

NETWORK 1 SECURITY SOLUTIONS INC
Form 424B3
November 15, 2011

NETWORK-1 SECURITY SOLUTIONS, INC.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-143710

PROSPECTUS SUPPLEMENT NO. 4
(To Prospectus dated June 24, 2011)

This is a prospectus supplement to our prospectus dated June 24, 2011 (the “Prospectus”) relating to the resale from time to time by selling stockholders of up to 8,373,246 shares of our common stock, including shares issuable upon exercise of outstanding warrants and options. On November 14, 2011, we filed with the Securities and Exchange Commission a Quarterly Report on Form 10-Q. The text of the Quarterly Report on Form 10-Q is attached to and a part of this supplement.

This prospectus supplement should be read in conjunction with the Prospectus and may not be delivered or utilized without the Prospectus. This prospectus supplement is qualified by reference to the Prospectus, except to the extent that the information provided by this prospectus supplement supersedes the information contained in the Prospectus.

The securities offered by the Prospectus involve a high degree of risk. You should carefully consider the “Risk Factors” referenced on pages 6-13 of the Prospectus in determining whether to purchase the common stock.

The date of this prospectus supplement is November 14, 2011.

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-15288

NETWORK-1 SECURITY SOLUTIONS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of incorporation or organization)

11-3027591
(IRS Employer Identification No.)

445 Park Avenue, Suite 1018, New York, New York 10022
(Address of principal executive offices)

212-829-5770
(Registrant's Telephone Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405) of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "Large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The number of shares of Common Stock, \$.01 par value per share, outstanding as of November 14, 2011 was 25,323,259.

NETWORK-1 SECURITY SOLUTIONS, INC.

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Item 1. Financial Statements

NETWORK-1 SECURITY SOLUTIONS, INC.
CONDENSED BALANCE SHEETS
UNAUDITED

	September 30, 2011 (UNAUDITED)	December 31, 2010
Assets:		
Current assets:		
Cash and cash equivalents	\$ 23,072,000	\$ 21,348,000
Royalty Receivable	1,139,000	1,339,000
Other current assets	33,000	89,000
Total current assets	24,244,000	22,776,000
Other assets:		
Security deposits	19,000	6,000
Deferred tax asset	6,860,000	—
Patents, net of accumulated depreciation	76,000	83,000
Total other assets	6,955,000	89,000
Total assets	\$ 31,199,000	\$ 22,865,000
Liabilities:		
Current liabilities:		
Accounts payable	\$ 30,000	\$ 78,000
Accrued expenses	1,912,000	2,031,000
Deferred Rent	7,000	—
Income Taxes Payable	6,000	61,000
Total liabilities	1,955,000	2,170,000
Commitments and contingencies		
Stockholders' Equity		
Common stock - \$0.01 par value ; authorized 50,000,000 shares; 25,782,893 and 25,931,879 shares issued and outstanding at September 30,2011 and December 31,2010, respectively	258,000	259,000
Additional paid-in capital	57,547,000	57,266,000
Accumulated deficit	(28,561,000)	(36,830,000)

Total stockholders' equity	29,244,000	20,695,000
Total liabilities and stockholder's equity	\$ 31,199,000	\$ 22,865,000

See accompanying notes to condensed financial statements

NETWORK-1 SECURITY SOLUTIONS, INC.
CONDENSED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Royalty Revenue	\$ 1,222,000	\$ 32,560,000	\$ 6,611,000	\$ 32,850,000
Cost of Revenue	341,000	9,507,000	1,883,000	9,522,000
Gross Profit	881,000	23,053,000	4,728,000	23,328,000
Operating Expenses:				
General and Administrative	411,000	1,176,000	1,693,000	2,949,000
Additional Patent Expense	—	—	1,000,000	—
Non-Cash compensation	59,000	43,000	268,000	359,000
Total Operating Expenses	470,000	1,219,000	2,961,000	3,308,000
Operating Income (Loss)	411,000	21,834,000	1,767,000	20,020,000
Other Income (Expenses):				
Interest income, net	10,000	19,000	42,000	19,000
Income (Loss) before income taxes	421,000	21,853,000	1,809,000	20,039,000
Income Taxes (Benefit)				
Current	33,000	48,000	89,000	48,000
Deferred	140,000	—	(6,860,000)	—
Total Income Taxes (Benefit)	173,000	48,000	(6,771,000)	48,000
Net Income (Loss)	\$ 248,000	\$ 21,805,000	\$ 8,580,000	\$ 19,991,000
Net Income (loss) per share - Basic	\$0.01	\$0.89	\$0.33	\$0.82
- Diluted	\$0.01	\$0.76	\$0.28	\$0.70
Weighted average number of common shares outstanding:				
- Basic	26,014,578	24,409,660	25,979,596	24,266,390
- Diluted	30,991,041	28,848,659	30,956,059	28,705,389

See accompanying notes to condensed financial statements

NETWORK-1 SECURITY SOLUTIONS, INC.
CONDENSED STATEMENTS OF CASH FLOW

UNAUDITED

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net Income (Loss)	\$ 8,580,000	\$ 19,991,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,000	7,000
Non cash compensation	268,000	359,000
Changes in:		
Royalty Receivable and other current assets	256,000	(1,548,000)
Accounts payable and accrued expenses	(166,000)	2,171,000
Income taxes payable	(55,000)	34,000
Deferred rent	7,000	—
Deferred tax assets	(6,860,000)	—
Security deposits	(13,000)	—
Cash flows provided by (used in) Operating Activities	2,024,000	21,014,000
Cash flow provided by financial activities		
Proceeds from exercise of options	14,000	286,000
Repurchase of Treasury Stock	(314,000)	—
Net cash provided by (used in) Financing Activities	(300,000)	286,000
Net Increase (Decrease) in Cash and Cash Equivalents	1,724,000	21,300,000
Cash and cash equivalents, beginning of period		