

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 18, 2005

Network-1 Security Solutions, Inc.

(Exact name of registrant as specified in its charter)

Delaware	1-14896	11-3027591
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

445 Park Avenue, Suite 1028, New York, New York 10022

(Address of principal executive offices)

Registrant's telephone number, including area code: (212) 829-5700

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement

This Current Report on Form 8-K/A (including the exhibits hereto) amends the Form 8-K filed by the Registrant with the Securities and Exchange Commission on December 3, 2003 to give effect to an Amendment, dated January 18, 2005, to the Patents Purchase, Assignment and License Agreement, originally dated November 13, 2003, between the Registrant and Merlot Communications, Inc.

On January 19, 2005, Network-1 Security Solutions, Inc. ("Network-1") issued a press release announcing that it had entered into an amendment (the "Amendment") to the Patents Purchase, Assignment and License Agreement, originally dated November 13, 2003, by and between the Registrant and

Merlot Communications, Inc. A copy of the press release is attached to this Report as Exhibit 99.1 and it is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

Exhibit No. Description

- 10.1 Amendment to Patents Purchase, Assignment and License Agreement, dated January 18, 2005, between the Registrant and Merlot Communications, Inc.
- 99.1 Press Release, dated January 19, 2005, regarding the Amendment to Patents Purchase, Assignment and License Agreement, with Merlot Communications, Inc.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NETWORK-1 SECURITY SOLUTIONS, INC.

Dated: January 24, 2005 By: /s/Corey M. Horowitz  
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Name: Corey M. Horowitz  
Title: Chairman & Chief Executive Officer

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- 10.1 Amendment to Patents Purchase, Assignment and License Agreement, dated January 18, 2005, between the Registrant and Merlot Communications, Inc.
- 99.1 Press Release, dated January 19, 2005, regarding the Amendment to the Patents Purchase, Assignment and License Agreement with Merlot Communications, Inc.

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AMENDMENT TO PATENTS PURCHASE, ASSIGNMENT AND LICENSE AGREEMENT

This Amendment dated January 18, 2005 (the "Effective Date") amends the Patents Purchase, Assignment and License Agreement entered into on or about November 13, 2003, by and between MERLOT COMMUNICATIONS, INC., with a principal place of business at 4 Berkshire Boulevard, Bethel, Connecticut ("Seller"), and NETWORK-1 SECURITY SOLUTIONS, INC., with a principal place of business at 445 Park Avenue, Suite 1028, New York, New York, its successors and assigns ("Buyer").

WHEREAS, Seller and Buyer entered into the Agreement; and

WHEREAS, Seller has advised Buyer that it is desirous of obtaining working capital funding through a renegotiation of the Agreement; and

WHEREAS, Buyer has fully disclosed to Seller the status of Buyer's efforts concerning, among other things, the licensing opportunities of the technologies underlying the Patents; and

WHEREAS, Seller has determined that it is in Seller's best interest to obtain funds immediately, even if it results in a potential reduction to payments it may receive under the original form of the Agreement; and

WHEREAS, the parties desire to amend the Agreement on the terms and conditions set forth below. NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Paragraph 2 of the Agreement is deleted in its entirety and replaced with the following:

2. Payments to Seller

a. Buyer has previously paid Seller the sum of One Hundred Thousand Dollars (\$100,000). Upon the execution hereof, Buyer shall pay or cause to be paid to Seller the additional sum of Five Hundred Thousand Dollars (\$500,000).

b. In addition to the sum set forth in paragraph 2(a) above, Buyer shall pay Seller contingent payments ("Contingent Payments") of One Million Dollars (\$1,000,000) upon achievement of the first and second Twenty Five Million Dollars (\$25,000,000) of Net Royalties (as defined below) actually received by Buyer, and an additional Five Hundred Thousand Dollars (\$500,000) upon achievement of the next Twelve Million Five Hundred Thousand Dollars (\$12,500,000) of Net Royalties actually received by Buyer, up to a total combined aggregate Contingent Payments of Two and One Half Million Dollars (\$2,500,000).

c. For purposes of this Agreement, "Net Royalties" shall be defined as gross revenue received from the licensing or sale of any of the Patents, less all third party fees, costs and expenses, in whatever form paid by Buyer (including, without limitation, all attorneys and other professional fees, both contingency and otherwise) incurred by Buyer in licensing, selling, developing, enforcing, and protecting said Patents.

d. In addition, Net Royalties shall include the aggregate net consideration (the "Buyer Sale Consideration") received by the Buyer and its equity holders in connection with (i) the sale of all or substantially all of the assets or capital stock of the Buyer to a third party, or (ii) the merger or consolidation of the Buyer with or into another entity with the result that the then existing stockholders of Buyer hold less than 50% of the combined voting power of the outstanding securities of the surviving entity (a "Buyer Sale") wherein the Patents constitute all or substantially all of the assets of Buyer. In the event the Buyer Sale Consideration is comprised of all or part non-cash consideration, at the option of the Buyer, any payments made to Seller hereunder shall include the same percentage of non-cash consideration received by the Buyer or its equity holders in such Buyer

Sale; provided, however, the Buyer may, at its option, pay Seller cash as a substitute for such non-cash consideration in an amount equal to the fair market value of the non-cash consideration for which such cash is substituted.

e. In the event of a Buyer Sale wherein the Patents do not constitute all or substantially all of the assets of the Buyer, the amount of the Buyer Sale Consideration to be included in the calculation of Net Royalties shall be equal to the Buyer Sale Consideration multiplied by the ratio determined by dividing (i) the value of the Patents by (ii) the value of all of the assets of the Buyer as of the closing of the Buyer Sale. The calculations described in the foregoing sentence and the determinations of the values used therein shall be done by an independent appraiser chosen by and mutually acceptable to the Buyer and the Seller. The expenses of such an independent appraiser shall constitute a third party expense for purposes of the calculation of Net Royalties. The Seller and the Buyer hereby agree that as of the date of this Amendment, the Patents comprise substantially all of the assets of the Buyer. The calculation of Net Royalties shall not include overhead expenses incurred by Network-1 in the operation of its business.

d. For the avoidance of doubt, there shall be no minimum amounts due to Seller, nor is Buyer obligated to invest in, develop, or make any use of the Patents.

e. Buyer shall make all Contingent Payments within forty five (45) days after it has received the applicable full Net Royalty amount which gives rise to the bonus.

f. Seller shall have the right to audit the books and records of Buyer relating to Seller's Net Royalties upon reasonable advance notice to Buyer at the place such books and records are normally maintained during normal business hours not more than one time per year. Seller shall keep all information to which it has access in any such audit strictly confidential.

g. Seller may not sell, transfer or assign its right to receive payments as set forth in this paragraph 2 except in connection with a sale of the Seller or a sale of substantially all the assets of the Seller.

2. Paragraph 5, Buyer's Right To Terminate Payments To Seller, is deleted in its entirety.

3. Seller Access to Patent Information. Seller acknowledges that it has had a full opportunity to discuss with Buyer all matters pertaining to the Patents including, without limitation, the Buyer's licensing opportunities with respect to its remote power patent (U.S. Patent No. 6,212,930) (the "Remote Power Patent") and has had full access to all documents pertaining to the Patents (including the Remote Power Patent). Seller acknowledges the possibility that this Amendment may result in lower payments to Buyer than would have been the case under the original Agreement.

4. Entire Agreement. All terms and conditions not expressly amended herein shall remain in full force and effect.

5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

6. Use of Counsel. The parties hereto represent that they have each consulted with counsel of their own choosing in connection with the negotiation and execution of this Agreement or have knowingly chosen not to do so.

7. Approvals. This Agreement has been duly approved by each party's respective Board of Directors. IN WITNESS WHEREOF, the parties hereto are duly authorized to and do hereby execute this Agreement as of the Effective Date.

MERLOT COMMUNICATIONS, INC.

By: /s/ George Conant

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Name: George Conant  
Title: President and CEO  
Date: January 18, 2005

NETWORK-1 SECURITY SOLUTIONS, INC.

By: /s/ Corey M. Horowitz

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Name: Corey M. Horowitz  
Title: Chairman and CEO  
Date: January 18, 2005

FOR IMMEDIATE RELEASE  
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COREY M. HOROWITZ, CHAIRMAN AND CEO  
NETWORK-1 SECURITY SOLUTIONS, INC.  
212-829-5770

#### NETWORK-1 AMENDS TERMS OF PATENT PURCHASE AGREEMENT

NEW YORK, January 19, 2005--Network-1 Security Solutions, Inc. (OTC: NSSI.OB) today announced that it had entered into an amendment to its Patent Purchase Agreement (the "Agreement") with Merlot Communications, Inc. ("Merlot") pursuant to which Network-1 paid \$500,000 to Merlot in return for which Merlot agreed to a restructuring of its participation in the future Net Royalties realized from the licensing or sale of the patents acquired from Merlot.

The Amendment to the Agreement provides for future contingent payments of \$1 million upon achievement of each of the first and second \$25 million of Net Royalties (as defined in the Amendment) and an additional \$500,000 upon achievement of the next \$12.5 million of Net Royalties received by Network-1 from licensing or the sale of the patents acquired from Merlot. All future payments under the Agreement would be capped at \$2.5 million, which would be achieved when Net Royalties or sale proceeds to Network-1 reach \$62.5 million.

Under the terms of the original Agreement, Network-1 was obligated to pay Merlot contingent future payments equal to 20% of the net income of Network-1 from the sale or licensing of the patent portfolio after Network-1 achieves \$4.0 million of net income from each patent comprising the patent portfolio. Under the original Agreement, beginning in 2007 Network-1 had the annual option to terminate future percentage net income payments to Merlot by making a lump sum payment to Merlot in an amount equal to the greater of (i) two times annual percentage net income payments owing to Merlot or (ii) \$3 million, increasing 10% annually beginning in 2008.

"By transforming our contingent payment obligation from a percentage of Net Royalties to a flat fee, we have created the potential for significant royalties to remain with Network-1 for the benefit of its shareholders" commented Corey M. Horowitz, Chairman and CEO of Network-1.

#### ABOUT NETWORK-1 SECURITY SOLUTIONS, INC.

Network-1 Security Solutions, Inc. is engaged in the acquisition, development, licensing and protection of its intellectual property and proprietary technologies. The Company owns six patents covering various telecommunications and data networking technologies. As part of its business strategy it is offering licenses to third parties who Network-1 believes could benefit from the technologies covered by its patents. In February 2004, the Company initiated its licensing efforts relating to the Remote Power Patent. The Remote Power Patent relates to, among other things, several key technologies underlying the IEEE 802.3af Power Over Ethernet (PoE) standard that was approved on June 13, 2003 by the Institute of Electrical and Electronic Engineers (IEEE) (the Standard). The Standard governs the delivery of power over Ethernet cables in order to remotely power network connected devices, including wireless switches, wireless access points, RFID card readers, VOIP telephones, enterprise LAN switches and network cameras.

This release contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements address future events and conditions concerning the Company's business plans. Such statements are subject to a number of factors and uncertainties, such as future economic conditions, technology changes, the ability of Network-1 to obtain license agreements from third parties for its patent portfolio, uncertainty of patent litigation, the Company's ability to achieve revenues and profits from its patent portfolio, and legislative, regulatory and competitive developments. Except as otherwise required to be disclosed in periodic reports, the Company expressly disclaims any future obligation or undertaking to update or revise any forward-looking statement contained herein.