

NETWORK 1 SECURITY SOLUTIONS INC

Form S-1

August 19, 2013

As filed with the Securities and Exchange Commission on August 19, 2013

Registration No. _____

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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
(State or other jurisdiction of
incorporation or organization)

6794
(Primary Standard Industrial
Classification Code Number)

11-3027591
(I.R.S. Employer
Identification No.)

445 Park Avenue, Suite 1020
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 1020
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:

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New York, New York 10022
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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:

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:

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:

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

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (3)	AMOUNT REGISTRATION FEE
-----	(1)(2)	-----	-----	-----

		PER SHARE (3)	----- -----	
Common Stock, par value \$.01 per share, underlying warrants exercisable at \$2.10 per share....	1,250,000	\$2.10	\$ 2,625,000	\$358.05
Common Stock, par value \$.01 per share, underlying warrants exercisable at 1.40 per share....	1,250,000	\$1.76	\$ 2,200,000	\$300.08
Common Stock, par value \$.01 per share.....	3,574,661	\$1.76	\$ 6,291,403.36	\$858.15
Common Stock, par value \$.01 per share, underlying warrants exercisable at \$0.68 per share....	250,000	\$1.76	\$ 440,000	\$ 60.02
Total Registration Fee:			\$1,576.29	

(1) Represents (a) 1,750,000 shares of common stock, par value \$.01 per share (the "Common Stock"), of Network-1 Security Solutions, Inc. (the "Company") issuable upon exercise of two warrants (the "Warrants") issued by the Company in partial consideration of acquisition of a patent portfolio and certain other assets of Looking Glass LLC (formerly Mirror Worlds, LLC) on May 21, 2013 (the "MW Patent Acquisition"), (b) 750,000 shares of Common Stock of the Company issuable upon exercise of four warrants issued to a third party in connection with the MW Patent Acquisition; (c) 500,000 shares of common stock issued to two third parties in connection with exercise of warrants issued in connection with the MW Patent Acquisition; (d) 3,074,661 shares of Common Stock owned by our Chairman and Chief Executive Officer and related parties and (e) 250,000 shares of Common Stock of the Company issuable upon exercise of warrants owned by the Company's Chairman and Chief Executive Officer.

(2) Pursuant to Rule 416, this registration statement also covers such indeterminate additional shares of Common Stock as may become issuable as a result of any future anti-dilution adjustment in accordance with the terms of the warrant agreements.

(3) Pursuant to Rule 457(g), based on the higher of (a) the price at which the warrants may be exercised or (b) the average of the bid and ask price of securities of the same class, based upon reported prices of the Registrant's common stock on the OTC Bulletin Board on August 14, 2013 as determined in accordance with Rule 457(c).

PURSUANT TO RULE 429 UNDER THE SECURITIES ACT, THE PROSPECTUS INCLUDED IN THIS REGISTRATION STATEMENT RELATES TO SHARES OF COMMON STOCK OF THE REGISTRANT NOT PREVIOUSLY REGISTERED AND TO SHARES OF COMMON STOCK OF THE REGISTRANT PREVIOUSLY REGISTERED UNDER REGISTRATION STATEMENT ON FORM SB-2 (NO. 333-143710) AND REGISTRATION STATEMENT ON FORM S-2 (NO. 333-126013) AND CONSTITUTES A POST-EFFECTIVE AMENDMENT TO SUCH REGISTRATION STATEMENTS. THIS POST EFFECTIVE AMENDMENT SHALL HEREAFTER BECOME EFFECTIVE CONCURRENTLY WITH THE EFFECTIVENESS OF THIS REGISTRATION STATEMENT IN ACCORDANCE WITH SECTION 8 OF THE SECURITIES ACT.

This Registration Statement on Form S-1 Registration Statement, which includes a post-effective amendment to Registration Statements on Form SB-2 and Form S-2, shall become effective on such date as the Securities and Exchange Commission, acting pursuant to section 8(c) of the Securities Act, may determine.

Explanatory Note:

The purpose of this Registration Statement on Form S-1 is (i) register an additional 2,500,000 shares of common stock underlying warrants issued to two holders in connection with the Registrant's acquisition of the patent portfolio and other assets of Looking Glass LLC (formerly Mirror Worlds, LLC) and an additional 500,000 shares of common stock issued to two shareholders in connection with the exercise of warrants issued with respect to the above referenced acquisition of assets and (ii) to file a post-effective amendment with respect to the registration of 3,324,661 shares of common stock previously registered pursuant to Registrant's Registration Statement on Form SB-2 (File No. 333-143710), as amended, which was filed on July 13, 2007 and Registrant's Registration Statement on Form S-2 (File No. 333-126013), as amended, which was filed on June 21, 2005.

The registrant hereby amends this 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 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 AUGUST 19, 2013

PROSPECTUS

NETWORK-1 SECURITY SOLUTIONS, INC.

6,324,661 shares of Common Stock

This Prospectus covers the resale by the selling stockholders listed on pages 32 to 34 of this Prospectus of up to 6,324,661 shares of our common stock, \$.01 par value, which include:

2,500,000 shares of common stock issuable upon exercise of warrants and 500,000 shares of common stock (issued as a result of exercise of a warrant) issued to four holders in connection with our acquisition of the patent portfolio and certain other assets of Looking Glass LLC (formerly Mirror Worlds, LLC) on May 21, 2013; and

3,074,661 shares of common stock and 250,000 shares of our common stock issuable upon exercise of warrants 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 to purchase common stock are exercised 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 34 to 35.

Our common stock is traded on the OTC Bulletin Board under the symbol "NSSI". Our common stock is not traded on any national securities exchange. On August 14, 2013, the closing price of our common stock, as reported on the OTC Bulletin Board, was \$1.77 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 7 of this Prospectus.

The information in this Prospectus is not complete and may be changed. The selling stockholders named in this Prospectus may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and neither we nor the selling stockholders named in this Prospectus are soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is _____, 2013

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PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

II-1

You should rely only on the information contained in this Prospectus. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this Prospectus. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this Prospectus is accurate only as of the date of this Prospectus, regardless of the time of delivery of this Prospectus or of any sale of common stock.

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 nineteen (19) patents issued by the U.S. Patent and Trademark Office that relate to various technologies including patents covering (i) the delivery of power over Ethernet (“PoE”) cables for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras, over Ethernet networks; (ii) foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system; (iii) enabling technology for identifying media content on the Internet and taking further actions to be performed based on such identification including, among others, the insertion of advertising and the facilitation of the purchase of goods and services; and (iv) systems and methods for the transmission of audio, video and data over computer and telephony networks. In addition, we continually review opportunities to acquire or license additional intellectual property. Our strategy is to pursue licensing and strategic alliances with companies in industries that manufacture and sell products that make use of the technologies underlying our intellectual property.

To date, our licensing efforts have largely 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 August 15, 2013, we had entered into a total of sixteen (16) license agreements with respect to our Remote Power Patent which, among others, include license agreements with Cisco Systems, Inc. and Cisco-Linksys, Microsemi Corporation, Extreme Networks, Inc., Motorola Solutions, Inc., Allied Telesis, Inc., NEC Corporation and several other major data networking equipment manufacturers. We have a pending patent infringement litigation against 11 data network equipment manufacturers for infringement of our Remote Power Patent (See Note J[1] to our audited financial statements for the years ended December 31, 2012 and 2011 included as part of this Prospectus).

Our strategy includes seeking to acquire additional intellectual property assets in the future to develop, commercialize, license or otherwise monetize such intellectual property. As part of that acquisition strategy, in February 2013 we completed the acquisition of four (4) patents and one (1) pending patent application pertaining to the identification of media content on the Internet and taking further actions to be performed based on such identification including, among others, the insertion of advertising and the facilitation of the purchase of goods and services (See “Business” at page 27-28). In addition, on May 21, 2013, we acquired, through our newly formed subsidiary, Mirror Worlds Technologies, LLC, nine (9) patents and five (5) pending applications covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system (See “Business at page 26-27 hereof). We work with inventors and patent owners to assist in the development and monetization of their patented technologies. We may enter into strategic relationships with third parties to develop,

commercialize, license or otherwise monetize their intellectual property. The form of such relationships may vary depending upon the opportunity and may include, among other things, a strategic investment in such third party, the provision of financing to such third party or the formation of a joint venture for the purpose of monetizing such third party's intellectual property assets.

Our future success is largely dependent upon our proprietary technologies, our ability to protect our intellectual property rights, to consummate license agreements with respect to our intellectual property as well as our ability to acquire additional intellectual property assets or enter into strategic relationships with third parties to license or otherwise monetize their intellectual property. The complexity of patent and common law and the inherent uncertainty of litigation creates risk that our efforts to protect our intellectual property rights, or those of our strategic partners, may not be successful. We cannot be assured that such intellectual property will be upheld or that third parties will not invalidate such intellectual property rights. In addition, we may not be able to (i) acquire additional intellectual property assets or successfully license such assets or (ii) successfully enter into strategic relationships with third parties to license or otherwise monetize their intellectual property.

We were incorporated under the laws of the State of Delaware in July 1990. Our principal offices are located at 445 Park Avenue, Suite 1020, 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>.

Acquisition of Mirror Worlds Patents and Commencement of Litigation

On May 21, 2013, through our newly formed subsidiary, Mirror Worlds Technologies, LLC ("MWT"), we acquired from Mirror Worlds, LLC (which subsequently changed its name to Looking Glass LLC) nine (9) issued United States patents and five (5) pending applications covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system (the "MW Patent Portfolio"). The inventions described in the MW Patent Portfolio resulted from the work done by Yale University computer scientist, Professor David Gelernter, and his then graduate student, Dr. Eric Freeman, in the mid-1990s. Certain aspects of these inventions were commercialized in their company's product offering called "Scopeware". Scopeware received extensive media accolades when introduced to the public in 2001, and technologies embodied in Scopeware are now common in various computer and web-based operating systems. Both Professor Gelernter and Dr. Freeman entered into consulting agreements with us as part of our acquisition of the MW Patent Portfolio. Professor Gelernter and Dr. Freeman are currently associated with Lifestreams Technologies Corporation ("Lifestreams"), a company that develops next generation applications and methodologies aimed at organizing and displaying digital data. Lifestreams is a licensee of the MW Patent Portfolio. In connection with the acquisition of the MW Patent Portfolio, we also acquired an equity interest in Lifestreams. In addition, in July 2013 we made an additional equity investment in Lifestreams and, as part of an amended license agreement with Lifestreams, we received a warrant to purchase 7.5% of the outstanding common stock of Lifestreams on a fully diluted basis.

On May 22, 2013, MWT commenced patent litigation against several major vendors of document system software and computer systems in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of U.S. Patent No. 6,006,227 (the "'227 Patent"). Named as defendants in the lawsuit are Apple, Inc., Microsoft, Inc., Hewlett-Packard Company, Lenovo Group Ltd., Lenovo (United States), Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics America, Inc. and Samsung Telecommunications America L.L.C.

The Company seeks among other things, monetary damages based upon reasonable royalties. The lawsuit alleges that the defendants have infringed and continue to infringe the claims of the '227 Patent by making, selling, offering to sell and using infringing products including Mac OS and Windows operating systems and personal computers and tablets that include versions of those operating systems, and by encouraging others to make, sell and use these products.

Acquisition of Patents Related to Identification of Media Content on the Internet

On February 28, 2013, we acquired from Dr. Ingemar Cox four (4) U.S. patents (as well as a pending patent application) pertaining to enabling technology for identifying media content on the Internet and taking further actions to be performed based on such identification including, among others, the insertion of advertising and the facilitation of the purchase of goods and services. Dr. Cox entered into a consulting agreement with us in connection with the acquisition. The patents relate to enabling technology for identifying media content on the Internet, such as audio and video, and taking further action to be performed based on such identification, including among others, the insertion of advertising and the facilitation of the purchase of goods and services. The patents (U.S. Patent No. 7,058,223, No. 8,010,988, No. 8,020,187 and No. 8,205,237) are based on a patent application filed in 2000 and have patent terms extending into 2023. Since acquisition of the Cox patent portfolio, we have filed seven (7) additional related patent applications with the United States Patent and Trademark Office seeking patent protection based upon the original patent application filed in 2000 and we anticipate further issuances of additional claims for this portfolio. In July 2013, we received a Notice of Allowance from the U.S. Patent and Trademark Office for the patent application, entitled "Method of Using Extracted Features from an Electronic Work". This granted patent application will issue a patent within the next few months.

Dr. Cox, a technology leader in digital watermarking content identification, digital rights management and related technologies, was formerly a member of the Technical Staff at AT&T Bell Labs and a Fellow at NEC Research Institute. He is a Fellow of the IEEE, the IET (formerly IEE), and the British Computer Society and is a member of the UK Computing Research Committee. He was founding co-editor in chief of the IEE Proc. On Information Security and was an associate editor of the IEEE Trans. on Information Forensics and Security. He is co-author of a book entitled "Digital Watermarking and Steganography" and its second edition "Digital Watermarking and Steganography". He is an inventor on 35 United States Patents, and an author of many highly cited papers.

Pending Litigation Against Major Data Networking Equipment Manufacturers

In September 2011, we initiated patent litigation against 16 data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, Inter Partes review proceedings for infringement of our Remote Power Patent. Named as defendants in the lawsuit, excluding related parties, were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties. In March 2012, we reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola") and Transition Networks, Inc. ("Transition Networks"). In February 2013, we reached settlement agreements with Allied Telesis, Inc. ("Allied Telesis") and NEC Corporation ("NEC"). As part of the settlements, Motorola, Transition Networks, Allied Telesis and NEC each entered into a non-exclusive license

agreement for our Remote Power Patent pursuant to which each such defendant agreed to license our Remote Power Patent for its full term (which expires in March 2020) and pay a license initiation fee and quarterly royalties based on their sales of PoE products. On January 25, 2013, certain defendants filed a motion to stay the litigation pending completion of termination of certain Inter Partes Review proceedings pending at the United States Patent and Trademark Office (See “Legal Proceedings” at pages 29-31 hereof). On March 5, 2013, the Court granted such defendants’ motion and stayed the litigation pending the disposition of the Inter Partes review proceeding.

Settlement of Litigation Against Major Data Networking Equipment Manufacturers including license agreements for our Remote Power Patent

In July 2010, we settled our litigation with Adtran, Inc, Cisco Systems, Inc. and Cisco-Linksys, LLC, (collectively, “Cisco”), Enterasys Networks, Inc., Extreme Networks, Inc., Foundry Networks, Inc., and 3Com Corporation, Inc. pending in the United States District Court for the Eastern District of Texas, Tyler Division. As part of the settlement, Adtran, Cisco, Enterasys, Extreme Networks and Foundry Networks each entered into a settlement agreement with us and entered into non-exclusive licenses for the Remote Power Patent (the “Licensed Defendants”). Under the terms of the licenses, the Licensed Defendants paid us aggregate upfront payments of approximately \$32 million and also agreed to license the Remote Power Patent for its full term, which expires in March 2020. In accordance with our Settlement and License Agreement, dated May 25, 2011, which expanded upon the July 2010 agreement, Cisco is obliged to pay us royalties (which began in the first quarter of 2011) based on its sales of PoE products up to maximum royalty payments per year of \$8 million through 2015 and \$9 million per year thereafter for the remaining term of the patent. The royalty payments are subject to certain conditions including the continued validity of our Remote Power Patent, and the actual royalty amounts received may be less than the caps stated above, as was the case in 2011. Under the terms of the Agreement, if we grant other licenses with lower royalty rates to third parties (as defined in the Agreement), Cisco shall be entitled to the benefit of the lower royalty rates provided it agrees to the material terms of such other license. Under the terms of the Agreement, we have certain obligations to Cisco and if we materially breach such terms, Cisco will be entitled to stop paying royalties to us. This would have a material adverse effect on our business, financial condition and results of operations. For more details about the July 2010 settlement, please see our Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 20, 2010 and June 1, 2011.

Shares Being Offered

This Prospectus relates to the offering by the selling stockholders of an aggregate of 6,324,661 shares of our common stock, consisting of (i) 2,500,000 shares of common stock issuable upon exercise of warrants and 500,000 shares of our common stock (issued as a result of exercise of a warrant) issued to four holders in connection with our acquisition of the patent portfolio and certain other assets of Looking Glass LLC (formerly Mirror Worlds, LLC) completed on May 21, 2013, and (ii) 3,074,661 shares of common stock and 250,000 shares of common stock issuable upon exercise of warrants 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,		Six Months Ended June 30,	
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:	2012	2011	2013	2012
Royalty Revenue	\$ 8,698,000	\$ 7,398,000	\$ 5,971,000	\$ 6,391,000
Operating expenses(1)	\$ 2,763,000	\$ 3,759,000	\$ 1,701,000	\$ 1,201,000
Net income (2)	\$ 2,626,000	\$ 8,493,000	\$ 2,174,000	\$ 2,660,000
Net income (loss) per share				
Basic	\$ 0.10	\$ 0.33	\$ 0.09	\$ 0.10
Diluted	\$ 0.09	\$ 0.27	\$ 0.08	\$ 0.09
Weighted-average common shares outstanding				
Basic	25,744,330	25,813,038	25,098,074	25,595,913
Diluted	28,472,753	30,930,483	27,396,414	28,729,256
C O N S O L I D A T E D BALANCE SHEET DATA:				
Cash and cash equivalents	\$ 21,983,000	\$ 20,661,000	\$ 18,103,000	\$ 21,279,000
Working capital	\$ 22,702,000	\$ 20,402,000	\$ 19,924,000	\$ 23,263,000
Total assets	\$ 29,805,000	\$ 29,129,000	\$ 32,307,000	\$ 30,392,000
Total shareholders’ equity	\$ 28,980,000	\$ 27,398,000	\$ 31,496,000	\$ 29,686,000

(1) Includes non-cash compensation expense of \$256,000, \$316,000 and \$303,000 for the six months ended June 30, 2013 and years ended December 31, 2012 and 2011, respectively.

(2) Net Income for 2011 included \$6,903,000 or \$0.29 per share (basic) and \$0.22 per share (diluted) from the recording of a one-time, non-cash deferred income tax benefit (See Note F to our audited financial statements for the year ended December 31, 2012 and 2011 included in this Prospectus).

We had royalty revenue of \$5,971,000 for the six months ended June 30, 2013 as compared to \$6,391,000 for the six months ended June 30, 2012, and \$8,698,000 for the year ended December 31, 2012 (“2012”) as compared to royalty revenue of \$7,398,000 for the year ended December 31, 2011 (“2011”). We had net income of \$2,174,000 for the six months ended June 30, 2013 as compared to \$2,660,000 for the six months ended June 30, 2012, and net income of \$2,626,000 for 2012 as compared to \$8,493,000 for 2011. Our ability to achieve revenue and income is currently dependent upon receipt of royalty revenue from licensing agreements with respect to our Remote Power Patent. We

have financed our operations primarily by royalty revenue from licensing our Remote Power Patent. As of June 30, 2013 our principal sources of liquidity consisted of working capital of approximately \$19,924,000 which includes cash and cash equivalents of \$18,103,000. We believe we will have sufficient cash to satisfy our operational and capital requirements for the foreseeable future.

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 17.

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. The following highlights some of the factors that have affected, and in the future could affect, our operations.

We have only been profitable in recent years.

We achieved net income of \$2,174,000 for the six months ended June 30, 2013, \$2,626,000 for the year ended December 31, 2012 and \$8,493,000 for the year ended December 31, 2011 which includes income of \$6,903,000 recorded as a one-time, non-cash income tax benefit (See Note F to our audited financial statements for the year ended December 31, 2012 and 2011 included in this Prospectus). In addition, we achieved net income of \$19,236,000 for the year ended December 31, 2010 primarily due to our receipt of \$31,145,000 from our patent infringement litigation settlement achieved in July 2010 (See Note J[2] to our audited financial statements for the year ended December 31, 2012 and 2011 included in this Prospectus). Prior to the year ended December 31, 2010 we incurred substantial operating losses since inception (July 1990) and as of June 30, 2013 we had an accumulated deficit of \$28,460,000. We had revenue of \$5,971,000 for the six months ended June 30, 2013, and revenue of \$8,698,000 and \$7,398,000 for the years ended December 31, 2012 and December 31, 2011, respectively. Our ability to achieve revenue, net income and generate positive cash flow from operations is currently dependent upon receipt of royalty revenue from licensing agreements with respect to our Remote Power Patent. As of August 1, 2013, we have entered into sixteen (16) license agreements with respect to our Remote Power Patent, which among others, includes license agreements with Cisco Systems, Inc. and Cisco-Linksys, Microsemi Corporation, Motorola Systems, Inc., NEC Corporation, Extreme Networks, Inc., Netgear, Inc., and several other major data equipment manufacturers. While we believe, based on our current cash position and projected licensing revenue from our existing licensing agreements, we will have sufficient cash to fund our operations for the foreseeable future, this may not be the case.

Our success is dependent upon our ability to protect our patents.

Our success is substantially dependent upon our proprietary technologies and our ability to protect our intellectual property rights. We currently own nineteen (19) patents issued by the U.S. Patent and Trademark Office that relate to various technologies including (i) our Remote Power Patent covering the delivery of power to certain devices over PoE networks, (ii) patents relative to foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system, (iii) patents relating to identification of media content and (iv) patents covering the transmission of audio, voice and data over computer and telephony networks. Our focus to date has primarily been on licensing our Remote Power Patent and the acquisition of additional patents, such as our February 2013 acquisition of four patents from Dr. Ingemar Cox, and our May 2013 acquisition of nine patents from Mirror Worlds, LLC. 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 and the uncertainty of the outcome of litigation 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, particularly our Remote Power Patent, such an event would have a material adverse effect on our business, financial condition and results of operations.

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.

In the future, it may be necessary for us to commence patent litigation against third parties whom we believe require a license to our patents, as was the case with respect to our pending litigation against eleven (11) data equipment manufacturers commenced in September 2011 relating to our Remote Power Patent (See Note J[1] to our audited financial statements for the year ended December 31, 2012 and December 31, 2011 included in this Prospectus) and our pending litigation against nine (9) major computer systems manufacturers commenced in May 2013 (See "Legal Proceedings" at pages 29-31 hereof). We generally incur significant expenses and commit significant management time with respect to such legal proceedings which may adversely affect our financial condition and results of operations. Moreover, there can be no assurance that we will be successful in any additional legal proceedings and the outcome of such litigation could be harmful to us. In addition, we may be subject to claims seeking to invalidate our patents, as typically asserted by defendants in patent litigation. 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. Furthermore, then existing licensees of our patents may no longer be obligated to pay royalties to us. 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 revenue and profit is currently dependent upon the continued validity of our Remote Power Patent.

We currently have 12 license agreements pursuant to which licensees have an obligation to pay us royalties on an ongoing basis. Such royalty bearing licenses include, among others, agreements with Cisco Systems, Inc. and Cisco-Linksys, LLC, Microsemi Corporation, Netgear, Inc., and Motorola Solutions, Inc. and NEC Corporation. The obligation of licensees of our Remote Power Patent to continue to make royalty payments to us is contingent upon the continued validity of our Remote Power Patent. The validity and infringement of our Remote Power Patent are currently at issue in our pending litigation in Tyler, Texas (See Note J[1] to our audited financial statements for the year ended December 31, 2012 and December 31, 2011 included in this Prospectus). In addition, the validity of the Remote Power Patent is also at issue in the reexamination and Inter Partes Review proceedings filed at the United States Patent and Trademark Office (See "Legal Proceedings" at pages 29-31 hereof). In the event our Remote Power Patent is determined to be invalid, licensees of our Remote Power Patent would have no further obligation to make royalty payments to us which would have a material adverse effect on our business, financial condition and results of operations.

An Adverse Ruling by the USPTO (which is not subsequently overturned) with respect to the ex parte reexamination or the Inter Partes Review Proceeding Relating to our Remote Power Patent would have a material adverse effect on us.

On July 20, 2012, an unknown third party filed with the United States Patent and Trademark Office (“USPTO”) a request for ex parte reexamination of certain claims of our Remote Power Patent. On September 5, 2012, the USPTO issued an order granting the reexamination. The request for reexamination was stayed by the USPTO on December 21, 2012 pending the termination or completion of the Inter Partes Review proceedings described below. The initial grant of the reexamination by USPTO is not unusual as the majority of such applications are initially granted. Management believes that the reexamination proceeding will further validate and strengthen our Remote Power Patent, although there is no certainty of a favorable outcome.

In addition to the reexamination proceeding referenced above, as of August 1, 2013, there are currently two pending Inter Partes Review petitions filed in the USPTO pertaining to our Remote Power Patent. (See “Legal Proceedings” at pages 29-31 hereof). Petitioners in each Inter Partes Review seek to cancel certain claims of the Remote Power Patent as unpatentable. In the event that the USPTO reaches a final determination in the Inter Partes Review proceedings or the ex parte reexamination that certain of our claims related to the Remote Power Patent are unpatentable such a determination (unless subsequently overturned) would have a material adverse effect on our business, financial condition and results of operations as our entire revenue stream is currently dependent upon the continued validity of our Remote Power Patent.

We may not be able to capitalize on our strategy to acquire additional patents or enter into strategic relationships with third parties to license or otherwise monetize their intellectual property.

As a result of our patent litigation settlement in July 2010, the success we have achieved to date from licensing our Remote Power Patent and the acquisition of an aggregate of thirteen (13) additional patents in 2013, we believe we have the expertise and sufficient capital to compete in the intellectual property acquisition market and to enter strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property. However, we may not be able to acquire additional intellectual property or, if acquired, we may not achieve material revenue or profit from such intellectual property. Furthermore, we may not be able to enter into strategic relationships with third parties to license or otherwise monetize their intellectual property and, even if we consummate such strategic relationships, we may not achieve material revenue or profit from such relationships. Acquisitions of patent assets are competitive, time consuming, complex and costly to consummate. In addition, such acquisitions present material risks. Even if we successfully acquire additional patent assets, such as the patents acquired from Dr. Cox in February 2013 and Looking Glass LLC (formerly Mirror Worlds, LLC) in May 2013 we may not be able to generate sufficient revenue related to such patent assets to offset the acquisition costs and the legal fees and expenses which may be incurred to enforce, license or otherwise monetize such patents.

We are currently largely dependent upon our license agreement with Cisco for a significant portion of our royalty revenue. The loss of Cisco as a licensee would seriously hurt our business.

Cisco Systems, Inc. and Cisco Linksys, LLC (collectively, “Cisco”) accounted for 84% and 81% of our revenue for the three month periods ending June 30, 2013 and June 30, 2012, respectively, and 77% and 87% of our revenue for the years ended December 31, 2012 and December 31, 2011, respectively. In accordance with our Settlement and License Agreement, dated

May 25, 2011, with Cisco (the “Agreement”), which expanded upon the short form settlement agreement entered into in July 2010, Cisco is obligated to pay us royalties on a quarterly basis (which began in the first quarter of 2011) based on its sale of PoE products in the United States up to the maximum royalties per year of \$8 million through 2015 and \$9 million per year thereafter for the remaining term of the patent. The royalty payments are subject to certain conditions including the continued validity of our Remote Power Patent and the actual royalty payments may be less than the caps stated above, as was the case for 2012 and 2011. Due to our annual royalty rate structure with Cisco which includes declining rates as the volume of PoE product sales increase during the year, annual royalties from Cisco are anticipated to be highest in the first quarter and decline for each of the remaining quarters of the year. Under the terms of the Agreement, if we grant other licenses with lower royalty rates to third parties (as defined in the Agreement), Cisco shall be entitled to the benefit of the lower royalty rates provided it agrees to the material terms of such other license. Under the terms of the Agreement, we have certain obligations to Cisco and if we materially breach such terms, Cisco will be entitled to stop paying royalties to us. This would have a material adverse effect on our business, financial condition and results of operations.

Our current licenses for our Remote Power Patent may not continue to result in significant royalties and do not necessarily mean we will achieve additional license agreements.

For the six month periods ended June 30, 2013 and June 30, 2012, we earned aggregate royalty revenue of \$5,971,000 and \$6,391,000 respectively. For the years ended December 31, 2012 and December 31, 2011, we earned aggregate royalty payments of \$8,698,000 and \$7,398,000, respectively, with respect to our license agreements for our Remote Power Patent. We currently have license agreements for our Remote Power Patent with sixteen (16) licensees including, among others, Cisco Systems, Inc. and Cisco Linksys, LLC, (collectively, “Cisco”) Netgear, Inc., Microsemi Corporation, Extreme Networks, Inc., Motorola Solutions, Inc. and NEC Corporation pursuant to which such parties are obligated to pay us on-going royalties on a monthly or quarterly basis. Notwithstanding such royalty bearing license agreements, we may not continue to achieve significant royalty revenue from such license agreements. In addition, we may not be able to achieve additional material license agreements with third parties relating to our Remote Power Patent. Our failure to continue to achieve significant royalty revenue from our existing license agreements would have a material adverse effect on our business, financial condition and results of operations. In addition, we may not be able to consummate additional licensing agreements resulting in material revenue with respect to our Remote Power Patent.

Our current licensing revenue depends upon the continued viability of the PoE market.

Ethernet is the leading local area networking technology in use today. PoE technology allows for the delivery of power over Ethernet (“PoE”) cables rather than by separate power cords. As a result a wide 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. The failure of the PoE market to remain viable would have a material adverse effect on licensing revenue for our Remote Power Patent which is currently our sole patent generating licensing revenue.

A limited number of our licensees account for a significant portion of our total revenues.

One of our licensees, Cisco Systems, Inc. and Cisco-Linksys, LLC (collectively, “Cisco”), accounted for 84% and 81% of our revenue for the three month periods ending June 30, 2013 and June 30, 2012, respectively, and 77% of our revenue for the year ended December 31, 2012 and 87% of our revenue for the year ended December 31, 2011. It is anticipated that a few licensees will continue to constitute a significant portion of our revenue for the foreseeable future. To the extent such sales of PoE products by our significant licensees are adversely affected our revenues will be significantly impacted.

Our pending patent infringement litigations and proceedings (at the USPTO) involving our Remote Power Patent and the Mirror Worlds Patents may be time consuming and costly and we can provide no assurance that we will be successful.

In September 2011, we initiated patent litigation against 16 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. Named as defendants in the lawsuit, excluding related parties, were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inx., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transitions Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties. During 2012, we reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola"), Transition Networks, Inc. ("Transition Networks") and GarretCom, Inc. ("GarretCom"). In February 2013, we reached settlement agreements with Allied Telesis, Inc. ("Allied Telesis") and NEC Corporation ("NEC"). As part of the settlements, Motorola, Transition Networks, GarretCom, Allied Telesis and NEC each entered into a non-exclusive license agreement for our Remote Power Patent pursuant to which each such defendant agreed to license our Remote Power Patent for its full term (which expires in March 2020) and pay a license initiation fee and quarterly or annual royalties based on their sales of PoE products. In March 2013, the Court granted a motion for certain defendants and stayed the litigation pending the disposition of certain Inter Partes Review proceedings pending at the United States Patent and Trademark Office. See "Legal Proceedings" at pages 29-31 of this prospectus.

On May 22, 2013, through our subsidiary Mirror Worlds Technologies, LLC, we initiated patent litigation in the United States District Court for the Eastern District of Texas, Tyler Division, against Apple, Inc., Microsoft, Inc., Hewlett-Packard Company, Lenovo Group Ltd., Lenovo (United States), Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics America, Inc. and Samsung Telecommunications America L.L.C., for infringement of the '227 Patent, which was one of the nine (9) patents acquired from Looking Glass LLC (formerly Mirror Worlds LLC) in May 2013.

As of August 1, 2013, we also face proceedings at the USPTO including an ex parte reexamination and Inter Partes Review proceedings seeking to invalidate our Remote Power Patent (See "Legal Proceedings" at pages 29-31 of this Prospectus).

Patent litigation and proceedings before the USPTO are inherently risky and the outcome is uncertain. The defendants in our two (2) pending litigations and the Petitioners before the USPTO are all large, well-financed companies with substantially greater resources than us. We cannot assure you that our patent infringement litigations and proceedings before the USPTO will result in outcomes that are favorable to us.

We anticipate that the above referenced two litigations in the United States District Court for the Eastern District of Texas, could continue for a number of years and while we have a contingent legal fee arrangement with our patent litigation counsel, we are responsible for a portion of the expenses which are anticipated to be material. In addition, the time and effort required of our management to effectively pursue this litigation is likely to be significant and it may adversely affect other business opportunities.

We face intense competition to acquire intellectual property and enter into strategic relationships.

With respect to our ability to acquire additional intellectual property or enter into strategic relationships with third parties to monetize their intellectual property, we face considerable competition from other companies, many of which have significantly greater financial and other resources than we have. The patent licensing and enforcement industry has grown over the past several years and there has been an increase in the number of companies seeking to acquire intellectual property rights from third parties. Entities including, among others, Acacia Research Corporation, Vringo, Inc., Intellectual Ventures and RPX Corporation also seek to acquire or partner with third parties to license or enforce intellectual property rights. It is expected that others will enter this market as well. Many of these competitors have significantly more financial and human resources than us.

We may also compete with strategic corporate buyers, litigation funding firms such as Burford Capital Limited, Juridica Capital Management Ltd. and Bentham Capital LLC, venture capital firms and hedge funds for intellectual property acquisitions and licensing opportunities. Many of these competitors have more financial resources and human resources than us.

New legislation, regulations, court rulings or actions by the U.S. Patents and Trademark Office related to enforcing patents could adversely affect our business and operating results.

If new legislation, regulations or rules are implemented either by Congress, the U.S. Patent and Trademark Office or the courts that impact the patent application process, the patent enforcement process or the rights of patent holders, these changes could negatively affect our business, financial condition and results of operations. Recently, United States patent laws were amended by the Leahy-Smith America Invents Act, or the America Invents Act, which became effective on March 16, 2013. The America Invents Act includes a number of significant changes to U.S. patent law. In general, it attempts to address issues surrounding the enforceability of patents and the increase in patent litigation by, among other things, establishing new procedures for patent litigation. For example, the America Invents Act changes the way that parties may be joined in patent infringement actions, increasing the likelihood that such actions will need to be brought against individual parties allegedly infringing by their respective individual actions or activities. It also includes changes that transition the United States from a “first-to-invent” system to a “first to file” system and alter the processes for challenging issued patents. At this time, it is not clear what, if any, impact the America Invents Act will have on the operation of our business. However, the America Invents Act and its implementation could increase the uncertainties and costs surrounding the enforcement of our patented technologies, which could have a material adverse effect on our business, financial condition and results of operations.

Our quarterly and annual operating and financial results and our revenue are likely to fluctuate significantly in future periods.

Our quarterly and annual operating and financial results are difficult to predict and may fluctuate significantly from period to period. Our revenue and net income was \$5,971,000 and \$2,174,000 for the six months ended June 30, 2013 as compared to revenue of \$6,391,000 and net income of \$2,660,000 for the six months ended June 30, 2012. Our revenue and net income were \$8,698,000 and \$2,626,000, respectively, for the year ended December 31, 2012. Our revenue was \$7,398,000 with net income of \$8,493,000 (including net income of \$6,903,000 related to the recording of a deferred tax benefit) for the year ended December 31, 2011 as compared to revenue of \$33,037,000 and net income of \$19,236,000 for the year ended December 31, 2010 (which 2010 revenue and net income were primarily due to achieving a large settlement of a patent litigation in

July 2010). Accordingly, our revenue, net income and results of operations may fluctuate as a result of a variety of factors that are outside our control including, but not limited to, our ability and timing in consummating future license agreements for our intellectual property, the timing and extent of royalty payments received by us from licensees of our Remote Power Patent, the timing and our ability to achieve successful outcomes from current and future patent litigation, and the timing and our ability to achieve revenue from future strategic relationships.

We may need additional financing to implement our strategy and expand our business.

We may need additional equity or debt financing beyond our existing cash to pursue our strategy including the acquisition of additional intellectual property or to enter into strategic relationships with third parties to license or monetize their intellectual property. Any additional financing that we need may not be available and, if available, may not be available on terms that are acceptable to us. Our failure to obtain financing on a timely basis, or on economically favorable terms, could prevent us from pursuing our intellectual property acquisition strategy or from responding to changing business or economic conditions and could cause us to experience difficulty in withstanding adverse operating results.

We do not intend to pay regular future dividends on our common stock and thus stockholders must look to appreciation of our common stock to realize a gain on their investments.

Although we paid a special cash dividend of \$0.10 per share to holders of our common stock with a record date of December 13, 2010, we did not pay any dividends since and we do not have any plans to pay dividends in the foreseeable future. Our future dividend policy is within the discretion of our board of directors and will depend upon various 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. Accordingly, stockholders must look solely to appreciation of our common stock to realize a gain on their investment. This appreciation may not occur.

Because ownership of our common stock is concentrated, investors may have limited influence on stockholder decisions.

As of August 1, 2013, our executive officers and directors beneficially owned 29.4% of our outstanding common stock. As a result, these stockholders may be able to exercise substantial control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership will limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us. For information regarding the ownership of our outstanding stock by our executive officers and directors and their affiliates, see "Security Ownership of Certain Beneficial Owners and Management" on page 54 of this Prospectus.

Our markets are subject to rapid technological change and our technologies face potential technology obsolescence.

The markets covered by our intellectual property 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 intellectual property. Several companies have notified the IEEE that they may have patents and proprietary technologies that are covered by the Standard pertaining to PoE. 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.

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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 our Board of Directors. On November 1, 2012, we entered into an employment agreement with Mr. Horowitz pursuant to which he continues to serve as our Chairman and Chief Executive Officer for a one year period (which shall automatically be extended for two successive one year periods unless terminated by us). 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.

The burdens of being a public company may adversely affect our ability to pursue litigation.

As a public company, our management must devote substantial time, attention and financial resources to comply with U.S. securities laws. This may have a material adverse effect on management's ability to effectively and efficiently pursue litigation as well as our other business initiatives. In addition, our disclosure obligations under U.S. securities laws require us to disclose information publicly that will be available to future litigation opponents. We may, from time to time, be required to disclose information that may have a material adverse affect on our litigation strategies. This information may enable our litigation opponents to develop effective litigation strategies that are contrary to our interests.

Because our common stock trades on the Over-the-Counter Bulletin Board, you may not be able to buy and sell our common stock at optimum prices and you face liquidity issues.

The Over-the-Counter Bulletin Board ("OTCBB") is a regulated quotation service that displays quotes, last sales prices and volume in over-the-counter securities. The trading of our stock on the OTCBB imposes, among others, the following risks:

Availability of quotes and order information – Because OTCBB trades and quotations involve a manual process (over the telephone) rather than automated or electronically linked execution systems, the market information for our common stock cannot be guaranteed. In addition, quote information, or even firm quotes, may not be available. The manual execution process may delay order processing and intervening price fluctuations could result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting, and the delivery of trade confirmations may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

Liquidity Risks – Liquidity refers to the ability to freely buy and sell securities at given prices and volumes. In general, the more activity in a given security, and the more market makers participating in a security, the greater the liquidity in the security. Because the OTC Bulletin Board generally has fewer market makers participating in a Bulletin Board security, the liquidity in our common stock may be significantly less than what might be experienced in the NASDAQ or listed markets. As such, you may only receive a partial execution or your order may not be executed at all. Additionally, the price received on a market order may be significantly different from the price quoted at the time of order entry. Additionally, when fewer shares of our common stock are being traded, larger spreads between bid and ask prices and volatile swings in price may result.

Dealer's Spread – The dealer's spread (the difference between the bid and ask prices) of our security may be large and may result in substantial losses to the seller of our common stock on the OTCBB if the common stock must be sold immediately. Further, purchasers of our common stock may incur an immediate "paper" loss due to the price spread. Moreover, dealers trading on the OTCBB may not have a bid price for securities bought and sold through the OTCBB. Due to the foregoing, there may be decreased demand for our common stock traded through the OTCBB.

The significant number of options and warrants outstanding may adversely affect the market price for our common stock.

As of August 1, 2013, there are outstanding options and warrants to purchase an aggregate of 7,337,500 shares of our common stock at exercise prices ranging from \$0.21 to \$2.10. 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 may seek to raise additional funds, finance intellectual property acquisitions or develop strategic relationships by issuing capital stock that would dilute your ownership.

Prior to the significant royalty revenue achieved in July 2010 as a result of settlement of our patent litigation agreement with major data networking equipment manufacturers, we had largely financed our operations by issuing equity securities, which, if conducted in the future, would materially reduce the percentage ownership of our existing stockholders. Furthermore, any newly issued securities could have rights, preferences and privileges senior to those of our existing common stock. Moreover, any issuances by us of equity securities may be at or below the prevailing market price of our stock and in any event may have a dilutive impact on your ownership interest, which could cause the market price of stock to decline. We may also raise additional funds through the incurrence of debt or the issuance or sale of other securities or instruments senior to our common shares. The holders of any debt securities or instruments we may issue could have rights superior to the rights of our common stockholders.

Future sales of shares of our common stock may cause the prevailing market price of our shares to decline and could harm our ability to raise additional capital.

We have previously issued a substantial number of shares of common stock, which are eligible for resale under Rule 144 of Securities Act of 1933, and may become freely tradable. We have also registered a substantial number of shares including shares that are issuable upon the exercise of options and warrants. In addition, if holders of options and warrants choose to exercise their purchase rights and sell shares of common stock in the public market or if holders of currently restricted common stock or registered common stock sell such shares in the public market, or attempt to publicly sell such shares in a short time period, the prevailing market price for our common stock may decline. Such decline in the price of our common stock may also adversely affect our ability to raise additional capital.

Provisions in our corporate charter and in Delaware law could make it more difficult for a third party to acquire us, could discourage a takeover and adversely affect existing stockholders.

Our certificate of incorporation authorizes the board of directors to issue up to 10,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by our Board of Directors, without further action by stockholders, and may include, among other things, voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions, any of which could adversely affect holders of our common stock. Although there are currently no shares of preferred stock outstanding, future holders of preferred stock may have rights superior to our common stock and such rights could also be used to restrict our ability to merge with, or sell our assets to third parties.

We are also subject to the “anti-takeover” provisions of Section 203 of the Delaware General Corporation Law, which could prevent us from engaging in a “business combination” with a 15% or greater stockholder for a period of three years from the date such person acquired that status unless appropriate board or stockholder approvals are obtained.

These provisions could deter unsolicited takeovers or delay or prevent changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over the then current market price. These provisions may also limit the ability of stockholders to delay, deter or prevent a change of control, or approve transactions that they may deem to be in their best interests.

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 and other patents;

our ability to continue to receive material revenue from licensees of our Remote Power Patent;

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

our ability to license and monetize our patents besides the Remote Power Patent;

our ability to acquire additional intellectual property;

our ability to achieve material revenue and profits;

our ability to enter into strategic relationships with third parties to license or otherwise monetize their intellectual property;

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 have a material and adverse effect on the market price of our common stock.

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 bid prices for our common stock as reported by OTCBB.com. Such prices reflect inter-dealer quotations, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

YEAR ENDING DECEMBER 31, 2013	HIGH	LOW
Second Quarter	\$1.90	\$1.23
First Quarter	\$1.50	\$1.12
YEAR ENDED DECEMBER 31, 2012	HIGH	LOW
Fourth Quarter	\$1.28	\$1.10
Third Quarter	\$1.32	\$1.16
Second Quarter	\$1.37	\$1.18
First Quarter	\$1.35	\$1.13
YEAR ENDED DECEMBER 31, 2011	HIGH	LOW
Fourth Quarter	\$1.30	\$1.01
Third Quarter	\$1.45	\$0.01
Second Quarter	\$0.65	\$0.00
First Quarter	\$1.65	\$0.01

On August 14, 2013, the closing price for the common stock as reported on the OTC Bulletin Board was \$1.77 per share. The number of record holders of our common stock was 69 as of August 15, 2013. As of August 1, 2013, the Company had in excess of 625 beneficial owners of its common stock.

DIVIDEND POLICY

In December 2010, for the first time in our history, we paid a special dividend of \$0.10 per share on our outstanding shares of common stock. We have not paid any dividends since December 2010 and we do not have any plans to pay dividends in the foreseeable future. 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, 2012.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column) (c)
Equity compensation plans approved by security holders (1)	1,400,000	\$ 0.66	0(1)
Equity compensation plans not approved by security holders(2)	4,432,500	\$ 0.81	—
Total	5,832,500	\$ 0.78	0(1)

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

(2) Represents aggregate individual option grants (including warrants) outside the Stock Option Plan referred to in the above table which includes individual option grants issued to our officers, directors, employees and consultants in consideration for certain services rendered to us. The option agreements pertaining to such individual option grants contain customary anti-dilution provisions.

BUSINESS

Overview

Our principal business is the acquisition, development, licensing and protection of our intellectual property. We presently own nineteen (19) patents that relate to various technologies including patents covering (i) the delivery of power over Ethernet (“PoE”) for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras, over Ethernet networks, (ii) foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system, (iii) enabling technology for identifying media content on the Internet and taking further action to be performed based on such identification including, among others, the insertion of advertising and the facilitation of the purchase of goods and services and (iv) systems and methods for the transmission of audio, video and data over computer and telephony networks in order to achieve high quality of service (QoS). In addition, we continually review opportunities to acquire, develop and license additional intellectual property assets. Our strategy is to pursue licensing and strategic alliances with companies in industries that manufacture and sell products that make use of the technologies underlying our intellectual property as well as with other users of the technologies who benefit directly from the technologies including corporate, educational and governmental entities.

To date, our licensing efforts have primarily focused on our remote power patent (U.S. Patent No. 6,218,930) covering the control of power delivery over Ethernet cables (the “Remote Power Patent”). As of August 1, 2013 we had entered into sixteen (16) license agreements with respect to our Remote Power Patent which, among others, include license agreements with Cisco Systems, Inc. and Cisco-Linksys, Microsemi Corporation, Extreme Networks, Inc., Motorola Solutions, Inc., Allied Telesis, Inc. and NEC Corporation and several other major data networking equipment manufacturers. We have a pending litigation against eleven (11) data network equipment manufacturers for infringement of our Remote Power Patent (See “Legal Proceedings” at pages 29-31 of this Prospectus).

Our strategy includes seeking to acquire additional intellectual property assets to develop, commercialize, license or otherwise monetize such intellectual property. We also may enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property. The form of such relationships may vary depending upon the opportunity and may include, among other things, a strategic investment in such third party, the provision of financing to such third party or the formation of a joint venture for the purpose of monetizing such third party’s intellectual property assets. We also work with inventors and patent owners to assist in the development and monetization of their patented technologies.

In February 2013, as part of our acquisition strategy, we completed the acquisition of 4 patents (as well as one pending patent application), pertaining to the identification of media content on the Internet (See Note L[3] to our audited financial statements for the year ended December 31, 2012 and December 31, 2011 included in this Prospectus).

In addition, in May 2013 we acquired from Mirror Worlds, LLC (which subsequently changed its name to Looking Glass LLC) through our newly formed subsidiary, Mirror Worlds Technologies, LLC, nine (9) patents and five (5) pending patent applications covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system (See Note B [2] to our unaudited financial statements for the three and six months ended June 30, 2013 included in this Prospectus).

Our Patents

Our intellectual property currently consists of the following nineteen (19) patents:

Remote Power Patent

U.S. Patent No. 6,218,930 Remote Power Patent: Apparatus and method for remotely powering access equipment over a 10/100 switched Ethernet network;

Patents covering foundational technologies that enable unified search and indexing displaying and archiving of documents in a computer system.

U.S. Patent No. 6,006,227: Document stream operating system;

U.S. Patent No. 6,638,313: Document stream operating system;

U.S. Patent No. 6,725,427: Document stream operating system with document organizing and display facilities

U.S. Patent No. 6,496,857: Delivering targeted, enhanced advertisements across electronic networks;

U.S. Patent No. 6,768,999: Enterprise, stream-based, information management system;

U.S. Patent No. 7,865,538: Desktop, stream-based, information management system;

U.S. Patent No. 7,849,105: Desktop, stream-based, information management system;

U.S. Patent No. 8,255,439: Desktop, stream-based, information management system;

U.S. Patent No. 8,280,931: Desktop, stream-based, information management system.

We also have five pending patent applications (recently acquired from Mirror Worlds, LLC) covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system.

Identification of Media Content on the Internet

U.S. Patent No. 7,058,223: Identifying works for initiating a work-based action, such as an action on the Internet;

U.S. Patent No. 8,010,998: Using features extracted from an audio and/or video work to obtain information about the work;

U.S. Patent No. 8,020,187: Identifying works, using a sub linear time search or a non exhaustive search, for initiating a work-based action, such as an action on the Internet;

U.S. Patent No. 8,205,237: Identifying works, using a sub-linear time search, such as an approximate nearest neighbor search, for initiating a work-based action, such as an action on the Internet;

We also have filed seven pending patent applications with the United States Patent and Trademark Office relating to the identification of media content on the Internet. In July 2013, we received a Notice of Allowance from the United States Patent and Trademark Office for a patent entitled “Method of Using Extracted Features From an Electronic Work”. The granted patent application will issue a Patent in the next few months.

QoS Family of Patents

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, Ireland and Canada.

Our future success is largely dependent upon our proprietary technologies, our ability to protect our intellectual property rights, to consummate license agreements with respect to our intellectual property as well as our ability to acquire additional intellectual property assets or enter into strategic relationships with third parties to license or otherwise monetize their intellectual property. The complexity of patent and common law and the inherent uncertainty of litigation creates risks that our efforts to protect our intellectual property rights, or those of our strategic partners, may not be successful. We cannot be assured that such intellectual property will be upheld, or that third parties will not invalidate such intellectual property rights. In addition, we may not be able to (i) acquire additional intellectual property assets or successfully license such assets or (ii) successfully enter into strategic relationships with third parties to license or otherwise monetize their intellectual property.

We were incorporated under the laws of the State of Delaware in July 1990. Our principal offices are located at 445 Park Avenue, Suite 1020, New York, New York 10022 and our telephone number is (212) 829-5770. Our website can be found at <http://www.network-1.com>.

Remote Power Patent – Market Overview

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. As of August 1, 2013, we had entered into sixteen (16) license agreements with respect to our Remote Power Patent.

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.

The Institute of Electrical and Electronic Engineers (IEEE) is a non-profit, technical professional association of more than 415,000 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 PoE 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.

Patents Covering Document Stream Operating Systems

On May 21, 2013, our newly formed subsidiary, Mirror Worlds Technologies, LLC, acquired all of the patents previously owned by Looking Glass LLC (formerly Mirror Worlds, LLC (which subsequently changed its name to Looking Glass LLC), consisting of nine (9) issued United States patents and five (5) pending applications covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system (the “MW Patents”). As consideration for the patent acquisition, we paid Mirror Worlds LLC \$3,000,000 in cash, and issued 5-year Warrants to purchase an aggregate of 1,750,000 shares of our common stock (875,000 shares of our common stock at an exercise price of \$1.40 per share and 875,000 shares of our common stock at an exercise price of \$2.10 per share).

The inventions relating to document stream operating systems covered by the patents in the portfolio acquired from Mirror Worlds resulted from the work done by Yale University computer scientist, Professor David Gelernter, and his then graduate student, Dr. Eric Freeman, in the mid-1990s. Certain aspects of the technologies developed by David Gelernter were commercialized in their company’s product offering called “Scopeware.” Technologies embodied in Scopeware are now common in various computer and web-based operating systems. Professor Gelernter and Dr. Freeman each entered into consulting agreements with us as part of the Company’s acquisition of the Mirror Worlds patents. Professor Gelernter and Dr. Freeman are currently associated with Lifestreams Technologies Corporation (“Lifestreams”), a company that develop next generation applications and methodologies aimed at organizing and displaying digital data. Lifestreams is a licensee of the MW Patent Portfolio. In connection with the acquisition of the MW Patents, we also acquired an equity interest in Lifestreams. In addition, in July 2013 we made an additional equity investment in Lifestreams and, as part of an amended license agreement with Lifestreams, we received a warrant to purchase 7.5% of the outstanding common stock of Lifestreams on a fully diluted basis.

As part of the Mirror Worlds patent acquisition, we also entered into an agreement with Recognition Interface, LLC (“Recognition”), a New York based investment partnership that financed the commercialization of the Mirror Worlds Patents prior to their sale to Mirror Worlds, LLC and also retained an interest in the licensing proceeds of the patent portfolio held by Mirror Worlds, LLC. Pursuant to the terms of the agreement with the Company, Recognition received (i) 5-year warrants to purchase 250,000 shares of our common stock at \$1.40 per share, and (ii) 5-year warrants to purchase 250,000 shares of our common stock at \$2.10 per share. Recognition also has the right to designate one member of the Board of Directors of our newly formed subsidiary, Mirror World Technologies, LLC, that consists of three members. Recognition’s initial Board designee was Frank Weil, the Chairman of Abacus and Associates, Inc., a private investment firm in New York, New York. Mr. Weil headed the International Trade Administration of the United States Department of Commerce from 1977-1979. He was Chairman of the Finance Committee and Chief Financial Officer of the investment firm of Paine Webber Inc. from 1972-1977. Mr. Weil first met Professor Gelernter in the mid 1990’s and assisted in the early development and financing of Mirror Worlds and its Scopeware product offering.

Recognition also received from us an interest in the net proceeds realized from the monetization of the MW Patents as follows: (i) 10% of the first \$125 million of net proceeds, (ii) 15% of the next \$125 million of net proceeds, (iii) and 20% of any portion of the net proceeds in excess of \$250 million.

In addition, in connection with our agreement with Recognition, Abacus and Associates, Inc., an investment entity affiliated with Recognition, received a 60-day warrant to purchase 500,000 shares of our common stock at \$2.05 per share (the “60 Day Warrant”). In accordance with the Recognition Agreement, as a result of the exercise of the 60 Day Warrant on July 22, 2013, we issued to Recognition additional 5-year warrants to purchase 250,000 shares of our common stock consisting of (i) warrants to purchase 125,000 shares of common stock at an exercise price of \$1.40 per share and (ii) warrants to purchase 125,000 shares of common stock at an exercise price of \$2.10 per share.

Patents Related to Identification of Media Content on the Internet

On February 28, 2013, we acquired from Dr. Ingemar Cox four (4) patents (as well as a pending patent application) pertaining to enabling technology for identifying media content on the Internet for a purchase price of \$1,000,000 in cash and 403,226 shares of our common stock. In addition, we are obligated to pay Dr. Cox 12.5% of the net proceeds generated by us from licensing, sale or enforcement of the patents.

The patents relate to enabling technology for identifying media content on the Internet, such as audio and video, and taking further action to be performed based on such identification, including among others, the insertion of advertising and the facilitation of the purchase of goods and services. The patents (U.S. Patent No. 7,058,223, No. 8,010,988, No. 8,020,187 and No. 8,205,237) are based on a patent application filed in 2000 and have patent terms extending into 2023. The portfolio also includes a pending United States patent application. We anticipate continuing to prosecute the pending patent application and plan on filing several new patent applications with the United States Patent and Trademark Office based on the inventions contemplated by Dr. Cox's original patent filings. In March 2013, we filed seven (7) additional related patent applications with the United States Patent and Trademark Office seeking patent protection based upon the original patent application filed in 2000. In July 2013, we received a Notice of Allowance from the U.S. Patent and Trademark Office for the patent application, entitled "Method of Using Extracted Features from an Electronic Work". The claims in the granted patent application are generally directed towards methods for using extracted features from electronic works to identify actions to be performed involving, among others, inserting an advertisement or a link to a World Wide Web site for a variety of purposes. The granted patent application will issue as a patent within the next few months.

The acquisition of this patent portfolio is part of our continuing strategy to acquire intellectual property. There has been significant growth in the uploading of media content to the Internet over the past decade. The ability to identify content being uploaded to protect against copyright infringement, combined with the ability to facilitate e-commerce transactions based on the identification and tagging of such content is at the core of the patents. We plan on further developing the technology with Dr. Cox and pursuing licensing opportunities for these technologies.

Dr. Cox is currently Professor and Director of Research at University College London and Head of its Future Media Group. In connection with the acquisition of the portfolio, Dr. Cox has agreed to provide consulting services to us with respect to the acquired patents and the related pending and future patent applications and will assist in our efforts to develop and monetize the patent portfolio.

Dr. Cox, a technology leader in digital watermarking content identification, digital rights management and related technologies, was formerly a member of the Technical Staff at AT&T Bell Labs and a Fellow at NEC Research Institute. He is a Fellow of the IEEE, the IET (formerly IEE), and the British Computer Society and is a member of the UK Computing Research Committee. He was founding co-editor in chief of the IEE Proc. On Information Security and was an associate editor of the IEEE Trans. on Information Forensics and Security. He is co-author of a book entitled "Digital Watermarking" and its second edition "DigitalWatermarking and Steganography". Dr. Cox is an inventor on 35 United States Patents, and an author of many highly cited papers.

QoS Family of Patents

We also own five (5) patents 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.

Potential Patent Acquisitions or Strategic Relationships

We may acquire additional intellectual property assets in the future to develop, commercialize, license or otherwise monetize such intellectual property. We continually review opportunities to acquire or license additional intellectual property from individual inventors and technology companies for the purpose of pursuing licensing opportunities related to our existing intellectual property portfolio or otherwise. In addition, we may enter into strategic relationships with such parties to develop, commercialize, license or otherwise monetize their intellectual property. The form of such relationships may vary depending upon the opportunity and may include, among other things, a strategic investment in such third party, the provision of financing to such third party or the formation of a joint venture for the purpose of monetizing such third party's intellectual property assets.

Network-1 Strategy

Our strategy is to capitalize on our intellectual property by entering into licensing arrangements with third parties including manufacturers and users that utilize our intellectual property's proprietary technologies as well as any additional proprietary technologies covered by patents which may be acquired by us in the future. In addition, we may enter into third party strategic relationships with other inventors and patent owners to license or otherwise monetize such third party patents. We will also seek to enter into licensing arrangements with users of the proprietary technologies, including corporate, educational and governmental entities.

In connection with our activities relating to the protection of our intellectual property, or the intellectual property of third parties with whom we have strategic relationships in the future, it may be necessary to assert patent infringement claims against third parties that we believe are infringing our patents or those of our strategic partners. We are currently involved in litigation to protect our intellectual property (See "Legal Proceedings" on pages 29-31 of this prospectus).

Licensing – Remote Power Patent

To date we have entered into sixteen (16) license agreements with respect to our Remote Power Patent. Licensees of our Remote Power Patent include major data network equipment manufacturers and others as follows:

Cisco Systems, Inc. and Cisco Linksys	Motorola Solutions, Inc.
Microsemi Corporation	NEC Corporation
Extreme Networks, Inc.	Adtran, Inc.
Netgear, Inc.	Allied Telesis, Inc.
Transition Networks, Inc.	Enterasys Networks, Inc.
GarretCom, Inc.	Foundry Networks, Inc.
D-Link Corporation and D-Link Systems, Inc.	SEH Technology, Inc.
BRG Precision Products, Inc.	Buffalo Technology (USA), Inc.

We believe that additional potential licensees for our Remote Power Patent 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.

Cisco License Agreement and July 2010 Settlement

In July 2010, we settled our patent litigation pending in the United States District Court for the Eastern District of Texas, Tyler Division, against Adtran, Inc, Cisco Systems, Inc. and Cisco-Linksys, LLC, (collectively, “Cisco”), Enterasys Networks, Inc., Extreme Networks, Inc., Foundry Networks, Inc., and 3Com Corporation, Inc. As part of the settlement, Adtran, Cisco, Enterasys, Extreme Networks and Foundry Networks each entered into a settlement agreement with us and entered into non-exclusive licenses for our Remote Power Patent (the “Licensed Defendants”). Under the terms of the licenses, the Licensed Defendants paid us aggregate upfront payments of approximately \$32 million and also agreed to license our Remote Power Patent for its full term, which expires in March 2020. In accordance with our Settlement and License Agreement, dated May 25, 2011 (the “Agreement”), which expanded upon the July 2010 agreement, Cisco is obligated to pay us royalties (which began for the first quarter of 2011) based on its sales of PoE products up to maximum royalty payments per year of \$8 million through 2015 and \$9 million per year thereafter for the remaining term of the patent. The royalty payments are subject to certain conditions including the continued validity of our Remote Power Patent, and the actual royalty amounts received may be less than the caps stated above as was the case in 2012 and 2011. Under the terms of the Agreement, if we grant other licenses with lower royalty rates to third parties (as defined in the Agreement), Cisco shall be entitled to the benefit of the lower royalty rates provided it agrees to the material terms of such other license. Under the terms of the Agreement, we have certain obligations to Cisco and if we materially breach such terms, Cisco will be entitled to stop paying royalties to us. This would have a material adverse effect on our business, financial condition and results of operations. For more details about the settlement, please see our Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 20, 2010 and June 1, 2011, respectively.

Significant Licensees

For the year ended December 31, 2012, Cisco Systems, Inc. and Cisco-Linksys, LLC (collectively, "Cisco") accounted for 77% of our revenue. Cisco also accounted for 84% of our revenue for the six months ended June 30, 2013. It is anticipated that a few of our licensees will continue to constitute a significant portion of our revenue for the foreseeable future.

Legal Representation

Dovel & Luner, LLP provides legal services to us with respect to our patent litigation commenced in May 2013 against Apple, Inc., Microsoft, Inc. and other major vendors of document system software and computer systems in the United States District Court of Texas, Tyler Division for infringement of U.S. Patent No. 6,006,227. The terms of our agreement with Dovel & Luner LLP provide for legal fees on a contingency basis ranging from 25% to 40% of the net recovery (after deduction of expenses) depending upon the stage of proceeding in which a result (settlement or judgment) is achieved, subject to certain agreed upon contingency fee caps depending upon the amount of the net recovery. We are responsible for a certain portion of the expenses incurred with respect to the litigation.

Dovel & Luner, LLP also provides legal services to us with respect to our pending patent litigation filed in September 2011 against sixteen (16) data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler (See Note D[1] to our unaudited financial statements for the three and six months ended June 30, 2013 included in this Prospectus). The terms of our agreement with Dovel & Luner LLP essentially provide for legal fees on a full contingency basis ranging from 12.5% to 35% of the net recovery (after deduction for expenses) depending on the stage of the proceeding in which a result (settlement or judgment) is achieved. We are responsible for a certain portion of the expenses incurred with respect to the litigation.

Dovel & Luner, LLP provided legal services to us with respect to our litigation settled in July 2010 against Cisco and several other major data networking equipment manufacturers (See Note B[2] to our unaudited financial statements for the three and six months ended June 30, 2013 included in this Prospectus). The terms of our agreement with Dovel & Luner, LLP provided for us to pay legal fees of a maximum aggregate cash payment of \$1.5 million plus a contingency fee of up to 24% (based on the settlement being achieved at the trial stage). Accordingly, we have a continuing obligation to pay Dovel & Luner LLP (including local counsel) a contingency fee of 24% with respect to the ongoing royalties we receive from Cisco. During the year ended December 31, 2012 we incurred total contingency fees of approximately \$1,726,000 to Dovel & Luner, LLP (which included legal fees of local counsel).

Competition

The industries and markets covered by our intellectual property are characterized by intense competition and rapidly changing business conditions, customer requirements and technologies. Other companies may develop competing technologies that offer better or less expensive alternatives to PoE or the other technologies covered by our patents. Several companies have notified the IEEE that they may have patents and proprietary technologies that are covered by the Standard for PoE. In the event any of those companies assert claims relating to our Remote Power Patent, the licensing royalties available to us may be adversely impacted. 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 and our other patents obsolete, less marketable or unenforceable.

Furthermore, with respect to our ability to acquire additional intellectual property or enter into strategic relationships with third parties to monetize their intellectual property, we face considerable competition from other companies, many of which have significantly greater financial and other resources than we have. The patent licensing and enforcement industry has grown over the past several years and there has been an increase in the number of companies seeking to acquire intellectual property rights from third parties or to provide financing to third parties seeking to

monetize their intellectual property. Entities including, among others, Acacia Research Corporation, Vringo, Inc., Intellectual Ventures and RPX Corporation as well as a number of funds also seek to acquire or partner with third parties to license or enforce intellectual property rights. It is expected that others will enter this market as well. These competitors have significantly more financial and human resources than us.

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We may also compete with strategic corporate buyers, litigation funding firms such as Burford Capital Limited, Juridica Capital Management Ltd. and Betham Capital LLC, venture capital firms and hedge funds for intellectual property acquisitions and licensing opportunities. Many of these competitors have more financial resources and human resources than us.

Employees and Consultants

As of August 1, 2013, we had two full-time employees, no part-time employees and two consultants providing monthly services to us.

Description of property

We currently lease office space in New York City at a base rent of \$3,500 per month under a lease which expires in November 2013. On June 16, 2011, we entered into a four-year lease commencing July 18, 2011 to rent office space, consisting of approximately 2,400 square feet, for offices in New Canaan, Connecticut. In accordance with the lease, we are obligated to pay a base rent of \$6,400 per month for the first two years, \$6,800 per month for the third year and \$7,000 per month for the fourth year. The base rent is subject to annual adjustments to reflect increases in real estate taxes and operating expenses. We also sublet (up until July 2012) at a base rent of \$3,700 per month approximately 50% of the space.

LEGAL PROCEEDINGS

On May 23, 2013, through our subsidiary Mirror Worlds Technologies, LLC, we initiated patent litigation in the United States District Court for the Eastern District of Texas, Tyler Division, against Apple, Inc., Microsoft, Inc., Hewlett-Packard Company, Lenovo Group Ltd., Lenovo (United States), Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics America, Inc. and Samsung Telecommunications America L.L.C., for infringement of the '227 Patent (one of the patents we acquired as part of the Mirror Worlds patent portfolio - See Note B[2] to our unaudited financial statements for the three and six months ended June 30, 2013 included in this prospectus). We seek, among other things, monetary damages based upon reasonable royalties. The lawsuit alleges that the Defendants have infringed and continue to infringe the claims of the '227 Patent by making, selling, offering to sell and using infringing products including Mac OS and Windows operating systems and personal computers and tablets that include versions of those operating systems, and by encouraging others to make, sell, and use these products.

Several patents in the portfolio of patents that we acquired from Mirror Worlds, LLC (now Looking Glass LLC) on May 21, 2013 were the subject of prior litigation in *Mirror Worlds, LLC v. Apple, Inc.* ("Apple") (No. 6:08-cv-00088). On October 1, 2010, a jury returned a verdict in that action in favor of Mirror Worlds upholding the validity of the three patents tried in the case (U.S. Patent Nos. 6,006,227, 6,638,313, and 6,725,427), and finding that Apple had willfully infringed each of these patents. Further, the jury awarded Mirror Worlds \$208.5 million in damages for each of these patents. After the trial, the district court vacated the jury verdict on infringement, and concluded that Mirror Worlds failed to present sufficient evidence of direct or indirect infringement. While the infringement, willfulness and damages verdicts were vacated at the trial level, the jury's validity verdicts were not overturned. The validity of the '227 Patent has also been reaffirmed by the U.S. Patent and Trademark Office since the trial in reexamination proceedings initiated by Apple resulting in two re-examination certificates which further validates that patent. On appeal, a divided panel of the Federal Circuit Court of Appeals upheld the district court ruling overturning the jury verdict on direct and indirect infringement.

On March 23, 2013 Mirror Worlds, LLC filed a Petition for Certiorari to the Supreme Court of the United States appealing the decisions of the district court and Federal Circuit Court of Appeals. Following our acquisition of the Mirror Worlds patents in May 2013, on June 3, 2013, we filed a petition to intervene as the new owner of the Mirror Worlds patents, in the petition for a writ of certiorari previously filed by Mirror Worlds, LLC. On June 24, 2013 the petition for a writ of certiorari was denied by the Supreme Court of United States.

In September 2011, we initiated patent litigation against 16 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. Named as defendants in the lawsuit, excluding related parties, were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarretCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties. In March 2012, we reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola") and Transition Networks, Inc. ("Transition Networks"). In October 2012, we reached a settlement with defendant GarretCom, Inc ("GarretCom"). In February 2013, we reached settlement agreements with Allied Telesis, Inc. ("Allied Telesis") and NEC Corporation ("NEC"). As part of the settlements, Motorola, Transition Networks, GarretCom, Allied Telesis and NEC each entered into a non-exclusive license agreement for our Remote Power Patent pursuant to which each such defendant agreed to license our Remote Power Patent for its full term (which expires in March 2020) and pay a license initiation fee and quarterly or annual royalties based on their sales of PoE products. On June 27, 2012, defendant Axis Communications made a motion to dismiss, or alternatively to sever, on the grounds of misjoinder. Several defendants joined in the motion. On July 16, 2012 we filed our opposition to the motion. On January 17, 2013, the Court granted in part defendants' motion by granting severance and consolidating all the actions for pre-trial issues, except venue.

On January 25, 2013, certain defendants filed a motion to stay the litigation pending completion or termination of the Inter Partes review proceedings at the United States Patent and Trademark Office (see below and Note D(4) to our unaudited financial statements for the three and six months ended June 30, 2013 included in this Prospectus). On March 5, 2013, the Court granted certain defendants' motion and stayed the litigation pending the disposition of the Inter Partes review proceedings described below.

On July 20, 2012, an unknown third party filed with the United States Patent and Trademark Office ("USPTO") a request for ex parte reexamination of certain claims of our Remote Power Patent. On September 5, 2012, the USPTO issued an order granting the reexamination. The request for reexamination was stayed by the USPTO on December 21, 2012 pending the termination or completion of the Inter Partes Review proceedings described below. The initial grant of the reexamination by USPTO is not unusual as the majority of such applications are initially granted. While management believes that the reexamination proceeding will further validate and strengthen our Remote Power Patent, should the USPTO reach a final determination that the Remote Power Patent is invalid (unless overturned by the Board of Patent Appeals and Interference or the United States Court of Appeals for the Federal Circuit), such a determination would have a material adverse effect on us as our entire current revenue stream is dependent upon the continued validity of our Remote Power Patent.

In addition to the reexamination proceeding referenced above, there have been five Inter Partes Review petitions filed in the USPTO pertaining to our Remote Power Patent. On December 5, 2012, Avaya Inc. filed a petition to institute an Inter Partes Review of the Remote Power Patent. On December 19, 2012, Sony Corporation of America, Axis Communications AB, and Axis Communications, Inc. filed a separate petition to also institute an Inter Partes Review of the Remote Power Patent. On May 24, 2013, the Patent Trial and Appeal Board (“Patent Board”) determined to institute an Inter Partes Review of the ‘930 Patent on two of the five grounds requested in the proceeding initiated by Avaya, Inc. (IPR2013-0071). Also on May 24, 2013, the Patent Board determined not to institute an Inter Partes Review of the ‘930 Patent in the Inter Partes Review proceeding initiated by Sony Corporation and Axis Communications, Inc. (IPR2013-0092). On July 2, 2013, the Board denied Sony and Axis’s Request for Rehearing. On June 24, 2013, Dell, Inc. filed a Petition for Inter Partes Review of the ‘930 Patent (IPR2013-00385). On July 12, 2013, we filed a Preliminary Response to Dell’s Petition. On July 29, 2013, the Patent Board determined to institute this Inter Partes Review proceeding (based on the same grounds as the Avaya proceeding) and joined it with the Avaya proceeding (IPR 2013-0071). On June 24, 2013, Sony, Axis and Hewlett-Packard filed a Petition for Inter Partes Review of the ‘930 Patent (IPR 2013-000386) and on July 29, 2013 the Patent Board determined not to institute an Inter Partes review of the ‘930 Patent in this proceeding. On August 7, 2013, Sony and Hewlett-Packard filed another Petition for Inter Partes Review of the ‘930 Patent (Case IPR to be assigned). The grounds in this Petition are the same as the grounds in the Avaya IPR (IPR 2013-0071) and Sony and HP moved to join this potential Inter Partes review with the Avaya IPR. On August 13, 2013, we filed our opposition to joinder with respect to the additional filing by Sony and HP. Petitioners in each Inter-Partes review seek to cancel certain claims of the Remote Power Patent as unpatentable.

In the event that the USPTO reaches a final determination in any of the Inter Partes Review proceedings or the ex parte reexamination that certain of our claims related to the Remote Power Patent are unpatentable, such a determination (unless overturned) would have a material adverse effect on our business, financial condition and results of operations as our entire revenue stream is dependent upon the continued validity of our Remote Power Patent.

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 the warrants held by the selling stockholders for the 2,750,000 shares included in this Prospectus that underlie those warrants. If the warrants to purchase all those shares are exercised, we would receive proceeds of approximately \$4,545,000. Cash proceeds that we may receive upon exercise of the warrants will be used for working capital purposes.

SELLING STOCKHOLDERS

The following table sets 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 6,324,661 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:

2,500,000 shares of common stock issuable upon exercise of warrants and 500,000 shares of common stock (issued as a result of exercise of a warrant) issued to four entities in connection with our acquisition of the patent portfolio of Looking Glass LLC (formerly Mirror Worlds, LLC) completed on May 21, 2013;

3,074,661 shares of common stock and 250,000 shares of common stock issuable upon exercise of warrants 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. 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) that Corey M. Horowitz is our Chairman, Chief Executive Officer and Chairman of our Board of Directors and (ii) Frank Weil, the President of Recognition Interface, LLC, serves as a director of Mirror Worlds Technologies LLC, our wholly owned subsidiary formed in May 2013.

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)
Looking Glass LLC	1,750,000(3)	1,750,000(3)	0	0%
Recognition Interface, LLC	750,000(4)	750,000(4)	0	0%
Sucaba LLC	440,000(5)	440,000(5)	0	0%
Sucaba CRUT, LLC	60,000(6)	60,000(6)	0	0%
Corey M. Horowitz	7,987,818(7)	3,324,661(8)	4,663,157	16.37%
CMH Capital Management Corp.	2,171,372(9)	2,171,372(9)	0	0%

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Donna Slavitt	67,471	67,471	0	0%
Logan Zev Horowitz 1999 Trust	107,500(10)	107,500(10)	0	0%
Dylan Max Horowitz 1999 Trust	107,500(10)	107,500(10)	0	0%
Corey M. Horowitz Custodian for Zachary Jordon Horowitz	107,500(10)	107,500(10)	0	0%
Horowitz Partners	2,291(11)	2,291(11)	0	0%

* Less than 1%

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- (1) Except as otherwise indicated, the address for each beneficial owner is c/o Network-1 Security Solutions, Inc., 445 Park Avenue, Suite 1020, 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 26,047,683 shares of common stock outstanding as of August 1, 2013.
- (3) Includes 1,750,000 shares of common stock subject to currently exercisable warrants held by Looking Glass LLC (formerly Mirror Worlds, LLC). Plainfield Special Situations Master Fund Limited, is the sole member of Looking Glass LLC and therefore may be deemed to have beneficial ownership of, and the power to vote and dispose of, the shares of common stock beneficially owned by Looking Glass LLC. Max Holmes, by virtue of his position as the manager of Plainfield Special Situations Master Fund Limited, may also be deemed to beneficially own and have the power to vote and dispose of such shares of common stock. The aforementioned information is based upon Amendment No. 1 to Schedule 13D jointly filed by Looking Glass LLC, Plainfield Special Situations Master Fund Limited and Max Holmes with the Securities and Exchange Commission on July 31, 2013. The address of Looking Glass LLC is 60 Arch Street, 2nd floor, Greenwich, Connecticut 06830.
- (4) Includes 750,000 shares of common stock subject to currently exercisable warrants. The address of Recognition Interface, LLC is 147 East 48th Street, New York, NY 10017.
- (5) Includes 440,000 shares of common stock. Each of Frank A. Weil, Robert Raich, Honor Lassalle and William Weil, by virtue of being co-managing members of Beehive Abacus Managers, LLC, the manager of Sucaba LLC, has shared power to vote and dispose of the shares of common stock owned by Sucaba LLC. The address of Sucaba LLC is 147 East 48th Street, New York, NY 10017.
- (6) Includes 60,000 shares of common stock. Each of Frank A. Weil, Robert Raich, Honor Lassalle and William Weil, by virtue of being co-managing members of Beehive Abacus Managers, LLC, the manager of Sucaba CRUT, LLC, has shared power to vote and dispose of the shares owned by Sucaba CRUT, LLC. The address of Sucaba CRUT, LLC is 147 East 48th Street, New York, NY 10017.
- (7) Includes (i) 2,735,016 shares of common stock held by Mr. Horowitz, (ii) 2,439,168 shares of common stock subject to currently exercisable stock options held by Mr. Horowitz, (iii) 2,171,372 shares of common stock held by CMH Capital Management Corp. ("CMH"), an entity in which Mr. Horowitz is the sole shareholder, officer and director; (iv) 250,000 shares of common stock subject to currently exercisable warrants held by Mr. Horowitz, (v) 67,471 shares of common stock owned by Donna Slavitt, the wife of Mr. Horowitz, (vi) an aggregate of 322,500 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.
- (8) Includes (i) 511,027 shares of common stock held by Mr. Horowitz, (ii) 2,171,372 shares of common stock held by CMH, (iii) 250,000 shares of common stock subject to currently exercisable warrants held by Mr. Horowitz (iv) 67,471 shares of common stock owned by Donna Slavitt, the wife of Mr. Horowitz, (v) an aggregate of 322,500 shares of common stock held by two trusts and a custodian account for the benefit of Mr. Horowitz's three children and (vi) 2,291 shares of common stock held by Horowitz Partners, a general partnership of which Mr. Horowitz is a partner.

- (9) Includes 2,171,372 shares of common stock. Corey M. Horowitz, by virtue of being the sole officer and shareholder of CMH, has sole power to vote and dispose of the shares of common stock owned by CMH.
- (10) 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.
- (11) 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.

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 OPERATION

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 nineteen (19) patents issued by the U.S. Patent and Trademark Office that relate to various technologies including patents covering (i) the delivery of power over Ethernet ("PoE") cables for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras, over Ethernet networks; (ii) foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system; (iii) enabling technology for identifying media content on the Internet and taking further action to be performed based on such identification including, among others, the insertion of advertising and the facilitation of the purchase of goods and services; and (iv) systems and methods for the transmission of audio, video and data over computer and telephony networks. In addition, we continually review opportunities to acquire or license additional intellectual property. Our strategy is to pursue licensing and strategic alliances with companies in industries that manufacture and sell products that make use of the technologies underlying our intellectual property 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 intellectual property have primarily focused on licensing our patent (U.S. Patent No. 6,218,930) covering delivery of power over Ethernet cables (the "Remote Power Patent"). As of June 30, 2013, we had entered into sixteen (16) license agreements with respect to our Remote Power Patent which, among others, include license agreements with Cisco Systems, Inc. and Cisco Linksys, Extreme Networks, Inc., Netgear, Inc., Microsemi Corporation, Motorola Solutions, Inc. and NEC Corporation and several other major data networking equipment manufacturers (See Note D to our unaudited financial statements for the quarterly period ended June 30, 2013 included in this Prospectus (the "June 30, 2013 Quarterly Financial Statements (unaudited)"). Our current strategy includes continuing to pursue licensing opportunities for our Remote Power Patent from vendors of PoE equipment in order to resolve possible infringement of the Remote Power Patent by such vendors. In addition, we are seeking to acquire additional intellectual property assets to develop, commercialize, license or otherwise monetize such intellectual property. We may also enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property. The form of such relationships may differ depending upon the opportunity and may include, among other things, a strategic investment in such third party, the provision of financing to such third party or the formation of a joint venture with such third party for the purpose of monetizing their intellectual property assets.

On February 28, 2013, as part of our acquisition strategy, we acquired from Dr. Ingemar Cox, a technology leader in digital watermarking content identification, digital rights management and related technologies, four patents (as well as a pending patent application) for a purchase price of \$1,000,000 in cash and 403,226 shares of our common stock. In addition, we are obligated to pay Dr. Cox 12.5% of the net proceeds generated by us from licensing, sale or enforcement of the patents (See Note B[2] to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus). Since the acquisition, we filed seven (7) patent applications with the United States Patent and Trademark Office seeking patent protection based upon the original patent application filed in 2000 and we anticipate further issuances of additional claims for this portfolio. In July 2013, we received a Notice of Allowance from the U.S. Patent and Trademark Office for the patent application entitled “Method of Using Extracted Features from an Electronic Work”. This granted patent application will issue a patent within the next few months.

On May 21, 2013, our newly formed subsidiary, Mirror Worlds Technologies, LLC, acquired all of the patents previously owned by Mirror Worlds, LLC (which subsequently changed its name to Looking Glass LLC) including nine (9) issued United States patents and five (5) pending applications covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system (the “MW Patent Portfolio”). The consideration we paid Mirror Worlds, LLC for the MW Patent Portfolio consisted of (i) \$3,000,000 in cash, (ii) 5-year warrants to purchase 875,000 shares of our common stock at \$1.40 per share, and (iii) 5-year warrants to purchase 875,000 shares of our common stock at \$2.10 per share. (See Note B[2] to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus). As part of the acquisition of the MW Patent Portfolio, we also entered into an agreement with Recognition Interface, LLC (“Recognition”), an entity that financed the commercialization of the MW Patent Portfolio prior to its sale to Mirror Worlds, LLC and also retained an interest in the licensing proceeds of the patent portfolio held by Mirror Worlds, LLC. Pursuant to the terms of our agreement with Recognition, Recognition received (i) 5-year warrants to purchase 250,000 shares of our common stock at \$1.40 per share, and (ii) 5-year warrants to purchase 250,000 shares of our common stock at \$2.10 per share. Recognition also received from us an interest in the net proceeds realized from the monetization of the MW Patent Portfolio as follows: (i) 10% of the first \$125 million of net proceeds, (ii) 15% of the next \$125 million of net proceeds, (iii) and 20% of any portion of the net proceeds in excess of \$250 million. In addition, Abacus and Associates, Inc., an entity affiliated with Recognition, received a 60-day warrant to purchase 500,000 shares of our common stock at \$2.05 per share which it exercised in full on July 22, 2013. As a result of such warrant exercise and in accordance with our agreement with Recognition, we issued additional warrants to Recognition to purchase an aggregate of 250,000 shares of our common stock (See Note F[1] to our June 30, 2013 Quarterly Financial Statements (unaudited) in this Prospectus).

The inventions described in the MW Patent Portfolio resulted from the work done by Yale University computer scientist, Professor David Gelernter, and his then graduate student, Dr. Eric Freeman, in the mid-1990s. Both Professor Gelernter and Dr. Freeman entered into consulting agreements with us as part of our acquisition of the MW Patent Portfolio. Professor Gelernter and Dr. Freeman are currently associated with Lifestreams Technologies Corporation ("Lifestreams"), a company that develops next generation applications and methodologies aimed at organizing and displaying digital data. Lifestreams is a licensee of the MW Patent Portfolio. In connection with the acquisition of the MW Patent Portfolio, we also acquired an equity interest in Lifestreams. In addition, in July 2013 we made an additional equity investment in Lifestreams and, as part of an amended license agreement with Lifestreams related to the MW Patent Portfolio, we received a warrant to purchase 7.5% of the outstanding common stock of Lifestreams on a fully diluted basis.

On May 22, 2013, through our newly formed subsidiary, Mirror Worlds Technologies, LLC, we initiated patent litigation against Apple, Inc., Microsoft, Inc., Hewlett-Packard Company, Lenovo Group Ltd., Lenovo (United States), Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics America, Inc. and Samsung Telecommunications America L.L.C., in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of U.S. Patent No. 6,006,227 (part of the MW Patent Portfolio we acquired).

In September 2011, we initiated patent litigation against sixteen (16) 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. Named as defendants in the lawsuit (excluding related parties) were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties. During the year ended December 31, 2012, we reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola"), Transition Networks, Inc. ("Transition Networks") and GarretCom, Inc. In February 2013, we reached settlement agreements with Allied Telesis, Inc. ("Allied Telesis") and NEC Corporation ("NEC"). As part of the settlements, Motorola, Transition Networks, GarretCom, Allied Telesis and NEC each entered into a non-exclusive license agreement for our Remote Power Patent pursuant to which each such defendant agreed to license our Remote Power Patent for its full term (which expires in March 2020) and pay a license initiation fee and quarterly or annual royalties based on their sales of PoE products. On January 25, 2013, certain defendants in the aforementioned litigation filed a motion to stay the litigation pending completion or termination of the Inter Partes review proceedings at the United States Patent and Trademark Office (see below and Note D(5) to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus). On March 5, 2012, the Court granted certain defendants' motion and stayed the litigation pending the disposition of the Inter Partes review proceedings.

As a result of a settlement in July, 2010 of certain patent litigation we had initiated against Cisco Systems, Inc. and Cisco-Linksys, LLC (collectively "Cisco"), we entered into non-exclusive licenses for our Remote Power Patent with Cisco and the other defendants. For the six month periods ended June 30, 2013 and June 30, 2012, our royalty revenue from Cisco constituted 84% and 81% of our revenue, respectively. For the years ended 2012 and 2011, our royalty revenue from Cisco constituted 77% and 87% of our revenue, respectively. Due to our annual royalty rate structure with Cisco which includes declining rates as the volume of PoE product sales increase during the year, royalties from Cisco are anticipated to be highest in the first quarter of the calendar year and decline for each of the remaining calendar quarters of the year.

On July 20, 2012, an unknown third party filed with the United States Patent and Trademark Office (“USPTO”) a request for ex parte reexamination of certain claims of our Remote Power Patent. On September 5, 2012, the USPTO issued an order granting the reexamination. The request for reexamination was stayed by the USPTO on December 21, 2012 pending the termination or completion of the Inter Partes Review proceedings (described below) at the USPTO involving our Remote Power Patent. There are currently pending Inter Partes Review petitions filed at the USPTO pertaining to our Remote Power Patent (See “Legal Proceedings on pages 29-31 of this Prospectus). Petitioners in each Inter-Partes review seek to cancel certain claims of the Remote Power Patent as unpatentable. In the event that the USPTO reaches a final determination in the Inter Partes Review proceedings or the ex parte reexamination (referenced above) that certain of our claims related to the Remote Power Patent are unpatentable, such a determination (unless overturned) would have a material adverse effect on our business, financial condition and results of operations as our entire revenue stream is dependent upon the continued validity of our Remote Power Patent.

At June 30, 2013, we had net operating loss carryforwards (NOLs) totaling approximately \$23,954,000 expiring through 2029, with a future tax benefit of approximately \$8,144,000. At December 31, 2012 we had net operating loss carryforwards (NOLs) totaling approximately \$25,255,000 expiring through 2029, with a future tax benefit of approximately \$8,840,000. During the second quarter of 2011, as a result of the Company’s recent results and projected future operating results, management determined that a portion of the NOL was more likely than not to be utilized resulting in the recording of a one-time, non-cash, income tax benefit of \$7,000,000 (income) or \$0.29 per share (basic) for the three month period ended June 30, 2011. During the year ended December 31, 2012 as a result of income (before taxes) for the period of \$3,372,000, \$37,000 was recorded as income tax expense and the deferred tax asset was reduced by \$709,000 to \$6,194,000. At December 31, 2012 and June 30, 2013, \$6,194,000 and \$5,878,000 were recorded as a deferred tax asset on our balance sheet. During the three month period ended June 30, 2013, as a result of the exercise of options to purchase an aggregate of 1,177,500 shares of our common stock by our Chairman and Chief Executive Officer and another employee (see Note A(3) to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus), we realized a tax deduction of \$1,472,000 which after giving effect to income before taxes of \$461,000 for the three months ended June 30, 2013 increased our deferred tax asset by \$299,000 to \$5,878,000 at June 30, 2013. To the extent that we earn income in the future, we will report income tax expense and such expense attributable to federal income taxes will reduce the recorded income tax asset reflected on the balance sheet. Management will continue to evaluate the recoverability of the NOL and adjust the deferred tax asset appropriately. Utilization of NOL credit carryforwards can be subject to a substantial annual limitation due to ownership change limitations that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2013 Compared To Three Months Ended June 30, 2012

Revenue. We had revenue of \$1,907,000 for the three months ended June 30, 2013 as compared to revenue of \$1,966,000 for the three months ended June 30, 2012, which was related to the receipt of royalties pursuant to license agreements for our Remote Power Patent. The decrease in revenue of \$59,000 for the three months ended June 30, 2013 was due to a decrease in revenue from our existing licensees which was offset in part by revenue from new licensees for the three months ended June 30, 2013.

Cost of Revenue. We had a cost of revenue of \$547,000 and \$562,000 for the three months ended June 30, 2013 and June 30, 2012, respectively. Included in the cost of revenue for the three months ended June 30, 2013 were contingent legal fees of \$452,000 payable to our patent litigation counsel (See Note B[1] to our financial statements included herein) and \$95,000 of incentive (royalty bonus) compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (See Note C[1] to our June 30, 2013 Quarterly Financial Statements

(unaudited) included in this Prospectus). Included in the cost of revenue for the three months ended June 30, 2012 were contingent legal fees of \$464,000 payable to our patent litigation counsel and \$98,000 of incentive (royalty bonus) compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement.

Gross Profit. The gross profit for the three months ended June 30, 2013 was \$1,360,000 as compared to \$1,404,000 for the three months ended June 30, 2012. The decreased gross profit of \$44,000 or 3% for the three months ended June 30, 2013 was primarily due to decreased royalty revenue.

Operating Expenses. Operating expenses for the three months ended June 30, 2013 were \$911,000 as compared to \$520,000 for the three month period ended June 30, 2012. General and administrative expenses include overhead expenses, amortization of patents, and finance, accounting, legal and other professional services incurred by us. General and administrative expenses increased by \$321,000 from \$446,000 for the three months ended June 30, 2012 to \$767,000 for the three months ended June 30, 2013, due primarily to increased amortization of the thirteen (13) patents acquired during 2013 and increased legal fees. Non-cash compensation expense related to the issuance of stock options was \$144,000 for the three months ended June 30, 2013 as compared to \$74,000 for the three months ended June 30, 2012.

Interest Income. Interest income for the three months ended June 30, 2013 was \$12,000 as compared to interest income of \$10,000 for the three months ended June 30, 2012.

Operating Income. We had operating income of \$449,000 for the three months ended June 30, 2013 compared with an operating income of \$884,000 for the three months ended June 30, 2012. The decrease in operating income of \$435,000 was primarily due to increased patent amortization expense, increased non-cash compensation expenses and legal costs and a decrease in revenue.

Income Taxes (Benefit). A provision (benefit) for federal, state and local income taxes of \$(321,000) and \$157,000 which included a \$299,000 increase and \$148,000 reduction in our deferred tax asset were recorded for the three months ended June 30, 2013 and June 30, 2012, respectively.

Deferred Tax Benefit/NOLs. At June 30, 2013, we had net operating loss carryforwards (NOLs) totaling approximately \$23,954,000 expiring through 2029, with a future tax benefit of approximately \$8,144,000. During the second quarter of 2011, as a result of the Company's recent results and projected future operating results, management determined that a portion of the NOL was more likely than not to be utilized resulting in the recording of a one-time, non-cash, income tax benefit of \$7,000,000 (income) or \$.29 per share (basic) for the three month period ended June 30, 2011 (See Note A[5] to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus). At June 30, 2013 and June 30, 2012, \$5,878,000 and \$6,335,000, respectively, has been recorded as a deferred tax benefit on our balance sheet. During the three month period ended June 30, 2013, as a result of the exercise of options to purchase an aggregate of 1,177,500 shares of our common stock by our Chairman and Chief Executive Officer and another employee (see Note A[3] to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus), we realized a tax deduction of \$1,472,000 which after giving effect to income before taxes of \$461,000 for the three months ended June 30, 2013 increased our deferred tax asset by \$299,000 to \$5,878,000 at June 30, 2013. To the extent that we earn income in the future, we will report income tax expense and such expense attributable to federal income taxes will reduce the recorded income tax asset reflected on the balance sheet. Management will continue to evaluate the recoverability of the NOL and adjust the deferred tax asset appropriately. Utilization of NOL credit carryforwards can be subject to a substantial annual limitation due to ownership change limitations that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions.

Net Income. As a result of the foregoing, we realized net income of \$782,000 or \$0.03 per share (basic) and \$0.03 per share (diluted) for the three months ended June 30, 2013 compared with net income of \$737,000 or \$0.03 per share (basic) and \$0.02 per share (diluted) for the three months ended June 30, 2012.

Six Months Ended June 30, 2013 Compared To Six Months Ended June 30, 2012

Revenue. We had revenue of \$5,971,000 for the six months ended June 30, 2013 as compared to revenue of \$6,391,000 for the six months ended June 30, 2012, which was related to the receipt of royalties pursuant to license agreements for our Remote Power Patent. The decrease in revenue of \$420,000 or 6.6% for the six months ended June 30, 2013 was primarily due to reduced license initiation fees and decreased royalties pursuant to license agreements for our Remote Power Patent.

Cost of Revenue. We had a cost of revenue of \$1,772,000 and \$1,948,000 for the six months ended June 30, 2013 and June 30, 2012, respectively. Included in the cost of revenue for the six months ended June 30, 2013 were contingent legal fees of \$1,474,000 payable to our patent litigation counsel (See Note B[1] to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus) and \$299,000 of incentive (royalty bonus) compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (See Note C[1] to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus). Included in the cost of revenue for the six months ended June 30, 2012 were contingent legal fees of \$1,629,000 payable to our patent litigation counsel and \$320,000 of incentive (royalty bonus) compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement.

Gross Profit. The gross profit for the six months ended June 30, 2013 was \$4,199,000 as compared to \$4,443,000 for the six months ended June 30, 2012. The decreased gross profit of \$244,000 or 5.5% for the six months ended June 30, 2013 was primarily due to decreased revenue.

Operating Expenses. Operating Expenses for the six month period ended June 30, 2013 were \$1,701,000 as compared to \$1,201,000 the six month period ended June 30, 2012. General and administrative expenses include overhead expenses, amortization of patents and finance, accounting, legal and other professional services incurred by us. General and administrative expenses increased by \$409,000 from \$1,036,000 for the six months ended June 30, 2012 to \$1,445,000 for the six months ended June 30, 2013, due primarily to increased patent amortization costs with respect to the acquisition of thirteen (13) patents and increased legal fees. Non-cash compensation expense related to the issuance of stock options was \$256,000 for the six months ended June 30, 2013 as compared to \$165,000 for the six months ended June 30, 2012.

Interest Income. Interest income for the six months ended June 30, 2013 was \$18,000 as compared to interest income of \$19,000 for the six months ended June 30, 2012.

Operating Income. We had an operating income of \$2,498,000 for the six months ended June 30, 2013 compared with operating income of \$3,242,000 for the six months ended June 30, 2012. The decrease in operating income of \$744,000 was due to increased patent amortization expense, increased non-cash compensation expenses and increased legal fees and decreased revenue.

Income Taxes (Benefit). A provision for federal, state and local income taxes of \$342,000 and \$601,000 which included a \$316,000 and \$568,000 reduction in our deferred tax asset were recorded for the six months ended June 30, 2013 and June 30, 2012, respectively.

Deferred Tax Benefit/NOLs. At June 30, 2013, we had net operating loss carryforwards (NOLs) totaling approximately \$23,954,000 expiring through 2029, with a future tax benefit of approximately \$8,144,000. During the second quarter of 2011, as a result of the company's recent results and projected future operating results, management determined that a portion of the NOL was more likely than not to be utilized resulting in the recording of a one-time, non-cash, income tax benefit of \$7,000,000 (income) or \$.29 per share (basic) for the six month period ended June 30, 2011 (See Note A[5] to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus). At June 30, 2013 and June 30, 2012, \$5,878,000 and \$6,335,000 and were recorded as a deferred tax asset on our balance

sheet. During the six month period ended June 30, 2013 as a result of income (before taxes) for the period of \$2,516,000, the deferred tax asset was reduced by \$316,000 to \$5,878,000. To the extent that we earn income in the future, we will report income tax expense and such expense attributable to federal income taxes will reduce the recorded income tax asset reflected on the balance sheet. Management will continue to evaluate the recoverability of the NOL and adjust the deferred tax asset appropriately. Utilization of NOL credit carryforwards can be subject to a substantial annual limitation due to ownership change limitations that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions.

Net Income. As a result of the foregoing, we realized net income of \$2,174,000 or \$0.09 per share (basic) and \$0.08 per share (diluted) for the six months ended June 30, 2013 compared with net income of \$2,660,000 or \$0.10 per share (basic) and \$0.09 per share (diluted) for the six months ended June 30, 2012.

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LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily from royalty revenue from licensing our Remote Power Patent. In accordance with our patent litigation settlement achieved in July 2010, we received aggregate upfront payments of approximately \$32 million (net proceeds of \$22 million after payment of legal fees, expenses and bonus compensation) and Cisco agreed to pay us quarterly royalties (which began for the first quarter of 2011) (See Note D[3] to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus). At June 30, 2013 our principal sources of liquidity consisted of cash and cash equivalents of approximately \$18,103,000 and working capital of approximately \$19,924,000. We believe based on our current cash position and projected licensing revenue from our existing license agreements that we will have sufficient cash to fund our operations for the foreseeable future, although this may not be the case.

Working capital decreased by \$2,778,000 to \$19,924,000 at June 30, 2013 as compared to working capital of \$22,702,000 at December 31, 2012. The decrease in working capital was primarily due to the cost of patent acquisitions which included cash payments to the sellers of an aggregate of \$4,000,000 (See Note B[2] to our June 30, 2013 Quarterly Financial Statements (unaudited) included in this Prospectus).

We maintain our cash primarily in money market accounts. We do not have any derivative financial instruments. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

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 except for the lease obligations set forth in Note B[4] to our financial statements included in this Prospectus.

Critical Accounting Policies:

Patents:

We own patents that relate to various 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.

Revenue Recognition:

We recognize revenue received from the licensing of our intellectual property in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104") and related authoritative pronouncements. Under this guidance, revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been performed pursuant to the terms of the license agreement, (iii) amounts are fixed or determinable and (iv) collectability of amounts is reasonably assured.

Income Taxes:

We utilize the liability method of accounting for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect at the balance sheet date. The resulting asset or liability is adjusted to reflect enacted changes in tax law. Deferred tax assets are reduced, if necessary, by a valuation allowance when the likelihood of realization is not assured.

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.

RESULTS OF OPERATIONS:

Year Ended December 31, 2012 Compared To Year Ended December 31, 2011

Revenue. We had revenue of \$8,698,000 or a 17.6% increase for the year ended December 31, 2012 ("2012") as compared to revenue of \$7,398,000 for the year ended December 31, 2011 ("2011"), which was related to the receipt of royalties pursuant to license agreements for our Remote Power Patent. The increase in revenue of \$1,300,000 or 17.6% for 2012 was primarily due to increased royalties from our existing licenses and the addition of license initiation fees and royalties from 3 new licensees achieved from settlements with respect to our pending patent infringement litigation (See Note J[1] to our audited financial statements for 2012 and 2011 included in this Prospectus).

Cost of Revenue. We had a cost of revenue of \$2,602,000 and \$2,160,000 for 2012 and 2011, respectively. Included in the cost of revenue for 2012 were contingent legal fees of \$2,070,000 payable to our patent litigation counsel (See Note E[1] to our audited financial statements for 2012 and 2011 included in this Prospectus) and \$435,000 of royalty incentive compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (See Note I[1] to our audited financial statements for 2012 and 2011 included in this Prospectus). Included in the cost of revenue for 2011 were contingent legal fees of \$1,651,000 payable to our patent litigation counsel and \$370,000 of royalty incentive compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement.

Gross Profit. The gross profit for 2012 was \$6,096,000 as compared to \$5,292,000 for 2011. The increased gross profit of \$804,000 or 15.2% for 2012 was primarily due to increased royalty revenue.

Operating Expenses. Operating expenses for 2012 were \$2,763,000 as compared to \$3,759,000 for 2011 which includes additional patent expense of \$1,000,000 for 2011 paid to a third party pursuant to an amended patent purchase agreement (See Note C to our audited financial statements for 2012 and 2011 included in the Prospectus). General and administrative expenses include overhead expenses, and finance, accounting, legal and other professional services incurred by us. General and administrative expenses decreased by \$9,000 from \$2,456,000 for 2011 to \$2,447,000 for 2012. Non-cash compensation expense related to the issuance of stock options was \$316,000 for 2012 as compared to \$303,000 for 2011.

Interest Income. Interest income for 2012 was \$39,000 as compared to interest income of \$48,000 for 2011.

Operating Income. We had operating income of \$3,333,000 for 2012 compared with operating income of \$1,533,000 for 2011. The increase in operating income of \$1,800,000 was due primarily to increased royalty revenue of \$1,300,000 and decreased operating expenses of \$996,000 which was primarily attributable to the additional patent expense of \$1,000,000 for 2011.

Income Taxes (Benefit). A provision for federal, state and local income taxes was recorded for 2012 of \$746,000 which included a \$709,000 reduction in our deferred tax asset to \$6,194,000. A federal, state and local income tax benefit of \$9,000 and a deferred tax benefit of \$(6,903,000) were recorded for 2011.

Deferred Tax Benefit/NOLs. At December 31, 2012, we had net operating loss carryforwards (NOLs) totaling approximately \$25,255,000 expiring through 2029, with a future tax benefit of approximately \$8,840,000. During the second quarter of 2011, as a result of the company's recent results and projected future operating results, management determined that a portion of the NOL was more likely than not to be utilized resulting in the recording of a one-time, non-cash, income tax benefit of \$7,000,000 (income) or \$.29 per share (basic) (See Note A[5] to our audited financial statements for 2012 and 2011 included in this Prospectus). At December 31, 2012, \$6,194,000 was recorded as a deferred tax benefit on our balance sheet. During 2012 as a result of income (before taxes) for the period of \$3,372,000, the deferred tax asset was reduced by \$709,000 to \$6,194,000. To the extent that we earn income in the future, we will report income tax expense and such expense attributable to federal income taxes will reduce the recorded income tax asset reflected on the balance sheet. Management will continue to evaluate the recoverability of the NOL and adjust the deferred tax asset appropriately. Utilization of NOL credit carryforwards can be subject to a substantial annual limitation due to ownership change limitations that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions.

Net Income. As a result of the foregoing, we realized net income of \$2,626,000 or \$0.10 per share (basic) and \$0.09 per share (diluted) for 2012 compared with net income of \$8,493,000 or \$0.33 per share (basic) and \$0.27 per share (diluted) for 2011. Net income for 2011 included \$6,903,000 or \$0.29 per share (basic) from the recording of a one-time, non-cash deferred income tax benefit (See Note F to our financial statements included in this Prospectus).

LIQUIDITY AND CAPITAL RESOURCES:

We have financed our operations primarily from royalty revenue from licensing our Remote Power Patent. In accordance with our patent litigation settlement achieved in July 2010, we received aggregate upfront payments of approximately \$32 million (net proceeds of \$22 million after payment of legal fees, expenses and bonus compensation) and Cisco agreed to pay us quarterly royalties (which began for the first quarter of 2011). (See Note J[2] to our audited financial statements for 2012 and 2011 included in this Prospectus). During 2012 our licensees generated licensee royalties (including license initiation fees from litigation settlements) of \$8,698,000. As of December 31, 2012 our principal sources of liquidity consisted of cash and cash equivalents of approximately \$21,983,000 and working capital of approximately \$22,702,000. We believe based on our current cash position and projected licensing revenue from our existing license agreements that we will have sufficient cash to fund our operations for the foreseeable future, although this may not be the case.

Working capital increased by \$2,300,000 to \$22,702,000 at December 31, 2012 as compared to working capital of \$20,402,000 at December 31, 2011. The increase in working capital was primarily due to increased cash and cash equivalents of \$1,322,000, and decreased current liabilities of \$906,000.

We maintain our cash primarily in money market accounts. We do not have any derivative financial instruments. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

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 except for the lease obligations set forth in Note E[4] to our audited financial statements for 2012 and 2011 included in this Prospectus.

Critical Accounting Policies:

Patents:

We own patents that relate to various telecommunications, and data networking and Internet related 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.

Revenue Recognition:

We recognize revenue received from the licensing of our intellectual property in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104") and related authoritative pronouncements. Under this guidance, revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been performed pursuant to the terms of the license agreement, (iii) amounts are fixed or determinable and (iv) collectability of amounts is reasonably assured.

Income Taxes:

We utilize the liability method of accounting for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect at the balance sheet date. The resulting asset or liability is adjusted to reflect enacted changes in tax law. Deferred tax assets are reduced, if necessary, by a valuation allowance when the likelihood of realization is not assured.

Effect of New Accounting Pronouncements.

See Note B[14] to our audited financial statements for 2012 and 2011 included in this Prospectus.

MANAGEMENT

The following information includes information each director and executive officer has given us about his age, all positions he holds, his principal occupation and business experience for at least the past five years, and the names of other publicly-held companies of which he currently serves as a director or has served as a director during the past 5 years. In addition to the information presented below regarding each director's specific experience, qualifications, attributes and skills that led our Board to the conclusion that he or she should serve as a director, we also believe that all of our directors have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to Network-1 and our Board.

Information about the number of shares of common stock beneficially owned by each executive officer and director appears in this Prospectus under the heading "Security Ownership of Certain Beneficial Owners and Management." There are no family relationships among any of our directors and executive officers.

NAME	AGE	POSITION
Corey M. Horowitz	58	Chairman, Chief Executive Officer and Chairman of the Board of Directors
David C. Kahn	61	Chief Financial Officer, Secretary and a Director
Emanuel Pearlman	53	Director
Niv Harizman	49	Director
Allison Hoffman	42	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. Mr. Horowitz is also President and sole shareholder of CMH Capital Management Corp. ("CMH"), a New York investment advisory and private equity 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. We believe Mr. Horowitz's qualifications to serve on our Board of Directors include his significant experience and expertise as an executive in the intellectual property field and his understanding of our intellectual property and the patent acquisition, licensing and enforcement business combined with his private equity and corporate transactional experience.

David C. Kahn, CPA, became our Chief Financial Officer in January 2004 and our Secretary in August 2012. Mr. Kahn was elected to our Board in April 2012. Since December 1989, Mr. Kahn has provided accounting and tax services on a consulting basis to private and public companies. From August 2000 until August 2012, Mr. Kahn served as a full-time faculty member of Yeshiva University in New York. We believe Mr. Kahn's qualifications to serve on our Board include his background and expertise in accounting and tax matters.

Emanuel Pearlman became a director of our company in January 2012. Mr. Pearlman currently serves as Chairman and CEO of Liberation Investment Group, LLC, a New York based investment management and financial consulting firm, a position he has held since January 2003. From December 2009 to the present, Mr. Pearlman has served on the board of directors of Fontainebleau Miami JV, LLC as Chairman of the Audit and Compensation committee. From September 2010 to the present he served as Chairman of the Board of Empire Resorts, Inc. (NASDAQ: NYNY). From January 2012 to January 2013, he served on the board of directors of Dune Energy, Inc. (OTCBB:

DUNR.OB) as Chairman of the Nominating and Governance Committee. From October 2006 to March 2010, Mr. Pearlman served on the board of directors of Multimedia Games, Inc. (NASDAQ: MGAM). Mr. Pearlman was previously a director of our company from December 1999 to December 2002. We believe Mr. Pearlman's qualifications to serve on our Board include his significant investment and financial experience and expertise combined with his Board experience.

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Niv Harizman became a director of our company in December 2012. Mr. Harizman is a Managing Member of Tyto Capital Partners LLC, a private investment firm specializing in debt and equity investments in middle market companies and special situations, a position he has held since August 2010. Since March 2010, Mr. Harizman has also been the Managing Member of NHK Partners LLC, an entity that makes private investments and provides financial services. From May 2005 to March 2010, Mr. Harizman was a Founding Partner and Head of Corporate Finance at Plainfield Asset Management LLC, which was a privately held registered investment adviser focused on alternative investments. From May 2000 until May 2005, Mr. Harizman was a member of the Mergers & Acquisitions Group of Credit Suisse First Boston LLC where he was a Managing Director from 2001-2005 and a Director from 2000 to 2001. From 1995 until 2000, Mr. Harizman was employed by Bankers Trust and its successors including BT Alex. Brown Incorporated and Deutsche Bank in various investment banking positions in the Mergers & Acquisitions Group and Leveraged Finance Group. We believe Mr. Harizman's qualifications to serve on our Board include his significant investment and financial transactional experience and expertise.

Allison Hoffman became a director of our company in December 2012. Since December 2012, Ms. Hoffman has been in-house counsel at Martha Stewart Living Omnimedia, Inc. (NYSE:MSO), a media and merchandising company providing consumers with high quality life style content and products. From June 1999 to September 2012, Ms. Hoffman was employed by ALM Media LLC, a leading provider of specialized news and information for the legal and commercial real estate sectors, as Senior Vice President, Chief Legal Officer and Secretary (January 2007 – September 2012), Vice President, General Counsel and Secretary (August 2001 to December 2006) and Assistant General Counsel (June 1999 – July 2001). From 1995 to 1999, Ms. Hoffman was an associate in the corporate finance department of Skadden, Arps, Slate, Meagher and Flom LLP. We believe that Ms. Hoffman's qualifications to serve on our Board include her extensive legal background and transactional experience.

Key Employee

Jonathan Greene served as a consultant to the Company from December 2004 until March 2013, providing technical and marketing analysis for our intellectual property portfolio. Mr. Greene became an employee of the Company in March 2013. Mr. Greene also serves as a member of our Technical Advisory Board. From April 2006 to February 2009, Mr. Greene 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. (NASDAQ:FALC), 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.

Committees of the Board of Directors

The Board of Directors currently has four committees: an Audit Committee; a Compensation Committee; a Nominating and Corporate Governance Committee (which committees were established in January 2013) and a Strategic Development Committee (established in June 2013). Each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee has a charter. These charters are available on the Company's website at: <http://www.Network-1.com/sec/sec.htm>. Each member of each committee is, and Robert Pons while serving as a director during 2012 and a member of our Compensation Committee (until September 2012) was, an "independent" director under the standards of the NYSE MKT LLC. While we are not listed on the NYSE MKT LLC or Nasdaq, our Board of Directors has adopted the independence rules of the NYSE in making its determination of director independence. Three of our current five directors, Emanuel Pearlman, Allison Hoffman and Niv Harizman, are considered independent directors based upon the standard of independence adopted by the Board of Directors as promulgated under Rule 803A of the NYSE MKT LLC Company Guide of the NYSE. Laurent Ohana, who was considered an independent director, resigned as director of the Company on August 9, 2013.

Audit Committee

During 2012 we did not have a separate Audit Committee. Our Board of Directors functioned as our audit committee in accordance with Section 3(a)58(3) of the Securities Exchange Act of 1934 as amended. In January 2013 the Board of Directors established a separate standing audit committee in accordance with Section 3(a)59(A) of the Securities Exchange Act of 1934, as amended, consisting of Emanuel Pearlman (Chairman) and Laurent Ohana. Mr. Ohana resigned from the Board and Audit Committee on August 9, 2013. On August 7, 2013, Allison Hoffman became a member of the Audit Committee. Emanuel Pearlman qualifies as an audit committee financial expert under applicable SEC rules. Mr. Pearlman and Mr. Ohana also qualify as "independent" as independence for audit committee members is defined in the NYSE MKT LLC Company Guide.

The Audit Committee is appointed by our Board of Directors to provide assistance to the Board in fulfilling its oversight responsibility with respect to, among other things, (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) selecting and evaluating the qualifications and independence of the Company's independent registered public accounting firm, (iv) evaluating the performance of the Company's internal audit function and independent registered public accounting firm, and (v) the Company's internal controls and procedures.

Compensation Committee

During 2012, Robert Pons served as the sole member of our Compensation Committee until his resignation from the committee in September 2012. Thereafter, for the balance of 2012 our Board of Directors functioned as our Compensation Committee. In January 2013, the Board re-established the Compensation Committee consisting of Allison Hoffman (Chairperson) and Niv Harizman. The Compensation Committee is appointed by the Board of Directors to assist the Board in carrying out the Board's responsibilities relating to compensation of the Company's executive officers and directors. The Committee has overall responsibility for evaluating and approving the officer and director compensation plans, policies and programs of the Company.

Nominating and Corporate Governance Committee

In 2012, we did not have a separate Nominating and Corporate Governance Committee. Our Board of Directors functioned as our Nominating and Corporate Governance Committee. In January 2013, our Board established a Nominating and Corporate Governance Committee consisting of Niv Harizman (Chairman) and Emanuel Pearlman. The Nominating and Corporate Governance Committee is responsible for, among other things, developing and recommending to the Board a set of corporate governance policies for the Company, establishing criteria for selecting new directors, and identifying, screening and recruiting new directors. The Committee will also recommend to the Board nominees for directors and recommend directors for committee membership to the Board.

Strategic Development – Committee

In June 2013, the Company established a Strategic Development Committee to assist our Chairman and Chief Executive Officer in strategic development and planning of the Company’s business relating to identifying potential strategic partners and the development of new IP acquisition opportunities. The Committee will also assist in capital markets related activities. Niv Harizman is the sole member of the Strategic Development Committee.

EXECUTIVE COMPENSATION

The following table summarizes compensation, for the years ended December 31, 2012 and December 31, 2011, 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, 2012 for services rendered in all capacities to us (collectively, the “Named Executive Officers”).

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards	
		Salary (\$)	Bonus (\$)	Option Awards(\$)(3)	All Other Compensation(\$)(1)	Total(\$)
Corey M. Horowitz Chairman and Chief Executive Officer	2012	\$414,000	\$ 585,000(2)	\$328,000	—	\$1,327,000
	2011	\$409,000	\$ 520,000(2)	\$176,000	\$ 250,000(4)	\$1,355,000
David C. Kahn Chief Financial Officer	2012	\$126,000(5)	\$ 30,000	\$43,000	\$ 5,000(6)	\$204,000
	2011	\$108,000(5)	\$ 30,000	\$32,000	\$ 5,000(6)	\$175,000

- (1) We have concluded that the aggregate amount of perquisites and other personal benefits paid in 2012 and 2011 to either Mr. Horowitz or Mr. Kahn did not exceed \$10,000.
- (2) Mr. Horowitz received the following cash incentive bonus payments for 2012: (i) an annual discretionary bonus of \$150,000 for 2012 and (ii) royalty incentive compensation of \$435,000 pursuant to his employment agreement (See “Employment Agreements, Termination of Employment and Change-In-Control Arrangements” as set forth below in this Prospectus). Mr. Horowitz received the following bonus compensation for 2011: (i) an annual bonus of \$150,000 and (ii) royalty bonus compensation of \$370,000 pursuant to his employment agreement.
- (3) The amounts in the “Option Awards” column represent the aggregate grant date fair value of the stock option awards granted to the Named Executive Officers computed in accordance with FASB ASC Topic 718. See Note D[1] to our financial statements included in this Prospectus for a discussion of the assumptions made by the

Company in determining the grant date fair value.

- (4) Includes \$250,000 paid to Mr. Horowitz in consideration of his agreement to reduce his bonus compensation payable to him pursuant to his employment agreement with respect to proceeds from patents other than the Remote Power Patent from 12.5% to 10% (See "Executive Compensation – Employment Agreement, Termination of Employment and Change-In-Control Arrangements as set forth below in this Prospectus).
- (5) Consists of consulting fees paid to Mr. Kahn for his services as Chief Financial Officer.
- (6) \$5,000 representing Mr. Kahn's portion of a fee for tax services paid to an entity which is owned 50% by Mr. Kahn.

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Narrative Disclosure to Summary Compensation Table

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

On November 1, 2012, we entered into a new employment agreement (the "Agreement") with Corey M. Horowitz pursuant to which he continues to serve as our Chairman and Chief Executive Officer for a one year term (which shall automatically be extended for two successive one year periods unless terminated by the Company) at an annual base salary of \$415,000. The Agreement established an annual target bonus of \$150,000 for Mr. Horowitz based on performance criteria to be established on an annual basis by the Compensation Committee. For the year ended December 31, 2012, Mr. Horowitz received the target bonus of \$150,000. In connection with the Agreement, Mr. Horowitz was issued a ten year option to purchase 500,000 shares of our common stock at an exercise price of \$1.19 per share (the closing price on the date of grant), which vests in equal quarterly amounts of 41,667 shares beginning November 30, 2012 through August 31, 2015, subject to acceleration upon a change of control. Mr. Horowitz shall forfeit the balance of unvested shares if his employment has been terminated "For Cause" (as defined) by the Company or without "Good Reason" (as defined) by him.

Under the terms of the Agreement, Mr. Horowitz also receives incentive compensation in an amount equal to 5% of our gross royalties or other payments or proceeds (without deduction of legal fees or any other expenses) with respect to our Remote Power Patent (U.S. Patent No. 6,218,930), and a 10% net interest (gross royalties and other payments or proceeds after deduction of all legal fees and litigation expenses related to licensing of and enforcement activities, but in no event shall Mr. Horowitz receive less than 6.25% of the gross recovery) of our royalties and other payments with respect to our other patents besides the Remote Power Patent (the "Additional Patents") actually received from licensing our patented technologies including patents owned as of the date of the Agreement 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 "Incentive Compensation"). For the year ended December 31, 2012, Mr. Horowitz earned Incentive Compensation of \$435,000. The Incentive Compensation shall continue to be paid to Mr. Horowitz for the life of each of the Company's patents with respect to licenses entered into with third parties during Mr. Horowitz's term of employment or at anytime thereafter, whether Mr. Horowitz is employed by the Company or not; provided, that, Mr. Horowitz's employment has not been terminated by us "For Cause" (as defined) or terminated by Mr. Horowitz without "Good Reason" (as defined). In the event that Mr. Horowitz's employment is terminated by us "Other Than For Cause" (as defined) or by Mr. Horowitz for "Good Reason" (as defined), Mr. Horowitz shall also be entitled to (i) a lump sum severance payment of 12 months base salary, (ii) a pro-rated portion of the \$150,000 target bonus provided bonus criteria have been satisfied on a pro-rated basis through the calendar quarter in which the termination occurs and (iii) accelerated vesting of all unvested options and warrants.

In the event we enter into a definitive agreement with respect to an acquisition transaction (either a merger or sale of substantially all of our assets) (an "Acquisition Transaction"), at our option exercisable at any time prior to five days before the closing of the Acquisition Transaction, upon notice to Mr. Horowitz we may elect to extinguish the right of Mr. Horowitz to receive Incentive Compensation (effective upon consummation of the Acquisition Transaction) by a lump sum payment to him at the closing of the Acquisition Transaction of an amount equal to the fair market value of such future compensation to be mutually agreed upon by us and Mr. Horowitz or, if no such mutual agreement is reached within 15 days after execution of a definitive agreement with respect to an Acquisition Transaction, an amount equal to the fair market value of such Incentive Compensation as determined by a qualified independent third party expert chosen by us which valuation shall be binding upon parties and the cost of which will be paid by us.

In connection with the Agreement, Mr. Horowitz has also agreed not to compete with the Company as follows: (i) during the term of the agreement and for a period of 12 months thereafter if his employment is terminated "Other Than For Cause" (as defined) provided he is paid his 12 month base salary severance amount and (ii) for a period of two years from the termination date, if terminated "For Cause" by the Company or "Without Good Reason" by Mr. Horowitz.

On April 12, 2012, we entered into a letter agreement with David Kahn which amended his agreement, dated February 3, 2011, pursuant to which he continues to serve as Chief Financial Officer of the Company. The amendment (the "Amendment") provided as follows: (i) the term of Mr. Kahn's service as Chief Financial Officer shall be extended until December 31, 2013; (ii) Mr. Kahn's monthly compensation shall be increased to \$11,000 per month; and (iii) Mr. Kahn was granted a 5-year option to purchase 75,000 shares of our common stock at an exercise price of \$1.40 per share (the closing price on the date of grant), which option vests over a one year period in equal quarterly amounts of 18,750 shares.

Profit Sharing 401(k) Plan

We offer all employees who have completed a year of service (as defined) participation in a 401(k) retirement savings plan. 401(k) plans provide a tax-advantaged method of saving for retirement. We expensed matching contributions of \$33,000 and \$32,500 under the 401(k) plan for the years ended December 31, 2012 and December 31, 2011, respectively.

Director Compensation

We compensate each non-management director of our company by granting to each such outside director 5-year stock options to purchase 50,000 shares of our common stock upon joining our Board and options to purchase 25,000 shares of our common stock on an annual basis. All such options are issued at an exercise price equal to the closing price of our common stock on the date of grant. In addition, we pay our non-management directors cash director fees of \$40,000 per annum (\$10,000 per quarter). Non-management directors also receive additional cash compensation on an annual basis for serving on Board committees: Audit Committee – Chairperson (\$7,500) and member (\$5,000) and the Chairperson and member of each of the Compensation Committee and Nominating and Corporate Governance Committee receive annual fees of \$3,750 and \$2,500, respectively. The Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee were established in January 2013.

In April 2012, Robert Pons was appointed as the sole member of a special committee of the Board of Directors to assist the Chairman and Chief Executive Officer and Mr. Pons was issued a 5-year option to purchase 125,000 shares of our common stock at an exercise price of \$1.40 per share for such committee service, which option shares vested in full in December 2012 upon his resignation from the Board.

In consideration for serving on the Strategic Development Committee, Niv Harizman was issued a 5-year option to purchase 300,000 shares of our common stock, which option vested 100,000 shares on the date of grant and will vest 100,000 shares on the first and second anniversary from the grant date.

The Board of Directors or the Compensation Committee may review and determine the form and amount of directors compensation, including cash, equity based awards and other director compensation to maintain a transparent and readily understandable director compensation which ensures that the directors continue to receive fair and appropriate compensation for the time commitment required to discharge their duties for a company of our size.

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, 2012. No director who is also a Named Executive Officer received any compensation for services as a director in 2012.

Name	Option Awards ⁽²⁾ (3) (\$)	Fees Earned or Paid in Cash (\$)(1)	Total (\$)
Emanuel Pearlman	\$38,000	\$40,000	\$ 78,000(1)
Laurent Ohana	\$13,000	\$40,000	\$ 53,000(1)
Robert Pons	\$84,000	\$40,000	\$124,000
Niv Harizman	\$22,000	\$ 1,538	\$ 23,538
Allison Hoffman	\$22,000	\$ 1,538	\$ 23,538

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- (1) Represents director's fees payable in cash to each non-management director of \$10,000 per quarter (or \$40,000 per annum) for 2012.
- (2) The amounts included in the "Option Awards" column represent the grant date fair value of stock option awards to directors, computed in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions see Note D[1] to our audited financial statements for the year ended December 31, 2012 and 2011 included in this Prospectus.
- (3) The aggregate grant date fair values for 2012 calculated in accordance with FASB ASC Topic 718 reflect the following: (i) 5- year options to purchase 50,000 shares granted to Emanuel Pearlman on January 27, 2012, (ii) 5- year options to purchase 10,000 shares and 15,000 shares of our common stock granted to each of Emanuel Pearlman, Laurent Ohana and Robert Pons on January 31, 2012 and February 24, 2012 at exercise prices of \$1.21 and \$1.35 per share, respectively, which options vest over a one year period in equal quarterly amounts, (iii) a 5- year option to purchase 125,000 shares of our common stock granted to Robert Pons on April 11, 2012, at an exercise price of \$1.40 per share, which option shares vested in full upon Mr. Pons' resignation from the Board in December 2012, and (iv) a 5- year option to purchase 50,000 shares of our common stock granted to each of Niv Harizman and Allison Hoffman on December 19, 2012, at an exercise price of \$1.14 per share, which options vest over a one year period in equal quarterly amounts. The aggregate number of option awards outstanding at December 31, 2012 for each director was as follows: Mr. Pearlman – options to purchase 75,000 shares; Mr. Ohana – options to purchase 25,000 shares; Mr. Pons – options to purchase 225,000 shares; Mr. Harizman – options to

purchase 50,000 shares and Ms. Hoffman options to purchase 50,000 shares.

Outstanding Equity Awards at December 31, 2012

The following table sets forth information relating to unexercised and outstanding options for each Named Executive Officer as of December 31, 2012:

Name	Number of Securities Underlying Unexercised Options		Option Exercise Price (\$)	Option Expiration Date
	Exercisable	Unexercisable		
Corey M. Horowitz Chairman and CEO	41,667	458,333(1)	\$ 1.19	11/1/22
	750,000	—	\$ 0.83	6/08/19
	400,000	—	\$ 0.68	11/26/14
	1,100,000	—	\$ 0.25	11/26/14
	750,000	—	\$ 0.68	4/18/13
	250,000	—	\$ 0.68	10/08/13
	10,000	—	\$ 0.68	6/22/14
	7,500	—	\$ 0.68	10/25/14
	5,000	—	\$ 0.68	9/19/13
	375,000	—	\$ 0.68	2/28/13
David Kahn Chief Financial Officer	56,250(2)	18,750(2)	\$ 1.40	4/12/17
	100,000	—	\$ 1.59	2/03/16
	75,000	—	\$ 0.68	08/04/13
	100,000(3)	—	\$ 0.54	12/18/13

(1) 41,667 shares vest on a quarterly basis beginning November 30, 2012 through August 31, 2015.

(2) 18,750 shares vest on January 12, 2013 and 18,750 shares on April 12, 2013.

(3) Includes options to purchase an aggregate of 51,000 shares of our common stock transferred to Mr. Kahn's children by gift.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of August 1, 2013 for (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 AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)	PERCENTAGE OF COMMON STOCK BENEFICIALLY OWNED(2)
Corey M. Horowitz(3)	7,987,819	