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 SEPTEMBER 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
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(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 October 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>
<S> <C>

PART II. OTHER INFORMATION

</TABLE>

NETWORK-1 SECURITY SOLUTIONS, INC.
BALANCE SHEETS

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1999 (UNAUDITED)	DECEMBER 31, 1998 (AUDITED)
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,319,000	$ 6,423,000
Accounts receivable - net of allowance for doubtful accounts of $104,000 and $151,000 respectively	296,000	249,000
Prepaid expenses and other current assets	269,000	119,000
Total current assets	1,884,000	6,791,000
Equipment and fixtures	633,000	415,000
Capitalized software costs - net	820,000	925,000
Security deposits	82,000	37,000
	$ 3,419,000	$ 8,168,000
LIABILITIES		
Current liabilities:		
Accounts payable	$ 235,000	$ 420,000
Accrued expenses and other current liabilities	684,000	406,000
Deferred revenue	76,000	103,000
Total current liabilities	995,000	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	20,898,000	20,819,000
Unearned portion of compensatory stock options	(177,000)	(383,000)
Accumulated deficit	(18,347,000)	(13,247,000)
	2,424,000	7,239,000
	$ 3,419,000	$ 8,168,000

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

<S>	THREE MONTHS ENDED SEPTEMBER 30, 1999 <C>	1998 <C>	NINE MONTHS ENDED SEPTEMBER 30, 1999 <C>	1998 <C>
Revenues:				
Licenses	$ 73,000	$ 102,000	$ 186,000	$ 514,000
Services	381,000	569,000	1,171,000	1,059,000
Total revenues	454,000	671,000	1,357,000	1,573,000
Cost of revenues:				
Amortization of software costs	135,000	135,000	405,000	402,000
Cost of licenses	5,000	33,000	35,000	161,000
Cost of services	406,000	230,000	1,180,000	502,000
Total cost of revenues	546,000	398,000	1,620,000	1,065,000
Gross (loss) profit	(92,000)	273,000	(263,000)	508,000
Operating expenses:				
Product development	327,000	160,000	1,103,000	443,000
Selling and marketing	614,000	339,000	2,438,000	690,000
General and administrative	400,000	647,000	1,430,000	1,800,000
Total operating expenses	1,341,000	1,146,000	4,971,000	2,933,000
Loss from operations	(1,433,000)	(873,000)	(5,234,000)	(2,425,000)
Interest income (expense) - net	40,000	(284,000)	134,000	(722,000)
Net loss	$(1,393,000)	$(1,157,000)	$(5,100,000)	$(3,147,000)
Loss per share - basic and diluted	$ (0.32)	$ (0.52)	$ (1.17)	$ (1.69)
Weighted average number of shares outstanding - basic and diluted	4,372,375	2,222,955	4,372,097	1,861,717

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

<S>	COMMON STOCK SHARES <C>	AMOUNT <C>	PREFERRED STOCK SHARES <C>	AMOUNT <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 and payment of liability	5,855			
Net Loss				
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Balance - September 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)(Cont.)

<TABLE>
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	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	PORTION OF COMPENSATORY STOCK OPTIONS	TOTAL
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<S>	<C>	<C>	<C>	<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			206,000	206,000
Issuance of common stock and options for services rendered and payment of liability	79,000			79,000

Net Loss		(5,100,000)		(5,100,000)
Balance - September 30, 1999 (Unaudited)	$20,898,000	$(18,347,000)	$ (177,000)	$ 2,424,000

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

NETWORK-1 SECURITY SOLUTIONS, INC.

STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED

<TABLE>
<CAPTION>

	SEPTEMBER 30,	
	1999 (Unaudited)	1998 (Unaudited)
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	$(5,100,000)	$(3,147,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount		594,000
Issuance of common stock, options and warrants for services rendered and payment of liability	285,000	703,000
Provision for doubtful accounts	(47,000)	30,000
Depreciation and amortization	569,000	523,000
Changes in:		
Accounts receivable	0	(262,000)
Prepaid expenses and other current assets	(150,000)	(6,000)
Accounts payable, accrued expenses and other current liabilities	93,000	207,000
Deferred revenue	(27,000)	10,000
Net cash used in operating activities	(4,377,000)	(1,348,000)
Cash flows from investing activities:		
Acquisitions of equipment and fixtures	(382,000)	(47,000)
Capitalized software costs	(300,000)	(100,000)
Security deposit	(45,000)	(7,000)
Net cash used in investing activities	(727,000)	(154,000)
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		
Deferred Offering Costs		(119,000)
Net cash provided by financing activities	0	1,623,000
Net increase (decrease) in cash and cash equivalents	(5,104,000)	121,000
Cash and cash equivalents - beginning of period	6,423,000	60,000
Cash and cash equivalents - end of period	$ 1,319,000	$ 181,000
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 nine months ended September 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 OBTAINING SUFFICIENT FINANCING TO FUND THE COMPANY'S OPERATIONS, 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. In January 1999, the Company introduced its CYBERWALLPLUS(TM) family of network security products. This suite of products was re-branded and modified from the original suite (FireWall/Plus) - to focus more on internal, embedded and distributed firewalling and intrusion prevention, than the FireWall/Plus suite - which competed in the intensely competitive space of traditional IP perimeter firewalls. 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 September 30, 1999, had an accumulated deficit of $ 18,347,000. In addition, since September 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.

The Company is currently seeking additional financing which will be necessary to continue its operations beyond December 31, 1999. Although the Company is negotiating with several parties for such financing, there is no assurance that any such necessary financing will in fact be completed when needed, on commercially reasonable terms, or at all. The inability of the Company to secure such financing on a timely basis would have a material adverse effect on the Company, requiring it to curtail and possibly

cease its operations. In addition, any additional financing may involve substantial dilution to the interest of the Company's then existing stockholders.

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 September 30, 1999 has only been $2,848,000, including a non-refundable pre-paid royalty of $500,000 in 1997. In addition, during the three and nine month periods ended September 30, 1999 and the year ended December 31,1998 license revenues from software products decreased as compared to the three and nine month periods ended September 30, 1998 and the year ended December 31,1997, respectively. Since its introduction in March 1999, license revenue from CYBERWALLPLUS(TM) has been only $127,000. Service revenues from product maintenance were $103,000 for the nine months ended September 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.

During the quarter ended September 30, 1999, the Company's major achievements included the following:

In August, the Company introduced its web-server embedded firewall product architecture and has since then announced some of its initial successes with several small and mid-sized customers (Koromaku Partners, NextLEC, NetPro Solutions, FuturesGuide, and Fisher. Towne and Associates).

In August, the Company entered into a major consulting contract with Delphi Automotive.

In September, the Company also entered into new relationships with partners in Japan, Argentina and Canada.

The Company acquired 16 new CyberwallPLUS customers - and had over 20 previous Firewall/PLUS customers upgrade to CyberwallPLUS, either through existing support agreements or new ones.

The Company announced the initial acceptance during the third quarter, of the Company's Intranet firewall for Any Protocol - CyberwallPLUS - AP - by 3 major corporations National Semiconductors, Capital One and Consumer's Energy.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1998

Revenues decreased by $216,000, from $1,573,000 for the nine months ended September 30, 1998 to $1,357,000 for the nine months ended September 30, 1999, primarily as a result of decreased license revenues as FirewallPLUS was discontinued and new revenues from CyberwallPLUS have not reached the former levels which was partially offset by higher consulting revenues .

License revenues decreased by $328,000 or 64%, from $514,000 for the nine months ended September 30, 1998 to $186,000 for the nine months ended September 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. CyberwallPLUS license revenue for the quarter ended September 30, 1999 increased by $30,000 or 70% from $43,000 for the three months ended June 30 ,1999 to $73,000 for the three months ended September 30, 1999.

Service revenues increased by $112,000 or 11%, from $1,059,000 for the nine months ended September 30, 1998 to $1,171,000 for the nine months ended September 30, 1999. Service revenues from consulting increased by $105,000 or 11%, from $963,000 for the nine months ended September 30, 1998 to $1,068,000 for the nine months ended September 30, 1999. The increase in service revenues was attributable to three large consulting projects serviced during the nine months ended September 30, 1999. Service revenues from product maintenance increased by $8,000 or 8%, from $95,000 for the nine months ended September 30, 1998 to $103,000 for the nine months ended September 30, 1999.

The Company's revenues from customers in the United States represented 99% and 97% of the Company's revenues during the nine months ended September 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 $126,000 or 78%, from $161,000 for the nine months ended September 30, 1998 to $35,000 for the nine months ended September 30, 1999, representing 31% and 19% 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 $402,000 for the nine months ended September 30, 1998 to $405,000 for the nine months ended September 30, 1999, representing 78% and 218% of license revenues, respectively.

Cost of services consist of salaries, benefits and overhead associated with consulting services and maintenance. Cost of services increased by $678,000 or 135%, from $502,000 for the nine months ended September 30, 1998 to $1,180,000 for the nine months ended September 30, 1999, representing 47% and 101% of service revenues, respectively. The increase in cost of services in dollar amount resulted primarily from hiring additional employees, 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 $508,000 for the nine months ended September 30, 1998 to ($263,000) for the nine months ended September 30, 1999, representing 32% 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 $660,000 or 149%, from $443,000 for the nine months ended September 30, 1998 to $1,103,000 for the nine months ended September 30, 1999, representing 28% and 81% of revenues, respectively. Total product developments costs, including capitalized costs of $100,000 and $300,000, were $543,000 and $1,403,000 for the nine months ended September 30, 1998 and September 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 $1,748,000 or 253%, from $690,000 for the nine months ended September 30, 1998 to $2,438,000 for the nine months ended September 30, 1999, representing 44% and 180% 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 $370,000 or 21%, from $1,800,000 for the nine months ended September 30, 1998 to $1,430,000 for the nine months ended September 30, 1999, representing 114% and 105% of revenues, respectively. The decrease in general and administrative expenses was due primarily to decreases in non-cash compensation for services of $414,000 which was partially 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 $722,000 for the nine months ended September 30, 1998 and the Company had interest income of $134,000 for the nine months ended September 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, the utilization of a portion of the proceeds of the offering to pay the remaining debt and the interest earned on the remaining proceeds of the offering in 1999.

No provision for or benefit from federal, state or foreign income taxes was recorded for the nine months ended September 30, 1998 or the nine months ended September 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 $1,953,000 or 62%, from $3,147,000 for the nine months ended September 30, 1998 to $5,100,000 for the nine months ended September 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 September 30, 1999, the Company had $1,319,000 of cash and cash equivalents and a working capital of $889,000. 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 $1,348,000 and $4,377,000 during the nine months ended September 30, 1998 and 1999, respectively. Net cash used in operating activities for the nine months ended September 30, 1998 was primarily attributable to a net loss of $3,147,000 and an increase in accounts receivable of $262,000 which was offset by amortization of debt discount of $594,000, issuance of Common Stock and warrants for services rendered of $703,000 and depreciation and amortization of $523,000. Net cash used in operating activities for the nine months ended September 30, 1999 was primarily attributable to a net loss of $5,100,000 and an increase in prepaid expenses and other current assets of $150,000 and a decrease in deferred revenue of $27,000 which was partially offset by increases in accounts payable, accrued expenses and other current liabilities of $93,000, issuance of Common Stock and warrants for services rendered of $285,000 and depreciation and amortization of $569,000.

The Company's operating activities during the nine months ended September 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 nine months ended September 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 December 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 agreement 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.

During the quarter ended September 30, 1999 and subsequently, 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 31.

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.

In July 1999, the City of Hope filed a lawsuit against the Company in Los Angeles Superior Court alleging breach of contract with respect to certain network security consulting services provided by the Company to the City of Hope and seeking return of $530,893 paid to the Company for such services, plus consequential damages and other unspecified damages. Prior to the City of Hope's commencement of the action, the Company had demanded from the City of Hope payment in the amount of $218,766, representing outstanding invoices for services rendered by the Company to City of Hope. In October, 1999, the parties settled the dispute by agreeing to forego their respective claims against each other and exchanging general releases.

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 September 30, 1999, the Company used the net proceeds of the Offering as follows: $2,861,000 for sales and marketing, $1,586,000 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 $1,822,000 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.

None.

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
27	Financial data schedule for nine month period ended September 30, 1999

No reports on Form-8-K were filed during the nine months ended September 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: November 15, 1999

By: /s/ Murray P. Fish

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

Date: November 15, 1999

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
27	Financial data schedule for nine month period ended September 30, 1999

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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 SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS
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