

NETWORK 1 SECURITY SOLUTIONS INC

Form POS AM

April 06, 2012

As filed with the Securities and Exchange Commission on April 6 , 2012

Registration No. 333-143710

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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post-effective amendment no. 5

FORM S-1/A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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NETWORK-1 SECURITY SOLUTIONS, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

6794  
(Primary Standard Industrial  
Classification Code Number)

11-3027591  
(I.R.S. Employer  
Identification No.)

445 Park Avenue, Suite 1020  
New York, New York 10022  
(212) 829-5770

(Address, including zip code, and telephone number, including area code,  
of Registrant's principal executive offices)

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Corey M. Horowitz  
Chairman and Chief Executive Officer  
445 Park Avenue, Suite 1020  
New York, New York 10022  
(212) 829-5770

(Address, including zip code, and telephone number, including area code, of registrant's principal executive officers)

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Copies to:  
Sam Schwartz, Esq.  
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805 Third Avenue  
New York, New York 10022  
(212) 752-1000

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Approximate date of proposed sale to public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1993, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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Explanatory Note:

This Post Effective Amendment No.5 on Form S-1 is intended to supplement and amend the Registrant's Registration Statement on Form SB-2 (File No. 333-143710 ) which was filed on July 13, 2007 and Registrant's Registration Statement on Form S-2 (File No. 333-126013) which was filed on June 21, 2005. The primary purpose of this post-effective amendment is to include the Registrant's audited financial statements for the fiscal year ended December 31, 2011 and corresponding updated information about the business of the Registrant into the Prospectus forming a part hereof.

Note Regarding Registration Fees:

All fees for the shares registered on this Post-Effective Amendment No. 5 were paid upon the initial filing of the registration statement covering such shares, as noted above. No shares incremental to the number of shares initially registered are registered hereby and accordingly no additional fees are payable.

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The registrant hereby amends this post-effective amendment to the registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this post-effective amendment to the registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED APRIL 6 , 2012

PROSPECTUS

NETWORK-1 SECURITY SOLUTIONS, INC.

5,904,897 shares of Common Stock

This Prospectus covers the resale by the selling stockholders listed on pages 26 to 32 of this Prospectus of up to 5,904,897 shares of our common stock, \$.01 par value, which include:

- 133,333 shares of common stock and 1,666,667 shares of common stock issuable upon exercise of warrants issued to investors in our private offering completed on April 16, 2007;
- 354,960 shares of common stock issuable upon exercise of warrants issued to the placement agents' assignees with respect to the private offering completed on April 16, 2007; and
- 2,749,937 shares of common stock and 1,000,000 shares of our common stock issuable upon exercise of warrants and options owned by our Chairman and Chief Executive Officer and related parties;

We will not receive any proceeds from the sale of these shares of common stock. We will, however, receive proceeds if warrants and options to purchase common stock are exercised by payment of cash and those proceeds will be used for our general corporate purposes. This offering is not being underwritten. The selling stockholders may sell the shares of common stock on the Over-the-Counter (OTC) Bulletin Board with the methods and on the terms described in the section of this Prospectus entitled "Plan of Distribution" on pages 33 to 35.

Our common stock is traded on the OTC Bulletin Board under the symbol "NSSI". Our common stock is not traded on any national securities exchange. On April 4 , 2012, the closing price of our common stock, as reported on the OTC Bulletin Board, was \$1.40 per share.

The securities offered in this Prospectus involve a high degree of risk. You should carefully consider the factors described under the heading "Risk Factors" beginning on page 6 of this Prospectus.

The information in this Prospectus is not complete and may be changed. The selling stockholders named in this Prospectus may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and neither we nor the selling stockholders named in this Prospectus are soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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The date of this Prospectus is \_\_\_\_\_, 2012

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You should rely only on the information contained in this Prospectus. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this Prospectus. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this Prospectus is accurate only as of the date of this Prospectus, regardless of the time of delivery of this Prospectus or of any sale of common stock.

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## PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this Prospectus. It does not contain all of the information that you should consider before investing in our common stock. You should read the entire Prospectus carefully, including the section entitled “Risk Factors” and our consolidated financial statements and the related notes.

Unless the context otherwise requires, all references to “we,” “us,” “our,” or the “Company” in this Prospectus refer to Network-1 Security Solutions, Inc., a Delaware corporation.

### The Company

Our principal business is the acquisition, development, licensing and protection of our intellectual property. We presently own six patents issued by the U.S. Patent Office that relate to various telecommunications and data networking technologies and include, among other things, patents covering the delivery of power over Ethernet (“PoE”) cables for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras, over Ethernet networks and systems and methods of transmission of audio, video and data over computer and telephony networks. In addition, we continually review opportunities to acquire or license additional intellectual property. Our strategy is to pursue licensing and strategic alliances with companies in industries that manufacture and sell products that make use of the technologies underlying our intellectual property as well as with other users of the technologies who benefit directly from the technologies including corporate, educational and governmental entities.

To date, our efforts with respect to our intellectual property have focused on licensing our patent (U.S. Patent No. 6,218,930) covering the control of power delivery over Ethernet cables (the “Remote Power Patent”). As of March 31, 2012, we had entered into a total of thirteen (13) license agreements with respect to our Remote Power Patent which, among others, include license agreements with Cisco Systems, Inc. and Cisco Linksys, Microsemi Corporation, Extreme Networks, Inc., Netgear Inc., Motorola Solutions, Inc. and several other major data networking equipment manufacturers (See Note [J] to our financial statements included as part of this Prospectus). We have a pending litigation against 16 data network equipment manufacturers for infringement of our Remote Power Patent (See Note J[1] to our financial statements included as part of this Prospectus).

Our current strategy includes continuing to pursue licensing opportunities for our Remote Power Patent from vendors of PoE equipment in order to resolve possible infringement of our Remote Patent by such vendors. In addition, we are seeking to acquire additional intellectual property assets in the future to develop, commercialize, license or otherwise monetize such intellectual property. We may enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property. The form of such relationships may vary depending upon the opportunity and may include, among other things, a strategic investment in such third party, the provision of financing to such third party or the formation of a joint venture for the purpose of monetizing such third party’s intellectual property assets.



Our Remote Power Patent (U.S. Patent No. 6,218,930) relates to several technologies which describe a methodology for controlling the delivery of power to certain devices over an Ethernet network. Ethernet is the leading local area networking technology in use today. PoE technology allows for the delivery of PoE cables rather than by separate power cords. As a result, a variety of network devices, including IP telephones, wireless LAN Access Points, web-based network security cameras, data collection terminals and other network devices, are able to receive power

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over existing data cables without the need to modify the existing infrastructure to facilitate the provision of power for such devices through traditional AC outlets. Advantages of PoE, such as lower installation costs, remote management capabilities, lower maintenance costs, centralized power backup, and flexibility of device location as well as the advent of worldwide power compatibility, create the possibility of PoE becoming widely adopted in networks throughout the world.

Our future success is largely dependent upon our proprietary technologies, our ability to protect our intellectual property rights, to consummate license agreements with respect to our intellectual property as well as our ability to acquire additional intellectual property assets or enter into strategic relationships with third parties to license or otherwise monetize their intellectual property. The complexity of patent and common law and the inherent uncertainty of litigation creates risk that our efforts to protect our intellectual property rights, or those of our strategic partners, may not be successful. We cannot be assured that such intellectual property will be upheld or that third parties will not invalidate such intellectual property rights. In addition, we may not be able to (i) acquire additional intellectual property assets or successfully license such assets or (ii) successfully enter into strategic relationships with third parties to license or otherwise monetize their intellectual property.

Besides our Remote Power Patent, we also own five (5) additional patents covering various methodologies that provide for allocating bandwidth and establishing Quality of Service (QoS) for delay sensitive data, such as voice, on packet data networks. QoS issues become important when data networks carry packets that contain audio and video which may require priority over data packets traveling over the same network. Covered within these patents are also technologies that establish bi-directional communications control channels between network-connected devices in order to support advanced applications on traditional data networks.

We were incorporated under the laws of the State of Delaware in July 1990. Our principal offices are located at 445 Park Avenue, Suite 1020, New York, New York 10022 and our telephone number is (212) 829-5770. Our web site can be found at <http://www.network-1.com>.

#### Pending Litigation Against Major Data Networking Equipment Manufacturers

In September 2011, we initiated patent litigation against 16 data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. Named as defendants in the lawsuit, excluding related parties, were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties. In late March 2012, we reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola") and Transition Networks, Inc. ("Transition Networks"). As part of the settlements, Motorola and Transition Networks each entered into a non-exclusive license agreement for our Remote Power Patent pursuant to which each such defendant agreed to license our Remote Power Patent for its full term (which expires in March 2020) and pay a

license initiation fee and quarterly royalties based on their sales of PoE products.

Settlement of Litigation Against Major Data Networking Equipment Manufacturers including license agreements for our Remote Power Patent

In July 2010, we settled our litigation with Adtran, Inc, Cisco Systems, Inc. and Cisco-Linksys, LLC, (collectively, "Cisco"), Enterasys Networks, Inc., Extreme Networks, Inc., Foundry Networks, Inc., and 3Com Corporation, Inc. pending in the United States District Court for the Eastern District of Texas, Tyler Division. As part of the settlement, Adtran, Cisco, Enterasys, Extreme Networks and Foundry Networks each entered into a settlement agreement with us and

entered into non-exclusive licenses for the Remote Power Patent (the “Licensed Defendants”). Under the terms of the licenses, the Licensed Defendants paid us an aggregate upfront payments of approximately \$32 million and also agreed to license the Remote Power Patent for its full term, which expires in March 2020. In accordance with our Settlement and License Agreement, dated May 25, 2011, which expanded upon the July 2010 agreement, Cisco is obliged to pay us royalties (which began in the first quarter of 2011) based on its sales of PoE products up to maximum royalty payments per year of \$8 million through 2015 and \$9 million per year thereafter for the remaining term of the patent. The royalty payments are subject to certain conditions including the continued validity of our Remote Power Patent, and the actual royalty amounts received may be less than the caps stated above, as was the case in 2011. Under the terms of the Agreement, if we grant other licenses with lower royalty rates to third parties (as defined in the Agreement), Cisco shall be entitled to the benefit of the lower royalty rates provided it agrees to the material terms of such other license. Under the terms of the Agreement, we have certain obligations to Cisco and if we materially breach such terms, Cisco will be entitled to stop paying royalties to us. This would have a material adverse effect on our business, financial condition and results of operations. For more details about the July 2010 settlement, please see our Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 20, 2010 and June 1, 2011.

#### Netgear License

On May 29, 2009, we announced that we had agreed to a settlement with Netgear, Inc. (“Netgear”), who was also a defendant in the above referenced litigation in United States District Court for the Eastern District of Texas. As part of the settlement and under our Special Licensing Program, Netgear entered into a license agreement with us for our Remote Power Patent. Under the terms of the license, Netgear licenses the Remote Power Patent from us for its full term (which expires in March 2020), and pays quarterly royalties (which began as of April 1, 2009) based on its sales of PoE products, including those PoE products which comply with the Institute of Electrical and Electronic Engineers 802.3af and 802.3at Standards. Licensed products include Netgear’s PoE enabled switches and wireless access points. The royalty rates included in the license are 1.7% of the sales price of Power Sourcing Equipment, which includes Ethernet switches, and 2% of the sales price of Powered Devices, which includes wireless access points. The royalty rates are subject to adjustment, under certain circumstances, if we grant a license to other licensees with lower royalty rates and Netgear is able to and agrees to assume all material terms and conditions of such other license. In addition, Netgear paid us \$350,000 upon signing of the license agreement.

#### Microsemi License

In August 2008, as part of our Special Licensing Program and our agreement with Microsemi Corp-Analog Mixed Signal Group Ltd. (“Microsemi-Analog”), previously PowerDsine Ltd, entered into in June 2008, Microsemi Corporation (“Microsemi”), the parent company of Microsemi-Analog, entered into a license agreement with us with respect to our Remote Power Patent. The license agreement provides that Microsemi is obligated to pay us quarterly royalty payments of 2% of the sales price for certain of its Midspan PoE products for the full term of our Remote Power Patent (March 2020).



#### D-Link License

In August 2007, we agreed to licensing terms with D-Link Corporation and D-Link Systems (collectively, "D-Link") as part of a settlement agreement of our patent infringement litigation against D-Link in the United States District Court for the Eastern District of Texas, Tyler Division for infringement of our Remote Power Patent (See Note J to our financial statements included in this Prospectus). The license terms include the agreement by D-Link to license our Remote Power Patent for its full term which expires in March 2020, and the payment of monthly royalty payments (which began in May, 2007) based upon a running royalty rate of 3.25% of the net sales of D-Link branded Power over Ethernet products, including those products which comply with the IEEE 802.3af and 802.3at Standards. The royalty rate is subject to adjustment to a rate consistent with other similarly situated licensees of our Remote Power Patent based on units of shipments of licensed products. In June 2009, based upon several licenses issued to third parties under our Special Licensing Program, we agreed with D-Link to adjust the royalty rate to 1.7% of the sales price for Power Servicing Equipment (which includes Ethernet switches) and 2.0% of the sales price for Powered Devices (which includes wireless access points). In addition, D-Link paid us an upfront payment of \$100,000 upon signing of the license agreement. The products covered by the license include D-Link Power over Ethernet enabled switches, wireless access points, and network security cameras, among others.

#### Shares Being Offered

This Prospectus relates to the offering by the selling stockholders of an aggregate of 5,904,897 shares of our common stock, consisting of (i) 133,333 shares of common stock and 1,666,667 shares of common stock issuable upon exercise of warrants issued in our private offering completed on April 16, 2007, (ii) 354,960 shares of common stock issuable upon exercise of warrants issued to placement agents' assignees with respect to the private offering completed on April 16, 2007 and (iii) 2,749,937 shares of common stock and 1,000,000 shares of common stock issuable upon exercise of warrants and options owned by our Chairman and Chief Executive Officer and related parties.

## Summary Financial Data

The following tables summarize the consolidated statements of operations and balance sheet data for our business and should be read together with the section of this Prospectus captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes included elsewhere in this Prospectus.

	2011	Year Ended December 31, 2010
<b>CONSOLIDATED STATEMENTS OF OPERATIONS DATA:</b>		
Royalty Revenue	\$ 7,398,000	\$ 33,037,000
Operating expenses(1)	\$ 3,759,000	\$ 4,173,000
Net income	\$ 8,493,000	\$ 19,236,000
Net income (loss) per share		
Basic	\$ 0.33	\$ 0.79
Diluted	\$ 0.27	\$ 0.67
Weighted-average common shares outstanding		
Basic	25,813,038	24,422,567
Diluted	30,930,483	24,619,982
<b>CONSOLIDATED BALANCE SHEET DATA:</b>		
Cash and cash equivalents	\$ 20,661,000	\$ 21,348,000
Working capital	\$ 20,402,000	\$ 20,606,000
Total assets	\$ 29,129,000	\$ 22,865,000
Total shareholders’ equity	\$ 27,398,000	\$ 20,695,000

(1) Includes (i) additional patent expense of \$1,000,000 for the year ended December 31, 2011 relating to net royalties due to a third party with respect to purchase of our Remote Power Patent (See Note C to our financial statements included in this Prospectus) and (ii) non-cash compensation expense of \$303,000 and \$402,000 for the years ended December 31, 2011 and 2010, respectively.

We had royalty revenue of \$7,398,000 for the year ended December 31, 2011 (“2011”) as compared to royalty revenue of \$33,037,000 for the year ended December 31, 2010 (“2010”). The revenue for 2010 includes \$32,320,000 received from settlement of our patent litigation in July 2010 (See Note J[2] to our financial statements included elsewhere in this Prospectus). We had operating income of \$1,533,000 for 2011 and as compared to \$19,269,000 for 2010, which we achieved primarily as a result of our patent litigation settlement in July 2010. Our ability to achieve revenue and income is currently dependent upon receipt of royalty revenue from licensing agreements with respect to our Remote Power Patent and consummating additional license agreements. We have financed our operations primarily by royalty revenue from licensing our Remote Power Patent. As of December 31, 2011 our principal sources of liquidity consisted of working capital of approximately \$20,402,000 which includes cash and cash equivalents of \$20,661,000. We believe we will have sufficient cash to satisfy our operational and capital requirements for the foreseeable future.





## RISK FACTORS

An investment in our common stock involves a high degree of risk. The risk factors listed below are those that we consider to be material to an investment in our common stock and those which, if realized, could have material adverse effects on our business, financial condition or results of operations as specifically discussed below. In such an event, the trading price of our common stock could decline, and you could lose all or part of your investment. Before you invest in our common stock, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included or incorporated by reference in this Prospectus, before you decide whether to purchase our common stock. This section includes or refers to certain forward-looking statements. You should refer to the explanation of the qualifications and limitations on such forward-looking statements discussed on page 16.

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. The following highlights some of the factors that have affected, and in the future could affect, our operations.

We have a history of losses and only achieved profit in recent years.

We achieved net income of \$8,493,000 for the year ended December 31, 2011 which includes income of \$6,903,000 recorded as a one-time, non-cash income tax benefit (See Note F to our financial statements included in this Prospectus). In addition, we achieved net income of \$19,236,000 for the year ended December 31, 2010 primarily due to our litigation settlement of \$32,320,000 achieved in July 2010. Prior to the year ended December 31, 2010 we incurred substantial operating losses since inception (July 1990) and as of December 31, 2011 we had an accumulated deficit of \$(30,575,000). We had revenue of \$7,398,000 and \$33,037,000 from operations for the years ended December 31, 2011 and December 31, 2010, respectively. Our ability to achieve revenue and generate positive cash flow from operations is currently dependent upon receipt of royalty revenue from licensing agreements with respect to our Remote Power Patent. As of March 31, 2012, we had entered into thirteen (13) license agreements with respect to our Remote Power Patent, which among others, includes license agreements with Cisco Systems, Inc. and Cisco-Linksys, Microsemi Corporation, Extreme Networks, Inc., Netgear, Inc. and Motorola Solutions, Inc. While we believe based on our current cash position and projected licensing revenue from our existing licensing agreements we will have sufficient cash to fund our operations for the foreseeable future, this may not be the case.

Our success is dependent upon our ability to protect our patents.

Our success is substantially dependent upon our proprietary technologies and our ability to protect our intellectual property rights. We currently hold six patents issued by the U.S. Patent Office that relate to various telecommunications and data networking technologies and include among other things, our Remote Power Patent covering the delivery of power to certain devices over PoE networks and patents covering the transmission of audio, voice and data over computer and telephony networks. Our focus to date has been on licensing our Remote Power Patent. We rely upon our patents and trade secret laws, non-disclosure agreements with our employees, consultants and third parties to protect our intellectual property rights. The complexity of patent and common law and the uncertainty of the outcome of litigation create risk that our efforts to protect our proprietary technologies may not be successful. We cannot assure you that our patents will be upheld or that third parties will not invalidate our patent rights. If our intellectual property rights are not upheld, particularly our Remote Power Patent, such an event would have a material adverse effect on our business, financial condition and results of operations.