NETWORK 1 SECURITY SOLUTIONS INC
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Registration No. 333-143710

PROSPECTUS

NETWORK-1 SECURITY SOLUTIONS, INC.

5,904,897 shares of Common Stock

This Prospectus covers the resale by the selling stockholders listed on pages 26 to 32 of this Prospectus of up to 5,904,897 shares of our common stock, $.01 par value, which include:

· 133,333 shares of common stock and 1,666,667 shares of common stock issuable upon exercise of warrants issued to investors in our private offering completed on April 16, 2007;

· 354,960 shares of common stock issuable upon exercise of warrants issued to the placement agents' assignees with respect to the private offering completed on April 16, 2007; and

· 2,749,937 shares of common stock and 1,000,000 shares of our common stock issuable upon exercise of warrants and options owned by our Chairman and Chief Executive Officer and related parties;

We will not receive any proceeds from the sale of these shares of common stock. We will, however, receive proceeds if warrants and options to purchase common stock are exercised by payment of cash and those proceeds will be used for our general corporate purposes. This offering is not being underwritten. The selling stockholders may sell the shares of common stock on the Over-the-Counter (OTC) Bulletin Board with the methods and on the terms described in the section of this Prospectus entitled "Plan of Distribution" on pages 33 to 35.

Our common stock is traded on the OTC Bulletin Board under the symbol "NSSI". Our common stock is not traded on any national securities exchange. On April 4, 2012, the closing price of our common stock, as reported on the OTC Bulletin Board, was $1.40 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 6 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 April 10, 2012

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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 six patents issued by the U.S. Patent Office that relate to various telecommunications and data networking technologies and include, among other things, patents covering the delivery of power 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 and systems and methods of 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 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 March 31, 2012, we had entered into a total of thirteen (13) 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., Netgear Inc., Motorola Solutions, Inc. and several other major data networking equipment manufacturers (See Note [J] to our financial statements included as part of this Prospectus). We have a pending litigation against 16 data network equipment manufacturers for infringement of our Remote Power Patent (See Note J[1] to our financial statements included as part of this Prospectus).

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 our Remote Patent by such vendors. In addition, we are seeking to acquire additional intellectual property assets in the future to develop, commercialize, license or otherwise monetize such intellectual property. 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 Remote Power Patent (U.S. Patent No. 6,218,930) relates to several technologies which describe a methodology for controlling the delivery of power to certain devices over an Ethernet network. Ethernet is the leading local area networking technology in use today. PoE technology allows for the delivery of 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 of PoE, such as lower installation costs, remote management capabilities, lower maintenance costs, centralized power backup, and flexibility of device location as well as the advent of worldwide power compatibility, create the possibility of PoE becoming widely adopted in networks throughout the world.

Our future success is largely dependent upon our proprietary technologies, our ability to protect our intellectual property rights, 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.

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

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, 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 late March 2012, we reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola") and Transition Networks, Inc. ("Transition Networks"). As part of the settlements, Motorola and Transition Networks 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.

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 an 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.

Netgear License

On May 29, 2009, we announced that we had agreed to a settlement with Netgear, Inc. ("Netgear"), who was also a defendant in the above referenced litigation in United States District Court for the Eastern District of Texas. As part of the settlement and under our Special Licensing Program, Netgear entered into a license agreement with us for our Remote Power Patent. Under the terms of the license, Netgear licenses the Remote Power Patent from us for its full term (which expires in March 2020), and pays quarterly royalties (which began as of April 1, 2009) based on its sales of PoE products, including those PoE products which comply with the Institute of Electrical and Electronic Engineers 802.3af and 802.3at Standards. Licensed products include Netgear's PoE enabled switches and wireless access points. The royalty rates included in the license are 1.7% of the sales price of Power Sourcing Equipment, which includes Ethernet switches, and 2% of the sales price of Powered Devices, which includes wireless access points. The royalty rates are subject to adjustment, under certain circumstances, if we grant a license to other licensees with lower royalty rates and Netgear is able to and agrees to assume all material terms and conditions of such other license. In addition, Netgear paid us $350,000 upon signing of the license agreement.

Microsemi License

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

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D-Link License

In August 2007, we agreed to licensing terms with D-Link Corporation and D-Link Systems (collectively, "D-Link") as part of a settlement agreement of our patent infringement litigation against D-Link in the United States District Court for the Eastern District of Texas, Tyler Division for infringement of our Remote Power Patent (See Note J to our financial statements included in this Prospectus). The license terms include the agreement by D-Link to license our Remote Power Patent for its full term which expires in March 2020, and the payment of monthly royalty payments (which began in May, 2007) based upon a running royalty rate of 3.25% of the net sales of D-Link branded Power over Ethernet products, including those products which comply with the IEEE 802.3af and 802.3at Standards. The royalty rate is subject to adjustment to a rate consistent with other similarly situated licensees of our Remote Power Patent based on units of shipments of licensed products. In June 2009, based upon several licenses issued to third parties under our Special Licensing Program, we agreed with D-Link to adjust the royalty rate to 1.7% of the sales price for Power Servicing Equipment (which includes Ethernet switches) and 2.0% of the sales price for Powered Devices (which includes wireless access points). In addition, D-Link paid us an upfront payment of $100,000 upon signing of the license agreement. The products covered by the license include D-Link Power over Ethernet enabled switches, wireless access points, and network security cameras, among others.

Shares Being Offered

This Prospectus relates to the offering by the selling stockholders of an aggregate of 5,904,897 shares of our common stock, consisting of (i) 133,333 shares of common stock and 1,666,667 shares of common stock issuable upon exercise of warrants issued in our private offering completed on April 16, 2007, (ii) 354,960 shares of common stock issuable upon exercise of warrants issued to placement agents' assignees with respect to the private offering completed on April 16, 2007 and (iii) 2,749,937 shares of common stock and 1,000,000 shares of common stock issuable upon exercise of warrants and options owned by our Chairman and Chief Executive Officer and related parties.

Summary Financial Data

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

	Year Ended December 31, 2011		December 31, 2010	
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:				
Royalty Revenue	$	7,398,000	$	33,037,000
Operating expenses(1)	$	3,759,000	$	4,173,000
Net income	$	8,493,000	$	19,236,000
Net income (loss) per share				
Basic	$	0.33	$	0.79
Diluted	$	0.27	$	0.67
Weighted-average common shares outstanding				
Basic		25,813,038		24,422,567
Diluted		30,930,483		24,619,982
CONSOLIDATED BALANCE SHEET DATA:				
Cash and cash equivalents	$	20,661,000	$	21,348,000
Working capital	$	20,402,000	$	20,606,000
Total assets	$	29,129,000	$	22,865,000
Total shareholders' equity	$	27,398,000	$	20,695,000

(1) Includes (i) additional patent expense of $1,000,000 for the year ended December 31, 2011 relating to net royalties due to a third party with respect to purchase of our Remote Power Patent (See Note C to our financial statements included in this Prospectus) and (ii) non-cash compensation expense of $303,000 and $402,000 for the years ended December 31, 2011 and 2010, respectively.

We had royalty revenue of $7,398,000 for the year ended December 31, 2011 ("2011") as compared to royalty revenue of $33,037,000 for the year ended December 31, 2010 ("2010"). The revenue for 2010 includes $32,320,000 received from settlement of our patent litigation in July 2010 (See Note J[2] to our financial statements included elsewhere in this Prospectus). We had operating income of $1,533,000 for 2011 and as compared to $19,269,000 for 2010, which we achieved primarily as a result of our patent litigation settlement in July 2010. 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 and consummating additional license agreements. We have financed our operations primarily by royalty revenue from licensing our Remote Power Patent. As of December 31, 2011 our principal sources of liquidity consisted of working capital of approximately $20,402,000 which includes cash and cash equivalents of $20,661,000. We believe we will have sufficient cash to satisfy our operational and capital requirements for the foreseeable future.

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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 16.

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 a history of losses and only achieved profit in recent years.

We achieved net income of $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 financial statements 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 litigation settlement of $32,320,000 achieved in July 2010. Prior to the year ended December 31, 2010 we incurred substantial operating losses since inception (July 1990) and as of December 31, 2011 we had an accumulated deficit of $(30,575,000). We had revenue of $7,398,000 and $33,037,000 from operations for the years ended December 31, 2011 and December 31, 2010, respectively. Our ability to achieve revenue 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 March 31, 2012, we had entered into thirteen (13) license agreements with respect to our Remote Power Patent, which among others, includes license agreements with Cisco Systems, Inc. and Cisco-Linksys, Microsemi Corporation, Extreme Networks, Inc., Netgear, Inc. and Motorola Solutions, Inc. 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 hold six patents issued by the U.S. Patent Office that relate to various telecommunications and data networking technologies and include among other things, our Remote Power Patent covering the delivery of power to certain devices over PoE networks and patents covering the transmission of audio, voice and data over computer and telephony networks. Our focus to date has been on licensing our Remote Power Patent. 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 16 data equipment manufacturers commenced in September 2011. We may 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 would 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. In addition, 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, may have a material adverse effect on us.

Our current revenue and profit is currently dependent upon the continued validity of our Remote Power Patent.

We currently have 9 license agreements pursuant to which licensees have an obligation to pay us royalties on a quarterly or monthly basis. Such royalty bearing licenses include agreements with Cisco Systems, Inc. and Cisco-Linksys, LLC, Microsemi Corporation, Netgear and D-Link. 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. In the future it may be necessary for us to commence patent litigation against third parties who we believe require a license to our Remote Power Patent which is the case with respect to our pending litigation against 16 data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division (See Note J[1] to our financial statements included in this Prospectus). In addition, we may be subject to claims seeking to invalidate our Remote Power Patent. In the event our Remote Power Patent was determined to be invalid, or unenforceable, or that third parties do not infringe, licensees of our Remote Power Patent may have no further obligation to make royalty payments to us. Successful litigation against us resulting in a determination that our Remote Power Patent is not valid or enforceable, or that third parties do not infringe, would have a material adverse effect on our business, financial condition and results of operations.

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 settlement of patent litigation in July 2010 and the success we have achieved to date from licensing our Remote Power Patent, 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, beside the six patents we acquired in November 2003, including our Remote Power Patent, while we continue to evaluate numerous opportunities we have not acquired any additional patents and we have not yet entered into any strategic relationships with third parties to license or otherwise monetize their intellectual property. Accordingly, we may not be able to acquire additional intellectual property or, if acquired, we may not achieve material revenue 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. Even if we successfully acquire particular patent assets, there is no assurance that we will generate sufficient revenue related to those patent assets to offset the acquisition costs and the legal fees and expenses which may be incurred to 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 87% and 79% of our revenue for the years ended December 31, 2011 and December 31, 2010, 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 the year ended December 31, 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 years ended December 31, 2011 and December 31, 2010, we earned aggregate royalty payments of $7,398,000 and $33,037,000, respectively, with respect to our license agreements for our Remote Power Patent which in 2010 included aggregate up-front payments of approximately $32 million upon settlement of our patent litigation in July 2010 with several major data networking equipment manufacturers (See Note J[2] to our financial statements included in this Prospectus). We currently have license agreements for our Remote Power Patent with, among others, Cisco Systems, Inc. and Cisco Linksys, LLC, (collectively, “Cisco”) Netgear, Inc., D-Link and Microsemi 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 business 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. To date the market for PoE has continued to expand. 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 87% of our revenue for the year ended December 31, 2011 and 79% of our revenue for the year ended December 31, 2010. 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 litigation against 16 data networking equipment manufacturers may be time consuming and costly and we can provide no assurance that we will be successful in our lawsuit.

In September 2011, we initiated patent litigation against 16 data networking equipment manufacturers in the United States 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 Transition Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties.

In late March 2012, we reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola") and Transition Networks, Inc. ("Transition Networks"). As part of the settlements, Motorola and Transition Networks 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.

Patent litigation is inherently risky and the outcome is uncertain. The defendants are all large, well-financed companies with substantially greater resources than us. We cannot assure you that this lawsuit will result in a final outcome that is favorable to us.

We anticipate that the litigation 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. 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, Altitude Capital Partners, Intellectual Ventures, Rembrandt IP Management 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.

New legislation, regulations or court rulings related to enforcing patents could adversely affect our business and operating results.