted cash and cash equivalents	3,435,546	3,712,223
Receivables:		
Brokers and clearing organizations	20,921,864	24,818,027
Employees and advisors	22,723,977	19,370,397
Other	82,055	32,515
Securities owned, at fair value	37,856,322	32,578,507
Property and equipment, net	14,310,931	17,826,800
Deferred tax assets	999,980	769,943
Other assets	2,953,353	3,222,147
Deposits with clearing organizations	50,000	50,000
Total Assets	\$ 151,321,682	\$ 150,738,125
Liabilities and Shareholders' Equity		
Accrued liabilities	\$ 14,704,564	\$ 11,521,996
Accrued deferred compensation	43,392,528	37,961,414
Payables:		
Brokers and clearing organizations	10,825,678	16,476,858
Trade and reimbursements	5,448,953	7,551,905
Dividends payable	5,058,210	5,907,068
Deferred revenue	666,667	666,667
Subordinated borrowings - related parties	61,905,000	61,905,000
Other liabilities	397,096	456,824
Income tax payable	53,076	70,426
Due to affiliates	538,105	280,196
Total Liabilities	142,989,877	142,798,354
Commitments and contingencies (Note 10)		
Shareholders' Equity		
3,400,000 shares authorized and 2,400,000 shares issued and outstanding at December 31, 2013 and 2012	3,254,564	3,254,564
Retained earnings	5,077,241	4,685,207
Total Shareholders' Equity	8,331,805	7,939,771
Total Liabilities and Shareholders' Equity	\$ 151,321,682	\$ 150,738,125

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

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 – NATURE OF BUSINESS

Commonwealth Financial NetworkSM is a Registered Service Mark of Commonwealth Equity Services, Inc. (“Commonwealth” or the “Company”). The Company, organized in Massachusetts and founded in 1979, has offices in Waltham, Massachusetts and San Diego, California. The Company is an independent broker/dealer and registered investment advisor that is the “home office” for its national network of independent registered representatives and independent advisor representatives. These representatives (advisors) are licensed to sell securities through the Company with the Financial Industry Regulatory Authority (“FINRA”) and the Securities and Exchange Commission (the “SEC”), respectively. The Company is also subject to regulation by the U.S. Commodities Futures Trading Commission (the “CFTC”) and the National Futures Association. The Company clears its public customer accounts on an introducing basis with National Financial Services, LLC, a Fidelity Investments Company, and other providers.

The Company operates under the provisions of Paragraph (k)(2)(ii) of rule 15c3-3 of the Securities Exchange Act of 1934 and, accordingly, is exempt from the remaining provisions of that rule. Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker-dealer and promptly transmit all customer funds and securities to the clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker-dealer.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SECURITIES OWNED

Proprietary securities transactions are reflected on a trade-date basis. The Company’s proprietary security positions are recorded at fair value with the resulting net unrealized gains and losses reflected in current operations.

FAIR VALUE MEASUREMENT

The Company conducts its principal trading through three designated trading accounts. One of these accounts is used to facilitate fixed income trading on a same day buy-sell basis. The second and third account is used to facilitate fixed income trading for two advisors and may carry positions overnight. These securities are normally held in the account for no longer than thirty days and are recorded at fair value.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT (CONTINUED)

The Financial Accounting Standards Board (“FASB”) ASC 820, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure Fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

RECEIVABLE FROM AND PAYABLE TO BROKERS AND CLEARING ORGANIZATIONS

The balances shown as receivable from and payable to brokers and clearing organizations represent amounts due in connection with the Company’s normal transactions involving trading of securities. Management considers all receivables to be collectible; therefore, no allowance for doubtful accounts has been provided for.

CASH AND CASH EQUIVALENTS

The Company defines cash equivalents as liquid overnight deposits held in the ordinary course of business, as well as all short-term investments with a maturity at the date of purchase of ninety days or less.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the related assets, over a period of three to five years. Leasehold improvements are recorded at cost and are amortized over the shorter of the lease term or estimated useful life. Routine repairs and maintenance are expensed as incurred.

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. All capitalized internal use software development costs are amortized using the straight-line method over the estimated useful life, ranging from three to five years, once placed in service.

INCOME TAXES

The Company has elected to be treated as an S Corporation. As such, the Company has no federal tax liabilities. Its federal taxable income is reported on the tax returns of its shareholders. However, the Company was liable for state taxes levied on S Corporations by Massachusetts, California, and Texas.

The Company recognizes deferred tax liabilities and assets for expected future state income tax consequences of events that have been recognized in the Company's financial statements. Deferred state income taxes result from temporary differences in reporting income for financial statement and income tax purposes.

DEFERRED COMPENSATION

The Company recognizes the obligation to provide postemployment benefits if the obligation is attributable to employees' services already rendered, employees' rights to those benefits accumulate or vest, payment of the benefits is probable, and the amount of the benefits can be reasonably estimated.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were issued. All material subsequent events requiring adjustment to or disclosure in the financial statements are reflected therein.

NOTE 3 – FAIR VALUE MEASUREMENTS

The following tables present the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2013 and 2012:

	Assets at Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Debt securities:				
Municipal bonds	\$ --	\$ 4,264,547	\$ --	\$ 4,264,547
Corporate bonds	--	367,460	--	367,460
REITs	--	1,018,583	--	1,018,583
Equities:				
Mutual funds	15,646,279	--	--	15,646,279
Fixed income mutual funds	16,559,453	--	--	16,559,453
Total securities owned	\$ 32,205,732	\$ 5,650,590	\$ --	\$ 37,856,322

	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Debt securities:				
Municipal bonds	\$ --	\$ 643,838	\$ --	\$ 643,838
Auction rate securities	--	--	1,470,500	1,470,500
Equities:				
Mutual funds	14,798,414	--	--	14,798,414
Fixed income mutual funds	15,665,755	--	--	15,665,755
Total securities owned	\$ 30,464,169	\$ 643,838	\$ 1,470,500	\$ 32,578,507

Investments in mutual funds, including money market mutual funds, are generally priced at the ending net asset value (NAV) provided by the service agent of the funds. These securities will be categorized as Level 1 securities.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

The fair value of municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility. Municipal bonds will be categorized in Level 2 of the fair value hierarchy.

Investments in REITs are generally valued based on external broker quotes using external price/spread data. If external price data is not observable, the valuation is either based on prices of comparable securities or based on the net asset value (NAV) as published by the REIT managers. Investments in REITs are generally categorized in Level 2 or Level 3 of the fair value hierarchy.

Auction rate securities are generally valued based on external broker quotes using external price/spread data. If external price data is not observable the valuation is either based on prices of comparable securities or cash flow models that consider inputs including default rates, conditional prepayments rates, loss severity, expected yield to maturity and other inputs specific to each security. Auction rate securities are generally categorized in level 2 or level 3 of the fair value hierarchy.

Corporate bonds when valued using market quotations in an active market, will be categorized as Level 1 securities. However, they may be valued on the basis of prices furnished by a pricing service when the Company believes such prices more accurately reflect the fair value of such securities. A pricing service utilizes electronic data processing techniques based on yield spreads relating to securities with similar characteristics to determine prices for normal institutional-size trading units of debt securities without regard to sale or bid prices. These securities will generally be categorized as Level 2 securities. If the Company decides that a price provided by the pricing service does not accurately reflect the fair value of the securities, when prices are not readily available from a pricing service, or when certain restricted or illiquid securities are being valued, securities are valued at fair value as determined in good faith by the Company. These securities will be categorized as Level 3 securities.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table represents activity in assets measured using Level 3 inputs as of December 31, 2013 and 2012:

		Fair Value Measurements Using Level 3 Inputs				
		Investments				
		Level 3			Net Transfers	Level 3
		Beginning	Realized and	Purchases,	In and/or	Ending Balance
		Balance	Unrealized	Sales and	(Out) of	December 31,
		January 1, 2013	Gains (Losses)	Settlements	Level 3	2013
Auction Rate						
Securities		<u>\$ 1,470,500</u>	<u>\$ 186,750</u>	<u>\$ (1,657,250)</u>	<u>\$ --</u>	<u>\$ --</u>
		Fair Value Measurements Using Level 3 Inputs				
		Investments				
		Level 3			Net Transfers	Level 3
		Beginning	Realized and	Purchases,	In and/or	Ending Balance
		Balance	Unrealized	Sales and	(Out) of	December 31,
		January 1, 2012	Gains (Losses)	Settlements	Level 3	2012
Auction Rate						
Securities		<u>\$ 2,495,000</u>	<u>\$ 300,500</u>	<u>\$ (1,325,000)</u>	<u>\$ --</u>	<u>\$ 1,470,500</u>

NOTE 4 – RECEIVABLE FROM AND PAYABLE TO CLEARING ORGANIZATIONS

The Company has a margin account with its clearing firm, National Financial Services, LLC, for the purpose of buying and selling securities in the Company's inventory account. At December 31, 2013 and 2012, there were trades that were pending settlement, resulting in a receivable from clearing organizations of \$875,167 and a receivable to clearing organizations of \$268,245 respectively, included in the statements of financial condition under receivable and payable brokers and clearing organizations.

NOTE 5 – ADVISOR LOANS

In order to assist advisors in setting up their respective businesses, the Company makes various loans to such individuals. These loans are generally forgivable over a five year period and forgiveness is based upon the achievement of specific production levels. In some cases, loans are non-forgivable and are subject to an amortization schedule, with monthly payments of principal and interest required. As of December 31, 2013 and 2012, the balances of advisor loans owed to the Company were \$22,415,568 and \$19,023,306, respectively. At December 31, 2013 and 2012 \$14,188,714 (63%) and \$11,432,607 (60%), respectively, of the outstanding amount was forgivable.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 6 – PROPERTY AND EQUIPMENT

The components of property and equipment are as follows at December 31:

	2013	2012
Furniture and fixtures	\$ 2,591,349	\$ 2,499,920
Hardware and software	41,915,933	39,098,722
Leasehold improvements	<u>6,495,634</u>	<u>6,495,634</u>
	51,002,916	48,094,276
Less: accumulated depreciation	<u>(36,691,985)</u>	<u>(30,267,476)</u>
	<u>\$ 14,310,931</u>	<u>\$ 17,826,800</u>

NOTE 7 – SUBORDINATED BORROWINGS - RELATED PARTIES

The lenders, consisting of the Company's principal shareholders, have, under all agreements, subordinated their right of collection of principal and claims to all other present and future senior creditors of the Company prior to the expiration of the respective notes. The subordinated borrowings are covered by agreements approved by FINRA and are thus available for computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. During 2013 and 2012, \$0 and \$8,550,000, respectively, was loaned to the Company. In 2013 and 2012, the Company consolidated certain loans in the aggregate of \$12,294,000 and \$3,110,000, respectively. At December 31, 2013 and 2012, subordinated loans amounted to \$61,905,000.

The Company has subordinated borrowings maturing as follows:

2014	\$ --
2015	49,611,000
2016	<u>12,294,000</u>
Total	<u>\$ 61,905,000</u>

The interest rate on all subordinated debt is at the prime lending rate, plus an additional three percent (6.25%) at December 31, 2013 and 2012, payable monthly. All subordinated notes issued on or after November 30, 2010 have a minimum interest rate of 6%.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 8 – INCOME TAXES

The Company has recorded a provision for state income taxes, based on its taxable income, as well as a deferred benefit for state taxes as a result of a deferred tax asset that is generated from the tax effect of temporary differences primarily resulting from capitalized software development costs, accruals, depreciation, and amortization. Deferred tax assets at December 31, 2013 and 2012 were \$999,980 and \$769,943, respectively.

The components of deferred tax assets (liabilities) are as follows as of December 31:

	2013	2012
Depreciation and amortization	\$ 58,562	\$ 37,086
Accruals	1,229,049	1,035,246
Capitalized software	(146,668)	(216,139)
Other	(140,963)	(86,250)
	<u>\$ 999,980</u>	<u>\$ 769,943</u>

NOTE 9 - OPTION PLANS

STOCK OPTION PLAN

On July 1, 2000, the Company adopted the Commonwealth Non-Qualified Stock Option Plan (the “Plan”) designed to encourage employees to continue employment with the Company. The Plan permits the Company to grant options to its employees up to a maximum of 1,000,000 and 600,000 shares as of December 31, 2013 and 2012, respectively. Options granted under the Plan generally vest over a five-year period and expire 25 years from the grant date.

There were 481,227 and 427,386 options exercisable at December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012 the weighted average exercise price of options outstanding was \$74.44 and \$69.54, respectively.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 10 – COMMITMENTS AND CONTINGENCIES

OPERATING LEASE

The Company leases office space in Waltham, Massachusetts, San Diego, California and Marlborough, Massachusetts with expiration dates in 2020, 2016, and 2020, respectively.

During July 2005, the Company began to lease additional space in its Waltham Massachusetts office and extended the lease term through 2020. As part of the lessor's requirement for leasing this additional office space in Waltham, the Company has set aside funds totaling approximately \$2,700,000, which is included in restricted cash and cash equivalents on the Statement of Financial Condition. Additionally, the Company subleases part of their Waltham and San Diego offices and the rental receipts reduce the Company's overall rental costs. The Company has entered into various operating leases for office equipment and furniture.

Future minimum lease payments under operating leases are as follows:

	Facilities	Equipment and Furniture
2014	\$ 3,813,687	\$ 35,494
2015	3,833,646	24,564
2016	3,028,498	12,170
2017	2,686,958	--
2018	2,871,544	--
Thereafter	<u>4,239,465</u>	<u>--</u>
Total	<u>\$ 20,473,798</u>	<u>\$ 72,228</u>

LITIGATION AND CLAIMS

The Company is involved with various judicial, regulatory, and arbitration proceedings concerning matters arising in connection with the conduct of its business. At December 31, 2013 and 2012 the Company was the co-defendant in several lawsuits. Management believes, based on current available information, that the results of such proceedings in the aggregate will not have a material adverse effect on the Company's financial condition. The Company has Errors and Omissions insurance to protect itself from potential damages and/or legal costs associated with the aforementioned claims. The Company has accrued expenses for legal costs and potential settlements of approximately \$110,000 and \$310,000 for the years ended December 31, 2013 and 2012, respectively.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

DEFERRED COMPENSATION

The Company has entered into agreements (the “Agreements”) with ten employees (the “Employees”) that provide for the payment of deferred compensation upon termination of employment, subject to five-year vesting schedules. Following termination of employment, each of the Employees will be entitled to receive cash payments that in total equal the value of his or her vested deferred compensation as determined under terms of the Agreements. One of the employees terminated employment with the Company in 2013 and is now receiving payments of deferred compensation in accordance with the terms of the Agreement. The Company began recording accrued deferred compensation in 2006 in accordance with the vesting schedules.

EQUITY REPURCHASE OBLIGATION – MINORITY OWNER

The Company is obligated to repurchase the equity interest of a minority owner, also an employee, as a result of an agreement signed in 1999 (the “1999 Agreement”). Following termination of his employment and in exchange for his entire equity ownership interest, the minority owner will receive six semi-annual cash payments that in total equals the value of his equity interest, as determined under the terms of the 1999 Agreement.

NOTE 11 – RELATED PARTY TRANSACTIONS

DUE TO AFFILIATE

During the course of the year, the Company advances to and borrows from related parties to facilitate short-term cash flow requirements. These related parties are owned and controlled by a principal officer and shareholder of the Company. The balances consisted primarily of monies owed to and due from CES Insurance Agency, Inc. (“CESI”). CESI is an affiliated entity that assists the Company’s independent advisors in the selling of insurance-based products. The Company provides ongoing operational and marketing services to CESI at prevailing market rates. At December 31, 2013 and 2012, the balance due to affiliated parties was \$538,105 and \$280,196, respectively.

DIVIDENDS

The Company has dividends payable of \$5,058,210 and \$5,907,068 for the years ended December 31, 2013 and 2012, respectively.

COMMONWEALTH FINANCIAL NETWORKSM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 12 – CONCENTRATIONS

For the years ended December 31, 2013 and 2012, commissions receivable from the Company's clearing firm, National Financial Services, LLC, was \$13,159,409 and \$12,395,876, respectively, or 63% and 50%, respectively, of all receivables from brokers and clearing organizations.

NOTE 13 – NET CAPITAL REQUIREMENTS

The Company is a registered broker-dealer and, accordingly, is subject to the SEC Uniform Net Capital Rule ("SEC Rule 15c3-1"), which requires the Company to maintain minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2013 and 2012, the Company had net capital of \$18,778,539 and \$18,078,484, respectively, which was sufficient to meet the required net capital of \$5,460,328 and \$5,409,287, respectively. The Company's net capital ratio for December 31, 2013 and 2012 was 4.36 and 4.49 to 1, respectively.