NETWORK 1 SECURITY SOLUTIONS INC
Form POS AM
April 24, 2009

As filed with the Securities and Exchange Commission on April 24, 2009

Registration No. 333-143710______

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

post-effective amendment no. 2

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NETWORK-1 SECURITY SOLUTIONS, INC.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	6794	11-3027591
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

445 Park Avenue, Suite 1018
New York, New York 10022
(212) 829-5770
(Address, including zip code, and telephone number, including area code, of Registrant’s principal executive offices)

Corey M. Horowitz
Chairman and Chief Executive Officer
445 Park Avenue, Suite 1018
New York, New York 10022
(212) 829-5770
(Address, including zip code, and telephone number, including area code, of registrant’s principal executive officers)

Copies to:
Sam Schwartz, Esq.
Eiseman Levine Lehrhaupt & Kakoyiannis, P.C.
805 Third Avenue
New York, New York 10022

(212) 752-1000

Approximate date of proposed sale to public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1993, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer ¨	Smaller reporting company x

Explanatory Note:

This Post Effective Amendment No.2 on Form S-1 is intended to supplement and amend the Registrant's Registration Statement on Form SB-2 (File No. 333-143710) which was filed on July 13, 2007 and Registrant's Registration Statement on Form S-2 (File No. 333-126013) which was filed on June 21, 2005. The primary purpose of this post-effective amendment is to include the Registrant's financial statements for the fiscal year ended December 31, 2008 and corresponding updated information about the business of the Registrant into the prospectus forming a part hereof.

The registrant hereby amends this post-effective amendment to the registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this post-effective amendment to the registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED APRIL 24, 2009

PROSPECTUS

NETWORK-1 SECURITY SOLUTIONS, INC.

9,655,949 shares of Common Stock

This prospectus covers the resale by the selling stockholders listed on pages 22 to 32 of this Prospectus of up to 9,655,949 shares of our common stock, $.01 par value, which include:

- 2,166,667 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;
- 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;
- 1,116,250 shares of common stock issuable upon exercise of warrants issued in our private offering completed in December 2004 and January 2005; and
- 3,046,365 shares of common stock and 1,300,000 shares of common stock issuable upon exercise of warrants and options owned by our Chairman and Chief Executive Officer and related parties.

We will not receive any proceeds from the sale of these shares of common stock. We will, however, receive proceeds if warrants and options 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 33 to 35.

Our common stock is traded on the OTC Bulletin Board under the symbol "NSSI". On April 22, 2009, the closing price of our common stock, as reported on the OTC Bulletin Board, was $0.60 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 5 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 ______________, 2009

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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

Our principal business is the acquisition, development, licensing and protection of our intellectual property. We presently own six patents issued by the U.S. Patent Office that relate to various telecommunications and data networking technologies (the "Patent Portfolio") and include, among other things, patents covering the delivery of power over local area networks ("LANs") for the purpose of remotely powering certain devices, such as wireless access ports, IP phones and network based cameras, over Ethernet ("PoE") networks and systems and methods for the transmission of audio, video and data (LANS) in order to achieve higher quality of service (QoS). 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 Patent Portfolio as well as with other users of the technologies who benefit directly from the technologies, including corporate, educational and governmental entities.

To date, our efforts with respect to our Patent Portfolio have focused on licensing our patent (U.S. Patent No. 6,218,930) covering the control of power delivery over Ethernet cables (the "Remote Power Patent"). In August 2007, as part of a settlement agreement relating to our litigation with D-Link, we entered into a license agreement with D-Link pertaining to our Remote Power Patent (See "Legal Proceedings - D-Link Litigation"). In February 2008, we commenced patent infringement litigation against several major data networking equipment manufacturers including Cisco Systems, Inc. and 7 other defendants (See "Legal Proceedings - Pending Litigation Against Major Data Networking Equipment Manufacturers"). On August 13, 2008, as part of an agreement entered into in June 2008 with Microsemi Corp-Analog Mixed Signal Group Ltd. ("Microsemi-Analog"), previously PowerDsine Ltd., Microsemi Corporation, the parent company of Microsemi-Analog, entered into a license agreement with us for our Remote Power Patent with respect to certain of its Midspan PoE products as part of our new Special Licensing Program. As of April 15, 2009, we had entered into a total of 5 license agreements with respect to our Remote Power Patent.

At least for the next twelve months, we do not presently anticipate licensing efforts for our other patents besides our Remote Power Patent. We may seek to acquire 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.

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 (QoS) 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.

We were incorporated under the laws of the State of Delaware in July 1990. Our executive offices are located at 445 Park Avenue, Suite 1018, New York, New York 10022 and our telephone number is (212) 829-5770. Our web site can be found at http://www.network-1.com.

Pending Litigation Against Major Data Networking Equipment Manufacturers

In February 2008, we commenced litigation against several major data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. The defendants in the lawsuit include Cisco Systems, Inc., Cisco Linksys, LLC, Enterasys Networks, Inc., 3COM Corporation, Inc., Extreme Networks, Inc., Foundry Networks, Inc., Netgear, Inc. and Adtran, Inc. We seek injunctive relief and monetary damages for infringement based upon reasonable royalties as well as treble damages for the defendant’s continued willful infringement of our Remote Power Patent. The defendants, in their answers to the Complaint, asserted that they do not infringe any valid claim of our Remote Power Patent, and further asserted that, based on several different theories, the patent claims are invalid or unenforceable. In addition to these defenses, the defendants also asserted counterclaims for, among other things, non-infringement, invalidity, and unenforceability of our Remote Power Patent. The parties are currently engaged in discovery. A Markman hearing, a hearing on claim construction of our Remote Power Patent, is currently scheduled for December, 2009 and a trial date has been set for July, 2010. In the event that the Court determines that our Remote Power Patent is not valid or enforceable, and/or that the defendants do not infringe, any such determination would have a material adverse effect on our company.

Microsemi Agreement and License

In June 2008 we entered into a new agreement with Microsemi Corp-Analog Mixed Signal Group Ltd (previously PowerDsine Ltd), a subsidiary of Microsemi Corporation (Nasdaq: MSCC), a leading manufacturer of high performance analog mixed-signal integrated circuits and high reliability semiconductors, which, among other things, amended the prior settlement agreement entered into between the parties in November 2005. In accordance with the terms of the new agreement, on August 13, 2008, Microsemi Corporation, the parent company of Microsemi-Analog, entered into a license agreement with us for our Remote Power Patent under our Special Licensing Program. The license agreement provides that Microsemi is obligated to pay us a quarterly royalty payment of 2% of the sales price for certain of its Midspan PoE products (See "Business-Licensing").

D-Link Settlement

In August 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, for infringement of our Remote Power Patent. 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.

In August 2007, we finalized the settlement of our patent infringement litigation against D-Link. Under the terms of the settlement, D-Link entered into a license agreement for our Remote Power Patent the terms of which include monthly royalty payments of 3.25% of the net sales of D-Link Power over Ethernet products, including those products which comply with The Institute of Electrical and Electronic Engineers ("IEEE") 802.3af and 802.3at Standards, for the full term of our Remote Power Patent, which expires in March 2020. The royalty rate is subject to adjustment to a rate consistent with other similarly situated licensees of our Remote Power Patent based on units of shipments of licensed products. In addition, D-Link paid us $100,000 upon signing of the settlement agreement.

Shares Being Offered

This prospectus relates to the offering by the selling stockholders of an aggregate of 9,655,949 shares of our common stock, consisting of (i) 2,166,667 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, (ii) 360,000 shares issuable upon exercise of warrants issued to the placement agents with respect to the private offering completed on April 16, 2007, (iii) 1,116,250 shares of our common stock issuable upon exercise of warrants issued in our private offering in December 2004 and January 2005, and (iv) 3,046,365 shares of common stock and 1,300,000 shares of common stock issuable upon exercise of warrants and options owned by our Chairman and Chief Executive Officer and related parties.

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 of Financial Condition and Results of Operations” and our financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,	
	2008	2007
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:		
Royalty Revenue	$349,000	$232,000
Operating expenses(1)	$2,060,000	$3,395,000
Net loss	$1,618,000	$(2,998,000)
Basic and diluted loss per share	$(0.07)	$(0.13)
Weighted-average common shares outstanding	$24,135,557	$22,250,144
CONSOLIDATED BALANCE SHEET DATA:		
Cash and cash equivalents	$4,484,000	$5,928,000
Working capital	$4,296,000	$5,655,000
Total assets	$4,739,000	$6,100,000
Total shareholders’ equity	$4,402,000	$5,733,000

(1) Includes non-cash compensation expense of $287,000 and $1,403,000 for the years ended December 31, 2008 and 2007, respectively.

We have incurred substantial operating losses since our inception, which have resulted in an accumulated deficit of $(50,895,000) as of December 31, 2008. For the years ended December 31, 2008 and 2007, we incurred net losses of $(1,618,000) and $(2,998,000), respectively. We have financed our operations primarily by sales of equity securities. We had royalty revenue of $349,000 and $232,000 for the years ended December 31, 2008 and December 31, 2007, respectively. Our ability to achieve revenue and generate positive cash flow from operations is dependent upon consummating additional material license agreements with respect to our patented technologies. We may not be successful in achieving additional license agreements with third parties, or in such additional license agreements resulting in significant royalty revenue, 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, 2010.

RISK FACTORS

An investment in our common stock involves a high degree of risk. The risk 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 11.

We have a history of losses and modest revenue from current operations.

We have incurred substantial operating losses since our inception, which has resulted in an accumulated deficit of $(50,895,000) as of December 31, 2008. For the years ended December 31, 2008 and 2007, we incurred net losses of $(1,618,000) and $(2,998,000), respectively. We have financed our operations primarily by sales of equity securities. We had revenue of $349,000 and $232,000 from operations for the years ended December 31, 2008 and December 31, 2007, respectively. Our ability to achieve revenue and generate positive cash flow from operations is dependent upon consummating licensing agreements with respect to our patented technologies. In August 2007, as part of our settlement agreement pertaining to our patent infringement litigation against D-Link Corporation and D-Link Systems (collectively, “D-Link”), we entered into our first license agreement for our Remote Power Patent with D-Link. (See “Legal Proceedings - D-Link Settlement”). In August 2008, as part of our Special Licensing Program and an agreement with Microsemi Corp-Analog Mixed Signal Group Ltd. (previously PowerDsine Ltd.), a subsidiary of Microsemi Corporation (“Microsemi”), Microsemi entered into a license agreement with us for our Remote Power Patent with respect to certain of its Midspan PoE products (See “Legal Proceedings – PowerDsine Settlement). As of April 15, 2009, we have entered into 5 license agreements with respect to our Remote Power Patent. We may not be successful in achieving additional material 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 material 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 approximately $4,020,000 at March 31, 2009 will more likely than not be sufficient to satisfy our operations and capital requirements until at least December 31, 2010. 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, 2010. Our inability to obtain additional financing when needed, absent generating sufficient cash from licensing arrangements, would have a material adverse effect on us, 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.

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. To date, we have only entered into 5 license agreements with third parties with respect to our patented technology (See “Business - Licensing”). 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 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 sufficient 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 entered into 5 license agreements with respect to our Remote Power Patent. (See “Business - Licensing”). Our inability to consummate additional licensing agreements and achieve material 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 may not 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.

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 delivery of power to certain devices over PoE networks and the transmission of audio, voice and data over computer and telephony 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 patents will be upheld or that third parties will not invalidate our patent rights. If our intellectual property rights are not upheld, such an event would 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 - D-Link Litigation"). In addition, in February 2008 we commenced patent litigation against Cisco Systems, Inc. and seven other major data networking equipment manufacturers which is currently pending in the United States District Court for the Eastern District of Texas, Tyler Division (See "Legal Proceedings - Pending Litigation Against Major Data Networking Equipment Manufacturers"). 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 asserted by the defendants in the aforementioned pending litigation in Texas 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 not valid or enforceable, and/or that third parties do not infringe, would have a material adverse effect on us.

Our license agreements with D-Link and Microsemi may not result in significant royalties and do not necessarily mean we will achieve additional license agreements or material revenue.

In August 2007 we finalized the settlement agreement with respect to our patent litigation against D-Link Corporation and D-Link Systems, Incorporated pending in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. Under the terms of the settlement, D-Link entered into a license agreement for our Remote Power Patent the terms of which include monthly royalty payments of 3.25% (which began in May 2007) of the net sales of D-Link PoE products, including those products which comply with the IEEE 802.3af and 802.3at Standards, for the full life of our Remote Power Patent, which expires in March 2020. The royalty rate is subject to adjustment 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 paid us $100,000 upon signing of the Settlement Agreement. On August 13, 2008, as part of our Special Licensing Program and our agreement with Microsemi Corp-Analog Mixed Signal Group Ltd. ("Microsemi-Analog") entered into in June 2008, Microsemi Corporation ("Microsemi"), the parent company of Microsemi-Analog, entered into a license agreement with us with respect to our Remote Power Patent. The license agreement provides that Microsemi is obligated to pay us quarterly royalty payments of 2% of the sales price for certain of Microsemi's Midspan PoE products for the full term of our Remote Power Patent (March 2020). For the year ended December 31, 2008, we received aggregate royalty payments of $349,000 with respect to our license agreements. Notwithstanding our license agreements with D-Link and Microsemi, there is no assurance that we will achieve significant royalty revenue from such license agreements, that we will be able to consummate additional material license agreements with third parties relating to our

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Remote Power Patent or any of our other patents, or that such license arrangements will result in significant revenue to us.

We face uncertainty as to the outcome of our litigation against major data networking equipment manufacturers.

In February 2008, we commenced litigation against eight major data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. The defendants in the lawsuit include Cisco Systems, Inc., Cisco Linksys, LLC, Enterasys Networks, Inc., 3COM Corporation, Inc., Extreme Networks, Inc., Foundry Networks, Inc., Netgear, Inc. and Adtran, Inc. We seek injunctive relief and monetary damages for infringement based upon reasonable royalties as well as treble damages for the defendants' continued willful infringement of our Remote Power Patent. In their answers to the Complaint, the defendants asserted that they do not infringe any valid claim of our Remote Power Patent, and further asserted that, based on several different theories, the patent claims are invalid or unenforceable. In addition to these defenses, the defendants also asserted counterclaims for, among other things, non-infringement, invalidity, and unenforceability of our Remote Power Patent. A Markman hearing, a hearing on claim construction of our Remote Power Patent, is scheduled for December 2009 and trial date has been set for July 2010. In the event that the Court determines that our Remote Power Patent is not valid or enforceable, and/or that the defendants do not infringe, any such determination would have a material adverse effect on 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 370,000 individual members in approximately 160 countries. The Standards Association of the IEEE is responsible for the creation of global industry standards for a broad range of technology industries. In 2000, 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, among others, wireless access points, IP phones and network based cameras. The technology is commonly referred to as 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 material revenue and profits from our Remote Power Patent.

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 PoE markets, are characterized by rapid technological changes, changing customer requirements, frequent new product 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.

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.

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. Our employment agreement with Mr. Horowitz expired on February 28, 2009. Mr. Horowitz continues to serve as our Chairman and Chief Executive Officer. We are currently in discussions with Mr. Horowitz with respect to a new employment agreement, but there is no certainty that we will achieve a mutually acceptable agreement. We believe that the loss of the services of Mr. Horowitz would have a material adverse effect on our business and prospects. We do not maintain key-man life insurance on the life of Mr. Horowitz.

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 15, 2009, there are outstanding options and warrants to purchase an aggregate of 12,164,882 shares of our common stock at exercise prices ranging from $.12 to $10.00. To the extent that outstanding options and warrants are exercised, existing 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.

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:

our ability to successfully enforce and/or defend our Remote Power Patent;

our ability to enter into favorable license agreements with third parties withrespect to our Remote Power Patent;

our ability to achieve material revenue and profits;

our ability to raise capital when needed;

sales of our common stock;

our ability to execute our business plan;

technology changes;

legislative, regulatory and competitive developments; and

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.

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 it considers 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 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.

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.

YEAR ENDED DECEMBER 31, 2008	HIGH	LOW
Fourth Quarter	$0.70	$0.38
Third Quarter	$1.05	$0.70
Second Quarter	$1.29	$0.85
First Quarter	$1.50	$1.14

YEAR ENDED DECEMBER 31, 2007	HIGH	LOW
Fourth Quarter	$2.05	$1.33
Third Quarter	$1.60	$1.44
Second Quarter	$2.04	$1.55
First Quarter	$1.75	$1.35

On April 22, 2009, the closing price for our common stock as reported on the OTC Bulletin Board was $0.60 per share. The number of record holders of our common stock was 115 as of April 22, 2009.

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 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.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes share and exercise price information about our equity compensation plans as of December 31, 2008.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (1))
Equity compensation plans approved by security holders	3,858,895	$.90	0(1)
Equity compensation plans not approved by security holders	0	—	—
Total	3,858,895	$.90	0(1)

(1) Our 1996 Amended and Restated Stock Option Plan provides 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 issued by the U.S. Patent Office that relate to various telecommunications and data networking technologies (the “Patent Portfolio”) and include, among other things, patents covering the control of power delivery over local area networks (“LANs”) for the purpose of remotely powering network devices over Ethernet (“PoE”) networks and systems and methods for the transmission of audio, video and data over LANS in order to achieve higher quality of service (“QoS”). 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 Patent Portfolio as well as with other users of the technologies who benefit directly from the technologies including corporate, educational and governmental entities.

To date, our efforts with respect to our Patent Portfolio have focused on licensing our patent (U.S. Patent No. 6,218,930) covering the control of power delivery over Ethernet cables (the “Remote Power Patent”). In August, 2007, as part of a settlement agreement relating to our litigation with D-Link, we entered into a license agreement with D-Link pertaining to our Remote Power Patent (See “Legal Proceedings - D-Link Settlement”). In February 2008, we commenced patent infringement litigation against several major data networking equipment manufacturers including Cisco Systems, Inc. and 7 other defendants (See “Legal Proceedings - Pending Litigation Against Major Data Networking Equipment Manufacturers”). On August 13, 2008, as part of our new agreement with Microsemi Corp - Analog Mixed Signal Group Ltd. (“Microsemi Analog”), Microsemi Corporation (“Microsemi”), the parent company of Microsemi Analog, entered into a License agreement with us with respect to our Remote Power Patent (See “Business – Licensing - Licensing Program”). As of April 15, 2009, we had entered into a total of 5 license agreements with respect to our Remote Power Patent.

At least for the next twelve months, we do not presently anticipate licensing efforts for our other patents besides our Remote Power Patent. We may seek to acquire additional patents in the future.

The Patents

Our Patent Portfolio consist 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.

In August 2008, we were issued European Patent No. 1086556 titled "Integrated Voice and Data Communications over a Local Area Network" which covers the same technology as covered by our U.S. QoS family of patents. The Patent has issued in France, Germany, Spain, United Kingdom and Ireland. We have also been notified that the Canadian Intellectual Property Office has issued a Notice of Allowance for this patent and we anticipate its issuance in Canada by the end of the second quarter this year.

Our future success is largely dependent upon our proprietary technologies, our ability to protect our intellectual property rights and 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 patents may not be successful. We cannot be assured that our patents will be upheld, or that third parties will not invalidate our patents. We face uncertainty as to the outcome of our litigation commenced in February 2008 against several major data networking equipment manufacturers pertaining to our Remote Power Patent. (See Risk Factors "We face uncertainty as to the outcome of our litigation with major data networking equipment manufacturers").

The provisional patent application for our Remote Power Patent 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 patent expires on March 11, 2020.

We were incorporated under the laws of the State of Delaware in July 1990. Our offices are located at 445 Park Avenue, Suite 1018, New York, New York 10022 and our telephone number is (212) 829-5770.

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 370,000 individual members in approximately 160 countries. The Standards Association of the IEEE is responsible for the creation of global industry standards for a broad range of technology industries. In 2000, 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 networks. 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 cables 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 ongoing 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 benefits of PoE are compelling as evidenced by the introduction of products by such leading vendors such as Cisco Systems, Foundry Networks, Extreme Networks, 3Com, Siemens, Nortel Networks and Avaya, as well as many others.

The ability to supply power to end-devices over Ethernet networks 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.

Additional Patents

We also own five (5) additional patents, besides our Remote Power Patent, covering various methodologies that provide for allocating bandwidth and establishing QoS for delay sensitive data, such as voice, on packet data networks. QoS 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

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 our 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 is the case with our litigation against eight major data networking equipment manufacturers ("Legal Proceedings – Pending Litigation Against Major Data Networking Equipment Manufacturers") and as we previously asserted against D-Link (See "Legal Proceedings - D-Link Settlement").

Licensing

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.

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 after we recover our expenses.

Licensing Program

As of April 15, 2009, we had transmitted letters to approximately 250 companies offering licenses to our Remote Power Patent. In addition, in September 2005 we initiated an industry-wide Power Up Licensing program that offered licenses for our Remote Power Patent to “early adopters” that included royalty rates and related fees at a discount from our standard royalty rates and fees for a limited time period. The Power Up licensing program continued until May 2007. No licenses were granted under the Power Up licensing program.

On June 25, 2008 we announced the introduction of a Special Licensing Program for our Remote Power Patent. We entered into 3 license agreements as part of our Special Licensing Program. Our Special Licensing Program was of limited duration (through December 31, 2008) and was implemented on an industry-wide basis to offer discounted running royalty rates and exceptions to our standard licensing terms and conditions for our Remote Power Patent to vendors of finished products that comply with the PoE Standard, including equipment defined in the PoE Standard as Power Sourcing Equipment (PSE) and Powered Devices (PD). The Special Licensing Program was available to all vendors of PoE equipment including those companies that are defendants in our pending patent litigation against eight major data networking equipment manufacturers. Our agreement with Microsemi Corp. - Analog Mixed Signal Group Ltd. (“Microsemi”), dated June 17, 2008, among other things, enabled Microsemi to assist its customers’ evaluation of our Remote Power Patent and the terms being made available to vendors of PoE equipment pursuant to our Special Licensing Program.

Microsemi License

On August 13, 2008, as part of our Special Licensing Program and our agreement with Microsemi Corp-Analog Mixed Signal Group Ltd. (“Microsemi-Analog”), previously PowerDsine Ltd, entered into in June 2008, Microsemi Corporation (“Microsemi”), the parent company of Microsemi-Analog, entered into a license agreement with us with respect to our Remote Power Patent. The license agreement provides that Microsemi is obligated to pay us quarterly royalty payments of 2% of the sales price for certain of its Midspan PoE products for the full term of our Remote Power Patent (March 2020).

D-Link License

In August 2007, we agreed to licensing terms with D-Link Corporation and D-Link Systems (collectively, “D-Link”) as part of a settlement agreement of our patent infringement litigation against D-Link in the United States District Court for the Eastern District of Texas, Tyler Division for infringement of our Remote Power Patent (See “Legal Proceedings - D-Link Settlement”).

The license terms include the agreement by D-Link to license our Remote Power Patent for its full term which expires in March 2020, and the payment of monthly royalty payments (which began in May, 2007) based upon a running royalty rate 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. The royalty rate is subject to adjustment to a royalty rate consistent with other similarly situated licensees of our Remote Power Patent that may vary according to units and volumes of licensed products sold. In addition, D-Link paid us an upfront payment upon signing of the license agreement of $100,000. The products covered by the license include D-Link Power over Ethernet enabled switches, wireless access points, and network security cameras, among others.

Legal Representation

In February 2008, we entered into an agreement with Dovel & Luner, LLP pursuant to which such firm provides legal services to us with respect to our litigation commenced in February 2008 against eight major data networking equipment manufacturers, pending in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent (See "Legal Proceedings"). The terms of our agreement with Dovel & Luner, LLP provide for fees of a maximum aggregate cash payment of $1.5 million plus a contingency fee of up to 24% depending upon when an outcome is achieved.

With respect to our litigation against D-Link, which was settled in May 2007, we utilized the services of Blank Rome LLP, on a full contingency basis and also the services of Potter Mitton, P.C. (Tyler, Texas) on an hourly basis to serve as local counsel. In accordance with our contingency fee agreement with Blank Rome LLP, we will pay legal fees to Blank Rome LLP equal to 25% of the royalty revenue received by us from our license agreement with D-Link after we recover our expenses related to the litigation.

Competition

The telecommunications and data networking licensing market is characterized by intense competition and rapidly changing business conditions, customer requirements and technologies. 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.

Description of Property

We currently lease office space in New York City at a cost of $3,400 per month under a lease which expires in June 2010.

Employees and Consultants

As of the date of this prospectus, we had one full-time employee, no part-time employees and three consultants.

LEGAL PROCEEDINGS

Pending Litigation Against Major Data Networking Equipment Manufacturers

In February 2008, we commenced litigation against eight major data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. The defendants in the lawsuit include Cisco Systems, Inc., Cisco Linksys, LLC, Enterasys Networks, Inc., 3COM Corporation, Inc., Extreme Networks, Inc., Foundry Networks, Inc., Netgear, Inc. and Adtran, Inc. We seek injunctive relief and monetary damages for infringement based upon reasonable royalties as well as treble damages for the defendants' continued willful infringement of our Remote Power Patent. The defendants, in their answers to our complaint, have asserted that they do not infringe any valid claim of our Remote Power Patent, and further asserted that, based on several different theories, the patent claims are invalid or unenforceable. In addition to these defenses, the defendants also asserted counterclaims for, among other things, non-infringement, invalidity, and unenforceability of our Remote Power Patent. A Markman hearing, a hearing on claim construction of our Remote Power Patent, is scheduled for December, 2009 and a trial date has been set for July, 2010. In the event that the Court determines that our Remote Power Patent is not valid or enforceable, and/or that the defendants do not infringe, any such determination would have a material adverse effect on our company.

D-Link Settlement

In August 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, for infringement of our Remote Power Patent. 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.

In August 2007, we finalized the settlement of our patent infringement litigation against D-Link. Under the terms of the settlement, D-Link entered into a license agreement for our Remote Power Patent the terms of which include monthly royalty payments of 3.25% of the net sales of D-Link Power over Ethernet products, including those products which comply with the IEEE 802.3af and 802.3at Standards, for the full term of our Remote Power Patent, which expires in March 2020. The royalty rate is subject to adjustment to a rate consistent with other similarly situated licensees of our Remote Power Patent based on units of shipments of licensed products. In addition, D-Link paid us $100,000 upon signing of the Settlement Agreement.

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, under certain circumstances, 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.

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 our Remote Power Patent which is the customer's responsibility.

In June 2008 we entered into a new agreement with Microsemi Corp-Analog Mixed Signal Group Ltd ("Microsemi Analog"), previously PowerDsine Ltd, a subsidiary of Microsemi Corporation ("Microsemi"), a leading manufacturer of high performance analog mixed-signal integrated circuits and high reliability semiconductors, which, among other things, amended the prior Settlement Agreement entered into between the parties in November 2005. Under the new agreement, on June 25, 2008 we announced the commencement of an industry-wide Special Licensing Program for our Remote Power Patent to vendors of PoE equipment. The Special Licensing Program was of limited duration (through December 31, 2008) and was implemented on an industry-wide basis to offer discounted running royalty rates and exceptions to our standard licensing terms and conditions for the Remote Power Patent to PoE vendors who were "early adopters" and entered into license agreements without delay to avoid litigation and higher royalties. We entered into 3 license agreements as part of our Special Licensing Program. The new agreement enabled Microsemi Analog to assist in its customers' evaluation of our Remote Power Patent and the terms being made available to vendors of PoE equipment pursuant to our Special Licensing Program, an activity that was previously prohibited by the 2005 Settlement Agreement with PowerDsine. As part of our Special Licensing Program and our agreement with Microsemi Analog entered into in June 2008, Microsemi entered into a license agreement, on August 13, 2008, with us with respect to our Remote Power Patent. The license agreement provides that Microsemi is obligated to pay us quarterly royalty payments of 2% of the sales price for certain of Microsemi's Midspan PoE products for the full term of our Remote Power Patent (March 2020).

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 and exercised by the payment of cash. 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 9,655,949 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:

- 2,166,667 shares of common stock and 1,666,667 shares of common stock issuable upon exercise of warrants issued to investors in our private offering completed on April 16, 2007;

- 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;

- 1,116,250 shares of our common stock issuable upon exercise of warrants issued in our private offering completed in December 2004 and January 2005; and

- 3,046,365 shares of our common stock and 1,300,000 shares of our common stock issuable upon exercise of warrants and options owned by our Chairman and Chief Executive Officer and related parties.

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.

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, Jack Brimberg, Theodore J. Marolda, Jay Tomlinson and Steven Heinemann are believed by us to be affiliates of 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) Corey M. Horowitz is our Chairman and Chief Executive Officer, (ii) Mr. Horowitz and Laurent Ohana serve on our board of directors, (iii) Robert Graifman is a former director, (iv) Brad Reifler is affiliated with Pali Capital, Inc., a placement agent with respect to our April 2007 private offering, (v) Eric Singer, Hilary Bergman and Matthew Pilkington were affiliated with Pali Capital, Inc. at the time of our April 2007 private offering and (v) 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 Shares Beneficially Owned After Offering(1)(2)	Percentage of Outstanding Common Stock After Offering(1)
Corey M. Horowitz	10,166,935(3)	4,346,365(4)	5,820,570	19.4%
CMH Capital Management Corp.	3,767,800(5)	3,767,800(5)	0	0%
Donna Slavitt	67,471	67,471	0	0%
Logan Zev Horowitz 1999 Trust	55,000 (6)	55,000(6)	0	0%
Dylan Max Horowitz 1999 Trust	55,000 (6)	55,000(6)	0	0%
Corey M. Horowitz Custodian for Zachary Jordon Horowitz	55,000(6)	55,000(6)	0	0%
Horowitz Partners	2,291(7)	2,291(7)	0	0%
Hound Partners, LLC	3,279,917(8)	3,250,500(9)	29,916	*
Hound Partners Offshore Fund, L.P.	1,737,802(10)	1,707,886(11)	29,916	*
Hound Partners, L.P.	1,542,115(12)	1,542,115(12)	0	0%
Graham Partners, L.P.	166,667(13)	166,667(14)	0	0%
Aurelian Partners, L.P.	611,300(15)	166,667(16)	444,633	1.8%

Name	Number of Shares Beneficially Owned Prior to Offering(1)	Number of Shares Being Offered	Number of Shares Beneficially Owned After Offering(1)(2)	Percentage of Outstanding Common Stock After Offering(1)
Brian T. Horey SEP-IRA, Charles Schwab & Co. Custodian	100,000(17)	33,333(18)	66,667	*
Zaykowski Limited Partners, L.P.	33,333(19)	33,333(19)	0	0%
Zaykowski Qualified Partners, L.P.	33,333(20)	33,333(20)	0	0%
Lewis Opportunity Fund, L.P.	70,833(21)	70,833(21)	0	0%
LAM Opportunity Fund, LTD	12,500(22)	12,500(22)	0	0%
Theodore J. Marolda	83,578(23)	54,000(24)	29,578	*
Jack Brimberg	37,500(25)	37,500(25)	0	0%
Jay Tomlinson	16,500(26)	16,500(26)	0	0%
Matthew Pilkington	17,560(27)	7,560(28)	10,000	*
Emigrant Capital Corporation	1,312,500(29)	187,500(30)	1,125,000	4.7%
Eric Singer	779,007(31)	543,840(32)	235,167	*
Singer Opportunity Fund, L.P.	327,459(33)	268,125(34)	59,334	*
Singer Fund, L.P.	249,375(35)	106,875(36)	142,500	*
David M. Seldin	474,000(37)	65,000(38)	409,000	2.1%
Robert Graifman	382,277(39)	75,000(40)	307,277	1.6%
Gilbert S. Stein	175,000(41)	25,000(42)	150,000	*
John R. Hart	75,000(43)	25,000(44)	50,000	*
Granite Bridge Fund, L.P.	131,250(45)	56,250(46)	75,000	*
CGA Resources, LLC	87,500(47)	12,500(48)	75,000	*
Barry S. Friedberg	87,500(49)	12,500(50)	75,000	*
Dasa Sada, LLC	87,500(51)	12,500(52)	75,000	*
Steven Ackerman	165,500(53)	12,500(54)	153,000	*

Francis May	43,750(55)	6,250(56)	37,500	*
Matthew Balk	7,500(57)	7,500(57)	0	0%

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Name	Number of Shares Beneficially Owned Prior to Offering(1)	Number of Shares Being Offered	Number of Shares Beneficially Owned After Offering(1)(2)	Percentage of Outstanding Common Stock After Offering(1)
Kenneth L. Walters	17,500(58)	2,500(59)	15,000	*
Jeb Investment Ltd.	165,450(60)	23,750(61)	141,700	*
Jeb Partners, L.P.	155,050(62)	23,750(63)	131,300	*
Manchester Explorer Limited Partnership	115,200(64)	15,000(65)	100,200	*
Steven D. Heinemann	2,360,252(66)	91,667(67)	2,268,585	9.4%
Brian Eng	112,500(68)	12,500(69)	100,000	*
Brad Reifler	50,925(70)	43,425(71)	7,500	*
Steven Goldfarb	8,750(72)	3,750(73)	5,000	*
Hilary Bergman	50,925(74)	43,425(75)	7,500	*
Samuel Solomon	15,000(76)	2,500(77)	12,500	*
Jeffrey Finkle	45,000(78)	45,000(78)	0	0%
Edward Sussi	5,000(79)	5,000(79)	0	0%
Alan Friedman	5,000(80)	5,000(80)	0	0%
Alan Weiner	43,750(81)	18,750(82)	25,000	*
Laurent Ohana	206,250(83)	50,000(84)	156,250	*

* 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 1018, 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 24,135,557 shares of common stock outstanding.

(3) Includes (i) 343,803 shares of common stock held by Mr. Horowitz, (ii) 5,820,570 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"), (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) an aggregate of 165,000 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 10,625 shares of common stock which are not currently exercisable.

(4) Includes (i) 343,803 shares of common stock held by Mr. Horowitz, (ii) 2,467,800 shares of common stock held by CMH, (iii) 550,000 shares of common stock subject to currently exercisable warrants held by CMH, (iv) 750,000 shares of common stock subject to currently exercisable options held by CMH, (v) 67,471 shares of common stock owned by Donna Slavitt, the wife of Mr. Horowitz, (vi) an aggregate of 165,000 shares of common stock held by two trusts and a custodian account for the benefit of Mr. Horowitz's three children and (vii) 2,291 shares of common stock held by Horowitz Partners, a general partnership of which Mr. Horowitz is a partner.

(5) 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 options. Corey M. Horowitz, by virtue of being the sole officer and shareholder of CMH Capital Management Corp., has sole power to vote and dispose of the shares of common stock owned by CMH.

(6) Gary Horowitz, by virtue of being the trustee of the Logan Zev Horowitz 1999 Trust and the Dylan Max Horowitz 1999 Trust, has sole power to vote and dispose of the shares of common stock owned by each of the trusts. Corey M. Horowitz, by virtue of being custodian for Zachary Jordon Horowitz, has the sole power to vote and dispose of such shares.

(7) Corey M. Horowitz, Gary Horowitz, Cindy Horowitz and Syd Horowitz, by virtue of being a general partner of Horowitz Partners, may each be deemed to have shared power to vote and dispose of the shares owned by Horowitz Partners.

(8) Includes (i) 1,057,215 shares of common stock and 484,900 shares of common stock subject to currently exercisable warrants held by Hound Partners, LP and (ii) 1,139,368 shares of common stock and 598,434 shares of common stock subject to currently exercisable warrants held by Hound Partners Offshore Fund, LP. 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 Offshore Fund, L.P. Hound Partners, LLC is the investment manager of Hound Partners, LP and Hound Partners Offshore Fund, L.P. The securities may be deemed to be beneficially owned by Hound Performance, LLC, Hound Partners LLC and Jonathan Auerbach. The aforementioned beneficial ownership is based upon a 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, 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 and a Form 4 jointly filed by Hound Partners, LLC, Hound Performance LLC and Jonathan Auerbach with the Securities and Exchange Commission on August 8, 2008. 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, LP and Hound Partners Offshore Fund, L.P.

(9) Includes (i) 1,057,215 shares of common stock and 484,899 shares of common stock subject to currently exercisable warrants owned by Hound Partners, L.P. and (ii) 1,109,452 shares of common stock and 598,434 shares of common stock subject to currently exercisable warrants owned by Hound Partners Offshore Fund, L.P.

(10) Includes (i) 1,139,368 shares of common stock and (ii) 598,434 shares of common stock subject to currently exercisable warrants held by Hound Partners Offshore Fund, L.P.

(11) Includes (i) 1,109,452 shares of common stock and (ii) 598,434 shares of common stock subject to currently exercisable warrants.

(12) Includes (i) 1,057,215 shares of common stock and (ii) 484,900 shares of common stock subject to currently exercisable warrants owned by Hound Partners, LP.

(13) Includes 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.

(14) Includes 166,667 shares of common stock subject to currently exercisable warrants owned by Graham Partners, L.P.

(15) Includes (i) 444,633 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.

(16) Includes 166,667 shares of common stock subject to currently exercisable warrants owned by Aurelian Partners, L.P.

(17) Includes (i) 66,667 shares of common stock and (ii) 33,333 shares of common stock subject to currently exercisable warrants owned by Brian T. Horey SEP-IRA, Charles Schwab & Co. Custodian.

(18) Includes 33,333 shares of common stock subject to currently exercisable warrants.

(19) Includes 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.

(20) Includes 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.

(21) Includes 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.

(22) Includes 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.

(23) Includes (i) 29,578 shares of common stock and (ii) 54,000 shares of common stock subject to currently exercisable warrants.

(24) Includes 54,000 shares of common stock subject to currently exercisable warrants.

(25) Includes 37,500 shares of common stock subject to currently exercisable warrants.

(26) Includes 16,500 shares of common stock subject to currently exercisable warrants.

(27) Includes (i) 10,000 shares of common stock and (ii) 7,560 shares of common stock, subject to currently exercisable warrants.

(28) Includes 7,560 shares of common stock subject to currently exercisable warrants.

(29) Includes (i) 1,125,000 shares of common stock and (ii) 187,500 shares of common stock subject to currently exercisable warrants. Howard Millstein, by virtue of being an officer of New York Private Bank and Trust Corporation and trustee of the Paul Milstein Revocable 1998 Trust, both indirect owners of Emigrant Capital Corporation, may be deemed to have sole power to vote and dispose of the securities owned by Emigrant Capital Corporation. The address of Emigrant Capital Corporation is 6 East 43rd Street, New York, New York 10017.

(30) Includes 187,500 shares of common stock subject to currently exercisable warrants.

(31) Includes (i) 59,334 shares of common stock and 268,125 shares of common stock subject to currently exercisable warrants owned by Singer Opportunity Fund, L.P., (ii) 142,500 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) 33,333 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. The aforementioned is based in part on a Schedule 13G filed jointly by Singer Fund Management, LLC, Singer

Opportunity Fund, L.P., Singer Fund, L.P. and Singer Congressional Fund, L.P. with the Securities and Exchange Commission on March 23, 2005.

(32) Includes (i) 268,125 shares of common stock subject to currently exercisable warrants owned by Singer Opportunity Fund, L.P., (ii) 106,875 shares of common stock subject to currently exercisable warrants owned by Singer Fund, L.P., and (iii) 168,840 shares of common stock subject to currently exercisable warrants owned by Mr. Singer.

(33) Includes (i) 59,334 shares of common stock and (ii) 268,125 shares of common stock subject to currently exercisable warrants owned by Singer Opportunity Fund, L.P. Eric Singer, by virtue of being managing member of Singer Opportunity Fund, L.P. and Singer Fund Management, LLC, has sole power to vote and dispose of the shares owned by Singer Opportunity Fund, L.P. The address of Singer Opportunity Fund, L.P. is 1420 Lexington Avenue, New York, New York 10170.

(34) Includes 268,125 shares of common stock subject to currently exercisable warrants owned by Singer Opportunity Fund, L.P.

(35) Includes (i) 142,500 shares of common stock and (ii) 106,875 shares of common stock subject to currently exercisable warrants owned by Singer Fund, L.P. Eric Singer, by virtue of being managing member of Singer Fund, L.P. and Singer Fund Management, LLC, has sole power to vote and dispose of the securities owned by Singer Fund, L.P. The address of Singer Fund, L.P. is 1420 Lexington Avenue, New York, New York 10170.

(36) Includes 106,875 shares of common stock subject to currently exercisable warrants owned by Singer Fund, L.P.

(37) Includes (i) 409,000 shares of common stock and (ii) 65,000 shares of common stock subject to currently exercisable warrants.

(38) Includes 65,000 shares of common stock subject to currently exercisable warrants.

(39) Includes (i) 154,777 shares of common stock and (ii) 75,000 shares of common stock subject to currently exercisable warrants and (iii) 152,500 shares subject to currently exercisable stock options.

(40) Includes 75,000 shares of common stock subject to currently exercisable warrants.

(41) Includes (i) 150,000 shares of common stock and (ii) 25,000 shares of common stock subject to currently exercisable warrants.

(42) Includes 25,000 shares of common stock subject to currently exercisable warrants.

(43) Includes 50,000 shares of common stock and (ii) 25,000 shares of common stock subject to currently exercisable warrants.

(44) Includes 25,000 shares of common stock subject to currently exercisable warrants.

(45) Includes (i) 75,000 shares of common stock and (ii) 56,250 shares of common stock subject to currently exercisable warrants. Clarke Adams, by virtue of being managing partner of Granite Bridge Fund, L.P., may be deemed to have sole power to vote and dispose of the securities owned by Granite Bridge Fund, L.P.

(46) Include 56,250 shares of common stock subject to currently exercisable warrants.

(47) Includes (i) 75,000 shares of common stock and (ii) 12,500 shares of common stock subject to currently exercisable warrants. Cass Gunther Adelman, by virtue of being the sole member of CGA Resources, LLC, may be deemed to have sole power to vote and dispose of the securities.

(48) Includes 12,500 shares of common stock subject to currently exercisable warrants.

(49) Includes (i) 75,000 shares of common stock and (ii) 12,500 shares of common stock subject to currently exercisable warrants.

(50) Includes 12,500 shares of common stock subject to currently exercisable warrants.

(51) Includes (i) 75,000 shares of common stock and (ii) 12,500 shares of common stock subject to currently exercisable warrants. Allysa Ackerman, by virtue of being the sole member of Dasa Sada, LLC, may be deemed to have sole power to vote and dispose of the securities.

(52) Includes 12,500 shares of common stock subject to currently exercisable warrants.

(53) Includes (i) 75,000 shares of common stock and (ii) 12,500 shares of common stock subject to currently exercisable warrants.

(54) Includes 12,500 shares of common stock subject to currently exercisable warrants.

(55) Includes (i) 37,500 shares of common stock and (ii) 6,250 shares of common stock subject to currently exercisable warrants.

(56) Includes 6,250 shares of common stock subject to currently exercisable warrants.

(57) Includes 7,500 shares of common stock subject to currently exercisable warrants.

(58) Includes (i) 15,000 shares of common stock and (ii) 2,500 shares of common stock subject to currently exercisable warrants.

(59) Includes 2,500 shares of common stock subject to currently exercisable warrants.

(60) Includes (i) 141,700 shares of common stock and (ii) 23,750 shares of common stock subject to currently exercisable warrants. James Bresser, by virtue of being a partner of the investment advisor of Jeb Investment Ltd., may be deemed to have sole power to vote and dispose of the securities.

(61) Includes 23,750 shares of common stock subject to currently exercisable warrants.

(62) Includes (i) 131,300 shares of common stock and (ii) 23,750 shares of common stock subject to currently exercisable warrants. James Bresser, by virtue of being an officer of the general partner of Jeb Partners, L.P., may be deemed to have sole power to vote and dispose of the securities.

(63) Includes 23,750 shares of common stock to currently exercisable warrants.

(64) Includes (i) 100,200 shares of common stock and (ii) 15,000 shares of common stock subject to currently exercisable warrants. James Bresser, by virtue of being an officer of Manchester Explorer Limited Partnership, may be deemed to have sole power to vote and dispose of the securities.

(65) Includes 15,000 shares of common stock subject to currently exercisable warrants.

(66) Includes (i) 2,268,585 shares of common stock and (ii) 91,667 shares of common stock subject to currently exercisable warrants.

(67) Includes 91,667 shares of common stock subject to currently exercisable warrants.

(68) Includes (i) 100,000 shares of common stock and (ii) 12,500 shares of common stock subject to currently exercisable warrants.

(69) Includes 12,500 shares of common stock subject to currently exercisable warrants.

(70) Includes (i) 7,500 shares of common stock and (ii) 43,425 shares of common stock subject to currently exercisable warrants.

(71) Includes 43,425 shares of common stock subject to currently exercisable warrants.

(72) Includes (i) 5,000 shares of common stock and (ii) 3,750 shares of common stock subject to currently exercisable warrants.

(73) Includes 3,750 shares of common stock subject to currently exercisable warrants.

(74) Includes (i) 7,500 shares of common stock and (ii) 43,425 shares of common stock subject to currently exercisable warrants.

(75) Includes 43,425 shares of common stock subject to currently exercisable warrants.

(76) Includes (i) 12,500 shares of common stock and (ii) 2,500 shares of common stock subject to currently exercisable warrants.

(77) Includes 2,500 shares of common stock subject to currently exercisable warrants.

(78) Includes 45,000 shares of common stock subject to currently exercisable warrants.

(79) Includes 5,000 shares of common stock subject to currently exercisable warrants.

(80) Includes 5,000 shares of common stock subject to currently exercisable warrants.

(81) Includes (i) 25,000 shares of common stock and (ii) 18,750 shares of common stock subject to currently exercisable warrants.

(82) Includes 18,750 shares of common stock subject to currently exercisable warrants.

(83) Includes 206,250 shares of common stock subject to currently exercisable warrants and options.

(84) Includes 50,000 shares of common stock subject to currently exercisable warrants.

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:

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

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

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

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 may 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.

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 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 OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, INCLUDED ELSEWHERE IN THIS PROSPECTUS. EXCEPT FOR THE HISTORICAL INFORMATION CONTAINED HEREIN, THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES, INCLUDING, BUT NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION HEREIN ENTITLED "RISK FACTORS" OF THIS PROSPECTUS AS WELL AS THOSE RISKS DISCUSSED IN THIS SECTION AND ELSEWHERE IN THIS PROSPECTUS. BECAUSE SUCH STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

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 (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.

To date, our efforts with respect to our Patent Portfolio have focused on licensing our patent (U.S. Patent No. 6,218,930) covering the control of power delivery over Ethernet cables (the "Remote Power Patent"). As of April 15, 2009, we had entered into 5 license agreements with respect to our Remote Power Patent. In August, 2007, as part of a settlement agreement relating to our litigation with D-Link, we entered into a license agreement with D-Link pertaining to our Remote Power Patent (See "Business – Licensing - D-Link License"). In February 2008, we commenced patent infringement litigation against several major data networking equipment manufacturers including Cisco Systems, Inc. and seven other defendants (See "Legal Proceedings"). During the next 12 months we do not presently anticipate licensing efforts for our other patents besides our Remote Power Patent.

To date we have incurred significant losses and at December 31, 2008 had an accumulated deficit of $(50,895,000). For the year ended December 31, 2008 and December 31, 2007, we incurred net losses of $(1,618,000) and $(2,998,000), respectively. We anticipate that we will continue to incur losses until we enter into additional license agreements with respect to our patented technologies. We have achieved revenue of $349,000 from our technology licensing business for the year ended December 31, 2008 with respect to royalties pertaining to our Remote Power Patent. Our inability to consummate additional material license agreements and achieve revenue from our patented technologies would have a material adverse effect on our operations and our ability to continue business.

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 negotiate license agreements for our Remote Power Patent with certain agreed-upon potential licensees. We have agreed to pay ThinkFire a fee of up to 20% of the royalty payments received from license agreements consummated by ThinkFire on our behalf after we recover our expenses.

In August 2007 we finalized the settlement of our patent litigation against 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 license our Remote Power Patent the terms of which 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 life of our Remote Power Patent, which expires in March 2020. The royalty rate is subject to adjustment to a rate consistent with other similarly situated licensees of our Remote Power Patent based on units of shipments of licensed products. In addition, D-Link paid us $100,000 upon signing the settlement agreement. Notwithstanding the settlement and our license agreement with D-Link, there is no assurance that we will achieve significant royalty revenue from D-Link, that we will be able to achieve additional license agreements with third parties relating to our Remote Power Patent or our other patents, or that such license arrangements will result in material revenue to us.

In February 2008, we commenced litigation against eight major data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. The defendants in the lawsuit include Cisco Systems, Inc., Cisco Linksys, LLC, Enterasys Networks, Inc., 3COM Corporation, Inc., Extreme Networks, Inc., Foundry Networks, Inc., Netgear, Inc. and Adtran, Inc. We seek injunctive relief and monetary damages for infringement, based upon reasonable royalties as well as treble damages for the defendants' continued willful infringement of our Remote Power Patent. All of the defendants have answered our complaint and asserted that they do not infringe any valid claim of our Remote Power Patent, and further asserted that, based on several different theories, the patent claims are invalid or unenforceable. In addition to these defenses, the defendants also asserted counterclaims for, among other things, non-infringement, invalidity, and unenforceability of our Remote Power Patent. In the event that the Court determines that our Remote Power Patent is not valid or enforceable, and/or that the defendants do not infringe, any such determination would have a material adverse effect on us.

As part of our Special Licensing Program and our agreement with Microsemi Corp-Analog Mixed Signal Group Ltd. ("Microsemi-Analog") entered into in June 2008, Microsemi Corporation ("Microsemi"), the parent company of Microsemi-Analog, entered into a license agreement, dated August 13, 2008, with us with respect to the Remote Power Patent. The license agreement provides that Microsemi is obligated to pay us quarterly royalty payments of 2% of the sales price for certain of Microsemi's Midspan PoE products for the full term of the Remote Power Patent (through March 2020).

RESULTS OF OPERATIONS

Year Ended December 31, 2008 Compared To Year Ended December 31, 2007

We had revenues of $349,000 for the year ended December 31, 2008 ("2008") as compared to revenues of $232,000 for the year ended December 31, 2007 ("2007") which increase in revenues was attributed to a full year of royalties with respect to our license with D-Link and royalties from our license with Microsemi entered into in August 2008.

We had a cost of royalties of $18,000 and $12,000 for 2008 and 2007, respectively, which was related to the payment of bonus compensation on the royalties pursuant to an employment agreement with our Chief Executive Officer. The gross profit for 2008 was $331,000 as compared to $220,000 for 2007.

General and administrative expenses include overhead expenses, finance, accounting, legal and other professional services incurred by us. General and administrative expenses decreased by $219,000, from $1,992,000 for 2007 to $1,773,000 for 2008 due primarily to decreased fees and expenses with respect to litigation involving our Remote Power Patent.

We incurred an operating loss of ($1,729,000) for 2008 compared with an operating loss of ($3,175,000) for 2007. Included in the operating loss for 2008 was $287,000 in charges relating to non-cash compensation expenses as compared to $1,403,000 for such non-cash compensation expenses for 2007. These losses were offset by interest earned of $111,000 and $177,000 for 2008 and 2007, respectively.

No provision for or benefit from federal, state or foreign income taxes was recorded for 2008 and 2007 because we incurred net operating losses and fully reserved our deferred tax assets as their future realization could not be determined.

As a result of the foregoing, we incurred a net loss of $(1,618,000) for the 2008 compared with a net loss of $(2,998,000) for 2007.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily from the sale of equity securities. In April 2007, we completed a private offering of equity securities resulting in gross proceeds of $5,000,000. In addition, during the fourth quarter of 2007 we received $1,184,375 of cash proceeds from the exercise of warrants issued in December 2004 and January 2005. We anticipate, based on currently proposed plans and assumptions, relating to our operations, that our cash and cash equivalents of approximately $4,020,000 as of March 31, 2009 will more likely than not be sufficient to satisfy our operations and capital requirements until at least December 31, 2010. 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, 2010. 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.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

We do not have any long-term debt, capital lease obligations, operating lease obligations, purchase obligations or other long-term liabilities.

Critical Accounting Policies:

Patents:

We own a patent portfolio that relates to various telecommunications and data networking technologies. We capitalize the costs associated with acquisition, registration and maintenance of the patents and amortize these assets over their remaining useful lives on a straight-line basis. Any further payments made to maintain or develop the patents would be capitalized and amortized over the balance of the useful life for the patents.

Impairment of long-lived assets:

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, we record impairment losses on long-lived assets used in operations or expected to be disposed of when indicators of impairment exist and the cash flows expected to be derived from those assets are less than carrying amounts of those assets.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements:

See Note B[10] on page F-8 to the Financial Statements.

MANAGEMENT

Our current officers and directors as of the date of this prospectus are as follows:

NAME	AGE	POSITION
Corey M. Horowitz	54	Chairman, Chief Executive Officer and Secretary, Chairman of the Board of Directors
David C. Kahn	57	Chief Financial Officer
Robert M. Pons	52	Director
Laurent Ohana	45	Director

Corey M. Horowitz became our Chairman and Chief Executive Officer in December 2003. Mr. Horowitz has also served as 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.

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.

Robert M. Pons became a director of our company in December 2003. Mr. Pons is currently Senior Vice President of TMNG Global (NasdaqGM: TMNG), a leading provider of professional services to the converging communications media and entertainment industries and the capital formation firms that support it. Mr. Pons also currently serves on the Board of Directors of Arbinet - thexchange, Inc.(Nasdaq: ARBX), a provider of innovative voice and IP solutions for the telecommunications industry. 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, 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.

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 the Company’s Technical Advisory Board. Since April 2006, Mr. Greene has also served as a marketing consultant for Avatier Corporation, a developer of identity management software. 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 Panacya 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.

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 Bylaws 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 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 our 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 equal to the closing price of the shares on the date of appointment to the Technical Advisory Board.

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, Electrical Engineer, Dapco Industries, a developer and manufacturer of ultrasonic test systems. From 2006 to 2008, he was 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 TIE/Communications, Inc., where he developed the TIE 612 Electronic Key System, the first “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.

Boris Katzenberg, Vice President Engineering, Aventura Technology, Inc., a manufacturer of next generation video surveillance solutions. From 2003 to 2008, he was Senior Electrical Engineer, Ortronics, Inc., a structured cabling solutions provider. Mr. Katzenberg has held numerous positions during his 28-year career in the Telecom and Datacom industries. He has been a force in the fields of power delivery and signal integrity systems, and has lent his expertise in the development of many innovative and cutting-edge technologies. From 1997 to 2002, he was a senior electrical engineer at Merlot Communications, Inc., where he invented the technology underlying our Remote Power Patent. He has also been active in the IEEE 802.3at Task Force, developing the next generation Power over Ethernet standard and continues to be responsible for the evaluation of new technologies and their development into viable products for Aventura Technology, Inc.

Jonathan Greene also serves as a member of the Technical Advisory Board (see page 40 hereof for a description of Mr. Greene's background).

Director Independence

Two of our three directors – Robert Pons and Laurent Ohana 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"). While we are not listed on AMEX, our Board has adopted its independence rules in making its determination of director independence.

Compensation Committee Interlocks and Insider Participation

Robert Pons was the sole member of the Compensation Committee during the year ended December 31, 2008. No member of the Compensation Committee was at any time during or prior to the year ended December 31, 2008, an officer or employee of our company. No interlocking relationship existed between Mr. Pons and any member of our company's board of directors or Compensation Committee during that period.

EXECUTIVE COMPENSATION

The following table summarizes compensation, for the years ended December 31, 2008 and December 31, 2007, 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, 2008 for services rendered in all capacities to us (collectively, the "Named Executive Officers").

Summary Compensation Table

		Annual Compensation			Long Term Compensation Awards	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards($)	All Other Compensation($)(1)	Total($)
Corey M. Horowitz	2008	$298,947	$168,000(2)	$190,763(3)	—	$657,710
Chairman and Chief Executive Officer	2007	$286,458	$162,000(4)	$655,000(5)	—	$1,103,458
David C. Kahn	2008	$83,340(6)	$15,000	$31,863(7)	—	$130,203
Chief Financial Officer	2007	$89,380(6)	—	—	—	$ 89,380

(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) Mr. Horowitz received the following bonus payments for 2008: (i) a discretionary annual bonus of $150,000 for 2008 which was paid in January 2009 and (ii) royalty bonus compensation of $18,000 pursuant to his employment agreement.

(3) In determining the grant date fair value under SFAS No.123R of a five (5) year option issued in February 2008 to Mr. Horowitz to purchase 375,000 shares of common stock, we made the following assumptions: expected term of options – 5 years; risk free interest rate for the expected term of the options – 2.73%; expected volatility of the underlying stock – 39.35%; no expected dividends.

(4) Mr. Horowitz received the following bonus payments for 2007: (i) a discretionary annual bonus of $150,000 for 2007 which was paid in January 2008 and (ii) royalty bonus compensation of $12,000 pursuant to his employment agreement.

(5) In determining the grant date fair value under SFAS No. 123R of (i) a five (5) year option issued in February 2007 to Mr. Horowitz to purchase 375,000 shares of common stock and (ii) a five (5) year option issued in April 2007 to Mr. Horowitz to purchase 732,709 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 – 4.52% and 4.67%; expected volatility of the underlying stock – 45.82%; no expected dividends.

(6) Consists of consulting fees paid to Mr. Kahn for his services as Chief Financial Officer.

(7) In determining the grant date fair value under SFAS No. 123R of a five (5) year option issued in December 2008 to Mr. Kahn to purchase 100,000 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 – 1.55%; expected volatility of the underlying stock – 69.45%; no expected dividends.

Narrative Disclosure to Summary Compensation Table

Employment Agreements, Termination of Employment and Change-In-Control Arrangements

On February 28, 2007, we entered into a new Employment Agreement with Corey M. Horowitz pursuant to which Mr. Horowitz 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 vested, on a quarterly basis over a one year period subject to acceleration upon a change of control. We also issued to Mr. Horowitz on the one year anniversary date (February 28, 2008) an additional five (5) year option to purchase 375,000 shares of our common stock at an exercise price of $1.32 (the closing price of our common stock on the date of grant), which option vested on a quarterly basis over a one year period. In addition to the aforementioned option grants, the Company 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 receives 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 its 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”). During 2008, Mr. Horowitz received $18,000 of Royalty Bonus Compensation. Mr. Horowitz shall also receive bonus 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 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 (during the term of the Employment

Agreement) 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 accordance with his employment agreement, Mr. Horowitz also had certain anti-dilution rights which provided that if at any time during the period ended December 31, 2008, in the event that we completed 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 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, with respect to our completion of a $5.0 million private offering and in accordance with the aforementioned anti-dilution provisions of 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 (the exercise price was reduced to $0.68 per share in March 2009 as part of our Board of Directors approval of adjustment of exercise prices of compensatory options and warrants to purchase up to an aggregate of 5,029,945 shares – See "Certain Relationships and Related Transactions).

On February 28, 2009, our employment agreement with Mr. Horowitz expired. We are in discussions with Mr. Horowitz with respect to a new employment agreement; however, there is no certainty that a mutually acceptable agreement will be reached. Mr. Horowitz continues to serve as our Chairman and Chief Executive Officer. We believe that the loss of the services of Mr. Horowitz would have a material adverse effect on our business and prospects. (See Risk Factors – "Dependence Upon CEO and Chairman").

On December 18, 2008, we entered into an agreement with David C. Kahn pursuant to which he continues to serve as our Chief Financial Officer through December 31, 2010. In consideration for his services, Mr. Kahn is compensated at the rate of $7,292 per month for the year ended December 31, 2009 and will be compensated at the rate of $7,657 per month for the year ended December 31, 2010. In connection with the agreement, Mr. Kahn was also issued a five (5) year option to purchase 100,000 shares of our common stock at an exercise price of $0.54 per share. The option vested 40,000 shares on the date of grant and the balance of the shares (60,000) vest on a quarterly basis in equal amounts of 7,500 shares beginning March 31, 2009 through December 31, 2010. 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, 2010.

Director Compensation

We compensated each director, who is not an employee of our company, by granting to each such outside director (upon joining the Board) stock options to 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. In December 2007, for services as a director for 2008, each member of the Board of Directors (with the exception of Harry Schessel who resigned in December 2007) was granted a five (5) year option to purchase 25,000 shares at an exercise price of $1.45 per share (closing price of our common stock on the date of grant), which option vested on a monthly basis over a one year period, subject to continued service on the Board of Directors. In December 2008, for services as a Director for 2009, each member of the Board of Directors was granted a five (5) year option to purchase 25,000 shares at an exercise price of $0.51 per share (closing price of our common stock on the date of grant) which option vests on a monthly basis over a one year period subject to continued service on the Board of Directors.

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, 2008. No director who is also a Named Executive Officer received any compensation for services as a director in 2008.

Name	Option Awards ($)	All other Compensation	Total ($)
Robert Pons(1)	$12,000 (2) (3)	—	$12,000(3)
Laurent Ohana(1)	$12,000 (2) (3)	—	$12,000(3)
Robert Graifman(1)	$12,000 (2)	—	$12,000

(1) In January 2008, Robert Graifman, Robert Pons and Laurent Ohana were each granted a five (5) year option to purchase 25,000 shares of our common stock (which vested on grant), at an exercise price of $1.45 per share, for services to be rendered as a Board member during 2008. Mr. Graifman resigned as a Board member on June 23, 2008.

(2) In determining the grant date fair value of the option grants in January 2008 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 – 3.28%; expected volatility of the underlying stock – 37.32%; no expected dividends.

(3) Does not include the fair value of options to purchase 25,000 shares of our common stock granted on December 1, 2008 to each of Robert Pons and Laurent Ohana since the options vest on a quarterly basis beginning March 1, 2009.

Option Grants in 2008

The following stock options were granted to the Named Executive Officers during the year ended December 31, 2008:

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 2008	Exercise Price	Expiration Date
Corey M. Horowitz Chairman and CEO	375,000	79%	$1.32	2/28/2013
David Kahn Chairman and Chief Financial Officer	100,000	21%	$0.54	12/18/2013

Outstanding Equity Awards at December 31, 2008

The following table sets forth information relating to unexercised and outstanding options for each Named Executive Officer as of December 31, 2008:

Name	Number of Securities Underlying Unexercised Option Exercisable	Unexercisable	Option Exercise Price ($)	Option Expiration Date
Corey M. Horowitz Chairman and CEO	375,000(1)	–	$ 1.46	02/28/12
	732,709(2)	–	$ 1.67	04/16/12
	1,195,361(3)	–	$ 1.18	03/16/12
	400,000(4)	–	$ .68	11/26/09
	1,100,000(5)	–	$ .25	11/26/14
	515,218(6)	–	$ .13	12/22/11
	1,084,782(7)	–	$ .23	12/22/11
	750,000(8)(20)	–	$ 1.20	04/18/10
	250,000(9)(20)	–	$ 1.48	10/08/10
	300,000(10)(20)	–	$ .70	07/11/11
	–	10,625(18)	$ 3.0625	01/19/11
	20,000(11)	–	$ 6.00	10/20/11
	10,000(12)	–	$ 3.75	6/22/09
	7,500(13)	–	$ 4.25	10/25/09
	5,000(14)	–	$ 5.50	9/19/10
	375,000(15)	–	$ 1.32	2/28/13
David Kahn Chief Financial Officer	75,000(16)	–	$ 1.50	12/20/11
	75,000(17)	–	$ .80	08/04/10
	47,500	52,500(19)	$ .54	12/18/13

The vesting dates of the foregoing options are as follows: (1) 93,750 shares on a quarterly basis beginning March 31, 2007 through December 31, 2007; (2) April 16, 2007; (3) March 16, 2005; (4) 200,000 shares on November 26, 2004 and 200,000 shares on November 26, 2005, (5) November 26, 2004; (6) December 22, 2003; (7) 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; (8) 250,000 shares on April 18, 2005, 250,000 shares on April 18, 2004 and 250,000 shares on April 18, 2005; (9) June 11, 2001; (10) July 11, 2001; (11) on a quarterly basis in equal amounts beginning January 20, 1999 through October 20, 1999; (12) on a quarterly basis in equal amounts beginning September 12, 1999 through June 22, 2000; (13) on a quarterly basis in equal amounts beginning January 25, 2000

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through October 25, 2000; (14) on a quarterly basis in equal amounts beginning December 19, 2000 through September 19, 2000; (15) 93,750 shares on a quarterly basis beginning March 31, 2008 through December 31, 2008; (16) December 20, 2006; (17) 30,000 shares on August 4, 2005 and 7,500 shares on a quarterly basis beginning September 30, 2005 through December 31, 2006; (18) 5,313 shares if the stock price reaches $10 per share and 5,312 shares if the stock price reaches $15 per share; (19) 7,500 shares on a quarterly basis beginning March 31, 2009 through December 31, 2010; and (20) includes options or warrants held by CMH Capital Management Corp., an entity in which Mr. Horowitz is the sole owner, officer and director.

On March 11, 2009, as part of adjustments to outstanding compensatory options and warrants to purchase an aggregate of 5,029,945 shares of common stock approved by the Board of Directors, the exercise prices of all of the options included in the table above with an exercise price above $0.68 per share were adjusted to $0.68 per share.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of April 15, 2009 (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.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF SHARES BENEFICIALLY OWNED(2)
Corey M. Horowitz(3)	10,166,935	32.5%
CMH Capital Management Corp(4)	3,767,800	14.8%
Jonathan Auerbach(5)	3,279,917	12.9%
Hound Partners, LLC(5)	3,279,917	12.9%
Hound Performance, LLC(5)	3,279,917	12.9%
Steven D. Heinemann (6)	2,360,252	9.7%
Barry Rubenstein (7)	2,078,896	8.6%
Hound Partners Offshore Fund, L.P.(8)	1,737,802	7.0%
Hound Partners, L.P. (9)	1,542,115	6.3%
Woodland Services Corp. (10)	1,376,209	5.7%
Emigrant Capital Corporation (11)	1,312,500	5.4%
Paul Milstein Revocable 1998 Trust		
New York Private Bank & Trust Corporation		
Emigrant Bancorp. Inc.		
Emigrant Savings Bank		
Laurent Ohana(12)	212,500	*
David C. Kahn(13)	197,500	*
Robert Pons(14)	162,500	*
All officers and directors as a group (4 Persons)	10,739,435	33.7%

* 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. Unless otherwise indicated the address for each listed beneficial owner is c/o Network-1 Security Solutions, Inc., 445 Park Avenue, Suite 1018, New York, New York 10022.

(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 24,135,557 shares of our common stock outstanding.

(3) Includes (i) 343,803 shares of common stock held by Mr. Horowitz, (ii) 5,820,570 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. 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) 165,000 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 10,625 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) 1,057,215 shares of common stock and 484,900 shares of common stock subject to currently exercisable warrants held by Hound Partners, L.P. and (ii) 1,139,368 shares of common stock and 598,434 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, L.P. and Hound Partners Offshore Fund, L.P. Hound Partners, LLC is the investment manager of Hound Partners, L.P. and Hound Partners Offshore Fund, L.P. The securities may be deemed to be beneficially owned by Hound Performance, LLC, Hound Partners LLC and Jonathan Auerbach. The aforementioned beneficial ownership is based upon Amendment No.1 to Schedule 13G jointly filed by Hound Partners, LLC, Hound Performance, LLC, Jonathan Auerbach, Hound Partners, L.P. and Hound Partners Offshore Fund, L.P., with the Securities and Exchange Commission on February 13, 2009 and a Form 4 jointly filed by Hound Partners, LLC and Hound Performance, LLC and Jonathan Auerbach with the Securities and Exchange Commission on August 8, 2008. Jonathan Auerbach, by virtue of being the managing member of Hound Performance, LLC and Hound Partners, LLC, may be deemed to have the sole power to vote and dispose of the securities held by Hound Partners, L.P. and Hound Partners Offshore Fund, L.P. The address for Hound Partners, LLC is 101 Park Avenue, 47th Floor, New York, New York 10178.

(6) Includes (i) 2,268,585 shares of common stock and (ii) 91,667 shares of common stock subject to currently exercisable warrants owned by Mr. Heinemann. The aforementioned beneficial ownership is based upon Amendment No. 1 to Schedule 13G filed by Mr. Heinemann with the Securities and Exchange Commission on February 11, 2009. The address for Mr. Heinemann is c/o First New York Securities, L.L.C., 90 Park Avenue, 5th Floor, New York, New York 10016.

(7) Includes (i) 150,012 shares of common stock held by Mr. Rubenstein, (ii) 47,500 shares of common stock subject to currently exercisable stock options held by Mr. Rubenstein, and (iii) 792,726, 583,483, 309,316, 194,810 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 Mr. Rubenstein which are not currently exercisable. The aforementioned beneficial ownership by Mr. Rubenstein is based upon Amendment No. 7 to Schedule 13D jointly filed by Mr. Rubenstein and related parties with the Securities and Exchange Commission on November 14, 2007 and a Form 4 filed by Mr. Rubenstein with the Securities and Exchange Commission on October 26, 2007. Barry Rubenstein and Woodland Services Corp. are the general partners of Woodland Venture Fund and Seneca Ventures. Barry Rubenstein is the general partner of Brookwood Partners, L.P. Barry Rubenstein is the President and sole director of Woodland Services Corp. Marilyn Rubenstein is the wife of Barry Rubenstein. Barry Rubenstein, by virtue of being a General Partner of Woodland Venture Fund, Seneca Ventures and Brookwood Partners, L.P. and the President and sole director of Woodland Services Corp., may be deemed to have the sole power to vote and dispose of the securities held by Woodland Venture Fund, Seneca Ventures, Woodland Partners and Brookwood Partners, L.P. The address of Barry Rubenstein is 68 Wheatley Road, Brookville, New York 11545.

(8) Includes (i) 1,139,368 shares of common stock and (ii) 598,434 shares of common stock subject to currently exercisable warrants held by Hound Partners Offshore Fund, L.P. Jonathan Auerbach, by virtue of being the managing member of Hound Performance, LLC and Hound Partners, LLC, may be deemed to have the power to vote and dispose of securities held by Hound Partners Offshore Fund, L.P. The address of Hound Partners Offshore Fund, L.P. is c/o Citco Fund Services (Curacao) N.V., P.O. Box 4774, Willemstad, Curacao, Netherlands Antilles.

(9) Includes (i) 1,057,215 shares of common stock and (ii) 484,900 shares of common stock subject to currently exercisable warrants owned by Hound Partners, LP. Jonathan Auerbach, by virtue of being the managing member of Hound Performance, LLC and Hound Partners, LLC, may be deemed to have the sole power to vote and dispose of the securities held by Hound Partners, L.P. The address of Hound Partners, L.P. is 101 Park Avenue, 47th Floor, New York, New York 10178.

(10) Includes (i) 792,726 shares of common stock owned by Woodland Venture Fund and (ii) 583,483 shares of common stock owned by Seneca Ventures. Woodland Services Corp. and Barry Rubenstein are the general partners of Woodland Venture Fund and Seneca Ventures. The aforementioned beneficial ownership of Woodland Services Corp. is based upon Amendment No. 7 to Schedule 13D jointly filed by Woodland Services Corp.

and related parties with the Securities and Exchange Commission on November 14, 2007. Barry Rubenstein, by virtue of being President and the sole director of Woodland Services Corp., may be deemed to have the sole power to vote and dispose of the shares owned by Woodland Services Corp. The address of Woodland Services Corp. is 68 Wheatley Road, Brookville, New York 11545.

(11) Includes (i) 1,125,000 shares of common stock and (ii) 187,500 shares of common stock subject to currently exercisable warrants held by Emigrant Capital Corporation ("Emigrant Capital"). Emigrant Capital is a wholly owned subsidiary of Emigrant Savings Bank ("ESB"), which is a wholly-owned subsidiary of Emigrant Bancorp, Inc. ("EBI"). EBI is a wholly-owned subsidiary of New York Private Bank & Trust Corporation ("NYPBTC"). The Paul Milstein Revocable 1998 Trust (the "Trust") owns 100% of the voting stock of NYPBTC. ESB, EBI, NYPBTC and the Trust each may be deemed to be the beneficial owner of the shares of common stock and warrants held by Emigrant Capital. The aforementioned is based upon a Schedule 13G/A filed jointly by Emigrant Capital, ESB, EBI, NYPBTC, the Trust and others with the Securities and Exchange Commission on January 12, 2005. Howard Milstein, by virtue of being an officer of New York Private Bank and Trust Corporation and trustee of the Paul Milstein Revocable 1998 Trust, both indirect owners of Emigrant Capital Corporation, may be deemed to have sole power to vote and dispose of the securities owned by Emigrant Capital Corporation. The address of Emigrant Capital Corporation is 6 East 43rd Street, 8th Floor, New York, New York 10017.

(12) Includes 212,500 shares subject to currently exercisable options and warrants issued to Mr. Ohana. Does not include options to purchase 12,500 shares of common stock held by Mr. Ohana which are not currently exercisable.

(13) Includes 197,500 shares of common stock subject to currently exercisable stock options issued to Mr. Kahn. Does not include options to purchase 52,500 shares of common stock which are not currently exercisable.

(14) Includes 162,500 shares subject to currently exercisable stock options issued to Mr. Pons. Does not include options to purchase 12,500 shares of common stock held by Mr. Pons which are not currently exercisable.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On February 28, 2007, we entered into an Employment Agreement with Corey M. Horowitz pursuant to which Mr. Horowitz continued to serve as our Chairman and Chief Executive Officer for a two year term (expiring February 28, 2009) at an annual base salary of $288,750 for the first year with a 5% increase on the one year anniversary thereof. In accordance with his employment agreement, on February 28, 2007, we issued to Mr. Horowitz a five (5) year option to purchase 375,000 shares of our common stock, at an exercise price of $1.46 per share, which option vested in equal quarterly amounts of 93,950 shares beginning March 31, 2007 through December 31, 2007. (See. "Executive Compensation - Narrative Disclosure to Summary Compensation Table - Employment Agreements, Termination of Employment and Change-In-Control Arrangements" for the detailed terms of the employment agreement with Mr. Horowitz).

On April 16, 2007, we issued to Corey M. Horowitz, our Chairman and Chief Executive Officer, a five (5) year option to purchase 732,709 shares of our common stock, at an exercise price of $1.67 per share, which option fully vested on the date of issue. The aforementioned option was issued to Mr. Horowitz pursuant to the anti-dilution provisions of his employment agreement as a result of our completion of a $5,000,000 private placement in April 2007. (See "Executive Compensation – Narrative Disclosure to Summary Compensation Table - Employment Agreement, Termination of Employment and Change-in-Control Arrangements").

On February 28, 2008, in accordance with our employment agreement with Corey M. Horowitz, we issued to Mr. Horowitz an additional five (5) year option to purchase 375,000 shares of our common stock, at an exercise price of $1.32 per share, which option vests in equal quarterly amounts of 93,750 shares beginning March 31, 2008 through December 31, 2008. (See "Executive Compensation – Narrative Disclosure to Summary Compensation Table - Employment Agreements, Termination of Employment and Change-In-Control Arrangements").

On December 18, 2008, we entered into an agreement with David C. Kahn pursuant to which he continues to serve as our Chief Financial Officer through December 31, 2010. In consideration for his services, Mr. Kahn is compensated at the rate of $7,292 per month for the year ended December 31, 2009 and will be compensated at the rate of $7,657 per month for the year ended December 31, 2010. In connection with the agreement, Mr. Kahn was also issued a five (5) year option to purchase 100,000 shares of our common stock at an exercise price of $0.54 per share. The option vested 40,000 shares on the date of grant and the balance of the shares (60,000) vests on a quarterly basis in equal amounts of 7,500 shares beginning March 31, 2009 through December 31, 2010. 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, 2010.

On March 11, 2009 our Board of Directors approved adjustments to the exercise prices and terms of certain of our outstanding options and warrants as follows:

(i) the exercise prices of certain outstanding compensatory options and warrants issued to officers, directors, consultants and others to purchase an aggregate of 5,029,945 shares of common stock were adjusted to an exercise price of $0.68 per share (closing price of the Company's common stock on March 11, 2009) including options and warrants to purchase an aggregate of 4,031,195 shares held by Corey M. Horowitz, our Chairman and Chief Executive Officer, and an affiliated entity, options to purchase an aggregate of 150,000 shares held by David Kahn, our Chief Financial Officer, and options and warrants to purchase an aggregate of 200,000 and 100,000 shares held by Laurent Ohana and Robert Pons, respectively, two of our directors;

(ii) the exercise price of outstanding warrants to purchase an aggregate of 473,750 shares of common stock (including warrants to purchase 187,500 shares owned by Emigrant Capital Corporation, one of our principal stockholders), issued as part of the Company's private placement completed in December 2004 and January 2005, which exercise price was scheduled to increase to $2.00 per share on March 31, 2009 (from $1.75 per share) adjusted to an exercise price of $1.75 for the remaining exercise period of such warrants (May 21, 2010), subject to the adjustment set forth in item (iv) below;

(iii) the exercise price of warrants to purchase an aggregate of 1,666,667 shares of common stock (including warrants to purchase 484,900 shares owned by Hound Partners, L.P., warrants to purchase 598,434 shares owned by Hound Partners Offshore Fund, L.P. and warrants to purchase 66,667 shares of common stock owned by Steven Heinemann, all such parties are principal stockholders of our Company), at an exercise price of $2.00 per share, which warrants were issued as part of the Company's private placement completed in April 2007, were adjusted to an exercise price of $1.75 per share for the remaining exercise period of such warrants (April 16, 2012), subject to the adjustments set forth in item (iv) below; and

(iv) in the event that any holders of the above referenced outstanding warrants, issued as part of our December 2004/January 2005 or our April 2007 private placements, exercise such warrants at anytime up to and including December 31, 2009, the exercise price of all such warrants shall adjust to $1.25 per share.

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DESCRIPTION OF SECURITIES

Our authorized capital stock consists of 50,000,000 shares of common stock, par value $.01 per shares, and 10,000,000 shares of preferred stock, par value $.01 per share. As of the date of this Prospectus, we have outstanding 24,135,557 shares of common stock and no outstanding shares of preferred stock.

Common Stock

Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. There are no cumulative voting rights for the election of directors, which means that the holders of more than 50% of such outstanding shares voting for the election of directors can elect all of the directors standing for election. Subject to the rights of any outstanding class or series of preferred stock created by the authority of our Board of Directors, holders of common stock are entitled to receive dividends as and when declared by our Board of Directors out of funds legally available therefor. Subject to the rights of any outstanding class or series of preferred stock created by the authority of our Board of Directors, in the event of the liquidation, dissolution or winding up of our company, the holder of each share of common stock is entitled to share equally in the balance of any of the assets of our company available for distribution to stockholders. Outstanding shares of common stock do not have subscription or conversion rights and there are no redemption or sinking fund provisions applicable thereto. Holders of common stock have no preemptive rights to purchase pro-rata portions of newly issued common stock or preferred stock.

Preferred Stock

Our Board is authorized, subject to any limitations prescribed by Delaware law, to provide for the issuance of additional shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in each such series, to fix the rights, preferences and privileges of the shares of each wholly unissued series and any qualifications, limitations or restrictions thereon, and to increase or decrease the number of shares of any such series (but not below the number of shares of such series then outstanding), without any further vote or action by the stockholders. Our Board may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of our common stock. Thus, the issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of our company. Our company has no current plan to issue any shares of preferred stock.

Warrants and Options

As of the date of this prospectus, there are outstanding options and warrants to purchase an aggregate of 12,164,882 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 and warrants may adversely affect prevailing market prices for our common stock.

With respect to our $5,000,000 private offering completed on April 16, 2007, we issued to ten (10) investors five (5) year warrants to purchase an aggregate of 1,666,667 shares of common stock, at an exercise price of $2.00 per share, which underlying shares are being registered for resale in this Prospectus pursuant to a registration rights agreement with such investors. On March 11, 2009, our Board of Directors adjusted the exercise price of the warrants to $1.75 per share ($1.25 per share if the warrants are executed anytime up to and including December 31, 2008). In connection with the private offering, we also issued to our two placements agents five (5) year warrants to purchase an aggregate of 360,000 shares of our common stock, of which 240,000 shares are exercisable at $1.50 per share and 120,000 shares are exercisable at $2.00 per share, which underlying shares are being registered for resale in this Prospectus pursuant to a registration rights agreement with such investors.

With respect to our $2,685,000 private placement completed in December 2004 and January 2005, we issued warrants to purchase an aggregate of 2,013,750 shares of common stock. As of the date of this prospectus, such private placement warrants to purchase an aggregate of 1,066,250 shares remain outstanding and such underlying shares are being registered for resale in this prospectus. Such warrants include (i) warrants to purchase 395,000 shares of common stock at an exercise price of $1.45 per share, which expiration date has been extended until December 31, 2009, (ii) warrants to purchase an aggregate of 473,750 shares at an exercise price of $1.75 per share through May 20, 2010, subject to an adjustment of the exercise price to $1.25 per share if the warrants are exercised anytime up to and including December 31, 2009 and (iii) warrants to purchase 197,500 shares at an exercise price of $2.00 per share which expiration date has been extended until December 31, 2009.

Transfer Agent

The Transfer Agent for our common stock is American Stock Transfer and Trust Company, 59 Maiden Lane, New York, New York 10038.

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for us by the law firm of Eiseman Levine Lehrhaupt & Kakoyiannis, P.C., 805 Third Avenue, New York, New York. Sam Schwartz, a member of such firm, owns 23,584 shares of our common stock and owns options to purchase 12,500 shares of our common stock as of the date of this prospectus.

EXPERTS

Our financial statements as of December 31, 2008 and 2007 and for each of the years then ended appearing in this Prospectus and Registration Statement have been audited by Radin, Glass Co., LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon authority of said firm as experts in accounting and auditing.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Our Certificate of Incorporation and Bylaws provide our directors with protection for breaches of their fiduciary duties to us and our shareholders. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us, we have been advised that it is the SEC's opinion that such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person 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, we will, unless in the opinion of our 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 Securities Act and will be governed by the final adjudication of such issue.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 on official business days during the hours of 10:00 a.m. – 3:00 p.m. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to you on the SEC's Internet site at http://www.sec.gov.

This prospectus is part of a Post-Effective Amendment on Form S-1 to Form SB-2 and Form S-2 Registration Statement filed by us with the SEC under the Securities Act and therefore omits certain information in the Registration Statement. We have also filed exhibits with the Registration Statement that are not included in this Prospectus, and you should refer to the applicable exhibit for a complete description of any statement referring to any document. You can inspect a copy of the Registration Statement and its exhibits, without charge, at the SEC's Public Reference Room, and can copy such material upon paying the SEC's prescribed rates.

You may also request a copy of our filings at no cost by writing or telephoning us at:

Network-1 Security Solutions, Inc.
445 Park Avenue, Suite 1018
New York, New York 10022
Attention: Corey M. Horowitz, Chairman and
Chief Executive Officer
(212) 829-5770

NETWORK-1 SECURITY SOLUTIONS, INC.

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NETWORK-1 SECURITY SOLUTIONS, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Network-1 Security Solutions, Inc.

We have audited the accompanying balance sheets of Network-1 Security Solutions, Inc. as of December 31, 2008 and 2007 and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Network-1 Security Solutions, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Radin, Glass & Co., LLP

New York, New York

March 25, 2009

NETWORK-1 SECURITY SOLUTIONS, INC.

Balance Sheets

	December 31, 2008	December 31, 2007
CURRENT ASSETS		
Cash and cash equivalents	$ 4,484,000	$ 5,928,000
Royalty and interest receivable	78,000	23,000
Prepaid insurance	71,000	71,000
Total current assets	4,633,000	6,022,000
OTHER ASSETS:		
Patent, net of accumulated amortization	100,000	72,000
Security deposits	6,000	6,000
Total Other Assets	106,000	78,000
TOTAL ASSETS	$ 4,739,000	$ 6,100,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 86,000	$ 103,000
Accrued expenses	251,000	264,000
TOTAL LIABILITIES	337,000	367,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value; authorized 50,000,000 shares; 24,135,557 and 24,135,557 issued and outstanding in 2008 and 2007,respectively	241,000	241,000
Additional paid-in capital	55,056,000	54,769,000
Accumulated deficit	(50,895,000)	(49,277,000)
TOTAL STOCKHOLDERS' EQUITY	4,402,000	5,733,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,739,000	$ 6,100,000

See notes to financial statements

NETWORK-1 SECURITY SOLUTIONS, INC.

Statements of Operations

	Year Ended December 31, 2008	Year Ended December 31, 2007
ROYALTY REVENUE	$ 349,000	$ 232,000
COST OF REVENUE	18,000	12,000
GROSS PROFIT	331,000	220,000
OPERATING EXPENSES:		
General and administrative	$ 1,773,000	$ 1,992,000
Non-cash compensation	287,000	1,403,000
TOTAL OPERATING EXPENSES	2,060,000	3,395,000
OPERATING LOSS	(1,729,000)	(3,175,000)
OTHER INCOME (EXPENSES):		
Interest income, net	111,000	177,000
LOSS BEFORE INCOME TAXES	(1,618,000)	(2,998,000)