

NETWORK 1 SECURITY SOLUTIONS INC  
Form 10-Q  
November 14, 2012

---

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, 2012

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 1020  
New York, New York  
(Address of principal executive offices)

10022  
(zip code)

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

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 12, 2012 was 25,963,094.

---

---

NETWORK-1 SECURITY SOLUTIONS, INC.

## FORM 10-Q INDEX

		Page No.
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Balance Sheets as of September 30, 2012 (unaudited) and December 31, 2011	3
	Condensed Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2012 and 2011 (unaudited)	4
	Condensed Statements of Cash Flows for the nine months ended September 30, 2012 and 2011 (unaudited)	5
	Notes to Interim Unaudited Condensed Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	24
Item 4.	Controls and Procedures	24
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	25
Item 1A.	Risk Factors	25
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 3.	Defaults Upon Senior Securities	26
Item 5.	Other Information	26
Item 6.	Exhibits	26
SIGNATURES		27



## PART 1. FINANCIAL INFORMATION

## Item 1. Financial Statements

## NETWORK-1 SECURITY SOLUTIONS, INC.

## CONDENSED BALANCE SHEETS

## UNAUDITED

	September 30, 2012 (UNAUDITED)	DECEMBER 31, 2011
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 22,213,000	\$ 20,661,000
Marketable securities	552,000	556,000
Royalty receivables	1,373,000	760,000
Other current assets	182,000	156,000
Total Current Assets	24,320,000	22,133,000
OTHER ASSETS:		
Deferred tax asset	6,194,000	6,903,000
Patents, net of accumulated amortization	67,000	74,000
Security deposits	19,000	19,000
Total Other Assets	6,280,000	6,996,000
TOTAL ASSETS	\$ 30,600,000	\$ 29,129,000
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	\$ 149,000	\$ 180,000
Accrued expenses	519,000	1,551,000
TOTAL LIABILITIES	668,000	1,731,000
COMMITMENTS AND CONTINGENCIES	—	—
STOCKHOLDERS' EQUITY		
Common stock - \$0.01 par value ; authorized 50,000,000 shares; 25,963,094 and 25,037,518 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	260,000	250,000
Additional paid-in capital	59,506,000	\$ 57,728,000
Accumulated deficit	(29,825,000 )	(30,575,000 )

Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 10-Q

Other comprehensive income (loss)	(9,000 )	(5,000 )
TOTAL STOCKHOLDERS' EQUITY	29,932,000	27,398,000
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 30,600,000	\$ 29,129,000

See notes to condensed financial statements

- 3 -

---

NETWORK-1 SECURITY SOLUTIONS, INC.  
CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
ROYALTY REVENUE	\$ 1,418,000	\$ 1,222,000	\$ 7,809,000	\$ 6,611,000
COST OF REVENUE	393,000	341,000	2,341,000	1,883,000
GROSS PROFIT	1,025,000	881,000	5,468,000	4,728,000
OPERATING EXPENSES:				
General and Administrative	624,000	411,000	1,660,000	1,693,000
Additional Patent Expense	—	—		