

NETWORK 1 TECHNOLOGIES INC
Form 424B3
November 14, 2013
NETWORK-1 TECHNOLOGIES, INC.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-190719

PROSPECTUS SUPPLEMENT NO. 2
(To Prospectus dated October 17, 2013)

This is a prospectus supplement to our prospectus dated October 17, 2013 (the “Prospectus”) relating to the resale from time to time by selling stockholders of up to 6,324,661 shares of our common stock, including shares issuable upon exercise of outstanding warrants. On November 14, 2013, we filed with the Securities and Exchange Commission a Quarterly Report on Form 10-Q. The text of the Quarterly Report on Form 10-Q is attached to and a part of this supplement.

This prospectus supplement should be read in conjunction with the Prospectus and may not be delivered or utilized without the Prospectus. This prospectus supplement is qualified by reference to the Prospectus, except to the extent that the information provided by this prospectus supplement supersedes the information contained in the Prospectus.

The securities offered by the Prospectus involve a high degree of risk. You should carefully consider the “Risk Factors” referenced on pages 7-16 of the Prospectus in determining whether to purchase the common stock.

The date of this prospectus supplement is November 14, 2013.

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

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 1-15288

NETWORK-1 TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of incorporation or organization)

11-3027591
(IRS Employer Identification No.)

445 Park Avenue, Suite 1020
New York, New York
(Address of principal executive offices)

10022
(zip code)

212-829-5770
(Registrant's Telephone Number)

Network-1 Security Solutions, Inc.

(Former Name, Former Address and Former Fiscal Year If Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405) of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "Large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The number of shares of Common Stock, \$.01 par value per share, outstanding as of November 12, 2013 was 25,833,623.

NETWORK-1 TECHNOLOGIES, INC.

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Item 1. Financial Statements
 NETWORK-1 TECHNOLOGIES, INC.
 CONDENSED BALANCE SHEETS
 UNAUDITED

	SEPTEMBER 30, 2013 (UNAUDITED)	DECEMBER 31, 2012
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,584,000	\$ 21,983,000
Marketable securities	532,000	547,000
Royalty receivables	1,127,000	775,000
Other current assets	198,000	222,000
Total Current Assets	\$ 21,441,000	\$ 23,527,000
OTHER ASSETS:		
Deferred tax asset	\$ 6,002,000	6,194,000
Patents, net of accumulated amortization	5,355,000	65,000
Other Investments	196,000	—
Security deposits	19,000	19,000
Total Other Assets	\$ 11,572,000	\$ 6,278,000
TOTAL ASSETS	\$ 33,013,000	\$ 29,805,000
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	\$ 107,000	\$ 232,000
Accrued expenses	460,000	593,000
TOTAL LIABILITIES	567,000	825,000
COMMITMENTS AND CONTINGENCIES	—	—
STOCKHOLDERS' EQUITY		
Common stock - \$0.01 par value; authorized 50,000,000 shares; 26,089,483 and 25,392,269 shares issued and outstanding at September 30,2013 and December 31,2012, respectively	261,000	254,000
Additional paid-in capital	\$ 61,046,000	\$ 58,046,000
Accumulated deficit	(28,832,000)	(29,306,000)
Other comprehensive income(loss)	(29,000)	(14,000)
TOTAL STOCKHOLDERS' EQUITY	32,446,000	28,980,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 33,013,000	\$ 29,805,000

See notes to condensed financial statements

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NETWORK-1 TECHNOLOGIES, INC.
CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
ROYALTY REVENUE	\$1,227,000	\$1,418,000	\$7,198,000	\$7,809,000
COST OF REVENUE	345,000	393,000	2,117,000	2,341,000
GROSS PROFIT	882,000	1,025,000	5,081,000	5,468,000
OPERATING EXPENSES:				
General and Administrative	738,000	622,000	1,933,000	1,653,000
Amortization of Patents	418,000	2,000	668,000	7,000
Non-Cash compensation	70,000	58,000	326,000	223,000
TOTAL OPERATING EXPENSES	1,226,000	682,000	2,927,000	1,883,000
OPERATING INCOME (LOSS)	(344,000)	343,000	2,154,000	3,585,000
OTHER INCOME (EXPENSES):				
Interest income, net	9,000	3,000	27,000	22,000
INCOME (LOSS) BEFORE INCOME TAXES	(335,000)	346,000	2,181,000	3,607,000
INCOME TAXES (BENEFIT)				
Current	(3,000)	11,000	23,000	44,000
Deferred	(124,000)	141,000	192,000	709,000
Total Income Taxes (Benefits)	(127,000)	152,000	215,000	753,000
NET INCOME (LOSS)	\$(208,000)	\$194,000	\$1,966,000	\$2,854,000
Net Income per share - Basic	\$(.01)	\$0.01	\$.08	\$ 0.11
- Diluted	\$(.01)	\$0.01	\$.07	\$ 0.10
Weighted average number of common shares outstanding:				
- Basic	25,792,387	25,963,093	25,387,348	25,659,085

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- Diluted	28,189,583		28,516,642		27,462,358		28,544,972	
NET INCOME (LOSS)	\$(208,000)	\$194,000		\$1,966,000		\$2,854,000	
OTHER COMPREHENSIVE INCOME NET OF TAX:								
Unrealized gain (loss) arising during period	(1,000)	(6,000)	(15,000)	(4,000)
COMPREHENSIVE INCOME (LOSS)	\$(209,000)	\$188,000		\$1,951,000		\$2,850,000	

See notes to condensed financial statements

NETWORK-1 TECHNOLOGIES, INC.
 CONDENSED STATEMENTS OF CASH FLOW
 UNAUDITED

	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 1,966,000	\$ 2,854,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of Patents	668,000	7,000
Stock based compensation	326,000	223,000
Non-cash royalty revenue	(70,000)	—
Source (use) of cash from changes in operating assets and liabilities:		
Royalty receivables and other current assets	(279,000)	(596,000)
Accounts payable and accrued expenses	(255,000)	(1,052,000)
Income taxes payable and accrued expense	(53,000)	(54,000)
Deferred tax asset	192,000	709,000
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,495,000	2,091,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of patents and other assets	(4,417,000)	—
Investments	(50,000)	