

NETWORK 1 SECURITY SOLUTIONS INC  
Form 424B3  
July 09, 2007

FILED PURSUANT TO RULE 424(b)(3)  
(REGISTRATION NO. 333-143710)

PROSPECTUS

NETWORK-1 SECURITY SOLUTIONS, INC.

5,360,000 SHARES OF COMMON STOCK

This prospectus covers the resale by the selling stockholders listed on pages 20 to 21 of this Prospectus of up to 5,360,000 shares of our common stock, \$.01 per value. which include:

- o 3,333,333 shares of common stock and 1,666,667 shares of common stock issuable upon exercise of warrants issued in our private offering completed on April 16, 2007; and
- o 360,000 shares of common stock issuable upon exercise of warrants issued to the placement agents with respect to the private offering completed on April 16, 2007.

We will not receive any proceeds from the sale of these shares of common stock. We will, however, receive proceeds if warrants to purchase common stock are exercised by payment of cash and those proceeds will be used for our general corporate purposes. This offering is not being underwritten. The selling stockholders may sell the shares of common stock on the Over-the-Counter (OTC) Bulletin Board with the methods and on the terms described in the section of this prospectus entitled "Plan of Distribution" on pages 24 to 26.

Our common stock is traded on the OTC Bulletin Board under the symbol "NSSI". On June 7, 2007, the closing price of our common stock, as reported on the OTC Bulletin Board, was \$1.70 per share.

THE SECURITIES OFFERED IN THIS PROSPECTUS INVOLVE A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FACTORS DESCRIBED UNDER THE HEADING "RISK FACTORS" BEGINNING ON PAGE 4 OF THIS PROSPECTUS.

-----  
NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.  
-----

THE DATE OF THIS PROSPECTUS IS JULY 6, 2007

TABLE OF CONTENTS

	PAGE
	----
PROSPECTUS SUMMARY.....	1

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

RISK FACTORS.....	4
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS.....	10
PRICE RANGE OF OUR COMMON STOCK.....	11
DIVIDEND POLICY.....	11
BUSINESS.....	12
LEGAL PROCEEDINGS.....	18
USE OF PROCEEDS.....	19
SELLING STOCKHOLDERS.....	19
PLAN OF DISTRIBUTION.....	24
MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.....	26
CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.....	28
MANAGEMENT.....	28
EXECUTIVE COMPENSATION.....	33
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....	37
TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL PERSONS.....	42
DESCRIPTION OF SECURITIES.....	43
LEGAL MATTERS.....	44
EXPERTS.....	44
DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES.....	44
WHERE YOU CAN FIND MORE INFORMATION.....	45
FINANCIAL INFORMATION.....	F-1-F-28

---

### PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the section entitled "Risk Factors" and our consolidated financial statements and the related notes.

Unless the context otherwise requires, all references to "we," "us," "our," or the "Company" in this prospectus refer to Network-1 Security Solutions, Inc., a Delaware corporation.

THE COMPANY

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

Our principal business is the acquisition, development, licensing and protection of our intellectual property. We presently own six patents covering various telecommunications and data networking technologies. Our strategy is to pursue licensing and strategic business alliances with companies in industries that manufacture and sell products that make use of the technologies underlying our patents as well as with other users of the technologies who benefit directly from such technologies.

On November 18, 2003, we acquired a portfolio of telecommunications and data networking patents (the "Patent Portfolio") from Merlot Communications, Inc., a broadband communications solutions provider. In February 2004, following the acquisition of the Patent Portfolio and our review of applicable markets, we commenced efforts to license our patent (U.S. Patent No. 6,218,930) covering the control of power delivery over Ethernet cables (the "Remote Power Patent"). Our Patent Portfolio consists of six patents (including the Remote Power Patent) issued by the U.S. Patent Office that relate to various telecommunications and data networking technologies.

We have focused, and are likely to continue to focus, our efforts on licensing our Remote Power Patent. As of the date of this prospectus, we have not yet entered into any license agreements with respect to our Remote Power Patent, although as part of our settlement agreement with respect to our litigation with D-Link Corporation and D-Link Systems (collectively, "D-Link") entered in April 2007, D-Link has agreed to enter into a license agreement pertaining to our Remote Power Patent. (See "D-Link Settlement" below). At least for the next twelve months, we do not anticipate licensing efforts for our other patents besides our Remote Power Patent. We may seek to acquire or license additional patents in the future.

Our Remote Power Patent (U.S. Patent No. 6,218,930) relates to several technologies which describe a methodology for controlling the delivery of power to certain devices over an Ethernet network. Ethernet is the leading local area networking technology in use today. PoE technology allows for the delivery of power over Ethernet cables rather than by separate power cords. As a result, a variety of network devices, including IP telephones, wireless LAN Access Points, web-based network security cameras, data collection terminals and other network devices, are able to receive power over existing data cables without the need to modify the existing infrastructure to facilitate the provision of power for such devices through traditional AC outlets. Advantages of PoE, such as lower installation costs, remote management capabilities, lower maintenance costs, centralized power backup, and flexibility of device location as well as the advent of worldwide power compatibility, create the possibility of PoE becoming widely adopted in networks throughout the world.

-----  
1  
-----

Our future success is largely dependent upon our proprietary technologies, our ability to protect our intellectual property rights and to consummate license agreements with respect to our Patent Portfolio. The complexity of patent and common law, combined with our limited resources, create risk that our efforts to protect our proprietary technologies may not be successful. We cannot be assured that our patents will be upheld or that third parties will not invalidate our patents.

Besides our Remote Power Patent, we also own five (5) additional patents covering various methodologies that provide for allocating bandwidth and establishing Quality of Service for delay sensitive data, such as voice, on packet data networks. Quality of Service issues become important when data

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

networks carry packets that contain audio and video which may require priority over data packets traveling over the same network. Covered within these patents are also technologies that establish bi-directional communications control channels between network-connected devices in order to support advanced applications on traditional data networks. We believe that potential licensees of the technologies contained in these patents would be vendors deploying applications that require the low latency transport of delay sensitive data such as video over data networks.

We were incorporated under the laws of the State of Delaware in July 1990. Our executive offices are located at 445 Park Avenue, Suite 1028, New York, New York 10022 and our telephone number is (212) 829-5700. Our web site can be found at <http://www.network-1.com>.

### D-LINK SETTLEMENT

On August 10, 2005, we commenced patent litigation against D-Link Corporation and D-Link Systems, Incorporated (collectively "D-Link") in the United States District Court for the Eastern District of Texas, Tyler division (Civil Action No. 6:05W291), for infringement of our Remote Power Patent (U.S. Patent 6,218,930). Our complaint sought, among other things, a judgment that our Remote Power Patent is enforceable and has been infringed by the defendants. We also sought a permanent injunction restraining the defendants from continued infringement, or active inducement of infringement by others, of the Company's Remote Power Patent. On February 27, 2006, the D-Link defendants filed answers and asserted counterclaims. In their answers, the D-Link defendants asserted that they did not infringe any valid claim of the Remote Power Patent, and further asserted that the asserted patent claims are invalid and/or unenforceable. In addition to these defenses, the D-Link defendants also asserted counterclaims for, among other things, non-infringement, invalidity and unenforceability of the Remote Power Patent.

On April 25, 2007, we agreed to a settlement of our patent infringement litigation against D-Link. Under the terms of the settlement, D-Link has agreed to enter into a license agreement for our Remote Power Patent the terms of which will include monthly royalty payments of 3.25% of the net sales of D-Link branded Power over Ethernet products, including those products which comply with the IEEE 802.3af and 802.3at Standards, for the full term of the Remote Power Patent, which expires in March 2020. The royalty rate is subject to adjustment beginning after the first quarter of 2008 to a rate consistent with other similarly situated licensees of the Remote Power Patent based on units of shipments of licensed products. In addition, D-Link has agreed to pay us \$100,000.

-----  
2  
-----

### Shares Being Offered

This prospectus relates to the offering by the selling shareholders of an aggregate of 5,360,000 shares of our common stock, consisting of (i) 3,333,333 shares of our common stock and 1,666,667 shares of our common stock issuable upon exercise of warrants issued in our private offering completed in April 2007 and (ii) 360,000 shares of our common stock issuable upon exercise of warrants issued to placement agents with respect to the private offering completed in April 2006.

In connection with the April 2007 private offering of common stock and warrants, we agreed to file a Registration Statement (of which this prospectus forms a part) with the SEC with respect to resales of the common stock including the common stock issued upon exercise of the warrants. We also agreed to keep

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

the Registration Statement continuously effective until the date when all such shares covered by the Registration Statement have been sold or may be sold without volume limitations pursuant to Rule 144(k) of the Securities Act of 1933, as amended. We further agreed to include for resale in the Registration Statement the common stock underlying warrants issued to our placement agents with respect to the April 2007 private offering.

### Summary Financial Data

The following tables summarize the consolidated statements of operations and balance sheet data for our business and should be read together with the section of this prospectus captioned "Management's Discussion and Analysis or Plan of Operation" and our financial statements and related notes included elsewhere in this prospectus.

	Three Months Ended March 31, 2007 (Unaudited)	Year Ended December 31,	
	-----	----- 2006	----- 2005 -----
<b>CONSOLIDATED STATEMENTS OF OPERATIONS DATA:</b>			
Operating expenses (1)	\$ 1,075,000	\$ 2,027,000	1,756,000
Net loss	\$ (1,060,000)	\$ (1,958,000)	(1,332,000)
Basic and diluted loss per share	\$ (.05)	\$ (0.10)	(0.10)
Weighted-average common shares outstanding	19,784,724	\$18,952,137	17,676,202
<b>CONSOLIDATED BALANCE SHEET DATA:</b>			
Cash and cash equivalents	\$ 1,086,000	\$ 1,797,000	938,000
Working capital	\$ 721,000	\$ 1,306,000	660,000
Total assets	\$ 1,235,000	\$ 1,971,000	1,115,000
Total shareholders' equity (deficit)	\$ 814,000	\$ 1,402,000	752,000

-----  
 (1) Includes non-cash compensation of \$461,000, \$479,000 and \$89,000 for the three months ended March 31, 2007 and the year ended December 31, 2006 and 2005, respectively.

We have incurred substantial operating losses since our inception, which has resulted in an accumulated deficit of \$(47,339,000) as of March 31, 2007. For the years ended December 31, 2006 and 2005, we incurred net losses of \$(1,958,000) and \$(1,332,000), respectively. For the three months ended March 31, 2007, we incurred a net loss of \$(1,060,000). We have financed our operations primarily by sales of equity securities. We have had no revenue from operations for the years ended December 31, 2005 and December 31, 2006 and for the three months ended March 31, 2007. Our ability to achieve revenue and generate positive cash flow from operations is dependent upon consummating licensing agreements with respect to our patented technologies. We may not be successful in achieving licensing agreements with third parties and our failure to do so would have a material adverse effect on our business, financial condition and results of operations. We believe that we will have enough funding to meet our cash needs and continue our operations until at least December 31, 2008.

-----

### RISK FACTORS

AN INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. THE RISK

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

FACTORS LISTED BELOW ARE THOSE THAT WE CONSIDER TO BE MATERIAL TO AN INVESTMENT IN OUR COMMON STOCK AND THOSE WHICH, IF REALIZED, COULD HAVE MATERIAL ADVERSE EFFECTS ON OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS AS SPECIFICALLY DISCUSSED BELOW. IN SUCH AN EVENT, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT. BEFORE YOU INVEST IN OUR COMMON STOCK, YOU SHOULD BE AWARE OF VARIOUS RISKS, INCLUDING THOSE DESCRIBED BELOW. YOU SHOULD CAREFULLY CONSIDER THESE RISK FACTORS, TOGETHER WITH ALL OF THE OTHER INFORMATION INCLUDED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS, BEFORE YOU DECIDE WHETHER TO PURCHASE OUR COMMON STOCK. THIS SECTION INCLUDES OR REFERS TO CERTAIN FORWARD-LOOKING STATEMENTS. YOU SHOULD REFER TO THE EXPLANATION OF THE QUALIFICATIONS AND LIMITATIONS ON SUCH FORWARD-LOOKING STATEMENTS DISCUSSED ON PAGE 10.

WE HAVE A HISTORY OF LOSSES AND NO REVENUE FROM CURRENT OPERATIONS.

We have incurred substantial operating losses since our inception, which has resulted in an accumulated deficit of \$(47,339,000) as of March 31, 2007. For the years ended December 31, 2006 and 2005, we incurred net losses of \$(1,958,000) and \$(1,332,000), respectively. For the three months ended March 31, 2007, we incurred a net loss of \$(1,060,000). We have financed our operations primarily by sales of equity securities. Since December 2002, when we discontinued our security software products and following the commencement of our new technology licensing business in November 2003, we have had no material revenue from operations. We had no revenue from operations for the years ended December 31, 2005 and December 31, 2006 and for the three months ended March 31, 2007. Our ability to achieve revenue and generate positive cash flow from operations is dependent upon consummating licensing agreements with respect to our patented technologies. We may not be successful in achieving licensing agreements with third parties and our failure to do so would have a material adverse effect on our business, financial condition and results of operations. We may not be able to achieve revenue or generate positive cash flow from operations from our licensing business.

WE COULD BE REQUIRED TO STOP OPERATIONS IF WE ARE UNABLE TO DEVELOP OUR TECHNOLOGY LICENSING BUSINESS OR RAISE CAPITAL WHEN NEEDED.

We anticipate, based on our currently proposed plans and assumptions relating to our operations (including the timetable of costs and expenses associated with our continued operations), that our cash position of \$5,463,000 at April 30, 2007 will more likely than not be sufficient to satisfy our operations and capital requirements until at least December 31, 2008. However, we may expend our funds prior thereto. In the event our plans change, or our assumptions change or prove to be inaccurate (due to unanticipated expenses, difficulties, delays or otherwise), we could have insufficient funds to support our operations prior to December 31, 2008. Our inability to obtain additional financing when needed, absent generating sufficient cash from licensing arrangements, would have a material adverse effect on our company, requiring us to curtail or possibly cease our operations. In addition, any additional equity financing may involve substantial dilution to the interests of our then existing stockholders.

4

OUR LICENSING BUSINESS MAY NOT BE SUCCESSFUL.

In November 2003, we entered the technology licensing business following our acquisition of six patents relating to various telecommunications and data networking technologies including, among others, patents covering the delivery of remote power over Ethernet and the transmission of audio, video and data over computer and telephony networks. Accordingly, we have a limited history in the technology licensing business upon which an evaluation of our prospects and future performance can be made. Our prospects must be considered in light of the

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

risks, expenses and difficulties frequently encountered in the development, operation and expansion of a new business based on patented technologies in a highly specialized and competitive market. We may not be able to achieve revenue or profitable operations from our new licensing business.

OUR FUTURE SOURCE OF LICENSING REVENUE IS UNCERTAIN.

In February 2004, we initiated our first licensing efforts relating to the technologies in our remote power patent (U.S. Patent No. 6,218,930) (the "Remote Power Patent"). To date, we have not entered into any licensing agreements with third parties with respect to our Remote Power Patent or our other patented technologies, although D-Link has agreed to enter into a license agreement with us as part of a settlement agreement regarding pending litigation (See "Legal Proceedings"). Our inability to consummate licensing agreements and achieve revenue from our patented technologies would have a material adverse effect on our operations and our ability to continue our business. In addition, in the event we consummate license arrangements with third parties, such arrangements are not likely to produce a stable or predictable stream of revenue in the foreseeable future. Furthermore, the success of our licensing efforts depends upon the strength of our intellectual property rights.

WE ARE CURRENTLY RELYING UPON THE EFFORTS OF THINKFIRE TO CONSUMMATE LICENSING AGREEMENTS FOR OUR REMOTE POWER PATENT WITH CERTAIN SELECT POTENTIAL LICENSEES.

On November 30, 2004, we entered into a Master Services Agreement (the "Agreement") with ThinkFire Services USA, Ltd. ("ThinkFire") pursuant to which we granted ThinkFire the exclusive (except for us and related companies) worldwide rights to negotiate license agreements for our Remote Power Patent with respect to certain potential licensees agreed to between the parties. Either we or ThinkFire can terminate the Agreement upon 60 days notice for any reason or upon 30 days notice in the event of a material breach. We have agreed to pay ThinkFire a fee not to exceed 20% of the royalty payments received from license agreements consummated by ThinkFire on our behalf. ThinkFire may not be successful in consummating license agreements on our behalf and even if such agreements are consummated they may not result in significant royalty payments to us.

OUR SUCCESS IS DEPENDENT UPON OUR ABILITY TO PROTECT OUR PROPRIETARY TECHNOLOGIES.

Our success is substantially dependent upon our proprietary technologies and our ability to protect our intellectual property rights. We currently hold 6 patents issued by the U.S. Patent Office that relate to various telecommunications and data networking technologies and include among other things, patents covering the transmission of audio, voice and data over computer and telephony networks and the delivery of remote PoE networks. We rely upon our patents and trade secret laws, non-disclosure agreements with our employees, consultants and third parties to protect our intellectual property rights. The complexity of patent and common law, combined with our limited resources, create risk that our efforts to protect our proprietary technologies may not be successful. We cannot assure you that our

5

patents will be upheld or that third parties will not invalidate our patent rights. In the event our intellectual property rights are not upheld, such an event would have a material adverse effect on us.

WE ARE CURRENTLY RELYING UPON OUR CONTINGENCY FEE AGREEMENT WITH BLANK ROME.

In August 2005, we entered into an agreement (the "Agreement") with Blank Rome,

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

LLP ("Blank Rome"), a national law firm, pursuant to which Blank Rome has been engaged to represent us in connection with all litigation involving our Remote Power Patent. Blank Rome has agreed to represent us with respect to each litigation pertaining to the Remote Power Patent on a full contingency basis (except for any proceeding before the International Trade Commission). As compensation for its services on a full contingency basis, Blank Rome will receive from us percentages of Net Consideration (as defined in the Agreement) ranging from 12.5% to 35% received by us by way of settlement or judgment in connection with each litigation matter. We have also agreed to compensate Blank Rome in an amount equal to 10% of the Net Consideration received by us from certain designated parties mutually agreed upon by us and Blank Rome (the "Designated Parties") in the event such Designated Parties enter into license agreements or similar agreements with us during the period of Blank Rome's engagement.

The Agreement may be terminated by either Blank Rome or us upon 30 days notice. If we elect to terminate the Agreement, we will compensate Blank Rome in an amount equal to 5% of the Net Consideration received by us from the Designated Parties with whom Blank Rome has not commenced litigation on our behalf, provided that such parties had substantive licensing or settlement discussions related to our Remote Power Patent during the term of the Agreement and entered into a license agreement or similar agreement with us providing for Net Consideration within the 12 month period following termination. In addition, in the event of termination during the pendency of litigation, Blank Rome will receive its pro-rata share of Net Consideration based upon its hourly time charges with respect to parties against whom Blank Rome commenced litigation (or defended) on our behalf. In the event the Agreement with Blank Rome is terminated, depending upon our financial resources at the time, we may need to enter into a contingent fee agreement with a new law firm in order to enforce and/or defend our Remote Power Patent and our inability to secure such an arrangement on satisfactory terms and on a timely basis may have a material adverse effect on us.

ANY LITIGATION TO PROTECT OUR INTELLECTUAL PROPERTY OR ANY THIRD PARTY CLAIMS TO INVALIDATE OUR PATENTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

Our success depends on our ability to protect our intellectual property rights. In August 2005, we commenced patent litigation against D-Link Corporation and D-Link Systems, Incorporated for infringement of our Remote Power Patent and in April 2007 we entered into a settlement agreement with the D-Link parties (See "Legal Proceedings"). In the future, it may be necessary for us to commence patent litigation against additional third parties whom we believe require a license to our patents. In addition, we may be subject to claims seeking to invalidate our patents, as had been asserted by D-Link as a defense in their litigation with us. These types of claims, with or without merit, may subject us to costly litigation and diversion of management's focus. If we are unsuccessful in enforcing and validating our patents and/or if third parties making claims against us seeking to invalidate our patents are successful, they may be able to obtain injunctive or other equitable relief, which effectively could block our ability to license or otherwise capitalize on our proprietary technologies. Successful litigation against us resulting in a determination that our patents are invalid would have a material adverse effect on us.

6

OUR SETTLEMENT WITH D-LINK DOES NOT NECESSARILY MEAN WE WILL ACHIEVE ADDITIONAL MATERIAL LICENSE AGREEMENTS PERTAINING TO OUR REMOTE POWER PATENT.

On April 25, 2007 we entered into a settlement agreement with respect to our patent litigation against D-Link Corporation and D-Link Systems, Incorporated in the United States District Court for the Eastern District of Texas, Tyler

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

Division, for infringement of our Remote Power Patent. Under the terms of the settlement, D-Link has agreed to enter into a license agreement for our Remote Power Patent the terms of which will include monthly royalty payments of 3.25% of the net sales of D-Link branded Power over Ethernet products, including those products which comply with the IEEE 802.3af and 802.3at Standards, for the full term of the Remote Power Patent, which expires in March 2020. The royalty rate is subject to adjustment beginning after the first quarter of 2008 to a rate consistent with other similarly situated licensees of the Remote Power Patent based on units of shipments of licensed products. In addition, D-Link has agreed to pay us \$100,000. Notwithstanding our settlement with the D-Link parties, there is no assurance that we will be able to achieve additional license agreements with third parties relating to our Remote Power Patent or that such license arrangements, including the D-Link license, will result in material revenue to us.

MATERIAL LICENSING REVENUES FROM OUR REMOTE POWER PATENT MAY BE DEPENDENT UPON THE APPLICABILITY OF THE IEEE STANDARD.

The Institute of Electrical and Electronic Engineers (IEEE) is a non-profit, technical professional association of more than 360,000 individual members in approximately 175 countries. The Standards Association of the IEEE is responsible for the creation of global industry standards for a broad range of technology industries. In 1999, the IEEE formed a task force to facilitate the adoption of a standardized methodology for the delivery of remote power over Ethernet networks which would insure interoperability among vendors of switches and terminal devices. In June 2003, the IEEE Standards Association approved the 802.3af Power Over Ethernet standard (the "Standard"), which covers technologies deployed in delivering power over Ethernet cables including whether deployed in switches or as standalone midspan hubs both of which provide power to remote devices including wireless access points, IP phones and network based cameras. The technology is commonly referred to as Power Over Ethernet ("PoE"). We believe our Remote Power Patent covers several of the key technologies covered by the Standard. However, there is a risk that as a result of litigation a court may determine otherwise and such a determination would have a material adverse effect on our ability to enter into license agreements and achieve revenue and profits from our Remote Power Patent.

WE FACE INTENSE COMPETITION AND WE MAY NOT BE ABLE TO SUCCESSFULLY COMPETE.

The telecommunications and data networking market is characterized by intense competition and rapidly changing business conditions, customer requirements and technologies. Our current and potential competitors have longer operating histories, greater name recognition and possess substantially greater financial, technical, marketing and other competitive resources than us. Although we believe that we have rights to enforceable patents relating to telecommunications and data networking, there can be no assurance that third parties will not invalidate any or all of our patents or that such parties may not be deemed to infringe any or all of our patents. In addition, the telecommunications and data networking industries may develop technologies that may be more effective than our proprietary technologies or that render our technologies less marketable or obsolete.

7

OUR MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE AND OUR TECHNOLOGIES FACE POTENTIAL TECHNOLOGY OBSOLESCENCE.

The telecommunications and data networking technology market, including transmission of audio, video and data over computer and telephony networks and the delivery of remote power over Ethernet markets, are characterized by rapid technological changes, changing customer requirements, frequent new product

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

introductions and enhancements, and evolving industry standards. The introduction of products embodying new technologies and the emergence of new industry standards may render our technologies obsolete or less marketable. To the extent we are able to achieve revenue in the future, such revenue will be derived from licensing our technologies based on existing and evolving industry standards.

### DEPENDENCE UPON CEO AND CHAIRMAN.

Our success is largely dependent upon the personal efforts of Corey M. Horowitz, our Chairman and Chief Executive Officer and Chairman of the Board of Directors. In February 2007, we entered into a new two (2) year employment agreement with Mr. Horowitz pursuant to which he continues to serve as our Chairman and Chief Executive Officer (See "Executive Compensation"). We do not maintain key man life insurance on the life of Mr. Horowitz. The loss of the services of Mr. Horowitz would have a material adverse effect on our business and prospects.

### RISKS RELATED TO LOW PRICED STOCKS.

Our common stock currently trades on the OTC Bulletin Board under the symbol NSSI. Since the trading price of our common stock is below \$5.00 per share, our common stock is considered a penny stock. SEC regulations generally define a penny stock to be an equity security that is not listed on Nasdaq or a national securities exchange and that has a market value of less than \$5.00 per share, subject to certain exceptions. SEC regulations require broker-dealers to deliver to a purchaser of our common stock a disclosure schedule explaining the penny stock market and the risks associated with it. Various sales practice requirements are also imposed on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally institutions). Broker-dealers must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and monthly account statements disclosing recent price information for the penny stock held in the customer's account.

### THE SIGNIFICANT NUMBER OF OPTIONS AND WARRANTS OUTSTANDING MAY ADVERSELY EFFECT THE MARKET PRICE FOR OUR COMMON STOCK.

As of April 30, 2007, there are outstanding options and warrants to purchase an aggregate of 12,340,857 shares of our common stock at exercise prices ranging from \$.12 to \$10.00. To the extent that outstanding options and warrants are exercised, stockholder percentage ownership will be diluted and any sales in the public market of the common stock underlying such options may adversely affect prevailing market prices for our common stock.

### WE HAVE A SIGNIFICANT AMOUNT OF AUTHORIZED BUT UNISSUED PREFERRED STOCK, WHICH MAY AFFECT THE LIKELIHOOD OF A CHANGE OF CONTROL IN OUR COMPANY.

Our Board of Directors has the authority, without further action by the stockholders, to issue 10,000,000 shares of preferred stock on such terms and with such rights, preferences and designations

as our Board of Directors may determine. Such terms may include restricting dividends on our common stock, dilution of the voting power of our common stock or impairing the liquidation rights of the holders of our common stock. Issuance of such preferred stock, depending on the rights, preferences and designations thereof, may have the effect of delaying, deterring or preventing a change in control. In addition, certain "anti-takeover" provisions in Delaware law may restrict the ability of our stockholders to authorize a merger, business combination or change of control.

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

OUR STOCK PRICE MAY BE VOLATILE.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- o our ability to successfully enforce and/or defend our Remote Power Patent;
- o our ability to enter into favorable license agreements with third parties with respect to our Remote Power Patent;
- o our ability to achieve revenues and profits;
- o our ability to raise capital when needed;
- o sales of our common stock;
- o our ability to execute our business plan;
- o technology changes;
- o legislative, regulatory and competitive developments; and
- o economic and other external factors.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

9

ADDITIONAL STOCK OFFERINGS MAY DILUTE CURRENT STOCKHOLDERS.

We may need to issue additional shares of our capital stock or securities convertible or exercisable for shares of our capital stock, including preferred stock, options or warrants. The issuance of additional capital stock may dilute the ownership of our current stockholders.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements that are statements that include information based upon beliefs of our management, as well as assumptions made by and information available to our management. Statements containing terms such as "believes," "expects," "anticipates," "intends" or similar words are intended to identify forward-looking statements.

Our management, based upon assumptions they consider reasonable, has compiled these forward-looking statements. Such statements reflect our current views with respect to future events. These statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from what is currently anticipated. We make cautionary statements in certain sections of this prospectus, including under "Risk Factors." You should read these cautionary statements as being applicable to all related forward-looking statements wherever they appear in this prospectus, the materials referred to in this prospectus or the materials incorporated by reference into this prospectus.

You are cautioned that no forward-looking statement is a guarantee of

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

future performance and you should not place undue reliance on any forward-looking statement. Such statements speak only as of the date of this prospectus and we are not undertaking any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

10

### PRICE RANGE OF OUR COMMON STOCK

Our common stock currently trades on the OTC Bulletin Board under the symbol NSSI. The following table sets forth, for the periods indicated, the range of the high and low closing bid prices for our common stock as reported by the Pink Sheets LLC quotation service. Such prices reflect inter-dealer quotations, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

THREE MONTHS ENDED MARCH 31, 2007	HIGH ----	LOW ---
	\$1.75	\$1.35
YEAR ENDED DECEMBER 31, 2006	HIGH ----	LOW ---
Fourth Quarter	\$1.65	\$1.06
Third Quarter	\$1.37	\$1.00
Second Quarter	\$1.42	\$1.02
First Quarter	\$1.48	\$ .93
YEAR ENDED DECEMBER 31, 2005	HIGH ----	LOW ---
Fourth Quarter	\$1.44	\$1.00
Third Quarter	\$1.55	\$0.66
Second Quarter	\$1.12	\$0.66
First Quarter	\$1.45	\$0.92

On June 7, 2007, the closing price for our common stock as reported on the OTC Bulletin Board was \$1.70 per share. The number of record holders of our common stock was 117 as of May 9, 2007.

### DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and do not intend to declare or pay cash or other dividends in the foreseeable future. The Board of Directors currently expects to retain any future earnings, if any, for use in the operation and expansion of its business. The declaration and payment of any future dividends will be at the discretion of the Board of Directors and will depend upon a variety of factors, including future earnings, if any, operations, capital requirements, our general financial condition, the preferences of any series of preferred stock, our general business conditions and future contractual restrictions on payment of dividends, if any.

11

### EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes share and exercise price information about

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

our equity compensation plans as of December 31, 2006.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights
Equity compensation plans approved by security holders	3,992,370	\$.93
Equity compensation plans not approved by security holders	0	--
Total	3,992,370	\$.93

(1) Our 1996 Amended and Restated Stock Option Plan provided for the issuance of options to purchase up to 4,000,000 shares of our common stock. As of March 2006, no additional options could be issued under the plan in accordance with its terms.

### BUSINESS

#### OVERVIEW

Our principal business is the acquisition, development, licensing and protection of our intellectual property. We presently own six patents covering various telecommunications and data networking technologies. Our strategy is to pursue licensing and strategic business alliances with companies in industries that manufacture and sell products that make use of the technologies underlying our patents as well as with other users of the technologies who benefit directly from the technologies including corporate, educational and governmental entities.

On November 18, 2003, we acquired a portfolio of telecommunications and data networking patents (the "Patent Portfolio") from Merlot Communications, Inc., a broadband communications solutions provider. In February 2004, following the acquisition of the Patent Portfolio and our review of applicable markets, we commenced efforts to license our patent (U.S. Patent No. 6,218,930) covering the control of power delivery over Ethernet cables (the "Remote Power Patent"). Our Patent Portfolio consists of six patents (including the Remote Power Patent) issued by the U.S. Patent Office that relate to various telecommunications and data networking technologies and includes, among other things, patents covering systems and methods for the transmission of audio, video and data over local area networks (LANS) in order to achieve higher quality of service (QoS) and the control of power delivery over LANs for the purpose of remotely powering network devices.

We have focused, and are likely to continue to focus, our efforts on licensing our Remote Power Patent. We have not entered into any license agreements with respect to our Remote Power Patent, although we are pursuing such arrangements with third parties. At least for the next twelve months, we do not anticipate engaging in licensing efforts for our other patents besides our Remote Power Patent. We may seek to acquire additional patents in the future.

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

### THE PATENTS

Our Patent Portfolio consists of the following patents:

U.S. PATENT NO. 6,218,930: APPARATUS AND METHOD FOR REMOTELY POWERING ACCESS EQUIPMENT OVER A 10/100 SWITCHED ETHERNET NETWORK;

U.S. PATENT NO. 6,577,631: COMMUNICATION SWITCHING MODULE FOR THE TRANSMISSION AND CONTROL OF AUDIO, VIDEO, AND COMPUTER DATA OVER A SINGLE NETWORK FABRIC;

U.S. PATENT NO. 6,574,242: METHOD FOR THE TRANSMISSION AND CONTROL OF AUDIO, VIDEO, AND COMPUTER DATA OVER A SINGLE NETWORK FABRIC;

U.S. PATENT NO. 6,570,890: METHOD FOR THE TRANSMISSION AND CONTROL OF AUDIO, VIDEO, AND COMPUTER DATA OVER A SINGLE NETWORK FABRIC USING ETHERNET PACKETS;

U.S. PATENT NO. 6,539,011: METHOD FOR INITIALIZING AND ALLOCATING BANDWIDTH IN A PERMANENT VIRTUAL CONNECTION FOR THE TRANSMISSION AND CONTROL OF AUDIO, VIDEO, AND COMPUTER DATA OVER A SINGLE NETWORK FABRIC; AND

U.S. PATENT NO. 6,215,789: LOCAL AREA NETWORK FOR THE TRANSMISSION AND CONTROL OF AUDIO, VIDEO, AND COMPUTER DATA.

Our future success is largely dependent upon our proprietary technologies, our ability to protect our intellectual property rights and to consummate license agreements with respect to our Patent Portfolio. The complexity of patent and common law, combined with our limited resources, create risk that our efforts to protect our proprietary technologies may not be successful. We cannot be assured that our patents will be upheld, or that third parties will not invalidate our patents.

The Remote Power Patent application was filed on March 11, 1999 and the patent was granted by the U.S. Office of Patent and Trademark on April 21, 2001. The Remote Power Patent expires on March 11, 2020.

To date we have not entered into any license agreements with third parties, although as part of our April 2007 settlement agreement with respect to our litigation with D-Link Corporation and D-Link Systems (collectively "D-Link"), D-Link has agreed to enter into a license agreement pertaining to our Remote Power Patent (See "Legal Proceedings").

We were incorporated under the laws of the State of Delaware in July 1990. Our offices are located at 445 Park Avenue, Suite 1028, New York, New York 10022 and our telephone number is (212) 829-5770.

13

### MARKET OVERVIEW - REMOTE POWER PATENT

Our licensing efforts are currently focused on our Remote Power Patent. Our Remote Power Patent (U.S. Patent No. 6,218,930) relates to several technologies which describe a methodology for controlling the delivery of power to certain devices over an Ethernet network.

The Institute of Electrical and Electronic Engineers (IEEE) is a non-profit, technical professional association of more than 360,000 individual members in approximately 175 countries. The Standards Association of the IEEE is responsible for the creation of global industry standards for a broad range of

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

technology industries. In 1999, at the urging of several industry vendors, the IEEE formed a task force to facilitate the adoption of a standardized methodology for the delivery of remote power over Ethernet networks which would insure interoperability among vendors of switches and terminal devices. On June 13, 2003 the IEEE Standards Association approved the 802.3af Power Over Ethernet standard (the "Standard"), which covers technologies deployed in delivering power over Ethernet cables. The Standard provides for the Power Sourcing Equipment (PSE) to be deployed in switches or as standalone midspan hubs to provide power to remote devices such as wireless access points, IP phones and network based cameras. The technology is commonly referred to as Power Over Ethernet ("PoE"). We believe that our Remote Power Patent covers several of the key technologies covered by the Standard.

Ethernet is the leading local area networking technology in use today. PoE technology allows for the delivery of power over Ethernet cables rather than by separate power cords. As a result, a variety of network devices, including IP telephones, wireless LAN Access Points, web-based network security cameras, data collection terminals and other network devices, are able to receive power over existing data cables without the need to modify the existing infrastructure to facilitate the provision of power for such devices through traditional AC outlets. Advantages such as lower installation costs, remote management capabilities, lower maintenance costs, centralized power backup, and flexibility of device location as well as the advent of worldwide power compatibility create the possibility of PoE becoming widely adopted in networks throughout the world.

PoE provides numerous benefits including quantifiable returns on investment. The cost of hiring electricians to pull power cable to remote locations used for access points or security cameras can rival or exceed the cost of the devices. Another key benefit is the need for Voice over IP power reliability in the face of power failures. Using PoE enables data center power supply systems to ensure on-going power - a function that would be difficult and expensive to implement if each phone required AC outlets.

These and other advantages such as remote management capabilities, lower maintenance costs, and flexibility of device location have led to forecasts that PoE will be widely adopted in networks throughout the world. The ability to supply power to end-devices through Ethernet cables can be applied to other end-devices, such as advanced security cameras, RFID card readers, laptop computers, personal digital assistants and portable digital music players. As the desire to connect more end-devices to the Ethernet network grows, we believe that PoE technology will become more widely used as a method to power these end-devices.

14

### ADDITIONAL PATENTS

We also own five (5) additional patents covering various methodologies that provide for allocating bandwidth and establishing Quality of Service for delay sensitive data, such as voice, on packet data networks. Quality of Service issues become important when data networks carry packets that contain audio and video which may require priority over data packets traveling over the same network. Covered within these patents are also technologies that establish bi-directional communications control channels between network-connected devices in order to support advanced applications on traditional data networks. We believe that potential licensees of the technologies contained in these patents would be vendors deploying applications that require the low latency transport of delay sensitive data such as video over data networks.

### NETWORK-1 STRATEGY

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

Our strategy is to capitalize on our Patent Portfolio by entering into licensing arrangements with third parties including manufacturers and users that utilize our Patent Portfolio's proprietary technologies as well as any additional proprietary technologies covered by patents which may be acquired by us in the future. We will also seek to enter into licensing arrangements with users of the proprietary technologies, including corporate, educational and governmental entities in those cases where the patent rights extend to the users of the technologies contained in manufactured products.

We do not anticipate manufacturing products utilizing the Patent Portfolio or any of the proprietary technologies contained in our Patent Portfolio. Accordingly, we do not anticipate establishing a manufacturing, sales or marketing infrastructure. Consequently, we believe that our capital requirements will be less than the capital requirements for companies with such infrastructure requirements.

In connection with our activities relating to the protection of our Patent Portfolio, it may be necessary to assert patent infringement claims against third parties that we believe are infringing our Patent Portfolio, as was the case with our litigation against D-Link (See Item 3 "Legal Proceedings - D-Link Litigation").

### MARKETING AND DISTRIBUTION

In February 2004, we commenced licensing efforts with respect to our Remote Power Patent. We believe that potential licensees include, among others, Wireless Local Area Networking (WLAN) equipment manufacturers, Local Area Networking (LAN) equipment manufacturers, Voice Over IP Telephony (VOIP) equipment manufacturers, and Network Camera manufacturers. In addition, we believe that additional potential licensees include users of the equipment embodying the PoE technology covered by our Remote Power Patent, including corporate, educational and federal, state and local government users, as we believe that they are significant beneficiaries of the technologies covered by our Remote Power Patent.

15

### ThinkFire Agreement

On November 30, 2004, we entered into a Master Services Agreement (the "Agreement") with ThinkFire Services USA, Ltd. ("ThinkFire") pursuant to which ThinkFire has been granted the exclusive (except for direct efforts by us and related companies) worldwide rights to negotiate license agreements for our Remote Power Patent with respect to certain potential licensees agreed to between the parties. Either we or ThinkFire may terminate the Agreement upon 60 days notice for any reason or upon 30 days notice in the event of a material breach. We have agreed to pay ThinkFire a fee not to exceed 20% of the royalty payments received from license agreements consummated by ThinkFire on our behalf.

### LEGAL REPRESENTATION

In August 2005, we entered into an agreement with Blank Rome, LLP ("Blank Rome"), a national law firm, pursuant to which Blank Rome has been engaged to represent us in connection with all litigation involving our Remote Power Patent. Blank Rome has agreed to represent us with respect to each litigation pertaining to our Remote Power Patent on a full contingency basis (except for any proceeding before the International Trade Commission). As compensation for its services on a full contingency basis, Blank Rome will receive from us percentages of Net Consideration (as defined in the agreement) ranging from 12.5% to 35% received by us by way of settlement or judgment in connection with

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

each litigation matter. We have also agreed to compensate Blank Rome in an amount equal to 10% of the Net Consideration received by us from certain designated parties mutually agreed upon by us and Blank Rome (the "Designated Parties") in the event that prior to commencement of litigation such Designated Parties enter into license agreements or similar agreements with us during the period of Blank Rome's engagement.

The agreement may be terminated by either Blank Rome or us upon 30 days notice. If we elect to terminate the agreement, we will compensate Blank Rome in an amount equal to 5% of the Net Consideration received by us from the Designated Parties with whom Blank Rome has not commenced litigation on our behalf; provided, that, such parties had substantive licensing or settlement discussions related to our Remote Power Patent during the term of the agreement and entered into a license agreement or similar agreement with us providing for Net Consideration within the 12 month period following termination. In addition, in the event of termination, Blank Rome will receive its pro-rata share of Net Consideration based upon its hourly time charges with respect to parties against whom Blank Rome commenced litigation (or defended) on our behalf. In the event our agreement with Blank Rome is terminated, depending upon our financial resources at the time, we may need to enter into a contingent fee agreement with a new law firm in order to enforce and/or defend our Remote Power Patent and our inability to secure such an arrangement on satisfactory terms and on a timely basis may have a material adverse effect on our ability to achieve license arrangements with respect to our Remote Power Patent.

With respect to our litigation with D-Link relating to our Remote Power Patent (see "Legal Proceedings - D-Link Litigation"), in addition to the services of Blank Rome on a contingency basis, we also used the services of Potter Mitton, P.C. (Tyler, Texas) on an hourly basis to serve as local counsel.

16

### COMPETITION

The telecommunications and data networking licensing market is characterized by intense competition and rapidly changing business conditions, customer requirements and technologies. Our current and potential competitors have longer operating histories, greater name recognition and possess substantially greater financial, technical, marketing and other competitive resources than us. Although we believe that we have enforceable patents relating to telecommunications and data networking, there can be no assurance that our Patent Portfolio will be upheld or that third parties will not invalidate any or all of the patents in our Patent Portfolio. In addition, our current and potential competitors may develop technologies that may be more effective than our proprietary technologies or that would render our technologies less marketable or obsolete. We may not be able to compete successfully.

In addition, other companies may develop competing technologies that offer better or less expensive alternatives to PoE and the other technologies covered by our Patent Portfolio. Several companies have notified the IEEE that they may have patents and proprietary technologies that are covered by the Standard. In the event any of those companies asserts claims relating to our patents, the licensing royalties available to us may be limited. Moreover, technological advances or entirely different approaches developed by one or more of our competitors or adopted by various standards groups could render our Remote Power Patent obsolete, less marketable or unenforceable.

### EMPLOYEES AND CONSULTANTS

As of May 31, 2007, we had one full time employee, no part time employees and three consultants.

LEGAL PROCEEDINGS

D-LINK LITIGATION

On August 10, 2005, we commenced patent litigation against D-Link Corporation and D-Link Systems, Incorporated (collectively, D-Link) in the United States District Court for the Eastern District of Texas, Tyler division (Civil Action No. 6:05W291), for infringement of our Remote Power Patent (U.S. Patent No. 6,218,930). Our complaint sought, among other things, a judgment that our Remote Power Patent is enforceable and has been infringed by the defendants. We also sought a permanent injunction restraining the defendants from continued infringement, or active inducement of infringement by others, of our Remote Power Patent. On February 27, 2006, the D-Link defendants filed answers and asserted counterclaims. In their answers, the D-Link defendants asserted that they did not infringe any valid claim of our Remote Power Patent, and further asserted that the asserted patent claims are invalid and/or unenforceable. In addition to these defenses, the D-Link defendants also asserted counterclaims for, among other things, non-infringement, invalidity and unenforceability of our Remote Power Patent.

On April 25, 2007, we agreed to a settlement of our patent infringement litigation against D-Link. Under the terms of the settlement, D-Link has agreed to enter into a license agreement for the Remote Power Patent the terms of which will include monthly royalty payments of 3.25% of the net sales of D-Link branded Power over Ethernet products, including those products which comply with the IEEE 802.3af and 802.3at Standards, for the full term of the Remote Power Patent, which expires in March 2020. The royalty rate is subject to adjustment beginning after the first quarter of 2008 to a rate consistent with other similarly situated licensees of the Remote Power Patent based on units of shipments of licensed products. In addition, D-Link has agreed to pay us \$100,000.

POWERDSINE SETTLEMENT

On November 16, 2005, we entered into a Settlement Agreement with PowerDsine, Inc. (NASDAQ: PDSN) and PowerDsine Ltd. (collectively, "PowerDsine") which dismissed, with prejudice, patent litigation brought by PowerDsine against us in March 2004 in the United States District Court for the Southern District of New York that sought a declaratory judgment that our Remote Power Patent (U.S. Patent No. 6,218,930) was invalid and not infringed by PowerDsine and/or its customers.

Under the terms of the Settlement Agreement, we agreed that we will not initiate litigation against PowerDsine for its sale of Power over Ethernet (PoE) integrated circuits. In addition, we agreed that we will not seek damages for infringement from customers that incorporate PowerDsine integrated circuit products in PoE capable Ethernet switches manufactured on or before April 30, 2006. PowerDsine has agreed that it will not initiate, assist or cooperate in any legal action relating to the Remote Power Patent. We also agreed that we will not initiate litigation against PowerDsine or its customers for infringement of our Remote Power Patent arising from the manufacture and sale of PowerDsine Midspan products for three years following the dismissal date. Following such three year period, we may seek damages for infringement of our Remote Power Patent from PowerDsine or its customers with respect to the purchase and sale of Midspan products beginning 90 days following the dismissal date of the litigation. The benefits afforded to PowerDsine under the Settlement Agreement will cease in the event PowerDsine institutes, assists or cooperates in any legal proceeding related to our Remote Power Patent adverse to us (unless

otherwise required by

18

law to do so) and PowerDsine customers will also forfeit benefits under the Settlement Agreement if they engage in similar action.

No licenses to use the technologies covered by our Remote Power Patent were granted to PowerDsine or its customers under the terms of the settlement. The Settlement Agreement further provides that PowerDsine is obligated to provide each of its customers with written notice of the settlement which notice shall disclose that no license for our Remote Power Patent has been provided to PowerDsine's customers and that in order to combine, modify or integrate any PowerDsine product with or into any other device or software, PowerDsine's customers may need to receive patent license(s) for such third party patents which is the customer's responsibility. For the full text of our Settlement Agreement with PowerDsine, see Exhibit 10.1 of our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 17, 2005.

#### USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares of our common stock by the selling stockholders. All proceeds from the sale of such shares will be for the accounts of the selling stockholders. We will receive proceeds from the exercise of all warrants and options held by the selling stockholders (assuming such securities are exercised on a cash basis). Cash proceeds that we may receive upon exercise of the warrants and options will be used for working capital purposes.

#### SELLING STOCKHOLDERS

The following table set forth the names of the selling stockholders who may sell their shares under this prospectus from time to time. The selling stockholders are not obligated to sell any of the shares offered by this prospectus. The number of shares sold by each selling stockholder may depend on a number of factors, such as the market price of our common stock.

We are registering 5,360,000 shares of our common stock for resale by the selling stockholders. We agreed to file a registration statement under the Securities Act of 1933, as amended (the "Securities Act") with the Securities and Exchange Commission, of which this prospectus is a part, with respect to the resale of:

- o 3,333,333 shares of our common stock and 1,666,667 shares of our common stock issuable upon exercise of warrants issued in our private offering completed on April 16, 2007; and
- o 360,000 shares of our common stock issuable upon exercise of outstanding warrants issued to the placement agents with respect to our private offering completed on April 16, 2007, all as disclosed in the table below.

The number of shares of our common stock shown in the following table as being offered by the selling stockholders do not include such presently indeterminate number of additional shares of our common stock that may be issuable as a result of stock splits, stock dividends and similar transactions. Pursuant to Rule 416 under the Securities Act, however, such shares are included in the Registration Statement of which this prospectus is a part.

19

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

The selling stockholders may sell any or all of their shares listed below from time to time. Accordingly, we cannot estimate how many shares the selling stockholders will own upon consummation of any such sales. Also, the selling stockholders may have sold, transferred or otherwise disposed of all or a portion of their shares since the date on which the information was provided in transactions exempt from the registration requirements of the Securities Act.

Of the selling stockholders listed in the table below, Eric Singer, Hilary Bergman, Brad Reifler, Matthew Pilkington, Jack Brimberg, Theodore J. Marolda, Jay Tomlinson and Steven Heinemann are believed by us to be affiliated with broker-dealers, who purchased the shares in the ordinary course of business and at the time of the purchase of the securities to be resold, such selling stockholders did not have any agreements or understandings, directly or indirectly, with any person to distribute the securities.

None of the selling stockholders has had a material relationship with us within the past three years other than as a result of the ownership of our securities except: (i) Hilary Bergman, Brad Reifler and Matthew Pilkington are affiliated with Pali Capital, Inc., a placement agent with respect to our April 2007 private offering, (ii) Eric Singer was affiliated with Pali Capital, Inc. at the time of our April 2007 private offering and (iii) Jack Brimberg, Theodore J. Marolda and Jay Tomlinson are affiliated with Brimberg & Co., L.P., also a placement agent with respect to our April 2007 private offering.

NAME -----	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO OFFERING (1) -----	NUMBER OF SHARES BEING OFFERED -----	NUMBER OF SHAR BENEFICIALLY OW AFTER OFFERING (1) -----
Hound Partners, L.P.	1,622,726 (3)	1,622,726 (3)	0
Hound Partners Offshore Fund, L.P.	1,627,275 (4)	1,627,275 (4)	0
Graham Partners, L.P.	500,000 (5)	500,000 (5)	0
Aurelian Partners, L.P.	575,600 (6)	500,000 (7)	75,600
Brian T. Horey SEP-IRA, Charles Schwab & Co. Custodian	100,000 (8)	100,000 (8)	0
Steven D. Heinemann IRA/RO Bear Stearns Securities Corp. Custodian	1,171,937 (9)	200,000 (10)	971,937
Zaykowski Limited Partners, L.P.	100,000 (11)	100,000 (11)	0
Zaykowski Qualified Partners, L.P.	100,000 (12)	100,000 (12)	0
Lewis Opportunity Fund, L.P.	820,085 (13)	212,499 (14)	607,586
LAM Opportunity Fund, LTD	161,942 (15)	37,500 (16)	124,442
Eric Singer	1,248,840 (17)	168,840 (18)	1,080,000

20

NUMBER OF SHARES  
BENEFICIALLY

NUMBER OF SHAR

Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

NAME -----	OWNED PRIOR TO OFFERING (1) -----	NUMBER OF SHARES BEING OFFERED -----	BENEFICIALLY OW AFTER OFFERING (1) -----
Hilary Bergman	43,425 (19)	37,800 (20)	5,625
Brad Reifler	50,925 (21)	37,800 (22)	13,125
Theodore J. Marolda	54,000 (23)	54,000 (23)	0
Jack Brimberg	37,500 (24)	37,500 (24)	0
Jay Tomlinson	16,500 (25)	16,500 (25)	0
Matthew Pilkington	17,560 (26)	7,560 (27)	10,000

\* Less than 1%

(1) Except as otherwise indicated, the address for each beneficial owner is c/o Network-1 Security Solutions, Inc., 445 Park Avenue, Suite 1028, New York, New York 10022.

(2) Unless otherwise indicated, we believe that all persons named in the above table have sole voting and investment power with respect to all shares of common stock beneficially owned by them. A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days from the date hereof upon the exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants and convertible securities held by such person (but not those held by any other person) and which are exercisable or convertible within 60 days have been exercised and converted. Assumes a base of 23,173,057 shares of common stock outstanding.

(3) Includes (i) 1,081,817 shares of common stock and (ii) 540,909 shares of common stock subject to currently exercisable warrants held by Hound Partners, L.P. Jonathan Auerbach is the managing member of Hound Performance, LLC and Hound Partners, LLC. Hound Performance, LLC is the general partner of Hound Partners, LP and Hound Partners, LLC is the investment manager of Hound Partners, LP. The aforementioned beneficial ownership is based upon Schedule 13G jointly filed by Hound Partners, LLC, Hound Performance, LLC, Hound Partners, L.P. and Hound Partners Offshore Fund, LP, with the Securities and Exchange Commission on April 26, 2007 and a Form 3 jointly filed by Hound Partners, LLC, Hound Performance, LLC and Jonathan Auerbach with the Securities and Exchange Commission on April 26, 2007. Jonathan Auerbach by virtue of being the managing member of Hound Performance, LLC and Hound Partners, LLC has the power to vote and dispose of the securities held by Hound Partners, L.P.

21

(4) Includes (i) 1,084,850 shares of common stock and (ii) 542,425 shares of common stock subject to currently exercisable warrants held by Hound Partners Offshore Fund, L.P. Jonathan Auerbach is the managing member of Hound Performance, LLC and Hound Partners, LLC. Hound Performance, LLC is the general partner of Hound Partners Offshore Fund, L.P. and Hound Partners, LLC is the investment manager of Hound Partners Offshore Fund, L.P. The aforementioned beneficial ownership is based upon Schedule 13G jointly filed by Hound Partners, LLC, Hound Performance, LLC, Hound Partners, L.P. and Hound Partners Offshore Fund, LP, with the Securities and Exchange Commission on April 26, 2007 and a Form 3 jointly filed by

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

Hound Partners, LLC, Hound Performance, LLC and Jonathan Auerbach with the Securities and Exchange Commission on April 26, 2007. Jonathan Auerbach by virtue of being the managing member of Hound Performance, LLC and Hound Partners, LLC has the power to vote and dispose of the securities held by Hound Partners Offshore Fund, L.P.

- (5) Includes (i) 333,333 shares of common stock and (ii) 166,667 shares of common stock subject to currently exercisable warrants owned by Graham Partners, L.P. Harold W. Berry III, as the general partner of Graham Partners, L.P., has the power to vote and dispose of the securities owned by Graham Partners, L.P.
  - (6) Includes (i) 408,933 shares of common stock and (ii) 166,667 shares of common stock subject to currently exercisable warrants owned by Aurelian Partners, L.P. Brian Horey, as general partner of Aurelian Partners, L.P., has sole power to vote and dispose of the securities owned by Aurelian Partners, L.P.
  - (7) Includes (i) 333,333 shares of common stock and (ii) 166,667 shares of common stock subject to currently exercisable warrants owned by Aurelian Partners, L.P.
  - (8) Includes (i) 66,667 shares of common stock and (ii) 33,333 shares of common stock subject to currently exercisable warrants.
  - (9) Includes (i) 1,030,270 shares of common stock and (ii) 141,667 shares of common stock subject to currently exercisable warrants beneficially owned by Steven Heinemann.
  - (10) Included (i) 133,333 shares of common stock and (ii) 66,667 shares of common stock subject to currently exercisable warrants.
  - (11) Includes (i) 66,667 shares of common stock and (ii) 33,333 shares of common stock subject to currently exercisable warrants owned by Zaykowski Limited Partners, L.P. Paul Zaykowski, as the general partner of Zaykowski Limited Partners, L.P., has the sole power to vote and dispose of the securities owned by Zaykowski Limited Partners, L.P.
  - (12) Includes (i) 66,667 shares of common stock and (ii) 33,333 shares of common stock subject to currently exercisable warrants owned by Zaykowski Qualified Partners, L.P. Paul Zaykowski, as the general partner of Zaykowski Qualified Partners, L.P., has the sole power to vote and dispose of the securities owned by Zaykowski Qualified Partners, L.P.
- 22
- (13) Includes (i) 749,252 shares of common stock and (ii) 70,833 shares of common stock subject to currently exercisable warrants owned by Lewis Opportunity Fund, L.P. W. Austin Lewis IV as general partner/portfolio manager has the sole power to vote and dispose of the securities owned by Lewis Opportunity Fund, L.P.
  - (14) Includes (i) 141,666 shares of common stock and (ii) 70,833 shares of common stock subject to currently exercisable warrants.
  - (15) Includes (i) 149,442 shares of common stock and (ii) 12,500 shares of common stock subject to currently exercisable warrants owned by LAM Opportunity Fund, L.P. W. Austin Lewis IV as General Partner/Portfolio Manager has the sole power to vote and dispose of the securities owned by LAM Opportunity Fund.

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

- (16) Includes (i) 25,000 shares of common stock and (ii) 12,500 shares of common stock subject to currently exercisable warrants.
- (17) Includes (i) 517,500 shares of common stock and 268,125 shares of common stock subject to currently exercisable warrants owned by Singer Opportunity Fund, L.P., (ii) 179,500 shares of common stock and 106,875 shares of common stock subject to currently exercisable warrants owned by Singer Fund, L.P., (iii) 168,840 shares of common stock subject to currently exercisable warrants owned by Mr. Singer and (iv) 8000 shares of common stock owned by Singer Congressional Fund, L.P. Singer Fund Management, LLC makes all investment and voting decisions on behalf of Singer Opportunity Fund, L.P., Singer Fund, L.P. and Singer Congressional Fund, L.P. Eric Singer, by virtue of being managing member of Singer Fund, L.P., Singer Fund Management, LLC and Singer Congressional Fund, L.P., has sole power to vote and dispose of the securities owned by Singer Opportunity Fund, L.P., Singer Fund, L.P. and Singer Congressional fund, L.P.
- (18) Includes 168,840 shares of common stock subject to currently exercisable warrants.
- (19) Includes 43,425 shares of common stock subject to currently exercisable warrants.
- (20) Includes 37,800 shares of common stock subject to currently exercisable warrants.
- (21) Includes (i) 7,500 shares of common stock and (ii) 43,425 shares of common stock subject to currently exercisable warrants.
- (22) Includes 37,800 shares of common stock subject to currently exercisable warrants.
- (23) Includes 54,000 shares of common stock subject to currently exercisable warrants.
- (24) Includes 37,500 shares of common stock subject to currently exercisable warrants.
- (25) Includes 16,500 shares of common stock subject to currently exercisable warrants.
- (26) Includes (i) 10,000 shares of common stock and (ii) 7,560 shares of common stock, subject to currently exercisable warrants.
- (27) Includes 7,560 shares of common stock subject to currently exercisable warrants.

23

### PLAN OF DISTRIBUTION

This offering is self-underwritten; neither we nor the selling stockholders have employed an underwriter for the sale of common stock by the selling stockholders. We will bear all expenses in connection with the preparation of this prospectus. The selling stockholders will bear all expenses associated with the sale of their common stock including commissions and brokerage fees.

The selling stockholders may offer their shares of common stock directly or through pledgees, donees, transferees or other successors in interest in one or more of the following transactions:

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

- o ordinary brokerage transactions in which the broker-dealer solicits purchasers;
- o block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- o purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- o an exchange distribution in accordance with the rules of the applicable exchange;
- o privately negotiated transactions;
- o broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- o a combination of any such methods of sale; and
- o any other method permitted pursuant to applicable law.

The selling stockholders may offer their shares of common stock at any of the following prices:

- o fixed prices that may be changed;
- o market prices prevailing at the time of sale;
- o prices related to such prevailing market prices; and
- o at negotiated prices.

24

The selling stockholders may effect transactions by selling shares to or through broker-dealers, and all such broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the selling stockholders and/or the purchasers of shares of common stock for whom such broker-dealers may act as agents or to whom they sell as principals, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions).

Any broker-dealer acquiring common stock from the selling stockholders may sell the shares either directly, in its normal market-making activities, through or to other brokers on a principal or agency basis or to its customers. Any such sales may be at prices then prevailing on the OTC Bulletin Board or at prices related to such prevailing market prices or at negotiated prices to its customers or a combination of such methods. The selling stockholders and any broker-dealers that act in connection with the sale of the common stock hereunder might be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act; any commission received by them and any profit on the resale of shares as principal might be deemed to be underwriting discounts and commissions under the Securities Act. Any such commissions, as well as other expenses incurred by the selling stockholders and applicable transfer taxes, are payable by the selling stockholders.

The selling stockholders reserve the right to accept, and together with any agent of the selling stockholder, to reject in whole or in part any proposed purchase of the shares of common stock. The selling stockholders will pay any sales commissions or other seller's compensation applicable to such transactions.

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

We have not registered or qualified offers and sales of shares of the common stock under the laws of any country other than the United States. To comply with certain states' securities laws, if applicable, the selling stockholders will offer and sell their shares of common stock in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states the selling stockholders may not offer or sell shares of common stock unless we have registered or qualified such shares for sale in such states or we have complied with an available exemption from registration or qualification.

Any shares of common stock offered under this prospectus that qualify for sale pursuant to Rule 144 of the Securities Act may also be sold under Rule 144 rather than pursuant to this prospectus.

The selling stockholders with respect to any purchase or sale of shares of common stock are required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as amended. In general, Rule 102 under Regulation M prohibits any person connected with a distribution of securities (the "Distribution") from directly or indirectly bidding for, or purchasing for any account in which he or she has a beneficial interest, any of such securities or any right to purchase such securities, for a period of one business day before and after completion of his or her participation in the Distribution (we refer to that time period as the "Distribution Period").

During the Distribution Period, Rule 104 under Regulation M prohibits the selling stockholders and any other persons engaged in the Distribution from engaging in any stabilizing bid or purchasing of our common stock except for the purpose of preventing or retarding a

25

decline in the open market price of our common stock. No such person may effect any stabilizing transaction to facilitate any offering at the market. Inasmuch as the selling shareholders will be reoffering and reselling our common stock at the market, Rule 104 prohibits them from effecting any stabilizing transaction in contravention of Rule 104 with respect of our common stock.

There can be no assurance that the selling stockholders will sell any or all of the shares offered by them hereunder or otherwise.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### PLAN OF OPERATION

Our principal business is the acquisition, development, licensing and protection of our intellectual property. We presently own six patents covering various telecommunications and data networking technologies (the "Patent Portfolio") including, among others, patents covering the delivery of power over Ethernet for the purpose of remotely powering network devices, and the transmission of audio, video and data over computer and telephony networks. Our strategy is to pursue licensing and strategic business alliances with companies in the industries that manufacture and sell products that make use of the technologies underlying our patents as well as with other users of the technology who benefit directly from the technology including corporate, educational and governmental entities.

On November 18, 2003, we acquired the Patent Portfolio from Merlot Communications, Inc., a broadband communications solutions provider. In February 2004, following our review of applicable markets, we initiated licensing efforts relating to one of our patents (U.S. Patent No. 6,218,930) covering the remote

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

delivery of power over Ethernet cable (the "Remote Power Patent"). We have focused, and will continue to focus, our efforts on licensing our Remote Power Patent. As of the date of this Prospectus, we have not entered into any license arrangement with respect to our Remote Power Patent, although as part of our settlement agreement with respect to our litigation with D-Link reached in April 2007, D-Link has agreed to enter into a license agreement pertaining to our Remote Power Patent (See "Legal Proceedings - D-Link Litigation"). During the next 12 months, we do not anticipate engaging in licensing efforts for our other patents besides our Remote Power Patent.

To date we have incurred significant losses and at March 31, 2007 had an accumulated deficit of \$(47,339,000). For the year ended December 31, 2006, we incurred a net loss of \$(1,958,000) and incurred a net loss of \$(1,060,000) for the three months ended March 31, 2007. We anticipate that we will continue to incur losses until we enter into material license agreements with respect to our patented technologies. We have not achieved any revenue from our technology licensing business as of March 31, 2007. Our inability to consummate license agreements and achieve revenue from our patented technologies would have a material adverse effect on our operations and its ability to continue business.

We do not currently have any revenue from operations. Our success and ability to generate revenue is largely dependent on our ability to consummate licensing arrangements with third parties. In November 2004, we entered into an agreement with ThinkFire Services USA, Ltd. ("ThinkFire") pursuant to which ThinkFire has been granted the exclusive worldwide rights to

26

negotiate license agreements for our Remote Power Patent with certain agreed-upon potential licensees. We have agreed to pay ThinkFire a fee not to exceed 20% of the royalty payments received from license agreements consummated by ThinkFire on our behalf.

On April 25, 2007 we agreed to a settlement of our patent infringement litigation against D-Link Corporation and D-Link Systems, (collectively "D-Link") in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent (U.S. Patent No. 6,218,930). Under the terms of the settlement, D-Link has agreed to enter into a license agreement for the Remote Power Patent the terms of which will include monthly royalty payments of 3.25% of the net sales of D-Link branded Power over Ethernet products, including those products which comply with the IEEE 802.3af and 802.3at Standards, for the full term of the Remote Power Patent, which expires in March 2020. The royalty rate is subject to adjustment beginning after the first quarter of 2008 to a rate consistent with other similarly situated licensees of the Remote Power Patent based on units of shipments of licensed products. In addition, D-Link has agreed to pay us \$100,000.

Our success depends on our ability to protect our intellectual property rights. In the future, it may be necessary for us to commence patent litigation against third parties whom we believe require a license to our patents. In addition, we may be subject to third-party claims seeking to invalidate our patents. These types of claims, with or without merit, may subject us to costly litigation and diversion of our focus. In August 2005, we engaged Blank Rome LLP as litigation counsel with respect to our Remote Power Patent on a contingency basis pursuant to which Blank Rome is entitled to share in the proceeds of any successful enforcement of the Remote Power Patent (See Risk Factors - "We are currently relying upon our contingency fee agreement with Blank Rome"). If third parties making claims against us seeking to invalidate our Remote Power Patent are successful, they may be able to obtain injunctive or other equitable relief, which effectively could block our ability to license or otherwise capitalize on our patent. Successful litigation against us resulting in a determination that

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

our Remote Power Patent is invalid would have a material adverse effect on our company.

We have financed our operations primarily from the sale of equity securities. On December 21, 2004 and January 13, 2005, we completed a private offering of equity securities resulting in gross proceeds of \$2,685,000. In addition, during the first quarter of 2006 we received \$1,493,726 of cash proceeds from the exercise of warrants issued in December 1999. In April 2007, we completed a private offering of equity securities resulting in gross proceeds of \$5,000,000. We anticipate, based on currently proposed plans and assumptions, relating to our operations, that our cash and cash equivalents of approximately \$5,463,000 as of April 30, 2007 will more likely than not be sufficient to satisfy our operations and capital requirements until at least December 31, 2008. There can be no assurance, however, that such funds will not be expended prior thereto. In the event our plans change, or our assumptions change, or prove to be inaccurate (due to unanticipated expenses, difficulties, delays or otherwise), we may have insufficient funds to support our operations prior to December 31, 2008. Our inability to consummate licensing arrangements with respect to our Remote Power Patent and generate revenues therefrom on a timely basis or obtain additional financing when needed would have a material adverse effect on our company, requiring us to curtail or cease operations. In addition, any equity financing may involve substantial dilution to our current stockholders.

27

### CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

On February 2, 2006, we dismissed Eisner LLP, a our principal independent accountant to audit our financial statements. Eisner LLP's report on our financial statements for the year ended December 31, 2004 did not contain an adverse opinion or disclaimer opinion, and was not modified as to uncertainty, audit scope or accounting principles. Eisner LLP did not audit our financial statements for the year ended December 31, 2005 or issue a report thereon. During the year ended December 31, 2005 and the subsequent interim period there were no disagreements with Eisner LLP, whether or not resolved, on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which, if not resolved to the satisfaction of Eisner LLP, would have caused Eisner LLP to make reference to the subject matter of the disagreement(s) in connection with its report on our financial statements.

On February 2, 2006, we engaged Radin, Glass & Co., LLP as our new principal independent accountant to audit our financial statements. We (or someone on our behalf) did not consult Radin, Glass & Co., LLP with respect to the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on our financial statements.

### MANAGEMENT

NAME	AGE	POSITION
----	---	-----
Corey M. Horowitz	52	Chairman and Chief Executive Officer, Chairman of the Board of Directors
David C. Kahn	55	Chief Financial Officer
Harry B. Schessel	42	Director
Robert Graifman	50	Director
Robert M. Pons	50	Director

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

Laurent Ohana                      43                      Director

COREY M. HOROWITZ became our Chairman and Chief Executive Officer in December 2003. Mr. Horowitz has also served as our Chairman of our Board of Directors since January 1996 and has been a member of our Board of Directors since April 1994. In January 2003, Mr. Horowitz also became our Secretary. Mr. Horowitz is also President and sole shareholder of CMH Capital Management Corp. ("CMH"), a New York investment advisory and merchant banking firm, which he founded in September 1991. During the period June 2001 through December 2003, CMH rendered financial advisory services to us. From January 1986 to February 1991, Mr. Horowitz was a general partner in charge of mergers and acquisitions at Plaza Securities Co., a New York investment partnership.

28

DAVID C. KAHN, CPA, became our Chief Financial Officer in January 2004. Since December 1989, Mr. Kahn has provided accounting and tax services on a consulting basis to private and public companies. He also serves as a faculty member of Yeshiva University in New York, a position he has held since August 2000.

HARRY B. SCHELSEL became a director of our company in July 2001. Since April 2006, Mr. Schessel has been the Chief Executive Officer of AQL Decorating Co., Inc., a decorator of plastic containers. Since July 2002, Mr. Schessel also has been a real estate developer. From July 2001 until July 2002, Mr. Schessel was employed at Kroll, Inc. ("Kroll") as the Global Practice Leader for the Information Security Group. From June 2000 to July 2001, Mr. Schessel advised security companies, including Kroll, in the areas of strategy, operations, marketing and business development and also as a consultant to investment banking firms and venture capital firms for purposes of evaluating investments in the information security industry. From March 2000 until June 2000, Mr. Schessel was Vice President of Cybersafe, Inc., a security software company. In June 1997, Mr. Schessel co-founded Centrax, Inc., a company engaged in the development and marketing of intrusion detection software, and was employed from June 1997 until its sale in March 1999 in various capacities, including Chief Operating Officer and Executive Vice President.

ROBERT GRAIFMAN became a director of our company in December 2003. Mr. Graifman currently serves as Executive Chairman of TotalCat Group, Inc., a company engaged in the recycling and manufacture of catalyst devices and the management of emissions control systems. Mr. Graifman also currently serves as Managing Member of Skyfarm Management, LLC, a New Jersey based investment management company. From June 2000 to August 2003, Mr. Graifman served as Chief Financial Officer of Gilo Ventures, LLP, a California based venture capital firm focused on emerging technology companies.

ROBERT M. PONS became a director of our company in December 2003. From January 2004 until April 2007, Mr. Pons served as President and Chief Executive Officer of Uphonia, Inc. (PK:UPHN) (previously SmartServ Online, Inc.), a wireless applications service provider. From August 2003 until January 2004, Mr. Pons served as Interim Chief Executive Officer of SmartServ Online, Inc. on a consulting basis. From March 1999 to August 2003, he was President of FreedomPay, Inc., a wireless device payment processing company. During the period January 1994 to March 1999, Mr. Pons was President of Lifesafety Solutions, Inc., an enterprise software company. Mr. Pons has over 20 years of management experience with telecommunications companies including MCI, Inc., Sprint, Inc. and Geotek, Inc.

LAURENT OHANA became a director of our company in September 2005. Mr. Ohana is currently the Managing Partner of Parkview Ventures LLC ("Parkview"), a company engaged in merchant banking activities, including making investments in

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

and providing strategic advisory services to information technology firms in the US and internationally. From 1999 to 2002, Mr. Ohana was the CEO of Inlumen, Inc., a company engaged in providing private label web-based financial portals to financial institutions. From 1994 to 2004, Mr. Ohana was the managing partner of New Media Capital LLC, a technology venture capital and advisory firm. From 1987 to 1993, Mr. Ohana was a corporate attorney at Fried Frank Harris Shriver & Jacobson.

The sister of Corey M. Horowitz's wife is married to Robert Graifman.

29

### KEY CONSULTANT

JONATHAN GREENE has served as a consultant to our company since December 2004 providing technical and marketing analysis for our Patent Portfolio. Mr. Greene also serves as a member of our Technical Advisory Board. From August 2003 until December 2004, he served as a consultant to Neartek, Inc., a storage management software company (August 2003 until October 2003) and Kavado Inc., a security software company (November 2003 until December 2004). From January 2003 until July 2003, Mr. Greene served as Director of Product Management for FalconStor Software, Inc., a storage management software company. From December 2001 through December 2002, Mr. Greene served as our Senior Vice President of Marketing and Business Development, at a time when we were engaged in the development, marketing and licensing of security software. From December 1999 until September 2001, he served as Senior Vice President of Marketing for Panacea Inc., a vendor of service management software. Mr. Greene has also held positions at System Management ARTS (SMARTS), Computer Associates, Cheyenne Software and Data General.

### COMMITTEES OF THE BOARD OF DIRECTORS

#### AUDIT COMMITTEE

Robert Graifman and Harry Schessel, are the current members of our Audit Committee and served on our Audit Committee during 2006. Both Mr. Graifman and Mr. Schessel are considered independent members of the audit committee in accordance with the criteria set forth in Section 10(A)(3) of the Securities Exchange Act of 1934. Our Audit Committee was established by the Board of Directors in accordance with Section 3(a)58(A) of the Securities Exchange Act of 1934. The duties of our Audit Committee include consultations with our independent auditors at least annually to review the scope and results of the annual audit; review with our independent auditors of our quarterly reports on Form 10-QSB prior to filing, recommendations to the Board regarding the independent auditors to be retained; and the auditors' comments as to internal controls, accounting staff and management performance and procedures in connection with audit and financial controls. The Audit Committee has adopted a written Audit Committee Charter. Mr. Graifman is our audit committee financial expert.

#### COMPENSATION COMMITTEE

Robert Pons is currently the sole member of our Compensation Committee. Laurant Ohana served with Mr. Pons as a member of our Compensation Committee for 2006. The Compensation Committee is responsible for determining compensation for our executive officers, including bonuses and benefits, and administration of our compensation programs, including our Stock Option Plan.

#### DIRECTOR INDEPENDENCE

Three of our five directors - Robert Pons, Robert Graifman and Harry

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

Schessel are considered independent directors based upon the standard of independence adopted by the Board of Directors as promulgated under Rule 121A of the Company Guide of the American Stock Exchange ("AMEX"). Robert Graifman and Harry Schessel are considered independent members of our audit committee under Rule 121A of the Company Guide of AMEX and Rule 10A-3 under

30

the Securities Exchange Act of 1934. While we are not listed on AMEX, our Board has adopted its independence rules in making its determination of director independence.

### LIMITATION ON LIABILITY AND INDEMNIFICATION MATTERS

Our Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except for liability (i) for any breach of their duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. Our Bylaws provide that we shall indemnify our directors, officers, employees and agents to the fullest extent permitted by law. Our By-laws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity. We currently maintain directors and officers liability insurance. At present, there is no pending material litigation or proceeding involving any of our directors, officers, employees or agents where indemnification will be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a material claim for such indemnification.

### TECHNICAL ADVISORY BOARD

In November 2004 we established a Technical Advisory Board to assist us with our strategic business plan of maximizing the value of its Patent Portfolio. Each member of the Technical Advisory Board received a five (5) year option to purchase 17,500 shares (fully vested) of our common stock at an exercise price of \$.54 per share.

The members of the Technical Advisory Board include:

GEORGE CONANT, FORMER CEO AND CHAIRMAN OF THE BOARD OF DIRECTORS OF MERLOT COMMUNICATIONS, INC., a broadband communications solutions provider, during the period 2000 - 2006. Prior to joining Merlot Communications, Inc., Mr. Conant co-founded Xyplex, Inc., a manufacturer of data communications equipment and network management software, where he held the positions of Vice President of Engineering, Vice President of Technology and Chief Technology Officer. Prior to Xyplex, Mr. Conant was employed by Digital Equipment Corporation, where he worked as a network architect. Mr. Conant received a BS and a Masters in theoretical mathematics from the University of Michigan.

RON KEENAN, CEO OF IP INFOTAINMENT, LIMITED, a network services company. From 1997 until 2006, Mr. Keenan served as Chief Technology Officer of Merlot Communications, Inc. Mr. Keenan is an expert on the convergence of telecommunications and data who, prior to co-founding Merlot, founded QFR USA Corporation, a high-tech firm engaged in developing custom ASICs for advanced and cost-effective communications systems. He had previously founded two other development firms. He also served as advanced engineering project director at

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

TIE/Communications, Inc., where he developed the TIE 612 Electronic Key System, the first

31

"skinny wire" telephone system and one of the largest selling key systems in history. Mr. Keenan received his BS in Electrical Engineering from the Milwaukee School of Engineering and has more than 20 years experience in advanced analog and digital design techniques.

ANDREW MASLOW, DIRECTOR OF INDUSTRIAL AFFAIRS, MEMORIAL SLOAN-KETTERING CANCER CENTER. Mr. Maslow heads the intellectual property activities of Sloan-Kettering which includes licensing activities of the Center's technology and management of its patent portfolio. Annual licensing revenue exceeds \$60 million. Prior to joining Sloan-Kettering, Mr. Maslow was Associate Director of the Office of Science and Technology of Columbia University where he was responsible for the development, patenting and licensing of inventions originating at the university. Mr. Maslow is a Registered Patent Attorney.

JONATHAN GREENE also serves as a member of the Technical Advisory Board (see page 36 hereof for a description of Mr. Greene's background).

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that our executive officers, directors, and persons who own more than 10% of our outstanding Common Stock file initial reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% stockholders are required by Commission regulations to furnish us with copies of all Section 16(a) forms they file. We believe that our executive officers, directors, and greater than 10% stockholders complied with all required filings during the year ended December 31, 2006.

### CODE OF ETHICS

The Board of Directors has adopted a Code of Ethics that applies to the principal executive officers, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Ethics was filed as Exhibit 14 of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003.

32

### EXECUTIVE COMPENSATION

The following table summarizes compensation, for the year ended December 31, 2006, awarded to, earned by or paid to our Chief Executive Officer ("CEO") and to each of our executive officers who received total compensation in excess of \$100,000 for the year ended December 31, 2006 for services rendered in all capacities to our company (collectively, the "Named Executive Officers").

#### SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG TERM CO ALL OTHER COMPENSATION
		SALARY (\$)	BONUS (\$)	OPTION AWARDS(\$)	
Corey M. Horowitz	2006	\$275,000	\$75,000 (2)	--	--

# Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

Chairman and Chief  
Executive Officer

David C. Kahn	2006	\$ 79,100 (3)	--	\$54,000 (4)	--
Chief Financial Officer					

-----

- (1) We have concluded that the aggregate amount of perquisites and other personal benefits paid to either Mr. Horowitz or Mr. Kahn did not exceed \$10,000.
- (2) The bonus paid to Mr. Horowitz for 2006 was paid in January 2007.
- (3) Consists of consulting fees paid to Mr. Kahn.
- (4) In determining the grant date fair value under SFAS No. 123R of a five (5) year option issued in December 2006 to Mr. Kahn to purchase 75,000 shares of common stock, we made the following assumptions: expected term of the options - 5 years, risk free interest rate for the expected term of the options - 4.57%; expected volatility of the underlying stock - 48.5%; no expected dividends.

## NARRATIVE DISCLOSURE TO SUMMARY COMPENSATION TABLE

### EMPLOYMENT AGREEMENTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

During 2006, Corey M. Horowitz served as our Chairman and Chief Executive Officer pursuant to a two year employment agreement which expired in November 2006. Mr. Horowitz received a base salary for 2006 of \$275,000 in accordance with such employment agreement and received a cash bonus for 2006 of \$75,000. In February 2007, we entered into a new employment agreement with Mr. Horowitz, the terms and provisions of which are disclosed below.

On February 28, 2007, we entered into a new employment agreement with Corey M. Horowitz pursuant to which he continued to serve as our Chairman and Chief Executive Officer for a two year term at an annual base salary of \$288,750 for the first year, increasing by 5% for the second year. In connection with his employment agreement, Mr. Horowitz was issued a five (5) year option to purchase 375,000 shares of our common stock at an exercise price of \$1.46 per share which vests, on a quarterly basis over a one year period subject to acceleration upon a change of control. We also agreed to issue to Mr. Horowitz on the one year anniversary date of his new

33

employment agreement an additional five (5) year option to purchase a minimum of 375,000 shares of our common stock at an exercise price equal to the closing price of our common stock on the date of grant, which option will vest on a quarterly basis over a one year period. In addition to the aforementioned option grants, we agreed to extend for an additional three (3) years the expiration dates of all options and warrants (an aggregate of 2,620,000 shares) expiring in calendar year 2007 and 2008 owned by Mr. Horowitz and CMH Capital Management Corp. ("CMH"), an affiliate. Under the terms of his employment agreement, Mr. Horowitz shall receive bonus compensation in an amount equal to 5% of our royalties or other payments (before deduction of payments to third parties including, but not limited to, legal fees and expenses and third party license fees) received from licensing our patents (including patents currently owned and acquired or licensed on an exclusive basis during the period in which Mr. Horowitz continues to serve as an executive officer of our company) (the "Royalty Bonus Compensation"). Mr. Horowitz shall also receive bonus

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

compensation equal to 5% of the gross proceeds from (i) the sale of any of our patents or (ii) our merger with or into another corporation or entity. The Royalty Bonus Compensation shall continue to be paid to Mr. Horowitz for the life of each of the our patents with respect to licenses entered into by us with third parties during Mr. Horowitz's term of employment or at anytime thereafter, whether Mr. Horowitz is employed by us or not, provided, that, Mr. Horowitz's employment has not been terminated by us "For Cause" (as defined) or terminated by Mr. Horowitz without "Good Reason" (as defined). In the event that Mr. Horowitz's employment is terminated by us "Other Than For Cause" (as defined) or by Mr. Horowitz for "Good Reason" (as defined), Mr. Horowitz shall be entitled to a severance of 12 months base salary.

In connection with his new employment agreement, Mr. Horowitz has agreed not to compete with us as follows: (i) during the term of the agreement and for a period of 12 months thereafter if his employment is terminated other than for cause (as defined) provided he is paid his 12 month base salary severance amount and (ii) for a period of two years from the termination date, if terminated "For Cause" by us or "Without Good Reason" by Mr. Horowitz. In accordance with his employment agreement, Mr. Horowitz also has certain anti-dilution rights which provide that if at any time during the period ended December 31, 2008, in the event that we complete an offering of our common stock or any securities convertible or exercisable into common stock (exclusive of securities issued upon exercise of outstanding options, warrants or other convertible securities), Mr. Horowitz shall receive from us, at the same price as the securities issued in the financing, such number of additional options to purchase common stock so that he maintains the same derivative ownership percentage (21.47%) of our company based upon options and warrants owned by Mr. Horowitz and CMH (exclusive of ownership of shares of common stock by Mr. Horowitz and CMH) as he and CMH owned as of the time of execution of his employment agreement; provided, that, the aforementioned anti-dilution protection was afforded to Mr. Horowitz up to a maximum financing(s) of \$2.5 million. In April 2007, pursuant to the anti-dilution protection in his employment agreement, Mr. Horowitz was issued a five (5) year option to purchase 732,709 shares of our common stock, at an exercise price of \$1.67 per share, with respect to the closing of our \$5,000,000 private placement (See "Transactions With Related Persons, Promoters and Certain Control Persons").

34

On December 20, 2006, we entered into an agreement with David C. Kahn pursuant to which he agreed to continue to serve as our Chief Financial Officer through December 31, 2008. In consideration for his services, Mr. Kahn is compensated at the rate of \$6,615 per month for the period through December 31, 2007 and \$6,945 per month for the year ended December 31, 2008. Mr. Kahn was also issued a five (5) year option (the "Option") to purchase 75,000 shares of our common stock at an exercise price of \$1.50 per share. The option vested 30,000 shares on the date of grant and the balance of the shares (45,000) will vest on a quarterly basis in equal amounts of 5,625 shares beginning March 31, 2007 through December 31, 2008. Upon a "Change in Control" (as defined) all of the unvested shares underlying the Option shall become 100% vested and immediately exercisable. The agreement further provides that we may terminate the agreement at any time for any reason. In the event Mr. Kahn's services are terminated without "Good Cause" (as defined), he will be entitled to accelerated vesting of all unvested shares underlying the Option and the lesser of (i) six months base monthly compensation or (ii) the remaining balance of the monthly compensation payable through December 31, 2008.

### DIRECTOR COMPENSATION

We compensated each director, who is not an employee of our company, by granting to each outside director (upon joining the Board) stock options to

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

purchase 50,000 shares of our common stock, at an exercise price equal to the closing price of our common stock on the date of grant, with the options vesting over a one year period in equal quarterly amounts. In addition, subject to the discretion of the Compensation Committee and the Board of Directors, each non-employee director is eligible to receive option grants for each year of service as a director.

The following table sets forth the compensation paid to all persons who served as members of our board of directors (other than our named executive officers) during the year ended December 31, 2006. No director who is also a named executive officer received any compensation for services as a director in 2006.

Name	Option Awards (\$)	All other Compensation	Total (\$)
Robert Graifman(1)	\$48,000 (2)	\$ --	\$48,000
Robert Pons(1)	\$36,000 (2)	--	\$36,000
Laurent Ohana(1)	\$36,000 (2)	--	\$12,000
Harry Schessel(1)	\$12,000 (2)	--	\$12,000

(1) In December 2006, Robert Graifman, Robert Pons and Laurent Ohana were each granted a five (5) year option to purchase 50,000 shares of our common stock (which vested on grant), at an exercise price of \$1.50 per share, for services as a Board member during 2006. In addition, in February 2006 Robert Graifman and Harry Schessel were each issued ten (10) year options to purchase 15,000 shares, at an exercise price of \$1.31 per share, which options vested over a one year period at the rate of 3,750 shares per quarter beginning May 4, 2006.

(2) In determining the grant date fair value of the option grants in December 2006 under SFAS No. 123R, we made the following assumptions: expected term of the options - five years; risk free interest rate for the expected term of the options - 4.57%; expected volatility of the underlying stock - 48.45%; no expected dividends. In determining the grant date fair value of the option grant in February 2006 under SFAS No. 123R, we made the following

35

assumptions: expected term of options - ten years; risk free interest rate for the expected term of the options - 4.51%; expected volatility of the underlying stock - 69.82%; no expected dividends.

### OPTION GRANTS IN 2006

The following stock options granted to the Named Executive Officers during the year ended December 31, 2006:

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 2006	Exercise Price	Expiration Date
David C. Kahn Chief Financial Officer	75,000	100%	\$1.50	12/20/2011

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

### OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2006

The following table sets forth information relating to unexercised and outstanding options for each Named Executive Officers as of December 31, 2006:

Name	Number of Securities Underlying Unexercised Option		Option Exercise Price (\$)	Option Expiration Date
	Exercisable	Unexercisable		
-----				
Corey M. Horowitz				
Chairman and CEO	1,195,361 (1)	--	\$ 1.18	03/06/12
	400,000 (2)	--	\$ .68	11/26/09
	1,100,000 (3)	--	\$ .25	11/26/14
	515,218 (4)	--	\$ .13	12/22/11
	1,084,782 (5)	--	\$ .23	12/22/11
	750,000 (6) (18)	--	\$ 1.20	04/18/10
	250,000 (7) (18)	--	\$ 1.48	10/08/10
	300,000 (8) (18)	--	\$ .70	07/11/11
	--	10,625 (16)	\$3.0625	01/19/11
	20,000 (9)		\$ 6.00	10/20/11
	10,000 (10)		\$ 3.75	6/22/09
	7,500 (11)		\$ 4.25	10/25/09
	5,000 (12)		\$ 5.50	9/19/10
David Kahn				
Chief Financial Officer	30,000 (13)	45,000 (17)	\$ 1.50	12/20/14
	75,000 (14)	--	\$ .80	08/04/10
	50,000 (15)	--	\$ .35	01/21/14

36

-----

The vesting dates of the foregoing options are as follows: (1) March 16, 2005, (2) 200,000 shares on November 26, 2004 and 200,000 shares on November 26, 2005, (3) November 26, 2004, (4) December 22, 2003, (5) 434,782 shares on December 22, 2003, 250,000 shares on December 22, 2004, 200,000 shares on December 22, 2005, and 200,000 shares on December 22, 2006, (6) 250,000 shares on April 18, 2005, 250,000 shares on April 18, 2004 and 250,000 shares on April 18, 2005, (7) June 11, 2001, (8) July 11, 2001, (9) on a quarterly basis in equal amounts beginning January 20, 1999 through October 20, 1999, (10) on a quarterly basis in equal amounts beginning September 12, 1999 through June 22, 2000, (11) on a quarterly basis in equal amounts beginning January 25, 2000 through October 25, 2000, (12) on a quarterly basis in equal amounts beginning December 19, 2000 through September 19, 2000, (13) December 20, 2006, (14) 30,000 shares on August 4, 2005 and 7,500 shares on a quarterly basis beginning September 30, 2005 through December 31, 2006, (15) 20,000 shares on January 21, 2004, 2,500 shares on the last day of each month beginning January 31, 2004 through December 31, 2004, (16) 5,313 shares if the stock price reaches \$10 per share and 5,312 shares if the stock price reaches \$15 per share, (17) 5,625 shares on a quarterly basis beginning March 31, 2007 through December 31, 2008, and (18) includes options or warrants held by CMH Capital Management Corp., an entity in which Mr. Horowitz is the sole owner, officer and director.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of May 15, 2007 (i) each person known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock, (ii) each of our directors, (iii) each of our executive officers, and (iv) all of our executive officers and directors as a group.

Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

NAME OF BENEFICIAL OWNER -----	NUMBER OF SHARES BENEFICIALLY OWNED -----	PERCENTAGE OF SHARES BENEFICIALLY OWNED (2) -----
Corey M. Horowitz(3)	9,604,435	32.3%
CMH Capital Management Corp.(4)	3,767,800	15.4%
Barry Rubenstein(5)	3,743,251	16.1%
Jonathan Auerbach(6)	3,250,001	13.4%
Hound Partners, LLC(6)	3,250,001	13.4%
Hound Performance, LLC(6)	3,250,001	13.4%
Irwin Lieber(7)	2,048,338	8.8%
Barry Fingerhut(8)	2,008,598	8.7%
Hound Partners Offshore Fund, L.P.(9)	1,627,275	6.9%
Hound Partners, L.P.(10)	1,622,726	6.8%
Emigrant Capital Corporation(11)		
Paul Milstein Revocable 1998 Trust		
New York Private Bank & Trust Corporation		
Emigrant Bancorp. Inc.		
Emigrant Savings Bank	1,312,500	5.5%
Wheatley Partners II, L.P.(12)	1,280,207	5.5%

37

NAME OF BENEFICIAL OWNER -----	NUMBER OF SHARES BENEFICIALLY OWNED -----	PERCENTAGE OF SHARES BENEFICIALLY OWNED (2) -----
Eric Singer(13)	1,248,840	5.3%
Steve Heinemann(14)	1,171,937	5.0%
Robert Graifman(15)	344,777	1.5%
David C. Kahn(16)	166,250	*
Laurent Ohana(17)	150,000	*
Harry B. Schessel(18)	140,000	*
Robert Pons(19)	100,000	*
All officers and directors as a group (6 Persons)	10,505,462	34.6%

\* Less than 1%.

- (1) Unless otherwise indicated, we believe that all persons named in the above table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.
- (2) A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days from the date hereof upon the exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants and convertible securities held by such person (but not those held by any other person) and which are exercisable or convertible within 60 days have been exercised and converted. Assumes a base of 23,173,057 shares of common stock outstanding.
- (3) Includes (i) 381,303 shares of common stock held by Mr. Horowitz, (ii) 5,258,070 shares of common stock subject to currently exercisable stock options held by Mr. Horowitz, (iii) 2,467,800 shares of common stock held by CMH Capital Management Corp. ("CMH"), an entity solely owned by Mr.

Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

Horowitz, (iv) 550,000 shares of common stock subject to currently exercisable warrants held by CMH, (v) 750,000 shares of common stock subject to currently exercisable options held by CMH, (vi) 67,471 shares of common stock owned by Donna Slavitt, the wife of Mr. Horowitz, (vii) 127,500 shares of common stock held by two trusts and a custodian account for the benefit of Mr. Horowitz's three children and (viii) 2,291 shares of common stock held by Horowitz Partners, a general partnership of which Mr. Horowitz is a partner. Does not include options to purchase 198,125 shares of common stock which are not currently exercisable.

- (4) Includes (i) 2,467,800 shares of common stock, (ii) 550,000 shares of common stock subject to currently exercisable warrants and (iii) 750,000 shares of common stock subject to currently exercisable stock options. Corey M. Horowitz, by virtue of being the sole officer, director and shareholder of CMH, has the sole power to vote and dispose of the shares of common stock owned by CMH.
- (5) Includes (i) 1,280,207 shares of common stock held by Wheatley Partners II, L.P., (ii) 194,280 shares of common stock held by Wheatley Partners, L.P., (iii) 16,868 shares of

38

common stock held by Wheatley Foreign Partners, L.P., (iv) 150,012 shares of common stock held by Mr. Rubenstein, (v) 47,500 shares of common stock subject to currently exercisable stock options held by Mr. Rubenstein, and (vi) 829,226, 619,983, 309,316, 294,810 and 1,049 shares of common stock held by Woodland Venture Fund, Seneca Ventures, Woodland Partners, Brookwood Partners, L.P. and Marilyn Rubenstein, respectively. Does not include options to purchase 11,875 shares of common stock held by;">

**As of or for the**

**six months ended**

**June 30,**

**As of or for the year ended December 31,**

**2009(4)**

**2008(4)**

**2008**

**2007**

**2006**

2005

2004

(Unaudited)

(Dollar Amounts in Thousands, Except Per Share Data)

Other Data

***Performance Ratios***

**Return on average assets**

0.57  
%

0.70  
%

0.72  
%

0.90  
%

0.69  
%

0.94  
%

0.96  
%

**Return on average equity**

6.02  
%

8.86

%

9.37

%

11.13

%

8.28

%

10.69

%

11.08

%

Yield on interest-earning assets(2)

5.61

%

6.32

%

6.18

%

6.55

%

6.30

%

6.00

%

5.81

%

Cost of interest-bearing liabilities

2.63

%

3.31

%

3.16

%

3.46

%

3.23

2.70

2.70

%

2.57

%

Cost of funds

2.23

%

2.77

%

2.66

%

2.89

%

2.69

%

2.24

%

2.15

%

Interest rate spread(2)

2.98

%

3.01

%

3.02

%

3.09

%

3.07

%

3.30

%

3.24

%

Net interest margin(2)

3.51  
%

3.61  
%

3.59  
%

3.73  
%

3.68  
%

3.82  
%

3.71  
%

Efficiency ratio(2)(3)

71.78  
%

69.82  
%

79.88  
%

68.66  
%

74.18  
%

69.72  
%

67.11  
%

Noninterest income to average assets

0.86  
%

0.73  
%

0.99  
%

0.98  
%

1.03  
%

1.21  
%

0.95  
%

**Noninterest expense to average assets**

2.93  
%

3.00  
%

3.28  
%

3.06  
%

3.30  
%

3.33  
%

2.96  
%

**Interest-earning assets to average assets**

95.08  
%

93.67  
%

93.92  
%

93.13  
%

92.89  
%

92.82  
%

92.86  
%

Loans to deposits

91.91  
%

93.37  
%

92.39  
%

94.09  
%

87.26  
%

83.52  
%

77.11  
%

Dividend payout ratio(1)

75.44  
%

73.76  
%

69.64  
%

72.39  
%

70.93  
%

50.25  
%

46.61  
%

*Asset Quality Ratios*

Non-performing loans to total loans

0.81  
%

0.40  
%

0.38  
%

0.41  
%

0.85  
%

0.75  
%

0.46  
%

Non-performing assets to total assets

0.70  
%

0.31  
%

0.28

0.35

0.65

0.57

0.33

0.33

0.33

0.33

0.33

0.33

Allowance for loan losses to total loans

1.08

0.94

0.94

0.99

0.99

0.93

0.93

0.94

0.94

0.96

0.96

1.00

1.00

1.00

Allowance for loan losses to non-performing loans

132.94

233.37

233.37

262.22

262.22

226.58

226.58

110.54

110.54

128.72

128.72

%

215.48

%

***Capital Ratios***

Stockholders' equity to assets

9.13

%

7.47

%

9.62

%

7.92

%

7.96

%

8.57

%

8.64

%

Tangible stockholders' equity to tangible assets

8.77  
%

7.05  
%

9.27  
%

7.50  
%

7.52  
%

8.09  
%

8.15  
%

**Tangible common equity to tangible assets**

6.89  
%

7.05  
%

7.29  
%

7.50  
%

7.52  
%

8.09  
%

8.15  
%

**Average equity to average assets**

9.48  
%

7.89  
%

7.72  
%

8.08  
%

8.32  
%

8.75  
%

8.63  
%

Holding Company:

Total capital to risk-weighted assets

15.49  
%

10.36  
%

13.85  
%

10.54  
%

11.34  
%

12.36  
%

12.49  
%

Tier 1 capital to risk-weighted assets

14.33  
%

9.46  
%

13.01  
%

9.73  
%

10.40  
%

11.35  
%

11.23  
%

Tier 1 capital to average assets

9.61  
%

7.39  
%

10.88  
%

7.73  
%

8.07  
%

8.13  
%

7.68  
%

**Bank:**

Total capital to risk-weighted assets

14.73  
%

10.54  
%

13.01  
%

9.95  
%

10.62  
%

11.44  
%

11.36  
%

Tier 1 capital to risk-weighted assets

13.54  
%

9.62  
%

12.06  
%

9.06

%

9.68

%

10.48

%

10.38

%

**Tier 1 capital to average assets**

9.05

%

7.50

%

9.21

%

7.08

%

7.14

%

7.51

%

7.08

%

***Number of offices***

12

12

12

11

11

10

10

- (1) Includes special cash dividends of \$0.35 per share paid in 2007.
- (2) Interest income utilized in the calculation is on a fully tax equivalent basis.
- (3) The efficiency ratio is calculated by dividing noninterest expense (less intangible amortization) by net interest income (on a fully tax equivalent basis) and noninterest income. The efficiency ratio gives a measure of how effectively a financial institution is operating.
- (4) Where applicable, ratios have been annualized.

Table of Contents

**RISK FACTORS**

*An investment in our common stock involves a high degree of risk. Before making an investment decision, you should carefully read and consider the risk factors described below as well as the other information included or incorporated by reference in this prospectus. Any of these risks, if they actually occur, could materially adversely affect our business, financial condition, and results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect us. In any such case, you could lose all or a portion of your original investment.*

**Risks Related to this Offering and Ownership of Our Common Stock**

*The price of our common stock may fluctuate significantly, which may make it difficult for investors to resell shares of common stock at time or prices they find attractive.*

Our stock price may fluctuate significantly as a result of a variety of factors, many of which are beyond our control. These factors include, in addition to those described in "Caution About Forward Looking Statements":

actual or anticipated quarterly fluctuations in our operating results and financial condition;

changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to us or other financial institutions;

speculation in the press or investment community generally or relating to our reputation or the financial services industry;

strategic actions by us or our competitors, such as acquisitions, restructurings, dispositions or financings;

fluctuations in the stock price and operating results of our competitors;

future sales of our equity or equity-related securities;

proposed or adopted regulatory changes or developments;

anticipated or pending investigations, proceedings, or litigation that involve or affect us;

domestic and international economic factors unrelated to our performance; and

general market conditions and, in particular, developments related to market conditions for the financial services industry.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, notwithstanding our operating results. We expect that the market price of our common stock will continue to fluctuate and there can be no assurances about the levels of the market prices for our common stock.

*You may not be able to sell your shares when you desire, at or above our offering price.*

## Edgar Filing: NETWORK 1 SECURITY SOLUTIONS INC - Form 424B3

Publicly traded stocks have recently experienced substantial market price volatility. This is due, in part, to investors' shifting perceptions of the effect on various industry sectors of changes and potential changes in the economy. Volatility, therefore, may be unrelated to the current operating performance of particular companies whose shares are traded. The trading price of our common stock is determined by the marketplace. If you purchase shares of our common stock in the offering, the stock's trading

Table of Contents

price will continue to fluctuate due to many factors, including prevailing interest rates, other economic conditions, our operating performance and investor perceptions of the outlook of Emclair and the banking industry in general. Therefore, we cannot assure you that if you choose to sell the shares of common stock that you purchased in the stock offering, you will be able to sell your shares at or above the per share purchase price.

***A public trading market for our common stock may not develop or be maintained.***

Our common stock is currently quoted on the OTC Bulletin Board. Trading activity on the OTC Bulletin Board may lack the depth, liquidity, and orderliness necessary to maintain a liquid market. Although we have applied to list our common stock for quotation on the NASDAQ Capital Market under the symbol "EMCF," an established and liquid trading market may not develop, it may not continue if it does develop, and, after completion of this offering, our common stock may not trade at or above the public offering price. Accordingly, investors should consider the potential lack of liquidity and the long-term nature of an investment in our common stock prior to investing. Investors may not be able to sell their shares at or above the public offering price.

***We currently have limitations on dividends on the common stock and repurchasing shares of our common stock.***

Until the earlier of December 23, 2011 and the date on which the U.S. Treasury no longer holds any shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, or Series A Preferred Stock, our ability to declare or pay dividends in excess of \$0.32 per share or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of common stock is subject to restrictions. Our ability to declare or pay dividends or distributions on, or repurchase, redeem or otherwise acquire for consideration, shares of common stock is subject to restrictions in the event that we fail to declare and pay full dividends (or declare and set aside a sum sufficient for payment thereof) on the Series A Preferred Stock. In addition, our ability to pay dividends is dependent on the performance of the Bank, and by the capital requirements of our subsidiaries.

***We may issue additional equity securities, or engage in other transactions which dilute our book value or affect the priority of the common stock, which may adversely affect the market price of our common stock.***

Our board of directors may determine from time to time that we need to raise additional capital by issuing additional shares of our common stock or other securities. Except as described under "Underwriting," we are not restricted from issuing additional shares of common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future offerings, or the prices at which such offerings may be affected. Such offerings could be dilutive to common stockholders. New investors also may have rights, preferences and privileges that are senior to, and that adversely affect, our then current common shareholders.

Additionally, if we raise additional capital by making additional offerings of debt or preferred equity securities, upon liquidation, holders of our debt securities and shares of preferred stock, and lenders with respect to other borrowings, will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

Table of Contents

*You may not be able to profit from the sale or a merger of Emclair because of provisions in our charter documents and other laws and regulations.*

Our articles of incorporation and bylaws contain provisions that may make it difficult for someone to acquire control of the Company. These provisions may discourage takeover attempts and prevent you from receiving a premium over the market price of your shares as part of a takeover. See "Description of Emclair Capital Stock Anti-Takeover Effects of Certain Provisions of Our Charter Documents and Law" beginning on page 20.

**Risks Related to Our Business**

*The current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations.*

We are operating in a challenging and uncertain economic environment. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions. Continued declines in real estate values, home sales volumes, and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects on us and others in the financial institutions industry. For example, further deterioration in local economic conditions in our market could drive losses beyond that which is provided for in our allowance for loan losses. We may also face the following risks in connection with these events:

Economic conditions that negatively affect housing prices and the job market have resulted, and may continue to result, in a deterioration in credit quality of our loan portfolios, and such deterioration in credit quality has had, and could continue to have, a negative impact on our business;

Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities;

The methodologies we use to establish our allowance for loan losses may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation;

Continued turmoil in the market, and loss of confidence in the banking system, could require the Bank to pay higher interest rates to obtain deposits to meet the needs of its depositors and borrowers, resulting in reduced margin and net interest income; and

Compliance with increased regulation of the banking industry may increase our costs, limit our ability to pursue business opportunities, and divert management efforts.

As these conditions or similar ones continue to exist or worsen, we could experience continuing or increased adverse effects on our financial condition.

*Deterioration of economic conditions in our geographic market area could hurt our business.*

We are located in western Pennsylvania and our loans are concentrated in Butler, Clarion, Crawford, Jefferson and Venango Counties, Pennsylvania. Although we have diversified our loan portfolio into other Pennsylvania counties, and to a very limited extent, into other states, the vast majority of our loans remain concentrated in the three primary counties. As a result of this geographic concentration, our financial results depend largely upon economic and real estate market conditions in

Table of Contents

these areas. Deterioration in economic or real estate market conditions in our primary market areas could have a material adverse impact on the quality of our loan portfolio, the demand for our products and services, and our financial condition and results of operations. Non-performing loans increased from \$1.0 million or 0.28% of total assets at December 31, 2008 to \$2.2 million or 0.70% of total assets at June 30, 2009.

***Our financial condition and results of operations would be adversely affected if our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance for loan losses.***

We have established an allowance for loan losses that we believe is adequate to offset probable losses on our existing loans. However, experience in the banking industry indicates that a portion of our loans will become delinquent, that some of our loans may only be partially repaid or may never be repaid and we may experience other losses for reasons beyond our control. Despite our underwriting criteria and historical experience, we may be particularly susceptible to losses due to: (1) the geographic concentration of our loans; (2) the concentration of higher risk loans, such as commercial real estate and commercial business loans; and (3) our lack of experience with the loans acquired in the Titusville branch acquisition. As a result, we may not be able to maintain our current levels of nonperforming assets and charge-offs. Although we believe that our allowance for loan losses is maintained at a level adequate to absorb any inherent losses in our loan portfolio, these estimates of loan losses are necessarily subjective and their accuracy depends on the outcome of future events. If we need to make significant and unanticipated increases in our loss allowance in the future, our results of operations and financial condition would be materially adversely affected at that time.

Economic conditions and increased uncertainty in the financial markets could adversely affect our ability to accurately assess the allowance for credit losses. Our ability to assess the creditworthiness of our customers or to estimate the values of our assets and collateral for loans will be reduced if the models and approaches we use become less predictive of future behaviors, valuations, assumptions or estimates. We estimate losses inherent in our loan portfolio, the adequacy of our allowance for loan losses and the values of certain assets by using estimates based on difficult, subjective, and complex judgments, including estimates as to the effects of economic conditions and how these economic conditions might affect the ability of our borrowers to repay their loans or the value of assets.

***We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings and the book values of these assets would decrease.***

We are required to test our goodwill and core deposit intangible assets for impairment on a periodic basis. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. It is possible that future impairment testing could result in a partial or full impairment of the value of our goodwill or core deposit intangible assets, or both. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment.

***Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.***

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, and other sources, could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could negatively impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated, adverse

Table of Contents

regulatory action against us, or our inability to attract and retain deposits. Our ability to borrow could be impaired by factors that are not specific to us, such a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of recent turmoil faced by banking organizations and the unstable credit markets.

***Our continued growth depends on our ability to meet minimum regulatory capital levels. Growth and shareholder returns may be adversely affected if sources of capital are not available to help us meet them.***

As we grow, we will have to maintain our regulatory capital levels at or above the required minimum levels. If earnings do not meet our current estimates, if we incur unanticipated losses or expenses, or if we grow faster than expected, we may need to obtain additional capital sooner than expected, through borrowing, additional issuances of debt or equity securities, or otherwise. If we do not have continued access to sufficient capital, we may be required to reduce our level of assets or reduce our rate of growth in order to maintain regulatory compliance. Under those circumstances net income and the rate of growth of net income may be adversely affected. Additional issuances of equity securities could have a dilutive effect on existing shareholders.

***There can be no assurance that recent legislation and regulatory actions taken by the federal government will help stabilize the financial system in the United States.***

Several pieces of federal legislation have been enacted, and the U.S. Treasury, the Federal Reserve, the FDIC, and other federal agencies have enacted numerous programs, policies and regulations to address the current liquidity and credit crises. These measures include the Emergency Economic Stimulus Act of 2008 ("EESA"), the American Reinvestment and Recovery Act of 2009 ("ARRA"), and the numerous programs, including the TARP Capital Purchase Program (the "CPP"), expanded deposit insurance coverage, enacted thereunder. In addition, the Secretary of the U.S. Treasury has proposed fundamental changes to the regulation of financial institutions, markets and products.

We cannot predict the actual effects of EESA, the ARRA, the proposed regulatory reform measures and various governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets, on us and the Bank. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, and the trading prices of our securities.

We expect to face increased regulation of our industry, including as a result of EESA, the ARRA and related initiatives by the federal government. Compliance with such regulations may increase our costs and limit our ability to pursue business opportunities.

***We are subject to additional uncertainties, and potential additional regulatory or compliance burdens, as a result of our participation in the CPP.***

We accepted an investment of \$7.5 million from the U.S. Treasury under the CPP. The Stock Purchase Agreement we (and all other participating institutions) entered into with the U.S. Treasury, provides that the U.S. Treasury may unilaterally amend the agreement to the extent required to comply with any changes after the execution in applicable federal statutes. As a result of this provision, the U.S. Treasury and Congress may impose additional requirements or restrictions on us and the Bank in respect of reporting, compliance, corporate governance, executive or employee compensation, dividend payments, stock repurchases, lending or other business practices, capital requirements or other matters. We may be required to expend additional resources in order to comply with these requirements. Such additional requirements could impair our ability to compete with institutions that are not subject to the

Table of Contents

restrictions because they did not accept an investment from the U.S. Treasury. To the extent that additional restrictions or limitations on employee compensation are imposed, such as those contained in ARRA and the regulations issued in June 2009, we may be less competitive in attracting and retaining successful incentive compensation based lenders and customer relations personnel, or senior executive officers.

Additionally, the ability of Congress to utilize the amendment provisions to effect political or public relations goals could result in our being subjected to additional burdens as a result of public perceptions of issues relating to the largest banks, and which are not applicable to community oriented institutions such as us. We may be disadvantaged as a result of these uncertainties.

As a result of the issuance of the Series A Preferred Stock to the U.S. Treasury, we are required to comply with certain restrictions on executive and employee compensation included in the EESA, as amended. Certain of these provisions could limit the amount and the tax deductibility of compensation we pay to our executive officers, and could have an adverse affect on our ability to compete for and retain employees and senior executive officers.

***We may fail to realize the cost savings and revenue enhancements we estimate from the acquisition of the Titusville branch office.***

On August 28, 2009, the Bank completed the acquisition of the full-service branch office of National City Bank, a national banking association and wholly-owned subsidiary of The PNC Financial Services Group, Inc., located in Titusville, Pennsylvania. This transaction was completed pursuant to the Purchase and Assumption Agreement entered into on April 6, 2009. The success of the Titusville branch acquisition will depend, in part, on our ability to realize the estimated cost savings and revenue enhancements from adding a new market area to the business of the Bank. While we believe that these cost savings and revenue enhancement estimates are achievable, it is possible that the potential cost savings and revenue enhancements could turn out to be more difficult to achieve than we anticipated. Our estimates depend on our ability to integrate the business of the Titusville branch in a manner that permits those cost savings and revenue enhancements to be realized. Our ability to realize increases in revenue will depend, in part, on our ability to retain customers and employees, and to capitalize on existing relationships for the provision of additional products and services. If our estimates turn out to be incorrect or we are not able to successfully integrate the Titusville branch, the anticipated cost savings and increased revenues may not be realized fully or at all, or may take longer to realize than expected.

***Higher FDIC deposit insurance premiums and assessments could adversely affect our financial condition.***

FDIC insurance premiums have increased substantially in 2009 already, and we expect to pay significantly higher FDIC premiums in the future. A large number of bank failures has significantly depleted the deposit insurance fund and reduced the ratio of reserves to insured deposits. The FDIC adopted a revised risk-based deposit insurance assessment schedule on February 27, 2009, which raised deposit insurance premiums. On May 22, 2009, the FDIC also implemented a five basis point special assessment of each insured depository institution's assets minus Tier 1 capital as of June 30, 2009, but no more than 10 basis points times the institution's assessment base for the second quarter of 2009, to be collected on September 30, 2009. Additional special assessments may be imposed by the FDIC in the future, including a possible additional assessment in 2009. We participate in the FDIC's Temporary Liquidity Guarantee Program, or TLG, for noninterest-bearing transaction deposit accounts. Banks that participate in the TLG's noninterest-bearing transaction account guarantee will pay the FDIC an annual assessment of 10 basis points on the amounts in such accounts above the amounts covered by FDIC deposit insurance. To the extent that these TLG assessments are insufficient to cover any loss or expenses arising from the TLG program, the FDIC is authorized to impose an emergency special assessment on all FDIC-insured depository institutions. The FDIC has authority to impose charges for

Table of Contents

the TLG program upon depository institution holding companies, as well. The TLG is scheduled to end December 31, 2009, but the FDIC has proposed extending TLG to June 30, 2010, but charging a higher fee to banks that elect to participate in the extension. These changes will cause our deposit insurance expense to increase. These actions could significantly increase our noninterest expense in 2009 and for the foreseeable future.

On September 28, 2009, the FDIC proposed to recapitalize the Deposit Insurance Fund by requiring insured institutions to prepay their insurance premiums for the quarter ending December 31, 2009 and for the years ending December 31, 2010, 2011 and 2012. The proposed prepayment would be due December 30, 2009. The FDIC further proposed that assessments for the years ending December 31, 2011 and 2012 would increase by three basis points, and would be based upon assumed increases in insured deposits of 5% annually through 2012. An increase in assessment rates will result in a further increase in our FDIC general insurance premium expense, and the prepayment of insurance premiums will increase our non-earning assets.

***Changes in interest rates and other factors beyond our control could have an adverse impact on our financial performance and results.***

By nature, all financial institutions are impacted by changing interest rates. Among other issues, changes in interest rates may affect the following:

the demand for new loans;

the value of our interest-earning assets;

prepayment speeds experienced on various asset classes, particularly residential mortgage loans;

credit profiles of existing borrowers;

rates received on loans and securities;

our ability to obtain and retain deposits in connection with other available investment alternatives; and

rates paid on deposits and borrowings.

Significant fluctuations in interest rates may have an adverse effect upon our financial condition and results of operations. The rates that we earn on our assets and the rates that we pay on our liabilities are generally fixed for a contractual period of time. We, like many financial institutions, have liabilities that generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. In a period of declining interest rates, the interest income earned on our assets may decrease more rapidly than the interest paid on our liabilities.

In addition, changes in interest rates can also affect the average life of our loans and mortgage-backed and related securities. A reduction in interest rates results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their debt in order to reduce their borrowing cost. This causes reinvestment risk. This means that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities.

***There are increased risks involved with commercial real estate and commercial business and consumer lending activities.***

Our lending activities include loans secured by commercial real estate. Commercial real estate lending generally is considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances and the

dependency on successful

Table of Contents

operation of the project for repayment. Our lending activities also include commercial business loans to small to medium businesses, which generally are secured by various equipment, machinery and other corporate assets, and a wide variety of consumer loans, including home equity and second mortgage loans, automobile loans and unsecured loans. Although commercial business loans and consumer loans generally have shorter terms and higher interest rates than mortgage loans, they generally involve more risk than mortgage loans because of the nature of, or in certain cases the absence of, the collateral which secures such loans.

In addition, we have a concentration of higher balance commercial real estate and commercial business loans with a limited number of borrowers in our market area. As a result, we have a greater risk of a significant loss due to such concentration and a greater risk of loan defaults in the event of an economic downturn in our market area as adverse economic changes may have a negative effect on the ability of our borrowers to make timely repayment of their loans.

***Strong competition within our market area may limit our growth and profitability.***

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, and other financial intermediaries operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefits them in attracting business and offer certain services that we do not provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long term basis. Our profitability depends upon our continued ability to successfully compete in our market area.

***Government regulation will significantly affect the Bank's business, and may result in higher costs and lower shareholder returns.***

The banking industry is heavily regulated. Banking regulations are primarily intended to protect the federal deposit insurance funds and depositors, not shareholders. We are subject to extensive regulation, supervision and examination by federal, state and local governmental authorities, including the Federal Reserve Board and the Office of the Comptroller of the Currency. The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. Changes in the laws, regulations and regulatory practices affecting the banking industry may increase our costs of doing business or otherwise adversely affect us and create competitive advantages for others. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of these changes, which could have a material adverse effect on our profitability or financial condition. Federal economic and monetary policy may also affect our ability to attract deposits and other funding sources, make loans and investments, and achieve satisfactory interest spreads.

Table of Contents

**USE OF PROCEEDS**

We estimate that the net proceeds from the sale of our common stock in the offering, after underwriting discounts and estimated expenses, will be approximately \$            million. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds, after underwriting discounts and expenses, will be approximately \$            million. In each case, this assumes the deduction of estimated offering expenses of \$            and the underwriting discount.

Subject to regulatory approval, we intend to use a portion of the proceeds to redeem our Series A Preferred Stock and warrants held by the U.S. Treasury.

The remaining proceeds of the offering will be used for general corporate purposes, including contribution to the capital of our subsidiaries to support the organic growth of their lending and investing activities; the repayment of our debt; and to support or fund acquisitions of other institutions or branches, if opportunities for such transactions become available.

**CAPITALIZATION**

The following table sets forth our capitalization at June 30, 2009. Our capitalization is presented on a historical basis and on a pro forma basis as if the offering had been completed as of June 30, 2009 and assuming:

the sale of            shares of common stock at a price of \$            per share, based on the last reported sale price of our common stock on the OTC Bulletin Board on           , 2009; the price at which the common stock is sold in this offering may be higher or lower than \$           , and we may sell a greater or lesser number of shares in this offering;

the net proceeds to us in this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us in this offering of \$           ; and

the underwriters' over-allotment option is not exercised.

Table of Contents

The following information should be read in conjunction with our consolidated financial statements for the year ended December 31, 2008, and the notes thereto, and our unaudited consolidated financial statements for the six months ended June 30, 2009, and the notes thereto, included herein.

	<b>June 30, 2009</b>	
	<b>Actual</b>	<b>As Adjusted</b>
	<b>(Unaudited)</b>	
	<b>(Dollars in thousands)</b>	
<b>Stockholders' Equity:</b>		
Preferred Stock, \$1.00 par value, 3,000,000 shares authorized, 7,500 shares, Series A Preferred Stock, \$1,000 liquidation value issued and outstanding	\$ 7,421	\$
Warrants, 50,111 actual, 25,056 as adjusted	88	
Common Stock, \$1.25 par value, 12,000,000 shares authorized; shares issued and outstanding 1,431,404 actual; as adjusted	1,949	
Additional paid-in capital	14,619	
Treasury stock, at cost; 128,107 shares	(2,653)	(2,653)
Retained earnings	16,101	16,101
Accumulated other comprehensive loss	(1,853)	(1,853)
<b>Total Stockholders' Equity</b>	<b>\$35,672</b>	
<b>Capital Ratios for the Company(1):</b>		
Tier 1 to risk-weighted assets ratio	13.54%	%
Total capital to risk-weighted assets	14.73%	%
Tier 1 capital to average assets ratio	9.05%	%

- (1) The as adjusted capital ratios assume the initial deployment of the net proceeds of the offering in short term investments carrying a 20% risk weighting under applicable regulations.

## MARKET FOR COMMON STOCK AND DIVIDEND POLICY

### Listings and Markets

Our common stock is quoted on the OTC Bulletin Board under the symbol "EMCF." The listed market makers for our common stock include:

**Boening and Scattergood**  
4 Tower Bridge, Suite 300  
200 Bar Harbor Drive  
West Conshohocken, PA 19428  
Telephone: (610) 862-5360

### Stock Price and Cash Dividend Information

The following table sets forth the high and low sale and quarter-end closing market prices of our common stock as quoted on the OTC Bulletin Board, as well as cash dividends paid for the quarterly

Table of Contents

periods presented. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	Market Price			Per Share
	High	Low	Close	Cash Dividend
<b>2009:</b>				
Fourth quarter (through October 13, 2009)	\$ 17.10	\$ 17.00	\$ 17.00	(1)
Third quarter	\$ 18.30	\$ 15.85	\$ 17.10	\$ 0.14
Second quarter	23.50	17.50	18.00	0.14
First quarter	23.50	18.00	21.50	0.32
<b>2008:</b>				
Fourth quarter	\$ 24.50	\$ 20.05	\$ 23.50	\$ 0.34
Third quarter	26.50	21.00	24.00	0.32
Second quarter	28.00	24.60	25.75	0.32
First quarter	28.35	24.55	26.50	0.32
<b>2007:</b>				
Fourth quarter	\$ 28.25	\$ 25.20	\$ 25.75	\$ 0.67
Third quarter	27.75	25.00	25.60	0.29
Second quarter	27.00	23.50	25.25	0.29
First quarter	31.00	26.75	27.25	0.29

(1)

Dividends have historically been paid in the third month of the quarter.

On October 13, 2009, the last reported per share closing price of our common stock on the OTC Bulletin Board was \$17.00.

### Number of Stockholders and Shares Outstanding

As of October 13, 2009, there were approximately 722 stockholders of record and 1,431,404 shares of common stock entitled to vote, receive dividends and considered outstanding for financial reporting purposes. The number of stockholders of record does not include the number of persons or entities who hold their stock in nominee or "street" name.

### Dividend Policy

We have traditionally paid regular quarterly cash dividends. Future dividends will be determined by our board of directors after giving consideration to the Company's financial condition, results of operations, tax status, industry standards, economic conditions and other factors. Dividends will also depend upon the receipt of dividends from the Bank, which is our primary source of income. The Bank is subject to certain regulatory restrictions that may limit its ability to pay dividends to us. In addition, under the terms of the Stock Purchase Agreement with the U.S. Treasury, the Company is required to obtain the consent of the U.S. Treasury to pay quarterly dividends in excess of \$0.32 per share until December 23, 2011, or the earlier redemption of the Series A Preferred Stock.

### Dividend Reinvestment and Stock Purchase Plan

Common stockholders may have the cash dividends paid by the Company reinvested to purchase additional shares of our common stock. Participants may also make optional cash purchases of our common stock through this plan and pay no brokerage commissions or fees.

Table of Contents

**DESCRIPTION OF EMCLAIRE CAPITAL STOCK**

**General**

We are authorized to issue 12,000,000 shares of common stock, \$1.25 par value per share, and 3,000,000 shares of serial preferred stock, \$1.00 par value per share. Each share of our common stock has the same relative rights and is identical in all respects to each other share of Emclave common stock.

The common stock of Emclave represents nonwithdrawable capital, is not an account of any type, and is not insured by the Federal Deposit Insurance Corporation or any other government agency.

**Common Stock**

*Voting Rights.* The holders of shares of our common stock have exclusive voting rights in the Company. They will elect our board of directors and act on other matters as are required to be presented to them under Pennsylvania law or as are otherwise presented to them by the board of directors. Except as discussed in "Restrictions on Acquisition of Emclave," each holder of shares of our common stock will be entitled to one vote per share and will not have any right to cumulate votes in the election of directors. If we issue any shares of preferred stock, holders of the preferred stock may also possess voting rights.

*Dividends.* We may pay dividends if, as and when declared by our board of directors. The payment of dividends is limited by law and applicable regulation. See "Stock and Dividend Information Dividend Policy." The holders of shares of our common stock will be entitled to receive and share equally in dividends declared by our board of directors. If we issue preferred stock, the holders of the preferred stock may have a priority over the holders of our common stock with respect to dividends. The U.S. Treasury, as the holder of our Series A Preferred Stock, has priority of the holders of our common stock with respect to dividends.

*Liquidation Rights.* In the event of any liquidation, dissolution or winding up of the Bank, Emclave, as the sole holder of the Bank's capital stock, would be entitled to receive all of the assets of the Bank available for distribution, after payment or provision for payment of all debts and liabilities of the Bank, including all deposit accounts and accrued interest, and after distribution of the balance in the liquidation account to Eligible Account Holders and Supplemental Eligible Account Holders.

In the event of any liquidation, dissolution or winding up of the Emclave, the holders of shares of our common stock would be entitled to receive all of the assets of the Company available for distribution, after payment or provision for payment of all our debts and liabilities. If we issue preferred stock, the holders of the preferred stock may have a priority over the holders of the common stock upon liquidation or dissolution. The U.S. Treasury, as the holder of our Series A Preferred Stock, has a liquidation preference over the holders of our common stock.

*Preemptive Rights.* Holders of shares of our common stock will not be entitled to preemptive rights with respect to any shares that may be issued. The common stock is not subject to redemption.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Illinois Stock Transfer Company, Chicago, Illinois.

**Listing**

We have applied to list our common stock on the NASDAQ Capital Market under the symbol "EMCF."

Table of Contents

**Anti-Takeover Effects of Certain Provisions of Our Charter Documents and Law**

The following discussion is a general summary of certain provisions of federal and Pennsylvania law and our articles of incorporation and bylaws that may be deemed to have an "anti-takeover" effect. For a complete description, we refer you to the applicable federal and Pennsylvania law and our amended and restated articles of incorporation and bylaws. Copies of our amended and restated articles of incorporation and bylaws are filed as exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find Additional Information."

Our Amended and Restated Articles of Incorporation and Bylaws. Our amended and restated articles of incorporation and bylaws contain a number of provisions relating to corporate governance and rights of shareholders that might be deemed to have a potential anti-takeover effect. In addition, these provisions will also render the removal of our board of directors or management more difficult.

Directors. Our board of directors is classified into three classes. The members of each class are elected for a term of three years, and only one class of directors will be elected annually. Therefore, it takes at least two annual elections to replace a majority of our board.

Shareholder Nominations. Shareholders who would like to nominate candidates for election to our board of directors at an annual meeting of shareholders must give advance notice and provide certain information to the Company.

Special Meetings. Special meetings of our shareholders may only be called by the president of the Company, or the majority of the board of directors or the board's executive committee.

Cumulative Voting. Cumulative voting rights do not exist with respect to the election of directors.

Preferred Stock. Our board of directors has the authority to issue shares of preferred stock, without shareholder approval, with voting, dividend, liquidation and conversion rights that rank higher to the rights of the common stock and that could impede an attempt to gain control of the Company.

Merger, Consolidation, Liquidation or Dissolution. A merger, consolidation, liquidation or dissolution of the Company, or any action that would result in the sale or other disposition of all or substantially all of our assets, must be approved by the affirmative vote of the holders of at least 80% of the outstanding shares of common stock.

Amendment to Articles of Incorporation and Bylaws. Under Pennsylvania law, amendment of our amended and restated articles of incorporation, except for certain provisions, requires the affirmative vote of a majority of the votes cast by all shareholders entitled to vote on the matter. Amendment of Article 8 of our amended and restated articles of incorporation, which relates to the approval of any merger, consolidation, liquidation or dissolution of Emclave, requires an affirmative vote of the holders of at least 80% of the outstanding shares.

Amendment of our bylaws requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of common stock or a majority vote of the members of the board of directors. Any amendment of the bylaws by a majority vote of the board may be changed by the affirmative vote of the holders of two-thirds of the outstanding shares of common stock.

Pennsylvania Business Corporation Law. The Pennsylvania Business Corporation Law, or PBCL, also contains certain applicable provisions that may have the effect of deterring or discouraging an attempt to take control of Emclave. These provisions, among other things:

Require that, following any acquisition by any person or group of 20% of a public corporation's voting power, the remaining shareholders have the right to receive payment for their shares, in cash, from such person or group in an amount equal to the "fair value" of the shares, including an increment representing a proportion of any value payable for control of the corporation;

Table of Contents

Prohibit for five years, subject to certain exceptions, a "business combination," which includes a merger or consolidation of the corporation or a sale, lease or exchange of assets with a person or group beneficially owning 20% or more of a public corporation's voting power;

Prevent a person or group acquiring different levels of voting power (20%, 33% and 50%) from voting any shares over the applicable threshold, unless "disinterested shareholders" approve such voting rights;

Require any person or group that publicly announces that it may acquire control of a corporation, or that acquires or publicly discloses an intent to acquire 20% or more of the voting power of a corporation, to disgorge to the corporation any profits that it receives from sales of the corporation's equity securities purchased over the prior 18 months;

Expand the factors and groups, including shareholders, which a corporation's board of directors can consider in determining whether an action is in the best interests of the corporation;

Provide that a corporation's board of directors need not consider the interests of any particular group as dominant or controlling;

Provide that a corporation's directors, in order to satisfy the presumption that they have acted in the best interests of the corporation, need not satisfy any greater obligation or higher burden of proof with respect to actions relating to an acquisition or potential acquisition of control;

Provide that actions relating to acquisitions of control that are approved by a majority of "disinterested directors" are presumed to satisfy the directors' fiduciary duty, unless it is proven by clear and convincing evidence that the directors did not assent to such action in good faith after reasonable investigation; and

Provide that the fiduciary duty of a corporation's directors is solely to the corporation and may be enforced by the corporation or by a shareholder in a derivative action, but not by a shareholder directly.

Pennsylvania-chartered corporations may exempt themselves from these anti-takeover provisions. Our articles of incorporation do not provide for an exemption from any of these provisions.

*Change in Control Regulations.* Under applicable Federal Reserve regulations, any person, which includes an individual or an entity, acting directly or indirectly, or through or in concert with one more persons, must give the FRB at least 60 days prior written notice before acquiring control of a bank or bank holding company. Control is considered to exist when a person, among other things, acquires ownership, control, or power to vote 25 percent or more of the outstanding shares of any class of voting securities of institution or the ability to control the election of a majority of the directors of an institution. Moreover, control is presumed to have occurred, subject to rebuttal, upon the acquisition of more than 10 percent of any class of voting stock, or of more than 25 percent of any class of stock, of a bank or bank holding company, where certain enumerated control factors are also present in the acquisition.

Pennsylvania law has a similar statute except that control is considered to have been acquired when a person, among other things, has acquired more than 10 percent (or 5 percent in certain circumstances) of any class of the outstanding shares of an institution or corporation or the ability to control the election of a majority of the directors of an institution or corporation.

**Preferred Stock**

We will not issue any shares of preferred stock in this offering. We are authorized to issue up to 3,000,000 shares of serial preferred stock. Our board of directors has the authority to fix and determine the voting rights, designations, preferences and other special rights of the preferred stock. Our board of directors can, without shareholder approval, authorize shares of preferred stock to be issued with



Table of Contents

voting, dividend, liquidation and conversion rights that rank higher to the rights of the common stock. The issuance of preferred stock, therefore, could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

**Series A Preferred Stock**

On December 23, 2008, pursuant to the Capital Purchase Program, we issued to the U.S. Treasury 7,500 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, with a liquidation preference of \$1,000 per share, par value \$1.00 per share, for a total price of \$7,500,000. The holders of the Series A Preferred Stock have preferential dividend and liquidation rights over holders of our common stock. The Series A Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. The Series A Preferred Stock is non-voting, except in limited circumstances. Prior to December 23, 2011, unless we have redeemed all of the Series A Preferred Stock or the U.S. Treasury has transferred all of the Series A Preferred Stock to third parties, the consent of the U.S. Treasury will be required for us to, among other things, repurchase or otherwise acquire any of our shares of common stock or trust preferred securities, subject to certain limited exceptions. For example, so long as any of our Series A Preferred Stock is outstanding, we may not repurchase or otherwise acquire any of our outstanding common stock unless we are current in our dividend payments on our outstanding Series A Preferred Stock. We may not redeem the Series A Preferred Stock without requisite regulatory approval.

*Voting Rights.* Except as indicated below or otherwise required by law, the holders of Series A Preferred Stock will not have any voting rights.

Election of Two Directors upon Non-Payment of Dividends. If the dividends on the Series A Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more (whether or not consecutive), the holders of Series A Preferred Stock, together with the holders of any outstanding parity stock with like voting rights, referred to as voting parity stock, voting as a single class, will be entitled to elect two members of our Board of Directors, referred to as the preferred stock directors, at the next annual meeting (or at a special meeting called for the purpose of electing the preferred stock directors prior to the next annual meeting) and at each subsequent annual meeting until all accrued and unpaid dividends for all past dividend periods have been paid in full. Our amended and restated by-laws provide that in the event such voting right is triggered, the authorized number of directors on our Board of Directors will be increased by two members.

Upon the termination of the right of the holders of Series A Preferred Stock and voting parity stock to vote for preferred stock directors, as described above, the preferred stock directors will immediately cease to be qualified as directors, their term of office will terminate immediately and the number of our authorized directors will be reduced by the number of preferred stock directors that the holders of Series A Preferred Stock and voting parity stock had been entitled to elect. The holders of a majority of shares of Series A Preferred Stock and voting parity stock, voting as a class, may remove any preferred stock director, with or without cause, and the holders of a majority of the shares Series A Preferred Stock and voting parity stock, voting as a class, may fill any vacancy created by the removal of a preferred stock director. If the office of a preferred stock director becomes vacant for any other reason, the remaining preferred stock director may choose a successor to fill such vacancy for the remainder of the unexpired term.

Other Voting Rights. So long as any shares of Series A Preferred Stock are outstanding, in addition to any other vote or written consent of stockholders required by law or by our amended and restated certificate of incorporation, the vote or written consent of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the shares of Series A Preferred Stock at the time outstanding, voting separately as a single class, given in

Table of Contents

person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, will be necessary for effecting or validating:

any amendment or alteration of the certificate of determination for the Series A Preferred Stock or our amended and restated certificate of incorporation to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock ranking senior to the Series A Preferred Stock with respect to payment of dividends and/or distribution of assets on our liquidation, dissolution or winding up;

any amendment, alteration or repeal of any provision of the certificate of determination for the Series A Preferred Stock so as to adversely affect the rights, preferences, privileges or voting powers of the Series A Preferred Stock; or

any consummation of a binding share exchange or reclassification involving the Series A Preferred Stock or of a merger or consolidation by us with another entity, unless the shares of Series A Preferred Stock remain outstanding following any such transaction or, if we are not the surviving entity, such shares are converted into or exchanged for preference securities and such remaining outstanding shares of Series A Preferred Stock or preference securities have rights, preferences, privileges and voting powers that are not materially less favorable than the rights, preferences, privileges or voting powers of the Series A Preferred Stock, taken as a whole.

To the extent of the voting rights of the Series A Preferred Stock, each holder of Series A Preferred Stock will be entitled to one vote for each share of Series A Preferred Stock held.

The foregoing voting provisions will not apply if, at or prior to the time when the vote or consent would otherwise be required, all outstanding shares of Series A Preferred Stock have been redeemed or called for redemption upon proper notice and sufficient funds have been set aside by us for the benefit of the holders of Series A Preferred Stock to effect the redemption.

*Liquidation Rights.* If we voluntarily or involuntarily liquidate, dissolve or wind up our affairs, the holders of Series A Preferred Stock will be entitled to receive an amount per share, referred to as the total liquidation amount, equal to the fixed liquidation preference of \$1,000 per share, plus any accrued and unpaid dividends, whether or not declared, to the date of payment. Holders of Series A Preferred Stock will be entitled to receive the total liquidation amount out of our assets, if any, that are available for distribution to stockholders, after payment or provision for payment of our debts and other liabilities but before any distribution of assets is made to holders of our common stock or any other shares ranking, as to that distribution, junior to the Series A Preferred Stock.

If our assets are not sufficient to pay the total liquidation amount in full to all holders of Series A Preferred Stock and all holders of other shares of stock ranking equally with the Series A Preferred Stock, the amounts paid to the holders of Series A Preferred Stock and other shares of parity stock will be paid pro rata in accordance with the respective total liquidation amount of those holders. If the total liquidation amount per share of Series A Preferred Stock has been paid in full to all holders of Series A Preferred Stock and other shares of parity stock, the holders of our common stock or any other shares ranking, as to such distribution, junior to the Series A Preferred Stock will be entitled to receive all remaining assets of the Company according to their respective rights and preferences. For purposes of the liquidation rights, neither the sale, conveyance, exchange or transfer of all or substantially all of our property and assets, nor the consolidation or merger by us with or into any other corporation or by another corporation with or into us, will constitute a liquidation, dissolution or winding up of our affairs.

Table of Contents

*Dividends Payable On Shares of Series A Preferred Stock* The holders of Series A Preferred Stock are entitled to receive, if and when declared by our Board of Directors, out of assets legally available for payment, cumulative cash dividends at a rate per annum of 5% per share on a liquidation preference of \$1,000 per share of Series A Preferred Stock with respect to each dividend period during the five year period following December 23, 2008 and are entitled to receive cumulative cash dividends at a rate per annum of 9% per share on (i) the liquidation preference of \$1,000 per share of Series A Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior dividend period on such shares, if any, thereafter.

Dividends are payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. Dividends payable during any dividend period are computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable with respect to the Series A Preferred Stock are payable to the holders of record of shares of Series A Preferred Stock on the date that is 15 calendar days immediately preceding the applicable dividend payment date or such other record date as the Board of Directors determines, so long as such record date is not more than 60 nor less than 10 days prior to the applicable dividend payment date.

Dividends on the Series A Preferred Stock will be cumulative. If for any reason our Board of Directors does not declare a dividend on the Series A Preferred Stock for a particular dividend period, or if the Board of Directors declares less than a full dividend, we will remain obligated to pay the unpaid portion of the dividend for that period and the unpaid dividend will compound on each subsequent dividend date (meaning that dividends for future dividend periods will accrue on any unpaid dividend amounts for prior dividend periods).

We are required to provide written notice to the holders of shares of Series A Preferred Stock prior to the applicable dividend payment date if we determine not to pay any dividend or a full dividend with respect to the Series A Preferred Stock.

We are subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve Board is authorized to determine, under certain circumstances relating to the financial condition of a bank holding company, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof.

*Priority of Dividends.* With respect to the payment of dividends and the amounts to be paid upon liquidation, the Series A Preferred Stock will rank (i) senior to our common stock and all other equity securities designated as ranking junior to the Series A Preferred Stock; and (ii) at least equally with all other equity securities designated as ranking on a parity with the Series A Preferred Stock, referred to as parity stock with respect to the payment of dividends and distribution of assets upon any liquidation, dissolution or winding up of the Company.

So long as any share of Series A Preferred Stock remains outstanding, unless all accrued and unpaid dividends for all prior dividend periods have been contemporaneously declared and paid in full, no dividend or distribution may be declared or paid on shares of common stock or any other shares of junior stock, other than a dividend payable solely in shares of common stock. In addition, we may not repurchase, redeem or otherwise acquire for consideration any shares of common stock or other junior stock unless all accrued and unpaid dividends for all past dividend periods on the Series A Preferred Stock are fully paid, other than: (i) redemptions, purchases or other acquisitions of shares of common stock or other junior stock in connection with the administration of our employee benefit plans in the ordinary course of business pursuant to a publicly announced repurchase plan; (ii) any dividends or distributions of rights or junior stock in connection with a stockholders' rights plan or any redemption or repurchase of rights pursuant to any stockholders' rights plan; (iii) the acquisition by the Company of record ownership in junior stock or parity stock for the beneficial ownership of any other persons (other than the Company or any of its subsidiaries), including as trustees or custodians; and (iv) the

Table of Contents

exchange or conversion of junior stock for or into other junior stock or of parity stock for or into other parity stock or junior stock, but only to the extent that such acquisition is required pursuant to binding contractual agreements entered into before December 23, 2008, or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for common stock.

On any dividend payment date for which full dividends on the Series A Preferred Stock and any other parity stock are not paid, or declared and funds set aside therefor, all dividends paid or declared with respect to the Series A Preferred Stock and any other parity stock will be declared ratably among the holders of any such shares who have the right to receive dividends, in proportion to the respective amounts of the undeclared and unpaid dividends relating to the dividend period.

Subject to the foregoing, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors may be declared and paid on our common stock and any other stock ranking equally with or junior to the Series A Preferred Stock, from time to time out of any funds legally available for such payment, and the holders of Series A Preferred Stock will not be entitled to participate in any such dividends.

*Redemption* The Series A Preferred Stock may not be redeemed prior to February 15, 2012, except with the proceeds from one or more "qualified equity offerings" which results in aggregate gross proceeds to the Company of not less than \$1,875,000, which equals 25% of the aggregate liquidation amount of the Series A Preferred Stock on the date of issuance. A "qualified equity offering" means the sale and issuance by the Company to persons other than the Company or any of its subsidiaries after December 23, 2008 of Tier 1 qualifying perpetual preferred stock or common stock for cash. Qualified equity offerings do not include sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans that were publicly announced, on or prior to October 13, 2008. In such a case, we may redeem the Series A Preferred Stock, subject to the approval of the appropriate federal banking agency, in whole or in part, at any time and from time to time, upon notice as described below, up to a maximum amount equal to the aggregate net cash proceeds received by us from such qualified equity offerings.

On or after February 15, 2012, the Series A Preferred Stock may be redeemed, in whole or in part, at any time and from time to time, at the Company's option. All such redemptions will be at 100% of its issue price, plus any accrued and unpaid dividends, and will be subject to the approval of the appropriate federal banking agency. Following any such redemption by the Company, we will have the right to repurchase any of our other equity securities held by the U.S. Treasury at fair market value. In connection with the adoption of the ARRA, subject to the approval of the U.S. Treasury and the appropriate federal banking agency, we may repurchase the Series A Preferred Stock at any time regardless of whether or not we have replaced such funds from any other source.

The Series A Preferred Stock is not subject to any mandatory redemption, sinking fund or similar provisions. Holders of shares of Series A Preferred Stock have no right to require the redemption or repurchase of the Series A Preferred Stock.

If fewer than all of the outstanding shares of Series A Preferred Stock are to be redeemed, the shares to be redeemed will be selected either pro rata or in such other manner as the Board of Directors may determine to be fair and equitable.

Shares of Series A Preferred Stock that are redeemed, repurchased or otherwise acquired by the Company will revert to authorized but unissued shares of our preferred stock.

*U.S. Treasury Warrant.* In connection with the U.S. Treasury's purchase of our Series A Preferred Stock, we issued to the U.S. Treasury, or the warrant holder, a warrant exercisable for 50,111 shares of our common stock (subject to adjustment as described below) at an initial exercise price of \$22.45 per share, referred to as the warrant. The warrant may be exercised at any time on or before 5:00 p.m., New York City time, on December 23, 2018 by surrender of the warrant and a completed notice of

Table of Contents

exercise attached as an annex to the warrant together with payment of the exercise price for the shares of common stock for which the warrant is being exercised. The exercise price may be paid either by our withholding of such number of shares of common stock issuable upon exercise of the warrant equal to the value of the aggregate exercise price of the warrant determined by reference to the market price of our common stock on the trading day on which the warrant is exercised or, if agreed to by us and the warrant holder, by the payment of cash equal to the aggregate exercise price.

If we complete one or more qualified equity offerings on or prior to December 31, 2009 that result in our receipt of aggregate gross proceeds of at least \$7,500,000, which is equal to 100% of the aggregate liquidation preference of the Series A Preferred Stock, the number of shares of common stock underlying the warrant then held by the warrant holder will be reduced by an amount equal to one-half of the number of shares initially covered by the warrant.

*Rights as a Stockholder.* The warrant holder will have no rights or privileges of the holders of our common stock, including any voting rights, until (and then only to the extent) the warrant has been exercised.

*Transferability.* The warrant holder may not transfer a portion of the warrant with respect to more than 25,056 shares of common stock until the earlier of (i) the date on which the Company has received aggregate gross proceeds of not less than \$7,500,000 from one or more qualified equity offerings and (ii) December 31, 2009. The warrant, and all rights under the warrant, are otherwise transferable.

*Adjustments to the Warrant.* Adjustments in Connection with Stock Splits, Subdivisions, Reclassifications and Combinations. The number of shares for which the warrant may be exercised, and the exercise price of the warrant, will be proportionately adjusted in the event we pay dividends or make distributions of our common stock, subdivide, combine or reclassify outstanding shares of our common stock.

Anti-dilution Adjustment. Until the earlier of December 23, 2011, and the date the initial warrant holder no longer holds the warrant (and other than in certain permitted transactions described below), if we issue any shares of common stock (or securities convertible or exercisable into common stock) for less than 90% of the market price of the common stock on the last trading day prior to pricing such shares, then the number of shares of common stock into which the warrant is exercisable and the exercise price will be adjusted. Permitted transactions include issuances: (i) as consideration for or to fund the acquisition of businesses and/or related assets; (ii) in connection with employee benefit plans and compensation related arrangements in the ordinary course and consistent with past practice approved by our Board of Directors; (iii) in connection with public or broadly marketed offerings and sales of common stock or convertible securities for cash conducted by us or our affiliates pursuant to registration under the Securities Act or Rule 144A thereunder on a basis consistent with capital-raising transactions by comparable financial institutions; and (iv) in connection with the exercise of preemptive rights on terms existing as of December 23, 2008.

Other Distributions. If we declare any dividends or distributions other than our historical, ordinary cash dividends, the exercise price of the warrant will be adjusted to reflect such a distribution.

Certain Repurchases. If we effect a pro rata repurchase of common stock, then both the number of shares issuable upon exercise of the warrant and the exercise price will be adjusted.

Business Combinations. In the event of a merger, consolidation or similar transaction involving the Company and requiring stockholder approval, the warrant holder's right to receive shares of our common stock upon exercise of the warrant will convert into the right to exercise the warrant for the consideration that would have been payable to the warrant holder with respect to the shares of common stock for which the warrant may be exercised, as if the warrant had been exercised prior to such merger, consolidation or similar transaction.

Table of Contents**UNDERWRITING**

We are offering the shares of common stock described in this prospectus through Sandler O'Neill & Partners L.P., as the representative of the several underwriters. We have entered into an underwriting agreement with the underwriters, dated \_\_\_\_\_, 2009. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of common stock listed next to its name in the following table:

<b>Underwriter</b>	<b>Number of Shares</b>
Sandler O'Neill & Partners, L.P.	
Boenning & Scattergood, Inc.	
<b>Total</b>	

The underwriters are committed to purchase and pay for all such shares of common stock, if any are purchased.

We have granted to the underwriters an option, exercisable no later than 30 calendar days after the date of this prospectus, which is dated the same date as the underwriting agreement, to purchase up to an aggregate of \_\_\_\_\_ additional shares of common stock at the public offering price less the underwriting discount set forth on the cover page of this prospectus. The underwriters may exercise this option only to cover over-allotments, if any, made in connection with this offering. To the extent the option is exercised and the conditions of the underwriting agreement are satisfied, we will be obligated to sell to the underwriters, and the underwriters will be obligated to purchase, these additional shares of common stock.

The underwriters propose to offer the shares of common stock directly to the public at the offering price set forth on the cover page of this prospectus and to certain securities dealers at the public offering price, less a concession not in excess of \$ \_\_\_\_\_ per share. The underwriters may allow, and these dealers may re-allow, a concession not in excess of \$ \_\_\_\_\_ per share on sales to other dealers. After the public offering of the common stock, the underwriters may change the offering price and other selling terms.

The following table shows the per share and total underwriting discount that we will pay to the underwriters and the proceeds we will receive before expenses. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase additional shares.

	<b>Per Share</b>	<b>Total Without Over-Allotment</b>	<b>Total With Over-Allotment</b>
Price to public	\$ _____	\$ _____	\$ _____
Underwriting discount			
Proceeds to us, before expenses			

We estimate that the total expenses of the offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discount, will be approximately \$ \_\_\_\_\_, and are payable by us. In addition to the underwriting discount, we have agreed to reimburse the underwriters for their reasonable out-of-pocket expenses incurred in connection with the offering, regardless of whether the offering is consummated, including, without limitation, certain disbursements, fees and expenses of underwriters' counsel and marketing, syndication and travel expenses, up to a maximum aggregate amount of \$150,000 before our consent to additional expenses is required.

Table of Contents

The shares of common stock are being offered by the underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the underwriters and other conditions specified in the underwriting agreement. The underwriters reserve the right to withdraw, cancel or modify this offer and to reject orders in whole or in part.

The underwriting agreement provides that the obligations of the underwriters are conditional and may be terminated at its discretion based on their assessment of the state of the financial markets. The obligations of the underwriters may also be terminated upon the occurrence of the events specified in the underwriting agreement. The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in this offering if any are purchased, other than those shares covered by the over-allotment option described above.

*Lock-up Agreement.* We, and each of our executive officers and directors, have agreed, for the period beginning on and including the date of this prospectus through and including the date that is 90 days after the date of this prospectus, (i) not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of our common stock or any of our securities convertible into or exchangeable or exercisable for our common stock, whether currently owned or thereafter acquired by such executive officer or director or with respect to which such executive officer or director has or thereafter acquires the power of disposition, or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of our common stock, whether any such swap or transaction is to be settled by delivery of our common stock or our other securities, in cash or otherwise, without, in each case, the prior written consent of Sandler O'Neill & Partners, L.P. These restrictions are expressly agreed to preclude us, and our executive officers and directors, from engaging in any hedging or other transaction or arrangement that is designed to, or which reasonably could be expected to, lead to or result in a sale, disposition or transfer, in whole or in part, of any of the economic consequences of ownership of our common stock, whether such transaction would be settled by delivery of our common stock or other securities, in cash or otherwise. The 90-day restricted period will be automatically extended if (1) during the last 18 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to us occurs, or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day restricted period, in which case the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the date on which the earnings release is issued or the material news or material event related to us occurs.

The restrictions described in the preceding paragraph will not apply to (i) a *bona fide* gift or gifts by any of our executive officers or directors, provided that the donee or donees thereof agree to be bound in writing by the restrictions described in the preceding paragraph, (ii) a transfer by any of our executive officers or directors to any trust or family limited partnership for the direct or indirect benefit of that executive officer or director or his or her immediate family, provided that the trustee of the trust or general partner of the family limited partnership, as the case may be, agrees to be bound by the restrictions described in the preceding paragraph, and provided further that any such transfer shall not involve a disposition for value, (iii) the issuance by us of common stock to the underwriters pursuant to the underwriting agreement; (iv) the issuance by us of shares, and options to purchase shares, of our common stock pursuant to stock option plans, as those plans are in effect on the date of this prospectus supplement; or (v) the issuance by us of shares of our common stock upon the exercise of stock options that are outstanding on the date of this prospectus supplement, and the issuance by us of shares of our common stock upon the exercise of stock options issued after the date of this prospectus supplement under stock option plans referred to in clause (iv) of this sentence, as those plans are in effect on the date of this prospectus supplement. For purposes of this paragraph,

Table of Contents

"immediate family" shall mean any relationship by blood, marriage or adoption not more remote than first cousin.

The underwriters may, in their sole discretion and at any time and from time to time, without notice, release all or any portion of the foregoing shares and other securities from the foregoing restrictions.

*Indemnity.* We and our subsidiary, The Farmers National Bank of Emlenton, agreed, jointly and severally, to indemnify the underwriters, persons who control the underwriters, and the underwriters' partners, directors, officers, employees and agents against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of these liabilities.

*Proposed and Current Market.* We have applied to have our common stock listed on the NASDAQ Capital Market under the symbol "EMCF." Currently, our common is quoted on the OTC Bulletin Board under the symbol "EMCF."

*Stabilization.* In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids.

Stabilizing transactions permit bids to purchase shares of common stock so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.

Over-allotment transactions involve sales by the underwriters of shares of common stock in excess of the number of shares the underwriters are obligated to purchase. This creates a syndicate short position, which may be either a covered short position or a naked short position. In a covered short position, the number of shares of common stock over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared with the price at which they may purchase shares through exercise of the over-allotment option. If the underwriters sell more shares than could be covered by exercise of the over-allotment option and, therefore, have a naked short position, the position can be closed out only by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that after pricing, there could be downward pressure on the price of the shares in the open market that could adversely affect investors who purchase in the offering.

Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common stock originally sold by that syndicate member is purchased in stabilizing or syndicate covering transactions to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock in the open market may be higher than it would otherwise be in the absence of these transactions. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. These transactions may be effected on the Nasdaq Global Market or otherwise and, if commenced, may be discontinued at any time.

Table of Contents

In addition, in connection with this offering the underwriters may engage in passive market making transactions in our common stock on The NASDAQ Capital Market prior to the pricing and completion of this offering. Passive market making consists of displaying bids on The NASDAQ Capital Market no higher than the bid prices of independent market makers and making purchases at prices no higher than these independent bids and effected in response to order flow. Net purchases by a passive market maker on each day are generally limited to a specified percentage of the passive market maker's average daily trading volume in the common stock during a specified period and must be discontinued when such limit is reached. Passive market making may cause the price of our common stock to be higher than the price that otherwise would exist in the open market in the absence of these transactions. If passive market making is commenced, it may be discontinued at any time.

*Other.* From time to time, the underwriters and some of their affiliates may continue to provide investment banking services to us in the ordinary course of their businesses, and may receive compensation for such services.

**LEGAL MATTERS**

The validity of the shares of common stock offered hereby and selected other legal matters in connection with the offering will be passed upon for us by the law firm of Patton Boggs LLP, Washington, DC. Attorneys at Patton Boggs LLP own an aggregate of approximately \_\_\_\_\_ shares of Emclaire common stock. DLA Piper LLP (US) will pass upon certain legal matters for the underwriters.

**EXPERTS**

The consolidated financial statements of Emclaire Financial Corp. as of December 31, 2008 and 2007 and for each of the two years in the period ended December 31, 2008 incorporated by reference in this Prospectus and in the Registration Statement have been so incorporated in reliance on the report of Beard Miller Company LLP, the predecessor to ParenteBeard LLC and an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

On October 1, 2009, Beard Miller Company LLP combined its accounting and auditing practice with ParenteBeard LLC. As a result, Beard Miller Company LLP ceased to be the auditor for the Company and ParenteBeard LLC was engaged as the Company's auditors.

**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933, as amended, with respect to the shares of common stock offered in this prospectus. As permitted by the rules and regulations of the SEC, this prospectus does not contain all the information set forth in the registration statement. Such information can be examined without charge at the public reference facilities of the SEC located at 100 F Street, N.E., Washington, D.C. 20549, and copies of such material can be obtained from the SEC at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330.

The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants, including Emclaire, that file electronically with the SEC. The address for this web site is <http://www.sec.gov>. The statements contained in this prospectus as to the contents of any contract or other document filed as an exhibit to the registration statement are, of necessity, brief descriptions and are not necessarily complete; each such statement is qualified by reference to such contract or document.

Table of Contents

**INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

The SEC allows us to "incorporate by reference" information into this prospectus from the documents listed below that we have previously filed with the SEC (file no. 000-18464). This means that we can disclose important information to you by referring you to another document without restating that information in this document. Any information incorporated by reference into this prospectus is considered to be part of this prospectus from the date we file that document. Information contained in this prospectus supersedes information incorporated by reference that we have filed with the SEC prior to the date of this prospectus.

We incorporate by reference into this prospectus the following documents or information filed with the SEC (other than, in each case, documents, or information deemed to have been furnished and not filed in accordance with SEC rules):

- (a) Our Annual Report on Form 10-K for the year ended December 31, 2008;
- (b) Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009;
- (c) Our Current Reports on Form 8-K filed on January 28, 2009, March 20, 2009, April 7, 2009, April 17, 2009, July 22, 2009, August 28, 2009 and October 6, 2009;
- (d) Portions of our proxy statement for the annual meeting of stockholders held on April 22, 2009 that have been incorporated by reference in our 2008 Annual Report on Form 10-K; and
- (e) The description of our common stock contained in the Registration Statement on Form 8-A filed April 30, 1997.

Upon request, we will provide to each person, including any beneficial owner, to whom a prospectus is delivered, a copy of any or all of the reports or documents that have been incorporated by reference in the prospectus contained in the registration statement, but not delivered with the prospectus. You may access these filings via our website, [www.farmersnb.com](http://www.farmersnb.com), or you may request a copy of these filings at no cost, by writing or telephoning us as follows:

Emclaire Financial Corp.  
Attn:  
612 Main Street  
Emlenton, PA 16373  
(724) 867-2311

Table of Contents

**Shares**

**Common Stock**

---

**PROSPECTUS**

---

, 2009

---

Table of Contents**PART II INFORMATION NOT REQUIRED IN PROSPECTUS****Item 13. Other Expenses of Issuance and Distribution.**

The following table sets forth the various expenses to be incurred in connection with the sale and distribution of the common stock being registered hereby, all of which will be borne by us (except any underwriting discounts and commissions and expenses incurred for brokerage, accounting, tax or legal services or any other expenses incurred in disposing of the shares). All amounts shown are estimates, except the fees payable to the SEC, The NASDAQ Stock Market and the Financial Industry Regulatory Authority, or FINRA.

<b>Type of Expense</b>	<b>Amount</b>
SEC registration fee	\$ 1,172
FINRA filing fees	2,600
NASDAQ listing fee	55,000
Legal fees and expenses	375,000
Accounting fees and expenses	25,000
Printing fees and expenses	75,000
Miscellaneous expenses	1,228
<b>Total Expenses</b>	<b>\$535,000</b>

**Item 14. Indemnification of Directors and Officers.**

*Limitation of Liability of Directors.* Section 1713 of the Pennsylvania Business Corporation Law ("PBCL") permits a corporation to provide in its bylaws that a director shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director unless (a) the director has breached or failed to perform the duties of his office under Pennsylvania law, and (b) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. Such provision shall not apply to (i) the responsibility or liability of a director pursuant to a criminal statute, or (ii) the liability of a director for the payment of taxes pursuant to Federal, State or local law.

Emclaire's bylaws provide for such limitation of liability to the fullest extent permitted by the PBCL. Section 12.5 of the bylaws states that directors shall not be personally liable for monetary damages for any action taken, or any failure to take any action, unless (i) the director has breached or failed to perform the duties of his office under Article 12 of the bylaws; and (ii) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

*Indemnification of Directors and Officers.* Article 24 of Emclaire's bylaws provides, in accordance with Sections 1741 and 1742 of the PBCL, that Emclaire shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceeding, including actions by or in the right of Emclaire, whether civil, criminal, administrative, arbitral or investigative, by reason of the fact that such person is or was a director, officer, employee or agent of Emclaire, or is or was serving at Emclaire's request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action or proceeding to the fullest extent permitted under PBCL. In order to be eligible for indemnification, the director, officer, employee or agent must have acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of Emclaire and, with respect to any criminal proceeding, had no reasonable cause to believe his conduct was unlawful.

Table of Contents

Pursuant to Section 1745 of the PBCL and Article 24 of Emclair's bylaws, Emclair may pay in advance any expenses (including attorneys' fees) which may become subject to indemnification if the person receiving the payment undertakes in writing to repay the same if it is ultimately determined that he or she is not entitled to indemnification by Emclair. Section 1746 of the PBCL and Article 24 of Emclair's bylaws also provide that the rights to indemnification and advancement of expenses are not exclusive of other rights to which a person seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

*Insurance.* Pursuant to Section 1747 of the PBCL and Article 24 of Emclair's bylaws, Emclair may purchase and maintain insurance on behalf of any person who is eligible for indemnification, against any liability incurred by him or her in any such position, or arising out of his or her status as such, whether or not Emclair would have power to indemnify him or her against such liability under the indemnification provisions contained in the PBCL or Emclair's bylaws. Emclair's directors and officers are insured against losses arising from any claim against them such as wrongful acts or omissions, subject to certain limitations.

**Item 15. Recent Sales of Unregistered Securities.**

Not Applicable.

**Item 16. Exhibits and Financial Statement Schedules.**

The exhibits and financial statement schedules filed as part of this registration statement are as follows:

(a)  
List of Exhibits

- 1.1 Form of Underwriting Agreement\*
- 3.1 Amended and Restated Articles of Incorporation of Emclair Financial Corp.(1)
- 3.2 Bylaws of Emclair Financial Corp.(1)
- 4 Specimen Stock Certificate of Emclair Financial Corp.(2)
- 5 Opinion of Patton Boggs LLP regarding the legality of the securities being registered\*
- 10.1 Employment Agreement between Emclair Financial Corp., The Farmers National Bank of Emlenton and William C. Marsh, dated as of July 1, 2007 (3)
- 10.2 Change in Control Agreement between Emclair Financial Corp., The Farmers National Bank of Emlenton and Raymond M. Lawton, dated as of July 1, 2007(3)
- 10.3 Form of Group Term Carve-Out Plan between The Farmers National Bank of Emlenton and 20 Officers and Employees(4)
- 10.4 Form of Supplemental Executive Retirement Plan Agreement between The Farmers National Bank of Emlenton and Six Officers(4)
- 11 Statement regarding computation of earnings per share(5)
- 21 Subsidiaries of the Registrant(5)
- 23.1 Consent of Patton Boggs LLP (included in Exhibit 5)
- 23.2 Consent of ParenteBeard LLC
- 24 Power of Attorney (included on signature page of the Registration Statement)\*\*

\*

To be filed by amendment.

\*\*

Previously filed.

II-2

---

Table of Contents

- (1) Incorporated by reference to the Registrant's Registration Statement on Form SB-2, as amended, (File No. 333-11773) declared effective by the SEC on October 25, 1996.
- (2) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1997.
- (3) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on June 27, 2007.
- (4) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2002.
- (5) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
- (b) Financial Statement Schedules

Financial statement schedules have been omitted because the required information is not applicable or is included in the Consolidated Financial Statements or related notes.

**Item 17. Undertakings.**

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.



Table of Contents

<b>Name and Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ ROBERT L. HUNTER*</u> Robert L. Hunter	Director	October 14, 2009
<u>/s/ JOHN B. MASON*</u> John B. Mason	Director	October 14, 2009
<u>/s/ BRIAN C. MCCARRIER*</u> Brian C. McCarrier	Director	October 14, 2009

\* By William C. Marsh pursuant to a power of attorney.