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, 2001

[ ] 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 August 16, 2001 there were 6,467,547 shares of Common Stock, $.01 par value per share, and 231,054 shares of Series D Convertible Preferred Stock, $.01 par value per share, outstanding.

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

NETWORK-1 SECURITY SOLUTIONS, INC.

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NETWORK-1 SECURITY SOLUTIONS, INC.
BALANCE SHEETS

<TABLE><CAPTION>

	June 30, 2001	December 31, 2000
	------------	------------
	(Unaudited)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,535,000	$ 4,425,000
Accounts receivable - net of allowance for doubtful accounts of $130,000 and $80,000 respectively	250,000	227,000
Prepaid expenses and other current assets	83,000	153,000
Due from purchaser of discontinued operations	0	59,000
	------------	------------
Total current assets	2,868,000	4,864,000
Equipment and fixtures - net	390,000	437,000
Capitalized software costs - net	735,000	625,000
Security deposits	89,000	81,000
	------------	------------
	$ 4,082,000	$ 6,007,000
	============	============
LIABILITIES		
Current liabilities:		
Notes payable - related parties	$ 12,000	$ 326,000
Notes payable - others	288,000	343,000
Accounts payable	428,000	224,000
Accrued expenses and other current liabilities	741,000	696,000
Interest payable - related parties	1,000	27,000
Interest payable - others	35,000	28,000
Deferred revenue	154,000	181,000
	------------	------------
Total current liabilities	1,659,000	1,825,000
	------------	------------
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 - none issued and outstanding		
Series C - none issued and outstanding		
Series D -231,054 and 115,220 shares issued and outstanding, respectively	2,000	1,000

Common stock - $.01 par value; authorized 25,000,000 shares; 6,467,547 and 6,448,363 shares issued and outstanding, respectively	65,000	65,000
Additional paid-in capital	31,756,000	30,705,000
Accumulated deficit	(29,215,000)	(26,482,000)
Unearned portion of compensatory stock options	(185,000)	(107,000)
	2,423,000	4,182,000
	$ 4,082,000	$ 6,007,000

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

NETWORK-1 SECURITY SOLUTIONS, INC.
STATEMENTS OF OPERATIONS

<TABLE><CAPTION>

<S>	Three Months Ended June 30, 2001 (Unaudited) <C>	Three Months Ended June 30, 2000 (Unaudited) <C>	Six Months Ended June 30, 2001 (Unaudited) <C>	Six Months Ended June 30, 2000 (Unaudited) <C>
Revenues:				
Licenses	$ 251,000	$ 317,000	$ 647,000	$ 474,000
Services	57,000	35,000	118,000	70,000
Total revenues	308,000	352,000	765,000	544,000
Cost of revenues:				
Amortization of software development costs	63,000	63,000	125,000	124,000
Cost of licenses	8,000	23,000	22,000	29,000
Cost of services	57,000	38,000	119,000	66,000
	128,000	124,000	266,000	219,000
Gross profit	180,000	228,000	499,000	325,000
Operating expenses:				
Product development	673,000	325,000	1,285,000	618,000
Selling and marketing	816,000	689,000	1,712,000	1,177,000
General and administrative	516,000	456,000	1,010,000	973,000
	2,005,000	1,470,000	4,007,000	2,768,000
Loss from continuing operations before interest	(1,825,000)	(1,242,000)	(3,508,000)	(2,443,000)
Interest income (expense) - net	85,000	(1,435,000)	126,000	(1,402,000)
Loss from continuing operations	(1,740,000)	(2,677,000)	(3,382,000)	(3,845,000)
Income from discontinued operations	19,000	59,000	649,000	2,087,000
Net loss	$(1,721,000)	$(2,618,000)	$(2,733,000)	$(1,758,000)
Per common share information - basic and diluted				
Loss from continuing operations	$ (0.27)	$ (0.44)	(0.52)	$ (0.67)
Income from discontinued operations	0.00	0.01	0.10	0.36
Net loss	$ (0.27)	$ (0.43)	$ (0.42)	$ (0.31)
Weighted average number of common shares outstanding	6,462,852	6,124,112	6,459,105	5,722,257

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

NETWORK-1 SECURITY SOLUTIONS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE><CAPTION>

	Common Stock		Preferred Stock		Additional Paid-in
	Shares	Amount	Shares	Amount	Capital
<S>	<C>	<C>	<C>	<C>	<C>
Balance - December 31, 1998	4,366,520	$ 44,000	562,836	$ 6,000	$ 20,819,000
Amortization of compensatory stock options	--	--	--	--	--
Issuance of common stock and options for services rendered and payment of liability	5,855	--	--	--	161,000
Conversion of Series C preferred stock	562,836	6,000	(562,836)	(6,000)	--
Issuance of Series D preferred stock and warrants, net of expense of $34,000	--	--	491,803	5,000	1,461,000
Beneficial conversion feature of Series D preferred stock and related imputed dividend	--	--	--	--	1,500,000
Net loss	--	--	--	--	--
Balance - December 31, 1999	4,935,211	50,000	491,803	5,000	23,941,000
Amortization of compensatory stock options	--	--	--	--	--
Conversion of Series D preferred stock	376,583	4,000	(376,583)	(4,000)	--
Exercise of employee & non-employee stock options	470,051	5,000	--	--	2,255,000
Exercise of Warrants	384,091	4,000	--	--	1,207,000
Conversion of Notes and Accrued Interest	282,427	2,000	--	--	859,000
Compensation charge for issuance of non-qualified stock options	--	--	--	--	525,000
Compensation charge for accelerated vesting of stock options	--	--	--	--	269,000
Beneficial conversion feature of Series D preferred stock underlying notes payable and related debt discount	--	--	--	--	1,500,000
Issuance of warrants and options for services	--	--	--	--	68,000
Unearned portion of compensatory warrants	--	--	--	--	81,000
Net loss	--	--	--	--	--
Balance - December 31, 2000 (Audited)	6,448,363	$ 65,000	115,220	$ 1,000	$ 30,705,000
Amortization of compensatory stock options	--	--	--	--	--
Conversion of Series D preferred stock	8,197	--	(8,197)	--	--
Conversion of Notes and Accrued Interest	10,897	--	124,031	1,000	411,000
Amortization of compensatory warrants	--	--	--	--	--
Compensation charge for issuance of non-qualified stock options	--	--	--	--	230,000
Compensation charge for issuance of warrants	--	--	--	--	225,000
Unearned portion of compensatory warrants	--	--	--	--	185,000
Net loss	--	--	--	--	--
Balance - June 30, 2001 (Unaudited)	6,467,457	$ 65,000	231,054	$ 2,000	$ 31,756,000

</TABLE>

NETWORK-1 SECURITY SOLUTIONS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY(continued)

<TABLE><CAPTION>

	Accumulated Deficit	Unearned Portion of Compensatory Stock Options and Warrants	Total
<S>	<C>	<C>	<C>
Balance - December 31, 1998	$(13,247,000)	$ (383,000)	$ 7,239,000
Amortization of compensatory stock options	--	249,000	249,000
Issuance of common stock and options for			

services rendered and payment of liability	--	--	161,000
Conversion of Series C preferred stock	--	--	0
Issuance of Series D preferred stock and warrants, net of expense of $34,000	--	--	1,466,000
Beneficial conversion feature of Series D preferred stock and related imputed dividend	(1,500,000)	--	0
Net loss	(6,946,000)	--	(6,946,000)
	------------	------------	------------
Balance - December 31, 1999	(21,693,000)	(134,000)	2,169,000
Amortization of compensatory stock options	--	108,000	108,000
Conversion of Series D preferred stock	--	--	--
Exercise of employee & non-employee stock options	--	--	2,260,000
Exercise of Warrants	--	--	1,211,000
Conversion of Notes and Accrued Interest	--	--	861,000
Compensation charge for issuance of non-qualified stock options	--	--	525,000
Compensation charge for accelerated vesting of stock options	--	--	269,000
Beneficial conversion feature of Series D preferred stock underlying notes payable and related debt discount	--	--	1,500,000
Issuance of warrants and options for services	--	--	68,000
Unearned portion of compensatory warrants	--	(81,000)	--
Net loss	(4,789,000)	--	(4,789,000)
	------------	------------	------------
Balance - December 31, 2000 (Audited)	$(26,482,000)	$ (107,000)	$ 4,182,000
Amortization of compensatory stock options	--	26,000	26,000
Conversion of Series D preferred stock	--	--	--
Conversion of Notes and Accrued Interest	--	--	412,000
Amortization of compensatory warrants	--	81,000	81,000
Compensation charge for issuance of non-qualified stock options	--	--	230,000
Compensation charge for issuance of warrants	--	--	225,000
Unearned portion of compensatory warrants	--	(185,000)	--
Net loss	(2,733,000)	--	(2,733,000)
	------------	------------	------------
Balance - June 30, 2001 (Unaudited)	$(29,215,000)	$ (185,000)	$ 2,423,000
	============	============	============

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<TABLE><CAPTION>

	June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
<S>	<C>	<C>
Cash flows from operating activities:		
Loss from continuing operations	$(3,382,000)	$(3,845,000)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Interest charge from Preferred D sale	0	1,500,000
Issuance of common stock options and warrants for services rendered	225,000	73,000
Provision for doubtful accounts	50,000	20,000
Amortization of compensatory stock options and warrants	107,000	0
Depreciation and amortization	194,000	186,000
Changes in:		
Accounts receivable	(73,000)	(279,000)

Prepaid expenses and other current assets	70,000	(14,000)
Accounts payable, accrued expenses and other current liabilities	249,000	(120,000)
Interest Payable	24,000	51,000
Deferred revenue	(27,000)	62,000
Net cash used in continuing operations	(2,563,000)	(2,366,000)
Cash provided by discontinued operations	0	81,000
Net cash used in operating activities	(2,563,000)	(2,285,000)
Cash flows from investing activities:		
Acquisitions of equipment and fixtures	(22,000)	(87,000)
Capitalized software costs	(235,000)	(200,000)
Security deposit	(8,000)	0
Loan to officer	0	88,000
Net proceeds from sale of professional services group	938,000	2,700,000
Net cash provided by investing activities	673,000	2,501,000
Cash flows provided by financing activities:		
Proceeds from exercise of options and warrants	0	3,100,000
Net (decrease) increase in cash and cash equivalents	(1,890,000)	3,316,000
Cash and cash equivalents - beginning of period	4,425,000	3,023,000
Cash and cash equivalents - end of period	$ 2,535,000	$ 6,339,000
Supplemental disclosures of noncash investing and financing activity:		
Conversion of notes payable and accrued interest into 10,897 shares of common stock and 124,031 shares of preferred stock in 2001 and 238,660 shares of common stock in 2000	$ 412,000	$ 726,000
Compensation charge for non qualified stock options related to employees of discontinued operations	$ 230,000	$ 794,000

</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 Form 10-KSB for the year ended December 31, 2000.

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, 2001 presented herein are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2001.

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

d. On June 29, 2001 the Company entered into a six month consulting arrangement with CMH Capital Management Corp., whose sole shareholder is Corey M. Horowitz, the Company's Chairman of the Board of Directors, to provide strategic and financing consulting to the Company. The agreement is for $17,500 per month plus expenses. In addition, 300,000 10 year warrants were granted with an exercise price of $.70 which was the fair market price of the Company's common stock at date of grant. The warrants were valued utilizing the Black Scholes pricing model resulting in an estimated fair value of $185,000 which will be amortized and charged to expense over the six month period. No amortization expense of the warrants was charged during the period due to immateriality.

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 RISKS AND UNCERTAINTIES, INCLUDING, BUT NOT LIMITED TO, THOSE DISCUSSED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-KSB FOR THE YEAR ENDED DECEMBER 31, 2000 IN THE SECTION ENTITLED "RISK FACTORS THAT MAY AFFECT FUTURE RESULTS" AS WELL AS THOSE RISKS DISCUSSED ELSEWHERE IN THIS REPORT.

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 introduced its first network software product (FireWall/Plus) in June 1995. In January 1999, the Company introduced its CYBERWALLPLUS family of network security products. The Company has made only limited sales of its CYBERWALLPLUS product, 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 introduction of new products 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. The Company may not be able to 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, 2001, had an accumulated deficit of $ 29,215,000. In addition, since June 30, 2001, the Company has continued to incur significant operating losses. The Company expects to incur substantial operating expenses in the future to support its product development activities, as well as continue to expand its domestic and international sales activities and marketing capabilities.

Management believes it currently has cash to fund its operations until December 31, 2001 (or earlier if the Company does not achieve certain revenue assumptions) (See "Liquidity and Capital Resources" on page 11 of this report). The Company is currently seeking additional financing, but it may not be able to secure such financing. The inability of the Company to obtain such financing would have a material adverse effect on the Company requiring it to curtail or possibly cease operations.

In February 2000, the Company completed the sale of its professional services business for a sales price of $3.815 million which included $1.115 million held in escrow subject to certain former employees of the Company remaining employed by the purchaser for at least one year and the purchaser securing certain minimum purchase orders within ninety (90) days of the closing. The Company received $1,000,000 from escrow during the three months ended March 31, 2001 and received the additional $115,000 in April 2001 plus interest. In connection with the sale, the Company agreed not to offer any professional consulting services competitive with the purchaser until the second anniversary of the closing. Effective upon the sale, the Company granted options to acquire 104,063 shares of Common Stock at $2.91 per share to certain employees of the professional services business. In connection therewith, the Company incurred a compensation charge of $794,000 based upon the intrinsic value of the portion of the options vesting at such date and acceleration of other options. The balance of the options vested one year after the closing and an additional charge of $230,000 was incurred related to these options. The sale has been accounted for by the Company as a sale of a discontinued operation.

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 family of software products. While the Company believes that its family of software products offer advantages over competing products for

network security, license revenue from network security software products since the introduction of FireWall/Plus (June 1995), a predecessor product line, through June 30, 2001 has only been $4,547,000, including a non-refundable pre-paid royalty of $500,000 in 1997. From January 1999 through June 30, 2001, license revenue from CYBERWALLPLUS has only been $1,815,000. CYBERWALLPLUS may not achieve 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 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 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.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

Revenues increased by $221,000 or 41%, from $544,000 for the six months ended June 30, 2000 to $765,000 for the six months ended June 30, 2001, primarily as a result of an increase in license and service revenues during the six months ended June 30, 2001. License revenues increased by $173,000 or 37%, from $474,000 for the six months ended June 30, 2000 to $647,000 for the six months ended June 30, 2001, primarily due to the increased demand in security products. Revenue for the six months ended June 30, 2001 included a large CyberwallPLUS server license issued to a major government sub-contractor totaling $64,000. The Company recognized $118,000 in revenue from its distributor in China whose contract has been cancelled due to non payment of additional amounts due. In addition, management believes that customers are becoming more aware of the potential impact of internal server security breaches, and that companies are allocating increasing resources to safeguard their assets. Service revenues increased by $48,000 or 69%, from $70,000 for the six months ended June 30, 2000 to $118,000 for the six months ended June 30, 2001 primarily due to increased support revenue. The Company's revenues from customers in the United States represented 93% of its revenues during the six months ended June 30, 2000 and 77% of its revenues during the six months ended June 30, 2001, respectively.

Cost of revenues consists of amortization of software development costs, cost of licenses and cost of services. Amortization of software development costs increased by $1,000 or 1%, from $124,000 for six months ended June 30, 2000 to $125,000 for the six months ended June 30, 2001, representing 26% and 19% of license revenues, respectively.

Cost of licenses consists of software media (disks), documentation, product packaging, production costs and product royalties. Cost of licenses decreased by $7,000 or 24%, from $29,000 for the six months ended June 30, 2000 to $22,000 for the six months ended June 30, 2001, each representing 6% and 3% of license revenues, respectively. 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.

Cost of services consists of salaries, benefits and overhead associated with the technical support of maintenance contracts. Cost of services increased by $53,000 or 80%, from $66,000 for the six months ended June 30, 2000 to $119,000 for the six months ended June 30, 2001, representing 94% and 101% of service revenues, respectively. The increase in cost of services in dollar amount and as a percentage of service revenues resulted primarily from increased personnel costs to support the projected sales growth. Cost of services as a percentage of service revenues may fluctuate from period to period due to changes in support headcount and related benefit costs.

Gross profit was $325,000 for the six months ended June 30, 2000 compared to a gross profit of $499,000 for the six months ended June 30, 2001, representing 60% and 65% of revenues, respectively. The increase in gross profit was primarily due to the increase in license revenue.

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. Product development expense increased $667,000 or 108%, from $618,000 for six months ended June 30, 2000 to $1,285,000 for the six months ended June 30, 2001, representing 114% and 168% of revenues, respectively. Total product development costs, including capitalized costs of $200,000 for the six months ended June 30, 2000 and $235,000 for the six months ended June 30, 2001, were $818,000 and $1,520,000 for the six months ended June 30, 2000 and June 30, 2001, respectively. The increase in total product development costs was due primarily to the use of outside programmer's services of $691,000 including non cash compensation of $225,000 recognized for the issuance of warrants.

Selling 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 $535,000 or 45%, from $1,177,000 for the six months ended June 30, 2000 to $1,712,000 for the six months ended June 30, 2001, representing 216% and 224% of revenues, respectively. The increase in selling and marketing expenses was due primarily to an increase of $419,000 in sales personnel and costs related to the hiring of a direct sales force.

General and administrative expenses include employee costs, including salary, benefits, 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 increased by $37,000, from $973,000 for the six months ended June 30, 2000 to $1,010,000 for the six months ended June 30, 2001, representing 179% and 132% of revenues, respectively. Increases in non-cash charges of $81,000 relating to the amortization of the value of warrants granted to outside consultants in November 2000, which was offset by decreases in non-cash charges of $47,000 relating to the amortization of the value of stock options granted to the Company's then Chief Executive Officer in May 1998.

Net interest expense was $1,402,000 for the six months ended June 30, 2000 as compared to net interest income of $126,000 for the six months ended June 30, 2001, respectively. The Company completed a Series D Preferred Stock, warrant and promissory note financing of $3,000,000 on December 22, 1999 and recorded interest expense of $1,500,000 related to the beneficial conversion feature of the promissory notes for the six months ended June 30, 2000.

Income from discontinued operations decreased by $1,438,000 or 69%, from $2,087,000 for the six months ended June 30, 2000 to $649,000 for the six months ended June 30, 2001. Income from discontinued operations for the six months ended June 30, 2001 was due to the receipt of $1,000,000 for retention of all the employees of the professional services group for a period of one year and additional contingent purchase price consideration of $56,000 less the $177,000 retention bonus plus taxes due the employees of the professional services group and a non-cash charge of $230,000 relating to the vesting of non-qualified options upon the employees completing a year of service. In connection with such sale, the Company agreed not to offer any professional or consulting services competitive with those services offered by purchaser for a period of two years from the closing date.

No provision for or benefit from federal, state or foreign income taxes was recorded for six months ended June 30, 2000 or June 30, 2001 because the Company incurred net operating losses and fully reserved its deferred tax assets as their future realization could not be determined.

As a result of the foregoing, the Company had a net loss of $1,758,000 for the six months ended June 30, 2000 compared with a net loss of $2,733,000 for the six months ended June 30, 2001.

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, 2001, the Company had $2,535,000 of cash and cash equivalents and working capital of $1,209,000. The Company has financed its operations primarily through private sales of equity and debt securities and the sale of its professional services division on February 10, 2000. Net cash used in operating activities from continuing operations was $2,366,000 during the six months ended June 30, 2000 and net cash used in operating activities from continuing operations was $2,563,000 during the six months ended June 30, 2001. Net cash used in operating activities from continuing operations for six months ended June 30, 2001 was primarily attributable to the net loss from continuing operations of $3,382,000, an increase in accounts receivable of $73,000, and a decrease in deferred revenue of $27,000, which was partially offset by the amortization and expense of compensatory stock options and warrants for services rendered of $107,000, depreciation and amortization expense of $194,000, the issuance of common stock and warrants for services rendered of $225,000, an increase in accounts payable, accrued expenses and other current liabilities of $249,000 and an increase in accrued interest payable of $24,000.

Cash provided by investing activities was $673,000 resulting from $938,000 net proceeds received in 2001 realted to the sale of the Company's professional services group in February 2000, less capitalized software costs of $235,000 and $30,000 of other investing expenditures. 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 (including the timetable of, costs and expenses associated with, and success of, its marketing efforts), that its current cash balance of approximately $2,535,000 as of June 30, 2001 together with certain revenue assumptions from operations, will be sufficient to satisfy the Company's operations and capital requirements through December 2001. There can be no assurance, however, that such funds will not be expended prior thereto. 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), the Company may have insufficient funds to support its operations through to December 31, 2001. In the second and third quarter of 2001, the Company instituted certain measures to reduce its overhead and has decreased its headcount by 20 employees representing an annual payroll savings of $1.6 million. In addition, the Company is currently seeking financing; however, it does not have any definitive arrangements with respect to any additional financing. Consequently, additional financing may not be available to the Company if needed, on commercially reasonable terms or at all. The inability of the Company to obtain additional financing could 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.

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. 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.

The sales cycle for the Company's products can be lengthy and generally commences at the time a prospective customer demonstrates an interest in licensing a CYBERWALLPLUS solution, typically includes a 28-day free evaluation period and ends upon execution of a purchase order by the customer. The length of the sales cycle varies depending on the type and sophistication of the customer and the complexity of the operating system.

Year 2000 Issue

The Company did not incur material costs with respect to potential software issues associated with the Year 2000.

Possible Delisting of the Company's Securities From Nasdaq

The Company's common stock is listed on the Nasdaq SmallCap Market under the symbol "NSSI". In order to continue to be listed on Nasdaq, however, the Company must comply with certain maintenance standards (including, among others, a minimum stock price of $1.00 and net tangible assets of a minimum $2,000,000). On July 31, 2001, the Company was notified by Nasdaq that its Common Stock failed to maintain a minimum bid price of $1.00 over the previous 30 trading days as required by The Nasdaq SmallCap Market Rules. In accordance with such rules, the Company has until October 29, 2001, for its Common Stock to trade at a closing bid price of at least $1.00 for 10 consecutive trading days or its securities will be delisted from Nasdaq. In the event of a delisting, an investor could find it more difficult to dispose of or to obtain accurate quotations as to the market value of the Company's Common Stock.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

None.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

On April 12, 2001, the Company issued to Sage Alliance, Inc. (and its consultants) five year warrants to purchase 179,706 shares of the Company's common stock at $2.03 per share. Such warrants were issued in consideration for programming services rendered. On July 2, 2001, the Company issued to Sage Alliance, Inc. (and or its consultants) five year warrants to purchase 178,627 shares of the Company's common stock at $2.00 per share. Such warrants were issued in consideration for programming services rendered. On July 11, 2001, the Company issued to CMH Capital Management Corp. 10 year warrants to purchase 300,000 shares of the Company's common stock at $.70 per share. Such warrants were issued pursuant to a financial consulting agreement.

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.

a). Exhibits

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

10.19 Employment Agreement, dated June 29, 2001, between the Company and Murray P. Fish.

10.20 Consulting Agreement, dated June 29, 2001, between the Company and CMH Capital Management Corp.

b). Reports of Form 8-K.

On June 15, 2001 a report on Form 8-K was filed to announce the resignation of the Company's CEO and President. No other reports on Form 8-K were filed during the three (3) months ended June 30, 2001

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/ Murray P. Fish

Murray P. Fish, Acting President and Chief Financial Officer (Principal Executive Officer and Principal Financial and Accounting Officer)

Date: August 20, 2001

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.19	Employment Agreement, dated June 29, 2001, between the Company and Murray P. Fish.
10.20	Consulting Agreement, dated June 29, 2001, between the Company and CMH Capital Management Corp.

EXHIBIT 10.19

EMPLOYMENT AGREEMENT dated as of June 29, 2001, between NETWORK-1 SECURITY SOLUTIONS, INC., a Delaware corporation with its principal office located at 1601 Trapelo Road, Reservoir Place, Waltham, MA 20451 (the "Company"), and MURRAY FISH residing at 3 Wabanaki Way, Andover, Massachusetts 01810 (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 the second anniversary of the Commencement Date (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 acting President and Chief Financial Officer of the Company or such other executive office as shall be designated by the Board of Directors ("Board"). Executive shall perform such duties as are consistent therewith as 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.

(a) The Company shall pay to Executive an annual base salary (the "Base Salary") during the Term of Employment of not less than $185,000 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 Board.

(b) In addition, to the Base Salary set forth in paragraph 5(a) above, during the term of employment, Executive shall be eligible to receive incentive compensation of up to $50,000 per annum (to be distributed as directed by the Board of Directors) based upon the Company's attainment of certain goals to be established by the Board in consultation with Executive.

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 five (5) 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 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 Board, 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(a), 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 options issued to Executive by the Company (the "Options").

(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 of 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.

(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) one year's 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 to be paid in total upon termination. Company will continue all health, medical and other insurance programs during termination period as defined in (ii) above.

(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 Chief Financial Officer (except for his services as acting President) 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.

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 (the "Business"). 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, the consideration to be received hereunder, stock options to be granted Executive, 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), 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.

(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
Waltham, Massachusetts 02451
Telecopier: (781) 466-6309
Telephone: (781) 522-3400

with copies to: Olshan, Grundman Frome Rosenzweig & Wolosky LLP
505 Park Avenue, 16th Floor
New York, New York 10022
Telecopier: (212) 980-7177
Telephone: (212) 451-2306
Attention: Sam Schwartz, Esq.

if to Executive, to: Murray P. Fish
3 Wabanaki Way
Andover, Massachusetts 01810

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/ Joseph Donohue

Joseph Donohue, VP engineering

/s/ Murray P. Fish

Murray P. Fish

EXHIBIT 10.20

June 29, 2001

Murray P. Fish, President and Chief Financial Officer
Network-1 Security Solutions, Inc.
1601 Trapelo Road, Reservoir Place
Waltham, Massachusetts 02451

Dear Murray:

This letter agreement shall set forth the terms of retention of CMH Capital Management Corp. ("CMH") by Network-1 Security Solutions, Inc. ("Network-1") for financial advisory services.

1. CMH agrees to provide financial advisory services to Network-1 for a term of six (6) months from the date hereof which services shall include, but not be limited to, advice related to strategic business relationships, assistance in updating Network-1's strategic plan, attendance at meetings with potential strategic partners and business relationships, and general advice related to Network-1 and its products.

2. In consideration of services to be provided by CMH, CMH shall be compensated as follows: (i) a monthly compensation of $17,500 during the term of this agreement (commencing with the month of June) and (ii) a ten (10) year warrant to purchase up to 300,000 shares of common stock of Network-1.

3. In addition to the compensation described in paragraph 2 herein, Network-1 agrees to promptly reimburse CMH upon request from time to time for all reasonable out-of-pocket expenses incurred in connection with CMH's performance of services pursuant to this agreement including, but not limited to, reimbursement of allocable portion of rent for office space at 885 Third Avenue, New York, New York. Any such expenses in excess of $500 shall be subject to the prior approval of Network-1.

4. In connection with CMH providing financial advisory services as provided herein, Network-1 agrees to indemnify and hold harmless CMH, including its officers and directors, against any and all losses, claims, damages, liabilities or reasonable costs (including legal fees and expenses) directly or indirectly, relating to or arising out of CMH's activities as a financial advisor for Network-1 as provided herein, provided, however, such indemnity agreement shall not apply to any such loss, claim, damage, liability or cost to the extent it is found in a final judgement by a court of competent jurisdiction to have resulted primarily and directly from the gross negligence or willful misconduct of CMH. Network-1 also agrees that CMH shall not have any liability whether direct or indirect, in contract or otherwise to Network-1 for or in connection with

the engagement of CMH as provided herein except for any such liability for losses, claims, damages, liabilities or costs that is found in a final judgement by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily and directly from CMH's gross negligence or willful misconduct.

5. In the event that during the term of this Agreement Network-1 shall complete a merger (with the result that Network-1 stockholders hold less than 50% of the outstanding voting securities of the surviving entity) or sale of substantially all of its assets, all remaining cash payments pursuant to paragraph 2 hereof shall be accelerated and due and payable to CMH at the consummation of such transaction.

6. The validity and interpretation of this Agreement shall be governed by the laws in the State of New York, applicable to agreements made and to be fully performed therein.

7. The benefits of this Agreement shall inure to respective successors and permitted assigns of the parties hereto and the obligations and liabilities assumed in this Agreement by the parties hereto shall be binding upon their respective successors and permitted assigns.

8. This Agreement constitutes the complete understanding among the parties hereto with respect to the subject matter hereof and no amendment or modification of any provisions hereof shall be valid unless made in writing and signed by all the parties hereto.

If the foregoing correctly sets forth our agreement, please sign a copy of this letter in the space provided and return to us.

Very truly yours,

CMH Capital Management Corp.

By: /s/ Corey M. Horowitz

Corey M. Horowitz, President

Agreed and Accepted
this 29 day of June 2001

Network-1 Security Solutions, Inc.

By: /s/ Murray P. Fish

Murray P. Fish
President and Chief Financial Officer