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

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999

[ ] 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 1-14896

NETWORK-1 SECURITY SOLUTIONS, INC.
(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

DELAWARE	11-3027591
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)

1601 TRAPELO ROAD, RESERVOIR PLACE, WALTHAM, MASSACHUSETTS 02451
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

781-522-3400
(ISSUER'S TELEPHONE NUMBER)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 /X/ No / /

As of July 31, 1999 there were 4,372,375 shares of Common Stock, $.01 par value per share, and 562,836 shares of Series C Convertible Preferred Stock, $.01 par value per share, outstanding.

Transitional Small Business Disclosure Format (check one):
Yes [ ] No [X]

NETWORK-1 SECURITY SOLUTIONS, INC.

INDEX

<TABLE>
<CAPTION>

</TABLE>

NETWORK-1 SECURITY SOLUTIONS, INC.
BALANCE SHEETS

<TABLE>
<CAPTION>

<S>	June 30, 1999 (Unaudited) <C>	December 31, 1998 (Audited) <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$2,667,000	$6,423,000
Accounts receivable - net of allowance for doubtful accounts of $160,000 and $151,000 respectively	492,000	249,000
Prepaid expenses and other current assets	234,000	119,000
Total current assets	3,393,000	6,791,000
Equipment and fixtures	697,000	415,000
Capitalized software costs - net	855,000	925,000
Security deposits	82,000	37,000
	$5,027,000	$8,168,000
LIABILITIES		
Current liabilities:		
Accounts payable	$494,000	$420,000
Accrued expenses and other current liabilities	683,000	406,000
Deferred revenue	78,000	103,000
Total current liabilities	1,255,000	929,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock - $.01 par value; authorized 5,000,000 shares;		
Series A -10% cumulative, none issued and outstanding		
Series B - 500,000 shares, none issued and outstanding		
Series C - 562,836 shares issued and outstanding	6,000	6,000
Common stock - $.01 par value; authorized 25,000,000 shares; 4,372,375 and 4,366,520 shares issued and outstanding	44,000	44,000
Additional paid-in capital	20,896,000	20,819,000
Unearned portion of compensatory stock options	(220,000)	(383,000)
Accumulated deficit	(16,954,000)	(13,247,000)
	3,772,000	7,239,000
	$5,027,000	$8,168,000

</TABLE>
See notes to financial statements

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

<TABLE>
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	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
Revenues:				
Licenses	$ 43,000	$ 217,000	$ 113,000	$ 412,000
Services	477,000	346,000	790,000	490,000
Total revenues	520,000	563,000	903,000	902,000
Cost of revenues:				
Amortization of software development costs	135,000	134,000	270,000	267,000
Cost of licenses	13,000	84,000	30,000	128,000
Cost of services	460,000	197,000	774,000	272,000
Total cost of revenues	608,000	415,000	1,074,000	667,000
Gross (loss) profit	(88,000)	148,000	(171,000)	235,000
Operating expenses:				
Product development	384,000	75,000	776,000	283,000
Selling and marketing	933,000	211,000	1,824,000	351,000
General and administrative	501,000	941,000	1,030,000	1,153,000
Total operating expenses	1,818,000	1,227,000	3,630,000	1,787,000
Loss from operations	(1,906,000)	(1,079,000)	(3,801,000)	(1,552,000)
Interest income (expense) - net	29,000	(214,000)	94,000	(438,000)
Net loss	$(1,877,000)	$(1,293,000)	$(3,707,000)	$(1,990,000)
Loss per share - basic and diluted	$ (0.43)	$ (0.76)	$ (0.85)	$ (1.17)
Weighted average number of shares outstanding - basic and diluted	4,372,375	1,706,037	4,371,957	1,699,120

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See notes to financial statements

NETWORK-1 SECURITY SOLUTIONS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY)

<TABLE>
<CAPTION>

	Common Stock		Preferred Stock	
	Shares	Amount	Shares	Amount
<S>	<C>	<C>	<C>	<C>
Balance - December 31, 1997	1,706,037	$ 17,000	500,000	$5,000
Common stock options issued to Chief Executive Officer				
Amortization of compensatory stock options				
Issuance of Series C preferred stock			562,836	6,000
Issuance of common stock, warrants and				

options for services rendered and payment of liability	51,256	1,000		
Warrants issued in connection with debt financing				
Repurchase and retirement of common shares	(62,080)			
Conversion of warrants to stock at discount as part of debt re-financing	596,741	6,000		
Conversion of Series B Preferred Stock	310,399	3,000	(500,000)	(5,000)
Acquisition of CommHome	64,167			
Issuance of common stock for cash - initial public offering	1,700,000	17,000		
Net loss	---------	--------	-------	------
Balance - December 31, 1998	4,366,520	44,000	562,836	6,000
Amortization of compensatory stock options				
Issuance of common stock and options for services rendered	5,855			
Net Loss	---------	--------	-------	------
Balance - June 30, 1999 (Unaudited)	4,372,375	$ 44,000	562,836	$6,000
	=========	========	=======	======

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NETWORK-1 SECURITY SOLUTIONS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY)(CONTINUED)

<TABLE>
<CAPTION>

<S>	Additional Paid-in Capital <C>	Accumulated Deficit <C>	Unearned Portion of Compensatory Stock Options <C>	Total <C>
Balance - December 31, 1997	$ 7,373,000	$ (7,470,000)		$ (75,000)
Common stock options issued to Chief Executive Officer	938,000		(938,000)	0
Amortization of compensatory stock options			555,000	555,000
Issuance of Series C preferred stock	2,949,000			2,955,000
Issuance of common stock, warrants and options for services rendered and payment of liability	499,000			500,000
Warrants issued in connection with debt financing	766,000			766,000
Repurchase and retirement of common shares	(1,000)			(1,000)
Conversion of warrants to stock at discount as part of debt re-financing	(6,000)			0
Conversion of Series B Preferred Stock	2,000			0
Acquisition of CommHome	385,000			385,000
Issuance of common stock for cash - initial public offering	7,914,000			7,931,000
			0	
Net loss		(5,777,000)		(5,777,000)
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Balance - December 31, 1998	20,819,000	(13,247,000)	(383,000)	7,239,000
Amortization of compensatory stock options			163,000	163,000
Issuance of common stock and options for services rendered	77,000			77,000
Net Loss		(3,707,000)		(3,707,000)
Balance - June 30, 1999 (Unaudited)	$20,896,000	$(16,954,000)	$ (220,000)	$ 3,772,000

</TABLE>

See notes to financial statements

NETWORK-1 SECURITY SOLUTIONS, INC.
STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED

<TABLE>
<CAPTION>

<S>	June 30, 1999 (Unaudited) <C>	June 30, 1998 (Unaudited) <C>
Cash flows from operating activities:		
Net loss	$ (3,707,000)	$ (1,990,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount		364,000
Issuance of common stock, options and warrants for services rendered	240,000	583,000
Provision for doubtful accounts	9,000	18,000
Depreciation and amortization	367,000	346,000
Changes in:		
Accounts receivable	(252,000)	(192,000)
Prepaid expenses and other current assets	(115,000)	(5,000)
Accounts payable, accrued expenses and other current liabilities	351,000	(1,000)
Deferred revenue	(25,000)	29,000
Net cash used in operating activities	(3,132,000)	(848,000)
Cash flows from investing activities:		
Acquisitions of equipment and fixtures	(379,000)	(3,000)
Capitalized software costs	(200,000)	(50,000)
Security deposit	(45,000)	(5,000)
Net cash used in investing activities	(624,000)	(58,000)
Cash flows from financing activities:		
Proceeds from issuance of notes payable and warrants		1,750,000
Repayment of capital lease obligations		(8,000)
Purchase of Treasury Shares		(1,000)
Deferred Offering Costs		(261,000)
Net cash provided by financing activities	0	1,480,000
Net increase (decrease) in cash and cash equivalents	(3,756,000)	574,000
Cash and cash equivalents - beginning of period	6,423,000	60,000
Cash and cash equivalents - end of period	$ 2,667,000	$ 634,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for Interest	$ -	$ 1,000

</TABLE>

See notes to financial statements

NETWORK-1 SECURITY SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS

1. FINANCIAL STATEMENT PRESENTATION

a. The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission with respect to Form 10-QSB. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made herein are adequate to make the information contained herein not misleading. These interim financial statements and the notes thereto should be read in conjunction with the financial statements included in the Company's 10-KSB for the year ended December 31, 1998. In the Company's opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information shown have been included.

b. The results of operations for the six months ended June 30, 1999 presented herein are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 1999.

c. Basic loss per share is calculated by dividing net loss by the weighted average number of outstanding common shares during the year. Diluted per share data includes the dilutive effects of options, warrants and convertible securities. As all potential common shares are anti-dilutive, they are not included in the calculation of diluted loss per share.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS QUARTERLY REPORT ON FORM 10-QSB CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "EXCHANGE ACT"). ACTUAL RESULTS, EVENTS AND CIRCUMSTANCES (INCLUDING FUTURE PERFORMANCE, RESULTS AND TRENDS) COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN SUCH STATEMENTS DUE TO VARIOUS FACTORS, RISKS AND UNCERTAINTIES, INCLUDING BUT NOT LIMITED TO RISKS ASSOCIATED WITH THE COMPANY'S FUTURE GROWTH AND OPERATING RESULTS, THE UNCERTAINTY OF MARKET ACCEPTANCE OF THE COMPANY'S PRODUCTS, TECHNOLOGICAL CHANGE, COMPETITIVE FACTORS AND GENERAL ECONOMIC CONDITIONS.

Overview

The Company develops, markets, licenses and supports a family of network security software products designed to provide comprehensive security to computer networks, including Internet based systems and internal networks and computing resources. The Company also offers to its customers a full range of consulting services in network security, network design and support. From inception (July 1990) through December 31, 1994, the Company was primarily engaged in providing consulting and training services. In 1995, the Company began to shift its focus from consulting and training to the development and marketing of network security software products. The Company introduced its first network software product (Firewall/Plus) in June 1995. In January 1999, the Company introduced its CyberwallPLUS(TM) family of network security products. Accordingly, the Company has a limited relevant operating history as a software developer upon which an evaluation of its prospects and future performance can be made. Such prospects must be considered in light of the risks, expenses and difficulties frequently encountered in the operation and expansion of a new business and the shift from research and product development to commercialization of products based on rapidly changing technologies in a highly specialized and emerging market. The Company will be required to significantly expand its product and development capabilities, introduce new products, introduce enhanced features to existing products, expand its in-house sales force, establish and maintain distribution channels through third-party vendors, increase marketing expenditures, and attract additional qualified personnel. In addition, the Company must adapt to the demands of an emerging and rapidly changing computer network security market, intense competition and rapidly changing technology and industry standards. There can be no assurance that the Company can successfully address such risks, and the failure to do so would have a material adverse effect on the Company's business, results of operations and financial condition.

To date, the Company has incurred significant losses and, at June 30, 1999, had an accumulated deficit of $ 16,954,000. In addition, since June 30, 1999, the Company has continued to incur significant losses. Inasmuch as the Company has increased its level of activities following the consummation of its initial public offering in November 1998 and will be required to make significant expenditures in connection with its sales and marketing and continuing research and product development efforts, the Company anticipates that losses will continue until such time, if ever, as the Company is able to attain sales levels sufficient to support its operations. There can be no assurance that the Company will ever achieve profitable operations.

During the period May 1998 through November 1998, the Company first employed certain members of senior management, including Avi A. Fogel, President and Chief Executive Officer, Robert P. Olsen, Vice President of Marketing, Murray P. Fish, Chief Financial Officer and Secretary, Joseph A. Donohue, Vice President of Engineering, and Lance Westbrook, Vice President of Sales.

The Company's software products have not yet achieved market acceptance. The future success of the Company is largely dependent upon market acceptance of its CyberwallPLUS(TM) family of software products. While the Company believes that its CyberwallPLUS(TM) family of software products offer advantages over competing products for network security, license revenue from network security software products since their introduction (June 1995) through June 30, 1999 has only been $2,775,000, including a non-refundable pre-paid royalty of $500,000 in 1997. In addition, during the three and six month periods ended June 30, 1999 and the year ended December 31,1998 license revenues from software products decreased as compared to the three and six month periods ended June 30, 1998 and the year ended December 31,1997, respectively. Since its introduction in March 1999, license revenue from CyberwallPLUS(TM) has been only $54,000. Service revenues from product maintenance were $63,000 for the six months ended June 30, 1999.

There can be no assurance that CyberwallPLUS(TM) will gain significant market acceptance. Revenue from such commercial products depend on a number of factors, including the influence of market competition, technological changes in the network security market, the Company's ability to design, develop and introduce enhancements on a timely basis, and the ability of the Company to successfully establish and maintain distribution channels. The failure of CyberwallPLUS(TM) to achieve significant market acceptance, as a result of competition, technological change or other factors, would have a material adverse effect on the Company's business, operating results and financial condition.

The Company has committed significant product and development resources to its CyberwallPLUS(TM) family of products. The Company's anticipated levels of expenditures for product development are based on its plans for product enhancements and new product development. The Company capitalizes and amortizes software development costs in accordance with Statement of Financial Accounting Standards No. 86.

These costs consist of salaries, consulting fees and applicable overhead. The Company has used a portion of the proceeds from its public offering to significantly increase its product development expenditures.

During the three month period ended June 30, 1999 the Company completed several strategic alliances:

- A co-marketing agreement with Entrust(R) Technologies, that will use Network-1's CyberwallPLUS technology to enhance the security of the Entrust/ PKI(TM) Server products running on Windows NT;

- A partnership with EnerNet Associates, Inc. to provide secure networking solutions for the power industry; and

- A strategic relationship with Microsoft through Microsoft's Security Partners Program to enhance the security of Windows NT.

The Company also continued to expand its Professional Services team to meet its customers needs. Professional services revenues increased 52% for the quarter ended June 30, 1999 as compared to the quarter ended March 31, 1999 and increased 61% for the six months ended June 30, 1999 as compared to the six months ended June 30, 1998.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Revenues increased by $1,000, from $902,000 for the six months ended June 30, 1998 to $903,000 for the six months ended June 30, 1999, primarily as a result of an increase in consulting revenues during the six months ended June 30, 1999 which were offset by lower product revenues.

License revenues decreased by $299,000 or 73%, from $412,000 for the six months ended June 30, 1998 to $113,000 for the six months ended June 30, 1999, primarily due to lower product licensing revenue from FireWallPlus which was replaced by its successor product line, CyberwallPLUS which was announced in January 1999 and commenced shipping in March 1999.

Service revenues increased by $300,000 or 61%, from $490,000 for the six months ended June 30, 1998 to $790,000 for the six months ended June 30, 1999. Service revenues from consulting increased by $303,000 or 71%, from $424,000 for the six months ended June 30, 1998 to $727,000 for the six months ended June 30, 1999. The increase in service revenues was attributable to three large consulting projects serviced during the six months ended June 30, 1999. Service revenues from product maintenance decreased by $3,000 or 5%, from $66,000 for the six months ended June 30, 1998 to $63,000 for the six months ended June 30, 1999.

The Company's revenues from customers in the United States represented 98% and 99% of the Company's revenues during the six months ended June 30, 1998 and 1999, respectively.

Cost of revenues consists of cost of licenses, amortization of software development costs and cost of services. Cost of licenses consist of software media (disks), documentation, product packaging, production costs, product royalties and the cost of hardware associated with sales of FireWall/Plus Premier Version. Cost of licenses decreased by $98,000 or 77%, from $128,000 for the six months ended June 30, 1998 to $30,000 for the six months ended June 30, 1999, representing 31% and 27% of license revenues, respectively. The decrease in cost of licenses in dollar amount was due to the decrease in license revenue and a decrease in royalties due on third party product sales. Cost of licenses as a percentage of license revenues may fluctuate from period to period due to changes in product mix, changes in the number or size of transactions recorded in a given period or an increase or decrease in licenses of products which would require the Company to pay royalties to third parties.

Amortization of software development costs increased by $3,000 from $267,000 for the six months ended June 30, 1998 to $270,000 for the six months ended June 30, 1999, representing 65% and 239% of license revenues, respectively.

Cost of services consist of salaries, benefits and overhead associated with consulting services and maintenance. Cost of services increased by $502,000 or 185%, from $272,000 for the six months ended June 30, 1998 to $774,000 for the six months ended June 30, 1999, representing 56% and 98% of service revenues, respectively. The increase in cost of services in dollar amount resulted primarily from hiring and travelling costs related to increases in employees and consulting time expended which was not billable to the customer. Cost of services as a percentage of license revenues may fluctuate from period to period due to changes in consultant headcount, costs relating to hiring new consultants or an increase or decrease in number of projects being worked.

Gross profit (loss) decreased from $235,000 for the six months ended June 30, 1998 to ($171,000) for the six months ended June 30, 1999, representing 26% and (19%) of revenues,

respectively. The decrease in gross profit was due to decreased license revenues and the increase in cost of services as a result of increased hiring costs.

Product development consists of salaries, benefits, bonuses, travel and related costs of the Company's product development personnel, including consulting fees, the costs of computer equipment used in product and technology development and third-party development contracts. Product development expenses increased $493,000 or 174%, from $283,000 for the six months ended June 30, 1998 to $776,000 for the six months ended June 30, 1999, representing 31% and 86% of revenues, respectively. Total product developments costs, including capitalized costs of $50,000 and $200,000, were $333,000 and $976,000 for the six months ended June 30, 1998 and June 30, 1999, respectively. The increase in total product development costs was due to the salaries, related employment costs and operational costs of establishing the new development team in Waltham, MA.

Sales and marketing expenses consist primarily of salaries, including commissions, benefits, bonuses, travel, advertising, public relations, consultants and trade shows. Selling and marketing expenses increased by $1,473,000 or 420%, from $351,000 for the six months ended June 30, 1998 to $1,824,000 for the six months ended June 30, 1999, representing 39% and 202% of revenues, respectively. The increase in selling and marketing expenses was due primarily to available funding for marketing as a result of the Company's completion of its initial public offering and the release of its new product line, CyberwallPLUS.

General and administrative expenses include employee costs, including salary, benefits, bonuses, travel and other related expenses associated with management, finance and accounting operations, and legal and other professional services provided to the Company. General and administrative expenses decreased by $123,000 or 11%, from $1,153,000 for the six months ended June 30, 1998 to $1,030,000 for the six months ended June 30, 1999, representing 128% and 114% of revenues, respectively. The decrease in general and administrative expenses was due primarily to decreases in non-cash compensation for services of $343,000 which was offset by increased salaries and expenses related to the hiring of the executive officers of the Company in May 1998, increased professional fees and recruiting fees, telephone and the costs associated with moving and setting up the new corporate headquarters.

Interest expense was $438,000 for the six months ended June

30, 1998 and the Company had interest income of $94,000 for the six months ended June 30, 1999. The decrease in interest expense and the increase in interest income was due to the conversion of the majority of the Company's debt to equity concurrent with the consumation of the Company's initial public offering and the utilization of a portion of the proceeds of the offering to pay the remaining debt.

No provision for or benefit from federal, state or foreign income taxes was recorded for the six months ended June 30, 1998 or the six months ended June 30, 1999 because the Company incurred net operating losses during each period and fully reserved its deferred tax assets as their future realization could not be determined.

As a result of the foregoing, the net loss increased by $1,717,000 or 86%, from $1,990,000 for the six months ended June 30, 1998 to $3,707,000 for the six months ended June 30, 1999.

Liquidity and Capital Resources

The Company's capital requirements have been and will continue to be significant, and its cash requirements have been exceeding its cash flow from operations. At June 30, 1999, the Company had $2,667,000 of cash and cash equivalents and a working capital of $2,138,000. The Company has financed its operations primarily through net proceeds from the consummation of its initial public offering in November 1998, and prior thereto by private sales of equity and debt securities. Net cash used in operating activities was $848,000 and $3,132,000 during the six months ended June 30, 1998 and 1999, respectively. Net cash used in operating activities for the six months ended June 30, 1998 was primarily attributable to a net loss of $1,990,000 and an increase in accounts receivable of $192,000 which was partially offset by amortization of debt discount of $364,000, issuance of Common Stock and warrants for services rendered of $583,000 and depreciation and amortization of $346,000. Net cash used in operating activities for the six months ended June 30, 1999 was primarily attributable to a net loss of $3,707,000 and an increase in accounts receivable of $252,000 which was partially offset by increases in accounts payable, accrued expenses and other current liabilities of $351,000, issuance of Common Stock and warrants for services rendered of $240,000 and depreciation and amortization of $367,000.

The Company's operating activities during the six months ended June 30, 1998 were financed primarily with $1,750,000 of proceeds from the issuance of $1,750,000 principal amount of notes and warrants to purchase 325,919 shares of Common Stock. The Company's operating activities for the six months ended June 30, 1999 were primarily financed with the proceeds from the initial public offering consummated in November 1998. The Company does not currently have a line of credit from a commercial bank or other institution.

The Company anticipates, based on currently proposed plans and assumptions relating to the implementation of its business plan (including the timetable of, costs and expenses associated with, and success of, its marketing efforts), that the net proceeds of its public offering, together with projected revenues from operations, will be sufficient to satisfy the Company's operations and capital requirements through November 1999. There can be no assurance, however, that such funds will not be expended prior thereto due to unanticipated changes in economic conditions or other unforeseen circumstances. In the event the Company's plans change or its assumptions change or prove to be inaccurate (due to unanticipated expenses, difficulties, delays or otherwise) or projected revenues otherwise prove to be insufficient to fund the implementation of the Company's business plan or working capital requirements, the Company could be in need of additional financing sooner than currently anticipated. The Company is currently seeking additional financing but the Company has no current commitment with respect to any additional financing. Consequently, there can be no assurance that any additional financing will be available to the Company when needed, on commercially reasonable terms or at all. Any inability to obtain additional financing when needed would have a material adverse effect on the Company, requiring it to curtail and possibly cease its operations. In addition, any additional equity financing may involve substantial dilution to the interests of the Company's then existing stockholders.

In June and July 1999, the Company took certain steps to reorganize its operations in order to reduce expenses. Such reorganization included the closing of its Texas office and consolidation of its operations in Massachusetts, closing of certain sales offices and the reduction of the number of employees from 46 to 34 or a 26 percent reduction.

Year 2000 Issue

The Company has assessed the potential software issues associated with the Year 2000 and believes its software products are Year 2000 compliant and, therefore, does not expect to incur material costs related thereto. With regard to internal computing resources utilized in its operations, the Company does not expect to incur material costs to make such resources year 2000 compliant.

Fluctuations in Operating Results

The Company anticipates significant quarterly fluctuations in its operating results in the future. The Company generally ships orders for commercial products as they are received and, as a result, does not have any material backlog. As a result, quarterly revenues and operating results depend on the volume and timing of orders received during the quarter, which are difficult to forecast. Operating results may fluctuate on a quarterly basis due to factors such as the demand for the Company's products, purchasing patterns and budgeting cycles of customers, the introduction of new products and product enhancements by the Company or its competitors, market acceptance of new products introduced by the Company or its competitors and the size, timing, cancellation or delay of customer orders, including cancellation or delay in anticipation of new product introduction or enhancement. In addition, the Company's consulting revenues tend to fluctuate as projects, which may continue over several quarters, are undertaken or completed. Therefore, comparisons of quarterly operating results may not be meaningful and should not be relied upon, nor will they necessarily reflect the Company's future performance. Because of the foregoing factors, it is likely that in some future quarters the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Common Stock would likely be materially adversely affected.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

None

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Use of Proceeds.

On November 12, 1998, the Company's registration statement on Form SB-2, as amended (file number 333-59617), relating to its initial public offering (the "Offering") was declared effective by the Securities and Exchange Commission. Whale Securities Co., L.P. acted as the underwriter in connection with the Offering which was consummated on November 17, 1998. In connection with the Offering, the Company registered, issued and sold 1,700,000 shares of Common Stock (excluding 255,000 shares of Common Stock subject to the underwriter's over-allotment option which was not exercised), at an initial public offering price of $6.00 per share resulting in net proceeds of $7,931,000, after payment of underwriting discounts and commissions and offering expenses of $2,269,000. Additionally, the Company registered 170,000 shares of Common Stock underlying warrants to purchase Common Stock sold by the Company to the underwriter for $100. The warrants are exercisable for a four-year period commencing on November 12, 1999 at a price of $9.30 per share. Since November 17, 1998 (the date of consummation of the Offering) through June 30, 1999, the Company used the net proceeds of the Offering as follows: $2,247,000 for sales and marketing, $1,160,000 for software development, $546,000 for payment of past due trade payables, $585,000 for repayment of outstanding indebtedness (including $132,000 for repayment of indebtedness to officers, directors and 10% or more stockholders and affiliates) $200,000 for purchase of office, telecommunications and computer equipment, $158,000 for expenses related to establishing new executive offices and $1,692,000 for working capital and general corporate purposes.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On June 25, 1999, the Company's annual meeting of stockholders was held. At the annual meeting, the stockholders approved the following matters:

1. The following individuals listed below were elected directors of the Company to serve until the next annual meeting of stockholders and the election and qualification of their successors. The number of votes cast for or withheld were as follows:

Nominee	For	Withheld
Avi A. Fogel	4,322,173	20,470
William Hancock	4,336,643	6,000
Corey M. Horowitz	4,336,643	6,000
Barry Rubenstein	4,336,643	6,000
Irwin Lieber	4,336,643	6,000
Marcus J. Ranum	4,336,643	6,000

2. An amendment to the Company's 1996 Stock Option Plan to increase the number of shares available for issuance thereunder by 750,000 shares to an aggregate of 1,800,000 shares. 3,205,871 shares were voted in favor of the amendment, 44,220 shares were voted against the amendment, and 4,454 shares abstained from voting.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

Exhibits

The exhibits in the following table have been filed as part of this Quarterly Report on Form 10-QSB:

Exhibit Number	Description of Exhibit
10.28	Employment Agreement, dated May 15, 1999, between the Company and Robert Russo.
27	Financial data schedule for six month period ended June 30, 1999.

No reports on Form-8-K were filed during the six months ended

June 30, 1999.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: /s/ Avi A. Fogel

Avi A. Fogel, President and Chief Executive Officer
(Principal Executive Officer)

Date: August 12, 1999

By: /s/ Murray P. Fish

Murray P. Fish
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 12, 1999

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.28	Employment Agreement, dated May 15, 1999, between the Company and Robert Russo.
27	Financial data schedule for six month period ended June 30, 1999.

EXHIBIT 10.28

EMPLOYMENT AGREEMENT dated as of May 15, 1999, between NETWORK-1 SECURITY SOLUTIONS, INC., a Delaware corporation with its principal office located at 1601 Trapelo Road, Waltham, Massachusetts 02451 (the "Company"), and ROBERT RUSSO residing at 33-20 28th Street, Long Island City, New York 11106 (the "Executive").

The Company desires to enter into this Agreement in order to assure itself of the service of Executive, and Executive desires to accept employment with the Company, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and obligations hereinafter set forth, the parties agree as follows:

SECTION 1. EMPLOYMENT. The Company hereby employs Executive, and Executive hereby accepts employment by the Company, upon the terms and conditions hereinafter set forth.

SECTION 2. TERM. The employment of Executive hereunder shall be for a period commencing on the date hereof (the "Commencement Date") and ending on May 15, 2001 (the "Term") or such earlier date upon which the employment of the Executive shall terminate in accordance with the provisions hereof. The period commencing on the Commencement Date and ending on the date of termination of the Executive's employment hereunder shall be called the "Term of Employment" for Executive, and the date on which the Executive's employment hereunder shall terminate shall be called the "Termination Date.".

SECTION 3. DUTIES. During the Term of Employment, Executive shall be employed as the Vice President of Professional Services of the Company and shall perform such duties as are consistent therewith as the Board of Directors of the Company (the "Board") shall designate. Executive shall use his best efforts to perform well and faithfully the foregoing duties and responsibilities.

SECTION 4. TIME TO BE DEVOTED TO EMPLOYMENT. During the Term of Employment, Executive shall devote all of his business time, attention and energies to the business of the Company (except for vacations to which he is entitled pursuant to Section 6(b) and periods of illness or incapacity). During the Term of Employment, Executive shall not engage in any business activity which, in the reasonable judgment of the Board, conflicts with the duties of Executive hereunder, whether or not such activity is pursued for gain, profit or other pecuniary advantage.

SECTION 5. COMPENSATION.

The Company shall pay to Executive an annual base salary (the "Base Salary") during the Term of Employment of $120,000 per annum, payable in such installments (but not less often than monthly) as is generally the policy of the Company with respect to its executive officers, which Base Salary shall be subject to such increases as the Board, in its sole discretion, may from time to time determine. Executive's Base Salary and performance shall be reviewed at least annually by the Compensation Committee.

SECTION 6. BUSINESS EXPENSES; BENEFITS.

(a) The Company shall reimburse Executive, in accordance with the practice from time to time for executive officers of the Company, for all reasonable and necessary expenses and other disbursements incurred by Executive for or on behalf of the Company in the performance of Executive's duties hereunder. Executive shall provide such appropriate documentation of expenses and disbursements as may from time to time be required by the Company.

(b) During the Term of Employment, Executive shall be entitled to four (4) weeks vacation per year.

(c) During the Term of Employment, Executive shall be entitled to participate in the group health, life and disability insurance benefits, and retirement plan benefits made available from time to time for its employees generally.

SECTION 7. INVOLUNTARY TERMINATION.

(a) If Executive is incapacitated or disabled (such condition being hereinafter referred to as a "Disability") in a manner that would qualify Executive for benefits under the disability policy of the Company (the "Disability Policy"), the Term of Employment and employment of the Executive under this Agreement shall cease (such termination, as well as a termination under Section 7(b), being hereinafter referred to as an "Involuntary Termination") and Executive shall be entitled to receive the benefits payable under the Disability Policy and in accordance with Section 9 hereof.

(b) If Executive dies during the Term of Employment, the Term of Employment and Executive's employment hereunder shall cease as of the date of the Executive's death and Executive shall be entitled to receive the benefits payable in accordance with Section 9 hereof.

SECTION 8. TERMINATION BY THE COMPANY.

(a) TERMINATION FOR CAUSE. The Company may terminate the Term of Employment and the employment of the Executive hereunder at any time for Cause (as hereinafter defined) (such termination being referred to herein as a "Termination For Cause") by giving Executive written notice of such termination, effective immediately upon the giving of such notice to the Executive. As used in this Agreement, "Cause" means the Executive's (a) commission of an act (i) constituting a felony or (ii) involving fraud, moral turpitude, theft or dishonesty which is not a felony and which materially adversely affects the Company or could reasonably be expected to materially adversely affect the Company, (b) repeated failure to be reasonably available to perform his duties, which, if curable, shall not have been cured within 10 business days of written notice thereof from the Company, (c) repeated failure to follow the lawful directions of the Company's Chief Executive Officer, which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company, (d) material breach of any agreement with the Company (including any provisions of this or any agreement between Executive and the Company) which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company or (e) voluntary resignation (except as set forth in paragraph 9(d) hereof).

(b) TERMINATION OTHER THAN FOR CAUSE. The Company may terminate this Agreement and the employment of Executive other than for cause as defined in Section 8(a) above (such termination shall be defined as a "Termination Other Than for Cause") by giving Executive written notice of such termination, which notice shall be effective upon the giving of such notice or such later date set forth therein.

SECTION 9. EFFECT OF TERMINATION.

(a) Upon the termination of the Term of Employment and Executive's employment hereunder due to Termination for Cause (as defined in Section 8(a) above), neither Executive nor his beneficiary or estate shall have any further rights or claims against the Company under this Agreement, except to receive (i) the unpaid portion, if any, of the Base Salary provided for in Section 5, computed on a pro rata basis to the Termination Date (based on the actual number of days elapsed over the actual number of days elapsed over the year in which such termination occurs), (ii) any unpaid accrued benefits of Executive, (iii) reimbursement for any expenses for which Executive shall not have been reimbursed as provided in Section 6(a), and (iv) Executive's rights under the vested portion of any stock options granted by the Company.

(b) Upon the termination of Executive's employment hereunder due to an Involuntary Termination, neither Executive nor his beneficiary or estate shall have any further rights or claims against the Company under this Agreement except the right to receive (i) the amounts set forth in Section 9 (a), and (ii) the vesting of all stock options granted to Executive (the "Options") that would have vested in the year of Involuntary Termination and one-half of the Options that would have vested in the year following the year of Involuntary Termination.

3

(c) Upon the termination of Executive's employment upon a Termination Other Than for Cause (as defined in Section 8(b) above), neither Executive nor his beneficiary nor his estate shall have any rights or claims against the Company except to receive (i) the amounts set forth in 9(b) (including Options), and (ii) the lesser of (A) six months Base Salary as in effect at the time of the Termination Other Than for Cause or (B) Executive's Base Salary for the balance of the term of this Agreement.

(d) For purposes of this Section 9, if Executive is asked to assume any duties or the material reduction of duties, either of which is substantially inconsistent with the position of Vice President of Professional Services of the Company, Executive, upon 30 days notice to the Board of Directors setting forth in reasonable detail the respects in which Executive believes such assignment or duties are substantially inconsistent with the level of Executive's position, may resign from the Company and such resignation will be treated as a Termination Other Than For Cause pursuant to this Section 9.

SECTION 10. INSURANCE. The Company may, for its own benefit, in its sole discretion, maintain "key-man" life and disability insurance policies covering Executive. Executive will cooperate with the Company and provide such information or other assistance as the Company may reasonably request in connection with the Company's obtaining and maintaining such policies.

SECTION 11. DISCLOSURE OF INFORMATION. Executive will not, either during the Term of Employment or at any time thereafter, divulge, publish, communicate, furnish or make accessible to anyone any knowledge or information with respect to the Company's confidential, secret or proprietary products, technology, methods, plans, materials and processes, or with respect to any other confidential, secret or proprietary aspects of the business, activities or products of the Company including, without limitation, (a) software programs, source code, object code, product development information, research and development projects or other technical data pertaining to the Company's products (whether or not subject to patent, trademark or copyright protection) or (b) any customer or client lists, telephone leads, prospects lists, sales figures and forecasts, purchase costs, financial projections, advertising and marketing plans and business strategies and plans; except as such items set forth in clauses (a) and (b) above may already be in the public domain through no fault of Employee (all of the foregoing items set forth in clauses (a) and (b) being referred to herein collectively as "Confidential Property"). Upon the termination of the Term of Employment, Executive shall return to the Company all property (including Confidential Property) of the Company (or any subsidiary or affiliate thereof) then in the possession of Executive and all books, records, computer tapes or discs and all other material containing non-public information concerning the business, clients or affairs of the Company or any subsidiary or affiliate thereof.

4

SECTION 12. RIGHT TO INVENTIONS. Executive shall promptly disclose, grant and assign to the Company for its sole use and benefit any and all marks, designs, logos, inventions, improvements, technical information and suggestions relating in any way to the business conducted by the Company, which he may develop or which may be acquired by Executive during the Term of Employment (whether or not during usual working hours), together with all trademarks, patent applications, letters, patent, copyrights and reissues thereof that may at any time be granted for or upon any such mark, design, logo, invention, improvement or technical information (collectively, "Inventions"). In connection therewith, Executive shall (at the Company's sole cost and expense) take all actions reasonably necessary or desirable to assign and/or confirm the assignment of any Invention to the Company.

SECTION 13. RESTRICTIVE COVENANT.

(a) The Company is in the business of developing, marketing, licensing and supporting network software security products and also provides consulting in network security, network design, troubleshooting and engineering. Executive acknowledges and recognizes that the Business has been conducted, and sales of its products have been made, throughout the United States, and Executive further acknowledges and recognizes the highly competitive nature of the industry in which the Business is involved. Accordingly, in consideration of the premises contained herein, and the consideration to be received hereunder, Executive shall not, during the Non-Competition Period (as defined below): (i) directly or indirectly engage, whether or not such engagement shall be as a partner, stockholder, affiliate or other participant, in any Competitive Business (as defined below), or represent in any way any Competitive Business, whether or not such engagement or representation shall be for profit, (ii) interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any other person or entity, including, without limitation, any customer, supplier, employee or consultant of the Company, (iii) induce any employee of the Company to terminate his employment with the Company or to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business), or (iv) affirmatively assist or induce any other person or entity to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business). Anything contained in this Section 13 to the contrary notwithstanding, an investment by Executive in any publicly traded company in which Executive and his affiliates exercise no operational or strategic control and which constitutes less than 5% of the capital of such entity shall not constitute a breach of this Section 13.

(b) As used herein, "Non-Competition Period" shall mean the period commencing on the date hereof and terminating on the Termination Date; provided, however, that if the Term of Employment shall have been terminated pursuant to Section 8 (a) for cause, then "Non-Competition Period" shall mean the period commencing on the date hereof and ending on the second anniversary of the Termination Date. "Competitive Business" shall mean any business in any State of the United States engaged in the development, marketing and licensing of network software security products, or in any other line of business in which the

Company was engaged or had a formal plan to enter as of the Termination Date, provided, however, during the period beginning on the Termination Date and ending on the second anniversary thereof, Executive shall not be precluded from engaging in consulting services in the computer industry, including, but not limited to, network design, trouble shooting and engineering.

(c) Executive understands that the foregoing restrictions may limit his ability to earn a livelihood in a business similar to the business of the Company, but he nevertheless believes that he has received and will receive sufficient consideration and other benefits as an employee of the Company and as otherwise provided hereunder and pursuant to other agreements between the Company and Executive to justify clearly such restrictions which, in any event (given his education, skills and ability), Executive does not believe would prevent him from earning a living.

SECTION 14. ENFORCEMENT; SEVERABILITY; ETC. It is the desire and intent of the parties that the provisions of this Agreement shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated to be invalid or unenforceable, such provision shall be deemed amended to (a) delete therefrom the portion thus adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made or (b) otherwise to render it enforceable in such jurisdiction.

SECTION 15. REMEDIES. Executive acknowledges and understands that the provisions of this Agreement are of a special and unique nature, the loss of which cannot be adequately compensated for in damages by an action at law, and that the breach or threatened breach of the provisions of this Agreement would cause the Company irreparable harm. In the event of a breach or threatened breach by Executive of the provisions of this Agreement, the Company shall be entitled to an injunction restraining him from such breach. Nothing contained in this Agreement shall be construed as prohibiting the Company from or limiting the Company in pursuing any other remedies available for any breach or threatened breach of this Agreement.

SECTION 16. NOTICES. All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given and delivered if personally delivered or if sent by a nationally-recognized overnight courier, by telecopy, or by registered or certified mail, return receipt requested and postage prepaid, addressed as follows:

if to the Company, to: Network-1 Security Solutions, Inc.
1601 Trapelo Road
Reservoir Place
Waltham, MA 02451
Attention: Avi Fogel, President and
Chief Executive Officer

with copies to: Solovay Edlin & Eiseman
845 Third Avenue
New York, NY 10022
Telecopier: (212) 355-4608
Telephone: (212) 752-1000
Attention: Sam Schwartz, Esq.

if to Executive, to: Robert Russo
33-20 28th Street
Long Island City
New York, NY 11106

or to such other address as the party to whom notice is to be given may have furnished to the other party or parties in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of nationally-recognized overnight courier, on the next business day after the date when sent, (c) in the case of telecopy transmission, when received, and (d) in the case of mailing, on the third business day following that on which the piece of mail containing such communication is posted.

SECTION 17. BINDING AGREEMENT; BENEFIT. The provisions of this Agreement will be binding upon, and will inure to the benefit of, the respective heirs, legal representatives, successors and assigns of the parties.

SECTION 18. GOVERNING LAW. This Agreement will be governed by, construed and enforced in accordance with, the laws of the State of Massachusetts (without giving effect to principles of conflicts of laws).

SECTION 19. WAIVER OF BREACH. The waiver by either party of a breach of any provision of this Agreement must be in writing and shall not operate or be construed as a waiver of any other breach.

SECTION 20. ENTIRE AGREEMENT; AMENDMENTS. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements or understandings between the parties with respect thereto. This Agreement may be amended only by an agreement in writing signed by the parties.

SECTION 21. HEADINGS. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 22. ASSIGNMENT. This Agreement is personal in its nature and the parties shall not, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that the Company may assign this Agreement to any of its subsidiaries and affiliates.

SECTION 23. GENDER. Any reference to the masculine gender shall be deemed to include the feminine and neuter genders unless the context otherwise requires.

SECTION 24. COUNTERPARTS. This Agreement may be executed in counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Employment Agreement as of the date first written above.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: /s/ Avi A. Fogel

Avi A. Fogel, President and
Chief Executive Officer

/s/ Robert Russo

Robert Russo

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED FINANCIAL STATEMENTS OF NETWORK-1 SECURITY SOLUTIONS, INC. FOR THE PERIOD ENDED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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