

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022074999801**

TO: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)

RE: Network 1 Financial Securities, Inc. (Respondent)
Member Firm
CRD No. 13577

Pursuant to FINRA Rule 9216, Respondent Network 1 Financial Securities, Inc. submits this Letter of Acceptance, Waiver, and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Network 1 has been a FINRA member firm since 1983. The firm is headquartered in Red Bank, New Jersey, has 13 branch offices, and approximately 100 registered representatives.

In 2023, Network 1 entered into an AWC in which it consented to findings that, among other things, the firm had failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with the suitability requirements of FINRA Rule 2111 and the Care Obligation of Rule 15c-1 of the Securities Exchange Act of 1934 (Regulation BI). The firm was, among other things, censured, fined \$200,000, and ordered to pay \$533,587 (plus interest) in restitution.¹

OVERVIEW

Between October 2021 and July 2022, Network 1 failed to reasonably supervise a sales representative's activity relating to a private placement in violation of FINRA Rules 3110 and 2010.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

In April 2022, Network 1 distributed offering materials for the private placement that contained erroneous and/or misleading information in violation of FINRA Rules 2210 and 2010.

For these violations, Network 1 is censured, fined \$50,000, and agrees to remediate the issues identified in this AWC.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a review by FINRA’s Corporate Financing Department.

Background

In October 2021, a representative of Company A approached representatives of Network 1 to retain the firm as placement agent for a private placement. Company A indicated to the Network 1 representatives that its planned business was to operate a “blockchain integrated exchange platform” for investors to trade fractional interests in works of fine art. The investors in the private placement would be purchasing shares in Company A, which would operate the exchange.

In or about November 2021, Network 1 agreed to serve as the placement agent and began performing due diligence on the proposed offering. As part of that due diligence, a member of Network 1’s investment banking department raised concerns regarding one of Company A’s assets.

In mid-April 2022, following the completion of initial due diligence, Network 1 held a “kick off call” with and provided the offering documents to several of its registered representatives responsible for selling private placements. Following this call, one of those representatives sent the offering documents—including the private placement memorandum, a promotional slide deck, and a one-page advertising summary drafted by Company A—to over a dozen potential investors to determine their interest. These communications began the day after the “kick off call” and continued through at least the end of the month.

One of the documents sent to potential investors—the one-page advertising summary—incorrectly stated that the private placement would be “contractually collateralized by debt-free blue-chip artwork,” even though there was no contractual collateralization in place; rather, Company A listed the painting in question as an asset on its balance sheet. The one-page summary and the accompanying slide deck also included exaggerated statements about the company’s intended business and, unlike the private placement memorandum, failed to disclose the key risks of investing in Company A, such as its limited operating history and novel business model, disclosures that were instead limited to the private placement memorandum. None of the potential investors solicited by the firm elected to participate in the offering.

In or about June 2022, Network 1 decided not to move forward with the offering because of, among other things, renewed concerns with the asset of Company A discussed above.

In July 2022, Network 1 sent a letter to Company A explaining that it would no longer participate in the offering.

Network 1 failed to reasonably supervise a sales representative's activity related to Company A's private placement.

FINRA Rule 3110(a) requires a member firm to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags and to act upon the results of such investigation.

A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010, which requires a firm to observe high standards of commercial honor and just and equitable principles of trade in the conduct of its business.

As described above, Network 1 allowed one of its representatives to send correspondence and institutional communications to investors regarding Company A, even though Network 1 had unresolved concerns regarding one of Company A's assets, which ultimately led Network 1 to decline further participation in the offering.

Therefore, Respondent violated FINRA Rules 3110 and 2010.

Network 1 distributed correspondence and institutional communications that included erroneous and/or misleading information and failed to list key risks of investing in Company A.

FINRA Rule 2210(d)(1)(A) provides that “[a]ll member communications must be based on principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry, or service. No member may omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the communications to be misleading.”

FINRA Rule 2210(d)(1)(B) provides that “[n]o member may make any false, exaggerated, unwarranted, promissory or misleading statement or claim in any communication. No member may publish, circulate or distribute any communication that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.”

A violation of FINRA Rule 2210 also constitutes a violation of FINRA Rule 2010.

As described above, in April 2022, Network 1 distributed correspondence and institutional communications that contained erroneous and/or misleading information, including that the private placement was “contractually collateralized by debt-free blue-chip artwork,” as well as exaggerated statements regarding Company A's intended

business. The advertising summary and the accompanying slide deck also failed to disclose the key risks of the offering, such as the issuer's limited history and the novel nature of its proposed exchange.

Therefore, Respondent violated FINRA Rules 2210 and 2010.

B. Respondent also consents to the imposition of the following sanctions:

- a censure;
- a \$50,000 fine; and
- an undertaking that, within 60 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Jonathan Ossip, Principal Counsel, Department of Enforcement, 1700 K Street NW, Washington, DC 20006, or by email to jonathan.ossip@finra.org with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a complaint issued specifying the allegations against it;
- B. To be notified of the complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and
 - 4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this statement. This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to the AWC's

provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

5/9/25
Date




Network 1 Financial Securities, Inc.
Respondent

Print Name: Damon D. Testaverde

Title: Chairman

Reviewed by:

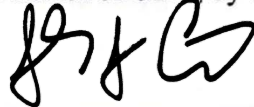


Timothy Feil, Esq.
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Gusrae Kaplan Nusbaum PLLC
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Melville, NY 11747

Accepted by FINRA:

June 4, 2025
Date

Signed on behalf of the
Director of ODA, by delegated authority



Jonathan J. Ossip
Principal Counsel
FINRA
Department of Enforcement
1700 K Street NW
Washington, DC 20006