

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. EAF0400940001

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REGISTRATION & DISCLOSURE

TO: Department of Enforcement
NASD

RE: Network 1 Financial Securities, Inc., CRD No. 13577, Respondent
Damon D. Testaverde, CRD No. 444453, Respondent
Richard W. Hunt, CRD No. 830574, Respondent

Pursuant to Rule 9216 of NASD Code of Procedure, Respondents Network 1 Financial Securities, Inc. ("Network"), Damon D. Testaverde, and Richard W. Hunt (collectively, "Respondents") submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against Respondents alleging violations based upon the same factual findings.

Respondents understand that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and
3. If accepted:
 - a. this AWC will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by NASD or any other regulator against Respondents;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about Respondents' disciplinary records;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. Respondents may not take any action or make or permit to be made any

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- d. Respondents 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. Nothing in this provision affects Respondents' testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

Respondents also understand that their experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

Network, CRD No. 13577, located in Red Bank, New Jersey, has been an NASD member since August 1983. During the period April 1, 2003 through September 2004 (the "relevant period"), it had approximately 40 registered persons working in seven offices. The firm's business includes retail sales of equity securities and mutual funds; market making; and investment banking.

Damon D. Testaverde, CRD No. 444453, first became registered in the securities industry as a registered representative with Inverness Distributors, Inc. in 1969. He also has worked at eight other firms in various capacities. Since July 1994, Testaverde has been registered as a General Securities Representative and Principal, a Financial and Operations Principal and a Municipal Principal with Network. In 1998, he became registered as an Equity Trader. Testaverde has a disciplinary history. On November 9, 1993, pursuant to an Offer of Settlement, Testaverde was ordered to pay a \$20,000 fine and was suspended in all capacities for two weeks and in a principal capacity for two months as sanctions for violating SEC Rule 10b-6 for distributing a stock while making a market in a security.

Richard W. Hunt, CRD No. 830574, has been registered with Network since he bought the firm in March 1988. He has been registered in the securities industry since 1976. During the relevant period, Hunt served as Network's Chief Executive Officer, Chief Compliance Officer, and Supervisor in charge of Compliance, Branch Office Operations, Sales Activities, and Underwriting. During that time period, Hunt was registered as a General Securities Representative and Principal, Municipal Securities Representative and Principal and an Equity Trader.

I.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against them;
- B. To be notified of the Formal 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 NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, 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 acceptance or rejection of this AWC.

Respondents further specifically and voluntarily waive any right to claim that a person violated the *ex parte* prohibitions of Rule 9143 or the separation of functions prohibitions of 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.

II.

ACCEPTANCE AND CONSENT

A. Findings

Respondents hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

Summary

Between April 2003 and September 2004, Network, through Testaverde, solicited one of its customers, H.T.A., who was a controlling shareholder of International Smart Sourcing, Inc., to sell to Network shares of the common stock of International Smart Sourcing, Inc. ("ISSG") in amounts that exceeded the limits that a controlling shareholder could sell in public transactions. Network purchased these shares of ISSG with the intent to distribute them through its market making activities and then resold them to the public. By doing so, Network and Testaverde violated NASD Conduct Rule 2110, by participating in the sale of unregistered securities in violation of Section 5 of the Securities Act of 1933.

In addition, Network, through Hunt, failed to establish, maintain and enforce a supervisory system, including written procedures, reasonably designed to ensure compliance with the requirements of Section 5 of the Securities Act of 1933, in violation of NASD Conduct Rules 3010(a) and (b) and 2110. Hunt, who was Testaverde's direct supervisor, also failed to reasonably supervise Testaverde's activities in connection with soliciting H.T.A. to sell large blocks of ISSG to Network in principal transactions. As a result, Network and Hunt violated NASD Conduct Rule 3010(a).

Network and Testaverde Violated NASD Conduct Rule 2110 by Virtue of Their Participation in the Sale of Unregistered Securities, in Violation of Section 5 of the Securities Act of 1933

1. In April 2003, Testaverde's customer, H.T.A., who had been a customer of Testaverde and Network since approximately April 1996, was the largest shareholder of International Smart Sourcing, Inc. International Smart Sourcing, Inc.'s common stock, ISSG, was a thinly traded Over-The-Counter Bulletin Board (OTCBB) security. In April 2003, there were 3,778,887 issued and outstanding shares of ISSG and H.T.A. held 1,228,784 of these shares in his account at Network.

2. Between April 1, 2003 and the end of September 2004, Network made a market in ISSG. Network's trading profits from its market making activities in ISSG were split between Testaverde (70%) and the firm (30%). During this time period, H.T.A. remained the largest shareholder of ISSG, owning between approximately 27.19% and 33.42% of the total shares outstanding.

3. On April 9 and 21, 2003, Testaverde solicited H.T.A. to sell 201,700 shares of ISSG and arranged for Network to purchase these shares in two principal transactions. The shares of ISSG sold by H.T.A. in these two April 2003 transactions amounted to approximately 5.3% of the shares outstanding.

4. On June 17, 2003, Testaverde solicited H.T.A. to sell 5,000 shares of ISSG and arranged for Network to purchase these shares in a principal transaction. When this sale is combined with the sales less than three months prior, H.T.A.'s sales represented approximately

5.5% of the shares outstanding.

5. On November 24, 2003, Testaverde solicited H.T.A. to sell 30,000 shares of ISSG and arranged for Network to purchase these shares in a principal transaction.

6. On January 2, 2004, Testaverde solicited H.T.A. to sell 131,500 shares of ISSG and arranged for Network to purchase these shares in a principal transaction. The shares of ISSG sold by H.T.A. in this single January 2004 transaction amounted to approximately 3.5% of the shares outstanding. When this sale is combined with the November 2003 sale less than three months prior, H.T.A.'s sales represented approximately 4.3% of the shares outstanding.

7. On September 24 and 28, 2004, Testaverde solicited H.T.A. to sell 68,000 shares of ISSG and arranged for Network to purchase these shares in two principal transactions. The shares of ISSG sold by H.T.A. in these two September 2004 transactions amounted to approximately 1.8% of the shares outstanding.

8. Network executed and reported each of the above transactions to the public market. Network deposited the shares bought from H.T.A. into its trading account and subsequently re-sold them to the public within one year. By the end of December 2004, Network generated gross profits of approximately \$500,000 as a result of these public resales of ISSG.

9. Rule 144, promulgated under the Securities Act of 1933, is a safe-harbor provision that, among other things, provides guidelines for the volume and timing of resales of securities by "control persons" or "affiliates" of an issuer. As the beneficial owner of approximately 30% of the voting securities of ISSG and the company's single largest shareholder, H.T.A. was presumptively a control person or affiliate of ISSG between April 2003 and September 2004.

10. Under Rule 144(e), because H.T.A. was a control person or affiliate of ISSG, and ISSG was an OTCBB security, his sales of ISSG within a three month period could not exceed 1% of the outstanding shares of ISSG. H.T.A.'s sales of ISSG between April 2003 and June 2003, between November 2003 and January 2004, and in September 2004, which Network, through Testaverde, solicited and facilitated, exceeded 1% of the outstanding shares of ISSG.

11. To the extent that H.T.A. sold his ISSG shares in reliance upon Rule 144, he was required by Rule 144(h) to file with the Commission a notice of the proposed sale on Form 144 for all sales of more than 500 shares of ISSG or an aggregate dollar amount greater than \$10,000 in any three-month period. Although each of the purchases and sales involved more than 500 shares, H.T.A. never filed a Form 144.

12. Testaverde and Network were required to conduct a reasonable inquiry into H.T.A.'s transactions including, but not limited to, all facts or statements that must be contained in the notice required by Rule 144(h). Neither Testaverde nor Network conducted such an

inquiry.

13. As a result of H.T.A.'s control person status, the shares of ISSG that Network purchased from H.T.A., without any registration statement or exemption, were considered restricted. There were no registration statements filed or in effect pursuant to the Securities Act of 1933 for the sale of ISSG shares by H.T.A. to Network, and then resold by Network to the public within one year after acquiring the shares. There were also no exemptions from registration applicable to these transactions, which involved the use of instruments of transportation or communication in interstate commerce or of the mails.

14. Testaverde and Network participated, directly or indirectly, in offering or selling these unregistered shares of ISSG. By virtue of their conduct, Testaverde and Network participated in the sale of the unregistered shares of ISSG in violation of Section 5 of the Securities Act of 1933, which constitutes a violation of NASD Conduct Rule 2110.

*Network and Hunt Failed to Establish and Maintain a Supervisory System,
Including Written Procedures, in Violation of NASD Conduct Rules 3010(a) and (b) and 2110*

15. Hunt, as Network's Chief Compliance Officer, was designated as the person responsible for establishing and maintaining the firm's supervisory system, including its written supervisory procedures. Network, through Hunt, failed to establish and maintain a system, including written procedures, to supervise the acts of the firm's registered representatives, that were reasonably designed to achieve compliance with federal securities laws and regulations and applicable NASD Rules.

16. A firm, such as Network, must have written procedures reasonably designed to detect and prevent the distribution of unregistered securities. Network's procedures, however, were not reasonably designed to achieve compliance with the requirements of Rule 144 and Section 5 of the Securities Act of 1933.

17. Network's written procedures indicated, under the title "Sale of Control or Restricted Stock," that the designated supervisor should determine the seller's status (affiliate or non-affiliate); determine the eligibility for selling the amount and timing of sale; and assist the customer in preparation of required forms. The written procedures also defined a control person as:

"Control" person is regarded as one who has the power to direct or cause the direction of the management and policies of an issuer of securities through significant stock ownership (generally 10% or more) or by virtue of holding a board or management position with that issuer. Whether or not a customer has a control relationship with the issuer or is a "statutory underwriter" or holds "restricted securities" are legal questions.

But Network's written procedures provided no guidance to the supervisor in determining or investigating control issues or determining the amount and timing of sales.

18. By virtue of this conduct, Respondent Network and Hunt violated NASD Conduct Rules 3010(a) and (b) and 2110.

*Network and Hunt Failed to Adequately Supervise Testaverde
in Violation of NASD Conduct Rules 3010(a) and 2110*

19. Hunt was Testaverde's designated supervisor. As such, he was responsible for supervising Testaverde's activities in connection with soliciting H.T.A. to sell his shares of ISSG. More specifically, for each of H.T.A.'s proposed sales of ISSG, Hunt, as Testaverde's designated supervisor and in accordance with the written supervisory procedures that he established, was responsible for:

- a. determining H.T.A.'s status as an affiliate or control person;
- b. determining the proper timing and amount of ISSG that H.T.A. could sell; and
- c. supervising the preparation of the required forms for the customer.

20. Hunt failed to supervise properly Testaverde's solicitation of H.T.A.'s sales of ISSG. He did not review the transactions to determine whether H.T.A. was an affiliate or control person. He did not determine the proper timing and amount of ISSG that H.T.A. could sell, nor did he seek to engage independent counsel to assist in a review of any of H.T.A.'s transactions. He also did not adequately supervise to ensure that the required forms were completed.

21. By virtue of this conduct, Network and Hunt violated NASD Conduct Rules 3010(a) and 2110.

B. Sanctions

Network consents to the imposition, at a maximum, of the following sanctions:

1. A censure.
2. A fine of \$100,000.
3. Network agrees to the following undertakings:
 - a. Network shall:

(i) Retain, within 60 days of the date of Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to NASD staff, to conduct a comprehensive review of the adequacy of the Firm's policies, systems, procedures (written and otherwise) and training relating to market making and retail activity.

(ii) Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant.

(iii) Cooperate with the Independent Consultant in all respects, including by providing staff support. Network shall place no restrictions on the Independent Consultant's communications with NASD staff and, upon request, shall make available to NASD staff any and all communications between the Independent Consultant and Network and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, Network shall not terminate the relationship with the Independent Consultant without the NASD staff's written approval; Network shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to the NASD.

(iv) At the conclusion of the review, which shall be no more than 120 days after the date of Notice of Acceptance of this AWC, require the Independent Consultant to submit to the Firm and NASD staff a Written Report. The Written Report shall address, at a minimum, (i) the adequacy of the Firm's policies, systems, procedures and training relating to market making and retail activity; (ii) a description of the review performed and the conclusions reached; and (iii) the Independent Consultant's recommendations for modifications and additions to the Firm's policies, systems, procedures and training; and

(v) Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Network, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as

such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this AWC shall not, without prior written consent of the NASD staff, enter in to any employment, consultant, attorney-client, auditing or other professional relationship with Network or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

- b. Within 30 days after delivery of the Written Report, Network shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The Firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and the NASD staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the Firm with a written decision reflecting his or her determination. The Firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.
- c. Within 30 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), Network shall provide the NASD staff with a written implementation report, certified by an officer of Network, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.
- d. Upon written request showing good cause, the NASD staff may extend any of the procedural dates set forth above.

Hunt consents to the imposition, at a maximum, of the following sanctions:

- 1. A fine of \$25,000.
- 2. A suspension from association with any NASD member in a principal

capacity for 45 days.

Testaverde consents to the imposition, at a maximum, of the following sanctions:

1. A fine of \$50,000.
2. A suspension from association with any NASD member in any capacity for four months, to commence immediately after the term of Hunt's suspension.

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

OTHER MATTERS

- A. Respondents understand that they may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 NASD, nor does it reflect the views of NASD or its staff.
- B. Respondents agree to pay any monetary sanctions imposed upon them upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have each attached an Election of Payment form showing the method by which they propose to pay any fine imposed.
- C. Respondents specifically and voluntarily waives any right to claim that they are unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Respondents certify that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce them to submit it.

3/6/07
Date

Network 1 Financial Securities, Inc.
Respondent

By: [Signature]
[Name and title]

3/6/07
Date

[Signature]
Damon D. Testaverde
Respondent

3/6/07
Date

[Signature]
Richard W. Hunt
Respondent

Reviewed by:

[Signature]
Joseph C. Mascarelli
Counsel for Respondents
906 Lenox Drive
Lawrenceville, NJ 08648-2389
609-896-9060

Accepted by NASD:

7/11/07
Date

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

[Signature]
Samuel L. Israel
Director and Chief Counsel
NASD Department of Enforcement
1801 K Street, NW

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