As Filed with the Securities and Exchange Commission on July 22, 1998
REGISTRATION NO.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NETWORK-1 SECURITY SOLUTIONS, INC.
(Name of small business issuer in its charter)

Delaware	7372	11-3027591
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Network-1 Security Solutions, Inc.
70 Walnut Street

Wellesley Hills, Massachusetts 02481
(781) 239-8280

(Address and Telephone Number of Registrant's Principal Executive Offices)

AVI A. FOGEL

President and Chief Executive Officer
Network-1 Security Solutions, Inc.

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70 Walnut Street
Wellesley Hills, Massachusetts 02481

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(781) 239-8280

(Name, Address and Telephone Number of Agent for Service of Process)

Copies of Communications to:

SAM SCHWARTZ, ESQ.	ROBERT J. MITTMAN, ESQ.
Bizar Martin & Taub, LLP	Tenzer Greenblatt LLP
1350 Avenue of the Americas	The Chrysler Building
New York, New York 10019	405 Lexington Avenue
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Approximate Date of Proposed Sale to the Public: As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please 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. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

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.

<TABLE>
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Being Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share (1)	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
<S>	<C>	<C>	<C>	
Common Stock, par value $.01 per share	2,156,250(2)	$ 8.00	$17,250,000	$5,088.75
Underwriter's Warrants(3), each to purchase one share of Common Stock.....	187,500	$ .001	$ 187.50	$ .06
Common Stock, par value $.01 per share issuable upon exercise of Underwriter's Warrants(4).....	187,500	$13.20(4)	$ 2,475,000	$ 730.13
Total.....				$5,818.94

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(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as amended.

(2) Includes 281,250 shares of Common Stock issuable upon exercise of an option granted to the Underwriter to cover over-allotments of shares, if any.

(3) Pursuant to Rule 416, this Registration Statement also registers such indeterminate number of shares as may become issuable pursuant to the anti-dilution provisions of the Underwriter's Warrants.

(4) No fee due pursuant to Rule 457(g).

CROSS-REFERENCE SHEET

<TABLE>
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Form SB-2 Item Number and Caption	Heading In Prospectus
<S>	<C>
1. Front of Registration Statement and Outside Front Cover of Prospectus.....	Outside Front Cover of Prospectus
2. Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front and Outside Back Cover
3. Summary Information and Risk Factors.....	Prospectus Summary; Risk Factors
4. Use of Proceeds.....	Use of Proceeds
5. Determination of Offering Price.....	Risk Factors; Underwriting
6. Dilution.....	Dilution; Risk Factors

7. Selling Security Holders..... Not Applicable

8. Plan of Distribution..... Outside Front Cover Page of Prospectus

9. Legal Proceedings..... Business

10. Directors, Executive Officers, Promoters and Control Persons..... Risk Factors; Management

11. Security Ownership of Certain Beneficial Owners and Management..... Principal Stockholders

12. Description of Securities..... Description of Securities

13. Interest of Named Experts and Counsel..... Legal Matters; Experts

14. Disclosure of Commission Position on Indemnification for Securities Act Liabilities.. Description of Securities

15. Organization Within Last Five Years..... Business; Certain Transactions

16. Description of Business..... Business

17. Management's Discussion and Analysis or Plan of operation..... Management's Discussion and Analysis of Financial Condition and Results of Operations

18. Description of Property..... Prospectus Summary; Risk Factors; Discussion and Analysis of Financial Results of Operations; Business

19. Certain Relationships and Related Transactions.. Certain Transactions

20. Market for Common Equity and Related Stockholder Matters..... Risk Factors; Dilution; Management; Shares Eligible for Future Sale

21. Executive Compensation..... Management

22. Financial Statements..... Financial Statements

23. Change in and Disagreements with Accountants on Accounting and Financial Disclosure..... Not Applicable

</TABLE>

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

PRELIMINARY PROSPECTUS DATED JULY 22, 1998

SUBJECT TO COMPLETION

1,875,000 Shares

NETWORK-1 SECURITY SOLUTIONS, INC.

Common Stock

Prior to this offering, there has been no public market for the Common Stock and there can be no assurance that any such market will develop. It is anticipated that the Common Stock will be quoted on the Nasdaq SmallCap Market

under the symbol "_____." For a discussion of the factors considered in determining the initial public offering price, see "Underwriting."

THE SECURITIES OFFERED HEREBY ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK AND IMMEDIATE SUBSTANTIAL DILUTION AND SHOULD NOT BE PURCHASED BY INVESTORS WHO CANNOT AFFORD THE LOSS OF THEIR ENTIRE INVESTMENT. SEE "RISK FACTORS" COMMENCING ON PAGE 7 AND "DILUTION" ON PAGE 22.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
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	Price to Public	Underwriting Discounts and Commissions (1)	Proceeds to Company (2)
<S>	<C>	<C>	<C>
Per Share	$8.00	$.72	$7.28
Total (3)	$15,000,000	$1,350,000	$13,650,000

</TABLE>

(1) In addition, the Company has agreed to pay to the Underwriter a 3% nonaccountable expense allowance and to sell to the Underwriter warrants (the "Underwriter's Warrants") to purchase up to 187,500 shares of Common Stock. The Company has also agreed to indemnify the Underwriter against certain liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting expenses estimated at $958,000, including the Underwriter's nonaccountable expense allowance in the amount of $450,000 ($517,500 if the Underwriter's over-allotment option is exercised in full).

(3) The Company has granted the Underwriter an option, exercisable within 45 days from the date of this Prospectus, to purchase up to an additional 281,250 shares of Common Stock on the same terms as set forth above, solely for the purpose of covering over-allotments, if any. If the Underwriter's over-allotment option is exercised in full, the price to public, underwriting discounts and commissions, and proceeds to Company will be $17,250,000, $1,552,500 and $15,697,500, respectively. See "Underwriting."

The shares of Common Stock are being offered, subject to prior sale, when, as and if delivered to, and accepted by the Underwriter and subject to approval of certain legal matters by counsel and to certain other conditions. The Underwriter reserves the right to withdraw, cancel or modify the offering and to reject any order in whole or in part. It is expected that delivery of certificates representing the shares will be made against payment therefor at the offices of the Underwriter, 650 Fifth Avenue, New York, New York 10019, on or about , 1998.

Whale Securities Co., L.P.

The date of this Prospectus is , 1998

[PRODUCT PICTURES TO BE INSERTED ON INSIDE COVER PAGE]

FireWall/Plus is a trademark of the Company. All other trademarks or tradenames referred to in this Prospectus are the property of their respective owners.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS ON NASDAQ, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE WHICH STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SPECIFICALLY, THE UNDERWRITER MAY OVER-ALLOT IN CONNECTION WITH THE OFFERING AND MAY BID FOR AND PURCHASE SHARES OF COMMON STOCK IN THE OPEN MARKET. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Except as otherwise indicated, all information in this Prospectus, including per share data and information relating to the number of shares outstanding, (i) has been adjusted to reflect a 1-for-1.61083 reverse stock split of the Common Stock effected on July 20, 1998, (ii) gives effect to the conversion of the outstanding shares of Series B Convertible Preferred Stock into 310,399 shares of Common Stock upon the consummation of this offering, and the issuance of an aggregate of 48,125 shares of Common Stock upon the consummation of this offering in connection with the acquisition of CommHome Systems Corp. (the "CommHome Acquisition") and satisfaction of certain indebtedness of CommHome, and (iii) assumes no exercise of the Underwriter's over-allotment option to purchase up to 281,250 additional shares of Common Stock. See "Business -- CommHome System Corp. Acquisition," "Certain Transactions" and Note J to Notes to Financial Statements.

Certain statements contained herein under "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" including, without limitation, statements concerning the Company's strategy and growth plans, contain certain forward-looking statements concerning the Company's operations, economic performance and financial condition. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward looking statements. Factors that could cause such differences include, but are not limited to, those discussed under "Risk Factors."

The Company

Network-1 Security Solutions, Inc. (the "Company") develops, markets, licenses and supports a family of network security software products designed to provide comprehensive security to computer networks, including Internet based systems and internal networks and computing resources. The Company's FireWall/Plus family of security software products enables an organization to protect its computer networks from internal and external attacks and to secure organizational communications over such internal networks and the Internet. The Company also offers its customers a full range of consulting services in network security and network design and support in order to build, maintain and enhance

customer relationships and increase the demand for its software products.

The FireWall/Plus family of security solutions is designed to protect against Internet and intranet (internal networks utilizing Internet technology and applications based upon TCP/IP - the Internet network transport protocol) based security threats and to address security needs that arise from within internal networks that often utilize other network transport protocols besides TCP/IP including, among others, Novell's IPX, Digital Equipment's DECnet and IBM's SNA. The Company's FireWall/Plus family of firewall products operates on the Microsoft Windows NT operating system platform. FireWall/Plus's proprietary Interceptor Shim and filter engine software technology, with its unique ability to handle and filter all commonly used network transport protocols, provides organizations with a highly secure and flexible security solution. Additionally, unlike most other firewall solutions which focus on an enterprise's connection to the Internet, the FireWall/Plus solution can be deployed throughout the enterprise; at the perimeter to control access

to and from the Internet, between internal networks and on application servers and desktop PCs to protect data residing on such servers and PCs. FireWall/Plus for Windows NT received the 1997 Internet and Electronic Commerce Conference award for "Best Intranet Solution" and the 1997 ENT Readers Choice Award for "Best NT Firewall."

As a result of the explosive growth in network computing and Internet use (as well as use of intranets and extranets), protection of an organization's network and data has become a significant economic concern for businesses. According to the 1997 Annual Information Week/Ernst & Young LLP Information Security Survey of information technology managers and professionals, 42% of the respondents reported malicious acts from external sources, as compared to 16% in the prior year, and 43% of the respondents reported malicious acts by employees as compared to 29% in the prior year. According to FBI estimates, U.S. companies suffer estimated losses of $5 to $10 billion per year as a result of unauthorized access to information and data. According to the 1998 Computer Security Institute/FBI Computer Crime and Security Survey, 44% of the respondents reported unauthorized access by employees. The Company believes that securely segmenting internal network areas and computing resources from unauthorized access will become paramount to insuring the integrity of both the internal network and an organization's intranet and extranet (intranets which allow access for one or more users outside of the internal network) resources.

In a Windows NT based environment, it is typical for multiple network transport protocols to co-exist, as Windows NT comes pre-equipped with TCP/IP, IPX (Novell), NetBEUI (LAN Manager) and AppleTalk. In addition, certain applications require the use of non-TCP/IP protocols to operate between subnetworks within a network. The Company believes that multiple network transport protocols will remain prevalent in computing environments because of the large installed base of non-TCP/IP based computer systems and applications. As a result, the Company believes that its FireWall/Plus technology offers significant advantages as a security product for computer networks because of its unique ability to filter all commonly used network transport protocols and reside in multiple locations throughout an organization's network.

The Company intends to pursue an aggressive growth strategy and to focus its efforts on marketing its FireWall/Plus family of network security products. Key elements of the Company's strategy are to:

- Provide comprehensive network security solutions by developing, marketing and supporting a family of network security products to address a broad range of security issues confronting computer networks and computing, including concerns arising from allowing access to the Internet as well as concerns relating to the security of internal networks.

- Emphasize internal network security because of the ability of FireWall/Plus to filter a multitude of network transport protocols which are common in many organizations. The Company intends to devote a significant portion of the proceeds of this offering for sales and

marketing toward educating potential end users and third-party distributors as to the need to protect networks and computing resources from unauthorized access and attacks from within an internal network and the capabilities and benefits of the Company's products.

- Implement a marketing plan which includes a multi-channel distribution strategy which emphasizes establishing and maintaining third-party distributor relationships with systems integrators, VARs, OEMs and resellers in the United States and internationally.

- Increase sales of FireWall/Plus by leveraging relationships with consulting clients.

Since its inception, the Company has incurred significant losses. The future success of the Company is largely dependent upon its FireWall/Plus family of software products achieving market acceptance. There can be no assurance that the Company will be able to successfully implement its marketing strategy, achieve significant market acceptance of its FireWall/Plus products or achieve profitable operations.

The Company was incorporated under the laws of the State of Delaware in July 1990. The Company's executive offices are located at 70 Walnut Street, Wellesley Hills, Massachusetts 02481 and its telephone number at that address is (781) 239-8280. The Company intends to relocate its executive offices to a new facility in the Boston, Massachusetts area following the consummation of this offering. The Company's website can be found on the Internet at: http://www.network-1.com.

The Offering

<TABLE>
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Common Stock offered..... 1,875,000 shares

Common Stock to be outstanding after the offering..... 4,508,369 shares(1)

Use of Proceeds..... The Company intends to use the net proceeds of this offering for sales and marketing; repayment of indebtedness; software development; purchase of computer equipment; payment of trade payables; establishing a new office facility; and the balance for working capital and general corporate purposes.

Risk Factors..... The securities offered hereby involve a high degree of risk and immediate substantial dilution to new investors and should not be purchased by investors who cannot afford the loss of their entire investment. See "Risk Factors" and "Dilution."

Proposed Nasdaq SmallCap Market symbol..... / /

</TABLE>

(1) Does not include: (i) 187,500 shares of Common Stock reserved for issuance upon exercise of the Underwriter's Warrants; (ii) 423,908 shares of Common Stock reserved for issuance upon exercise of stock options granted under the Company's 1996 Stock Option Plan (the "Stock Option Plan"); (iii) 326,092 shares of Common Stock reserved for issuance upon exercise of stock

options available for future grant under the Stock Option Plan; and (iv) 630,886 shares of Common Stock reserved for issuance upon exercise of other outstanding warrants and options. See "Management-Stock Option Plan," "Description of Securities-Warrants and Options" and "Underwriting."

Summary Financial Information

The summary financial information set forth below is derived from and should be read in conjunction with the audited financial statements, including the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained elsewhere in this Prospectus.

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	Year Ended December 31,		Three Months Ended March 31,	
	1996	1997	1997	1998
<S>	<C>	<C>	<C>	<C>
Statement of Operations Data:				
Total revenues	$ 1,027,000	$ 2,369,000	$ 479,000	$ 339,000
Loss from operations	(4,239,000)	(1,837,000)	(559,000)	(473,000)
Net loss	(4,499,000)	(2,390,000)	(590,000)	(697,000)
Loss per share (1)	(2.46)	(1.29)	(.30)	(.41)
Weighted average number of shares outstanding	1,825,163	1,855,244	1,942,872	1,706,037

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	December 31, 1997	March 31, 1998		
	Actual	Actual	Pro Forma(2)	As Adjusted(2)(3)
<S>	<C>	<C>	<C>	<C>
Balance Sheet Data:				
Cash and cash equivalents	$ 60,000	$ 67,000	$ 1,416,000	$ 10,766,000
Working capital (deficit)	(661,000)	(2,283,000)	(1,518,000)	8,702,000
Total assets	2,404,000	2,094,000	3,443,000	12,718,000
Total liabilities	2,479,000	2,666,000	3,250,000	783,000
Accumulated deficit	(7,470,000)	(8,167,000)	(8,181,000)	(9,516,000)
Total stockholders' equity (deficit)	(75,000)	(572,000)	193,000	11,935,000

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(1) See Notes A and B to Notes to Financial Statements for an explanation of shares used in net loss per share calculations.

(2) Gives effect to (i) the conversion of the outstanding shares of Series B Convertible Preferred Stock into 310,399 shares of Common Stock upon consummation of this offering, (ii) the issuance of $1,350,000 principal amount promissory notes and warrants to purchase up to 251,423 shares of Common Stock in private financings completed from April 1998 through May 1998, (iii) the issuance of 596,741 shares of Common Stock in exchange for the cancellation of outstanding warrants and options to purchase 789,521 shares of Common Stock on July 8, 1998, (iv) the repurchase and cancellation of 62,080 shares of Common Stock in connection with a private financing in May 1998, and (v) the issuance in May 1998 of an aggregate of 34,146 shares of Common Stock for services rendered to the Company (collectively, the "Pro Forma Adjustments"). See "Certain Transactions" and "Description of Securities."

(3) Gives effect to (i) the sale of 1,875,000 shares of Common Stock offered hereby and the application of the estimated net proceeds therefrom, (ii) aggregate non-cash charges estimated to be $870,000 relating to the amortization of the debt discount on $3,250,000 principal amount promissory notes upon the repayment of such notes, plus accrued interest thereon, upon consummation of this offering and (iii) the issuance of an aggregate of 48,125 shares of Common Stock, upon consummation of this offering, in connection with the CommHome Acquisition and the satisfaction of an aggregate of $105,000 of indebtedness of CommHome owed to certain officers of the Company, and a charge related to the CommHome Acquisition for purchased research and development of $465,000 (such adjustment, together with the adjustment described in (ii) above, collectively the "Additional Adjustments"). See "Use of Proceeds,""Business - CommHome Systems Corp. Acquisition" and "Capitalization."

RISK FACTORS

An investment in the shares of Common Stock offered hereby is speculative and involves a high degree of risk and should not be purchased by anyone who cannot afford the loss of their entire investment. Each prospective investor should carefully consider the following risk factors as well as the other information set forth in this Prospectus in evaluating an investment in the shares of Common Stock offered hereby. This Prospectus contains forward-looking statements based upon current expectations that involve risks and uncertainties. The Company's actual results and the timing of certain events may differ materially from those discussed in such forward-looking statements as a result of certain factors, including, but not limited to, those set forth in the following risk factors and elsewhere in this Prospectus.

Limited Relevant Operating History; Significant and Continuing Losses; Explanatory Paragraph in Independent Public Accountant's Report. Although the Company was organized in July 1990, it was engaged primarily in providing network consulting and training services through 1994 and did not commence marketing of its first FireWall/Plus product until June 1995. Accordingly, the Company has a limited relevant operating history as a software developer upon which an evaluation of its prospects and future performance can be made. Such prospects must be considered in light of the risks, expenses and difficulties frequently encountered in the operation and expansion of a new business and the shift from research and product development to commercialization of products based on rapidly changing technologies in a highly specialized and emerging market. Since inception, the Company has incurred significant net losses, including net losses of $4,499,000, $2,390,000 and $697,000 for the years ended December 31, 1996, December 31, 1997 and the three months ended March 31, 1998, respectively. At March 31, 1998, the Company had an accumulated deficit of $8,167,000 and since March 31, 1998 the Company has continued to incur significant losses. The Company will also incur aggregate non-cash charges during the three months ended June 30, 1998 and upon consummation of this offering of approximately $1,335,000 relating to (i) the amortization of debt discount with respect to $3,250,000 principal amount promissory notes which will be repaid in full, together with accrued interest thereon, upon consummation of this offering and (ii) purchased research and development in connection with the CommHome Acquisition. In addition, the Company will incur non-cash charges of $900,000 over a four-year period related to stock options issued in May 1998 to Avi A. Fogel, President and Chief Executive Officer of the Company. Inasmuch as the Company intends to increase its level of activities following the consummation of this offering and will be required to make significant up-front capital expenditures in connection with its sales and marketing and continuing research and product development efforts, the Company anticipates that losses will continue until such time, if ever, as the Company is able to attain sales levels sufficient to support its operations. There can be no assurance that the Company will ever achieve profitable operations. The Company's independent auditors have included an explanatory paragraph in their report on the Company's financial statements for the years ended December 31, 1996 and December 31, 1997, stating that certain factors raise substantial doubt about the Company's ability to continue as a going concern. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Certain Transactions" and Financial Statements.

Significant Capital Requirements; Working Capital Deficit; Dependence on Proceeds for Plan of Operation; Continuing Need for Additional Financing. The Company's capital requirements have been and will continue to be significant, and its cash requirements have been exceeding its cash flow from operations. At March 31, 1998, the Company had a working capital deficit of $2,283,000. As

a result, the Company has been substantially dependent on private sales of equity and debt securities to fund its operations. The Company is dependent on the proceeds of this offering to implement its business plan and finance its working capital requirements. The Company anticipates, based on currently proposed plans and assumptions relating to the implementation of its business plan (including the timetable of, costs and expenses associated with, and success of, its marketing efforts), that the net proceeds of this offering, together with projected revenues from operations, will be sufficient to satisfy the Company's operations and capital requirements for approximately twelve months following the consummation of this offering. There can be no assurance, however, that such funds will not be expended prior thereto due to unanticipated changes in economic conditions or other unforeseen circumstances. In the event the Company's plans change or its assumptions change or prove to be inaccurate (due to unanticipated expenses, difficulties, delays or otherwise) or the net proceeds of this offering and projected revenues otherwise prove to be insufficient to fund the implementation of the Company's business plan or working capital requirements, the Company could be required to seek additional financing sooner than currently anticipated. The Company has no current arrangements with respect to any additional financing. Consequently, there can be no assurance that any additional financing will be available to the Company when needed, on commercially reasonable terms or at all. Any inability to obtain additional financing when needed would have a material adverse effect on the Company, requiring it to curtail and possibly cease its operations. In addition, any additional equity financing may involve substantial dilution to the interests of the Company's then existing stockholders. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Uncertainty of Market Acceptance of Products. The future success of the Company is largely dependent upon market acceptance of its FireWall/Plus family of software products. The network security market is at an early stage of development and is rapidly evolving. Accordingly, demand for the Company's products and market acceptance are subject to a high level of uncertainty. While the Company believes that its FireWall/Plus family of software products offers advantages over competing products for network security, sales of FireWall/Plus products since introduction (June 1995) through March 31, 1998 have been only $2,437,000. There can be no assurance that FireWall/Plus will gain market acceptance. Revenues from such products depend on a number of factors, including the influence of market competition, technological changes in the network security market, the Company's ability to design, develop and introduce enhancements on a timely basis, and the ability of the Company to successfully establish and maintain distribution channels. Moreover, there are commercially available competitive products, offered by companies with significantly greater resources than the Company, which have comparable or more favorable price characteristics and which may be perceived to have performance characteristics comparable to the Company's products. In addition, the Company anticipates the introduction of additional competitive products, particularly if the demand for network security products continues to increase. Existing and future competition may make it more difficult to achieve market acceptance for FireWall/Plus. Additionally, potential customers may be reluctant to purchase the Company's products due to significant investments in other network security products. Consequently, although the Company intends to utilize a significant portion of the proceeds of this offering to expand its marketing and sales activities, there can be no assurance that such funds will be sufficient, that the Company's increased marketing efforts and expenditures will result in significant levels of revenue or that the FireWall/Plus family of products will achieve significant market acceptance. Moreover, a highly publicized breach of network security involving the Company's products could adversely affect public

perception of, and confidence in, the Company's products. See "Use of Proceeds," "Business - Sales and Marketing" and "Business -- Competition."

Limited Marketing Capabilities and Experience; Dependence Upon Third-Party Marketing Arrangements. The Company has not yet undertaken significant marketing efforts relating to product commercialization, has limited marketing experience and has limited financial, personnel and other resources to undertake extensive marketing activities independently. Accordingly, the Company has relied and intends to continue to rely to a large extent on arrangements with third parties for the marketing and distribution of its products, including arrangements with VARs, systems integrators, resellers, distributors and OEMs. The Company has only recently entered into marketing arrangements with most of its distributors and, to date, most of such arrangements have generated limited revenues. For the year ended December 31, 1997 and the three months ended March 31, 1998, the Company's five largest distributors accounted for an aggregate of approximately 28% and 40% of the Company's revenues, respectively. Trusted Information Systems, Inc. (as a result of a non-refundable pre-paid royalty) and Electronic Data Systems Corporation ("EDS") accounted for 21% and 14%, of the Company's revenues, respectively, for the year ended December 31, 1997, and The Sabre Group, Inc. and Omnicon Systems, Inc. accounted for 24% and 13% of the Company's revenues, respectively, for the three months ended March 31, 1998. The Company's prospects will be dependent upon its ability to develop and maintain strategic marketing relationships with additional third parties and upon the marketing and distribution efforts of its third-party distributors. While the Company believes that the third parties with which it enters into marketing arrangements have an economic incentive to commercialize the Company's products, the time and resources devoted to these activities will be contributed and controlled by such third parties. Many of the Company's third-party distributors represent various product lines, including those competing with the Company's products. A decline in the prospects of key distributors could have an adverse effect on the Company. There can be no assurance that the Company will be able, for financial or other reasons, to finalize any additional third-party distribution or marketing arrangements, maintain its existing marketing and distribution arrangements or that any such arrangements will result in the successful commercialization of the Company's products. See "Business - Sales and Marketing."

Competition. The network security market in general, and the firewall product market in particular, is characterized by intense competition and rapidly changing business conditions, customer requirements and technologies. The Company believes that the principal competitive factors affecting the market for network security products include security effectiveness, scope of product offerings, name recognition, product features, distribution channels, price, ease of use and customer service and support. Currently, the Company's principal competitors include AXENT Technologies Inc., Bay Networks, Inc., CheckPoint Software Technologies, Ltd., Cisco Systems, Inc., Compaq Computer Corporation, Cyberguard Corp., International Business Machines Corporation, ISS Group, Inc., Microsoft Corporation, Network Associates, Inc. and Secure Computing Corporation. Due to the rapid expansion of the network security market, the Company may face competition from new entrants to the firewall product market. Most of the Company's current and potential competitors have longer operating histories, greater name recognition, larger installed customer bases and possess substantially greater financial, technical and marketing and other competitive resources than the Company. As a result, the Company's competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than the Company. While the Company believes that its firewall products do not compete against manufacturers of other types of security products (such as encryption

and authentication products), there can be no assurance that potential customers will not perceive the products of such other companies as substitutes for the Company's products. In addition, certain of the Company's competitors may determine for strategic reasons to consolidate, to substantially lower the price

of their network security products or to bundle their products with other products, such as hardware or other enterprise software products. Accordingly, it is possible that new competitors and alliances among competitors may emerge and rapidly acquire significant market share. There can be no assurance that the Company's current and potential competitors will not develop products that may be more effective than the Company's current or future products or that the Company's products would not be rendered obsolete or less marketable by evolving technologies or changing consumer demands or that the Company will otherwise be able to compete successfully. Increased competition for firewall products may result in price reductions and reduced gross margins and may adversely effect the Company's ability to gain market share, any of which would adversely affect the Company's business, operating results and financial condition. See "Business - - Competition."

Rapid Technological Change; Potential Product Obsolescence. The network security industry is characterized by rapid technological advances, increasingly sophisticated and changing customer requirements, frequent new product introductions and enhancements, new and continuously evolving network security threats and attack methodologies and evolving industry standards in computer hardware and software technology. As a result, the Company must continually change and improve its products in response to such advances and changes in operating systems, application software, computer and communications hardware, networking software, programming tools and computer language technology. The introduction of products embodying new technologies and the emergence of new industry standards may render existing products obsolete or unmarketable. The Company's future operating results will depend upon the Company's ability to enhance its current products and to develop and introduce new products on a timely basis that address the increasingly sophisticated needs of the marketplace and that keep pace with technological developments, new competitive product offerings and emerging industry standards. There can be no assurance that the Company will be successful in developing and marketing new products or product enhancements that respond to technological change and evolving industry standards and customer requirements, that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products, or that any new products and product enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. In the event that the Company does not respond adequately to the need to develop and introduce new products or enhancements of existing products in a timely manner in response to changing market conditions or customer requirements, the Company's business, operating results and financial condition will be materially adversely affected. See "Business - Product Development."

Unproven Market for Internal Network Security Products. Many of the Company's competitors in the firewall market have largely devoted their resources to the development and marketing of perimeter firewall products ("IP Firewalls") designed primarily to protect an internal network from internet based security threats or threats from within intranets. While TCP/IP is a dominant network transport protocol, network environments often use other network transport protocols such as Novell's IPX, Digital Equipment's DECnet and IBM's SNA. The Company believes that the ability of the FireWall/Plus technology to filter all commonly used network transport protocols and reside in multiple locations throughout the enterprise network offers significant advantages as a security product for internal networks. However, the Company's limited sales to date have not established that, in fact, this is a significant marketing advantage. The Company's future

success depends in large part on the Company's ability to successfully market its technology and the increased awareness and demand in the market for the need to address security threats that arise from within internal networks which may require substantial marketing efforts and the expenditure of significant funds. Furthermore, firewall vendors and other vendors of network security products with substantially greater financial, technical and marketing resources than the Company may modify existing security products or develop new products which would address the internal network security market. The Company's failure to successfully implement marketing efforts emphasizing the internal network security market would have a material adverse effect on its business, financial

condition and results of operations in the future. See "Business - Network-1 Strategy" and "Business - FireWall/Plus Technology."

Significant Fluctuations in Quarterly Operating Results. The Company anticipates significant quarterly fluctuations in its operating results in the future. The Company generally ships orders for commercial products as they are received and, as a result, does not have any material backlog. As a result, quarterly revenues and operating results depend on the volume and timing of orders received during the quarter, which are difficult to forecast. Operating results may also fluctuate on a quarterly basis due to factors such as the demand for the Company's products, purchasing patterns and budgeting cycles of customers, the introduction of new products and product enhancements by the Company or its competitors, market acceptance of new products introduced by the Company or its competitors and the size, timing, cancellation or delay of customer orders, including cancellation or delay in anticipation of new product introduction or enhancement. Therefore, comparisons of quarterly operating results may not be meaningful and should not be relied upon, nor will they necessarily reflect the Company's future performance. Because of the foregoing factors, it is likely that in some future quarters the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Common Stock would likely be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Proposed Expansion; Management of Growth; Need for Qualified Personnel. Following the consummation of this offering, the Company intends to use a substantial portion of the proceeds to expand its current level of operations and expects to significantly increase the number of its employees. This growth will result in an increase in responsibilities placed upon the Company's management and will place added pressures on the Company's operating and financial resources. The Company's success will be dependent in part on its ability to manage its growth, recruit additional management personnel, expand its sales and marketing personnel and research and development staff, improve its operational and financial systems, expand its customer support functions and train, motivate and manage additional employees, monitor operations and control costs. Competition with respect to the recruiting of highly qualified personnel in the software industry is intense and many of the Company's competitors have significantly greater resources than the Company. The Company's ability to attract and assimilate new personnel will be critical to the Company's performance and there can be no assurance that the Company will be successful in attracting and retaining the personnel it requires to enhance its products, develop new products and conduct its operations successfully. Moreover, the Company may seek to expand its operations by acquiring businesses, technologies or products which it believes are complimentary with its business. Except for the CommHome Acquisition, the Company has no definitive plans with respect to and is not currently involved in negotiations relating to any acquisitions. The consummation of any such

acquisition would place additional burden on management and financial resources. See "Business - CommHome Systems Corp. Acquisition."

Limited Protection of Proprietary Rights; Reliance on Trade Secrets. The Company's success is substantially dependent on its proprietary technologies. The Company does not hold any patents and relies on copyright and trade secret laws, non-disclosure agreements with employees, distributors and customers, including "shrink wrap" license agreements that are not signed by the customer, and technical measures to protect the ideas, concepts and documentation of its proprietary technologies and know-how to protect its intellectual property rights. Such methods may not afford complete protection, and there can be no assurance that third parties will not independently develop substantially equivalent or superior technologies or obtain access to the Company's technologies, ideas, concepts and documentation. In addition, there can be no assurance that any confidentiality agreements between the Company and its employees, distributors or customers will provide meaningful protection for the Company's proprietary information in the event of any unauthorized use or disclosure. Furthermore, the Company may be subject to additional risk as it enters into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protection of the Company's rights may be ineffective in such countries. The inability of the Company to protect

its proprietary technologies could have a material adverse effect on the Company. The Company also licenses from a third-party certain proxy technology which is incorporated into its FireWall/Plus products. The Company is dependent in part on its ability to continue to license such technology and any inability of the Company to be able to continue to utilize such technology either as a result of the Company's breach or the termination of the license agreement or otherwise, in the absence of similar available technologies, could have a material adverse effect on the Company.

The Company received a U.S. trademark registration for the FireWall/Plus name in December 1996. Although the Company is not aware of any challenges to the Company's rights to use this trademark, there can be no assurance that the use of this mark would be upheld if challenged. See "Business - Proprietary Rights."

Potential Infringement on Intellectual Property Rights of Others. Although the Company believes that its technologies and products have been developed independently and do not infringe upon the proprietary rights of others, there can be no assurance that the Company's technologies and products do not and will not so infringe or that third parties will not assert infringement claims against the Company in the future. The Company is not aware of any patent infringement charge or any violation of other proprietary rights claimed by any third party relating to the Company or the Company's products. In response to certain public statements made by CheckPoint Software Technologies, Ltd. related to a patented technology referred to as "stateful inspection" (the "Checkpoint Patent"), the Company retained patent counsel in April 1997 to review the Checkpoint Patent as compared to the Company's intellectual property and associated products. Based upon the opinion of the Company's intellectual property counsel, the Company does not believe that the CheckPoint Patent will have a material adverse effect on the Company. If, however, the Company's technologies or products were deemed to infringe upon the Checkpoint Patent, or if the Company's technologies or products were deemed to infringe upon the proprietary rights of other third parties, the Company could become liable for damages or be required to modify its products or to obtain a license. As the number of and variety of security products being offered continue to increase the functionality of such products may further overlap, which could result in increased infringement claims by software developers, including infringement claims against the Company with respect to

future products. There can be no assurance that the Company would be able to modify its products or obtain a license in a timely manner, upon acceptable terms and conditions, or at all, or that the Company will have the financial or other resources necessary to defend a patent infringement or other proprietary rights infringement action. Failure to do any of the foregoing could have a material adverse effect on the Company, including possibly requiring the Company to cease marketing its products. See "Business - Proprietary Rights."

Dependence on Sales of Limited Product Line; Non-Recurring Revenues. Since 1996, a substantial portion of the Company's sales have been derived from the sale of its FireWall/Plus products. For the year ended December 31, 1997 and the three months ended March 31, 1998, sales of FireWall/Plus products accounted for approximately 60% and 58% of the Company's revenues, respectively. A decline in sales of FireWall/Plus products would have a material adverse effect on the Company. In addition, sales of the Company's products are generally non-recurring in nature. There can be no assurance that the Company will not remain dependent upon non-recurring sales of FireWall/Plus products to a limited number of customers, which sales could constitute a considerable portion of the Company's revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Dependence on Continued Growth of the Internet and Internal Networks. Since the Company's products are designed to protect internal networks from unauthorized access and attacks via the Internet and from within internal networks, the Company's success is substantially dependent upon the widespread acceptance and use of the Internet, intranets and extranets as effective means of communication and commerce. Rapid growth in the use of and interest in the Internet, intranets and extranets is a recent phenomenon, and there can be no assurance that acceptance and use will continue to develop or that a sufficiently broad base of consumers will adopt and continue to use the

Internet, intranets and extranets as means of communication and commerce. The Internet may not be accepted as a viable commercial marketplace for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies and performance improvements. If use of the Internet does not continue to grow or grows more slowly than expected, if the infrastructure for the Internet does not effectively support growth that may occur, or if the Internet and online services do not become a viable commercial marketplace, market demand for the Company's products may not develop or be maintained. See "Business -- Industry Background."

Focus on Windows NT Platform. Currently, the Windows NT operating system is the principal platform for the Company's FireWall/Plus family of products. According to a recent International Data Corporation survey, Windows NT shipments are expected to assume a majority market share by 1999. While the Windows NT platform is perceived to have security weaknesses, many of the Company's competitors currently offer Windows NT based firewalls and the Company believes that the use of Windows NT as the preferred operating system will continue to grow dramatically over the next five years. In the event that demand for Windows NT based firewalls declines, or other platforms become the preferred platforms, and the Company is unable to adapt its products to the preferred platforms on a timely basis, the Company's business, financial condition and results of operations may be materially adversely affected. See "Business -- Industry Background" and "Business -- FireWall/Plus Technology."

Potential Liability Exposure. Since the Company's products are network security products and are used to prevent unauthorized access to and attacks upon critical enterprise information, the

Company may be exposed to potential liability claims for damage caused to a network as a result of an actual or alleged failure of an installed product. Although the Company's license agreements typically contain provisions that are designed to limit the Company's exposure to potential product liability or related claims, including provisions that limit the Company's liability for special, consequential or incidental damages, there can be no assurance that such provisions will be enforceable under the laws of applicable domestic or foreign jurisdictions. The Company's consulting engagements often involve development, implementation and maintenance of networking systems that are critical to the operations of its clients' businesses. The Company's failure or inability to meet a client's expectations in the performance of its services could harm the Company's business reputation or result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure or inability. In addition, in the course of performing services, the Company's personnel often gain access to technologies and content which include confidential or proprietary client information. Any unauthorized disclosure or use of such information could result in a claim for substantial damages. The Company currently maintains product liability insurance coverage in the amount of $1,000,000 per occurrence ($2,000,000 in the aggregate) that, subject to customary exclusions, covers claims resulting from failure of the Company's products or services to perform the function or to serve the purpose intended. There can be no assurance that the Company's insurance will be sufficient to cover potential claims or that adequate levels of coverage will be available in the future at reasonable cost. A partially or completely uninsured successful claim against the Company could have a material adverse effect on the Company. See "Business - Proprietary Rights."

Risk of Product Defects. Software products as complex as those offered by the Company may contain undetected errors or result in failures when first introduced or when new versions are released. In particular, the personal computer hardware environment is characterized by a wide variety of non-standard configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. Despite testing by the Company and by current and potential customers, there can be no assurance that errors will not be found in new products or enhancements after commencement of commercial shipments. The occurrence of these errors could result in adverse publicity, loss of or delay in market acceptance, claims by customers against the Company, or could cause the Company to incur additional costs, any of which could have a

material adverse effect upon the Company's business, operating results and financial condition. See "Business - Products" and "Business - Product Development."

Lengthy Sales Cycle. Licensing of the Company's software products generally involves a significant commitment of capital by customers, with the attendant delays frequently associated with large capital expenditures. Accordingly, the sales cycle for the Company's products can be lengthy and generally commences at the time a prospective customer demonstrates an interest in purchasing a FireWall/Plus solution, typically includes a 30-day free evaluation period and ends upon execution of a purchase order by the customer. The length of the sales cycle varies depending on the type and sophistication of the customer and the complexity of the operating system and may extend for periods of six to nine months. As a result of the Company's lengthy sales cycle, sales of the Company's products generally require the Company to make expenditures and use significant resources prior to receipt, if any, of corresponding revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Licensing in Foreign Markets. The Company relies on sales of software licenses in foreign customers for a portion of its revenues. For the years ended December 31, 1996 and 1997 and the

three months ended March 31, 1998, licensing of the Company's software products to foreign customers accounted for approximately 6.7%, 15.6% and 2.7%, respectively, of the Company's revenues. The Company is seeking to increase the licensing of its products in foreign markets, but there can be no assurance that the Company will be successful or that such markets will prove to be viable. To the extent that the Company is able to successfully expand its licenses to foreign markets, the Company will become increasingly subject to risks inherent in foreign trade, including shipping delays, increased collection risks, trade restrictions, export duties and tariffs and international political, regulatory and economic developments, all of which could have an adverse effect on the Company's operating margins and results of operations and exacerbate the risks inherent in the Company's business. The Company may seek to limit its exposure to the risk of currency fluctuations by engaging in foreign currency hedging transactions that could expose the Company to substantial risk of loss. The Company is not currently engaged in any currency hedging or other activities involving derivative financial instruments. The Company has limited experience in managing international transactions and has not yet formulated a strategy to protect the Company against currency fluctuations. See "Business - Sales and Marketing."

Dependence Upon Key Personnel; New Management. The success of the Company will be largely dependent on the personal efforts of Avi A. Fogel, President and Chief Executive Officer, William Hancock, Chief Technology Officer, and Robert P. Olsen, Vice President of Product Management. Although the Company has entered into employment agreements with each of Messrs. Fogel, Hancock and Olsen, the loss of the services of any of such officers could have a material adverse effect on the Company's business and prospects. Prior to the consummation of this offering, the Company will obtain "key-man" life insurance on each of the lives of Messrs. Fogel, Hancock and Olsen in the amounts of $2,000,000, $3,000,000 and $2,000,000, respectively. Messrs. Fogel and Olsen as well as Murray P. Fish, Chief Financial Officer, only joined the Company in May 1998. In addition, Joseph A. Donohue, Vice President of Engineering, only joined the Company in July 1998. There can be no assurance that such officers will become sufficiently familiar with the Company's operations on a timely basis, or at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Management."

Control by Management. Upon consummation of this offering, the Company's officers and directors, will beneficially own, in the aggregate, approximately 34.8% of the outstanding Common Stock. Accordingly, such persons will continue to exert significant influence over the outcome of all matters submitted to a vote of the holders of Common Stock, including the election of directors, amendments to the Company's Certificate of Incorporation and approval of significant corporate transactions. Such consolidation of voting power could also have the effect of delaying, deterring or preventing a change in control of the Company that might be beneficial to other stockholders. See "Management" and

"Principal Stockholders."

Use of Proceeds to Repay Indebtedness and Trade Payables; Benefits to Related Parties; Broad Discretion in Application of Proceeds. The Company has allocated approximately $3,537,000 (27.9%) of the net proceeds of this offering to repay outstanding indebtedness including $1,900,000 principal amount of notes, plus accrued interest thereon, payable to Applewood Associates, L.P., a principal stockholder of the Company, $200,000 principal amount of notes plus accrued interest thereon, payable to CMH Capital Management Corp., whose sole stockholder is Corey Horowitz, Chairman of the Board of Directors and a principal stockholder of the Company, and $50,000 principal amount of a note plus interest payable to Mr. Horowitz. Furthermore, the Company has allocated approximately $500,000 to pay past due trade payables upon consummation of this offering.

In addition, simultaneously with the consummation of this offering, the Company is acquiring CommHome Systems Corp. ("CommHome"), of which Avi A. Fogel is President and Chief Executive Officer and a principal stockholder, in exchange for 35,000 shares of Common Stock and the assumption of up to $200,000 of liabilities, of which $55,000 and $50,000 are owed to Mr. Fogel and Robert P. Olsen, Vice President of Product Management, respectively. Messrs. Fogel and Olsen have agreed to cancel such obligations in exchange for the issuance of 6,875 and 6,250 shares of Common Stock, respectively, upon the consummation of this offering. Approximately $1,895,000 (14.9%) of the estimated net proceeds of this offering has been allocated to working capital and general corporate purposes. Management will have broad discretion as to the application of such proceeds. Furthermore, to the extent cash flow from operations is insufficient for such purposes, a portion of the proceeds allocated to working capital may be utilized to pay a portion of the salary of the Company's officers (such aggregate salaries estimated to be approximately $970,000) over the twelve months following the consummation of this offering. See "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Certain Transactions."

Immediate and Substantial Dilution. This offering involves an immediate and substantial dilution of $5.35 per share (or 66.9%) between the adjusted net tangible book value per share of Common Stock after this offering and the initial public offering price per share. See "Dilution."

No Dividends. The Company has never paid any dividends on its Common Stock and does not anticipate paying cash dividends in the foreseeable future. The Company currently intends to retain all earnings for use in connection with the operation and expansion of its business. The declaration and payment of future dividends, if any, will be at the sole discretion of the Company's Board of Directors and will depend upon a variety of factors, including future earnings, if any, operations, capital requirements, the general financial condition of the Company, the preferences of any series of Preferred Stock which may be designated in the future, the general business conditions and future contractual restrictions on payments of dividends, if any. See "Dividend Policy" and "Description of Securities - Common Stock."

Shares Eligible for Future Sale; Registration Rights. Upon the consummation of this offering, the Company will have 4,508,369 shares of Common Stock outstanding, of which the 1,875,000 shares being offered hereby will be freely tradeable without restriction or further registration under the Securities Act. All of the remaining 2,633,369 shares of Common Stock outstanding are "restricted securities," as that term is defined in Rule 144 promulgated under the Securities Act, and in the future may be sold only pursuant to an effective registration statement under the Securities Act, in compliance with the exemption provisions of Rule 144, on various dates commencing 90 days following the date of this Prospectus, or pursuant to another exemption under the Securities Act. The Company has granted certain registration rights with respect to an aggregate of 1,117,435 shares of Common Stock, and the Company has granted the Underwriter demand and piggyback registration rights with respect to the shares of Common Stock issuable upon exercise of the Underwriter's Warrants. No prediction can be made as to the effect, if any, that sales of such securities or the availability of such securities for sale will have on the market prices prevailing from time to time. While all of the Company's securityholders,

including the Company's officers and directors, have agreed not to (i) sell or otherwise dispose of any shares of Common Stock in any public market transaction (including pursuant to Rule 144) or (ii) exercise any registration rights for a period of twelve months following the date of this Prospectus without the Underwriter's prior written consent, the possibility that a substantial number of the Company's securities may be sold in the public market

may adversely affect prevailing market prices for the Common Stock and could impair the Company's ability to raise capital through the sale of its equity securities. See "Description of Securities" and "Shares Eligible for Future Sale."

Significant Outstanding Options and Warrants; Potential Adverse Effect on Market Price of Common Stock. Upon the consummation of this offering, there will be outstanding options and warrants to purchase an aggregate of 1,242,294 shares of Common Stock (including 187,500 shares of Common Stock issuable upon exercise of the Underwriter's Warrants) at exercise prices ranging from $1.61 to $13.20 per share. To the extent that outstanding options and warrants are exercised, dilution to the percentage ownership of the Company's stockholders will occur and any sales in the public market of the Common Stock underlying such options and warrants may adversely affect prevailing market prices for the Common Stock. Moreover, the terms upon which the Company will be able to obtain additional equity capital may be adversely effected since the holders of outstanding options and warrants can be expected to exercise them at a time when the Company would, in all likelihood, be able to obtain any needed capital on terms more favorable to the Company than those provided in the outstanding options and warrants. See "Management - Stock Option Plan," "Description of Securities - "Warrants and Options" and "Underwriting."

No Assurance of Public Market; Arbitrary Determination of Offering Price; Possible Volatility of Market Price of Common Stock. Prior to this offering, there has been no public trading market for the Common Stock. There can be no assurance that a regular trading market for the Common Stock will develop after this offering or that, if developed, it will be sustained. The initial public offering price of the Common Stock has been determined arbitrarily by negotiation between the Company and the Underwriter and is not necessarily related to the assets, book value or potential earnings of the Company or any other recognized criteria of value and may not be indicative of the prices that may prevail in the public market. In addition, the market price for the Common Stock following this offering may be highly volatile as has been the case with the securities of other companies in emerging businesses. Factors such as the Company's operating results, announcements of the Company or its competitors, introduction of new products or technologies by the Company or its competitors and various factors affecting the network security industry generally or the market for firewall products in particular may have a significant impact on the market price of the Common Stock. Additionally, in recent years, the stock market has experienced a high level of price and volume volatility and market prices for the stock of many companies, particularly of small and emerging growth companies, the common stock of which trade in the over-the-counter market, have experienced wide price fluctuations which have not necessarily been related to the operating performance of such companies. See "Underwriting."

Possible Delisting of Securities from Nasdaq System; Risks Relating to Low-Priced Stocks. It is currently anticipated that the Common Stock will be eligible for listing on Nasdaq upon the completion of this offering. In order to continue to be listed on Nasdaq, however, the Company must maintain $2,000,000 in net tangible assets (total assets, other than goodwill, less total liabilities), and a $1,000,000 market value of the public float. In addition, continued inclusion requires two market-makers, a minimum bid price of $1.00 per share and adherence to certain corporate governance provisions. The failure to meet these maintenance criteria in the future may result in the delisting of the Common Stock from Nasdaq, and trading, if any, in the Common Stock would thereafter be conducted in the non-Nasdaq over-the-counter market. As a result of such delisting, an investor could find it more difficult to dispose of or to obtain accurate quotations as to the market value of the Common Stock.

In addition, if the Common Stock were to become delisted from trading on Nasdaq and the trading price of the Common Stock were to fall below $5.00 per share, trading in the Common Stock would also be subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which require additional disclosure by broker-dealers in connection with any trades involving a stock defined as a penny stock (generally, any non-Nasdaq equity security that has a market price of less than $5.00 per share, subject to certain exceptions). Such rules require the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally defined as an investor with a net worth in excess of $1,000,000 or annual income exceeding $200,000 individually or $300,000 together with a spouse). For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to the sale. The broker-dealer also must disclose the commissions payable to the broker-dealer, current bid and offer quotations for the penny stock and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Such information must be provided to the customer orally or in writing before or with the written confirmation of trade sent to the customer. Monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. The additional burdens imposed upon broker-dealers by such requirements could, in the event the Common Stock were deemed to be a penny stock, discourage broker-dealers from effecting transactions in the Common Stock which could severely limit the market liquidity of the Common Stock and the ability of purchasers in this offering to sell the Common Stock in the secondary market.

Adverse Effect of the Authorization of Preferred Stock; Anti-Takeover Provisions Affecting Stockholders. The Company's Certificate of Incorporation authorizes the Company's Board of Directors to issue 5,000,000 shares of "blank check" Preferred Stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares, without further stockholder approval. The rights of the holders of Common Stock will be subject to and may be adversely affected by the rights of holders of any Preferred Stock that may be issued in the future. The ability to issue Preferred Stock without stockholder approval could have the effect of making it more difficult for a third party to acquire a majority of the voting stock of the Company thereby delaying, deferring or preventing a change in control of the Company. Moreover, following the consummation of this offering, the Company will be subject to the State of Delaware's "business combination" statute, which prohibits a publicly-traded Delaware corporation from engaging in various business combination transactions with any of its 15% stockholders for a period of three years after the date of the transaction in which the person became an "interested stockholder," unless certain approvals are obtained or other events occur. The statute could prohibit or delay mergers or other attempted takeovers or changes in control with respect to the Company and, accordingly, may discourage attempts to acquire the Company. See "Description of Securities."

Tax Loss Carryforward. The Company's net operating loss carryforwards ("NOLs") expire in the years 2009 to 2012. Under Section 382 of the Internal Revenue Code of 1986, as amended, utilization of prior NOLs is limited after an ownership change, as defined in Section 382, to an annual amount equal to the value of the corporation's outstanding stock immediately before the date of the ownership change multiplied by the federal long-term date exempt tax rate. The additional equity financing obtained by the Company in connection with recent financings and this offering may result in an ownership change and, thus, in a limitation on the Company's use of its prior NOLs. In the

event the Company achieves profitable operations, any significant limitation on the utilization of its NOLs would have the effect of increasing the Company's tax liability and reducing net income and available cash reserves. See

"Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note H to Notes to Financial Statements.

Limitations on Liability of Directors and Officers. The Company's Certificate of Incorporation includes provisions to eliminate, to the full extent permitted by Delaware General Corporation Law as in effect from time to time, the personal liability of directors of the Company for monetary damages arising from a breach of their fiduciary duties as directors. The Certificate of Incorporation also includes provisions to the effect that the Company'shall, to the maximum extent permitted from time to time under the law of the State of Delaware, indemnify any director or officer to the extent that such indemnification and advancement of expense is permitted under such law, as it may from time to time be in effect. In addition, the Company's By-laws require the Company to indemnify, to the fullest extent permitted by law, any director, officer, employee or agent of the Company for acts which such person reasonably believes are not in violation of the Company's corporate purposes as set forth in the Certificate of Incorporation. See "Management - Limitation of Liability and Indemnification Matters."

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 1,875,000 shares of Common Stock offered hereby, (after deducting underwriting discounts and commissions and other expenses of the offering) are estimated to be approximately $12,692,000 ($14,672,000 if the Underwriter's over-allotment option is exercised in full). The Company expects to use the net proceeds (assuming no exercise of the Underwriter's over-allotment option) during the twelve months following this offering approximately as follows:

<TABLE>
<CAPTION>

Application of Net Proceeds	Approximate Dollar Amount	Approximate Percentage of Net Proceeds
<S>	<C>	<C>
Sales and marketing(1)	$3,860,000	30.4 %
Repayment of outstanding indebtedness(2)	3,537,000	27.9
Software development(3)	2,100,000	16.6
Computer equipment(4)	500,000	3.9
Payment of trade payables(5)	500,000	3.9
Relocation of offices(6)	300,000	2.4
Working capital and general corporate purposes(7)	1,895,000	14.9
Total	$12,692,000	100.0 %

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(1) Represents (i) approximately $2,460,000 for sales, marketing and promotional activities related to the Company's software products and (ii) approximately $1,400,000 for the salaries and related costs of up to 15 additional sales and marketing personnel. See "Business - Sales and Marketing."

(2) Represents amounts to repay (i) $3,250,000 principal amount of promissory notes (the "Notes") issued in private offerings from February 1997 through May 1998, plus estimated accrued interest thereon at annual rates between 6% and 8%, including $1,900,000, $200,000 and $50,000 principal amount of Notes held by Applewood Associates, L.P., a principal stockholder of the Company, CMH Capital Management Corp., a corporation wholly-owned by Corey M. Horowitz, Chairman of the Board of Directors and a principal stockholder of the Company, and Mr. Horowitz, respectively, and (ii) approximately $95,000 of certain liabilities assumed by the Company in connection with the CommHome Acquisition and paid upon consummation of this offering. The

Company used the net proceeds from the issuance of the Notes for working capital and general corporate purposes. See "Certain Transactions."

(3) Represents estimated costs associated with software development, including the salaries of up to 17 additional software engineers and developers. See "Business - Product Development."

(4) Represents expenditures to purchase hardware and software as well as servers and test equipment for the Company's operations.

(5) Represents estimated past due trade payables to be paid upon the consummation of this offering. See Financial Statements.

(6) Represents costs associated with relocating the Company's principal office location to the Boston, Massachusetts area, including rent and related costs. See "Business - Facility."

(7) Represents amounts which may be used to pay a portion of the compensation for executive officers (such aggregate salaries are estimated to be $970,000 during the twelve months following the consummation of this offering), rent, trade payables, consulting fees and professional fees.

If the Underwriter's over-allotment option is exercised in full, the Company will realize additional net proceeds of $1,980,000, which will be allocated to working capital and general corporate purposes.

The allocation of the net proceeds from this offering set forth above represents the Company's best estimate based upon its currently proposed plans and assumptions relating to its operations and certain assumptions regarding general economic conditions. If any of these factors change, the Company may find it necessary or advisable to reallocate some of the proceeds within the above-described categories or to use portions thereof for other purposes. The Company may also use a portion of the net proceeds for the acquisition of businesses, technologies, or products which it believes are complimentary to those of the Company, although no such acquisitions are planned or being negotiated as of the date of this Prospectus, except for the acquisition of CommHome. See "Business - CommHome Systems Corp. Acquisition."

Based on currently proposed plans and assumptions relating to its operations, and implementation of its business plan (including the timetable of costs and expenses associated with, and success of, its marketing efforts) the Company anticipates that the net proceeds of this offering, together with projected revenues from operations, will be sufficient to fund the Company's operations and capital requirements for approximately twelve months following the consummation of this offering. There can be no assurance, however, that such funds will not be expended prior thereto due to unanticipated changes in economic conditions or other unforeseen circumstances. In the event the Company's plans change or its assumptions change or prove to be inaccurate (due to unanticipated expenses, difficulties, delays or otherwise) or the net proceeds of this offering and projected revenues otherwise prove to be insufficient to fund the implementation of the Company's business plan or working capital requirements, the Company could be required to seek additional financing sooner than currently anticipated. The Company has no current arrangements with respect to any additional financing. Consequently, there can be no assurance that any additional financing will be available to the Company when needed, on commercially reasonable terms or at all.

Proceeds not immediately required for the purposes described above will be invested principally in United States government securities, short-term certificates of deposit, or other similar short-term, interest bearing investments.

DILUTION

The difference between the initial public offering price per share of Common Stock and the net tangible book value per share of Common Stock after this offering constitutes the dilution to investors in this offering. Net tangible book value per share is determined by dividing the net tangible book value of the Company (total tangible assets less total liabilities) by the number of outstanding shares of Common Stock.

At March 31, 1998, the negative net tangible book value of the Company was ($572,000) or $(.34) per share ($.07 per share, on a pro forma basis after giving effect to the Pro Forma Adjustments(see footnote 2 of "Prospectus Summary--Summary Financial Information")). After also giving effect to the sale by the Company of the 1,875,000 shares of Common Stock offered hereby (after deducting underwriting discounts and commissions and estimated expenses of this offering) and the Additional Adjustments (see footnote 3 of "Prospectus Summary - -- Summary Financial Information"), the adjusted net tangible book value of the Company at March 31, 1998 would have been $11,935,000, or $2.65 per share, representing an immediate increase in net tangible book value of $2.58 per share to the existing stockholders and an immediate dilution of $5.35 per share to new investors. The following table illustrates the foregoing information with respect to dilution to new investors on a per share basis:

<TABLE>
<S> <C> <C>

Initial public offering price	$ 8.00
Pro forma net tangible book value before offering	$ .07
Increase attributable to new investors	2.58
Adjusted net tangible book value after offering	2.65
Dilution per share to new investors	$ 5.35

</TABLE>

The following table sets forth, with respect to the Company's existing stockholders (after giving effect to the Pro Forma Adjustments and the Additional Adjustments) and new investors in this offering, a comparison of the number of shares of Common Stock acquired from the Company, the percentage ownership of such shares, the total consideration paid, the percentage of total consideration paid and the average price per share.

<TABLE>
<CAPTION>

	Shares Purchased		Total Consideration		Average Price per Share
	Number	Percent	Amount	Percent	
<S>	<C>	<C>	<C>	<C>	<C>
Existing Stockholders.....	2,633,369	58.4%	$ 7,215,000	32.5%	$ 2.74
New Investors.....	1,875,000	41.6	15,000,000	67.5	8.00
Total.....	4,508,369	100.0%	$22,215,000	100.0%	

</TABLE>

The above tables assume no exercise of the Underwriter's over-allotment option. If such option is exercised in full, the new investors will have paid $17,250,000 for 2,156,250 shares of Common Stock, representing approximately 70.5% of the total consideration, for 45.0% of the total number of shares of Common Stock outstanding. In addition, the above tables do not give effect to shares issuable upon exercise of outstanding warrants and options to purchase 1,242,294 shares of Common Stock, including options to purchase 423,908 shares of Common Stock issued under the Stock Option Plan and 187,500 shares of Common Stock issuable upon exercise of the Underwriter's Warrants. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Management -- Stock Option Plan," Description of Securities -- Warrants and Options" and "Underwriting."

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its Common Stock and does not intend to declare or pay cash or other dividends in the foreseeable future. The Board of Directors currently expects to retain any future earnings for use in the operation and expansion of its business. The declaration and payment of any future dividends will be at the discretion of the Board of Directors and will depend upon a variety of factors, including future earnings, if any, operations, capital requirements, the general financial condition of the Company, the preferences of any series of Preferred Stock which may be designated in the future, the general business conditions and future contractual restrictions on payment of dividends, if any.

CAPITALIZATION

The following table sets forth (i) the capitalization of the Company as of March 31, 1998, (ii) the pro forma capitalization at such date after giving effect to the Pro Forma Adjustments (see footnote 2 of "Prospectus Summary--Summary Financial Information"), and (iii) the pro forma capitalization as adjusted to give effect to the sale of the Common Stock offered hereby, the anticipated application of the estimated net proceeds therefrom and the Additional Adjustments (see footnote 3 of "Prospectus Summary -- Summary Financial Information"). The information set forth below should be read in conjunction with the Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

<TABLE>
<CAPTION>

	March 31, 1998		
	Actual	Pro Forma	As Adjusted
<S>	<C>	<C>	<C>
Short-term debt	$ 1,621,000	$ 2,380,000	--
Stockholders' equity (deficit)(1):			
Preferred Stock, $.01 par value, 5,000,000 shares authorized			
Series A Preferred Stock, no shares issued or outstanding, actual, pro forma and as adjusted	--	--	--
Series B Preferred Stock, 500,000 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and as adjusted	5,000	--	--
Common Stock, $.01 par value; 25,000,000 shares authorized; 1,706,037 shares issued and outstanding, actual; 2,585,244 shares issued and outstanding, pro forma; 4,508,369 shares issued and outstanding, as adjusted(2)	17,000	26,000	45,000
Additional paid-in capital	7,573,000	8,348,000	21,406,000
Accumulated deficit	(8,167,000)	(8,181,000)	(9,516,000)
Total stockholders' equity (deficit)	(572,000)	193,000	11,935,000
Total capitalization	$ (572,000)	$ 193,000	$ 11,935,000

</TABLE>

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(1) See Note F to Notes to Financial Statements.

(2) Does not include (i) 423,908 shares of Common Stock issuable upon exercise of stock options (of which options to purchase 168,546 shares were granted as of March 31, 1998) under the Stock Option Plan, (ii) 630,886 shares of Common Stock issuable upon exercise of other outstanding options and

warrants, and (iii) 187,500 shares of Common Stock reserved for issuance upon exercise of the Underwriter's Warrants.

SELECTED FINANCIAL DATA

The following selected financial data for the years ended December 31, 1996 and December 31, 1997 and at December 31, 1997 have been derived from the Company's audited financial statements. The following selected financial data for the three month periods ended March 31, 1997 and 1998 and at March 31, 1998 have been derived from unaudited financial statements which have been prepared on the same basis as the audited financial statements and, in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the information presented. The results for the three month period ended March 31, 1998 are not necessarily indicative of the results to be expected for any other interim period or the fiscal year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Financial Statements.

<TABLE>
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Statement of Operations Data:	Year Ended December 31,		Three Months Ended March 31,	
	1996	1997	1997	1998
<S>	<C>	<C>	<C>	<C>
Revenues:				
Licenses	$ 624,000	$ 1,632,000	$ 346,000	$ 195,000
Services	403,000	737,000	133,000	144,000
Total revenues	1,027,000	2,369,000	479,000	339,000
Cost of revenues	737,000	790,000	181,000	252,000
Gross profit	290,000	1,579,000	298,000	87,000
Operating expenses:				
Product development	984,000	917,000	97,000	208,000
Selling and marketing	1,614,000	926,000	326,000	140,000
General and administrative	1,931,000	1,573,000	434,000	212,000
Total operating expenses	4,529,000	3,416,000	857,000	560,000
Loss from operations	(4,239,000)	(1,837,000)	(559,000)	(473,000)
Interest expense	(260,000)	(553,000)	(31,000)	(224,000)
Net loss	$(4,499,000)	$(2,390,000)	$ (590,000)	$ (697,000)
Loss per share (1)	(2.46)	(1.29)	(.30)	(.41)
Weighted average number of shares outstanding (1)	1,825,163	1,855,244	1,942,872	1,706,037

</TABLE>

<TABLE>
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Balance Sheet Data:	December 31, 1997	March 31, 1998		
	Actual	Actual	Pro Forma	As Adjusted
<S>	<C>	<C>	<C>	<C>
Cash and cash equivalents	$ 60,000	$ 67,000	$ 1,416,000	$ 10,766,000
Working capital (deficit)	(661,000)	(2,283,000)	(1,518,000)	8,702,000
Total assets	2,404,000	2,094,000	3,443,000	12,718,000
Total liabilities	2,479,000	2,666,000	3,250,000	783,000
Accumulated deficit	(7,470,000)	(8,167,000)	(8,181,000)	(9,516,000)

Total stockholders' equity (deficit)	(75,000)	(572,000)	193,000	11,935,000

</TABLE>

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(1) See Notes A and B to Notes to Financial Statements for an explanation of shares used in pro forma net loss per share calculations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's 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, without limitation, those concerning the Company's strategy and growth plans. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause such differences include, but are not limited to, those discussed under "Risk Factors."

General

The Company develops, markets, licenses and supports a family of network security software products designed to provide comprehensive security to computer networks including Internet based systems and internal networks and computing resources. The Company also offers to its customers a full range of consulting services in network security, network design and support. From inception (July 1990) through December 31, 1994, the Company was primarily engaged in providing consulting and training services. In 1995, the Company began to shift its focus from consulting and training to the development and marketing of network security software products. The Company introduced its first FireWall/Plus software product in June 1995. Accordingly, the Company has a limited relevant operating history as a software developer upon which an evaluation of its prospects and future performance can be made. Such prospects must be considered in light of the risks, expenses and difficulties frequently encountered in the operation and expansion of a new business and the shift from research and product development to commercialization of products based on rapidly changing technologies in a highly specialized and emerging market. The Company will be required to significantly expand its product and development capabilities, introduce new products, introduce enhanced features to existing products, expand its in-house sales force, establish and maintain distribution channels through third-party vendors, increase marketing expenditures, further expand its management team and attract additional qualified personnel. In addition, the Company must adapt to the demands of an emerging and rapidly changing computer network security market, intense competition and rapidly changing technology and industry standards. There can be no assurance that the Company can successfully address such risks, and the failure to do so would have a material adverse effect on the Company's business, results of operations and financial condition.

To date, the Company has incurred significant losses and, at March 31, 1998, had an accumulated deficit of $8,167,000. Inasmuch as the Company intends to increase its level of activities following the consummation of this offering and will be required to make significant up-front capital expenditures in connection with its sales and marketing and continuing research and product development efforts, the Company anticipates that losses will continue until such time, if ever, as the Company is able to attain sales levels sufficient to support its operations. There can be no assurance that the Company will ever achieve profitable operations. The Company's independent auditors have included an explanatory paragraph in their report on the Company's financial statements for the year ended December 31, 1996 and December 31, 1997, stating that certain factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company has only recently employed certain members of senior management, including Avi A. Fogel, President and Chief Executive Officer, Robert P. Olsen, Vice President of Product Management, Murray P. Fish, Chief Financial Officer, and Joseph A. Donohue, Vice President of Engineering. In addition, the Company intends to hire approximately 17 additional software engineers and developers and 15 additional sales and marketing personnel within twelve months of consummation of this offering, as well as expand its finance and administrative staff and increase expenses for employee benefits, facilities, consulting, insurance, and other general operating expenses. See "Business -- Sales and Marketing," "Business -- Product Development" and "Management -- Employment Agreements."

The Company's FireWall/Plus family of software products has not yet achieved market acceptance. The future success of the Company is largely dependent upon market acceptance of its FireWall/Plus family of software products. While the Company believes that its FireWall/Plus family of software products offer advantages over competing products for network security, license revenue from FireWall/Plus products since their introduction (June 1995) through March 31, 1998 has only been $2,437,000. There can be no assurance that FireWall/Plus will gain significant market acceptance. Revenue from such commercial products depend on a number of factors, including the influence of market competition, technological changes in the network security market, the Company's ability to design, develop and introduce enhancements on a timely basis, and the ability of the Company to successfully establish and maintain distribution channels. The failure of FireWall/Plus to achieve significant market acceptance, as a result of competition, technological change or other factors, would have a material adverse effect on the Company's business, operating results and financial condition.

The Company's revenues are generated primarily from product license fees for the use of the Company's software products (license revenues) and service fees for consulting services, maintenance and training (service revenues). Revenues from licenses are recognized upon (i) delivery of the software or, if the customer has evaluation software, delivery of the software key, and (ii) issuance of the related license, assuming that no significant vendor obligations or customer acceptance rights exist. In October 1997, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") No. 97-2, Software Revenue Recognition, which the Company adopted, effective January 1, 1997. Such adoption had no effect on the Company's methods of recognizing revenue from its license and maintenance activities. Prior to 1997, the Company's revenue policy was in accordance with the preceding authoritative guidance provided by SOP No. 91-1, Software Revenue Recognition.

The Company recognizes service revenue upon delivery of the service or ratably over the period of service. Consulting and training fees are recognized as such services are performed. Annual maintenance, which may be purchased in conjunction with the licensing of a product, is offered for an annual fee generally equal to 15% of the then current license fee and is recorded as service revenue ratably over the contract term.

The Company markets and licenses its products and services primarily through third parties, such as VARs, systems integrators, resellers, distributors and OEMs, and to a lesser extent, through the Company's limited in-house sales force. Licenses through distributors typically have a lower gross margin than in-house generated licenses since distributors usually receive discounts. Revenues from third-party distributors accounted for approximately 23% and 50% of the Company's license

revenues for the years ended December 31, 1996 and 1997, respectively. The Company expects that the percentage of license revenues generated from third-party distributors to increase in future periods. Pricing is based upon the number of concurrent connections, the nature of the user's operating system and whether hardware is needed. Selling and marketing expenses are expected to

increase as a result of proposed expansion of distribution channels and marketing programs and hiring of additional personnel.

The Company has committed significant product and development resources to its FireWall/Plus family of products. The Company's anticipated levels of expenditures for product development are based on its plans for product enhancements and new product development. The Company capitalizes software development costs, net of amortization, in accordance with Statement of Financial Accounting Standards No. 86. These costs consist of salaries, consulting fees and applicable overhead. The Company intends to use a portion of the proceeds of this offering to significantly increase its product development expenditures. See "Business - Product Development."

Results of Operations

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Revenues decreased by $140,000 or 29%, from $479,000 for the three months ended March 31, 1997 to $339,000 for the three months ended March 31, 1998, as a result of decreased license revenues. License revenues decreased by $151,000 or 44%, from $346,000 for the three months ended March 31, 1997 to $195,000 for the three months ended March 31, 1998, primarily due to a lack of financial resources for marketing of its software products during the three months ended March 31, 1998 and certain initial product licensing payments received from international resellers during the three months ended March 31, 1997. Service revenues increased by $11,000 or 8%, from $133,000 for the three months ended March 31, 1997 to $144,000 for the three months ended March 31, 1998. The increase in service revenues is attributable to a large consulting project serviced during the three months ended March 31, 1998.

Cost of licenses consists of the costs of media, documentation, product packaging, production, product royalties, amortization of software development costs and the cost of hardware associated with "turn-key" solutions. Cost of licenses increased by $72,000 or 69%, from $105,000 for the three months ended March 31, 1997 to $177,000 for the three months ended March 31, 1998, representing 30% and 91% of license revenues, respectively. The increase in cost of licenses in dollar amount and as a percentage of license revenues resulted primarily from increased amortization of software costs and hardware costs associated with sales of FireWall/Plus Premier Version, which is a turn-key solution and includes computer hardware and, therefore, has a lower gross margin. Cost of licenses as a percentage of license revenues may fluctuate from period to period due to changes in product mix, changes in the number or size of transactions recorded in a given period or an increase or decrease in licenses of products which would require the Company to pay royalties to third parties.

Cost of services consist of the costs of salary, fringe benefits and overhead associated with consulting services. Cost of services decreased by $1,000 or 1%, from $76,000 for the three months ended March 31, 1997 to $75,000 for the three months ended March 31, 1998, representing 57% and 52% of service revenues, respectively.

Gross profit decreased from $298,000 for the three months ended March 31, 1997 to $87,000 for the three months ended March 31, 1998, representing 62% and 26% of revenues, respectively. The decrease in gross profit was due to decreased license revenues and the increase in cost of sales as a result of increased amortization of software costs and hardware costs associated with sales of FireWall/Plus Premier Version.

Product development costs consist of salaries, benefits, travel and related costs of the Company's product development personnel, including consulting fees, the costs of computer equipment used in product and technology development and third-party development contracts. Product development costs increased $111,000 or 114%, from $97,000 for the three months ended March 31, 1997 to $208,000 for the three months ended March 31, 1998, representing 20% and 61% of revenues, respectively. The increase in product development costs in dollar amount and as a percentage of revenues was due primarily to the capitalization of $283,333 and $0 of product development costs associated with the development and enhancement

of its FireWall/Plus family of products during the three months ended March 31, 1997 and the three months ended March 31, 1998, respectively. During the three months ended March 31, 1998, all product development costs were expensed since they were incurred after the release of FireWall/Plus Version 4.0. The Company currently anticipates that product development costs will increase as the Company hires additional software engineers and developers to support the Company's growth. See "Business - Product Development."

Sales and marketing expenses consist primarily of salary costs, including commissions, benefits, bonuses and travel, advertising, public relations, consultants and trade shows. Selling and marketing expenses decreased by $186,000 or 57%, from $326,000 for the three months ended March 31, 1997 to $140,000 for the three months ended March 31, 1998, representing 68% and 41% of revenues, respectively. The decrease in selling and marketing expenses was due primarily to a decrease in marketing efforts during such period resulting from the Company's lack of available funds.

General and administrative expenses include employee costs, including salary, benefits, bonuses, travel and other related expenses associated with management, finance and accounting operations, and legal and other professional services provided to the Company. General and administrative expenses decreased by $222,000 or 51%, from $434,000 for the three months ended March 31, 1997 to $212,000 for the three months ended March 31, 1998, representing 91% and 63% of revenue, respectively. The decrease in general and administrative expenses was due primarily to reduced professional fees, recruitment fees and travel and entertainment expenses. The Company currently anticipates that general and administrative expenses will increase significantly as the Company hires additional personnel to support its growth in future periods.

Interest expense increased by $193,000 or 623%, from $31,000 for the three months ended March 31, 1997 to $224,000 for the three months ended March 31, 1998, representing 6% and 66% of revenues, respectively. The increase in interest expense was due primarily to an increase in the amortization of debt discount for the three months ended March 31, 1998 related to private financings consisting of notes and warrants. Interest expense is expected to be significantly reduced following consummation of the offering since the Company intends to use approximately $3,442,000 of the proceeds of this offering to repay outstanding debt.

No provision for or benefit from federal, state or foreign income taxes was recorded for the three months ended March 31, 1997 or the three months ended March 31, 1998 because the Company incurred net operating losses during each period and fully reserved its deferred tax assets as their future realization could not be determined.

As a result of the foregoing, the net loss increased by $107,000 or 18%, from $590,000 for the three months ended March 31, 1997 to $697,000 for the three months ended March 31, 1998.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Revenues increased by $1,342,000 or 131%, from $1,027,000 for the year ended December 31, 1996 ("1996") to $2,369,000 for the year ended December 31, 1997 ("1997"). License revenues increased by $1,008,000 or 162%, from $624,000 for 1996 to $1,632,000 for 1997, partially due to the receipt of a non-refundable prepaid royalty of $500,000 from Trusted Information Systems, Inc. relating to licensing certain of the Company's technology and an increase in software licenses sold during 1997 as a result of introduction of FireWall/Plus for Windows NT. Service revenues increased by $334,000 or 83%, from $403,000 for 1996 to $737,000 for 1997 primarily as a result of servicing a large consulting project and an increase in the customer base which purchased maintenance contracts during 1997. The Company's two largest customers, Trusted Information Systems, Inc. and Electronic Data Systems Corporation ("EDS") accounted for 21% and 14% of the Company's revenues, respectively, in 1997. The Company's revenues from customers in the United States represented 93% of its revenues in 1996 and 84% of its revenues in 1997.

Cost of licenses increased $58,000 or 13%, from $439,000 for 1996 to $497,000 for 1997, representing 70% and 30% of license revenues, respectively.

The increase in the cost of licenses resulted primarily from the increased amortization of capitalized software costs related to the Company's FireWall/Plus for Windows NT product, hardware costs associated with sales of FireWall/Plus Premier Version and royalties paid to third parties from product sales. The decrease in cost of revenues as a percentage of license revenues was due primarily to the Company's receipt in June 1997 of a $500,000 prepaid royalty related to the license of its technology and decreased hardware costs for resale.

Cost of services decreased by $5,000 or 2%, from $298,000 for 1996 to $293,000 for 1997, representing 74% and 40% of service revenues, respectively. The decrease in cost of services as a percentage of service revenues was due primarily to the increase in service revenues which did not require increased personnel.

Gross profit increased from $290,000 for 1996 to $1,579,000 for 1997 representing 28% and 67% of revenues, respectively. The increase in gross profit was due to increased license revenue of $1,008,000, including receipt of a $500,000 prepaid royalty in June 1997 and a $334,000 increase in revenue from software licenses.

Product development costs decreased by $67,000 or 7%, from $984,000 for 1996 to $917,000 for 1997, representing 96% and 39% of revenues, respectively. The decrease in product development costs was due primarily to an increased portion of time spent by developers on the development of the second release of the FireWall/Plus Windows NT product and the capitalization of such costs. During 1996 and 1997, the Company capitalized $750,000 and $850,000, respectively, of product development expenditures associated with the development and enhancement of its FireWall/Plus family of products.

Sales and marketing expenses decreased by $688,000 or 43%, from $1,614,000 for 1996 to $926,000 for 1997, representing 157% and 39% of revenues, respectively. The decrease in sales and marketing expenses in dollar amount and as a percentage of revenues was due primarily to a $526,000 decrease in advertising expenses and the reduction of trade shows and related travel due to the Company's lack of funds for sales and marketing, as well as the Company's receipt of $500,000 of prepaid royalties in June 1997 and a $508,000 increase in revenues from software licenses.

General and administrative expenses decreased by $358,000 or 19%, from $1,931,000 for 1996 to $1,573,000 for 1997, representing 188% and 66% of revenue for 1996 and 1997, respectively. The decrease in general and administrative expenses in dollar amount and as a percentage of revenue in 1997 was due primarily to a charge of $683,000 related to the issuance of warrants and shares of Common Stock to advisory board members and others for services rendered in March 1996 and reduced professional fees, recruiting fees, office supplies and stationary, repairs and maintenance contracts, travel and bad debt expenses.

Interest expense increased by $293,000 or 113%, from $260,000 for 1996 to $553,000 for 1997, representing 25% and 23% of revenue for 1996 and 1997, respectively. The increase in interest expense was due primarily to increased amortization of debt discount as a result of the issuance of $1,500,000 principal amount promissory notes and warrants to purchase 210,628 shares of Common Stock during 1997. Debt discount is amortized over the life of the debt instrument.

No provision for or benefit from federal, state or foreign income taxes was recorded for 1996 or 1997 because the Company incurred net operating losses for each year and fully reserved its deferred tax assets as their future realization could not be determined.

As a result of the foregoing, the net loss decreased by $2,109,000 or 47%, from $4,499,000 for 1996 to $2,390,000 for 1997.

Liquidity and Capital Resources

The Company's capital requirements have been and will continue to be significant, and its cash requirements have been exceeding its cash flow from

operations. At March 31, 1998, the Company had $67,000 of cash and cash equivalents and a working capital deficit of $2,283,000 due to, among other things, costs associated with financing its product development efforts. The

Company has financed its operations primarily through private sales of equity and debt securities. Net cash used in operating activities was $708,000 and $383,000 during 1997 and the three months ended March 31, 1998, respectively. Net cash used in operating activities for 1997 was primarily attributable to a net loss of $2,390,000 and an increase in accounts receivable of 309,000 which was partially offset by increases in accounts payable, accrued expenses and accrued fees of $744,000, and amortization of debt discount of $500,000 and depreciation and amortization of $481,000. The Company's operating activities during 1996, 1997 and the three months ended March 31, 1998 were financed primarily with $3,948,000 of net proceeds from the sale of Common Stock with respect to a private placement completed in March 1996, $1,500,000 of net proceeds from the issuance of $1,500,000 principal amount of notes and warrants to purchase 210,628 shares of Common Stock in 1997 and $400,000 of net proceeds from the issuance of $400,000 principal amount of notes and warrants to purchase 74,495 shares of Common Stock for the three months ended March 31, 1998. Since March 31, 1998, the Company has financed its activities with $1,350,000 of net proceeds from the issuance of $1,350,000 principal amount of notes and warrants to purchase 251,423 shares of Common Stock. The Company intends to use a portion of the net proceeds of this offering to repay the entire principal amount of $3,250,000 and interest accrued on such outstanding notes. The Company does not currently have a line of credit from a commercial bank or other institution.

The Company is dependent on the proceeds of this offering to implement its business plan and finance its working capital requirement. The Company anticipates, based on currently proposed plans and assumptions relating to the implementation of its business plan (including the timetable of, costs and expenses associated with, and success of, its marketing efforts), that the net proceeds of this offering, together with projected revenues from operations, will be sufficient to satisfy the Company's operations and capital requirements for approximately twelve months following the consummation of this offering. There can be no assurance, however, that such funds will not be expended prior thereto due to unanticipated changes in economic conditions or other unforeseen circumstances. In the event the Company's plans change or its assumptions change or prove to be inaccurate (due to unanticipated expenses, difficulties, delays or otherwise) or the net proceeds of this offering and projected revenues otherwise prove to be insufficient to fund the implementation of the Company's business plan or working capital requirements, the Company could be required to seek additional financing sooner than currently anticipated. The Company has no current arrangements with respect to any additional financing. Consequently, there can be no assurance that any additional financing will be available to the Company when needed, on commercially reasonable terms or at all. Any inability to obtain additional financing when needed would have a material adverse effect on the Company, requiring it to curtail and possibly cease its operations. In addition, any additional equity financing may involve substantial dilution to the interests of the Company's then existing stockholders.

Fluctuations in Operating Results

The Company anticipates significant quarterly fluctuations in its operating results in the future. The Company generally ships orders for commercial products as they are received and, as a result, does not have any material backlog. As a result, quarterly revenues and operating results depend on the volume and timing of orders received during the quarter, which are difficult to forecast. Operating results may fluctuate on a quarterly basis due to factors such as the demand for the Company's products, purchasing patterns and budgeting cycles of customers, the introduction of new products and product enhancements by the Company or its competitors, market acceptance of

new products introduced by the Company or its competitors and the size, timing,

cancellation or delay of customer orders, including cancellation or delay in anticipation of new product introduction or enhancement. In addition, the Company's consulting revenues tend to fluctuate as projects, which may continue over several quarters, are undertaken or completed. Therefore, comparisons of quarterly operating results may not be meaningful and should not be relied upon, nor will they necessarily reflect the Company's future performance. Because of the foregoing factors, it is likely that in some future quarters the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Common Stock would likely be materially adversely affected.

Licensing of the Company's products generally involves a significant commitment of capital by customers, with the attendant delays frequently associated with large capital expenditures. Accordingly, the sales cycle for the Company's products can be lengthy and generally commences at the time a prospective customer demonstrates an interest in licensing a FireWall/Plus solution, typically includes a 30-day free evaluation period and ends upon execution of a purchase order by the customer. The length of the sales cycle varies depending on the type and sophistication of the customer and the complexity of the operating system and may extend for periods of six to nine months. As a result of the Company's lengthy sales cycle, license of the Company's products generally require the Company to make expenditures and use significant resources prior to receipt, if any, of corresponding revenues.

Year 2000 Issue

The Company has assessed the potential software issues associated with the Year 2000 and believes its software products are Year 2000 compliant and, therefore, does not expect to incur material costs related thereto. With regard to internal computing resources utilized in its operations, the Company does not expect to incur material costs to make such resources year 2000 compliant.

BUSINESS

Overview

The Company develops, markets, licenses and supports a family of network security software products designed to provide comprehensive security to computer networks, including Internet based systems and internal networks and computing resources. The Company's FireWall/Plus family of security software products enables an organization to protect its computer networks from internal and external attacks and to secure organizational communications over such internal networks and the Internet. The Company also offers its customers a full range of consulting services in network security and network design and support in order to build, maintain and enhance customer relationships and increase the demand for its software products.

The FireWall/Plus family of security solutions is designed to protect against Internet and intranet (internal networks utilizing Internet technology and applications based upon TCP/IP - the Internet network transport protocol) based security threats and to address security needs that arise from within internal networks that often utilize other network transport protocols besides TCP/IP including, among others, Novell's IPX, Digital Equipment's DECnet and IBM's SNA. The Company's FireWall/Plus family of firewall products operates on the Microsoft Windows NT operating system platform. FireWall/Plus's proprietary Interceptor Shim and filter engine software technology, with its unique ability to handle and filter all commonly used network transport protocols, provides organizations with a highly secure and flexible security solution. Additionally, unlike most other firewall solutions which focus on an enterprise's connection to the Internet, the FireWall/Plus solution can be deployed throughout the enterprise; at the perimeter to control access to and from the Internet, between internal networks and on application servers and desktop PCs to protect data residing on such servers and PCs. The Company's FireWall/Plus for Windows NT received the 1997 Internet and Electronic Commerce Conference award for "Best Intranet Solution" and the 1997 ENT Readers Choice Award for "Best NT Firewall."

Industry Background

A critical resource of every organization is its information and its ability to distribute and access information throughout the enterprise. Computing has moved from large centralized mainframes to distributed client/server architecture consisting of interconnected personal computers dispersed throughout an organization. Organizations utilize local area networks ("LANs") to share information and applications internally. Many organizations have connected LANs, including geographically dispersed networks, into wide area networks ("WANs"). In addition, the explosive growth in telecommuting has resulted in LANs and WANs frequently being accessed from remote locations via traditional modem dial-up, Integrated Services Digital Network ("ISDN") and recently introduced cable modems and Asymmetric Digital Subscriber Line ("ADSL") modems. There is a growing use of establishing these remote connections to an organization's central resources, via Internet links, rather than through dedicated point-to point connections.

This evolution from mainframe computers supporting a number of terminals, towards networks of interconnected personal computers has resulted in a wide range of technologies from a multitude of vendors being used within internal networks in order to satisfy different enterprise computing requirements. As a result, heterogeneous networks utilizing a variety of network transport

protocols are commonplace within LANs and WANs. Although TCP/IP has become a widely accepted network transport protocol due to the growth of the Internet and the popularity of TCP/IP applications for use within internal networks, network transport protocols such as IPX, DECnet, AppleTalk, and SNA among others, are still utilized throughout networked environments, and the Company believes such network transport protocols will continue to be utilized due to the large investments in installed systems and applications using these protocols. Further, computing environments often run one or more incompatible versions of the same protocol suite for extended periods of time while converting to new versions or to support older applications or systems which cannot use the newer versions of a given protocol suite. In addition, Windows NT is shipped from Microsoft with four complete network transport protocols (IP, IPX, AppleTalk and NetBEUI) for use with NT when connected to a corporate network.

The Windows NT server market continues to grow and outpace sales of other popular non-NT-based servers. According to recent studies by International Data Corporation and Dataquest, in 1997, Windows NT server shipments exceeded shipments of any other server.

Network Security

Although open computing environments have many business advantages, their accessibility makes an organization's critical software applications and electronically stored data vulnerable to security threats. Open computing environments are inherently complex, typically involving a variety of hardware, operating systems, network transport protocols and applications supplied by a multitude of vendors, making these networks difficult to manage, monitor and protect from unauthorized access or attack. The security risk associated with network computing is complicated by the increasing popularity of the Internet, intranets and extranets (intranets which allow access for one or more users outside of the internal network). By connecting an internal private network to the Internet, unauthorized third parties are given a new means by which to access an organization's private network. The combination of TCP/IP with other commonly used network transport protocols within internal networks, increases the network security challenge because of the various avenues of attack available to both internal and external attackers.

As a result of the explosive growth in network computing and Internet use (as well as use of intranets and extranets), protection of an organization's network and data has become a significant economic concern for businesses. According to the 1997 Annual Information Week/Ernst & Young LLP Information Security Survey of information technology managers and professionals, 42% of the respondents reported malicious acts from external sources, as compared to 16% in the prior year, and 43% of the respondents reported malicious acts by employees as compared to 29% in the prior year. According to FBI estimates, U.S. companies suffer estimated losses of $5 to $10 billion per year as a result of unauthorized access to information and data. According to the 1998 CSI/FBI

Computer Crime and Security Survey, 44% of the respondents reported unauthorized access by employees. The Company believes that securely segmenting internal network areas and computing resources from unauthorized access will become paramount to insuring the integrity of both the internal network and an organization's intranet and extranet resources.

Firewalls

A firewall is a security solution that enables an organization to protect its computer resources from unauthorized access by internal and external users. Firewalls enforce security access control policies between a trusted network and an untrusted network. Only authorized traffic as defined by security policies is allowed access through the firewall. Firewalls are predominantly utilized today to provide security for a network's perimeter by preventing external breaches of the internal network (trusted network) from untrusted external sources (the public network).

Due to the significant growth in Internet connections, a number of companies have introduced firewall products ("IP Firewalls") designed primarily to protect an internal network using TCP/IP as the network transport protocol from Internet based security threats or threats from within Intranets. IP Firewalls can also filter other network transport protocols used specifically with the IP routing protocol (such as UDP and ICMP). In addition, a limited number of IP Firewalls have limited filtering capabilities for a small number of non-IP based network transport protocols.

Firewalls can also serve to provide access control between individual subnetworks on an internal network or to control access between an internal network and a selected outside party authorized to have access to the internal network for limited purposes. IP Firewalls can accomplish this task to the extent that TCP/IP is the network transport protocol being used within an internal network as is the case with intranets and extranets. To the extent other network transport protocols are utilized within such an internal network, IP Firewalls will disallow all data utilizing any such transport protocol from passing through the firewall, thereby denying access entirely to a party which is intended to have such access. This reduces the effectiveness of IP Firewalls in a multi-protocol networked environment.

The Company's FireWall/Plus family of security solutions is designed, like other IP Firewalls, to protect against IP based Internet and intranet security threats but also addresses security needs that arise from within internal networks utilizing network transport protocols other than IP, including, Novell's IPX, Digital Equipment Corporation's DECnet and IBM's SNA. The Company's FireWall/Plus suite of products consists of a firewall designed to control access to an organization's internal network from the public networks (the "Enterprise Version"), a firewall controlling access between the network and a trusted application server (the "Server Version") and a firewall controlling access between the network and a trusted client workstation (the "Desktop Version").

The IP Firewall market is expected to continue to experience dramatic growth. International Data Corporation estimates that 1996 unit shipments of firewalls grew by more than 250%, compared with 1995, with 1996 revenues of approximately $220 million. Unit sales of firewalls are expected to increase from 36,610 units or approximately $220 million in 1996 to 1.1 million units or $730 million in 2001. It is anticipated that unit prices of firewalls will experience a decline in the future because of increased competition. The Company believes that these projections do not take into account the need for firewalls to protect computing environments that do not rely exclusively on TCP/IP as the network transport protocol. While an organization generally requires a small number of firewalls to restrict vulnerability to TCP/IP-based threats from the Internet, it may require numerous firewalls to protect internal networks from attacks from within the organization.

The Company believes that securely segmenting internal network areas and computing resources from unauthorized access will become paramount to insuring the integrity of both the internal network and an organization's intranet and extranet resources. The Company further believes that multiple network transport protocols will remain prevalent in computing environments because of the large installed base of non-IP based computer systems and applications. The FireWall/Plus security solution is positioned to address the security issues faced by enterprises with multi-protocol networking environments seeking to prevent unauthorized access and attacks from the Internet, intranets and extranets and internal networks using network transport protocols other than TCP/IP.

Network-1 Strategy

The Company intends to pursue an aggressive growth strategy and to focus its efforts on marketing its FireWall/Plus family of network security products. Key elements of the Company's strategy are:

- Provide Comprehensive Network Security Solutions. The Company's strategy is to develop, market and support a family of network security products to address a broad range of security issues confronting computer networks and computing, including concerns arising from allowing access to the Internet as well as concerns relating to the security of internal networks. The Company's comprehensive approach to network security is based on its FireWall/Plus technology, which offers robust security for data communications utilizing TCP/IP as well as other network transport protocols. The FireWall/Plus family of firewall products currently includes the FireWall/Plus Enterprise Version, FireWall/Plus Server Version and the FireWall/Plus Desktop Solution.

- Emphasis on Internal Network Security. While FireWall/Plus has the ability to protect an organization's computer network from Internet, intranet and extranet based security threats, the Company believes that its ability to filter multiple network transport protocols offers significant advantages as a security product for internal networks where multiple protocols are common. Accordingly, the Company will seek to exploit this advantage by focusing significant marketing resources on the internal network security market. The Company intends to devote a significant portion of the proceeds of this offering for sales and marketing toward educating potential end users and third-party distributors as to the need to protect networks and computing resources from unauthorized access and attacks from within an internal network and the capabilities and benefits of the Company's products.

- Establish and Maintain Successful Third Party Distribution Relationships. The Company's marketing plan includes a multi-channel distribution strategy which emphasizes establishing and maintaining third-party distributor relationships with systems integrators, VARs, OEMs and resellers in the United States and internationally. The Company intends to increase its internal sales and support organization following the consummation of this offering primarily to provide additional support to its third-party distributors.

- Leverage Consulting Clients. The Company has designed, planned, audited and implemented numerous networks worldwide for a broad spectrum of clients, including Fortune 500 companies, small companies with modest requirements, federal, state and foreign governments and utilities, as well as education and research institutions. The Company believes that its consulting clients provide a base of potential customers for its products. In addition, the Company's consulting relationships may facilitate its development and enhancement of software products as the Company's consultants receive feedback and guidance directly from network administrators and other technical personnel regarding products and features needed in the marketplace. See "Business - Consulting."

FireWall/Plus Technology

The Company's network security solutions are based upon its proprietary FireWall/Plus technology which provides organizations with enterprise wide security to protect against unauthorized access from the Internet as well as security for internal sources of intrusion and breach. The following are key aspects of the Company's FireWall/Plus solution:

Enterprise-Wide Deployment. Unlike most other firewall solutions which focus on an enterprise's connection to the Internet, the FireWall/Plus solution, as a result of its unique architecture, may be used throughout the enterprise; at the perimeter to control access to and from the Internet, between internal networks and on application servers, including web servers, and desktop PCs to protect data residing on such servers and PCs. While competing firewall solutions must be installed on dedicated computers, FireWall/Plus can operate on a Windows NT desktop computer or application server without interfering with the normal operation of such desktop computer or server. As a result, the FireWall/Plus security solution can be installed on existing strategic computing resources within the enterprise without incurring the expense of additional computing hardware.

Multi-layer Security. The architecture of Windows NT includes two operating modes, the "user" and "kernel" modes. The FireWall/Plus solution is implemented in kernel mode to maximize performance and to provide maximum security from network intrusion to the operating system environment. Using proprietary kernel-level software code developed by the Company, FireWall/Plus's Interceptor Shim and security filter engine technology introduce a security layer between the network hardware drivers and the Windows NT operating system. FireWall/Plus filters all network traffic before it reaches Windows NT. Incoming data packets enter the network through the network interface card and its associated hardware driver and are immediately passed to the Interceptor Shim, which directs them to the FireWall/Plus filter engine. The filter engine, using a proprietary high-speed, real-time security policy enforcement language, checks the packet and associated packet history against the security rule policy database to determine whether the packet should be allowed to enter the system. The Company believes that FireWall/Plus' multi-layer approach to security strengthens Windows NT by providing a layer of security that filters packets before entering the Windows NT operating system.

Advanced Filtering System. The Company's FireWall/Plus family of products includes an advanced filtering system which currently utilizes stateful inspection and application level filtering technology to provide security for IP-related transport protocols and applications. Stateful filtering

involves the knowledge of states of protocols at specific transaction intervals during the network connection between two communicating applications between specific systems. Transaction states occur at routing, transport, session control and application layers when two programs interoperate with each other over a computer network connection. When these states are defined to FireWall/Plus, FireWall/Plus can take actions on conditions that violate the required or expected stateful actions of one or a simultaneous series of protocols. Most firewalls have been based upon architectures incorporating either packet filtering or proxy application gateway filtering. FireWall/Plus adopts a hybrid approach which incorporates frame, circuit, packet, proxy application and stateful inspection capabilities in the security management of network connections. The Company believes that this hybrid approach allows the Company to offer a firewall product that maximizes security without sacrificing performance.

Multi-Protocol Capability. A unique aspect of FireWall/Plus is its ability to provide multi-protocol filtering not available from network security products offered by other firewall vendors. FireWall/Plus has the advantage of filtering not only TCP/IP, but also a multitude of other network transport protocols. The Company believes that the ability of FireWall/Plus to filter multiple network transport protocols offers significant advantages as a security product for internal networks where multiple network transport protocols are common. FireWall/Plus is capable of utilizing stateful inspection technology for numerous network transport protocols once the various "states" of such protocols are defined to FireWall/Plus. The states of TCP/IP and several other of the more

commonly used protocols are capable of being defined. For those protocols not capable of being defined, FireWall/Plus performs frame, packet and application filtering. In a Windows NT based environment, it is typical for all commonly used multiple network transport protocols to co-exist, as Windows NT comes pre-equipped with TCP/IP, IPX (Novell), NetBEUI (LAN Manager) and AppleTalk. In addition, certain applications require the use of non-IP protocols to operate between subnetworks on a network. FireWall/Plus' multi-protocol filtering capability is also critical in the support of web servers on the Internet, intranets and extranets and other information provision systems that access information stored on mainframe computers via non-IP protocols. While some commercially available routers allow basic packet filtering for multiple protocols, the Company believes its multi-protocol advanced filtering capabilities offer superior features to routing solutions such as a graphical user interface, extensive logging, reporting and alarming and security policy time management.

Transparency. FireWall/Plus may be operated in a transparent mode. In this mode, FireWall/Plus has no network address (i.e. it is not visible on the network) and therefore can not be identified for attack. The Company believes that this feature provides additional security to the operating system because when a firewall has a network address, it can be located and is more susceptible to attack. FireWall/Plus provides firewall protection while operating in transparent mode, except that certain features such as remote management, proxy support and virtual private networking are not functional.

Centralized Management. FireWall/Plus allows for centralized management and monitoring that allows a network manager to manage and monitor a system from a local or remote location. Accordingly, large and geographically dispersed firewalls may be managed from a single location.

Customized Security Policies. FireWall/Plus also allows customized security policies for individual departments, applications and individual systems and personnel within the network. Network managers may apply security rules to any version of the FireWall/Plus products so that individual systems, protocols, applications, frames and many other network entities are either explicitly denied or authorized access to specific applications and other network entities.

Multi-Protocol Encryption Tunnels. Once firewalls are in place at multiple sites on a WAN or the Internet, the ability to establish encrypted communications links over these connections becomes possible, thereby reducing reliance on more costly dedicated telecommunications alternatives. FireWall/Plus provides for integrated data encryption to protect communications over the Internet and other public networks from unauthorized access. Encryption tunnels, known as virtual private networks ("VPNs"), may be set up for any Windows NT based protocol to protect communications between different locations of an organization's internal network or between different locations and selected customers, suppliers or strategic partners. FireWall/Plus extends this ability such that VPNs may be formed between locations across the Internet irrespective of the transport protocol being tunneled. The Company currently resells VPN client solutions from Aventail Corporation in conjunction with FireWall/Plus.

Proxy Support. Proxy based firewalls filter network traffic by running a separate software program that acts as a proxy for each application to be allowed through the firewall. These firewall solutions require the customer to purchase the proxies supplied by the vendor for the applications supported by the vendor's architectural model. As a result, the customer may not find all the required application proxies from a specific firewall vendor for all the application suites being used or may find that the proxies offered by the firewall vendor are not sufficient to support all the required security needs.

FireWall/Plus includes several popular proxies in addition to frame, circuit, packet, application and stateful inspection capabilities. These proxies implement popular features for specific application types such as HTTP and FTP. The Company currently licenses HTTP and FTP proxies from Network Associates, Inc. FireWall/Plus also allows the use of other third-party proxies in conjunction with or in lieu of proxies offered by the Company. FireWall/Plus' architecture allows the Company to partner and include external or third-party

proxies quickly and easily to suit a variety of security requirements. Additionally, custom-written proxies for a client-server architecture at a customer site may easily be added to the FireWall/Plus system by adjusting security policy rule sets in the firewall database.

Ease of Use. FireWall/Plus was designed to be easily installed, configured and managed by a network manager with minimal or no security skills. FireWall/Plus may be installed and configured by use of the intuitive graphical user interface ("GUI") by simply pointing and clicking the mouse. To facilitate implementation, FireWall/Plus comes pre-programmed with a wide variety of frequently used default security policies which require the customer to simply select one of the rule-bases and save the selection. FireWall/Plus does not utilize significant server resources and may therefore co-exist on the same server with other software applications on Windows NT. Unlike many other competitive firewall products offered today, FireWall/Plus need not run on a separate dedicated server.

Products

The Company's family of FireWall/Plus products offers a broad range of network security solutions. The FireWall/Plus family of products includes the FireWall/Plus Enterprise Version, FireWall/Plus Server Version and FireWall/Plus Desktop Version. The Company is currently shipping FireWall/Plus Version 4.03. The Company first introduced the FireWall/Plus Enterprise Version for Windows NT in January 1997. As of June 30, 1998, the Company had licensed one or more of its FireWall/Plus family of software products to over 150 customers. License revenue from FireWall/Plus products accounted for 43%, 60% and 58% of the Company's revenues for the years ended December 31, 1996, 1997 and the three months ended March 31, 1998, respectively, reflecting the Company's emphasis on the development and marketing of software products rather than consulting services.

FireWall/Plus Enterprise Version. The FireWall/Plus Enterprise Version secures an organization's internal network against unwarranted intrusions from the Internet and is also used between major internal network components as well as between general access internal networks and special purpose networks such as process control, real-time and other sensitive access networks. The FireWall/Plus Enterprise Version includes extensive centralized and remote security management facilities, predefined security policy rules, multiprotocol VPN capabilities, authentication and encryption facilities, real time connection management and proxy services. The FireWall/Plus Enterprise Version supports Intel processors and Digital Equipment Corporation Alpha processors that support Windows NT. The FireWall/Plus Enterprise Version is available in scaleable models to support varying numbers of simultaneous connections for small to mid-size companies and in an unlimited session version, as well as a high-speed version. Additionally, the FireWall/Plus Enterprise Version is also available in a Premier Version which includes the software installed on a high speed Alpha server running Windows NT. Based on the number of concurrent connections, the nature of the user's operating system and whether hardware is needed, the FireWall/Plus Enterprise Version is currently priced to end users between $3,750 and $20,000 for software only versions and from $27,500 to $30,000 for Premier Versions, which include hardware and onsite technical support.

FireWall/Plus Server Solution. The FireWall/Plus Server Version is designed to improve internal security of a LAN or Intranet or to protect highly sensitive systems such as key escrow facilities, web servers, digital certificate servers, database servers, authentication servers, etc. As a server firewall, this solution provides protection against unauthorized access to network resources by internal users, where security breaches often originate. The FireWall/Plus Server Version co-exists on the server being protected and resides between the network users and the protected data. FireWall/Plus Server Version treats all information on the server as secure and guarded, while treating network connections to the server as unsecure. FireWall/Plus can then be configured using the FireWall/Plus GUI to allow access to certain users, to specific applications, during designated times and under a variety of conditions. The FireWall/Plus Server Version incorporates all of the major features contained in the FireWall/Plus Enterprise Version. Any other applications including web, file and print services, may be run simultaneously on the server with the

FireWall/Plus Server Version installed and operating. The FireWall/Plus Server Version is currently priced to end users at $1,995.

FireWall/Plus Desktop Solution. The FireWall/Plus Desktop Version is a full featured firewall which has been specifically tailored to protect data residing on Windows NT workstations without disrupting current system operations. These workstations can run applications while the firewall maintains a high level of security. When a network attack is detected, it is immediately defeated prior to the attack being able to access the NT Workstation. The FireWall/Plus Desktop Version is designed to protect sensitive individual desktop computers (such as a network control station, a corporate executive's personal computer or the human resources personnel system) or telecommuter systems where high speed remote access lines are used (such as cable modems, ADSL and ISDN). The FireWall/Plus Desktop Version is currently priced to end users at $995.

Customers

The Company's customers represent a wide range of industries, both commercial and government, which consider networked-data resources to be among the most important assets within their organizations. As of June 30, 1998, the Company had licensed one or more of its FireWall/Plus family of products to over 150 customers. Customers for the FireWall/Plus products include The Sabre Group Inc., Electronic Data Systems Corporation ("EDS"), Trusted Information Systems, Inc., TRW, Inc., United Technologies, Inc., National Semiconductor Corp., Fairchild Semiconductor, ARCO, GTE, Inc., and Continental Airlines. During the year ended December 31, 1997, Trusted Information Systems, Inc. and EDS accounted for approximately 21% and 14% of the Company's revenues, respectively.

Examples of the varied uses of the Company's products by customers include:

/ / An industry leading system integrator uses both the Enterprise and Server Versions of FireWall/Plus to secure access and communications to and from its facilities management personnel and their customers to manage the networks of one of the largest telecommunications companies. The FireWall/Plus Enterprise Versions are used as perimeter defenses on the company's internal backbone, which supports more than 900 outside clients, while the FireWall/Plus Server Versions are used to protect key internal components on the customer's internal network.

/ / A leading travel service company utilizes FireWall/Plus' high speed Premier Versions to protect one of the busiest websites on the Internet. Multiple firewalls are also being used internally to securely filter DECnet, which is the prevalent network transport protocol used in addition to TCP/IP, between various segments of the internal network. Additionally, this customer has begun to install multiple FireWall/Plus versions at its customers' sites.

/ / A worldwide petrochemical company currently uses FireWall/Plus Enterprise Version to secure data at multiple sites from internal and external breaches. Disparate protocols, including IP and Novell's IPX, are securely and routinely sent from multiple data centers (each using FireWall/Plus) throughout the country to a center of operations while FireWall/Plus insures the integrity of the data.

The Company believes that the FireWall/Plus security solution is a scaleable product which satisfies customers' needs to secure the perimeter and internal resources within their organizations. The Company further believes that currently available IP Firewalls are not as flexible with respect to both internal and external security as the FireWall/Plus solution.

During the years ended December 31, 1996 and 1997 and the three months ended March 31, 1998, license revenue from international customers (licenses to foreign end users and international distributors) accounted for 6.7%, 15.6% and 2.7% of the Company's revenues, respectively. All of the Company's revenues from

international licenses were denominated in U.S. dollars. The Company anticipates that revenues from international customers will account for an increasing percentage of the Company's revenues in the future.

Sales and Marketing

The Company is in the process of implementing a sales and marketing plan which consists of a multi-channel distribution strategy and a promotion strategy to create consumer awareness of the Company and its FireWall/Plus products and to educate the market about the need to implement network security products and of the capabilities and benefits of the Company's FireWall/Plus products.

Multi-Channel Distribution

In-House Sales Force. The Company's internal sales force consists of three persons, consisting of a Vice President of Sales of North America and two sales representatives. The Company's sales representatives are responsible for soliciting potential customers and providing technical support to customers, as well as supporting third-party distribution channels. To date, the Company's internal sales force has not undertaken significant marketing efforts relating to product commercialization.

Following the consummation of this offering, the Company intends to retain a Vice-President of International Sales to oversee the Company's international sales and marketing efforts and a limited number of additional sales representatives in connection with the expansion of the Company's marketing efforts. Although the Company's in-house sales force will continue to solicit potential customers, its primary responsibility is expected to be supporting third-party distribution channels.

Third-Party Distribution Channels. A key element of the Company's distribution strategy is to establish and maintain relationships with third-party distributors within the United States and internationally. By engaging such third-party distributors, the Company is able to utilize the end-user sales and support infrastructure of these channels.

The Company currently has relationships with 22 national, regional and local systems integrators, VARs and resellers in the United States, including EDS, Wang Laboratories, Inc. and BDM International, Inc. In November 1997, the Company entered into a Master Software License Agreement with EDS pursuant to which EDS has the non-exclusive right on a worldwide basis to use, market and distribute the Company's Fire Wall/Plus family of products including the right to promote and resell such products in conjunction with providing systems integration, outsourcing or facilities

management services to its customers. The Company also currently has relationships with international system integrators, VARs, resellers and distributors in 25 countries, including Japan, Germany, Canada, United Kingdom, Republic of China, Hong Kong, Russia, Taiwan, Korea, Singapore, Malaysia, Indonesia, Thailand and Turkey.

The Company's agreements with distributors generally grant the distributor the right to market the Company's products in specified territories on a non-exclusive basis, are terminable on short notice and do not prohibit the distributor from selling products that are competitive with the Company's products.

The Company intends to continue to seek to establish relationships with additional third-party distributors, principally larger system integrators and VARs with the necessary resources to successfully distribute the Company's Fire Wall/Plus products. For the year ended December 31, 1997, Trusted Information Systems, Inc. ("TIS") and EDS accounted for 21% and 14%, respectively, of the Company's revenues and for the three months ended March 31, 1998, The Sabre Group, Inc. and Omnicon Systems, Inc. accounted for 24% and 13%, respectively, of the Company's revenues. The Company's five largest distributors accounted for an aggregate of approximately 28% and 40% of the Company's revenues for the year ended December 31, 1997 and the three months ended March 31, 1998, respectively.

The Company also seeks to enter OEM or licensing arrangements whereby the Company grants to an OEM or other third party the right to incorporate and/or bundle a specific technology of the Company with the OEM's or other third-party's products. In June 1997, the Company entered into a license agreement with TIS, which was subsequently acquired by Network Associates, Inc., pursuant to which the Company licensed to TIS which was on a non-exclusive basis the right to incorporate and/or bundle the Company's Interceptor Shim software with TIS' family of Gauntlet(TM) firewall products. The Company receives a royalty based upon TIS sales, of which $500,000 was paid to the Company as a non-refundable pre-paid royalty. As a result of such pre-paid royalty, license revenue from TIS accounted for 21% of the Company's revenues for the year ended December 31, l997.

The Company expects that its arrangements with third-party distributors and OEMs will account for an increased percentage of its product sales in the future.

Advertising and Promotion

Following the consummation of the offering, the Company intends to implement an advertising and promotion strategy to create consumer awareness of the Company and its FireWall/Plus products and to educate the market about network security threats and FireWall/Plus's ability to address customers' needs. To date, the Company has engaged in limited advertising and promotion of its products through its website, trade publication and published product reviews. The Company intends to use a portion of the proceeds of this offering to advertise and promote its products through print advertising, Internet website advertising, direct marketing efforts and participation in trade shows and seminars which target organization security and management information system administrators and network system integrators.

The Company's website, www.network-1.com, which includes a description of the Company's FireWall/Plus family of products and enables visitors to the site to download a 50-session FireWall/Plus Enterprise Version for a 30-day trial. The Company intends to use a portion of the proceeds of this offering to add content to the website, such as product information, including a user guide, network security industry information and additional content specific to distributors and end users; improve download capabilities for the trial version; and enable purchases via the website.

Consulting

The Company has designed, planned, audited and implemented numerous networks worldwide for a broad spectrum of clients, including Fortune 500 companies, small companies with modest requirements, federal, state and foreign governments and utilities, as well as education and research institutions. Mr. William Hancock, the Company's Chief Technology Officer and a director, is an industry expert who has authored networking and security books and has been a featured columnist as well as a network and security editor for a number of industry journals. The Company intends to expand its consulting activities following the consummation of this offering by utilizing the expertise of Mr. Hancock to create opportunities for consulting through speaking engagements at industry conferences, seminars and trade shows.

Historically, the Company has offered a wide range of consulting services designed to provide solutions to networking and security problems. Such consulting services have included network surveys, network designs and traffic modeling, security penetration studies, security breach investigation, network and computer forensics services, hacker prosecutions (in connection with federal and local law enforcement agencies) and network security technical audits among other services. The Company generally provides its consulting clients with a comprehensive report containing detailed findings and recommendations. The Company offers its consulting services on a per hour or per project basis.

The Company's consulting clients have included, among others, EDS, MCI Communications Corp., Kraft General Foods, Inc., Alcoa Aluminum Company of America, TIA-CREF, Southwestern Bell Telephone Co., Chemical Bank Corp., Hewlett Packard Co., American Airlines, Inc., Bechtel Corporation, ARINC, ARCO Chemical

Company, United Technologies Sikorsky Aircraft, Bowne, Inc., and the U.S. Government, including The Environmental Protection Agency.

Consulting services generated 24%, 21% and 27% of the Company's revenues for the years ended 1996 and 1997 and the three months ended March 31, 1998, respectively. The Company expects that consulting services will account for a decreasing percentage of revenue as the Company continues to focus its efforts on developing and marketing its network security software products.

Customer Service and Support

The Company believes that customer service and support is critical to retaining customers and attracting prospective customers. The Company provides customer service and support through its internal technical support staff of 5 persons located at its Grand Prairie, Texas office. Customers receive a 90-day warranty, which includes technical assistance and product updates. To date, the Company has not incurred any material warranty expense. Following the expiration of the 90-day warranty, customers can elect to purchase the Company's annual maintenance program at an average

annual cost of 15% of the then current purchase price. The maintenance program includes technical assistance and support, product updates and general information relating to product introductions and changes. Technical support is available 24 hours a day, 7 days a week, by telephone and electronic mail. In addition, the Company provides customers with fee-based on-site installation, support and training. The Company provides its resellers with sales and technical support.

Product Development

The Company believes that development of new products and enhancements to existing products are essential for the Company to effectively compete in the network security market. The Company's product development efforts are directed toward enhancing its FireWall/Plus family of security products, developing new products and responding to emerging industry standards and other technological changes. The Company intends to expand its existing product offerings and to introduce new application products for the network security market. The Company's new product development efforts are focused on enhancements to the Company's current suite of products and new network security products, including products that support Windows 95/98 operating systems. While the Company expects that certain of its new products will be developed internally, the Company may, based on timing and cost considerations, expand its product offerings through acquisitions. In addition, the Company has relied and will continue to rely on external development resources for the development of certain of its products and components.

The Company currently has 10 employees devoted to research and product development. However, historically, a substantial portion of the Company's research and development activities have been undertaken by engaging third-party consultants and independent contractors. During the years ended December 31, 1996 and 1997 and three months ended March 31, 1998, the Company's product development expenses were $984,000, $917,000 and $208,000, respectively.

The Company intends to hire and retain approximately 17 additional software engineers and developers on a full-time basis within twelve months following the consummation of this offering and has allocated approximately $2,100,000 of the net proceeds of this offering to software development.

The network security industry is characterized by rapid technological change, changes in customer requirements, frequent new product introductions and enhancements, new and continuously evolving network security threats and attack methodologies and evolving industry standards in computer hardware and software technology. As a result, the Company must continually change and improve its products in response to such advances and changes in operating systems, application software, computer and communications hardware, networking software, programming tools and computer language technology. The introduction of products embodying new technologies and the emergence of new industry standards may render existing products obsolete or unmarketable.

The Company's future operating results will depend upon the Company's ability to enhance its current products and to develop and introduce new

products on a timely basis that address the increasingly sophisticated needs of the marketplace and that keep pace with technological developments, new competitive product offerings and emerging industry standards. There can be no assurance that the Company will be successful in developing and marketing new products or product enhancements that respond to technological change and evolving industry standards and customer requirements, that the Company will not experience difficulties that could delay or prevent the

successful development, introduction and marketing of these products, or that any new products and product enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. In the event that the Company does not respond adequately to the need to develop and introduce new products or enhancements of existing products in a timely manner in response to changing market conditions or customer requirements, the Company's business, operating results and financial condition will be materially adversely affected.

Competition

The network security market in general, and the firewall product market in particular, is characterized by intense competition and rapidly changing business conditions, customer requirements and technologies. The Company believes that the principal competitive factors affecting the market for network security products include security effectiveness, name recognition, scope of product offerings, product features, distribution channels, price, ease of use and customer service and support. Currently, the Company's principal competitors include AXENT Technologies Inc., Bay Networks, Inc., CheckPoint Software Technologies, Ltd., Cisco Systems, Inc., Compaq Computer Corporation, Cyberguard Corp., International Business Machines Corporation, ISS Group, Inc., Microsoft Corporation, Network Associates, Inc. and Secure Computing Corporation. Due to the rapid expansion of the network security market, the Company may face competition from new entrants.

Most of the Company's current and potential competitors have longer operating histories, greater name recognition, larger installed customer bases and possess substantially greater financial, technical and marketing and other competitive resources than the Company. As a result, the Company's competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the promotion and sale of their products than the Company. While the Company believes that its firewall products do not compete against manufacturers of other types of security products (such as encryption and authentication products), there can be no assurance that potential customers will not perceive the products of such other companies as substitutes for the Company's products. In addition, certain of the Company's competitors may determine for strategic reasons to consolidate, to substantially lower the price of their network security products or to bundle their products with other products, such as hardware or other enterprise software products. Accordingly, it is possible that new competitors and alliances among competitors may emerge and rapidly acquire significant market share. There can be no assurance that the Company's current and potential competitors will not develop products that may be more effective than the Company's current or future products or that the Company's products would not be rendered obsolete or less marketable by evolving technologies or changing consumer demands or that the Company will otherwise be able to compete successfully. Increased competition for firewall products may result in price reductions, reduced gross margins and adversely effect the Company's ability to gain market share, any of which would adversely affect the Company's business, operating results and financial condition.

Proprietary Rights

The Company's success is substantially dependent on its proprietary technologies. The Company does not hold any patents and relies on copyright and trade secret laws, non-disclosure agreements with employees, distributors and customers, including "shrink wrap" license agreements that are not signed by the customer, and technical measures to protect the ideas, concepts and documentation of its proprietary technologies and know-how to protect its intellectual property rights. Such methods may not afford complete protection, and there can be no assurance that third parties will not independently develop

substantially equivalent or superior technologies or obtain access to the Company's technologies, ideas, concepts and documentation. In addition, there can be no assurance that any confidentiality agreements between the Company and its employees, distributors or customers will provide meaningful protection for the Company's proprietary information in the event of any unauthorized use or disclosure. Any inability to protect its proprietary technologies could have a material adverse effect on the Company. Furthermore, the Company may be subject to additional risk as it enters into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protection of the Company's rights may be ineffective in such countries.

The Company also licenses from a third party certain proxy technology which is incorporated into its FireWall/Plus products. The Company is dependent in part on its ability to continue to license such technology. Any inability of the Company to be able to continue to utilize such technology either as a result of the Company's breach or the termination of a license agreement or otherwise, in the absence of similar available technologies, could have a material adverse effect on the Company.

The Company received a U.S. trademark registration for the FireWall/Plus name in December 1996. Although the Company is not aware of any challenges to the Company's rights to use this trademark, there can be no assurance that the use of this mark would be upheld if challenged.

Although the Company believes that its technologies and products have been developed independently and do not infringe upon the proprietary rights of others, there can be no assurance that the Company's technologies and products do not and will not so infringe or that third parties will not assert infringement claims against the Company in the future. The Company is not aware of any patent infringement charge or any violation of other proprietary rights claimed by any third party relating to the Company or the Company's products. In response to certain public statements made by CheckPoint Software Technologies, Ltd. related to a patented technology referred to as "stateful inspection" (the "Checkpoint Patent"), the Company retained patent counsel in April 1997 to review the Checkpoint Patent as compared to the Company's intellectual property and associated products. Based upon the opinion of the Company's intellectual property counsel, the Company does not believe that the CheckPoint Patent will have a material adverse effect on the Company. If, however, the Company's technologies or products were deemed to infringe upon the Checkpoint Patent, or if the Company's technologies or products were deemed to infringe upon the proprietary rights of other third parties, the Company could become liable for damages or be required to modify its products or to obtain a license.

As the number of security products being offered continue to increase the functionality of such products may further overlap, which could result in increased infringement claims by software developers, including infringement claims against the Company with respect to future products. There can be no assurance that the Company would be able to modify its products or obtain a license in a timely manner, upon acceptable terms and conditions, or at all, or that the Company will have the financial or other resources necessary to defend a patent infringement or other proprietary rights infringement action. Failure to do any of the foregoing could have a material adverse effect on the Company, including possibly requiring the Company to cease marketing its products.

CommHome Systems Corp. Acquisition

Prior to the consummation of this offering, the Company will enter into a merger agreement with CommHome Systems Corp. ("CommHome"), effective upon consummation of this offering, pursuant to which the CommHome stockholders have agreed to exchange all of the outstanding common stock of CommHome for 35,000 shares of Common Stock of the Company. Pursuant to the merger agreement, the Company has agreed to assume up to $200,000 of liabilities of CommHome, which include $55,000 and $50,000 owed to Avi A. Fogel and Robert P. Olsen, respectively. Messrs. Fogel and Olsen have agreed to accept 6,875 and 6,250 shares of Common Stock, respectively, in full satisfaction of such indebtedness. Mr. Fogel, President, Chief Executive Officer and a director of the Company, is also President, Chief Executive Officer and owns 51% of the outstanding shares of CommHome. Mr. Olsen, Vice President of Product Management of the Company, is the former Vice President of Marketing of CommHome. See "Certain Transactions."

CommHome, incorporated in June 1997, is a development stage company engaged in the design and development of residential networking solutions for high speed Internet access to the home. CommHome's designs are intended to provide easy access to the Internet throughout the home. These solutions include secure connections to high speed networking technologies, such as ADSL and cable modem technology, and easy distribution at all phone connections. It is currently expected that CommHome's designs will be incorporated into the Company's future security products.

Employees

As of June 30, 1998, the Company had 22 full time employees, including 5 in sales and marketing, 10 in product research and development and technological support and 7 in administration and finance. None of the Company's employees is represented by a labor union or is subject to a collective bargaining agreement. The Company has not experienced any work stoppages and considers its relationship with its employees to be good.

Competition with respect to the recruiting of highly qualified personnel in the software industry is intense and many of the Company's competitors have significantly greater resources than the Company. The Company's ability to attract and assimilate new personnel will be critical to the Company's performance and there can be no assurance that the Company will be successful in attracting or retaining the personnel it requires to enhance its products, develop new products and conduct its operations successfully.

Facilities

The Company currently subleases on an interim basis approximately 400 square feet of office space in Wellesley Hills, Massachusetts for its principal executive offices. Following the consummation of this offering, the Company intends to lease new principal executive offices in the Boston, Massachusetts area. The Company's technical support, warehouse and distribution facilities are located in Grand Prairie, Texas, where the Company leases approximately 7,500 square feet pursuant to a written lease which expires on July 31, 1999. The Company also leases approximately 4,500 square feet of office space in New York, New York under a sublease that expires on September 29, 1998 which the Company does not intend to renew.

Legal Proceedings

The Company is not a party to any material legal proceedings.

MANAGEMENT

Executive Officers and Directors

The executive officers and directors of the Company are as follows:

<TABLE>
<CAPTION>

Name	Age	Position
<S>	<C>	<C>
Avi A. Fogel	44	President, Chief Executive Officer and Director
William Hancock	41	Chief Technology Officer and Director
Robert P. Olsen	44	Vice President of Product Management
Murray P. Fish	47	Chief Financial Officer
Peter Mearsheimer	45	Vice President of North American Sales
Joseph A. Donohue	43	Vice President of Engineering
Robert M. Russo	47	Vice President of Business Development and Secretary
Corey M. Horowitz	43	Chairman of the Board of Directors
Marcus J. Ranum	35	Director

</TABLE>

Avi A. Fogel has served as President, Chief Executive Officer and a

director since May 1998. From March 1998 until May 1998, Mr. Fogel served as a consultant to the Company. From June 1997 until the consummation of this offering, Mr. Fogel served as President and Chief Executive Officer of CommHome, a development stage company engaged in the business of developing residential networking solutions, which he co-founded in June 1997. From January 1997 to June 1997, Mr. Fogel was engaged pre-incorporation activities related to CommHome. Effective upon the consummation of this offering, CommHome will be acquired by the Company. From October 1995 to December 1996, Mr. Fogel was employed by Digital Equipment Corp. as Vice President, Global Marketing. From July 1994 to October 1995, Mr. Fogel was Executive Vice President, Global Marketing and Business Development of LANNET Data Communications, Ltd., a manufacturer of LAN switching hubs located in Tel Aviv, Israel. From July 1990 to July 1994, Mr. Fogel served as President and Chief Executive Officer of LANNET, Inc., the U.S. subsidiary of LANNET Data Communications, Ltd.

William Hancock co-founded the Company and has served as its Chief Technology Officer since May 1998 and as a director since inception. Since inception until May 1998, Dr. Hancock served as Executive Vice President and Secretary. Mr. Hancock is a leading international expert in computer and network design and security with over 20 years of experience in computer science, network technologies and electrical engineering. From June 1982 to July 1990, Mr. Hancock was an independent computer and networking consultant to Fortune 500 companies, including Digital Equipment Corporation, AT&T and IBM. Mr. Hancock participated in the operating system and network design teams at both Digital Equipment Corporation and IBM. He was instrumental in the design and selection of the Integrated System Digital Network plug connector and is the author of

the implementation of the RSA encryption algorithm for the CCITT X.32 network standard. Mr. Hancock has been involved in the architecture and writing of the networking and security standards for the International Organization for Standardization. Mr. Hancock is a Certified Information Systems Security Professional.

Robert P. Olsen has served as Vice President of Product Management since May 1998. From March 1998 until May 1998, Mr. Olsen served as a consultant to the Company. From July 1997 to December 1997, Mr. Olsen served as Vice President of Marketing of CommHome. From July 1996 to July 1997, Mr. Olsen was Vice President of Marketing for Netphone, Inc., a developer of computer servers. From December 1991 to June 1996, Mr. Olsen was Vice President of Marketing for Agile Networks, Inc., a company engaged in the design manufacturing, marketing and support of ethernet and ATM switches, which he co-founded.

Murray P. Fish has served as Chief Financial Officer since May 1998. From August 1997 to May 1998, Mr. Fish was an independent financial consultant. From April 1991 to August 1997, Mr. Fish served as President, Chief Executive Officer and a director of RealWorld Corporation, a manufacturer of accounting software. From March 1989 to April 1991, Mr. Fish served as Vice President and Controller of Goldman Financial Group, Inc., a manufacturer of chemical and machine tools.

Peter Mearsheimer has served as Vice President of North American Sales since May, 1998 and Vice President of Sales from April 1996 to May 1998. Mr. Mearsheimer was employed by Wall Data Incorporated, a network software company, as the Eastern Area Sales Manager from April 1993 to March 1996. From January 1991 to March 1993, Mr. Mearsheimer served as a Regional Sales Manager for Eicon Technology, Inc., a company engaged in the network software business.

Joseph A. Donohue has served as Vice President of Engineering since July 1998. From April 1987 to July 1998, Mr. Donohue was employed by Stratus Computer Inc., having held the positions of Director - Windows/NT Software Development from November 1997 to July, 1998, Director - Proprietary OS from July 1994 to November 1997 and Manager - Kernel Development July 1993 to July 1994. From April 1987 to July 1993, Mr. Donohue served Status Computer, Inc. in various engineering positions.

Robert M. Russo co-founded the Company and has served as Vice President of Business Development and Secretary since May 1998. Mr. Russo served as President and a director of the Company from inception until May 1998, and as Chief Operating Officer of the Company from December 1993 to May 1998. From May 1987 to June 1990, Mr. Russo served as Vice President of Sales and Marketing of Essential Resources, Inc., a computer consulting and training company. From December 1979 to February 1987, Mr. Russo served as President of the North

American Division of H&M Systems Software, Inc., a software developer.

Corey M. Horowitz became Chairman of the Board of Directors of the Company in January 1996 and has been a member of the Board of Directors since April 1994. Mr. Horowitz is a private investor and President and sole shareholder of CMH Capital Management Corp., a New York investment advisory and merchant banking firm, which he founded in September 1991. 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. From July 1984 to

December 1985, Mr. Horowitz was a general partner at Lafer Amster & Co., an investment partnership. From August 1980 to June 1984, Mr. Horowitz was an associate at the New York law firm of Skadden, Arps, Slate, Meagher & Flom.

Marcus J. Ranum has served as a director of the Company since June 1998. Mr. Ranum currently serves as President and Chief Executive Officer of Network Flight Recorder, Inc., a development stage networking software company which he founded in March of 1996. From October 1994 to February 1996, Mr. Ranum has served as Chief Scientist and Executive Manager of V-One Corporation, a company engaged in the development and marketing of network security products. From June 1994 to October 1994, he served as a consultant in network security, software analysis and testing, software development and related matters. From November 1992 to June 1994, he served as Senior Scientist of Trusted Information Systems, Inc. From August 1991 to November 1993, Mr. Ranum served as a consultant to Digital Equipment Corporation.

All Directors serve until the next annual meeting of stockholders and the election and qualification of their successors. Executive officers are elected by, and serve at the discretion of, the Board of Directors. Corey M. Horowitz was elected a director pursuant to a stockholders' agreement which provided that certain principal stockholders agreed to vote their shares to elect Mr. Horowitz to the Board of Directors. The stockholders' agreement terminates upon the effective date of the offering. There are no family relationships among any of the Company's directors or executive officers.

The Company has agreed, for a period of five years from the date of this Prospectus, if so requested by the Underwriter, to nominate and use its best efforts to elect a designee of the Underwriter as a director of the Company or, at the Underwriter's option, as a non-voting advisor to the Company's Board of Directors. The Company's officers, directors and principal stockholders have agreed to vote their shares of Common Stock in favor of such designee. The Underwriter has not yet exercised its right to designate such a person.

Board Committees

Prior to the date of this Prospectus, the Board of Directors intends to establish an Audit Committee and a Compensation Committee. The Audit Committee will review the qualifications of the Company's independent auditors, make recommendations to the Board of Directors regarding the selection of independent auditors, review the scope, fees and results of any audit, and review non-audit services and related fees provided by the independent auditors.

The Compensation Committee will be responsible for determining compensation for the executive officers of the Company, including bonuses and benefits, and will administer the Company's compensation programs, including the Stock Option Plan.

The Board of Directors does not have a nominating committee. The selection of nominees for the Board of Directors is made by the entire Board of Directors. The Board of Directors may from time to time establish other committees to facilitate the management of the Company.

Director Compensation

To date, directors of the Company have received no cash compensation for their services as directors. The Company does not currently compensate directors who are also employees of the Company for service on the Board of Directors. All Directors are reimbursed for their expenses incurred in attending meetings of

the Board of Directors and its committees. Each non-employee director first joining the Board of Directors in the future will be granted an option to purchase 20,000 shares of Common Stock when such director is first elected or appointed to the Board of Directors, with the option shares vesting over a one year period in equal quarterly amounts, under the Stock Option Plan. In addition, each non-employee director will receive an automatic option grant to purchase 5,000 shares of Common Stock on each year anniversary that such director is a member of the Board of Directors with the option shares vesting over a one year period in equal quarterly amounts, under the Stock Option Plan. All option grants to non-employee directors will be at a per share exercise price equal to the fair market value of the Common Stock at the time of grant. See "Management -- Stock Option Plan."

Advisory Board

In March 1996, the Board of Directors established an advisory board (the "Advisory Board"). The following persons serve on the Advisory Board:

Irwin Lieber has served as President and Chief Executive Officer of GeoCapital LLC, a registered investment adviser since 1979. He is also a general partner of Applewood Associates, L.P., a principal stockholder of the Company, and 21st Century Communications Partners, L.P., each of which is an investment partnership. Mr. Lieber is also a member of Wheatley Partners, LLC, the general partner of Wheatley Partners, L.P. and a general partner of Wheatley Foreign Partners, both of which are investment partnerships. From June 1985 to February 1994, Mr. Lieber served as a director of Cheyenne Software, Inc. Mr. Lieber currently serves as a director of Learonal, Inc., a public company, and serves as a director of several private technology corporations.

Barry Rubenstein, a principal stockholder of the Company, is a general partner of Applewood Associates, L.P., Seneca Ventures and Woodland Venture Fund, all of which are investment partnerships and stockholders of the Company. Mr. Rubenstein is a member of Wheatley Partners LLC, the general partner of Wheatley Partners, L.P. and a general partner of Wheatley Foreign Partners, L.P., both of which are investment partnerships. In addition, he is a principal of a general partner of the 21st Century Communications Partners, L.P., which is also an investment partnership. Prior to his experience as an investor, Mr. Rubenstein also served as a co-founder of several technology companies, including Applied Digital Data Systems, Inc., Cheyenne Software, Inc. and Novell, Inc. Mr. Rubenstein is a director of Infonautics, Inc., The Milbrook Press, Inc., Source Media Inc., and USWeb Corporation as well as several private technology companies.

Eli Oxenhorn was Chairman of the Board of Cheyenne Software, Inc. from October 1986 to May 1994. He was also President and Chief Executive Officer of Cheyenne Software, Inc. from October 1986 to October 1993. He is currently a private investor and consultant.

In consideration of their serving on the Advisory Board, in March 1996, the Company issued to each of Messrs. Lieber, Oxenhorn and Rubenstein warrants to purchase 31,040 shares of the Company's Common Stock at an exercise price of $6.44 per share and 31,040 shares of the Company's Common Stock at an exercise price of $9.66 per share.

Executive Compensation

The following table sets forth the compensation paid by the Company in all capacities during the year ended December 31, 1997 to its then President and Chief Operating Officer and to each of its executive officers whose compensation for such year exceeded $100,000 (the "Named Executive Officers").

Summary Compensation Table

<TABLE>
<CAPTION>

			Long Term Compensation	
	Annual Compensation		Awards	
			Shares	

Name and Principal Position(4)	Year Ended December 31,	Salary ($)	Bonus ($)	Underlying Options (#)	All Other Compensation
<S>	<C>	<C>	<C>	<C>	<C>
Robert Russo, President and Chief Operating Officer	1997	$145,000(1)	--	--	--
William Hancock, Executive Vice President	1997	160,000(2)	--	--	--
Peter Mearsheimer, Vice President of Sales	1997	155,000(3)	--	21,728	--

(1) Includes $51,692 of deferred salary.

(2) Includes $6,154 of deferred salary.

(3) Includes $5,962 of deferred salary.

(4) Does not include the following executive officers who were employed by the Company beginning in 1998 and are receiving annual compensation in excess of $100,000: Avi A. Fogel, President and Chief Executive Officer, Robert P. Olsen, Vice President of Product Management, Murray P. Fish, Chief Financial Officer and Joseph A. Donohue, Vice President of Engineering. See "Management-- Employment Agreements."

The following table provides information relating to stock options awarded to each of the Named Executive Officers during the year ended December 31, 1997. All such options were awarded under the Stock Option Plan.

<TABLE>
<CAPTION>

Option Grants in 1997				
Name	Number of Shares Underlying Options Granted	% of Total Option Granted to Employees in 1997(1)	Exercise Price Per Share (2)	Expiration Date
<S>	<C>	<C>	<C>	<C>
Peter Mearsheimer	3,104	2%	$6.44	5/12/2006
	18,624	15%	$4.83	9/15/2007

</TABLE>

(1) The number of options granted to employees during 1997 used to compute this percentage excludes options to purchase 79,152 shares of Common Stock due to the termination of such options pursuant to their terms.

(2) Options were granted at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant, as determined by the Board of Directors.

Employment Agreements

On May 18, 1998, the Company entered into an employment agreement with Avi A. Fogel, pursuant to which Mr. Fogel serves as the Company's Chief Executive Officer and President for a four year term at an annual base salary of $150,000 per year subject to annual increases in base salary of up to 20% at the discretion of the Compensation Committee of the Board of Directors. Mr. Fogel is eligible to receive an additional cash bonus of up to $50,000 as determined by the Board of Directors in its discretion. In addition, upon execution of his employment agreement, Mr. Fogel received five year options to purchase 294,879 shares of the Company's common stock at an exercise price of $2.42 per share. The options granted to Mr. Fogel vested as to 34% of the shares covered thereby at the time of execution of his employment agreement and vest as 22% of the

shares covered thereby on each of the first three anniversaries thereafter, subject to acceleration upon a change of control of the Company. In the event Mr. Fogel's employment agreement is terminated "other than for cause" (as defined in the agreement), he shall be entitled to (i) the vesting of all options in the year of termination and 50% of the options that would have vested in the year following termination and (ii) the lesser of one year's base salary or the base salary for the balance of the term of the agreement. Mr. Fogel has agreed not to disclose any confidential information of the Company during the term of his employment or at any time thereafter or to compete with the Company during the term of his agreement and for a period of two years thereafter in the event of termination for cause.

On June 30, 1998, the Company entered into an employment agreement with Mr. William Hancock pursuant to which Mr. Hancock agreed to continue to serve as the Company's Chief Technology Officer for a three year term at an annual salary of $160,000 per annum, subject to additional bonus compensation as determined by the Compensation Committee of the Board of Directors in its discretion. In the event Mr. Hancock's employment is terminated for cause (as defined in the agreement), the Company will have the right to repurchase 50% of the securities owned by him at the time at a purchase price of $1.00 per share. In the event Mr. Hancock's employment agreement is terminated "other than for cause" (as defined in the agreement), he shall

be entitled to receive the lesser of six months base salary or the base salary for the balance of the term of the term of the agreement. Mr. Hancock has agreed not to disclose any confidential information of the Company during the term of his employment or at anytime thereafter or to compete with the Company during the term of his agreement and for a period of two years thereafter in the event of termination for cause.

On May 18, 1998, the Company entered into an employment agreement with Robert P. Olsen pursuant to which Mr. Olsen agreed to serve as the Company's Vice President of Product Management for a three year term at an annual salary of $120,000 per annum, subject to an additional cash bonus of $30,000 as determined by the Compensation Committee of the Board of Directors in its discretion. Upon execution of his employment agreement, Mr. Olsen received an incentive stock option to purchase 58,976 shares of the Company's common stock at an exercise price of $5.60 per share. The options granted to Mr. Olsen vested as to 34% of the shares covered thereby upon execution of the agreement and 22% of the shares covered thereby on each of the first three anniversaries thereafter, subject to acceleration upon a change of control of the Company. In the event Mr. Olsen's employment agreement is terminated "other than for cause" (as defined in the agreement), he shall be entitled to (i) the vesting of all options in the year of termination and 50% of the options that would have vested in the year following termination and (ii) the lesser of one year base salary or the base salary for the balance of the term of the agreement. Mr. Olsen has agreed not to disclose any confidential information of the Company during the term of his employment or at anytime thereafter or to compete with the Company during the term of his agreement and for a period of two years thereafter in the event of termination for cause.

On May 19, 1998, the Company entered into an employment agreement with Murray P. Fish pursuant to which Mr. Fish agreed to serve as the Company's Chief Financial Officer for a three year term at an annual salary of $120,000 per annum, subject to an additional cash bonus of $30,000 as determined by Compensation Committee of the Board of Directors in its discretion. Upon execution of his employment agreement, Mr. Fish received an incentive stock option to purchase 58,500 shares of the Company's common stock at an exercise price of $5.60 per share. The options granted to Mr. Fish vested as to 34% of the shares covered thereby upon execution of the agreement and vest as to 22% on each of the first three anniversaries thereafter, subject to acceleration upon a change of control of the Company. In the event Mr. Fish's employment agreement is terminated "other than for cause" (as defined in the agreement), he shall be entitled to (i) the vesting of all options in the year of termination and 50% of the options that would have vested in the year following termination and (ii) the lesser of six months base salary or the base salary for the balance of the term of the agreement. Mr. Fish has agreed not to disclose any confidential information of the Company during the term of his employment or at anytime thereafter or to compete with the Company during the term of his agreement and for a period of two years thereafter in the event of termination for cause.

On April 4, 1994, the Company entered into an employment agreement with Robert M. Russo pursuant to which Mr. Russo agreed to then serve as the Company's President and Chief Operating Officer for a three year term at a base salary of $145,000 per annum, subject to an additional cash bonus as determined by the Compensation Committee of the Board of Directors in its discretion. In February 1996, the Company and Mr. Russo agreed to extend the term of his employment agreement, upon the same terms and conditions, for an additional two year period expiring April 1999. In accordance with his agreement, Mr. Russo has agreed not to disclose any confidential information of the Company during the term of his employment or at anytime thereafter or to

compete with the Company during the term of his agreement and for a period of two years thereafter in the event of termination for cause. In May 1998, Mr. Russo agreed to serve the Company as its Vice President of Business Development in accordance with the terms and conditions of his employment agreement.

Stock Option Plan

On March 7, 1996, the Board of Directors and stockholders of the Company approved the adoption of the Stock Option Plan. The Stock Option Plan, as amended, is intended to assist the Company in securing and retaining key employees, directors and consultants by allowing them to participate in the ownership and growth of the Company through the grant of incentive and non-qualified options (collectively, the "Options"). Under the Stock Option Plan, key employees (including officers and employee directors) are eligible to receive grants of incentive stock options. Employees (including officers), directors of the Company or any affiliates and consultants are eligible to receive grants of non-qualified options. Incentive stock options granted under the Stock Option Plan are intended to be "Incentive Stock Options" as defined by Section 422 of the Internal Revenue Code of 1986, as amended.

The Stock Option Plan has been administered by the Board of Directors and following the consummation of this offering will be administered by the Compensation Committee of the Board of Directors of the Company. The Compensation Committee of the Board of Directors will consist of members who have been determined by the Board of Directors to be "disinterested persons" within the meaning of Rule 16b-3(c)(2)(i) promulgated under the Exchange Act or any future corresponding rule.

The Compensation Committee will determine who shall receive Options, the number of shares of Common Stock that may be purchased under the Options, the time and manner of exercise of Options and exercise prices. The term of Options granted under the Stock Option Plan may not exceed 10 years (five years in the case of an incentive stock option granted to an optionee owning more than 10% of the voting stock of the Company) (a "10% Holder"). The exercise price for incentive stock options shall not be less than 100% of the "fair market value" of the shares of Common Stock at the time the Option is granted; provided, however, that with respect to an incentive stock option, in the case of a 10% Holder, the purchase price per share shall be at least 110% of such fair market value. The exercise price for non-qualified options is set by the Compensation Committee in its discretion. The aggregate fair market value of the shares of Common Stock as to which an optionee may exercise incentive stock options may not exceed $100,000 in any calendar year. Payment for shares purchased upon exercise of Options is to be made in cash, check or other instrument, and at the discretion of the Committee, may be made by delivery of other shares of Common Stock of the Company. If any Option granted under the Plan expires or terminates for any reason without having been exercised in full, then the unpurchased shares subject to the Option will once again be available for additional Option grants.

Under certain circumstances involving a change in the number of outstanding shares of Common Stock including a stock split, consolidation, merger or payment of stock dividend, the class and aggregate number of shares of Common Stock in respect of which Options may be granted under the Stock Option Plan, the class and number of shares subject to each outstanding Option and the exercise price per share will be proportionately adjusted.

An aggregate of 750,000 shares of Common Stock has been reserved for issuance upon exercise of the Options to be granted under the Stock Option Plan.

As of the date of this Prospectus, the Company has granted Options to purchase 423,908 shares of Common Stock under the Plan, of which Options to purchase 58,976, 58,500, 62,080, 62,500 and 20,000 shares of Common Stock have been granted to Messrs. Olsen, Fish, Mearsheimer, Donohue, and Ranum, respectively. The Options granted to Messrs. Olsen and Fish are exercisable at a price of $5.60 per share, the Options granted to Mr. Mearsheimer are exercisable at prices ranging from $4.83 to $6.44 per share, and the Options granted to Messrs. Donohue and Ranum are exercisable at a price of $7.20 per share.

401(k) Plan

The Company maintains the Network-1 Savings and Investment Plan, a defined contribution pension plan with a cash or deferred arrangement as described in Section 401(k) of the Internal Revenue Code of 1986, as amended (the "401(k) Plan"). The 401(k) Plan is intended to qualify under Section 401(a) of the Code, so that contributions, and income earned thereon, are not taxable to employees until withdrawn. All regular full-time Company employees over the age of 21 are eligible to participate in the 401(k) Plan. The 401(k) Plan provides that each participant may make elective pre-tax salary deferrals up to 15% of his or her annual compensation, subject to statutory limits. The Company also may make discretionary annual matching contributions in amounts determined by the Compensation Committee of the Board of Directors, subject to statutory limits. The Company's policy is to base its contributions on Company profitability. The Trustee of the 401(k) Plan invests each employee's account at the direction of the employee, who may choose among several investment alternatives, which do not include shares of the Company's Common Stock. The Company did not make any contributions to the 401(k) Plan during 1997.

Limitation on Liability and Indemnification Matters

The Company's Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except for liability (i) for any breach of their duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.

The Company's Bylaws provide that the Company'shall indemnify its directors, officers, employees and agents to the fullest extent permitted by law. The Company's Bylaws also permit the Company to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether the Bylaws would permit indemnification. The Company currently maintains liability insurance for its officers and directors.

At present, there is no pending material litigation or proceeding involving any director, officer, employee or agent of the Company where indemnification will be required or permitted. The Company is not aware of any threatened litigation or proceeding that might result in a material claim for such indemnification.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information, as of the date of this Prospectus (after giving effect to the Pro Forma Adjustments and the CommHome Acquisition) and as adjusted to reflect the sale by the Company of 1,875,000 shares of Common Stock offered hereby, relating to the beneficial ownership of shares of Common Stock by: (i) each person or entity who is known by the Company to own beneficially five percent or more of the outstanding shares of Common Stock; (ii) each director or person who has agreed to become a director of the Company; (iii) by the Named Executive Officers; and (iv) by all directors and executive officers of the Company as a group.

<TABLE>
<CAPTION>

Number of

Name and Address of Beneficial Owner	Shares of Beneficially Owned	Percent of Shares Beneficially Owned (1)	
		Before Offering	After Offering
<S>	<C>	<C>	<C>
Corey M. Horowitz (2) CMH Capital Management Corp. Pisces Investors, L.P. Security Partners, L.P.	897,982	32.6%	19.4%
Applewood Associates, L.P. (3)	571,963	21.7	12.7
Robert Russo	298,319	11.3	6.6
William Hancock	235,057	8.9	5.2
Barry Rubenstein (4)	145,112	5.4	3.2
Avi A. Fogel (5)	125,054	4.6	2.7
Peter Mearsheimer (6)	62,080	2.3	1.4
Robert P. Olsen (7)	26,252	1.0	*
Joseph A. Donohue (8)	21,250	*	*
Murray P. Fish (9)	19,890	*	*
Marcus Ranum (10)	5,000	*	*
All directors and executive officers as group (9 persons)	1,690,884	56.6	34.8%

</TABLE>

* Less than 1%.

(1) Unless otherwise indicated, the Company believes that all persons named in the 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 of this Prospectus upon the exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants or convertible securities that are held by such person (but not those held by any other person) and which are exercisable within 60 days of the date of this Prospectus have been exercised and converted. Assumes a base of 2,633,369 shares of Common Stock outstanding prior to this offering and a base of 4,508,369 shares of Common Stock outstanding immediately after this offering, before any consideration is given to outstanding options, warrants or convertible securities.

(2) Includes (i) 374,906 shares of Common Stock held by Mr. Horowitz, (ii) 206,933 shares of Common Stock issuable upon conversion of Series Convertible B Preferred Stock held by Pisces Investors, L.P., a limited partnership whose general partner is CMH Capital Management Corp. ("CMH"), a corporation whose sole stockholder and officer is Mr. Horowitz, (iii) 145,887 shares of Common Stock (including 62,080 shares of Common Stock issuable upon conversion of Series B Convertible Preferred Stock) owned by Security Partners, L.P. CMH is a general and a limited partner of Security Partners, L.P., (iv) 45,320 shares of Common Stock held by CMH; and (v) 124,936 shares of Common Stock subject to currently exercisable warrants held by CMH. Mr. Horowitz disclaims beneficial ownership of the shares held by Pisces Investors, L.P. and Security Partners, L.P. except to the extent of his equity interest therein. The address of CMH Capital Management Corp. is 909 Third Avenue, New York, New York 10022 and the address of Pisces Investors, L.P. and Security Partners, L.P. is c/o CMH Capital Management Corp., 909 Third Avenue, New York, New York 10022.

(3) Does not include (i) 31,040, 23,280, 31,040, 4,656 and 3,104 shares of Common Stock held by Barry Rubenstein, Irwin Lieber, Barry Fingerhut, Seth Lieber and Jonathan Lieber, respectively, each of which is a general partner of Applewood Associates L.P., (ii) an aggregate of 99,328 shares of Common Stock subject to currently exercisable warrants held by Barry Rubenstein (49,664 shares) and Irwin Lieber (49,664 shares). Each of Messrs. Rubenstein, I. Lieber, Fingerhut, S. Lieber and J. Lieber disclaim beneficial ownership of the shares held by Applewood Associates, L.P., except to the extent of their equity interest therein. Applewood

Associates, L.P.'s business address is 80 Cuttermill Road, Great Neck, New York 11021.

(4) Includes (i) 49,664 shares of Common Stock subject to currently exercisable warrants owned by Mr. Rubenstein, (ii) 41,128 and 23,280 shares of Common Stock held by Woodland Venture Fund and Seneca Ventures, respectively. Barry Rubenstein and Woodland Services Corp. are the general partners of Woodland Venture Fund and Seneca Ventures. Barry Rubenstein is also President and sole director of Woodland Services Corp. Does not include 571,963 shares held by Applewood Associates, L.P., of which Mr. Rubenstein is a general partner. Mr. Rubenstein disclaims beneficial ownership of the shares of Common Stock held by Applewood Associates, L.P., except the extent of his equity interest therein. The address of Woodland Venture Fund and Seneca Ventures is c/o Barry Rubenstein, 68 Wheatley Road, Brookville, New York 11545.

(5) Includes (i) 100,259 shares of Common Stock subject to currently exercisable stock options, (ii) 17,920 shares of Common Stock to be issued to Mr. Fogel in connection with the CommHome Acquisition and (iii) 6,875 shares of Common Stock to be issued to Mr. Fogel in satisfaction of indebtedness owed to Mr. Fogel by CommHome. Does not include 194,620 shares subject to stock options which are not currently exercisable.

(6) Includes an aggregate of 62,080 shares of Common Stock subject to currently exercisable stock options issued to Mr. Mearsheimer pursuant to the Stock Option Plan.

(7) Includes (i) 20,052 shares of Common Stock subject to currently exercisable stock options issued to Mr. Olsen pursuant to the Stock Option Plan, (ii) 6,200 shares of Common Stock to be issued to Mr. Olsen in satisfaction of indebtedness owed to Mr. Olsen by CommHome. Does not include 38,924 shares of Common Stock subject to stock options which are not currently exercisable.

(8) Includes 21,250 shares of Common Stock subject to stock options issued to Mr. Donohue pursuant to the Stock Option Plan. Does not include 41,250 shares of Common Stock subject to stock options which are not currently exercisable.

(9) Includes 19,890 shares of Common Stock subject to stock options issued to Mr. Fish pursuant to the Stock Option Plan. Does not include 38,610 shares of Common Stock subject to stock options which are not currently exercisable.

(10) Includes 5,000 shares of Common Stock subject to stock options issued to Mr. Ranum pursuant to the Stock Option Plan. Does not include 15,000 shares of Common Stock subject to stock options which are not currently exercisable.

CERTAIN TRANSACTIONS

In February and April 1997, the Company issued an aggregate principal amount of $1,000,000 of notes bearing interest at the rate of 6% per annum, and warrants to purchase an aggregate of 139,679 shares of the Company's Common Stock at an exercise price of $6.44 per share in private financings (the "February and April 1997 Private Financings"). The principal amount of the notes issued in connection with the February and April 1997 Private Financings, plus accrued interest thereon, will be repaid from the proceeds of this offering. In connection with the February and April 1997 Private Financings, the Company issued a note in the principal amount of $250,000 and warrants to purchase 34,920 shares of Common Stock to Applewood Associates, L.P. ("Applewood"), a principal stockholder of the Company, and a note in the principal amount of $50,000 and warrants to purchase 6,984 shares of Common Stock to Herb Karlitz. Barry Rubenstein, a principal stockholder of the Company, is a general partner of Applewood. Herb Karlitz is the brother-in-law of Corey M. Horowitz, Chairman of the Board of Directors and a principal stockholder of the Company. In connection with the February and April 1997 Private Financings, Robert Russo,

Vice President of Business Development and Secretary of the Company, delivered to the Company for cancellation 39,110 shares of Common Stock in consideration of $630, and William H. Hancock, Chief Technology Officer and a director of the Company, delivered to the Company for cancellation 54,009 shares of Common Stock in consideration of $870.

On August 30, 1996 the Company entered into an agreement (the "CMH Advisory Agreement"), as amended, with CMH Capital Management Corp. ("CMH"), a corporation wholly-owned by Corey M. Horowitz, Chairman of the Board of Directors and a principal stockholder of the Company, pursuant to which CMH agreed to render advisory services to the Company in consideration of fees of $12,500 per month for a period of two years and the issuance of warrants to purchase 31,040 shares of the Company's Common Stock at an exercise price of $8.05 per share and 31,040 shares of the Company's Common Stock at an exercise price of $6.44 per share (collectively, the "CMH Advisory Warrants"). In addition, the Company agreed that in the event it completes a merger or sale of substantially all of its assets prior to January 15, 1999, CMH would be entitled to a cash fee equal to 2% of the value of the total consideration received in connection with such transaction. CMH agreed that the monthly fee of $12,500 would accrue until the Company completed a financing of a minimum of $5,000,000. On May 14, 1998, CMH agreed with the Company to convert accrued fees of $200,000 into 31,250 shares of Common Stock of the Company in full satisfaction of Company's fee obligation to CMH under the CMH Advisory Agreement.

On August 8, 1997, CMH loaned the Company $100,000 at an interest rate of 8% per annum. As further consideration for such loan, the Company agreed to reduce the exercise price of all of the CMH Advisory Warrants to $3.22 per share. In addition, the Company agreed to reduce the exercise price of warrants to purchase 124,159 shares of Common Stock at an exercise price of $3.22 per share previously issued to Corey M. Horowitz on November 29, 1995 to $1.61 per share.

On September 26, 1997, the Company issued to Applewood and CMH, principal stockholders of the Company, notes in the principal amounts of $350,000 and $50,000, respectively, bearing interest at the rate of 8% per annum, which, together with accrued and unpaid interest thereon, will be repaid from the proceeds of this offering and warrants to purchase 62,080 and 8,869 shares of Common Stock, respectively (the "September 1997 Private Financing"). In connection with the September 1997 Private Financing, Robert Russo, Vice President of Business Development and Secretary of the Company, William Hancock, Chief Technology Officer and a director of the

Company, and Kenneth Conquest, then Vice President of Engineering of the Company, delivered to the Company for cancellation 112,373, 86,112 and 10,103 shares of Common Stock, respectively, for an aggregate consideration of $3,360.

On November 21, 1997, CMH loaned the Company $50,000 at an interest rate of 8% per annum pending the Company's receipt of a certain accounts receivable. As additional consideration for the loan, the Company agreed to further reduce the exercise price of the CMH Advisory Warrants to $1.61 per share from $3.22 per share. The aforementioned loan was repaid in full by the Company on December 12, 1997.

From March 2, 1998 through May 14, 1998, the Company issued an aggregate principal amount of $1,750,000 of notes, bearing interest at the rate of 8% per annum, and warrants to purchase up to 325,919 shares of Common Stock at an exercise price of $4.83 per share (the "1998 Private Financing"). In connection with the 1998 Private Financing, Applewood purchased a $1,300,000 principal amount note and warrants to purchase 242,111 shares of Common Stock, CMH purchased a $50,000 note and warrants to purchase 9,312 shares of Common Stock, Mr. Horowitz purchased a $50,000 principal amount note and warrants to purchase 9,312 shares of Common Stock and Herb Karlitz purchased a $25,000 principal amount note and warrants to purchase 4,656 shares of Common Stock, at purchase prices of $1,900,000, $50,000, $50,000, and $25,000, respectively. In connection with the 1998 Private Financing, Messrs. Russo and Hancock delivered to the Company for cancellation 38,800 and 23,280 shares of Common Stock, respectively, for an aggregate consideration of $1,000.

As part of the 1998 Private Financing, in consideration of Applewood's investment of $1,000,000 in May 1998, the Company, CMH and Applewood entered into an advisory agreement, which amended the CMH Advisory Agreement, pursuant

to which the Company agreed to increase the cash fee payable to CMH, if the Company completes a merger or sale of all or substantially all its assets at any time up to January 15, 2001, from 2% to 3% of the value of the total consideration received by the Company, and CMH agreed to share such consideration with Applewood. As further consideration for Applewood's $1,000,000 investment in May 1998, each of CMH, Mr. Horowitz, Security Partners, L.P., Messrs. Russo, Hancock and Conquest agreed that for a period of 24 months from the consummation of this offering, they would not sell in the public market any securities of the Company owned by them without the consent of Applewood, unless 60% of the securities owned by Applewood and affiliated parties have been sold.

On July 8, 1998, the Company entered into an exchange agreement with certain holders of outstanding warrants and options to which the Company issued an aggregate of 596,741 shares of its Common Stock in exchange for cancellation of outstanding warrants and options to purchase 789,521 shares of the Company's Common Stock. Pursuant to such agreement, Applewood exchanged warrants to purchase 339,111 shares of Common Stock, at exercise prices of $4.83 and $6.44 per share, for 261,565 shares of Common Stock, Mr. Horowitz and CMH, exchanged warrants to purchase an aggregate of 151,652 shares of Common Stock, at exercise prices ranging from $1.61 to $4.83, for 131,267 shares of Common Stock and Herb Karlitz exchanged warrants to purchase 11,640 shares of Common Stock, at exercise prices of $4.83 and $6.44 per share, for 8,572 shares of Common Stock.

Prior to the consummation of this offering, the Company will enter into a merger agreement with CommHome Systems Corp. ("CommHome"), effective upon consummation of this offering, pursuant to which the CommHome stockholders have agreed to exchange all of the outstanding common stock of CommHome for 35,000 shares of Common Stock of the Company. The Company will assume liabilities of CommHome on the effective date of the merger not in excess of $200,000, which include $55,000 and $50,000 owed to Avi A. Fogel and Robert P. Olsen, respectively. Messrs. Fogel and Olsen have agreed to accept 6,875 and 6,200 shares, respectively, of the Company's Common Stock in full satisfaction of such indebtedness. Avi A. Fogel, President, Chief Executive Officer and a director of the Company, is also President and Chief Executive Officer of CommHome and owns 51% of the outstanding shares of CommHome.

DESCRIPTION OF SECURITIES

The authorized capital stock of the Company consists of 25,000,000 shares of Common Stock, par value $0.01 per share, and 5,000,000 shares of Preferred Stock, par value $.01 per share. As of the date of this Prospectus (after giving effect to the Pro Forma Adjustments and the Additional Adjustments), Company has outstanding 2,633,369 shares of Common Stock, held of record by 79 stockholders. Upon consummation of this offering, there will be 4,508,369 shares of Common Stock and no shares of Preferred Stock outstanding.

Common Stock

Holders of Common Stock are entitled to one vote per share on all matters submitted to a vote of stockholders. There are no cumulative voting rights for the election of directors, which means that the holders of more than 50% of such outstanding shares voting for the election of directors can elect all of the directors of the Company'standing for election. Subject to the rights of any outstanding class or series of Preferred Stock created by the authority of the Board of Directors, holders of Common Stock are entitled to received dividends as and when declared by the Board of Directors out of funds legally available therefor. Subject to the rights of any outstanding class or series of Preferred Stock created by the authority of the Board of Directors, in the event of the liquidation, dissolution or winding up of the Company, the holder of each share of Common Stock is entitled to share equally in the balance of any of the Company's assets available for distribution to stockholders. Outstanding shares of Common Stock do not have subscription or conversion rights and there are no redemption or sinking fund provisions applicable thereto. Holders of Common Stock have no preemptive rights to purchase pro-rata portions of new issues of Common Stock or Preferred Stock of the Company. The outstanding shares of Common Stock are, and the shares of Common Stock offered by the Company hereby will be, when issued and sold hereunder, fully paid and non-assessable.

Preferred Stock

Upon the consummation of this Offering, all 500,000 shares of Series B Preferred Stock outstanding will be converted into 310,399 shares of Common Stock (See Note F(1) to Notes to Financial Statements for a description of the Series B Convertible Preferred Stock). The Board is authorized, subject to any limitations prescribed by Delaware law, to provide for the issuance of additional shares of Preferred Stock in one or more series, to establish from time to time the number

of shares to be included in each such series, to fix the rights, preferences and privileges of the shares of each wholly unissued series and any qualifications, limitations or restrictions thereon, and to increase or decrease the number of shares of any such series (but not below the number of shares of such series then outstanding), without any further vote or action by the stockholders. The Board may authorize the issuance of Preferred Stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of Common Stock. Thus, the issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company. The Company has no current plan to issue any shares of Preferred Stock.

Warrants and Options

As of the date of this Prospectus, the Company has outstanding warrants to purchase 336,007 shares of Common Stock (excluding the Underwriter's Warrants to purchase 187,500 shares of Common Stock) and options to purchase 294,879 shares of Common Stock (excluding options to purchase 423,908 shares of Common Stock issued pursuant to the Company's Stock Option Plan). All outstanding warrants are currently exercisable and outstanding options are currently exercisable to purchase 100,259 shares of Common Stock. The outstanding warrants are exercisable at prices ranging from $1.61 to $9.66 and expire between February 2002, and May 2008. The outstanding options are exercisable at $2.42 per share and expire May 2003.

The warrants also entitle the holder to certain registration rights with respect to the shares of Common Stock issuable upon exercise of such warrants. No warrantholder has any stockholder rights with respect to the shares issuable upon exercise of warrants held by such holder until such warrants are exercised and the purchase price is paid for the shares. Each of the warrants and options also provides, among other things, for the adjustment of the price per share and number of shares issuable upon exercise of such warrants and options upon a merger or consolidation of the Company, reclassification of the Company's securities, a stock split, subdivision or combination of the Company's securities, the payment of a dividend in Common Stock of the Company or of certain other dividends or distributions with respect to the Common Stock of the Company.

Registration Rights of Certain Holders

The holders of 1,040,612 shares of Common Stock (including warrants exercisable to purchase 62,856 shares of Common Stock) have been granted certain demand registration rights, including the right to request on up to two occasions that the Company file a registration statement with respect to such shares under the Securities Act and use its best efforts to effect any such registration. In addition, the holders of 1,453,442 shares of Common Stock (including warrants exercisable to purchase 336,007 shares) are entitled to piggyback registration rights with respect to such shares. If the Company proposes to register any of its securities, either for its own account or for the account of other stockholders, the Company is required to notify these holders and, subject to certain conditions and limitations, to include in such registration all of the shares of Common Stock requested to be included by such holders. All holders of registration rights have agreed to waive such rights in connection with this offering and not to exercise any such rights for one year from the date of this Prospectus, without the Underwriter's prior written consent.

In connection with this offering, the Company has agreed to grant the Underwriter certain demand and piggyback registration rights with respect to the shares of Common Stock issuable upon exercise of the Underwriter's Warrants. See

"Underwriting."

Delaware Anti-Takeover Law

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law (the "Anti-Takeover Law") regulating corporate takeovers. The Anti-Takeover Law prevents certain Delaware corporations, including those whose securities are listed on the Nasdaq SmallCap Market from engaging, under certain circumstances, in a "business combination" (which includes a merger or sale of more than 10% of the corporation's assets) with any "interested stockholder" (a stockholder who owns 15% or more of the corporation's outstanding voting stock) for three years following the date that such stockholder became an "interested stockholder" unless the business combination is approved in a prescribed manner. A Delaware corporation may "opt out" of the Anti-Takeover Law with an express provision in its original or amended certificate of incorporation or an express provision in its Bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. The Company has not "opted out" of the provisions of the Anti-Takeover Law.

Transfer Agent

The Transfer Agent for the Company's Common Stock is American Stock Transfer and Trust Company, 40 Wall Street, New York, New York 10005.

SHARES ELIGIBLE FOR FUTURE SALE

Upon the consummation of this offering, the Company will have 4,508,369 shares of Common Stock outstanding, of which the 1,875,000 shares being offered hereby will be freely tradeable without restriction or further registration under the Securities Act, except for any shares purchased by an "affiliate of the Company" (in general, a person who has a controlling position with regard to the Company), which will be subject to the resale limitations of Rule 144 promulgated under the Securities Act.

All of the remaining 2,633,369 shares of Common Stock currently outstanding are "restricted securities" or owned by "affiliates" (as those terms are defined in Rule 144) and thus may not be sold publicly unless they are registered under the Securities Act or are sold pursuant to Rule 144 or another exemption from registration. Of the 2,633,369 restricted shares, an aggregate of 1,977,124 shares will be eligible for sale, without registration, under Rule 144 (subject to certain volume limitations prescribed by such rule and to the contractual restrictions described below), commencing 90 days following the date of this Prospectus and the balance of such shares will become eligible for sale at various times commencing February 1999. Holders of all of the 2,633,369 outstanding shares of Common Stock have agreed not to (i) sell or otherwise dispose of any shares of Common Stock or (ii) exercise any rights held by such holders to cause the Company to register any shares of Common Stock for sale pursuant to the Securities Act, in each case, for a period of 12 months following the date of this Prospectus, without the Underwriter's prior written consent.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this Prospectus, a person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least one year (including the holding period of any prior owner except an affiliate of the Company) would be entitled to sell within any three-month period a number of shares that does not exceed the greater of: (i) 1% of the number of shares of Common Stock then outstanding (which will equal approximately 45,083 shares immediately following the consummation of this offering); or (ii) the average weekly trading volume of the Common Stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. Under Rule 144(k), a person who is not deemed to have been an affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years (including the holding period of any prior owner except an affiliate of the Company), is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Unless otherwise restricted,

"144(k) shares" may therefore be sold immediately upon the consummation of this offering.

Rule 701 permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions, including the holding period requirement, of Rule 144. Any employee, officer or director of or consultant to the Company who purchased his or her shares pursuant to a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell such shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. In both cases, a holder of Rule 701 shares is required to wait until 90 days after the date of this Prospectus before selling such shares.

Prior to this offering, there has been no market for the Common Stock and no prediction can be made as to the effect, if any, that market sales of shares of Common Stock or the availability of such shares for sale will have on the market prices of the Common Stock prevailing from time to time. Nevertheless, the possibility that substantial amounts of Common Stock may be sold in the public market may adversely affect prevailing market prices for the Common Stock and could impair the Company's ability to raise capital through the sale of its equity securities.

UNDERWRITING

Whale Securities Co., L.P. (the "Underwriter") has agreed, subject to the terms and conditions contained in the Underwriting Agreement, to purchase the 1,875,000 shares of Common Stock offered hereby from the Company. The Underwriter is committed to purchase and pay for all of the shares of Common Stock offered hereby if any of such securities are purchased. The shares of Common Stock are being offered by the Underwriter, subject to prior sale, when, as and if delivered to and accepted by the Underwriter and subject to certain legal matters by counsel and to certain other conditions.

The Underwriter has advised the Company that it proposes to offer the shares of Common Stock to the public at the public offering price set forth on the cover page of this Prospectus. The Underwriter may allow certain dealers who are member of the National Association of Securities Dealers, Inc. (the "NASD") concessions, not in excess of $ per share, of which not in excess of $ per share may be reallowed to other dealers who are members of the NASD.

The Company has granted to Underwriter an option, exercisable for 45 days following the date of this Prospectus, to purchase up to 281,250 shares at the public offering price set forth on the cover page of this Prospectus, less underwriting discounts and commissions. The Underwriter may exercise this option in whole or, from time to time, in part, solely for the purpose of covering over-allotments, if any, made in connection with the sale of the shares offered hereby.

The Company has agreed to pay to the Underwriter a non-accountable expense allowance equal to 3% of the gross proceeds derived from the sale of the shares offered hereby, including any securities sold prior to the Underwriter's over-allotment option, $50,000 of which has been paid as of the date of this Prospectus. The Company has also agreed to pay all expenses in connection with qualifying the shares offered under the laws of such states as the Underwriter may designate, including expenses of counsel retained for such purpose by the Underwriter.

The Company has agreed to sell to the Underwriter and its designees, for an aggregate of $100 (the "Underwriter's Warrants") to purchase up to 187,500 shares of Common stock at an exercise price of $13.20 per share (165% of the public offering price per share). The Underwriter's Warrants may not be assigned or hypothecated for one year following the date of this Prospectus, except to the officers and partners of the Underwriter and members of the selling group, and are exercisable at any time, in whole or in part, during the four-year period commencing one year from the date of this Prospectus (the "Warrant

Exercise Term"). During the Warrant Exercise Term, the holders of the Underwriter's Warrants are given, at nominal cost, the opportunity to profit from a rise in the market price of the Common Stock. To the extent that the Warrants are exercised, dilution to the interests of the Company's stockholders will occur. Further, the terms upon which the Company will be able to obtain additional equity capital may be adversely affected, since the holders of the Underwriter's Warrants can be expected to exercise them at a time when the Company would, in all likelihood, be able to obtain any needed capital on terms more favorable to the Company than in the Underwriter's Warrants. Any profit realized by the Underwriter on the sale of the Underwriter's Warrants, the underlying shares of Common Stock or the underlying warrants may be deemed additional underwriting compensation. The Underwriter's Warrants contain a cashless exercise provision. Subject to certain limitations and exclusions, the Company has agreed that, upon the request of the holders of the majority of the Underwriter's Warrants, the Company will (at its own expense), on one occasion during the Warrant Exercise term, register the Underwriter's Warrants and the securities underlying the Underwriter's Warrants under the Securities Act and that it will include the Underwriter's Warrants and all such underlying securities in any appropriate registration statement which is filed by the Company under the Securities Act during the seven years following the date of this Prospectus.

The Company has agreed, for a period of five years from the date of this Prospectus, if so requested by the Underwriter, to recommend and use its best efforts to elect a designee of the Underwriter as a director of the Company. The Company's officers, directors and principal

stockholders have agreed to vote their shares of Common Stock in favor of such designee. The Underwriter has not yet exercised its right to designate such a person.

All of the Company's officers, directors and securityholders have agreed not to sell or otherwise dispose any of their securities in the public markets for a period of twelve months from the date of this Prospectus without the Underwriter's prior written consent.

The Underwriter has informed the Company that it does not expect sales of the securities offered discretionary accounts to exceed 1% of the shares offered hereby.

The Company has agreed to indemnify the Underwriter against certain civil liabilities, including liabilities under the Securities Act.

Prior to this offering there has been no public market for the Common Stock. Accordingly, the initial public offering price of the Common Stock will be determined by negotiation between the Company and the Underwriter and may not necessarily be related to the Company's asset value, net worth or other established criteria of value. Factors to be considered in determining such price include the Company's financial condition and prospects, an assessment of the Company's management, market prices of similar securities of comparable publicly-traded companies, certain financial and operating information of companies engaged in activities similar to those of the Company and the general condition of the securities market.

In order to facilitate the offering, the Underwriter may engage in transactions that stabilize, maintain, otherwise affect the price of the Common Stock. Specifically, the Underwriter may over-allotment in connection with the offering, creating a short position in the Common Stock for its own account. In addition, to cover over-allotments or to stabilize the price of the Common Stock, the Underwriter may bid for, and purchase, shares of Common Stock in the open market. The Underwriter may also reclaim selling concessions allowed to a dealer for distributing the Common Stock in the offering, if the Underwriter repurchases previously distributed Common Stock in transactions to cover short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the Common Stock above independent market levels. The Underwriter is not required to engage in these activities, and may end any of these activities at any time.

LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon for the Company by Bizar Martin & Taub, LLP. Certain legal matters in connection with this offering will be passed upon for the Underwriter by Tenzer Greenblatt LLP. Bizar Martin & Taub, LLP owns currently exercisable warrants to purchase 9,312 shares of the Company's Common Stock at an exercise price of $6.44 per share.

EXPERTS

The financial statements of the Company as of December 31, 1997 and 1996 and for each of the years then ended appearing in this Prospectus and Registration Statement have been audited by Richard A. Eisner & Company, LLP, independent auditors, as set forth in their report thereon (which contains an explanatory paragraph with respect to the Company's ability to continue as a going concern) appearing elsewhere herein, and are included in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form SB-2 under the Securities Act with respect to the Common Stock offered hereby. This Prospectus, which constitutes a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and the Common Stock offered hereby, reference is hereby made to the Registration Statement and the exhibits and schedules filed as a part thereof. Statements contained in this Prospectus as to the contents of any contract or any other document referred to are not necessarily complete. In each instance, reference is made to the copy of such contract or document filed as an exhibit to the Registration Statement, and each such statement is qualified in all respects by such reference. The Registration Statement, including exhibits and schedules thereto, may be inspected and copied at the principal office of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices located at Seven World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such materials may also be obtained at prescribed rates from the Public Reference Section of the Commission, at 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, registration statements and certain other filings made with the Commission through its Electronic Data Gathering, Analysis and Retrieval ("EDGAR") systems are publicly available through the Commission's site on the Internet's World Wide Web, located at http://www.sec.gov. The Registration Statement, including all exhibits thereto and amendments thereof, has been filed with the Commission through EDGAR.

Upon consummation of this offering, the Company will become subject to the reporting requirements of the Securities Exchange Act of 1934 and in accordance therewith will file reports, proxy statements and other information with the Commission. The Company intends to furnish its stockholders with annual reports containing audited financial statements and such other reports as the Company deems appropriate or as may be required by law.

NETWORK-1 SECURITY SOLUTIONS, INC.

<TABLE>
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Network-1 Security Solutions, Inc. (the "Company") as of December 31, 1996 and 1997 and the related statements of operations, stockholders' equity and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements enumerated above present fairly, in all material respects, the financial position of Network-1 Security Solutions, Inc. as of December 31, 1996 and 1997 and the results of its operations and its cash flows for each of the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company has incurred substantial losses from operations, and as of December 31, 1997 has a working capital deficiency of $661,000 and a stockholders' deficiency of $75,000. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note A. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Richard A. Eisner & Company, LLP

New York, New York
June 17, 1998

With respect to Note J[1]
July 8, 1998

With respect to the third paragraph of Note A
July 17, 1998

NETWORK-1 SECURITY SOLUTIONS, INC.

Balance Sheets

<TABLE>
<CAPTION>

	December 31, 1996	1997	March 31, 1998 (Unaudited)
<S>	<C>	<C>	<C>
ASSETS			
Current assets:			
Cash and cash equivalents	$ 217,000	$ 60,000	$ 67,000
Accounts receivable - net of allowance for doubtful accounts of $5,000, $70,000 and $60,000, respectively	191,000	435,000	286,000
Prepaid expenses and other current assets	30,000	30,000	30,000
Total current assets	438,000	525,000	383,000
Equipment and fixtures	518,000	400,000	364,000
Capitalized software costs - net	729,000	1,258,000	1,125,000
Security deposits	193,000	131,000	132,000
Deferred offering costs		90,000	90,000
	$ 1,878,000	$ 2,404,000	$ 2,094,000
LIABILITIES			
Current liabilities:			
Accounts payable	$ 275,000	$ 776,000	$ 519,000
Accrued fee - related party		138,000	175,000
Accrued expenses and other current liabilities	155,000	201,000	186,000
Notes payable - related parties, net of discount			856,000
Notes payable - others, net of discount			765,000
Interest payable - related parties			40,000
Interest payable - other			47,000
Current portion of capital lease obligations	24,000	8,000	2,000
Deferred revenue	25,000	63,000	76,000
Total current liabilities	479,000	1,186,000	2,666,000
Capital lease obligations - less current portion	8,000		
Notes payable - related parties, net of discount			564,000
Notes payable - others, net of discount			670,000
Interest payable - related parties			24,000
Interest payable - others			35,000
	487,000	2,479,000	2,666,000
Commitments and contingencies			
STOCKHOLDERS' EQUITY (DEFICIENCY)			
Preferred stock - $.01 par value; authorized 5,000,000 shares;			
Series A -10% cumulative, none issued and outstanding			
Series B - 500,000 shares issued and outstanding	5,000	5,000	5,000
Common stock - $.01 par value; authorized 25,000,000 shares;			
2,004,951, 1,706,037 and 1,706,037 shares issued and outstanding	20,000	17,000	17,000
Additional paid-in capital	6,446,000	7,373,000	7,573,000
Accumulated deficit	(5,080,000)	(7,470,000)	(8,167,000)
	1,391,000	(75,000)	(572,000)
	$ 1,878,000	$ 2,404,000	$ 2,094,000
</TABLE>

</TABLE>

See notes to financial statements

NETWORK-1 SECURITY SOLUTIONS, INC.

Statements of Operations

<TABLE>
<CAPTION>

	Year Ended December 31,		Three Months Ended March 31,	
	1996	1997	1997	1998
			(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Revenues:				
Licenses	$ 624,000	$ 1,632,000	$ 346,000	$ 195,000
Services	403,000	737,000	133,000	144,000
Total revenues	1,027,000	2,369,000	479,000	339,000
Cost of revenues:				
Cost of licenses	439,000	497,000	105,000	177,000
Cost of services	298,000	293,000	76,000	75,000
Total cost of revenues	737,000	790,000	181,000	252,000
Gross profit	290,000	1,579,000	298,000	87,000
Operating expenses:				
Product development costs	984,000	917,000	97,000	208,000
Selling and marketing	1,614,000	926,000	326,000	140,000
General and administrative	1,931,000	1,573,000	434,000	212,000
Total operating expenses	4,529,000	3,416,000	857,000	560,000
Loss from operations	(4,239,000)	(1,837,000)	(559,000)	(473,000)
Interest expense - net	(260,000)	(553,000)	(31,000)	(224,000)
Net loss	$ (4,499,000)	$ (2,390,000)	$ (590,000)	$ (697,000)
Loss per share - basic and diluted	$(2.46)	$(1.29)	$(.30)	$(.41)
Weighted average number of shares outstanding - basic and diluted	1,825,163	1,855,244	1,942,872	1,706,037

</TABLE>

See notes to financial statements

NETWORK-1 SECURITY SOLUTIONS, INC.

Statements of Stockholders' Equity
<TABLE>
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	Common Stock		Preferred Stock	
	Shares	Amount	Shares	Amount
<S>	<C>	<C>	<C>	<C>
Balance - December 31, 1995	1,164,133	$ 12,000	750,000	$ 7,000
Issuance of common stock for cash - net	698,397	7,000		
Issuance of common stock and warrants for services rendered	18,262			
Conversion of notes payable into common stock	108,639	1,000		
Redemption of preferred stock			(250,000)	(2,000)
Exercise of warrants	15,520			
Net loss				
Balance - December 31, 1996	2,004,951	20,000	500,000	5,000
Issuance of common stock and warrants for services rendered	2,794			
Warrants issued in connection with debt financing				
Repurchase and retirement of common shares	(301,708)	(3,000)		
Net loss				
Balance - December 31, 1997	1,706,037	17,000	500,000	5,000
Issuance of warrants for services rendered				
Warrants issued in connection with debt financing				
Net loss				
Balance - March 31, 1998 (Unaudited)	1,706,037	$ 17,000	500,000	$ 5,000

</TABLE>

<TABLE>
<CAPTION>

	Additional Paid-in Capital	Accumulated Deficit	Total
<S>	<C>	<C>	<C>
Balance - December 31, 1995	$ 1,146,000	(581,000)	$ 584,000
Issuance of common stock for cash - net	4,141,000		4,148,000
Issuance of common stock and warrants for services rendered	683,000		683,000
Conversion of notes payable into common stock	699,000		700,000
Redemption of preferred stock	(248,000)		(250,000)
Exercise of warrants	25,000		25,000
Net loss		(4,499,000)	(4,499,000)
Balance - December 31, 1996	6,446,000	(5,080,000)	1,391,000
Issuance of common stock and warrants for services rendered	163,000		163,000
Warrants issued in connection with debt financing	766,000		766,000
Repurchase and retirement of common shares	(2,000)		(5,000)
Net loss		(2,390,000)	(2,390,000)
Balance - December 31, 1997	7,373,000	(7,470,000)	(75,000)
Issuance of warrants for services rendered	25,000		25,000
Warrants issued in connection with debt financing	175,000		175,000
Net loss		(697,000)	(697,000)
Balance - March 31, 1998 (Unaudited)	$ 7,573,000	$ (8,167,000)	$ (572,000)

</TABLE>

See notes to financial statement

NETWORK-1 SECURITY SOLUTIONS, INC.

Statements of Cash Flows

<TABLE>
<CAPTION>

	Three Months Ended			
	December 31,		March 31,	
	1996	1997	1997	1998
			(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Cash flows from operating activities:				
Net loss	$ (4,499,000)	$ (2,390,000)	$ (590,000)	$ (697,000)
Adjustments to reconcile net loss to net cash used in operating activities:				
Amortization of debt discount	306,000	500,000	28,000	164,000
Issuance of common stock and warrants for services rendered	683,000	163,000	61,000	25,000
Provision for doubtful accounts	(15,000)	65,000	55,000	(10,000)
Depreciation and amortization	368,000	481,000	112,000	171,000
Changes in:				
Accounts receivable	131,000	(309,000)	(129,000)	159,000
Prepaid expenses and other current assets	(15,000)			
Accounts payable, accrued expenses and other current liabilities	196,000	744,000	65,000	(208,000)
Deferred revenue	25,000	38,000	(21,000)	13,000
Net cash used in operating activities	(2,820,000)	(708,000)	(419,000)	(383,000)
Cash flows from investing activities:				
Acquisitions of equipment and fixtures	(235,000)	(42,000)	(30,000)	(3,000)
Capitalized software costs	(750,000)	(850,000)	(283,000)	
Security deposit	(164,000)	62,000	(1,000)	(1,000)
Net cash used in investing activities	(1,149,000)	(830,000)	(314,000)	(4,000)
Cash flows from financing activities:				
Proceeds from issuance of notes payable and warrants	700,000	1,550,000	650,000	400,000
Repayment of notes payable		(400,000)	(50,000)	
Proceeds from exercise of options and warrants		25,000		
Net proceeds from sale of common stock		4,148,000		
Repayment of capital lease obligations		(23,000)	(24,000)	(6,000)
Purchase of treasury shares		(5,000)		
Repayment of line of credit		(62,000)		
Repayment of stockholder's loan		(48,000)		
Redemption of preferred stock		(250,000)		
Deferred offering costs		(90,000)		
Net cash provided by financing activities	4,090,000	1,381,000	650,000	394,000
Net increase (decrease) in cash and cash equivalents	121,000	(157,000)	(83,000)	7,000
Cash and cash equivalents - beginning of period	96,000	217,000	217,000	60,000
Cash and cash equivalents - end of period	$ 217,000	$ 60,000	$ 134,000	$ 67,000
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$ 32,000	$ 1,000		
Noncash transaction:				
Issuance of stock in connection with repayment of debt	$ 700,000			

</TABLE>

NETWORK-1 SECURITY SOLUTIONS, INC.

Notes to Financial Statements
(unaudited with respect to data as of March 31, 1998 and for
the three-month periods ended March 31, 1997 and 1998)

NOTE A - THE COMPANY AND BASIS OF PRESENTATION

Network-1 Security Solutions, Inc. (the "Company"), formerly known as Network-1 Software & Technology, Inc., develops, markets, licenses and supports its proprietary network security software products designed to provide comprehensive security to computer networks. The Company also provides maintenance and network consulting and training services.

The accompanying financial statements have been prepared on a going concern basis. As reflected in the accompanying financial statements, the Company has incurred substantial losses from operations and as of December 31, 1997 has a working capital deficiency of $661,000 and a stockholders' deficiency of $75,000. Subsequent to December 31, 1997 through May 14, 1998, the Company received $1,750,000 in short-term debt financing, a significant portion of which was from principal stockholders of the Company. However, the Company will require additional financing to satisfy its obligations and fund its operations through December 31, 1998. Also, in May 1998, the Company'signed a letter of intent with an underwriter for the sale of its securities in an initial public offering (the "Offering"). There is no assurance, however, that the Offering will be consummated or that the Company will be able to obtain alternative financing. The above factors give rise to substantial doubt as to the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On July 17, 1998, the stockholders approved a 1 for 1.610831 reverse split of the outstanding shares of the Company's common stock. The accompanying financial statements have been retroactively adjusted to reflect the split and all references to numbers of common shares, options, warrants and per share amounts have been restated to give effect to the split.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

[1] Cash equivalents:

The Company considers all highly liquid short-term investments purchased with a maturity of three months or less to be cash equivalents.

[2] Revenue recognition:

In October 1997, the AICPA issued Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition," which the Company adopted, effective January 1, 1997. Such adoption had no effect on the Company's methods of recognizing revenue from its license and service activities. Prior to 1997, the Company's revenue recognition policy was in accordance with SOP No. 91-1, "Software Revenue Recognition."

License revenue is recognized upon delivery of software or delivery of a required software key. Service revenues consist of maintenance, consulting and training services. Annual renewable maintenance fees are a separate component of each contract, and are recognized ratably over the contract term. Consulting and training revenues are recognized as such services are performed.

[3] Equipment and fixtures:

Equipment and fixtures are stated at cost and are depreciated using the straight-line method over their estimated useful lives of five years.

NETWORK-1 SECURITY SOLUTIONS, INC.

Notes to Financial Statements
(unaudited with respect to data as of March 31, 1998 and for
the three-month periods ended March 31, 1997 and 1998)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Software development costs:

Costs to maintain developed programs and development costs incurred to establish the technological feasibility of computer software are expensed as incurred. The Company capitalizes costs incurred in producing computer software after technological feasibility of the software has been established. Such costs are amortized based on current and estimated future revenue of each product with an annual minimum equal to the straight-line amortization over the remaining estimated economic life of the product. The Company estimates the economic life of its software to be three years. At each balance sheet date, the unamortized capitalized software costs of each product are compared with the net realizable value of that product and any excess capitalized costs are written off.

[5] Income taxes:

The Company utilizes 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.

[6] Loss per share:

During 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128"). SFAS No. 128 requires the reporting of basic and diluted earnings/loss per share. Basic loss per share is calculated by dividing net loss by the weighted average number of outstanding common shares during the year. Diluted per share data includes the dilutive effects of options, warrants and convertible securities. As all potential common shares are anti-dilutive, they are not included in the calculation of diluted loss per share. Loss per share for 1996 has been presented to conform to SFAS No. 128.

[7] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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.

[8] Financial instruments:

The carrying amounts of accounts receivable, accounts payable, accrued expenses, capitalized lease obligations and notes payable approximate their fair value as the interest rates on the Company's indebtedness approximate current market rates and due to the short period to maturity of these instruments.

NETWORK-1 SECURITY SOLUTIONS, INC.

Notes to Financial Statements

(unaudited with respect to data as of March 31, 1998 and for the three-month periods ended March 31, 1997 and 1998)

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Stock-based compensation:

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation". SFAS No. 123 encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has elected to continue to account for its employee stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"), Accounting for Stock Issued to Employees" and to disclose the pro forma effect on net loss per share had the fair value of options been expensed. Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the estimated market value of the Company's common stock at the date of the grant over the amount an employee must pay to acquire the stock.

[10] Interim financial statements:

The accompanying balance sheet as of March 31, 1998, the statement of changes in stockholders' equity for the three-month period then ended and the statements of operations and cash flows for the three-month periods ended March 31, 1997 and 1998 are unaudited. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three-month period ended March 31, 1998 are not necessarily indicative of the results to be expected for the year ended December 31, 1998.

NOTE C - EQUIPMENT AND FIXTURES

Equipment and fixtures are summarized as follows:

<TABLE>
<CAPTION>

	December 31, 1996	1997	March 31, 1998 (Unaudited)
<S>	<C>	<C>	<C>
Office and computer equipment	$ 669,000	$ 661,000	$ 663,000
Furniture and fixtures	59,000	59,000	59,000
Leasehold improvements	46,000	46,000	46,000
	774,000	766,000	768,000
Less accumulated depreciation	(256,000)	(366,000)	(404,000)
	$ 518,000	$ 400,000	$ 364,000

</TABLE>

NOTE D - CAPITALIZED SOFTWARE COSTS

<TABLE>
<CAPTION>

	Year Ended December 31, 1996	1997	Three Months Ended March 31, 1998
			(Unaudited)
<S>	<C>	<C>	<C>
Balance, beginning of period (net of accumulated amortization)	$ 225,000	$ 729,000	$ 1,258,000
Additions	750,000	850,000	
Amortization	(246,000)	(321,000)	(133,000)
Balance, end of period (net of accumulated amortization)	$ 729,000	$ 1,258,000	$ 1,125,000

</TABLE>

Amortization of capitalized software costs is included in cost of licenses in the accompanying statements of operations.

NOTE E - NOTES PAYABLE

Notes payable is summarized as follows:

<TABLE>
<CAPTION>

	December 31, 1997	March 31, 1998
<S>	<C>	<C>
Notes payable on the earlier of a) January 1, 1999 b) the date upon which the Company receives $6,000,000 net proceeds of equity or debt financing from one or a series of transactions c) a sale of all of the Company's assets or d) a merger or consolidation of the Company:		
Notes bearing interest at 6%, including $250,000 payable to a related party (1)	$ 650,000	$ 650,000
Notes bearing interest at 6% (2)	350,000	350,000
Note bearing interest at 8%, payable to a related party (3)	100,000	100,000
Notes bearing interest at 8%, payable to related parties (4)	400,000	400,000
Notes payable to related parties on the earlier of a) March 2, 1999 b) the date upon which the Company receives $6,000,000 net proceeds of equity or debt financing from one or a series of transactions c) a sale of all of the Company's assets or d) a merger or consolidation of the Company; bearing interest at 8% (5)	400,000	
	1,500,000	1,900,000
Less unamortized debt discount	(266,000)	(279,000)
	$ 1,234,000	$ 1,621,000

</TABLE>

NOTE E - NOTES PAYABLE (CONTINUED)

(1) In connection with the issuance of the notes, including $250,000 issued to an entity which is a principal stockholder of the Company, the Company issued ten-year warrants valued at $290,000 to purchase 90,791 shares of the Company's common stock at an exercise price of $6.44 per share, increasing the effective interest rate on the notes to 91%.

(2) In connection with the issuance of the notes, the Company issued ten-year warrants valued at $159,000 to purchase 48,888 shares of the Company's common stock at an exercise price of $6.44 per share, increasing the effective interest rate to 94%.

(3) In connection with the issuance of the note to a corporation wholly owned by the Chairman of the Board and a principal stockholder of the Company, the Company agreed to reduce the exercise price of previously issued warrants to the noteholder from $6.44 per share (31,040 shares) and $8.05 per share (31,040 shares) to $3.22 per share (see Note G[5]). In addition, the Company agreed to reduce the exercise price of warrants to purchase 124,159 shares of common stock at an exercise price of $3.22 per share previously issued to the noteholder to $1.61 per share. The Company valued the modified warrants at $45,000 in excess of the value ascribed to the original warrants, increasing the effective interest rate to 96%. The warrants exercisable at $3.22 per share were further reduced to $1.61 per share in connection with the issuance in November 1997 of a note for $50,000 to the same corporation referred to above which was repaid in December 1997. This modification was valued at $22,000 in excess of the value ascribed to the warrants as previously modified.

(4) In connection with the issuance of the notes to an entity which is a principal stockholder of the Company and to the corporation referred to in (3) above, the Company issued ten-year warrants valued at $168,000 to purchase 70,949 shares of the Company's common stock at an exercise price of $4.83 per share, increasing the effective interest rate to 86%.

(5) In connection with the issuance of the notes, $350,000 of which are payable to the entities referred to in (4) above, the Company issued ten-year warrants valued at $175,000 to purchase 74,496 shares of the Company's common stock at an exercise price of $4.83 per share, increasing the effective interest rate to 92%.

The proceeds from the issuance of the notes were allocated to the debt and the warrants based on their estimated fair values. The Company estimated the fair value of these warrants using the Black-Scholes pricing model and has accounted for this amount as a debt discount to be amortized over the life of the debt.

Interest expense for the years ended December 31, 1996, 1997 and for the three months ended March 31, 1997 and 1998 includes $325,000, $268,000, $10,000 and $117,000, respectively, of interest and amortization of debt discount on notes to related parties.

In April and May 1998, the Company borrowed an additional $1,350,000. The notes bear interest at 8% per annum and are payable on the earlier of a) one year b) the date upon which the Company receives $6,000,000 net proceeds of equity or debt financing from one or a series of transactions c) a sale of all of the Company's assets or d) a merger or consolidation of the Company. In connection therewith, the Company issued ten-year warrants valued at $591,000 to purchase 251,423 shares of the Company's common stock at an exercise price of $4.83 per share increasing the effective interest rate to 92%.

NOTE F - STOCKHOLDERS' EQUITY

[1] Preferred stock:

The Company has outstanding 500,000 shares of Series B convertible preferred stock. Such stock is convertible on a 1.610831-to-1 basis into common shares and automatically converts into common shares upon the completion of an initial public offering of the Company's securities which results in gross proceeds to the Company of a minimum of $4,000,000. The preferred stock has identical voting rights as the Company's common stock and has a liquidation preference of $1.00 per share.

[2] Stock options and warrants:

During 1996, the Board of Directors and stockholders approved the adoption of the 1996 Stock Option Plan (the "1996 Plan"). The 1996 Plan, as amended, provides for the granting of both incentive and non-qualified options to purchase up to 750,000 shares of common stock of the Company.

The term of options granted under the 1996 Plan may not exceed ten years (five years in the case of an incentive stock option granted to an optionee owning more than 10% of the voting stock of the Company). The option price for incentive stock options can not be less than 100% of the fair market value of the shares of common stock at the time the option is granted (110% for a 10% stockholder). The exercise price for non-qualified options is set by the Compensation Committee in its discretion.

The following table summarizes the activity under the 1996 Plan:

<TABLE>
<CAPTION>

	Year Ended December 31,				Three Months Ended	
	1996		1997		March 31, 1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding at beginning of period			104,139	$6.44	184,687	$5.72
Granted	107,398	$6.44	159,700	$5.54	103,984	$4.83
Cancelled	(3,259)	$6.44	(79,152)	$6.30	(62,080)	$5.51
Options outstanding at end of period	104,139	$6.44	184,687	$5.72	226,591	$5.38
Options exercisable at end of period	84,118	$6.44	184,687	$5.72	226,591	$5.38

</TABLE>

NOTE F - STOCKHOLDERS' EQUITY (CONTINUED)

[2] Stock options and warrants: (continued)

The following table presents information relating to stock options outstanding at December 31, 1997:

<TABLE>
<CAPTION>

Options Outstanding and Exercisable			
		Weighted	
	Weighted	Average	

	Average Exercise Price	Remaining Life in Years
Shares		
<S>	<C>	<C>
82,876	$4.83	9.75
101,811	$6.44	9.03
184,687	$5.72	9.35

The following table presents information relating to stock options outstanding at March 31, 1998 (unaudited):

Options Outstanding and Exercisable

Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
<S>	<C>	<C>
150,543	$4.83	9.79
76,048	$6.44	8.79
226,591	$5.38	9.45

The weighted average fair value at date of grant for options granted during the year ended December 31, 1996 and 1997 and the three months ended March 31, 1998 were $3.19, $2.77 and $2.32 per option, respectively. There were no options granted during the three months ended March 31, 1997. The fair value of options at date of grant was estimated using the Black-Scholes option pricing model utilizing the following weighted average assumptions:

	December 31, 1996	1997	March 31, 1998
			(Unaudited)
<S>	<C>	<C>	<C>
Risk-free interest rates	6.43%	6.50%	5.50%
Expected option life in years	6	6	6
Expected stock price volatility	40%	40%	40%
Expected dividend yield	0%	0%	0%

NOTE F - STOCKHOLDERS' EQUITY (CONTINUED)

[2] Stock options and warrants: (continued)

Had the Company elected to recognize compensation cost based on the fair value of the options at the date of grant as prescribed by SFAS 123, net loss for the years ended December 31, 1996 and 1997 and for the three-month period ended March 31, 1998 would have been $(4,842,000), $(2,832,000) and

$(938,000) or $(2.65) per share, $(1.53) per share and $(.55) per share, respectively.

[3] The Company has the following warrants; and options referred to in [4] below to purchase common stock outstanding as of December 31, 1997:

<TABLE>
<CAPTION>

Number of Shares	Exercise Price
<S>	<C>
186,239	$1.61
62,856	2.42
62,080	3.22
70,949	4.83
318,159	6.44
93,120	9.66
793,403	

</TABLE>

Subsequent to December 31, 1997 in connection with the issuance of notes, the Company issued warrants to purchase 325,919 shares of the Company's common stock at an exercise price of $4.83. The Company also issued a warrant to purchase 6,208 shares of the Company's common stock at an exercise price of $6.04 for services rendered.

[4] Private placement:

During March 1996, the Company completed a private placement of its securities. The Company issued 667,357 shares of its common stock for $6.44 a share, yielding gross proceeds of $4,300,000. In connection with the private placement the Company incurred costs aggregating $352,000 including $279,000 in commissions and expense allowance paid to the placement agent. The Company also issued options to purchase 66,736 shares of common stock at an exercise price of $6.44 per share expiring in March 2001 to the placement agents in connection with the private placement. The investors in the private placement were granted certain demand and piggyback registration rights. The Company also sold 31,040 shares of stock in 1996 receiving proceeds of $200,000.

NOTE G - COMMITMENTS AND CONTINGENCIES

[1] Operating leases:

The Company leases office facilities in Florida, New York and Texas under operating leases expiring through 1999. Rental commitments for the remaining term of the Company's noncancellable leases relating to office space expiring at various dates through 1999 are as follows:

<TABLE>
<CAPTION>

Year Ending December 31,	
<S>	<C>
1998	$ 120,000
1999	31,000

	$ 151,000

</TABLE>

Rental expense for the years December 31, 1996 and 1997 and for the three-month periods ended March 31, 1997 and 1998 aggregated $142,000, $146,000, $37,000 and $36,000, respectively.

[2] Software distribution agreements:

[a] In June 1997, the Company entered into a software distribution agreement pursuant to which the Company licensed, on a nonexclusive basis, the right to incorporate and/or bundle certain technology of the Company, with the customer's products. In connection therewith, the Company, which is entitled to royalties based on the customer's sales, received a $500,000, nonrefundable prepaid royalty, which is included in license revenue for the year ended December 31, 1997.

[b] In September 1997, the Company entered into a software distribution agreement, pursuant to which the Company has the right to incorporate certain technology into its software. The Company is required to make certain royalty payments based on unit sales as defined. The Company is obligated to pay a minimum of $100,000 in royalties pursuant to the agreement for the period September 1997 to March 30, 1999. As of December 31, 1997 and March 31, 1998, accrued royalty payable was approximately $29,000 and $37,000, respectively.

[c] In July 1996, the Company entered into an agreement pursuant to which certain technology was developed for the Company. The Company is required to make certain royalty payments based on unit sales as defined, up to a maximum royalty payment of $100,000. For the year ended December 31, 1997 and the three months ended March 31, 1998, royalties owed pursuant to such agreement were de minimus.

[3] Employment agreements:

In May 1998, the Company entered into an employment agreement with its President and Chief Executive Officer which provides for a base salary of $150,000, subject to annual increases of up to 20% by the Board of Directors at their discretion. The agreement also provides for an annual bonus of up to $50,000 as determined by the Board of Directors in its discretion. The agreement expires in May 2002. In connection therewith, the Company granted the President a five-year option to purchase 294,879 shares of the Company's common stock at an exercise price of $2.42 per share. The option vests 34% immediately and then 22% per year thereafter. As the estimated fair value of the Company's common stock at the date of grant of the option ($5.60 per share) was in excess of the exercise price the Company will incur aggregate compensation expense of approximately $900,000 over the four-year service period.

NOTE G - COMMITMENTS AND CONTINGENCIES

[3] Employment agreements: (continued)

The Company has employment agreements with five other officers providing for aggregate annual salaries of $218,000 through April 1999 with respect to two officers and aggregate annual salaries of $400,000 through May and June 2001 with respect to three officers. Certain of the agreements provide for the granting of bonuses at the discretion of the Board of Directors, as well as options to purchase shares of common stock.

Aggregate salary commitments pursuant to employment agreements are $526,000, $622,000, $550,000, $330,000 and $62,000 for 1998, 1999, 2000, 2001 and 2002, respectively.

[4] Savings and investment plan:

The Company has a Savings and Investment Plan which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code of 1986. The Company also may make discretionary annual matching contributions in amounts determined by the Board of Directors, subject to statutory limits. The Company did not make any contributions to the 401(k) Plan during the years ended December 31, 1996, 1997 and the three months ended March 31, 1998.

[5] Financial advisory agreement:

In September 1996, as amended in January 1997, the Company entered into a financial advisory agreement with a corporation owned by the Chairman of the Board and a principal stockholder, which expires in January 1999. Pursuant to such agreement, monthly fees of $12,500 were to be paid to such corporation, and the Company issued two 7-year warrants, each to purchase up to 31,040 shares of common stock at an exercise price of $6.44 and $8.05, respectively. Such exercise prices were subsequently reduced to an exercise price of $1.61 per share (see Note E[3]). The Company also agreed to pay such corporation and another corporation which is a principal stockholder of the Company, a cash fee equal to 3% of the total proceeds or other consideration received in connection with a merger or sale of substantially all of the Company's assets completed by January 2001. Expenses under the agreement, including amortization of the value ascribed to the warrants, included in general and administrative expenses, for the year ended December 31, 1997 and the three-month periods ended March 31, 1997 and 1998 amounted to $253,000, $58,000 and $50,000, respectively.

On May 14, 1998, the Company issued 31,250 shares of common stock to this entity in satisfaction of amounts owed pursuant the financial advisory agreement.

NOTE H - INCOME TAXES

The principal components of deferred tax assets and valuation allowance are as follows:

<TABLE>
<CAPTION>

	Year Ended December 31,		Three Months Ended March 31,
	1996	1997	1998
<S>	<C>	<C>	<C>
Deferred tax assets:			
Net operating loss carryforwards	$ 1,464,000	$ 2,122,000	$ 2,780,000
Common stock and warrants issued for compensation and debt discount, not yet deductible	266,000	525,000	599,000
Other	240,000	261,000	275,000
	1,970,000	2,908,000	3,654,000
Valuation allowance	(1,970,000)	(2,908,000)	(3,654,000)
Net deferred tax asset	$ 0	$ 0	$ 0

</TABLE>

The Company has recorded a valuation allowance for the full amount of its deferred tax assets as the likelihood of its future realization cannot be presently determined.

The difference between the tax benefit and the amount that would be computed by applying the statutory federal income tax rate to loss before taxes is attributable to the following:

<TABLE>
<CAPTION>

	Year Ended December 31,		Three Months Ended March 31,	
	1996	1997	1997	1998
<S>	<C>	<C>	<C>	<C>
Income tax benefit - statutory rate	(34.0)%	(34.0)%	(34.0)%	(34.0)%
Increase in valuation allowance on deferred tax assets	34.0%	34.0%	34.0%	34.0%
	0%	0%	0%	0%

</TABLE>

At December 31, 1997, the Company has available net operating loss carryforwards to reduce future federal taxable income of approximately $5,500,000 for tax reporting purposes which expire from 2009 through 2012. Pursuant to the provisions of the Internal Revenue Code, future utilization of these past losses is subject to certain limitations based on changes in the ownership of the Company's stock that have occurred or may occur.

NOTE I - OTHER MATTERS

[1] For the year ended December 31, 1997, approximately $500,000 (21%) and $331,000 (14%) of the Company's revenues were from two customers. For the three months ended March 31, 1998, approximately $80,000 (24%) and $45,000 (13%) of the Company's revenues were from two different customers. No customer accounted for 10% or more of the Company's revenue for the year ended December 31, 1996 or for the three months ended March 31, 1997.

[2] For the years ended December 31, 1996 and 1997 and for the three months ended March 31, 1997 and 1998, export sales of the Company's products amounted to approximately $69,000, $370,000, $144,000 and $9,000, respectively.

NOTE J - SUBSEQUENT EVENTS

[1] On July 8, 1998, the Company entered into an agreement with certain of its option and warrant holders pursuant to which the Company issued 596,741 shares of its common stock in exchange for cancellation of outstanding warrants to purchase 789,521 shares of the Company's common stock.

[2] The Company has agreed in principle to acquire for 35,000 shares of its common stock and the assumption of liabilities of up to $200,000 all of the outstanding common stock of CommHome Systems Corp. ("CommHome") effective upon the consummation of the offering. The Company's President is also the President of CommHome and owns 51% of its outstanding common stock. Of the assumed liabilities, $105,000 is owed to two officers of the Company and will be satisfied by the issuance of 13,125 shares of common stock. The

Company will incur a charge of approximately $465,000 for purchased research and development upon the acquisition. CommHome is a development stage company and has had no revenues. The principal activity has been the design of residential networking solutions. The Company intends to incorporate CommHome's designs into its future security products.

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No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with this offering and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Underwriter. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities offered by this Prospectus, or an offer to sell or a solicitation of an offer to buy any securities by anyone in any jurisdiction in which such offer or solicitation is not authorized or is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

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Until _____, 1998 (25 days after the date of this Prospectus), all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

[NETWORK-1 LOGO]

1,875,000 Shares

NETWORK-1 SECURITY SOLUTIONS, INC.

Common Stock

Prospectus

Whale Securities Co., L.P.

, 1998

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- ---

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24. Indemnification of Directors and Officers

As permitted by Section 102(b)(7) of the Delaware General Corporation Law (the "GCL"), Article VI of the Company's Amended and Restated Certificate of Incorporation, filed as Exhibit 3.1 hereto, includes a provision that eliminates any director's personal liability to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director. Such elimination of personal liability does not apply to the following: (i) breach of the duty of loyalty to the Company or its stockholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law; (iii) payment of an illegal dividend or an illegal redemption or purchase of the Company's stock, pursuant to Section 174 of the GCL; or (iv) any transaction from which the director derived an improper benefit. If the GCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Company'shall be eliminated or limited to the fullest extent permitted by the GCL, as so amended. Any repeal or modification of this Article by the stockholders of the Company shall not adversely affect any right or protection of a director of the Company with respect to events occurring prior to the time of such repeal or modification.

As permitted by Section 145 of the GCL, pursuant to Article VII of the Company's Amended and Restated Certificate of Incorporation, the Company, to the fullest extent permitted by the provisions of the GCL, as now or hereafter in effect, indemnifies any director, officer, employee or agent of the Company and certain other persons serving at the request of the Company in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which that person is or is threatened to be made a party by reasons of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful; provided that, in the case of actions brought by or in the right of the Company, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the Company unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances. The indemnification provided by Article VII of the Company's Amended and Restated Certificate of Incorporation does not limit or exclude any rights, indemnities or limitations of liability to which any person may be entitled, whether as a matter of law, under the Bylaws of the Company, by agreement, vote of the stockholders or vote of disinterested directors of the Company or otherwise.

The Company believes that the indemnification provisions contained in Article VI and Article VII of the Company's Amended and Restated Certificate of Incorporation have assisted and will assist the Company in attracting and retaining qualified individuals to serve as directors and officers.

The Underwriting Agreement, filed as Exhibit 1.1 hereto, provides for indemnification by the Underwriter of the Company, its directors and officers, and by the Company of the Underwriter, for certain liabilities, including liabilities under the Act, and affords certain rights of contribution with respect thereto.

Item 25. Other Expenses of Issuance and Distribution

The following table sets forth all expenses, other than underwriting discounts and commissions, payable by the Company in connection with the sale of the securities being registered.

The foregoing, except for the SEC Registration Fee and NASD Filing Fee are estimates.

<TABLE>
<CAPTION>

<S>	<C>
SEC Registration Fee	$ 5,818.94
NASD Filing Fee	$ 2,472.52
NASDAQ SmallCap Listing Fee	$ 10,000
Boston Stock Exchange Listing Fee	$ 7,500
Accounting Fees and Expenses	$ 80,000
Legal Fees and Expenses (other than Blue Sky)	$ 180,000
Blue Sky Fees and Expenses (including legal and filing fees)	$ 50,000
Printing and Engraving Expenses	$ 100,000
Directors' and Officers' Liability Insurance	$ 50,000
Transfer Agent Fees and Expenses	$ 2,500
Miscellaneous	$ 19,708.54
Total	$ 508,000

</TABLE>

Item 26. Recent Sales of Unregistered Securities

During the past three years, the Company has issued unregistered securities to the persons described below. No underwriting discounts or commissions were paid in connection with such issuance of securities, except in connection with the Company's issuance of an aggregate 667,357 shares of Common Stock on March 14, 1996 and March 21, 1996 (the "March 1996 Private Offering," as further described below under paragraph 5). In issuing the securities described below, the Company relied upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), by reason of Section 4(2) thereof and Regulation D promulgated thereunder, based on the fact that each investor was either an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated under the Securities Act or such investor had such knowledge and experience in financial and business matters that such person was capable of evaluating the merits and risks of the investment. The share amounts below reflect a stock split at the rate of 12,836.97-to-1 on March 2, 1994, and a reverse stock split at the rate of 1-for-1.61083 on July 20, 1998.

(1) On November 29, 1995, the Company issued to Corey M. Horowitz warrants to purchase 124,160 shares of Common Stock at an exercise price of $3.22 per share, expiring November 29, 2005, in consideration for a loan of $150,000.

(2) On November 29, 1995, the Company issued to the CAPCOR Employee Pension Plan warrants to purchase 62,080 shares of Common Stock at an exercise price of $3.22 per share, expiring November 29, 2005, in consideration for a loan of $75,000.

(3) On March 14, 1996, the Company issued to each of Irwin Lieber, Barry Rubenstein and Eli Oxenhorn warrants to purchase 31,040 shares of Common Stock at an exercise price of $6.44 per share, expiring March 14, 2006, and warrants to purchase 31,040 shares of Common Stock at an exercise price of $9.67 per share, expiring March 14, 2006, in consideration for their agreement to serve on the Company's advisory board.

(4) On March 14, 1996, the Company issued to Bizar Martin & Taub, LLP warrants to purchase 9,312 shares of Common Stock at an exercise price of $6.44 per share, expiring March 14, 2006, in consideration for services rendered.

(5) On March 14, 1996 and March 21, 1996, in connection with the March 1996

Private Offering, the Company issued to 34 investors an aggregate 667,357 shares of Common Stock, in consideration for payment of $6.44 per share, for an aggregate consideration of $4.3 million. GKN Securities Corp. served as Placement Agent for the March 1996 Private Offering, and received a 4.5% sales commission (or $193,500). The Company also issued to GKN Securities Corp., related parties and Barington Capital Group, L.P. options to purchase an aggregate 66,736 shares of Common Stock at an exercise price of $6.44 per share, expiring March 14, 2001, in consideration of $100.

(6) On March 14, 1996, the Company issued to Corey M. Horowitz 24,832 shares of Common Stock and 83,808 shares of Common Stock to Security Partners, L.P. in consideration for conversion of outstanding debt in the aggregate principal amount of $700,000.

(7) On March 21, 1996, the Company issued to J. Robert Scott, Inc. 6,467 shares of Common Stock in consideration for services rendered.

(8) On April 26, 1996, the Company issued to Michael Stansky and Jill Stansky as Tenants of the Entirety, w/r/o/s, 3,880 shares of Common Stock, in consideration for payment of $6.44 per share or aggregate consideration of $25,000.

(9) On April 28, 1996, the Company issued to James J. Pallotta 7,760 shares of Common Stock, in consideration for payment of $6.44 per share or aggregate consideration of $50,000.

(10) On April 29, 1996, the Company issued to Robert Russo 2,483 shares of Common Stock in consideration for services rendered as the Company's President.

(11) On June 3, 1996, the Company issued to Navigator Fund, L.P. 17,615 shares of Common Stock in consideration for payment of $6.44 per share or aggregate consideration of $113,500.

(12) On June 3, 1996, the Company issued to Navigator Global Fund 1,785 shares of Common Stock in consideration for payment of $6.44 per share or aggregate consideration of $11,500.

(13) On October 3, 1996, the Company issued to each of Craig Bandes and Mona Geller 7,760 shares of Common Stock, upon the exercise of stock options by Bandes and Geller at an exercise price of $1.61 per share or aggregate consideration of $25,000. The stock options had been issued pursuant to Stock Option Agreements, dated April 4, 1994, in consideration for financial advisory services rendered to the Company.

(14) On October 11, 1996, the Company issued to CMH Capital Management Corp. ("CMH") warrants to purchase 31,040 shares of Common Stock at an exercise price of $8.05 per share, expiring October 11, 2003, in consideration for financial advisory services.

(15) On October 22, 1996, the Company issued to Communica, Inc. and related parties 9,312 shares of Common Stock in consideration for services rendered.

(16) The Company's Stock Option Plan provides for the grant of stock options to key employees, directors, and consultants of the Company (the "Stock Option Plan"). Under the Stock Option Plan, employees (including officers and employee directors) are eligible to receive grants of incentive stock options, which are intended to be "Incentive Stock Options" as defined by Section 422 of the Internal Revenue Code of 1986, as amended. Employees (including officers), directors of the Company or any affiliates or consultants are eligible to receive grants of non-qualified options. An aggregate of 465,598 shares of Common Stock has been reserved for issuance upon exercise of outstanding options issued under the Stock Option Plan. The Company believes that the Employee Stock Option grants described in this paragraph are exempt from the registration requirements of the Securities Act by reason of Rule 701 promulgated thereunder, because such options were granted pursuant to a written compensatory benefit plan of the Company, copies of which were provided to each participant, and the aggregate offering price did not exceed the limit prescribed by Rule 701 in connection with any such grant. As of July 15, 1998, pursuant to the Stock

Option Plan, options to purchase an aggregate of 423,908 shares of Common Stock were outstanding, including options to purchase 36,316 shares of Common Stock at an exercise price of $6.44 per share, options to purchase 127,264 shares of Common Stock at an exercise price of $4.83 per share, options to purchase 177,828 shares of Common Stock at an exercise price of $5.60 per share, and options to purchase 82,500 shares of Common Stock at an exercise price of $7.20 per share. No such outstanding options had been exercised.

(17) On January 15, 1997, the Company issued to CMH warrants to purchase 31,040 shares of Common Stock at an exercise price of $6.44 per share, expiring January 15, 2004, in consideration for financial advisory services to the Company.

(18) In February and April of 1997, the Company borrowed $1 million through the issuance to ten (10) investors of unsecured promissory notes, bearing 6% interest (the "February and April 1997 Private Financing"), and due at the earlier of (i) one year from the date of issuance, (ii) the date upon which the Company receives $4,000,000 net proceeds (after deduction of all related offering expenses) of equity or debt financing from one transaction or a series of transactions, (iii) a sale of all or substantially all of the Company's assets or (iv) a merger or consolidation of the Company. In addition, as part of the February and April 1997 Private Financing, investors received receive ten (10) year warrants to purchase an aggregate of 139,679 shares of Common Stock at an exercise price of $6.44 per share (the "Warrants"), as follows:

(a) On February 24, 1997, the Company issued to Charles P. Stevenson, Jr. warrants to purchase 13,968 shares of Common Stock in consideration for a loan of $100,000;

(b) On February 24, 1997, the Company issued to Albert Kalimian warrants to purchase 6,984 shares of Common Stock in consideration for a loan of $50,000;

(c) On February 24, 1997, the Company issued to Raptur Management Co. warrants to purchase 13,968 shares of Common Stock in consideration for a loan of $100,000;

(d) On February 24, 1997, the Company issued to Douglas Lipton warrants to purchase 6,984 shares of Common Stock in consideration for a loan of $50,000;

(e) On February 24, 1997, the Company issued to Applewood Associates, L.P. warrants to purchase 34,920 shares of Common Stock in consideration for a loan of $250,000;

(f) On February 24, 1997, the Company issued to Lawrence Wein warrants to purchase 3,492 shares of Common Stock in consideration for a loan of $25,000;

(g) On February 24, 1997, the Company issued to Steven Heineman warrants to purchase 3,492 shares of Common Stock in consideration for a loan of $25,000;

(h) On February 24, 1997, the Company issued to Herb Karlitz warrants to purchase 6,984 shares of Common Stock in consideration for a loan of $50,000;

(i) On April 29, 1997, the Company issued to Navigator Fund, L.P. warrants to purchase 42,882 shares of Common Stock in consideration for a loan of $307,000; and

(j) On April 29, 1997, the Company issued to Navigator Global Fund warrants to purchase 6,006 shares of Common Stock in consideration for a loan of $43,000.

(19) On February 24, 1997, the Company issued to Alan Kaufman warrants to purchase 9,312 shares of Common Stock at an exercise price of $6.44 per share, expiring February 24, 2007, in consideration for services rendered.

(20) On August 8, 1997, the Company agreed to reduce the exercise prices of warrants to purchase 31,040 shares of Common Stock, at an exercise price of $8.05 per share, issued to CMH on October 11, 1996 and warrants to purchase 31,040 shares of Common Stock, at an exercise price of $6.44 per share, issued to CMH on January 15, 1997, to an exercise price of $3.22 per share, in consideration for a loan $100,000 made by CMH. In addition, the

Company agreed to reduce the exercise price of warrants to purchase 124,160 shares of Common Stock, at an exercise price of $3.22 per share, issued to Corey M. Horowitz on November 29, 1995, to an exercise price of $1.61 per share, in consideration for that same loan.

(21) On September 26, 1997, the Company issued to Applewood Associates, L.P. warrants to purchase 62,080 shares of Common Stock at an exercise price of $4.83 per share, expiring September 26, 2007, in consideration for a loan of $350,000.

(22) On September 26, 1997, the Company issued to CMH warrants to purchase 8,869 shares of Common Stock at an exercise price of $4.83 per share, expiring September 26, 2007, in consideration for a loan of $50,000.

(23) On November 12, 1997, the Company issued to Progressive Strategies, Inc. 2,794 shares of Common Stock in consideration for services rendered.

(24) On November 21, 1997, in consideration of a loan of $50,000, the Company agreed to reduce the exercise prices to $1.61 of warrants to purchase 31,040 shares of Common Stock, originally issued to CMH at an exercise price of $8.05 per share on October 11, 1996 and warrants to purchase 31,040 shares of Common Stock, originally issued to CMH at an exercise price of $6.44 per share on January 15, 1997.

(25) On February 17, 1998, the Company issued to Venture Strategies, Inc. warrants to purchase 6,208 shares of Common Stock at an exercise price of $6.04 per share, expiring February 17, 2002, in consideration for services rendered.

(26) On March 2, 1998, the Company issued an aggregate of $400,000 of promissory notes and ten year warrants to purchase up to 74,496 shares of Common Stock at an exercise price of $4.83 per share to four (4) investors including Applewood Associates, L.P. ($300,000 note and warrants to purchase 55,871 shares of common stock), CMH Capital Management Corp.($50,000 note and warrants to purchase 9,312 shares of common stock), Robert Graifman ($25,000 note and warrants to purchase 4,656 shares of common stock) and Herb Karlitz ($25,000 note and warrants to purchase 4,656 shares of common stock).

(27) On April 24, 1998, the Company issued to each of Corey Horowitz and MBF Capital Corp. ten (10) year warrants to purchase 9,312 shares of Common Stock at an exercise price of $4.83 per share in consideration for a loan of $50,000 by each party.

(28) On May 10, 1998, the Company issued 2,897 shares of Common Stock to High Tech Ventures in consideration for services rendered.

(29) On May 14, 1998, the Company issued an aggregate of $1,250,000 of promissory notes and ten (10) year warrants to purchase up to 232,799 shares of Common Stock at an exercise price of $4.83 per share to Applewood Associates, L.P. ($1,000,000 note and warrants to purchase 186,239 shares) and Bentley One, Ltd. ($250,000 note and warrants to purchase 46,560 shares).

(30) On May 18, 1998, the Company issued a five (5) year option to Avi A. Fogel to purchase up to 294,879 shares of the Common Stock at an exercise price of $2.42 per share, in consideration for Mr. Fogel's execution of his employment agreement. The shares underlying the option vest as follows: 34% on the date of issuance of the option and 22% per year for each year thereafter.

(31) On May 14, 1998, the Company issued 50,399 shares of Common Stock to CMH in connection with advisory services rendered to the Company.

(32) On July 8, 1998, the Company issued an aggregate of 596,741 shares of its Common Stock in exchange for the cancellation of outstanding warrants and options to purchase an aggregate of 789,521 shares of Common Stock, as follows:

(a) 261,565 shares of its Common Stock to Applewood Associates, L.P. in exchange for warrants to purchase 339,111 shares of Common Stock;

(b) 14,070 shares of its Common Stock to CMH Capital Management Corp. in exchange for warrants to purchase 18,181 shares of Common Stock;

(c) 117,138 shares of its Common Stock to Corey M. Horowitz in exchange for warrants to purchase 133,471 shares of Common Stock;

(d) 49,381 shares of its Common Stock to CAPCOR Employee Pension Plan in exchange for warrants to purchase 62,080 shares of Common Stock;

(e) 9,824 shares of its Common Stock to Raptur Management Co. in exchange for warrants to purchase 13,968 shares of Common Stock;

(f) 4,912 shares of its Common Stock to Douglas Lipton in exchange for warrants to purchase 6,984 shares of Common Stock;

(g) 2,456 shares of its Common Stock to Lawrence Wein in exchange for warrants to purchase 3,492 shares of Common Stock;

(h) 2,456 shares of its Common Stock to Steven Heineman in exchange for warrants to purchase 3,492 shares of Common Stock;

(i) 8,572 shares of its Common Stock to Herb Karlitz in exchange for warrants to purchase 11,640 shares of Common Stock;

(j) 9,824 shares of its Common Stock to Charles P. Stevenson, Jr. in exchange for warrants to purchase 13,968 shares of Common Stock;

(k) 4,912 shares of its Common Stock to Albert Kalimian in exchange for warrants to purchase 6,984 shares of Common Stock;

(l) 30,374 shares of its Common Stock to Navigator Fund, L.P. in exchange for warrants to purchase 42,882 shares of Common Stock;

(m) 4,254 shares of its Common Stock to Navigator Global Fund in exchange for warrants to purchase 6,006 shares of Common Stock;

(n) 3,625 shares of its Common Stock to Robert Graifman in exchange for warrants to purchase 4,656 shares of Common Stock;

(o) 7,278 shares of its Common Stock to MBF Capital Corp. in exchange for warrants to purchase 9,312 shares of Common Stock;

(p) 36,441 shares of its Common Stock to Bentley One, Ltd. in exchange for warrants to purchase 46,560 shares of Common Stock;

(q) 6,897 shares of its Common Stock to Barington Capital Group, L.P. in exchange for options to purchase 15,520 shares of Common Stock;

(r) 9,560 shares of its Common Stock to GKN Securities Corp. in exchange for options to purchase 21,510 shares of Common Stock;

(s) 3,869 shares of its Common Stock to David M. Nussbaum in exchange for options to purchase 8,707 shares of Common Stock;

(t) 3,869 shares of its Common Stock to Robert Gladstone in exchange for options to purchase 8,707 shares of Common Stock;

(u) 3,869 shares of its Common Stock to Roger Gladstone in exchange for options to purchase 8,707 shares of Common Stock;

(v) 593 shares of its Common Stock to Deborah L. Schondorf in exchange for options to purchase 1,335 shares of Common Stock;

(w) 104 shares of its Common Stock to Neil Betoff in exchange for options to purchase 233 shares of Common Stock;

(x) 455 shares of its Common Stock to Richard Buonocore in exchange for options to purchase 1,024 shares of Common Stock;

(y) 166 shares of its Common Stock to Brian K. Coventry in exchange for options to purchase 372 shares of Common Stock;

(z) 276 shares of its Common Stock to Andrew G. Lazarus in exchange for options to purchase 621 shares of Common Stock;

Item 27. Exhibits

The following is a list of all Exhibits filed as part of this Registration Statement.

<TABLE>
<CAPTION>

Exhibit Number	Exhibit
<S>	<C>
1.1	Form of Underwriting Agreement
1.2	Form of Underwriter's Warrant
2.1	Merger Agreement, dated , 1998, between the Company and CommHome Systems Corp.*
3.1	Certificate of Incorporation of the Company, as amended
3.2	By-laws of the Company, as amended
4.1	Form of Common Stock Certificate*
4.2	Company's Stock Option Plan, as amended
5.1	Opinion of Bizar Martin & Taub, LLP *
10.1	Employment Agreement, dated May 18, 1998, between the Company and Avi A. Fogel, and amendment, dated May 30, 1998
10.2	Employment Agreement, dated May 18, 1998, between the Company and Robert P. Olsen
10.3	Employment Agreement, dated May 19, 1998, between the Company and Murray P. Fish
10.4	Employment Agreement, dated June 30, 1998, between the Company and William Hancock
10.5	Employment Agreement, dated April 4, 1994, between the Company and Robert Russo, and amendment, dated February 16, 1996
10.6	Waiver, dated June 30, 1998, of salary increases by William Hancock and Robert Russo
10.7	Lease and Service Agreement, dated June 5, 1998, between the Company and Alliance Wellesley L.P.*
10.8	Lease, dated June 29, 1994, between the Company and Greenview Limited Partnership
10.9	Agreement, dated August 30, 1996, between the Company and CMH Capital Management Corp. ("CMH"), with respect to advisory services, and amendments, dated January 15, 1997, and January 30, 1997

10.10 Agreement, dated May 14, 1998, between the Company, CMH and Applewood Associates, L.P. with respect to advisory services
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10.11 Master Software License Agreement, dated November 10, 1997, between the Company and Electronic Data System Corporation, and amendment, dated May 29, 1998**

10.12 Software Distribution Agreement, dated June 5, 1997, between the Company and Trusted Information Systems, Inc.**

10.13 Software Distribution Agreement, dated September 26, 1997, between the Company and Trusted Information Systems, Inc.**

10.14 Reseller Agreement, dated April 17, 1998, between the Company and Aventail Software Corporation **

10.15 Agreement, dated January 31, 1997, among the Company, Robert Russo and William Hancock, in which Messrs. Russo and Hancock surrendered shares of Common Stock

10.16 Agreement, dated September 26, 1997, between the Company, Robert Russo, William Hancock, and Kenneth Conquest, in which Messrs. Russo, Hancock, and Conquest surrendered shares of Common Stock

10.17 Agreement, dated May 14, 1998, among the Company, Robert Russo and William Hancock, in which Messrs. Russo and Hancock surrendered shares of Common Stock

10.18 Agreement, dated May 14, 1998, between the Company and CMH, in connection with the issuance of shares for advisory fees

10.19 Exchange Agreement, dated July 8, 1998, between the Company and certain of its holders of outstanding warrants and options

23.1 Consent of Richard A. Eisner & Company, LLP

23.2 Consent of Bizar Martin & Taub, LLP (included in Exhibit 5.1)*

24.1 Power of Attorney (see signature page)

27.1 Financial Data Schedule
</TABLE>

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* To be filed by amendment.
** Confidential treatment requested for certain provisions.

Item 28. Undertakings

The Registrant will provide to the Underwriter specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriter to permit prompt delivery to each purchaser.

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

in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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

For purposes of determining any liability under the Securities Act, the information omitted from the Form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in the Form of Prospectus filed by Company pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in the Township of Wellesley, Commonwealth of Massachusetts on the 22nd day of July, 1998

Network-1 Security Solutions, Inc.

By: /s/ Avi A. Fogel

Avi A. Fogel, President and
Chief Executive Officer

POWER OF ATTORNEY

Network-1 Security Solutions, Inc., a Delaware corporation, and each person whose signature appears below constitutes and appoints Avi A. Fogel and Corey M. Horowitz, and each of them, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with exhibits and schedules thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, thereby ratifying and confirming all that said attorney-in-fact, or substitute, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates indicated:

Name	Title	Date
/s/ Avi A. Fogel - ---------- Avi A. Fogel	President, Chief Executive Officer and Director (principal executive officer) and Director (principal executive officer)	July 22, 1998
/s/ William H. Hancock - ---------- William H. Hancock	Chief Technology Officer and Director	July 22, 1998
/s/ Murray P. Fish - ---------- Murray P. Fish	Chief Financial Officer (principal financial officer and principal accounting officer)	July 22, 1998

/s/ Robert Russo Vice President of Business July 22, 1998
- ---------- Development
Robert Russo

/s/ Corey M. Horowitz Chairman of the Board of Directors July 22, 1998
- ----------
Corey M. Horowitz

Registration No. 333

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

EXHIBITS

FILED WITH

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

NETWORK-1 SECURITY SOLUTIONS, INC.
(Exact name of Registrant as specified in its charter)

Volume 1

EXHIBIT INDEX

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*To be filed by amendment.

**Confidential treatment requested for certain provisions.

Exhibit 1.1

Network-1 Security Solutions, Inc.

1,875,000 Shares of Common Stock

(Par Value $.01 Per Share)

UNDERWRITING AGREEMENT

Whale Securities Co., L.P.
650 Fifth Avenue
New York, New York 10019

New York, New York
August __, 1998

Dear Sirs:

Network-1 Security Solutions, Inc, a Delaware corporation (the "Company"), proposes to issue and sell to Whale Securities Co., L.P. (the "Underwriter") 1,875,000 shares of common stock, par value $.01 per share (the "Offered Shares"), which Offered Shares are presently authorized but unissued shares of the common stock, par value $.01 per share (individually, a "Common Share" and collectively the "Common Shares"), of the Company. In addition, the Underwriter, in order to cover over-allotments in the sale of the Offered Shares, may purchase up to an aggregate of 281,250 Common Shares (the "Optional Shares"; the Offered Shares and the Optional Shares are hereinafter sometimes collectively referred to as the "Shares"). The Shares are described in the Registration Statement, as defined below. The Company also proposes to issue and sell to the Underwriter for its own account and the accounts of its designees, warrants to purchase an aggregate of 187,500 Common Shares at an exercise price of $13.20 per share (the "Underwriter's Warrants"), which sale will be consummated in accordance with the terms and conditions of the form of Underwriter's Warrant filed as an exhibit to the Registration Statement (as hereinafter defined).

The Company hereby confirms its agreement with the Underwriter as follows:

1. Purchase and Sale of Offered Shares. On the basis of the representations and warranties herein contained, but subject to the terms and conditions herein set forth, the Company hereby agrees to sell the Offered Shares to the Underwriter, and the Underwriter agrees to purchase the Offered Shares from the Com pany, at a purchase price of $____ per share. The Underwriter plans to offer the Shares to the public at a public offering price of $8.00 per Offered Share.

2. Payment and Delivery.

(a) Payment for the Offered Shares will be made to the Company by wire transfer or certified or official bank check or checks payable to its order in New York Clearing House funds, at the offices of the Underwriter, 650 Fifth Avenue, New York, New York 10019, against delivery of the Offered Shares to the Underwriter. Such payment and delivery will be made at _____, New York City time, on the third business day following the Effective Date (the fourth business day following the Effective Date in the event that trading of the Offered Shares commences on the day following the Effective Date), the date and time of such payment and delivery being herein called the "Closing Date." The certificates representing the Offered Shares to be delivered will be in such denominations and registered in such names as the Underwriter may request not less than two full business days prior to the Closing Date, and will be made avail able to the Underwriter for inspection, checking and packaging at the office of the Company's transfer agent or correspondent in New York City, American Stock Transfer & Trust Company, 40 Wall Street, New York, New York 10005, not less

than one full business day prior to the Closing Date.

(b) On the Closing Date, the Company will sell the Underwriter's Warrants to the Underwriter or to the designees of the Underwriter limited to officers and partners of the Underwriter, members of the selling group and/or their officers or partners (collectively, the "Underwriter's Designees"). The Underwriter's Warrants will be in the form of, and in accordance with, the provisions of the Underwriter's Warrant attached as an exhibit to the Registration Statement. The aggregate purchase price for the Underwriter's Warrants is $187.50. The Underwriter's Warrants will be restricted from sale, transfer, assignment or hypothecation for a period of one year from the Effective Date, except to the Underwriter's Designees. Payment for the Underwriter's Warrant Agreement will be made to the Company by check or checks payable to its order on the Closing Date against delivery of the certificates representing the Underwriter's Warrants. The certificates representing the Underwriter's Warrants will be in such denominations and such names as the Underwriter may request prior to the Closing Date.

3. Option to Purchase Optional Shares.

(a) For the purposes of covering any over allotments in connection with the distribution and sale of the Offered Shares as contemplated by the Prospectus, the Underwriter is hereby granted an option to purchase all or any part of the Optional Shares from the Company. The purchase price to be paid for the Optional Shares will be the same price per Optional Share

as the price per Offered Share set forth in Section 1 hereof. The option granted hereby may be exercised by the Underwriter as to all or any part of the Optional Shares at any time within 45 days after the Effective Date. The Underwriter will not be under any obligation to purchase any Optional Shares prior to the exercise of such option.

(b) The option granted hereby may be exercised by the Underwriter by giving oral notice to the Company, which must be confirmed by a letter, telex or telegraph setting forth the number of Optional Shares to be purchased, the date and time for delivery of and payment for the Optional Shares to be purchased and stating that the Optional Shares referred to therein are to be used for the purpose of covering over-allotments in connection with the distribution and sale of the Offered Shares. If such notice is given prior to the Closing Date, the date set forth therein for such delivery and payment will not be earlier than either two full business days thereafter or the Closing Date, whichever occurs later. If such notice is given on or after the Closing Date, the date set forth therein for such delivery and payment will not be earlier than two full business days thereafter. In either event, the date so set forth will not be more than 15 full business days after the date of such notice. The date and time set forth in such notice is herein called the "Option Closing Date." Upon exercise of such option, the Company will become obligated to convey to the Underwriter, and, subject to the terms and conditions set forth in Section 3(d) hereof, the Underwriter will become obligated to purchase, the number of Optional Shares specified in such notice.

(c) Payment for any Optional Shares purchased will be made to the Company by wire transfer or certified or official bank check or checks payable to its order in New York Clearing House funds, at the office of the Underwriter, against delivery of the Optional Shares purchased to the Underwriter. The certificates representing the Optional Shares to be delivered will be in such denominations and registered in such names as the Underwriter requests not less than two full business days prior to the Option Closing Date, and will be made available to the Underwriter for inspection, checking and packaging at the aforesaid office of the Company's transfer agent or correspondent not less than one full business day prior to the Option Closing Date.

(d) The obligation of the Underwriter to purchase and pay for any of the Optional Shares is subject to the accuracy and completeness (as of the date hereof and as of the Option Closing Date) of and compliance in all material respects with the representations and warranties of the Company herein, to the accuracy and completeness of the statements of the Company or its

officers made in any certificate or other document to be delivered by the Company pursuant to this Agreement, to the performance in all material respects by the Company of its obligations hereunder, to the satisfaction by the Company of the conditions, as of the date hereof and as of the Option Closing Date, set forth in Section 3(b) hereof, and to the delivery to the Underwriter of opinions, certificates and letters dated the Option Closing Date substantially similar in scope to those specified in Section 5, 6(b), (c), (d), (e) and (f) hereof, but with each reference to "Offered Shares" and "Closing Date" to be, respectively, to the Optional Shares and the Option Closing Date.

4. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, the Underwriter that:

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with full power and authority, corporate and other, to own or lease and operate, as the case may be, its properties, whether tangible or intangible, and to conduct its business as described in the Registration Statement and to execute, deliver and perform this Agreement and the Underwriter's Warrant Agreement and to consummate the transactions contemplated hereby and thereby. The Company is duly qualified to do business as a foreign corporation and is in good standing in all jurisdictions wherein such qualification is necessary and failure so to qualify could have a material adverse effect on the financial condition, results of operations, business or properties of the Company. The Company has no subsidiaries.

(b) This Agreement has been duly executed and delivered by the Company and constitutes the valid and binding obligation of the Company, and the Underwriter's Warrant Agreement, when executed and delivered by the Company on the Closing Date, will be the valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms. The execution, delivery and performance of this Agreement and the Underwriter's Warrant Agreement by the Company, the consummation by the Company of the transactions herein and therein contemplated and the compliance by the Company with the terms of this Agreement and the Underwriter's Warrant Agreement have been duly authorized by all necessary corporate action and do not and will not, with or without the giving of notice or the lapse of time, or both, (i) result in any violation of the Certificate of Incorporation or By-Laws, each as amended, of the Company; (ii) result in a breach of or conflict with any of the terms or provisions of, or constitute a default under, or result in the modification or termination of, or result in the creation or imposition of any lien, security interest, charge or

encumbrance upon any of the properties or assets of the Company pursuant to any indenture, mortgage, note, contract, commitment or other agreement or instrument to which the Company is a party or by which the Company or or any of its properties or assets is or may be bound or affected; (iii) violate any existing applicable law, rule, regulation, judgment, order or decree of any governmental agency or court, domestic or foreign, having jurisdiction over the Company or any of its properties or business; or (iv) have any effect on any permit, certification, registration, approval, consent order, license, franchise or other authorization (collectively, the "Permits") necessary for the Company to own or lease and operate its properties and to conduct its business or the ability of the Company to make use thereof.

(c) No Permits of any court or governmental agency or body, other than under the Securities Act of 1933, as amended (the "Act"), the Regulations (as hereinafter defined) and applicable state securities or Blue Sky laws, are required (i) for the valid authorization, issuance, sale and delivery of the Shares to the Underwriter, and (ii) the consummation by

the Company of the transactions contemplated by this Agreement or the Underwriter's Warrant Agreement.

(d) The conditions for use of a registration statement on Form SB-2 set forth in the General Instructions to Form SB-2 have been satisfied with respect to the Company, the transactions contemplated herein and in the Registration Statement. The Company has prepared in conformity with the requirements of the Act and the rules and regulations (the "Regulations") of the Securities and Exchange Commission (the "Commission") and filed with the Commission a registration statement (File No. 333-) on Form SB-2 and has filed one or more amendments thereto, covering the registration of the Shares under the Act, including the related preliminary prospectus or preliminary prospectuses (each thereof being herein called a "Preliminary Prospectus") and a proposed final prospectus. Each Preliminary Prospectus was endorsed with the legend required by Item 501(a)(5) of Regulation S-B of the Regulations and, if applicable, Rule 430A of the Regulations. Such registration statement including any documents incorporated by reference therein and all financial schedules and exhibits thereto, as amended at the time it becomes effective, and the final prospectus included therein are herein, respectively, called the "Registration Statement" and the "Prospectus," except that, (i) if the prospectus filed by the Company pursuant to Rule 424(b) of the Regulations differs from the Prospectus, the term "Prospectus" will also include the prospectus filed pursuant to Rule 424(b), and (ii) if the Registration Statement is amended or such Prospectus is supplemented after the date the Registration

Statement is declared effective by the Commission (the "Effective Date") and prior to the Option Closing Date, the terms "Registration Statement" and "Prospectus" shall include the Registration Statement as amended or supplemented.

(e) Neither the Commission nor, to the best of the Company's knowledge, any state regulatory authority has issued any order preventing or suspending the use of any Preliminary Prospectus or has instituted or, to the best of the Company's knowledge, threatened to institute any proceedings with respect to such an order.

(f) The Registration Statement when it becomes effective, the Prospectus (and any amendment or supplement thereto) when it is filed with the Commission pursuant to Rule 424(b), and both documents as of the Closing Date and the Option Closing Date, referred to below, will contain all statements which are required to be stated therein in accordance with the Act and the Regulations and will in all material respects conform to the requirements of the Act and the Regulations, and neither the Registration Statement nor the Prospectus, nor any amendment or supplement thereto, on such dates, will contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, except that this representation and warranty does not apply to statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company in connection with the Registration Statement or Prospectus or any amendment or supplement thereto by the Underwriter expressly for use therein.

(g) The Company had at the date or dates indicated in the Prospectus a duly authorized and outstanding capitalization as set forth in the Registration Statement and the Prospectus. Based on the assumptions stated in the Registration Statement and the Prospectus, the Company will have on the Closing Date the adjusted stock capitalization set forth therein. Except as set forth in the Registration Statement or the Prospectus, on the Effective Date and on the Closing Date, there will be no options to purchase, warrants or other rights to subscribe for, or any securities or obligations convertible into, or any contracts or commitments to issue or sell shares of the Company's capital stock or any such warrants, convertible securities or obligations. Except as set forth in the Prospectus, no holders of any of the Company's securities has any rights, "demand," "piggyback" or otherwise, to have such securities registered under the Act.

(h) The descriptions in the Registration Statement and the Prospectus of contracts and other documents are accurate and present fairly the information required to be disclosed, and there are no contracts or other documents required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement under the Act or the Regulations which have not been so described or filed as required.

(i) Richard A. Eisner & Company, LLP, the accountants who have certified certain of the financial statements filed and to be filed with the Commission as part of the Registration Statement and the Prospectus, are independent public accountants within the meaning of the Act and Regulations. The financial statements and schedules and the notes thereto filed as part of the Registration Statement and included in the Prospectus are complete, correct and present fairly the financial position of the Company as of the dates thereof, and the results of operations and changes in financial position of the Company for the periods indicated therein, all in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved except as otherwise stated in the Registration Statement and the Prospectus. The selected financial data set forth in the Registration Statement and the Prospectus present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements included in the Registration Statement and the Prospectus.

(j) The Company has filed with the appropriate federal, state and local governmental agencies, and all appropriate foreign countries and political subdivisions thereof, all tax returns, including franchise tax returns, which are required to be filed or has duly obtained extensions of time for the filing thereof and has paid all taxes shown on such returns and all assessments received by it to the extent that the same have become due; and the provisions for income taxes payable, if any, shown on the financial statements filed with or as part of the Registration Statement are sufficient for all accrued and unpaid foreign and domestic taxes, whether or not disputed, and for all periods to and including the dates of such financial statements. Except as disclosed in writing to the Underwriter, the Company has not executed or filed with any taxing authority, foreign or domestic, any agreement extending the period for assessment or collection of any income taxes and is not a party to any pending action or proceeding by any foreign or domestic governmental agency for assessment or collection of taxes; and no claims for assessment or collection of taxes have been asserted against the Company.

(k) The outstanding Common Shares, the outstanding shares of Series B Preferred Stock, par value $.01 per share of the Company (the "Preferred Shares") and outstanding options and warrants to purchase Common Shares have been duly authorized and validly issued. The outstanding Common Shares and Preferred Shares are fully paid and nonassessable. The outstanding options and warrants to purchase Common Shares constitute the valid and binding obligations of the Company, enforceable in accordance with their terms. None of the outstanding Common Shares or Preferred Shares or options or warrants to purchase Common Shares has been issued in violation of the preemptive rights of any shareholder of the Company. None of the holders of the outstanding Common Shares or Preferred Shares is subject to personal liability solely by reason of being such a holder. Upon conversion of the outstanding Preferred Shares into Common Shares on the Closing Date, such shares will be duly authorized, validly issued, fully paid and non-assessable, and none of the holders thereof will be subject to personal liability solely by reason of being such a holder. The offers and sales of the outstanding Common Shares and Preferred Shares and outstanding options and warrants to purchase Common Shares were at all relevant times either registered under the Act and the applicable state securities or Blue Sky laws or exempt from such registration requirements. The authorized Common Shares and Preferred Shares and outstanding options and warrants to purchase Common Shares conform to the descriptions thereof contained in the Registration Statement and Prospectus. Except as set forth in the Registration Statement and the Prospectus, on the Effective Date and the Closing Date, there will be no outstanding options or warrants for the purchase of, or other outstanding rights to purchase, Common Shares or securities convertible into Common Shares.

(l) No securities of the Company have been sold by the Company or by or on behalf of, or for the benefit of, any person or persons controlling, controlled by, or under common control with the Company within the three years prior to the date hereof, except as disclosed in the Registration Statement.

(m) The issuance and sale of the Shares have been duly authorized and, when the Shares have been issued and duly delivered against payment therefor as contemplated by this Agreement, the Shares will be validly issued, fully paid and nonassessable, and the holders thereof will not be subject to personal liability solely by reason of being such holders. The Shares will not be subject to preemptive rights of any shareholder of the Company.

(n) The issuance and sale of the Common Shares issuable upon exercise of the Underwriter's Warrants have been

duly authorized and, when such Common Shares have been duly delivered against payment therefor, as contemplated by the Underwriter's Warrant Agreement, such Common Shares will be validly issued, fully paid and nonassessable. Holders of Common Shares issuable upon the exercise of the Underwriter's Warrants will not be subject to personal liability solely by reason of being such holders. Neither the Underwriter's Warrants nor the Common Shares issuable upon exercise thereof will be subject to preemptive rights of any shareholder of the Company. The Common Shares issuable upon exercise of the Underwriter's Warrants have been duly reserved for issuance upon exercise of the Underwriter's Warrants in accordance with the provisions of the Underwriter's Warrant Agreement. The Underwriter's Warrants conform to the descriptions thereof contained in the Registration Statement and the Prospectus.

(o) The Company is not in violation of, or in default under, (i) any term or provision of its Certificate of Incorporation or By-Laws, each as amended; (ii) any material term or provision or any financial covenants of any indenture, mortgage, contract, commitment or other agreement or instrument to which it is a party or by which it or any of its property or business is or may be bound or affected; or (iii) any existing applicable law, rule, regulation, judgment, order or decree of any governmental agency or court, domestic or foreign, having jurisdiction over the Company or any of the Company's properties or business. The Company owns, possesses or has obtained all governmental and other (including those obtainable from third parties) Permits, necessary to own or lease, as the case may be, and to operate its properties, whether tangible or intangible, and to conduct the business and operations of the Company as presently conducted and all such Permits are outstanding and in good standing, and there are no proceedings pending or, to the best of the Company's knowledge, threatened, or any basis therefor, seeking to cancel, terminate or limit such Permits.

(p) Except as set forth in the Prospectus, there are no claims, actions, suits, proceedings, arbitrations, investigations or inquiries before any governmental agency, court or tribunal, domestic or foreign, or before any private arbitration tribunal, pending, or, to the best of the Company's knowledge, threatened against the Company or involving the Company's properties or business which, if determined adversely to the Company, would, individually or in the aggregate, result in any material adverse change in the financial position, shareholders' equity, results of operations, properties, business, management or affairs or business prospects of the Company or which question the validity of the capital stock of the Company or this Agreement or of any action taken or to be taken by the Company pursuant to, or in connection with, this

Agreement; nor, to the best of the Company's knowledge, is there any basis for any such claim, action, suit, proceeding, arbitration, investigation or inquiry. There are no outstanding orders, judgments or decrees of any court, governmental agency or other tribunal naming the Company and enjoining the Company from taking, or requiring the Company to take, any action, or to

which the Company or the Company's properties or business is bound or subject.

(q) Neither the Company nor any of its affiliates has incurred any liability for any finder's fees or similar payments in connection with the transactions herein contemplated.

(r) The Company owns or possesses adequate and enforceable rights to use all patents, patent applications, trademarks, service marks, copyrights, rights, trade secrets, confidential information, processes and formulations used or proposed to be used in the conduct of its business as described in the Prospectus (collectively the "Intangibles"); to the best of the Company's knowledge, the Company has not infringed and is not infringing upon the rights of others with respect to the Intangibles; and the Company has not received any notice of conflict with the asserted rights of others with respect to the Intangibles which could, singly or in the aggregate, materially adversely affect its business as presently conducted or the prospects, financial condition or results of operations of the Company, and the Company knows of no basis therefor; and, to the best of the Company's knowledge, no others have infringed upon the Intangibles of the Company.

(s) Since the respective dates as of which information is given in the Registration Statement and the Prospectus and the Company's latest financial statements, the Company has not incurred any material liability or obligation, direct or contingent, or entered into any material transaction, whether or not incurred in the ordinary course of business, and has not sustained any material loss or interference with its business from fire, storm, explosion, flood or other casualty, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and since the respective dates as of which information is given in the Registration Statement and the Prospectus, there have not been, and prior to the Closing Date referred to below there will not be, any changes in the capital stock or any material increases in the long-term debt of the Company or any material adverse change in or affecting the general affairs, management, financial condi tion, shareholders' equity, results of operations or prospects of the Company, otherwise than as set forth or contemplated in the Prospectus.

(t) The Company does not own any real property and has good title to all personal property (tangible and intangible) owned by it, free and clear of all security interests, charges, mortgages, liens, encumbrances and defects, except such as are described in the Registration Statement and Prospectus or such as do not materially affect the value or transferability of such property and do not interfere with the use of such property made, or proposed to be made, by the Company. The leases, licenses or other contracts or instruments under which the Company leases, holds or is entitled to use any property, real or personal, are valid, subsisting and enforceable only with such exceptions as are not material and do not interfere with the use of such property made, or proposed to be made, by the Company, and all rentals, royalties or other payments accruing thereunder which became due prior to the date of this Agreement have been duly paid, and neither the Company nor, to the best of the Company's knowledge, any other party is in default thereunder and, to the best of the Company's knowledge, no event has occurred which, with the passage of time or the giving of notice, or both, would constitute a default thereunder. The Company has not received notice of any violation of any applicable law, ordinance, regulation, order or requirement relating to its owned or leased properties. The Company has adequately insured its properties against loss or damage by fire or other casualty and maintains, in adequate amounts, such other insurance as is usually maintained by companies engaged in the same or similar businesses located in its geographic area.

(u) Each contract or other instrument (however characterized or described) to which the Company is a party or by which its property or business is or may be bound or affected and to which reference is made in the Prospectus has been duly and validly executed, is in full force and effect in all material respects and is enforceable against the parties thereto in accordance with its terms, and none of such contracts or instruments has been assigned by the Company, and neither the Company, nor, to the best of the Company's knowledge, any other party, is in default thereunder and, to the best of the Company's knowledge, no event has occurred

which, with the lapse of time or the giving of notice, or both, would constitute a default thereunder.

None of the material provisions of such contracts or instruments violates any existing applicable law, rule, regulation, judgment, order or decree of any governmental agency or court having jurisdiction over the Company or any of its assets or businesses.

(v) The employment, consulting, confidentiality and non-competition agreements between the Company and its officers, employees and consultants, described in the Registration Statement, are binding and enforceable obligations upon the respective parties thereto in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, moratorium or other similar laws or arrangements affecting creditors' rights generally and subject to principles of equity.

(w) Except as set forth in the Prospectus, the Company has no employee benefit plans (including, without limita tion, profit sharing and welfare benefit plans) or deferred compensation arrangements that are subject to the provisions of the Employee Retirement Income Security Act of 1974.

(x) To the best of the Company's knowledge, no labor problem exists with any of the Company's employees or is imminent which could adversely affect the Company.

(y) The Company has not, directly or indirectly, at any time (i) made any contributions to any candidate for political office, or failed to disclose fully any such contribution in violation of law or (ii) made any payment to any state, federal or foreign governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments or contributions required or allowed by applicable law. The Company's internal accounting controls and procedures are sufficient to cause the Company to comply in all material respects with the Foreign Corrupt Practices Act of 1977, as amended.

(z) The Shares have been approved for listing on the Nasdaq SmallCap Market.

(aa) The Company has provided to Tenzer Greenblatt LLP, counsel to the Underwriter ("Underwriter's Counsel"), all agreements, certificates, correspondence and other items, documents and information requested pursuant to the Due Diligence List of Bizar Martin & Taub, LLP, counsel for the Company ("Company Counsel"), and the supplemental requests of Underwriter's Counsel dated , 1998 and , 1998.

Any certificate signed by an officer of the Company and delivered to the Underwriter or to Underwriter's Counsel shall be deemed to be a representation and warranty by the Company to the Underwriter as to the matters covered thereby.

5. Certain Covenants of the Company. The Company covenants with the Underwriter as follows:

(a) The Company will not at any time, whether before the Effective Date or thereafter during such period as the Prospectus is required by law to be delivered in connection with the sales of the Shares by the Underwriter or a dealer, file or publish any amendment or supplement to the Registration Statement or Prospectus of which the Underwriter has not been previously advised and furnished a copy, or to which the Underwriter shall object in writing.

(b) The Company will use its best efforts to cause the Registration Statement to become effective and will advise the Underwriter immediately, and, if requested by the Underwriter, confirm such advice in writing, (i) when the Registration Statement, or any post-effective

amendment to the Registration Statement or any supplemented Prospectus is filed with the Commission; (ii) of the receipt of any comments from the Commission; (iii) of any request of the Commission for amendment or supplementation of the Registration Statement or Prospectus or for additional information; and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any Preliminary Prospectus, or of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, or of the initiation of any proceedings for any of such purposes. The Company will use its best efforts to prevent the issuance of any such stop order or of any order preventing or suspending such use and to obtain as soon as possible the lifting thereof, if any such order is issued.

(c) The Company will deliver to the Underwriter, without charge, from time to time until the Effective Date, as many copies of each Preliminary Prospectus as the Underwriter may reasonably request, and the Company hereby consents to the use of such copies for purposes permitted by the Act. The Company will deliver to the Underwriter, without charge, as soon as the Registration Statement becomes effective, and thereafter from time to time as requested, such number of copies of the Prospectus (as supplemented, if the Company makes any supplements to the Prospectus) as the Underwriter may reasonably request. The Company has furnished or will furnish to the Underwriter two signed copies of the Registration Statement as originally filed and of all amendments thereto, whether filed before or after the Registration Statement becomes effective, two copies of all exhibits filed therewith and two signed copies of all consents and certificates of experts.

(d) The Company will comply with the Act, the Regulations, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder so as to permit the continuance of sales of and dealings in the Offered

Shares and in any Optional Shares which may be issued and sold. If, at any time when a prospectus relating to the Shares is required to be delivered under the Act, any event occurs as a result of which the Registration Statement and Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or if it shall be necessary to amend or supplement the Registration Statement and Prospectus to comply with the Act or the regulations thereunder, the Company will promptly file with the Commission, subject to Section 5(a) hereof, an amendment or supplement which will correct such statement or omission or which will effect such compliance.

(e) The Company will furnish such proper information as may be required and otherwise cooperate in qualifying the Shares for offering and sale under the securities or Blue Sky laws relating to the offering in such jurisdictions as the Underwriter may reasonably designate, provided that no such qualification will be required in any jurisdiction where, solely as a result thereof, the Company would be subject to service of general process or to taxation or qualification as a foreign corporation doing business in such jurisdiction.

(f) The Company will make generally available to its security holders, in the manner specified in Rule 158(b) under the Act, and deliver to the Underwriter and Underwriter's Counsel as soon as practicable and in any event not later than 45 days after the end of its fiscal quarter in which the first anniversary date of the effective date of the Registration Statement occurs, an earning statement meeting the requirements of Rule 158(a) under the Act covering a period of at least 12 consecutive months beginning after the effective date of the Registration Statement.

(g) For a period of five years from the Effective Date, the Company will deliver to the Underwriter and to Underwriter's Counsel on a timely basis (i) a copy of each report or document, including, without limitation, reports on Forms 8-K, 10-C, 10-K (or 10-K SB), 10-Q (or 10-Q SB) and 10-C and exhibits thereto, filed or furnished to the Commission, any securities exchange or the National Association of Securities Dealers,

Inc. (the "NASD") on the date each such report or document is so filed or furnished; (ii) as soon as practicable, copies of any reports or communications (financial or other) of the Company mailed to its security holders; (iii) as soon as practicable, a copy of any Schedule 13D, 13G, 14D-1 or 13E-3 received or prepared by the Company from time to time; (iv) monthly statements setting forth such information regarding the Company's results of operations and financial position (including balance sheet, profit and loss

statements and data regarding outstanding purchase orders) as is regularly prepared by management of the Company; and (v) such additional information concerning the business and financial condition of the Company as the Underwriter may from time to time reasonably request and which can be prepared or obtained by the Company without unreasonable effort or expense. The Company will furnish to its shareholders annual reports containing audited financial statements and such other periodic reports as it may determine to be appropriate or as may be required by law.

(h) Neither the Company nor any person that controls, is controlled by or is under common control with the Company will take any action designed to or which might be reasonably expected to cause or result in the stabilization or manipulation of the price of the Common Shares.

(i) If the transactions contemplated by this Agreement are consummated, the Underwriter shall retain the $50,000 previously paid to it, and the Company will pay or cause to be paid the following: all costs and expenses incident to the performance of the obligations of the Company under this Agreement, including, but not limited to, the fees and expenses of accountants and counsel for the Company; the preparation, printing, mailing and filing of the Registration Statement (including financial statements and exhibits), Preliminary Prospectuses and the Prospectus, and any amendments or supplements thereto; the printing and mailing of the Selected Dealer Agreement, the issuance and delivery of the Shares to the Underwriter; all taxes, if any, on the issuance of the Shares; the fees, expenses and other costs of qualifying the Shares for sale under the Blue Sky or securities laws of those states in which the Shares are to be offered or sold, including fees and disbursements of counsel in connection therewith, and including those of such local counsel as may have been retained for such purpose; the filing fees incident to securing any required review by the NASD and either the Boston Stock Exchange or Pacific Stock Exchange; the cost of printing and mailing the "Blue Sky Survey," the cost of furnishing to the Underwriter copies of the Registration Statement, Preliminary Prospectuses and the Prospectus as herein provided; the costs (up to $12,000) of placing "tombstone advertisements" in any publications which may be selected by the Underwriter; and all other costs and expenses incident to the performance of the Company's obligations hereunder which are not otherwise specifically provided for in this Section 5(i).

In addition, at the Closing Date or the Option Closing Date, as the case may be, the Underwriter will deduct from the payment for the Offered Shares or any Optional Shares three percent (3%) of the gross proceeds of the offering (less

the sum of $50,000 previously paid to the Underwriter), as payment for the Underwriter's nonaccountable expense allowance relating to the transactions contemplated hereby, which amount will include the fees and expenses of Underwriter's Counsel (other than the fees and expenses of Underwriter's Counsel relating to Blue Sky qualifications and registrations, which, as provided for above, shall be in addition to the three percent (3%) nonaccountable expense allowance and shall be payable directly by the Company to Underwriter's Counsel on or prior to the Closing Date).

(j) If the transactions contemplated by this Agreement or related hereto are not consummated because the Company decides not to proceed with the offering for any reason or because the Underwriter decides not to proceed with the offering as a result of a breach by the Company of its representations, warranties or covenants in the Agreement or as a result of material adverse changes in the affairs of the Company, then

the Company will be obligated to reimburse the Underwriter for its accountable out-of-pocket expenses up to the sum of $75,000, inclusive of amounts theretofore paid to the Underwriter by the Company. In all cases other than those set forth in the preceding sentence, if the Company or the Underwriter decides not to proceed with the offering for any other reason, the Company will only be obligated to reimburse the Underwriter for its accountable expenses up to $50,000, inclusive of amounts theretofore paid to the Underwriter by the Company. In no event, however, will the Underwriter, in the event the offering is terminated, be entitled to retain or receive more than an amount equal to its actual accountable out-of-pocket expenses.

(k) The Company intends to apply the net proceeds from the sale of the Shares for the purposes set forth in the Prospectus. No portion of the net proceeds from the sale of the Shares will be used to repay any indebtedness other than (i) $3,250,00 principal amount of indebtedness plus accrued interest thereon and (ii) up to $95,000 of indebtedness to be assumed by the Company in connection with the acquisition of CommHome Systems Corp., provided that none of such amounts will be repaid to any person or entity that is, or will be prior to the Closing Date, an officer, director or securityholder beneficially owning five percent (5%) or more of the Common Shares (a "Principal Securityholder"), or any affiliate of any such person or entity. The Company will file with the Commission all required reports in accordance with the provisions of Rule 463 promulgated under the Act and will provide a copy of each such report to the Underwriter and its counsel.

(l) During the period of twelve (12) months from the Effective Date (the "Initial Lock-up Period"), neither the

Company nor any of its officers, directors or security holders will offer for sale or sell or otherwise dispose of, directly or indirectly, any securities of the Company, in any manner whatsoever, whether pursuant to Rule 144 of the Regulations or otherwise, and no holders of registration rights relating to securities of the Company will exercise any such registration rights, in either case, without the prior written consent of the Underwriter. In addition, during the twelve (12) month period following the Initial Lock-up Period, no officer, director or Principal Securityholder will sell, transfer or otherwise dispose of any of its Common Shares during any three-month period in excess of the amount that such person would be allowed to sell if it were deemed an "affiliate" of the Company and its shares were deemed "restricted," as those terms are defined in Rule 144 promulgated under the Act, other than by a private sale or gift in connection with which the transferee agrees to be bound by the terms of this agreement, without the prior written consent of the Underwriter.

(m) The Company will not file any registration statement relating to the offer or sale of any of the Company's securities, including any registration statement on Form S-8, during the twelve (12) months from the Effective Date, without the Underwriter's prior written consent.

(n) The Company maintains and will continue to maintain a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authoriza tion; (ii) transactions are recorded as necessary in order to permit preparation of financial statements in accordance with generally accepted accounting principles and to maintain account ability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(o) The Company will use its best efforts to maintain the listing of the Shares on the Nasdaq SmallCap Market and will, if so qualified, list the Shares, and maintain such listing for so long as qualified, on the Nasdaq National Market System.

(p) The Company will, concurrently with the Effective Date, register the class of equity securities of which the Shares are a part under Section 12(g) of the Exchange Act and the Company will

maintain such registration for a minimum of five (5) years from the Effective Date.

(q) Subject to the sale of the Offered Shares, the Underwriter and its successors will have the right to designate a nominee for election, at its or their option, either as a member of or a non-voting advisor to the Board of Directors of the Company (which Board, during such period, shall be comprised of at least five (5) persons, a majority of the members of which Board must, during such period, be persons not otherwise affiliated with the Company, its management or its founders), and the Company will use its best efforts to cause such nominee to be elected and continued in office as a director of the Company or as such advisor until the expiration of five (5) years from the Effective Date. Each of the Company's current officers, directors and shareholders agrees to vote all of the Common Shares owned by such person or entity so as to elect and continue in office such nominee of the Underwriter. Following the election of such nominee as a director or advisor, such person shall receive no more or less compensation than is paid to other non-officer directors of the Company for attendance at meetings of the Board of Directors of the Company and shall be entitled to receive reimbursement for all reasonable costs incurred in attending such meetings including, but not limited to, food, lodging and transportation. The Company agrees to indemnify and hold such director or advisor harmless, to the maximum extent permitted by law, against any and all claims, actions, awards and judgments arising out of his service as a director or advisor and to maintain a liability insurance policy affording coverage for the acts of its officers and directors, to include such director or advisor as an insured under such policy. The rights and bene fits of such indemnification and the benefits of such insurance shall, to the extent possible, extend to the Underwriter insofar as it may be or may be alleged to be responsible for such director or advisor.

If the Underwriter does not exercise its option to designate a member of or advisor to the Company's Board of Directors, the Underwriter shall nonetheless have the right to send a representative (who need not be the same individual from meeting to meeting) to observe each meeting of the Board of Directors. The Company agrees to give the Underwriter notice of each such meeting and to provide the Underwriter with an agenda and minutes of the meeting no later than it gives such notice and provides such items to the directors.

(r) The Company shall retain a transfer agent for the Common Shares, reasonably acceptable to the Underwriter, for a period of five (5) years from the Effective Date. In addition, for a period of five (5) years from the Effective Date, the Company, at its own expense, shall cause such transfer agent to provide the Underwriter, if so requested in writing, with copies of the Company's daily transfer sheets, and, when requested by the Underwriter, a current list of the Company's securityholders,

including a list of the beneficial owners of securities held by a depository trust company and other nominees.

(s) The Company hereby agrees, at its sole cost and expense, to supply and deliver to the Underwriter and Underwriter's Counsel, within a reasonable period from the date hereof, four bound volumes, including the Registration Statement, as amended or supplemented, all exhibits to the Registration Statement, the Prospectus and all other underwriting documents.

(t) The Company shall, as of the date hereof, have applied for listing in Standard & Poor's Corporation Records Service (including annual report information) or Moody's Industrial Manual (Moody's OTC Industrial Manual not being sufficient for these purposes) and shall use its best efforts to have the Company listed in such manual and shall maintain such listing for a period of five years from the Effective Date.

(u) For a period of five (5) years from the Effective Date, the Company shall provide the Underwriter, on a not less than

annual basis, with internal forecasts setting forth projected results of operations for each quarterly and annual period in the two (2) fiscal years following the respective dates of such forecasts. Such forecasts shall be provided to the Underwriter more frequently than annually if prepared more frequently by management, and revised forecasts shall be prepared and provided to the Underwriter when required to reflect more current information, revised assumptions or actual results that differ materially from those set forth in the forecasts.

(v) For a period of five (5) years from the Effective Date, or until such earlier time as the Common Shares are listed on the New York Stock Exchange or the American Stock Exchange, the Company shall cause its legal counsel to provide the Underwriter with a list, to be updated at least annually, of those states in which the Common Shares may be traded in non- issuer transactions under the Blue Sky laws of the 50 states.

(w) For a period of five (5) years from the Effective Date, the Company shall continue to retain Richard A. Eisner & Company, LLP (or such other nationally recognized accounting firm acceptable to the Underwriter) as the Company's independent public accountants.

(x) For a period of five (5) years from the Effective Date, the Company, at its expense, shall cause its then independent certified public accountants, as described in Section 5(w) above, to review (but not audit) the Company's financial statements for each of the first three fiscal quarters prior to the announcement of quarterly financial information, the filing

of the Company's 10-Q (or 10-QSB) quarterly report (or other equivalent report) and the mailing of quarterly financial information to shareholders.

(y) For a period of twenty-five (25) days from the Effective Date, the Company will not issue press releases or engage in any other publicity without the Underwriter's prior written consent, other than normal and customary releases issued in the ordinary course of the Company's business or those releases required by law.

(z) The Company will not increase or authorize an increase in the compensation of its five (5) most highly paid employees in excess of the compensation paid to such employees as of the Effective Date, without the prior written consent of the Underwriter, for a period of three (3) years from the Effective Date.

(aa) For a period of five (5) years from the Effective Date, the Company will promptly submit to the Underwriter copies of accountant's management reports and similar correspondence between the Company's accountants and the Company.

(ab) For a period of three (3) years from the Effective Date, the Company will not offer or sell any of its securities (i) pursuant to Regulation S promulgated under the Act or which are convertible or exercisable into Common Shares at a price which may be adjusted from time to time based on the future market price of the Common Shares, without the prior written consent of the Underwriter, or (ii) at a discount to market or in a discounted transaction (other than as described in clause (i) above), without the prior written consent of the Underwriter, which shall not be unreasonably withheld.

(ac) For a period of three (3) years from the Effective Date, the Company will provide to the Underwriter ten day's written notice prior to any issuance by the Company or its subsidiaries of any equity securities or securities exchangeable for or convertible into equity securities of the Company, except for (i) Common Shares issuable upon exercise of currently outstanding options and warrants or conversion of currently outstanding convertible securities and (ii) options (and shares issuable upon exercise of such options) available for future grant pursuant to any stock option plan in effect on the Effective Date or a future plan approved by the Company's shareholders.

(ad) Prior to the Effective Date and for a period

of three (3) years thereafter, the Company will retain a

financial public relations firm reasonably acceptable to the Underwriter.

(ae) For a period of five (5) years from the Effective Date, the Company will cause its Board of Directors to meet, either in person or telephonically, a minimum of four (4) times per year and will hold a shareholder's meeting at least once per annum.

(af) Prior to the Effective Date, the Company shall have obtained directors' and officers' insurance naming the Underwriter as an additional insured party, in an amount equal to twenty-five percent (25%) of the gross proceeds of the offering, and the Company will maintain such insurance for a period of at least three (3) years from the Closing Date.

6. Conditions of the Underwriter's Obligation to Purchase Shares from the Company. The obligation of the Underwriter to purchase and pay for the Offered Shares which it has agreed to purchase from the Company is subject (as of the date hereof and the Closing Date) to the accuracy of and compliance in all material respects with the representations and warranties of the Company herein, to the accuracy of the statements of the Company or its officers made pursuant hereto, to the performance in all material respects by the Company of its obligations hereunder, and to the following additional conditions:

(a) The Registration Statement will have become effective not later than _____.M., New York City time, on the date hereof, or at such later time or on such later date as the Underwriter may agree to in writing; prior to the Closing Date, no stop order suspending the effectiveness of the Registration Statement will have been issued and no proceedings for that purpose will have been initiated or will be pending or, to the best of the Underwriter's or the Company's knowledge, will be contemplated by the Commission; and any request on the part of the Commission for additional information will have been complied with to the satisfaction of Underwriter's Counsel.

(b) At the time that this Agreement is executed and at the Closing Date, there will have been delivered to the Underwriter a signed opinion of Company Counsel, dated as of the date hereof or the Closing Date, as the case may be (and any other opinions of counsel referred to in such opinion of Company Counsel or relied upon by Company Counsel in rendering their opinion), reasonably satisfactory to Underwriter's Counsel, to the effect that:

(i) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with full power and authority, corporate and other, and with all Permits necessary to own or lease, as the case may be, and operate its properties, whether tangible or intangible, and to conduct its business as described in the Registration Statement. The Company is duly qualified to do business as a foreign corporation and is in good standing in all jurisdictions wherein such qualification is necessary and failure so to qualify could have a material adverse effect on the financial condition, results of operations, business or proper ties of the Company. To the best of Company Counsel's knowledge, the Company has no subsidiaries.

(ii) The Company has full power and authority, corporate and other, to execute, deliver and perform this Agreement and the Underwriter's Warrant Agreement and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the Underwriter's Warrant Agreement by the Company, the consummation by the Company of the transactions herein and therein contemplated and the compliance by the Company with the terms of this Agreement and the Underwriter's Warrant Agreement have been duly authorized by all necessary corporate action, and this Agreement has been duly executed and delivered by the Company. This Agreement is (assuming for the purposes of this opinion that it is valid and binding upon the other party thereto) and,

when executed and delivered by the Company on the Closing Date, the Underwriter's Warrant Agreement will be, valid and binding obligations of the Company, enforceable in accordance with their respective terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and the discretion of courts in granting equitable remedies and except that enforceability of the indemnification provisions set forth in Section 7 hereof and the contribution provisions set forth in Section 8 hereof may be limited by the federal securities laws or public policy underlying such laws.

(iii) The execution, delivery and performance of this Agreement and the Underwriter's Warrant Agreement by the Company, the consummation by the Company of the transactions herein and therein contemplated and the compliance by the Company with the terms of this Agreement and the Underwriter's Warrant Agreement do not, and will not, with or without the giving of notice or the lapse of time, or both, (A) result in a violation of the Certificate of Incorporation or ByLaws, each as amended, of the Company, (B) result in a breach of or conflict with any terms or provisions of, or constitute a default under, or result in the modification or termination of,

or result in the creation or imposition of any lien, security interest, charge or encumbrance upon any of the properties or assets of the Company pursuant to any indenture, mortgage, note, contract, commitment or other material agreement or instrument to which the Company is a party or by which the Company or any of the Company's properties or assets are or may be bound or affected; (C) violate any existing applicable law, rule, regulation, judgment, order or decree of any governmental agency or court, domestic or foreign, having jurisdiction over the Company or any of the Company's properties or business; or (D) have any effect on any Permit necessary for the Company to own or lease and operate its properties or conduct its business or the ability of the Company to make use thereof.

(iv) To the best of Company Counsel's knowledge, no Permits of any court or governmental agency or body (other than under the Act, the Regulations and applicable state securities or Blue Sky laws) are required for the valid authorization, issuance, sale and delivery of the Shares or the Underwriter's Warrants to the Underwriter, and the consummation by the Company of the transactions contemplated by this Agreement or the Underwriter's Warrant Agreement.

(v) The Registration Statement has become effective under the Act; to the best of Company Counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued, and no proceedings for that purpose have been instituted or are pending, threatened or contemplated under the Act or applicable state securities laws.

(vi) The Registration Statement and the Prospectus, as of the Effective Date, and each amendment or supplement thereto as of its effective or issue date (except for the financial statements and other financial data included therein or omitted therefrom, as to which Company Counsel need not express an opinion) comply as to form in all material respects with the requirements of the Act and Regulations and the conditions for use of a registration statement on Form SB-2 have been satisfied by the Company.

(vii) The descriptions in the Registration Statement and the Prospectus of statutes, regulations, government classifications, contracts and other documents (including opinions of such counsel); and the response to Item 13 of Form SB-2 have been reviewed by Company Counsel, and, based upon such review, are accurate in all material respects and present fairly the information required to be disclosed, and there are no material statutes, regulations or government classifications, or, to the best of Company Counsel's knowledge, material contracts or documents, of a character

required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement, which are not so described or filed as required.

None of the material provisions of the contracts or instruments described above violates any existing applicable law, rule, regulation, judgment, order or decree of any governmental agency or court having jurisdiction over the Company or any of its assets or business.

(viii) The outstanding Common Shares and outstanding options and warrants to purchase Common Shares have been duly authorized and validly issued. The outstanding Common Shares are fully paid and nonassessable. The outstanding options and warrants to purchase Common Shares constitute the valid and binding obligations of the Company, enforceable in accordance with their terms. None of the outstanding Common Shares or options or warrants to purchase Common Shares has been issued in violation of the preemptive rights of any shareholder of the Company. None of the holders of the outstanding Common Shares is subject to personal liability solely by reason of being such a holder. The offers and sales of the outstanding Common Shares and outstanding options and warrants to purchase Common Shares were at all relevant times either registered under the Act and the applicable state securities or Blue Sky laws or exempt from such registration requirements. The authorized Common Shares and outstanding options and warrants to purchase Common Shares conform to the descriptions thereof contained in the Registration Statement and Prospectus. To the best of Company Counsel's knowledge, except as set forth in the Prospectus, no holders of any of the Company's securities has any rights, "demand," "piggyback" or otherwise, to have such securities registered under the Act.

(ix) The issuance and sale of the Shares have been duly authorized and, when the Shares have been issued and duly delivered against payment therefor as contemplated by this Agreement, the Shares will be validly issued, fully paid and nonassessable, and the holders thereof will not be subject to personal liability solely by reason of being such holders. The Shares are not subject to preemptive rights of any shareholder of the Company. The certificates representing the Shares are in proper legal form.

(x) The issuance and sale of the Common Shares issuable upon exercise of the Underwriter's Warrants have been duly authorized and, when such Common Shares have been duly delivered against payment therefor, as contemplated by the Underwriter's Warrant Agreement, such Common Shares will be validly issued, fully paid and nonassessable. Holders of Common

Shares issuable upon exercise of the Underwriter's Warrants will not be subject to personal liability solely by reason of being such holders. Neither the Underwriter's Warrants nor the Common Shares issuable upon exercise thereof will be subject to preemptive rights of any shareholder of the Company. The Warrant Shares issuable upon exercise of the Underwriter's Warrants have been duly reserved for issuance upon exercise of the Underwriter's Warrants in accordance with the provisions of the Underwriter's Warrant Agreement. The Underwriter's Warrants conform to the descriptions thereof in the Registration Statement and Prospectus.

(xi) Upon delivery of the Offered Shares to the Underwriter against payment therefor as provided in this Agreement, the Underwriter (assuming it is a bona fide purchaser within the meaning of the Uniform Commercial Code) will acquire good title to the Offered Shares, free and clear of all liens, encumbrances, equities, security interests and claims.

(xii) Assuming that the Underwriter exercises the over-allotment option to purchase any of the Optional Shares and makes payment therefor in accordance with the terms of this Agreement, upon delivery of the Optional Shares to the Underwriter hereunder, the

Underwriter (assuming it is a bona fide purchaser within the meaning of the Uniform Commercial Code) will acquire good title to such Optional Shares, free and clear of any liens, encumbrances, equities, security interests and claims.

(xiii) To the best of Company Counsel's knowledge, there are no claims, actions, suits, proceedings, arbitrations, investigations or inquiries before any governmental agency, court or tribunal, foreign or domestic, or before any private arbitration tribunal, pending or threatened against the Company or involving the Company's properties or business, other than as described in the Prospectus, such description being accurate, and other than litigation incident to the kind of business conducted by the Company which, individually and in the aggregate, is not material.

(xiv) Company Counsel has participated in reviews and discussions in connection with the preparation of the Registration Statement and the Prospectus, and in the course of such reviews and discussions and such other investigation as Company Counsel deemed necessary, no facts came to its attention which lead it to believe that (A) the Registration Statement (except as to the financial statements and other financial data contained therein, as to which Company Counsel need not express an opinion), on the Effective Date, contained any untrue state ment of a material fact required to be stated therein or omitted

to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or that (B) the Prospectus (except as to the financial statements and other financial data contained therein, as to which Company Counsel need not express an opinion) contains any untrue state ment of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering its opinion pursuant to this Section 6(b), Company Counsel may rely upon the certificates of government officials and officers of the Company as to matters of fact, provided that Company Counsel shall state that they have no reason to believe, and do not believe, that they are not justified in relying upon such opinions or such certificates of government officials and officers of the Company as to matters of fact, as the case may be.

The opinion letter delivered pursuant to this Section 6(b) shall state that any opinion given therein qualified by the phrase "to the best of our knowledge" is being given by Company Counsel after due investigation of the matters therein discussed.

(c) At the time that this Agreement is executed and at the Closing Date, there will have been delivered to the Underwriter a signed opinion of Cobrin, Gittes & Samuel, special intellectual property counsel for the Company ("IP Counsel"), dated as of the date hereof or the Closing Date, as the case may be, reasonably satisfactory to Underwriter's Counsel, to the effect that:

(i) To the best of IP Counsel's knowledge, the Company owns or possesses adequate and enforceable rights to use, and has not infringed and is not infringing upon the rights of others with respect to, all patents, patent applications, trademarks, service marks, copyrights, rights, trade secrets, confidential information, processes and formulations used or proposed to be used in the conduct of its business as described in the Prospectus (collectively the "Intangibles"); and, to the best of IP Counsel's knowledge, the Company has not received any notice that it has or may have infringed, is infringing upon or is conflicting with the asserted rights of others with respect to the Intangibles which might, singly or in the aggregate, materially adversely affect its business, results of operations or financial condition and such counsel is not aware of any licenses with respect to the Intangibles which are required to be obtained by the Company.

(ii) IP Counsel confirms the opinion of IP Counsel dated June 23, 1997 and addressed to the Company in all material respects as if such opinion was given on the date hereof (IP Counsel may restate such opinion in its entirety).

(iii) IP Counsel has participated in reviews and discussions in connection with the preparation of the Registration Statement and the Prospectus, and in the course of such reviews and discussions and such other investigation as IP Counsel deemed necessary, no facts came to its attention which lead it to believe that (A) the Registration Statement (except as to the financial statements and other financial data contained therein, as to which IP Counsel need not express an opinion), on the Effective Date, contained any untrue statement of a material fact required to be stated therein or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or that (B) the Prospectus (except as to the financial statements and other financial data contained therein, as to which IP Counsel need not express an opinion) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering its opinion pursuant to this Section 6(c), IP Counsel may rely upon the certificates of government officials and officers of the Company as to matters of fact, provided that IP Counsel shall state that they have no reason to believe, and do not believe, that they are not justified in relying upon such opinions or such certificates of government officials and officers of the Company as to matters of fact, as the case may be.

The opinion letter delivered pursuant to this Section 6(c) shall state that any opinion given therein qualified by the phrase "to the best of our knowledge" is being given by IP Counsel after due investigation of the matters therein discussed.

(d) At the Closing Date, there will have been delivered to the Underwriter a signed opinion of Underwriter's Counsel, dated as of the Closing Date, to the effect that the opinions delivered pursuant to Sections 6(b) and 6(c) hereof appear on their face to be appropriately responsive to the requirements of this Agreement, except to the extent waived by the Underwriter, specifying the same, and with respect to such related matters as the Underwriter may require.

(e) At the Closing Date (i) the Registration Statement and the Prospectus and any amendments or supplements

thereto will contain all material statements which are required to be stated therein in accordance with the Act and the Regulations and will conform in all material respects to the requirements of the Act and the Regulations, and neither the Registration Statement nor the Prospectus nor any amendment or supplement thereto will contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (ii) since the respective dates as of which information is given in the Registration Statement and the Prospectus, there will not have been any material adverse change in the financial condition, results of operations or general affairs of the Company from that set forth or contemplated in the Registration Statement and the Prospectus, except changes which the Registration Statement and the Prospectus indicate might occur after the Effective Date; (iii) since the respective dates as of which information is given in the Registration Statement and the Prospectus, there shall have been no material transaction, contract or agreement entered into by the Company, other than in the ordinary course of business, which would be required to be set forth in the Registration Statement and the Prospectus, other than as set forth therein; and (iv) no action, suit or proceeding at law or in equity will be pending or, to the best of the Company's knowledge, threatened against the Company which is required to be set forth in the Registration Statement and the Prospectus, other than as set forth therein,

and no proceedings will be pending or, to the best of the Company's knowledge, threatened against the Company before or by any federal, state or other commission, board or administrative agency wherein an unfavorable decision, ruling or finding would materially adversely affect the business, property, financial condition or results of operations of the Company, other than as set forth in the Registration Statement and the Prospectus. At the Closing Date, there will be delivered to the Underwriter a certificate signed by the Chairman of the Board or the President or a Vice President of the Company, dated the Closing Date, evidencing compliance with the provisions of this Section 6(e) and stating that the representations and warranties of the Company set forth in Section 4 hereof were accurate and complete in all material respects when made on the date hereof and are accurate and complete in all material respects on the Closing Date as if then made; that the Company has performed all covenants and complied with all conditions required by this Agreement to be performed or complied with by the Company prior to or as of the Closing Date; and that, as of the Closing Date, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been initiated or, to the best of his knowledge, are contemplated or threatened. In addition, the Underwriter will

have received such other and further certificates of officers of the Company as the Underwriter or Underwriter's Counsel may reasonably request.

(f) At the time that this Agreement is executed and at the Closing Date, the Underwriter will have received a signed letter from Richard A. Eisner & Company, LLP, dated the date such letter is to be received by the Underwriter and addressed to it, confirming that it is a firm of independent public accountants within the meaning of the Act and Regulations and stating that: (i) insofar as reported on by them, in their opinion, the financial statements of the Company included in the Prospectus comply as to form in all material respects with the applicable accounting requirements of the Act and the applicable Regulations; (ii) on the basis of procedures and inquiries (not constituting an examination in accordance with generally accepted auditing standards) consisting of a reading of the unaudited interim financial statements of the Company, if any, appearing in the Registration Statement and the Prospectus and the latest available unaudited interim financial statements of the Company, if more recent than that appearing in the Registration Statement and Prospectus, inquiries of officers of the Company responsible for financial and accounting matters as to the transactions and events subsequent to the date of the latest audited financial statements of the Company, and a reading of the minutes of meet ings of the shareholders, the Board of Directors of the Company and any committees of the Board of Directors, as set forth in the minute books of the Company, nothing has come to their attention which, in their judgment, would indicate that (A) during the period from the date of the latest financial statements of the Company appearing in the Registration Statement and Prospectus to a specified date not more than three business days prior to the date of such letter, there have been any decreases in net current assets or net assets as compared with amounts shown in such financial statements or decreases in net sales or decreases [increases] in total or per share net income [loss] compared with the corresponding period in the preceding year or any change in the capitalization or long-term debt of the Company, except in all cases as set forth in or contemplated by the Registration Statement and the Prospectus, and (B) the unaudited interim financial statements of the Company, if any, appearing in the Registration Statement and the Prospectus, do not comply as to form in all material respects with the applicable accounting requirements of the Act and the Regulations or are not fairly presented in conformity with generally accepted accounting principles and practices on a basis substantially consistent with the audited financial statements included in the Registration Statement or the Prospectus; and (iii) they have compared specific dollar amounts, numbers of shares, numerical data, percentages of revenues and earnings, and other financial

information pertaining to the Company set forth in the Prospectus (with respect to all dollar amounts, numbers of shares, percent ages and other financial information contained in the Prospectus, to the extent that such

amounts, numbers, percentages and infor mation may be derived from the general accounting records of the Company, and excluding any questions requiring an interpretation by legal counsel) with the results obtained from the application of specified readings, inquiries and other appropriate procedures (which procedures do not constitute an examination in accordance with generally accepted auditing standards) set forth in the letter, and found them to be in agreement.

(g) There shall have been duly tendered to the Underwriter certificates representing the Offered Shares to be sold on the Closing Date.

(h) The NASD shall have indicated that it has no objection to the underwriting arrangements pertaining to the sale of the Shares by the Underwriter.

(i) No action shall have been taken by the Commission or the NASD the effect of which would make it improper, at any time prior to the Closing Date or the Option Closing Date, as the case may be, for any member firm of the NASD to execute transactions (as principal or as agent) in the Shares, and no proceedings for the purpose of taking such action shall have been instituted or shall be pending, or, to the best of the Underwriter's or the Company's knowledge, shall be contemplated by the Commission or the NASD. The Company represents at the date hereof, and shall represent as of the Closing Date or Option Closing Date, as the case may be, that it has no knowledge that any such action is in fact contemplated by the Commission or the NASD.

(j) The Company meets the current and any existing and proposed criteria for inclusion of the Shares on the Nasdaq SmallCap Market.

(k) All proceedings taken at or prior to the Closing Date or the Option Closing Date, as the case may be, in connection with the authorization, issuance and sale of the Shares shall be reasonably satisfactory in form and substance to the Underwriter and to Underwriter's Counsel, and such counsel shall have been furnished with all such documents, certificates and opinions as they may request for the purpose of enabling them to pass upon the matters referred to in Section 6(d) hereof and in order to evidence the accuracy and completeness of any of the representations, warranties or statements of the Company, the performance of any covenants of the Company, or the compliance by the Company with any of the conditions herein contained.

(k) As of the date hereof, the Company will have delivered to the Underwriter the written undertakings of its officers, directors and securityholders and/or registration rights holders, as the case may be, to the effect of the matters set forth in Sections 5 (l) and (q).

If any of the conditions specified in this Section 6 have not been fulfilled, this Agreement may be terminated by the Underwriter on notice to the Company.

7. Indemnification.

(a) The Company agrees to indemnify and hold harmless the Underwriter, each officer, director, partner, employee and agent of the Underwriter, and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, from and against any and all losses, claims, damages, expenses or liabilities, joint or several (and actions in respect thereof), to which they or any of them may become subject under the Act or under any other statute or at common law or otherwise, and, except as hereinafter provided, will reimburse the Underwriter and each such person, if any, for any legal or other expenses reasonably incurred by them or any of them in connection with investigating or defending any actions, whether or not resulting in any liability, insofar as such losses, claims, damages, expenses, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained (i) in the Registration Statement, in any Preliminary Prospectus or in the Prospectus (or the Registration

Statement or Prospectus as from time to time amended or supplemented) or (ii) in any application or other document executed by the Company, or based upon written information furnished by or on behalf of the Company, filed in any jurisdiction in order to qualify the Shares under the securities laws thereof (hereinafter "application"), or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein not misleading, in light of the circumstances under which they were made, unless such untrue statement or omission was made in such Registration Statement, Preliminary Prospectus, Prospectus or application in reliance upon and in conformity with information furnished in writing to the Company in connection therewith by the Underwriter or any such person through the Underwriter expressly for use therein; provided, however, that the indemnity agreement contained in this Section 7(a) with respect to any Preliminary Prospectus will not inure to the benefit of the Underwriter (or to the benefit of any other person that may be indemnified pursuant to this Section 7(a)) if (A) the person asserting any such losses, claims, damages, expenses or liabilities purchased

the Shares which are the subject thereof from the Underwriter or other indemnified person; (B) the Underwriter or other indemnified person failed to send or give a copy of the Prospectus to such person at or prior to the written confirmation of the sale of such Shares to such person; and (C) the Prospectus did not contain any untrue statement or alleged untrue statement or omission or alleged omission giving rise to such cause, claim, damage, expense or liability.

(b) The Underwriter agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, from and against any and all losses, claims, damages, expenses or liabilities, joint or several (and actions in respect thereof), to which they or any of them may become subject under the Act or under any other statute or at common law or otherwise, and, except as hereinafter provided, will reimburse the Company and each such director, officer or controlling person for any legal or other expenses reasonably incurred by them or any of them in connection with investigating or defending any actions, whether or not resulting in any liability, insofar as such losses, claims, damages, expenses, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained (i) in the Registration Statement, in any Preliminary Prospectus or in the Prospectus (or the Registration Statement or Prospectus as from time to time amended or supplemented) or (ii) in any application (including any application for registration of the Shares under state securities or Blue Sky laws), or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein not misleading, in light of the circumstances under which they were made, but only insofar as any such statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company in connection therewith by the Underwriter expressly for use therein.

(c) Promptly after receipt of notice of the commencement of any action in respect of which indemnity may be sought against any indemnifying party under this Section 7, the indemnified party will notify the indemnifying party in writing of the commencement thereof, and the indemnifying party will, subject to the provisions hereinafter stated, assume the defense of such action (including the employment of counsel satisfactory to the indemnified party and the payment of expenses) insofar as such action relates to an alleged liability in respect of which indemnity may be sought against the indemnifying party. After notice from the indemnifying party of its election to assume the

defense of such claim or action, the indemnifying party shall no longer be liable to the indemnified party under this Section 7 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided,

however, that if, in the reasonable judgment of the indemnified party or parties, it is advisable for the indemnified party or parties to be represented by separate counsel, the indemnified party or parties shall have the right to employ a single counsel to represent the indemnified parties who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the indemnified parties thereof against the indemnifying party, in which event the fees and expenses of such separate counsel shall be borne by the indemnifying party. Any party against whom indemnification may be sought under this Section 7 shall not be liable to indemnify any person that might otherwise be indemnified pursuant hereto for any settlement of any action effected without such indemnifying party's consent, which consent shall not be unreasonably withheld.

8. Contribution. To provide for just and equitable contribution, if (i) an indemnified party makes a claim for indemnification pursuant to Section 7 hereof (subject to the limitations thereof) and it is finally determined, by a judgment, order or decree not subject to further appeal, that such claim for indemnification may not be enforced, even though this Agreement expressly provides for indemnification in such case; or (ii) any indemnified or indemnifying party seeks contribution under the Act, the Exchange Act, or otherwise, then the Company (including, for this purpose, any contribution made by or on behalf of any director of the Company, any officer of the Company who signed the Registration Statement and any controlling person of the Company) as one entity and the Underwriter (including, for this purpose, any contribution by or on behalf of each person, if any, who controls the Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partner, employee and agent of the Underwriter) as a second entity, shall contribute to the losses, liabilities, claims, damages and expenses whatsoever to which any of them may be subject, so that the Underwriter is responsible for the proportion thereof equal to the percentage which the underwriting discount per Share set forth on the cover page of the Prospectus represents of the initial public offering price per Share set forth on the cover page of the Prospectus and the Company is responsible for the remaining portion; provided, however, that if applicable law does not permit such allocation, then, if applicable law permits, other relevant equitable considerations such as the relative fault of the Company and the Underwriter in connection with the facts which resulted in such losses, liabilities, claims, damages and expenses shall also be

considered. The relative fault, in the case of an untrue statement, alleged untrue statement, omission or alleged omission, shall be determined by, among other things, whether such statement, alleged statement, omission or alleged omission relates to information supplied by the Company or by the Underwriter, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, alleged statement, omission or alleged omission. The Company and the Underwriter agree that it would be unjust and inequitable if the respective obligations of the Company and the Underwriter for contribution were determined by pro rata or per capita allocation of the aggregate losses, liabilities, claims, damages and expenses or by any other method of allocation that does not reflect the equitable considerations referred to in this Section 8. No person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) will be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person, if any, who controls the Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partner, employee and agent of the Underwriter will have the same rights to contribution as the Underwriter, and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, each officer of the Company who has signed the Registration Statement and each director of the Company will have the same rights to contribution as the Company, subject in each case to the provisions of this Section 8. Anything in this Section 8 to the contrary notwithstanding, no party will be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This Section 8 is intended to supersede, to the extent permitted by law, any right to contribution under the Act or the Exchange Act or otherwise available.

9. Survival of Indemnities, Contribution, Warranties and

Representations. The respective indemnity and contribution agreements of the Company and the Underwriter contained in Sections 7 and 8 hereof, and the representations and warranties of the Company contained herein shall remain operative and in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of the Underwriter, the Company or any of its directors and officers, or any controlling person referred to in said Sections, and shall survive the delivery of, and payment for, the Shares.

10. Termination of Agreement.

(a) The Company, by written or telegraphic notice to the Underwriter, or the Underwriter, by written or telegraphic notice to the Company, may terminate this Agreement prior to the earlier of (i) 11:00 A.M., New York City time, on the first full business day after the Effective Date; or (ii) the time when the Underwriter, after the Registration Statement becomes effective, releases the Offered Shares for public offering. The time when the Underwriter "releases the Offered Shares for public offering" for the purposes of this Section 10 means the time when the Underwriter releases for publication the first newspaper advertisement, which is subsequently published, relating to the Offered Shares, or the time when the Underwriter releases for delivery to members of a selling group copies of the Prospectus and an offering letter or an offering telegram relating to the Offered Shares, whichever will first occur.

(b) This Agreement, including without limitation, the obligation to purchase the Shares and the obligation to purchase the Optional Shares after exercise of the option referred to in Section 3 hereof, are subject to termination in the absolute discretion of the Underwriter, by notice given to the Company prior to delivery of and payment for all the Offered Shares or such Optional Shares, as the case may be, if, prior to such time, any of the following shall have occurred: (i) the Company withdraws the Registration Statement from the Commission or the Company does not or cannot expeditiously proceed with the public offering; (ii) the representations and warranties in Sec tion 4 hereof are not materially correct or cannot be complied with; (iii) trading in securities generally on the New York Stock Exchange or the American Stock Exchange will have been suspended; (iv) limited or minimum prices will have been established on either such Exchange; (v) a banking moratorium will have been declared either by federal or New York State authorities; (vi) any other restrictions on transactions in securities materially affecting the free market for securities or the payment for such securities, including the Offered Shares or the Optional Shares, will be established by either of such Exchanges, by the Commission, by any other federal or state agency, by action of the Congress or by Executive Order; (vii) trading in any securities of the Company shall have been suspended or halted by any national securities exchange, the NASD or the Commission; (viii) there has been a materially adverse change in the condition (financial or otherwise), prospects or obligations of the Company; (ix) the Company will have sustained a material loss, whether or not insured, by reason of fire, flood, accident or other calamity; (x) any action has been taken by the government of the United States or any department or agency thereof which, in the judgment of the Underwriter, has had a

material adverse effect upon the market or potential market for securities in general; or (xi) the market for securities in general or political, financial or economic conditions will have so materially adversely changed that, in the judgment of the Underwriter, it will be impracticable to offer for sale, or to enforce contracts made by the Underwriter for the resale of, the Offered Shares or the Optional Shares, as the case may be.

(c) If this Agreement is terminated pursuant to Section 6 hereof or this Section 10 or if the purchases provided for herein are not consummated because any condition of the Underwriter's obligations hereunder is not satisfied or because of any refusal, inability or failure on the part of the Company to comply with any of the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company shall be unable to or does not perform all of its obligations under this Agreement,

the Company will not be liable to the Underwriter for damages on account of loss of anticipated profits arising out of the transactions covered by this Agreement, but the Company will remain liable to the extent provided in Sections 5(j), 7, 8 and 9 of this Agreement.

11. Information Furnished by the Underwriter to the Company. It is hereby acknowledged and agreed by the parties hereto that for the purposes of this Agreement, including, without limitation, Sections 4(f), 7(a), 7(b) and 8 hereof, the only information given by the Underwriter to the Company for use in the Prospectus are the statements set forth in the last sentence of the last paragraph on the cover page, the statement appearing in the last paragraph on page with respect to stabilizing the market price of Shares, the information in the paragraph on page with respect to concessions and reallowances, and the information in the paragraph on page with respect to the determination of the public offering price, as such information appears in any Preliminary Prospectus and in the Prospectus.

12. Notices and Governing Law. All communications hereunder will be in writing and, except as otherwise provided, will be delivered at, or mailed by certified mail, return receipt requested, or telegraphed to, the following addresses: if to the Underwriter, to Whale Securities Co., L.P., Attention: William G. Walters, 650 Fifth Avenue, New York, New York 10019, with a copy to Tenzer Greenblatt LLP, Attention: Robert J. Mittman, Esq., 405 Lexington Avenue, New York, New York 10174; if to the Com pany, addressed to it at 909 Third Avenue, 9th Floor, New York, New York 10022, with a copy to Bizar Martin & Taub, LLP, Attention: Sam Schwartz, Esq., 1350 Avenue of the Americas, 29th Floor, New York, New York 10019.

This Agreement shall be deemed to have been made and delivered in New York City and shall be governed as to validity, interpretation, construction, effect and in all other respects by the internal laws of the State of New York. The Company (1) agrees that any legal suit, action or proceeding arising out of or relating to this Agreement shall be instituted exclusively in New York State Supreme Court, County of New York, or in the United States District Court for the Southern District of New York, (2) waives any objection which the Company may have now or hereafter to the venue of any such suit, action or proceeding, and (3) irrevocably consents to the jurisdiction of the New York State Supreme Court, County of New York, and the United States District Court for the Southern District of New York in any such suit, action or proceeding. The Company further agrees to accept and acknowledge service of any and all process which may be served in any such suit, action or proceeding in the New York State Supreme Court, County of New York, or in the United States District Court for the Southern District of New York and agrees that service of process upon the Company mailed by certified mail to the Company's address shall be deemed in every respect effective service of process upon the Company, in any such suit, action or proceeding.

13. Parties in Interest. This Agreement is made solely for the benefit of the Underwriter, the Company and, to the extent expressed, any person controlling the Company or the Underwriter, each officer, director, partner, employee and agent of the Underwriter, the directors of the Company, its officers who have signed the Registration Statement, and their respective executors, administrators, successors and assigns, and, no other person will acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" will not include any purchaser of the Shares from the Underwriter, as such purchaser.

If the foregoing is in accordance with your understanding of our agreement, kindly sign and return to us the enclosed duplicates hereof, whereupon it will become a binding agreement between the Company and the Underwriter in accordance with its terms.

Very truly yours,

NETWORK-1 SECURITY SOLUTIONS, INC.

By----------
Name:
Title:

Confirmed and accepted in
New York, N.Y., as of the
date first above written:

WHALE SECURITIES CO., L.P.

By: Whale Securities Corp.,
General Partner

By

Name:
Title:

Exhibit 1.2

WARRANT AGREEMENT dated as of _____, 1998 between Network-1 Security Solutions, Inc., a Delaware corporation (the "Company"), and Whale Securities Co., L.P. (hereinafter referred to as the "Underwriter").

W I T N E S S E T H:

WHEREAS, the Company proposes to issue to the Underwriter warrants (the "Warrants") to purchase up to 187,500 (as such number may be adjusted from time to time pursuant to Article 8 of this Agreement) shares (the "Shares") of common stock, par value $.01 per share (the "Common Stock"), of the Company; and

WHEREAS, the Underwriter has agreed, pursuant to the underwriting agreement (the "Underwriting Agreement") dated _____, 1998 between the Underwriter and the Company, to act as the underwriter in connection with the Company's proposed public offering (the "Public Offering") of 1,875,000 shares of Common Stock (the "Public Shares") at an initial public offering price of $8.00 per Public Share; and

WHEREAS, the Warrants issued pursuant to this Agreement are being issued by the Company to the Underwriter or to its designees who are officers and partners of the Underwriter or to members of the selling group participating in the distribution of the Public Shares to the public in the Public Offering and/or their respective directors, officers or partners (collectively, the "Designees"), in consideration for, and as part of the Underwriter's compensation in connection with, the Underwriter acting as the Underwriter pursuant to the Underwriting Agreement;

NOW, THEREFORE, in consideration of the premises, the payment by the Underwriter to the Company of ONE HUNDRED EIGHTY SEVEN DOLLARS AND FIFTY CENTS ($187.50), the agreements herein set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Grant.

The Underwriter, and/or the Designees are hereby granted the right to purchase, at any time from _____, 1999 until 5:00 P.M., New York time, on _____, 2003 (the "Warrant Exercise Term"), up to 187,500 fully-paid and non-assessable Shares at an initial exercise price (subject to adjustment as provided in Article 8 hereof) of $13.20 per Share.

2. Warrant Certificates.

The warrant certificates delivered and to be delivered pursuant to this Agreement (the "Warrant Certificates") shall be in the form set forth in Exhibit A attached hereto and made a part hereof, with such appropriate insertions, omissions, substitutions and other variations as required or permitted by this Agreement.

3. Exercise of Warrant.

3.1. Cash Exercise. The Warrants initially are exercisable at a price of $13.20 per Share, payable in cash or by check to the order of the Company, or any combination thereof, subject to adjustment as provided in Article 8 hereof. Upon surrender of the Warrant Certificate with the annexed Form of

Election to Purchase duly executed, together with payment of the Exercise Price

(as hereinafter defined) for the Shares purchased, at the Company's principal offices (currently located at 909 Third Avenue, 9th Floor, New York, New York 10022) the registered holder of a Warrant Certificate ("Holder" or "Holders") shall be entitled to receive a certificate or certificates for the Shares so purchased. The purchase rights represented by each Warrant Certificate are exercisable at the option of the Holder thereof, in whole or in part (but not as to fractional Shares). In the case of the purchase of less than all the Shares purchasable under any Warrant Certificate, the Company shall cancel said Warrant Certificate upon the surrender thereof and shall execute and deliver a new Warrant Certificate of like tenor for the balance of the Shares purchasable thereunder.

3.2. Cashless Exercise. At any time during the Warrant Exercise Term, the Holder may, at the Holder's option, exchange, in whole or in part, the Warrants represented by such Holder's Warrant Certificate (a "Warrant Exchange"), into the number of Shares determined in accordance with this Section 3.2, by surrendering such Warrant Certificate at the principal office of the Company or at the office of its transfer agent, accompanied by a notice stating such Holder's intent to effect such exchange, the number of Warrants to be so exchanged and the date on which the Holder requests that such Warrant Exchange occur (the "Notice of Exchange"). The Warrant Exchange shall take place on the date specified in the Notice of Exchange or, if later, the date the Notice of Exchange is received by the Company

(the "Exchange Date"). Certificates for the Shares issuable upon such Warrant Exchange and, if applicable, a new Warrant Certificate of like tenor representing the Warrants which were subject to the surrendered Warrant Certificate and not included in the Warrant Exchange, shall be issued as of the Exchange Date and delivered to the Holder within three (3) days following the Exchange Date. In connection with any Warrant Exchange, the Holder shall be entitled to subscribe for and acquire (i) the number of Shares (rounded to the next highest integer) which would, but for the Warrant Exchange, then be issuable pursuant to the provision of Section 3.1 above upon the exercise of the Warrants specified by the Holder in its Notice of Exchange (the "Total Number") less (ii) the number of Shares equal to the quotient obtained by dividing (a) the product of the Total Number and the existing Exercise Price (as hereinafter defined) by (b) the Market Price (as hereinafter defined) of a Public Share on the day preceding the Warrant Exchange. "Market Price" at any date shall be deemed to be the last reported sale price, or, in case no such reported sales takes place on such day, the average of the last reported sale prices for the last three (3) trading days, in either case as officially reported by the principal securities exchange on which the Common Stock is listed or admitted to trading or as reported in the NASDAQ National market System, or, if the Common Stock is not listed or admitted to trading on any national securities exchange or quoted on the NASDAQ National Market System, the closing bid price as furnished by (i) the National Association of Securities Dealers, Inc.

through NASDAQ or (ii) a similar organization if NASDAQ is no longer reporting such information.

4. Issuance of Certificates.

Upon the exercise of the Warrants, the issuance of certificates for the Shares purchased shall be made forthwith (and in any event within three (3) business days thereafter) without charge to the Holder thereof including, without limitation, any tax which may be payable in respect of the issuance thereof, and such certificates shall (subject to the provisions of Article 5 hereof) be issued in the name of, or in such names as may be directed by, the Holder thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificates in a name other than that of the Holder and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have

paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

The Warrant Certificates and the certificates representing the Shares shall be executed on behalf of the Company by the manual or facsimile signature of the present or any future Chairman or Vice Chairman of the Board of Directors, Chief Executive Officer or President or Vice President of the Company under its corporate seal reproduced thereon, attested to by the manual or facsimile signature of the present or any future Secretary or Assistant Secretary of the Company. Warrant

Certificates shall be dated the date of execution by the Company upon initial issuance, division, exchange, substitution or transfer.

Upon exercise, in part or in whole, of the Warrants, certificates representing the Shares shall bear a legend substantially similar to the following:

> "The securities represented by this certificate have not been registered for purposes of public distribution under the Securities Act of 1933, as amended (the "Act"), and may not be offered or sold except (i) pursuant to an effective registration statement under the Act, (ii) to the extent applicable, pursuant to Rule 144 under the Act (or any similar rule under such Act relating to the disposition of securities), or (iii) upon the delivery by the holder to the Company of an opinion of counsel, reasonably satisfactory to counsel to the Company, stating that an exemption from registration under such Act is available."

5. Restriction on Transfer of Warrants.

The Holder of a Warrant Certificate, by the Holder's acceptance thereof, covenants and agrees that the Warrants are being acquired as an investment and not with a view to the distribution thereof, and that the Warrants may not be sold, transferred, assigned, hypothecated or otherwise disposed of, in whole or in part, for a period of one (1) year from the date hereof, except to the Designees.

6. Price.

6.1. Initial and Adjusted Exercise Price. The initial exercise price of each Warrant shall be $13.20 per Share. The adjusted exercise price per Share shall be the price which shall result from time to time from any and all adjustments of

the initial exercise price per Share in accordance with the provisions of Article 8 hereof.

6.2. Exercise Price. The term "Exercise Price" herein shall mean the initial exercise price or the adjusted exercise price, depending upon the context.

7. Registration Rights.

7.1. Registration Under the Securities Act of 1933. None of the Warrants or Shares have been registered for purposes of public distribution under the Securities Act of 1933, as amended (the "Act").

7.2. Registrable Securities. As used herein the term "Registrable Security" means each of the Warrants, the Shares and any shares of Common Stock issued upon any stock split or stock dividend in respect of such Shares; provided, however, that with respect to any particular Registrable Security, such security shall cease to be a Registrable Security when, as of the

date of determination, (i) it has been effectively registered under the Act and disposed of pursuant thereto, (ii) registration under the Act is no longer required for the subsequent public distribution of such security or (iii) it has ceased to be outstanding. The term "Registrable Securities" means any and/or all of the securities falling within the foregoing definition of a "Registrable Security." In the event of any merger, reorganization, consolidation, recapitalization or other change in corporate structure affecting the Common Stock, such adjustment shall be made in the definition of "Registrable

Security" as is appropriate in order to prevent any dilution or enlargement of the rights granted pursuant to this Article 7.

7.3. Piggyback Registration. If, at any time during the seven years following the effective date of the Public Offering, the Company proposes to prepare and file one or more post-effective amendments to the registration statement filed in connection with the Public Offering or any new registration statement or post-effective amendments thereto covering equity or debt securities of the Company, or any such securities of the Company held by its shareholders (in any such case, other than in connection with a merger, acquisition or pursuant to Form S-8 or successor form), (for purposes of this Article 7, collectively, the "Registration Statement"), it will give written notice of its intention to do so by registered mail ("Notice"), at least thirty (30) business days prior to the filing of each such Registration Statement, to all holders of the Registrable Securities. Upon the written request of such a holder (a "Requesting Holder"), made within twenty (20) business days after receipt of the Notice, that the Company include any of the Requesting Holder's Registrable Securities in the proposed Registration Statement, the Company shall, as to each such Requesting Holder, use its best efforts to effect the registration under the Act of the Registrable Securities which it has been so requested to register ("Piggyback Registration"), at the Company's sole cost and expense and at no cost or expense to the Requesting Holders. Notwithstanding the provisions of this Section 7.3, the Company shall have the right at any time after it shall have given

written notice pursuant to this Section 7.3 (irrespective of whether any written request for inclusion of Registrable Securities shall have already been made) to elect not to file any such proposed Registration Statement, or to withdraw the same after the filing but prior to the effective date thereof.

7.4. Demand Registration.

(a) At any time during the Warrant Exercise Term, any "Majority Holder" (as such term is defined in Section 7.4(c) below) of the Registrable Securities shall have the right (which right is in addition to the piggyback registration rights provided for under Section 7.3 hereof), exercisable by written notice to the Company (the "Demand Registration Request"), to have the Company prepare and file with the Securities and Exchange Commission (the "Commission"), on one occasion, at the sole expense of the Company (except as provided in Section 7.5(b) hereof), a Registration Statement and such other documents, including a prospectus, as may be necessary (in the opinion of both counsel for the Company and counsel for such Majority Holder), in order to comply with the provisions of the Act, so as to permit a public offering and sale of the Registrable Securities by the holders thereof. The Company shall use its best efforts to cause the Registration Statement to become effective under the Act, so as to permit a public offering and sale of the Registrable Securities by the holders thereof. Once effective, the Company will use its best efforts to maintain the effectiveness of the Registration Statement until the earlier of (i) the date that all of the Registrable Securities have been

sold or (ii) the date that the holders of the Registrable Securities receive an opinion of counsel to the Company that all of the Registrable Securities may be freely traded (without limitation or restriction as to quantity or timing and without registration under the Act) under Rule 144(k) promulgated under the Act or otherwise.

(b) The Company covenants and agrees to give written notice of any Demand Registration Request to all holders of the Registrable Securities within ten (10) business days from the date of the Company's receipt of any such Demand Registration Request. After receiving notice from the Company as provided in this Section 7.4(b), holders of Registrable Securities may request the Company to include their Registrable Securities in the Registration Statement to be filed pursuant to Section 7.4(a) hereof by notifying the Company of their decision to have such securities included within ten (10) days of their receipt of the Company's notice.

(c) The term "Majority Holder" as used in Section 7.4 hereof shall mean any holder or any combination of holders of Registrable Securities, if included in such holders' Registrable Securities are that aggregate number of shares of Common Stock (including Shares already issued and Shares issuable pursuant to the exercise of outstanding Warrants) as would constitute a majority of the aggregate number of Shares (including Shares already issued and Shares issuable pursuant to the exercise of outstanding Warrants) included in all the Registrable Securities.

7.5. Covenants of the Company With Respect to Registration. The Company covenants and agrees as follows:

(a) In connection with any registration under Section 7.4 hereof, the Company shall file the Registration Statement as expeditiously as possible, but in any event no later than twenty (20) days following receipt of any demand therefor, shall use its best efforts to have any such Registration Statement declared effective at the earliest possible time, and shall furnish each holder of Registrable Securities such number of prospectuses as shall reasonably be requested.

(b) The Company shall pay all costs, fees and expenses (other than underwriting fees, discounts and nonaccountable expense allowance applicable to the Registrable Securities and the fees and expenses of counsel retained by the holders of Registrable Securities) in connection with all Registration Statements filed pursuant to Sections 7.3 and 7.4(a) hereof including, without limitation, the Company's legal and accounting fees, printing expenses, and blue sky fees and expenses.

(c) The Company will take all necessary action which may be required in qualifying or registering the Registrable Securities included in the Registration Statement for offering and sale under the securities or blue sky laws of such states as are reasonably requested by the holders of such securities.

(d) The Company shall indemnify any holder of the Registrable Securities to be sold pursuant to any Regis-

tration Statement and any underwriter or person deemed to be an underwriter under the Act and each person, if any, who controls such holder or underwriter or person deemed to be an underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), against all loss, claim, damage, expense or liability (including all expenses reasonably incurred in investigating, preparing or

defending against any claim whatsoever) to which any of them may become subject under the Act, the Exchange Act or otherwise, arising from such registration statement to the same extent and with the same effect as the provisions pursuant to which the Company has agreed to indemnify the Underwriter as set forth in Section 7 of the Underwriting Agreement and to provide for just and equitable contribution as set forth in Section 8 of the Underwriting Agreement.

(e) Any holder of Registrable Securities to be sold pursuant to a registration statement, and such Holder's successors and assigns, shall severally, and not jointly, indemnify, the Company, its officers and directors and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against all loss, claim, damage or expense or liability (including all expenses reasonably incurred in investigating, preparing or defending against any claim whatsoever) to which they may become subject under the Act, the Exchange Act or otherwise, arising from information furnished by or on behalf of such holder, or such Holder's successors or assigns, for specific inclusion in such

Registration Statement to the same extent and with the same effect as the provisions pursuant to which the Underwriter has agreed to indemnify the Company as set forth in Section 7 of the Underwriting Agreement and to provide for just and equitable contribution as set forth in Section 8 of the Underwriting Agreement.

(f) Nothing contained in this Agreement shall be construed as requiring any Holder to exercise the Warrants held by such Holder prior to the initial filing of any registration statement or the effectiveness thereof.

(g) If the Company shall fail to comply with the provisions of this Article 7, the Company shall, in addition to any other equitable or other relief available to the holders of Registrable Securities, be liable for any or all incidental, special and consequential damages sustained by the holders of Registrable Securities, requesting registration of their Registrable Securities.

(h) The Company shall promptly deliver copies of all correspondence between the Commission and the Company, its counsel or auditors and all memoranda relating to discussions with the Commission or its staff with respect to the Registration Statement to each holder of Registrable Securities included for such registration in such Registration Statement pursuant to Section 7.3 hereof or Section 7.4 hereof requesting such correspondence and memoranda and to the managing underwriter, if any, of the offering in connection with which such Holder's Registrable Securities are being registered and

shall permit each holder of Registrable Securities and such underwriter to do such reasonable investigation, upon reasonable advance notice, with respect to information contained in or omitted from the Registration Statement as it deems reasonably necessary to comply with applicable securities laws or rules of the National Association of Securities Dealers, Inc. Such investigation shall include access to books, records and properties and opportunities to discuss the business of the Company with its officers and independent auditors, all to such reasonable extent and at such reasonable times and as often as any such holder of Registrable Securities or underwriter shall reasonably request.

8. Adjustments of Exercise Price and Number of Shares.

8.1. Computation of Adjusted Price. In case the Company shall at any time after the date hereof pay a dividend in shares of Common Stock or make a distribution in shares of Common Stock, then upon such dividend or distribution the Exercise Price in effect immediately prior to such dividend or distribution shall forthwith be reduced to a price determined by dividing:

(a) an amount equal to the total number of shares of Common Stock outstanding immediately prior to such dividend or distribution multiplied by the Exercise Price in effect immediately prior to such dividend or distribution, by

(b) the total number of shares of Common Stock outstanding immediately after such issuance or sale.

For the purposes of any computation to be made in accordance with the provisions of this Section 8.1, the Common Stock issuable by way of dividend or other distribution on any stock of the Company shall be deemed to have been issued immediately after the opening of business on the date following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution.

8.2. Subdivision and Combination. In case the Company shall at any time subdivide or combine the outstanding shares of Common Stock, the Exercise Price shall forthwith be proportionately decreased in the case of subdivision or increased in the case of combination.

8.3. Adjustment in Number of Shares. Upon each adjustment of the Exercise Price pursuant to the provisions of this Article 8, the number of Shares issuable upon the exercise of each Warrant shall be adjusted to the nearest full number by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of Shares issuable upon exercise of the Warrants immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

8.4. Reclassification, Consolidation, Merger, etc. In case of any reclassification or change of the outstanding shares of Common Stock (other than a change in par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or in the case of any consolidation of the Company with, or merger of the Company into, another

corporation (other than a consolidation or merger in which the Company is the surviving corporation and which does not result in any reclassification or change of the outstanding shares of Common Stock, except a change as a result of a subdivision or combination of such shares or a change in par value, as aforesaid), or in the case of a sale or conveyance to another corporation of the property of the Company as an entirety, the Holders shall thereafter have the right to purchase the kind and number of shares of stock and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance as if the Holders were the owners of the shares of Common Stock underlying the Warrants immediately prior to any such events at a price equal to the product of (x) the number of shares of Common Stock issuable upon exercise of the Holder's Warrants and (y) the Exercise Price in effect immediately prior to the record date for such reclassification, change, consolidation, merger, sale or conveyance as if such Holders had exercised the Warrants.

8.5. Determination of Outstanding Shares of Common Stock. The number of shares of Common Stock at any one time outstanding shall include the aggregate number of shares of Common Stock issued and the aggregate number of shares of Common Stock issuable upon the exercise of options, rights, warrants and upon the conversion or exchange of convertible or exchangeable securities.

8.6. Dividends and Other Distributions with Respect to Outstanding Securities. In the event that the Company

shall at any time prior to the exercise of all Warrants make any distribution of its assets to holders of its Common Stock as a liquidating or a partial liquidating dividend, then the holder of Warrants who exercises its Warrants after the record date for the determination of those holders of Common Stock entitled to such distribution of assets as a liquidating or partial liquidating dividend shall be entitled to receive for the Warrant Price per Warrant, in addition to each share of Common Stock, the amount of such distribution (or, at the option of the Company, a sum equal to the value of any such assets at the time of such distribution as determined by the Board of Directors of the Company in good faith) which would have been payable to such holder had he been the holder of record of the Common Stock receivable upon exercise of his Warrant on the record date for the determination of those entitled to such distribution. At the time of any such dividend or distribution, the Company shall make appropriate reserves to ensure the timely performance of the provisions of this Subsection 8.6.

8.7. Subscription Rights for Shares of Common Stock or Other Securities. In the case that the Company or an affiliate of the Company shall at any time after the date hereof and prior to the exercise of all the Warrants issue any rights, warrants or options to subscribe for shares of Common Stock or any other securities of the Company or of such affiliate to all the shareholders of the Company, the Holders of unexercised Warrants on the record date set by the Company or such affiliate in connection with such issuance of rights, warrants or options

shall be entitled, in addition to the shares of Common Stock or other securities receivable upon the exercise of the Warrants, to receive such rights, warrants or options shall be entitled, in addition to the shares of Common Stock or other securities receivable upon the exercise of the Warrants, to receive such rights at the time such rights, warrants or options that such Holders would have been entitled to receive had they been, on such record date, the holders of record of the number of whole shares of Common Stock then issuable upon exercise of their outstanding Warrants (assuming for purposes of this Section 8.7), that the exercise of the Warrants is permissible immediately upon issuance).

9. Exchange and Replacement of Warrant Certificates.

Each Warrant Certificate is exchangeable without expense, upon the surrender thereof by the registered Holder at the principal executive office of the Company, for a new Warrant Certificate of like tenor and date representing in the aggregate the right to purchase the same number of securities in such denominations as shall be designated by the Holder thereof at the time of such surrender.

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Warrant Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of the

Warrant Certificate, if mutilated, the Company will make and deliver a new Warrant Certificate of like tenor, in lieu thereof.

10. Elimination of Fractional Interests.

The Company shall not be required to issue certificates representing fractions of Shares, nor shall it be required to issue scrip or pay cash in lieu of fractional interests, it being the intent of the parties that all fractional interests shall be eliminated by rounding any fraction up to the nearest whole

number of Shares.

11. Reservation and Listing of Securities.

The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon the exercise of the Warrants, such number of shares of Common Stock as shall be issuable upon the exercise thereof. The Company covenants and agrees that, upon exercise of the Warrants and payment of the Exercise Price therefor, all Shares issuable upon such exercise shall be duly and validly issued, fully paid, non-assessable and not subject to the preemptive rights of any shareholder. As long as the Warrants shall be outstanding, the Company shall use its best efforts to cause all shares of Common Stock issuable upon the exercise of the Warrants to be listed on or quoted by NASDAQ or listed on such national securities exchange, in the event the Common Stock is listed on a national securities exchange.

12. Notices to Warrant Holders.

Nothing contained in this Agreement shall be construed as conferring upon the Holder or Holders the right to vote or to consent or to receive notice as a shareholder in respect of any meetings of shareholders for the election of directors or any other matter, or as having any rights whatsoever as a shareholder of the Company. If, however, at any time prior to the expiration of the Warrants and their exercise, any of the following events shall occur:

(a) the Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

(b) the Company shall offer to all the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

(c) a dissolution, liquidation or winding up of the Company (other than in connection with a consolidation or merger) or a sale of all or substantially all of its property, assets and business as an entirety shall be proposed; or

(d) reclassification or change of the outstanding shares of Common Stock (other than a change in par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation or merger in which the Company is the surviving corporation and which does not result in any reclassification or change of the outstanding shares of Common Stock, except a change as a result of a subdivision or combination of such shares or a change in par value, as aforesaid), or a sale or conveyance to another corporation of the property of the Company as an entirety is proposed; or

(e) The Company or an affiliate of the Company shall propose to issue any rights to subscribe for shares of Common Stock or

any other securities of the Company or of such affiliate to all the shareholders of the Company;

then, in any one or more of said events, the Company shall give written notice to the Holder or Holders of such event at least fifteen (15) days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the shareholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, options or warrants, or entitled to vote on such proposed dissolution, liquidation, winding up or sale. Such notice shall specify such

record date or the date of closing the transfer books, as the case may be. Failure to give such notice or any defect therein shall not affect the validity of any action taken in connection with the declaration or payment of any such dividend or distribution, or the issuance of any convertible or exchangeable securities or subscription rights, options or warrants, or any proposed dissolution, liquidation, winding up or sale.

13. Notices.

All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been duly made when delivered, or mailed by registered or certified mail, return receipt requested:

(a) If to a registered Holder of the Warrants, to the address of such Holder as shown on the books of the Company; or

(b) If to the Company, to the address set forth in Section 3 of this Agreement or to such other address as the Company may designate by notice to the Holders.

14. Supplements and Amendments.

The Company and the Underwriter may from time to time supplement or amend this Agreement without the approval of any Holders of Warrant Certificates in order to cure any ambiguity, to correct or supplement any provision contained herein which may be defective or inconsistent with any provisions herein, or to make any other provisions in regard to matters or questions arising hereunder which the Company and the Underwriter may deem

necessary or desirable and which the Company and the Underwriter deem not to adversely affect the interests of the Holders of Warrant Certificates.

15. Successors.

All the covenants and provisions of this Agreement by or for the benefit of the Company and the Holders inure to the benefit of their respective successors and assigns hereunder.

16. Termination.

This Agreement shall terminate at the close of business on _____, 2006. Notwithstanding the foregoing, this Agreement will terminate on any earlier date when all Warrants have been exercised and all the Shares issuable upon exercise of the Warrants have been resold to the public; provided, however, that the provisions of Section 7 shall survive any termination pursuant to this Section 16 until the close of business on _____, 2009.

17. Governing Law.

This Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be construed in accordance with the laws of said State.

18. Benefits of This Agreement.

Nothing in this Agreement shall be construed to give to any person or corporation other than the Company and the Underwriter and any other registered holder or holders of the Warrant Certificates, Warrants or the Shares any legal or equitable right, remedy or claim under this Agreement; and this Agreement

shall be for the sole and exclusive benefit of the Company and the Underwriter and any other holder or holders of the Warrant Certificates, Warrants or the Shares.

19. Counterparts.

This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written.

[SEAL] NETWORK-1 SECURITY SOLUTIONS, INC.

By:_____
Name:
Title:

Attest:

_____

WHALE SECURITIES CO., L.P.

By: Whale Securities Corp.,
General Partner

By:_____
Name:
Title:

EXHIBIT A

THE WARRANTS REPRESENTED BY THIS CERTIFICATE AND THE OTHER SECURITIES ISSUABLE UPON EXERCISE THEREOF HAVE NOT BEEN REGISTERED FOR PURPOSES OF PUBLIC DISTRIBUTION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE OFFERED OR SOLD EXCEPT (i) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, (ii) TO THE EXTENT APPLICABLE, PURSUANT TO RULE 144 UNDER SUCH ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, STATING THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE.

THE TRANSFER OR EXCHANGE OF THE WARRANTS REPRESENTED BY THIS CERTIFICATE IS RESTRICTED IN ACCORDANCE WITH THE WARRANT AGREEMENT REFERRED TO HEREIN.

EXERCISABLE ON OR BEFORE
5:00 P.M., NEW YORK TIME, _____, 2003

No. W-1 187,500 Warrants

WARRANT CERTIFICATE

This Warrant Certificate certifies that Whale Securities Co., L.P. or registered assigns, is the registered holder of 187,500 Warrants to purchase, at any time from _____, 1999 until 5:00 P.M. New York City time on _____, 2003 ("Expiration Date"), up to 187,500 fully-paid and non-assessable shares ("Shares") of common stock, par value $.01 per share (the "Common Stock"), of Network-1 Security Solutions, Inc., a Delaware corporation (the "Company"), at the initial exercise price, subject to adjustment in certain events (the "Exercise Price"), of $13.20 per Share upon surrender of this Warrant Certificate and payment of the Exercise Price at an office or agency of the Company, but subject to the conditions set forth herein and in the warrant agreement dated as of _____, 1998 between the Company and Whale Securities Co., L.P. (the "Warrant Agreement"). Payment of the Exercise Price may be made in cash, or by certified or official bank check in New York Clearing House funds payable to the order of the Company, or any combination thereof.

No Warrant may be exercised after 5:00 P.M., New York City time, on the Expiration Date, at which time all Warrants evidenced hereby, unless exercised prior thereto, shall thereafter be void.

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants issued pursuant to the Warrant Agreement, which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is

hereby referred to in a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrants.

The Warrant Agreement provides that upon the occurrence of certain events, the Exercise Price and the type and/or number of the Company's securities issuable thereupon may, subject to certain conditions, be adjusted. In such event, the Company will, at the request of the holder, issue a new Warrant Certificate evidencing the adjustment in the Exercise Price and the number and/or type of securities issuable upon the exercise of the Warrants; provided, however, that the failure of the Company to issue such new Warrant Certificates shall not in any way change, alter, or otherwise impair, the rights of the holder as set forth in the Warrant Agreement.

Upon due presentment for registration of transfer of this Warrant Certificate at an office or agency of the Company, a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided herein and in the Warrant Agreement, without any charge except for any tax, or other governmental charge imposed in connection therewith.

Upon the exercise of less than all of the Warrants evidenced by this Certificate, the Company shall forthwith issue to the holder hereof a new Warrant Certificate representing such number of unexercised Warrants.

The Company may deem and treat the registered holder(s) hereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, and of any distribution to the holder(s) hereof, and for all other purposes, and the Company shall not be affected by any notice to the contrary.

All terms used in this Warrant Certificate which are defined in the Warrant Agreement shall have the meanings assigned to them in the Warrant Agreement.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed under its corporate seal.

Dated: _____, 1998 NETWORK-1 SECURITY SOLUTIONS, INC.

[SEAL] By:_____
Name:
Title:
Attest:
_____

[FORM OF ELECTION TO PURCHASE]

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to purchase _____ shares of Common Stock and herewith tenders in payment for such securities cash or a certified or official bank check payable in New York Clearing House Funds to the order of Network-1 Security Solutions, Inc. in the amount of $, all in accordance with the terms hereof. The undersigned requests that a certificate for such securities be registered in the name of , whose address is _____, and that such Certificate be delivered to _____, whose address is _____.

Dated: Signature: _____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

_____

_____
(Insert Social Security or Other Identifying Number of Holder)

[FORM OF ASSIGNMENT]

(To be executed by the registered holder if such holder desires to transfer the Warrant Certificate.)

FOR VALUE RECEIVED _____

hereby sells, assigns and transfers unto _____

_____
(Please print name and address of transferee)

this Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____, Attorney, to transfer the within Warrant Certificate on the books of the within-named Company, with full power of substitution.

Dated: Signature: _____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate)

_____

_____

(Insert Social Security or Other Identifying Number of Assignee)

Exhibit 3.1

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 07/13/1990
770194001 - 2235929

770194001 CERTIFICATE OF INCORPORATION
OF
NETWORK-1, INC.

FIRST: The name of the corporation is Network-1, Inc.

SECOND: The address of its registered office in the State of Delaware is Coffee Run Professional Centre, Lancaster Pike and Loveville Road, City of Hockessin, County of New Castle. Its registered agent at such address is The Incorporators Ltd.

THIRD: The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: The corporation shall have the authority to issue one thousand shares of common stock without par value.

FIFTH: The Board of Directors is expressly authorized to adopt, amend, or repeal the By-Laws of the corporation.

SIXTH: The stockholders and directors may hold their meetings and keep the books and documents of the corporation outside the State of Delaware, at such places from time to time designated by the By-Laws, except as otherwise required by the Laws of Delaware.

SEVENTH: The corporation is to have perpetual existence.

EIGHTH: The name and mailing address of the incorporator is Patricia L. Ryan, Coffee Run Professional Centre, Lancaster Pike & Loveville Road, Hockessin, DE 19707.

NINTH: The number of directors of the corporation shall be fixed from time to time by its By-Laws and may be increased or decreased.

TENTH: The Board of Directors is expressly authorized and shall have such authority as set forth in the By-Laws to the extent such authority would be valid under Delaware Law.

ELEVENTH: No director of the corporation shall have personal liability to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, provided that this provision shall not eliminate or limit the liability of a director (a) for any breach of the director's duty or loyalty to the corporation or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the Delaware Corporation Law, or (d) for any transaction from which the director derived an improper personal benefit.

THE UNDERSIGNED Incorporator for the purpose of forming a corporation pursuant to the laws of the State of Delaware, does make this Certificate, hereby declaring and certifying that the facts herein stated are true.

July 13, 1990 BY: /s/ Patricia L. Ryan

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

of

NETWORK-1, INC.

- ---

Pursuant to Section 242 of the General Corporation Law
of the State of Delaware

- ---

Network-1, Inc. (the "Corporation"), a Delaware corporation, hereby certifies as follows:

FIRST: The name of the Corporation is Network-1, Inc.

SECOND: The date on which the Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware is July 13, 1990, under the name of Network-1, Inc.

THIRD: That the Board of Directors of this Corporation, pursuant to Section 228, Section 242, and Section 245 of the General Corporation Law of the State of Delaware, adopted resolutions amending and restating the Certificate of Incorporation to read in full as follows:

Article I

The name of this Corporation is Network-1, Inc.

Article II

The address of the registered office of this Corporation in the State of Delaware is 32 Loockerman Square, Suite L-100, City of Dover 19901, County of Kent. Its registered agent at such address is The Prentice-Hall Corporation System, Inc.

Article III

The purpose of this Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

Article IV

A. Classes of Stock

This Corporation is authorized to issue two classes of stock to be designated, respectively, "Preferred Stock" and "Common Stock". The total number of shares which the Corporation is authorized to issue is thirty million (30,000,000) shares. Twenty-five (25,000,000) shares shall be Common Stock, par value one cent ($.01) per share (the "Common Stock"), and five million (5,000,000) shares shall be Preferred Stock, par value one cent ($.01) per share (the "Preferred Stock"). The Corporation is authorized to effect a stock split of the issued and outstanding Common Stock of the Corporation whereby every share of Common Stock currently outstanding will be converted into 12,836.97 shares of Common Stock, par value $.01 per share. Each share of the Corporation's Common Stock issued and outstanding on the effective date of this Amendment shall be and hereby are changed without further action into 12,836.97 fully paid and nonassessable shares of the Corporation's Common Stock. Fractional shares will be rounded to the nearest whole number.

B. Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of Preferred Stock.

The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences of any wholly unissued series of

Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of them, and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding and fix any other rights, obligations or provisions which may be so determined by Delaware Law. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

Article V

For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation, and regulation of the powers of the Corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided:

1. The management of the business and the conduct of the affairs of the Corporation shall be vested in its Board of Directors. The number of directors of the Corporation shall be such

as from time to time shall be fixed by, or in the manner provided in, the By-laws. No election of directors need be by written ballot.

2. The Board of Directors shall have the power without the assent or vote of the Stockholders, to adopt, amend, or repeal the By-laws of the Corporation; provided, however, that any provision for the classification of directors of the Corporation for staggered terms pursuant to the provisions of subsection (d) of Section 141 of the General Corporation Law of the State of Delaware shall be set forth in an initial By-law or in a By-law adopted by the stockholders entitled to vote of the Corporation unless provisions for such classification shall be set forth in this certificate of incorporation.

3. Whenever the Corporation shall be authorized to issue only one class of stock, each outstanding share shall entitle the holder thereof to notice of, and the right to vote at any meeting of stockholders. Whenever the Corporation shall be authorized to issue more than one class of stock, no outstanding share of any class of stock which is denied voting power under the provisions of the Certificate of Incorporation shall entitle the holder thereof to the right to vote at any meeting of stockholders except as the provisions of paragraph (2) of subsection (b) of Section 242 of the General Corporation Law of the State of Delaware shall otherwise require; provided, that no share of any such class which is otherwise denied voting power shall entitle the holder thereof to vote upon the increase or decrease in the number of authorized shares of said class.

4. The directors in their discretion may submit any contract or act for approval or ratification at any annual meeting of the stockholders or at any meeting of the stockholders called for the purpose of considering any such act or contract, and any contract or act that shall be approved or be ratified by the vote of the holders of a majority of the stock of the Corporation which is represented in person or by proxy at such meeting and entitled to vote thereat (provided that a lawful quorum of stockholders be there represented in person or by proxy) shall be as valid and binding upon the Corporation and upon all the stockholders as though it had been approved or ratified by every stockholder of the Corporation, whether or not the contract or act would otherwise be open to legal attack because of directors' interests, or for any other reason.

5. In addition to the powers and authorities hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation; subject nevertheless, to the provisions of the statutes of Delaware, of this Certificate of Incorporation, and to any by-laws from time to time made by the stockholders; provided, however, that no by-law so made shall invalidate any prior act of the directors which would have been valid if such by-law had not been made.

Article VI

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the directors' duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the GCL, or (iv) for any transaction from which the director derived an improper personal benefit. If the GCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the GCL, as so amended. Any repeal or modification of this paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation with respect to events occurring prior to the time of such repeal or modification.

Article VII

The Corporation shall, to the fullest extent permitted by the provisions of the General Corporation Law of Delaware, as now or hereafter in effect, indemnify all persons whom it may indemnify under such provisions. The indemnification provided by this Article shall not limit or exclude any rights, indemnities or limitations of liability to which any person may be entitled, whether as a matter of law, under the By-Laws of the Corporation, by agreement, vote of the stockholders or disinterested directors of the Corporation or otherwise.

Article VIII

Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as

the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

Article IX

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation in the manner now or hereafter prescribed by statute, and all rights and powers conferred upon stockholders, directors, and officers herein are granted subject to this reservation.

Article X

The foregoing Amendment and Restatement to the Certificate of Incorporation was duly adopted by the Corporation's Board of Directors in accordance with the provisions of Section 242 and Section 245 of the General Corporation Law of the State of Delaware and thereafterwards duly adopted by the written consent of a majority of stockholders of the Corporation in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware, written notice of such adoption having been given in accordance with the provisions of the aforesaid Section 228 to all stockholders of the Corporation not so consenting.

IN WITNESS WHEREOF, Network-1, Inc. has caused this Amended and Restated Certificate of Incorporation to be signed by its president and attested to by its secretary this 25th day of February, 1994.

NETWORK-1, INC.

/s/ Robert Russo

Robert Russo, President and
Chief Operating Officer

ATTEST

/s/ William Hancock
- ---
William Hancock, Secretary

CERTIFICATE OF AMENDMENTS TO THE

CERTIFICATE OF INCORPORATION

of

NETWORK-1, INC.

- ---

Pursuant to Section 242 of the General
Corporation Law of the State of Delaware

- ---

Network-1, Inc. (the "Corporation"), a Delaware corporation, hereby certifies as follows:

FIRST: The Board of Directors of said corporation duly adopted a resolution setting forth and declaring advisable the amendment of Article first of the Amended and Restated Certificate of Incorporation of said Corporation so that, as amended, said Article shall read as follows:

ARTICLE FIRST

The name of the Corporation is Network-1 Software & Technology, Inc.

SECOND: In lieu of a vote of Stockholders, written consent to the foregoing amendment has been given by a majority of the outstanding stock entitled to vote thereon in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware, and such amendment has been duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF AND UNDER PENALTIES OF PERJURY, Network-1, Inc. has caused this Certificate of Amendment to the Certificate of Incorporation to be signed by its president and attested to by its secretary this 15th day of March,

1994.

NETWORK-1, INC.

/s/ Robert Russo

Robert Russo, President and
Chief Operating Officer

ATTEST

/s/ William Hancock
- ---
William Hancock, Secretary

CERTIFICATE OF AMENDMENT TO THE
CERTIFICATE OF INCORPORATION
of
NETWORK-1 SOFTWARE & TECHNOLOGY

- ---

Pursuant to Section 242 of the General
Corporation Law of the State of Delaware

- ---

Network-1 Software & Technology, Inc., (the "Corporation"), a Delaware corporation, hereby certifies as follows:

FIRST: The Board of Directors of the Corporation duly adopted a resolution setting forth and declaring advisable the amendment of Article First of the Amended and Restated Certification of Incorporation of the Corporation so that, as amended, said Article shall read as follows:

ARTICLE FIRST

The name of the Corporation is Network-1 Security Solutions, Inc.

SECOND: In lieu of a vote of stockholders, written consent to the foregoing amendment has been given by a majority of the outstanding stock entitled to vote thereon in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware, and such amendment has been duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF AND UNDER PENALTIES OF PERJURY, Network-1 Software & Technology, Inc. has caused this Certificate of Amendment to the Certificate of Incorporation to be signed by its President and attested to by its Secretary this 13th day of May, 1998.

Network-1 Software & Technology, Inc.

/s/ Avi A. Fogel

Avi A. Fogel, President and
Chief Executive Officer

ATTEST

/s/ William Hancock
- ---
William Hancock, Secretary

CERTIFICATE OF AMENDMENT TO THE
CERTIFICATE OF INCORPORATION
of
NETWORK-1 SECURITY SOLUTIONS, INC.

- ---

Pursuant to Section 242 of the General
Corporation Law of the State of Delaware

- ---

Network-1 Security Solutions, Inc., (the "Corporation"), a Delaware corporation, hereby certifies as follows:

FIRST: The Board of Directors of the Corporation duly adopted a resolution setting forth and declaring advisable the amendment of Article IV of the Amended and Restated Certification of Incorporation of the Corporation so that, as amended, said Article shall read as follows:

ARTICLE IV

A. Classes of Stock

This Corporation is authorized to issue two classes of stock to be designated, respectively, "Preferred Stock" and "Common Stock". The total number of shares which the Corporation is authorized to issue is thirty million (30,000,000) shares. Twenty-five million (25,000,000) shares shall be Common Stock, $.01 par value per share (the "Common Stock"), and five million (5,000,000) shares shall be Preferred Stock, $.01 par value per share (the "Preferred Stock"). The Corporation is authorized to effect a reverse stock split of the issued and outstanding Common Stock of the Corporation whereby each 1.61083 shares of Common Stock, $.01 par value, currently outstanding will be converted into one share of Common Stock, $.01 par value per share. Each 1.61083 shares of the Corporation's Common Stock issued and outstanding on the effective date of this Amendment shall be and hereby are changed without further action into one fully paid and non-assessable share of the Corporation's Common Stock. Fractional shares will be rounded to the nearest whole number.

SECOND: In lieu of a vote of stockholders, written consent to the foregoing amendment has been given by a majority of the outstanding stock entitled to vote thereon in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware, and such amendment has been duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF AND UNDER PENALTIES OF PERJURY, Network-1 Security Solutions, Inc. has caused this Certificate of Amendment to the Certificate of Incorporation to be signed by its President and attested to by its Secretary this 17th day of July, 1998.

Network-1 Security Solutions, Inc.

/s/ Avi A. Fogel

Avi A. Fogel, President and
Chief Executive Officer

ATTEST

/s/ Robert Russo
- ---
Robert Russo, Secretary

Exhibit 3.2

AMENDED AND RESTATED BY-LAWS OF NETWORK-1 SECURITY SOLUTIONS, INC. A DELAWARE CORPORATION

ARTICLE I

OFFICES

Section 1. REGISTERED OFFICE. The registered office of the Corporation shall be established and maintained at 32 Loockerman Square, Suite L-100, City of Dover 19901, County of Kent, in the State of Delaware.

Section 2. OTHER OFFICES. The Corporation may have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

CORPORATE SEAL

Section 3. CORPORATE SEAL. The corporate seal shall be circular and shall consist of a die bearing the name of the corporation, the year of it's creation and the words "Corporate Seal Delaware". Said seal may be used by causing it, or a facsimile thereof, to be impressed or affixed or otherwise reproduced.

ARTICLE III

STOCKHOLDERS' MEETINGS

Section 4. PLACE OF MEETINGS. Meetings of the stockholders of the Corporation shall be held at such place, either within or without the State of Delaware, as may be designated from time to time by the Board of Directors, or, if not so designated, then at the office of the Corporation required to be maintained pursuant to Section 2 hereof.

Section 5. ANNUAL MEETING. Annual meetings of stockholders for the election of Directors and for such other business as may be stated in the notice of the meeting, shall be

held at such place, either within or without the State of Delaware, and at such time and date as the Board of Directors, by resolution, shall determine and as set forth in the notice of the meeting. If the date of the annual meeting shall fall upon a legal holiday, the meeting shall be held on the next succeeding business day. At each annual meeting, the stockholders entitled to vote shall elect a Board of Directors and may transact such other corporate business as shall be stated in the notice of the meeting.

Section 6. SPECIAL MEETINGS. Special meetings of the stockholders of the Corporation may be called, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, by (i) the Chairman of the Board of Directors, (ii) the President or (iii) the Board of Directors, and shall be called by the President or Secretary at the request in writing of a majority of the stockholders entitled to vote thereat. No business may be transacted at such special meeting other than specified in notice of such

meeting.

Section 7. NOTICE OF MEETINGS. Except as otherwise provided by law or the Certificate of Incorporation, as the same may be amended or restated (hereinafter, the "Certificate of Incorporation"), written notice of each meeting of stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting, such notice to specify the place, date, time and purpose or purposes of the meeting. Notice of any meeting of stockholders may be waived in writing, signed by the person entitled to notice thereof, either before or after such meeting, and will be waived by any stockholder by his attendance thereat in person or by proxy, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

Section 8. QUORUM. At all meetings of stockholders, except where otherwise provided by statute or by the Certificate of Incorporation, or by these By-laws, the presence, in person or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. In the absence of a quorum, any meeting of stockholders may be adjourned, from time to time, either by the Chairman of the meeting or by vote of the holders of a majority of the shares represented thereat, but no

other business shall be transacted at such meeting. The stockholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment. When a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any stockholders. Except as otherwise provided by law, the Certificate of Incorporation or these By-laws, all action taken by the holders of a majority of the votes cast, excluding abstentions, at any meeting at which a quorum is present shall be valid and binding upon the Corporation; provided, however, that Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of Directors. Where a separate vote by a class or classes is required, a majority of the outstanding shares of such class or classes, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter and the affirmative vote of the majority (plurality, in the case of the election of Directors) of shares of such class or classes present in person or represented by proxy at the meeting shall be the act of such class.

Section 9. ADJOURNMENT AND NOTICE OF ADJOURNED MEETINGS. Any meeting of stockholders, whether annual or special, may be adjourned from time to time either by the Chairman of the meeting or by the vote of a majority of the shares casting votes, excluding abstentions. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 10. VOTING RIGHTS. For the purpose of determining those stockholders entitled to vote at any meeting of the stockholders, except as otherwise provided by law, only persons in whose names shares stand on the stock records of the corporation on the record date, as provided in Section 12 of these By-laws, shall be entitled to vote at any meeting of stockholders. Every person entitled to vote or execute consents shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such person or his duly authorized agent, which proxy shall be filed with the Secretary at or before the meeting at which it is to be used. An

agent so appointed need not be a stockholder. Elections of Directors need not be by written ballot, unless otherwise provided in the Certificate of Incorporation.

Section 11. JOINT OWNERS OF STOCK. If shares or other securities having voting power stand of record in the names of two (2) or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, or if two (2) or more person share the same fiduciary relationship respecting the same shares, unless the Secretary is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect: (a) if only one (1) votes, his act binds all; (b) if more than one (1)votes, the act of the majority so voting binds all; (c) if more than one (1)votes, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionally, or may apply to the Delaware Court of Chancery for relief as provided in the General Corporation Law of Delaware, Section 217(b). If the instrument filed with the Secretary shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of clause (c) shall be a majority or even-split in interest.

Section 12. LIST OF STOCKHOLDERS. The Secretary shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not specified, at the place where the meeting is to be held. The list shall be produced and kept at the time and place of meeting during the whole time thereof and may be inspected by any stockholder who is present.

Section 13. ACTION WITHOUT MEETING. Except as otherwise provided by the Certificate of Incorporation, whenever the vote of stockholders at a meeting thereof is required or permitted to be taken in connection with any corporate action by any provisions of Delaware Corporate Law, or the Certificate of Incorporation, or of these By-laws, such action may be taken without a meeting, without prior notice and without a vote, if a

consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting.

Effective upon the closing of the Corporation's initial public offering of securities pursuant to a registration statement filed under the Securities Act of 1933, as amended (a "Public Offering"), the stockholders of the Corporation may not take action by written consent without a meeting and must take any actions at a duly called annual or special meeting. Meetings of stockholders may be held within or without the State of Delaware, as the By-laws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in these By-laws of the Corporation.

Section 14. ORGANIZATION.

(a) At every meeting of stockholders, the Chairman of the Board of Directors, or, if a Chairman has not been appointed, is absent, or designates the next senior officer present to so act, the President, or, if the President is absent, the most senior Vice President present, or, in the absence of any such officer, a Chairman of the meeting chosen by a majority in interest of the

stockholders entitled to vote, present in person or by proxy, shall act as Chairman. The Secretary, or, in his absence, an Assistant Secretary directed to do so by the President, shall act as secretary of the meeting.

(b) The Board of Directors of the Corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the Chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such Chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the Corporation and their duly authorized and constituted proxies and such other persons as the Chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and

regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. Unless and to the extent determined by the Board of Directors or the Chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE IV

DIRECTORS

Section 15. NUMBER AND TERM OF OFFICE. The number of Directors which shall constitute the whole of the Board of Directors shall be no less than three (3). The number of authorized Directors may be modified from time to time by amendment of this Section 15 in accordance with the provisions of Section 44 hereof. At each annual meeting of stockholders, directors of the Corporation shall be elected to hold office until the expiration of the term for which they are elected, and until their successors have been duly elected and qualified; except that if any such election shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the Delaware General Corporation Law.

The number of Directors which constitute the whole Board of Directors of the Corporation shall be designated in the By-laws of the Corporation or by resolution adopted by the Board of Directors. Vacancies occurring on the Board of Directors for any reason may be filled by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, at any meeting of the Board of Directors. A person so elected by the Board of Directors to fill a vacancy shall hold office until the next succeeding annual meeting of stockholders of the Corporation and until his or her successor shall have been duly elected and qualified. Directors need not be stockholders unless so required by the Certificate of Incorporation. If, for any reason, the Directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the stockholders called for that purpose in the manner provided in these By-laws.

Section 16. POWERS. The powers of the Corporation shall be exercised, its business conducted and its property controlled by the Board of Directors, except as may be otherwise provided by statute or by the Certificate of Incorporation.

Section 17. VACANCIES. Unless otherwise provided in the Certificate of Incorporation, vacancies and newly created directorships resulting from any increase in the authorized

number of Directors may be filled by a majority of the Directors then in office, although less than a quorum, or by a sole remaining Director, and each Director

so elected shall hold office for the unexpired portion of the term of the Director whose place shall be vacant and until his or her successor shall have been duly elected and qualified. A vacancy in the Board of Directors shall be deemed to exist under this Section 17 in the case of the death, removal or resignation of any Director, or if the stockholders fail at any meeting of stockholders at which Directors are to be elected (including any meeting referred to in Section 19 below) to elect the number of Directors then constituting the whole Board of Directors.

Section 18. RESIGNATION. Any Director may resign at any time by delivering his or her written resignation to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it shall be deemed effective at the pleasure of the Board of Directors. When one or more Directors shall resign from the Board of Directors, effective at a future date, a majority of the Directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office for the unexpired portion of the term of the Director whose place shall be vacated and until his successor shall have been duly elected and qualified.

Section 19. REMOVAL. At a special meeting of stockholders called for the purpose in the manner hereinabove provided, subject to any limitations imposed by law or the Certificate of Incorporation, the Board of Directors, or any individual Director, may be removed from office, with or without cause, and a new Director or Directors elected by a vote of stockholders holding a majority of the outstanding shares entitled to vote at an election of Directors.

Section 20. MEETINGS.

(a) Annual Meetings. The annual meeting of the Board of Directors shall be held immediately before or after the annual meeting of stockholders and at the place where such meeting is held. No notice of an annual meeting of the Board of Directors shall be necessary and such meeting shall be held for the purpose of electing officers and transacting such other business as may lawfully come before it.

(b) Regular Meetings. Except as hereinafter otherwise provided, regular meetings of the Board of Directors shall be held in the office of the Corporation required to be maintained pursuant to Section 2 hereof. Unless otherwise restricted by the Certificate of Incorporation, regular meetings of the Board of Directors may also be held at any place within or without the State of Delaware which has been designated by resolution of the Board of Directors or the written consent of all Directors.

(c) Special Meetings. Unless otherwise restricted by the Certificate of Incorporation, special meetings of the Board of Directors may be held at any time and place within or without the State of Delaware whenever called by the Chairman of the Board, the President or any two of the Directors.

(d) Telephone Meetings. Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(e) Notice of Meetings. Written notice of the time and place of all special meetings of the Board of Directors shall be given at least one (1) day before the date of the meeting. Notice of any meeting may be waived in writing at any time before or after the meeting and will be waived by any Director by attendance thereat, except when the Director attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

(f) Waiver of Notice. The transaction of all business at any meeting of the Board of Directors, or any committee thereof, however called or noticed, or wherever held, shall be as valid as though had at a meeting duly

held after regular call and notice, if a quorum be present and if, either before or after meeting, each of the Directors not present shall sign a written waiver of notice, or a consent to holding such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 21. QUORUM AND VOTING.

(a) A quorum of the Board of Directors shall consist of a majority of the exact number of directors fixed from time to time in accordance with Section 15 of these By-laws, but not less than one (1); provided, however, at any meeting whether a quorum be present or otherwise, a majority of the Directors present may adjourn from time to time until the time fixed for the next regular meeting of the Board of Directors, without notice other than by announcement at the meeting.

(b) At each meeting of the Board of Directors at which a quorum is present, all questions and business shall be determined by a vote of the majority of the Directors present, unless a different vote is required by law, the Certificate of Incorporation or these By-laws.

Section 22. ACTION WITHOUT MEETING. Unless otherwise restricted by the Certificate of Incorporation or these By-laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing, and such writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

Section 23. FEES AND COMPENSATION. Directors shall be entitled to such compensation for their services as may be approved by the Board of Directors, including, if so approved, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, for attendance at each regular or special meeting of the Board of Directors and at any meeting of a committee of the Board of Directors. Nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity as an officer, agent, employee, or otherwise and receiving compensation therefor.

Section 24. COMMITTEES.

(a) Executive Committee. The Board of Directors may by resolution passed by a majority of the whole Board of Directors appoint an Executive Committee to consist of one (1) or more members of the Board of Directors. The Executive Committee, to the extent permitted by law and specifically granted by the Board of Directors, shall have, and may exercise when the Board of Directors is not in session, all powers of the Board of Directors in the management of the business and affairs of the Corporation, including, without limitation, the power and

authority to declare a dividend or to authorize the issuance of stock, except such committee shall not have the power or authority to amend the Certificate of Incorporation, to adopt an agreement of merger or consolidation, to recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, to recommend to the stockholders of the Corporation a dissolution of the Corporation or a revocation of a dissolution or to amend these By-laws.

(b) Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, from time to time appoint such other committees as may be permitted by law. Such other committees appointed by the Board of Directors shall consist of one (1) or more members of the Board of Directors and shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committees, but in no event shall such committee have the powers denied to the Executive Committee in these By-laws.

(c) Term. Each member of a committee of the Board of Directors shall serve a term on the committee coexistent with such member's term on the Board of Directors. The Board of Directors, subject to the provisions of subsections (a) or (b) of this By-law may at any time increase or decrease the number of members of a committee or terminate the existence of a committee. The membership of a committee member shall terminate on the date of his or her death or voluntary resignation from the committee or from the Board of Directors. The Board of Directors may at any time for any reason remove any individual committee member and the Board of Directors may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(d) Meetings. Unless the Board of Directors shall otherwise provide, regular meetings of the Executive Committee or any other committee appointed pursuant to this Section 24 shall be held at such times and place as are determined by the Board of Directors, or by any such committee and when notice thereof has

been given to each member of such committee, no further notice of such regular meetings need be given thereafter. Special meetings of any such committee may be held at any place which has been determined from time to time by such committee, and may be called by any Director who is a member of such committee, upon written notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of written notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee maybe waived in writing at any time before or after the meeting and will be waived by any Director by attendance thereat, except when the Director attends such special meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. A majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present shall be the act of such committee.

Section 25. ORGANIZATION. The Chairman of the Board shall preside at every meeting of the Board of Directors, if present. In the case of any meeting, if there is no Chairman of the Board or if the Chairman is not present, a Chairman chosen by a majority of the directors present shall act as Chair of such meeting. The Secretary of the Corporation or, in the absence of the Secretary, any person appointed by the Chairman shall act as Secretary of the meeting.

ARTICLE V

OFFICERS

Section 26. OFFICERS DESIGNATED. The officers of the corporation shall include, if and when designated by the Board of Directors, the Chief Executive Officer, the President, one or more Vice Presidents, the Secretary, the Chief Financial Officer and the Treasurer, all of whom shall be elected at the annual organizational meeting of the Board of Directors. The Board of Directors may also appoint one or more Assistant Secretaries, Assistant Treasurers and such other officers and agents with such powers and duties as it shall deem necessary. The Board of Directors may assign such additional titles to one or more of the officers as it shall deem appropriate. Any one person may hold any number of offices of the Corporation at any one time unless specifically prohibited therefrom by law. The salaries and other

compensation of the officers of the Corporation shall be fixed by or in the manner designated by the Board of Directors.

Section 27. TENURE AND DUTIES OF OFFICERS.

(a) General. All officers shall hold office at the pleasure of the Board of Directors and until their successors shall have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

(b) Duties of the Chief Executive and Chief Operating Officers. Subject to the control of the Board of Directors, the Chief Executive Officer shall have general executive charge, management and control, of the properties, business and operations of the corporation with all such powers as may be reasonably incident to such responsibilities; and subject to the control of the Chief Executive Officer, the Chief Operating Officer (if designated) shall have general operating charge, management and control, of the properties, business and operations of the Corporation with all such powers as may be reasonably incident to such responsibilities. The Chief Executive Officer and, if and to the extent designated by the Chief Executive Officer, the Chief Operating Officer, may agree upon and execute all leases, contracts, evidences of indebtedness and other obligations in the name of the Corporation and may sign all certificates for shares of capital stock of the Corporation, and each shall have such other powers and duties as are designated in accordance with these By-laws and as from time to time may be assigned to each by the Board of Directors.

(c) Duties of President. Unless the Board of Directors otherwise determines, subject to the control of the Chief Executive Officer, the President shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness and other obligations in the name of the Corporation; and, unless the Board of Directors otherwise determines, he shall, in the absence of the Chairman of the Board or if there be no Chairman of the Board, preside at all meetings of the stockholders and (should he be a Director) of the Board of Directors, and the President shall have such other powers and duties as designated in accordance with these By-laws and as from time to time may be assigned to him by the Board of Directors.

(d) Duties of Vice Presidents. If and to the extent determined by the Board of Directors, the Vice Presidents, in the

order of their seniority, may assume and perform the duties of the President in the absence or disability of the President or whenever the office of President is vacant. The Vice Presidents shall perform other duties commonly incident to their office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(e) Duties of Secretary. The Secretary shall attend all meetings of the stockholders and of the Board of Directors and shall record all acts and proceedings thereof in the minute book of the Corporation. The Secretary shall give notice in conformity with these By-laws of all meetings of the stockholders and of all meetings of the Board of Directors and any committee thereof requiring notice. The Secretary shall perform all other duties given in these By-laws and other duties commonly incident to such office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. The President may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform other duties commonly incident to such office and shall also perform such other duties and have such other powers as the Board of Directors or the President, shall designate from time to time.

(f) Duties of Chief Financial Officer. The Chief Financial Officer shall keep or cause to be kept the books of account of the Corporation in a thorough and proper manner and shall render statements of the financial affairs

of the Corporation in such form and as often as required by the Board of Directors, the Chairman of the Board or the President. The Chief Financial Officer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the Corporation. The Chief Financial Officer shall perform other duties commonly incident to such office and shall also perform such other duties and have such other powers as the Board of Directors, the Chairman of the Board or the President shall designate from time to time. The Chairman of the Board or the President may direct the Treasurer or any Assistant Treasurer to assume and perform the duties of the Chief Financial Officer in the absence or disability of the Chief Financial Officer, and each Assistant Treasurer shall perform other duties commonly incident to such office and shall also perform such other duties and have such other powers as the Board of Directors, the Chairman of the Board or the President shall designate from time to time.

Section 28. DELEGATION OF AUTHORITY. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officer or agent, notwithstanding any provision hereof.

Section 29. RESIGNATIONS. Any officer may resign at any time by giving written notice to the Board of Directors or to the President or to the Secretary. Any such resignation shall be effective when received by the person or persons to whom such notice is given, unless a later time is specified therein, in which event the resignation shall become effective at such later time. Unless otherwise specified in such notice, the acceptance of any such resignation shall not be necessary to make it effective. Any resignation shall be without prejudice to the rights, if any, of the Corporation under any contract with the resigning officer.

Section 30. REMOVAL. Any officer may be removed from office at any time, either with or without cause, by the vote or written consent of a majority of the Directors in office at the time, or by any committee or superior officers upon whom such power of removal may have been conferred by the Board of Directors.

ARTICLE VI

EXECUTION OF CORPORATE INSTRUMENTS AND VOTING OF SECURITIES OWNED BY THE CORPORATION

Section 31. EXECUTION OF CORPORATE INSTRUMENTS. The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute on behalf of the Corporation any corporate instrument or document, or to sign on behalf of the Corporation the corporate name without limitation, or to enter into contracts on behalf of the Corporation, except where otherwise provided by law or these By-laws, and such execution or signature shall be binding upon the Corporation.

Unless otherwise specifically determined by the Board of Directors or otherwise required by law, promissory notes, deeds of trust, mortgages and other evidences of indebtedness of the Corporation, and other corporate instruments or documents requiring the corporate seal, and certificates of shares of stock owned by the Corporation, shall be executed, signed or endorsed by the Chief Executive Officer, or the President or any Vice President, and by the Secretary or Chief Financial Officer or Treasurer or any Assistant Secretary or Assistant Treasurer. All

other instruments and documents requiring the corporate signature, but not requiring the corporate seal, may be executed as aforesaid or in such other manner as may be directed by the Board of Directors.

All checks and drafts drawn on banks or other depositories on funds to the credit of the Corporation or in special accounts of the Corporation shall be

signed by such person or persons as the Board of Directors shall authorize so to do.

Unless authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Section 32. VOTING OF SECURITIES OWNED BY THE CORPORATION. All stock and other securities of other corporations owned or held by the Corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairman of the Board of Directors, the President, or any Vice President.

ARTICLE VII

SHARES OF STOCK

Section 33. FORM AND EXECUTION OF CERTIFICATES. Certificates for the shares of stock of the Corporation shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by the Chief Executive Officer, or the President or any Vice President and by the Secretary or Chief Financial Officer or Treasurer or any Assistant Treasurer or Assistant Secretary, certifying the number of shares owned by him in the Corporation. Where such certificate is countersigned by a transfer agent other than the Corporation or its employee, or by a registrar other than the Corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. Each certificate shall state upon the face or

back thereof, in full or in summary, all of the designations, preferences, limitations, restrictions on transfer and relative rights of the shares authorized to be issued.

Section 34. LOST CERTIFICATES. A new certificate or certificates shall be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. The Corporation may require, as a condition precedent to the issuance of a new certificate or certificates, the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require or to give the Corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 35. TRANSFERS.

(a) Transfers of record of shares of stock of the Corporation shall be made only on its books by the holders thereof, in person or by attorney duly authorized and upon the surrender of a properly endorsed certificate or certificates for a like number of shares.

(b) The Corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the Corporation to restrict the transfer of shares of stock of the Corporation of any one or more classes owned by such stockholders in any manner not prohibited by the Delaware General Corporation Law.

Section 36. FIXING RECORD DATES.

(a) In order that the Corporation may determine the stockholders

entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the

day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed by the Board of Directors, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 37. REGISTERED STOCKHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VIII

OTHER SECURITIES OF THE CORPORATION

Section 38. EXECUTION OF OTHER SECURITIES. All bonds, debentures and other corporate securities of the Corporation, other than stock certificates (covered in Section 33), may be signed by the Chief Executive Officer, the President or any Vice President, or such other person as may be authorized by the Board of Directors, and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Chief Financial Officer or Treasurer or an Assistant Treasurer; provided, however, that where any such bond, debenture or other corporate security shall be authenticated by the manual signature of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the

signatures of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer of the Corporation or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon or on any such interest coupon, shall have ceased to be such officer before any bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the Corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to

be such officer of the Corporation.

ARTICLE IX

DIVIDENDS

Section 39. DECLARATION OF DIVIDENDS. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors pursuant to law at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

Section 40. DIVIDEND RESERVE. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall think conducive to the interests of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE X

FISCAL YEAR

Section 41. FISCAL YEAR. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

ARTICLE XI

INDEMNIFICATION

Section 42. INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS.

(a) Directors and Executive Officers. The Corporation shall indemnify its Directors and executive officers to the fullest extent not prohibited by the Delaware General Corporation Law; provided, however, that the Corporation may limit the extent of such indemnification by individual contracts with its Directors and executive officers; and, provided, further, that the Corporation shall not be required to indemnify any Director or executive officer in connection with any proceeding (or part thereof) initiated by such person or any proceeding by such person against the Corporation or its Directors, officers, employees or other agents unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the Board of Directors of the Corporation or (iii) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the Delaware General Corporation Law.

(b) Other Officers, Employees and Other Agents. The Corporation shall have power to indemnify its other officers, employees and other agents as set forth in the Delaware General Corporation Law.

(c) Good Faith.

(1) For purposes of any determination under this By-law, a Director or executive officer shall be deemed to have acted in good faith and in a manner such officer reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, to have had no reasonable cause to believe that such officer's conduct was unlawful, if such officer's action is based on information, opinions, reports and statements, including financial statements and other financial data, in each case prepared or presented by:

(A) one or more officers or employees of the Corporation whom the Director or executive officer believed to be reliable and competent in the matters presented;

(B) counsel, independent accountants or other persons as to matters which the Director or executive officer believed to be within such person's professional competence; and

(C) with respect to a Director, a committee of the Board upon which such Director does not serve, as to matters within such committee's designated authority, which committee the Director believes to merit confidence; so long as, in each case, the Director or executive officer acts without knowledge that would cause such reliance to be unwarranted.

(2) The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal proceeding, that such person had reasonable cause to believe that his conduct was unlawful.

(3) The provisions of this paragraph (c) shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth by the Delaware General Corporation Law.

(d) Expenses. The Corporation shall advance, prior to the final disposition of any proceeding, promptly following request therefor, all expenses incurred by any Director or executive officer in connection with such proceeding upon receipt of an undertaking by or on behalf of such person to repay said amounts if it should be determined ultimately that such person is not entitled to be indemnified under this By-law or otherwise.

Notwithstanding the foregoing, unless otherwise determined pursuant to paragraph (e) of this By-law, no advance shall be made by the Corporation if a determination is reasonably and promptly made (i) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to the proceeding, or (ii) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, that the facts known to the decision-making party at the time such

determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the Corporation.

(e) Enforcement. Without the necessity of entering into an express contract, all rights to indemnification and advances to Directors and executive officers under this By-law shall be deemed to be contractual rights and be effective to the same extent and as if provided for in a contract between the Corporation and the Director or executive officer. Any right to indemnification or advances granted by this By-law to a Director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. The claimant in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting his claim. The Corporation shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because such person has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination

by the Corporation (including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

(f) Non-Exclusivity of Rights. The rights conferred on any person by this By-law shall not be exclusive of any other right which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-laws, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The Corporation is specifically authorized to enter into individual contracts with any or all of its Directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by the Delaware General Corporation Law.

(g) Survival of Rights. The rights conferred on any person by this By-law shall continue as to a person who has ceased to be a Director, officer, employee or other agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(h) Insurance. To the fullest extent permitted by the Delaware General Corporation Law, the Corporation, upon approval by the Board of Directors, may purchase insurance on behalf of any person required or permitted to be indemnified pursuant to this By-law.

(i) Amendments. Any repeal or modification of this By-law shall only be prospective and shall not affect the rights under this By-law in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the Corporation.

(j) Saving Clause. If this By-law or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each Director and executive officer to the full extent not prohibited by any applicable portion of this By-law that shall not have been invalidated, or by any other applicable law.

(k) Certain Definitions. For the purposes of this By-law, the following definitions shall apply:

(1) The term "proceeding" shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

(2) The term "expenses" shall be broadly construed and shall include, without limitation, court costs, attorneys' fees, witness fees, fines, amounts paid in settlement or judgment and any other costs and expenses of any nature or kind incurred in connection with any proceeding.

(3) The term the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such

constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Bylaw with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(4) References to a "Director", "officer", "employee", or

"agent" of the Corporation shall include without limitation, situations where such person is serving at the request of the Corporation as a director, officer, employee, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise.

(5) References to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this By-law.

ARTICLE XII

NOTICES

Section 43. NOTICES.

(a) Notice to Stockholders. Whenever, under any provisions of these By-laws, notice is required to be given to any stockholder, it shall be given in writing, timely and duly deposited in the United States mail, postage prepaid, and addressed to such stockholder's last known post office address as shown by the stock record of the Corporation or its transfer agent.

(b) Notice to Directors. Any notice required to be given to any Director may be given by the method stated in subsection (a), or by facsimile, telex or telegram, except that such notice other than one which is delivered personally shall be

sent to such address as such Director shall have filed in writing with the Secretary, or, in the absence of such filing, to the last known post office address of such Director.

(c) Address Unknown. If no address of a stockholder or Director be known, notice may be sent to the office of the Corporation required be maintained pursuant to Section 2 hereof.

(d) Affidavit of Mailing. An affidavit of mailing, executed by a duly authorized and competent employee of the Corporation or its transfer agent appointed with respect to the class of stock affected, specifying the name and address or the names and addresses of the stockholder or stockholders, or Director or Directors, to whom any such notice or notices was or were given, and the time and method of giving the same, shall be conclusive evidence of the statements therein contained.

(e) Time Notices Deemed Given. All notices given by mail, as above provided, shall be deemed to have been given as at the time of mailing, and all notices given by facsimile, telex or telegram shall be deemed to have been given as of the sending time recorded at the time of transmission.

(f) Methods of Notices. It shall not be necessary that the same method of giving notice be employed in respect of all Directors, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others.

(g) Failure to Receive Notice. The period or limitation of time within which any stockholder may exercise any option or right, or enjoy any privilege or benefit, or be required to act, or within which any Director may exercise any power or right, or enjoy any privilege, pursuant to any notice sent such person in the manner above provided, shall not be affected or extended in any manner by the failure of such stockholder or such Director to receive such notice.

(h) Notice to Person with Whom Communication Is Unlawful. Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or By-laws of the Corporation, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice

had been duly given. In the event that the action taken by the Corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

(i) Notice to Person with Undeliverable Address. Whenever notice is required to be given, under any provision of law or the Certificate of Incorporation or By-laws of the Corporation, to any stockholder to whom (i) notice of two consecutive annual meetings, and all notices of meetings to such person during the period between such two consecutive annual meetings, or (ii) all, and at least two, payments (if sent by first class mail) of dividends or interest on securities during a twelve-month period, have been mailed addressed to such person at such person's address as shown on the records of the Corporation and have been returned undeliverable, the giving of such notice to such person shall not be required. Any action or meeting which shall be taken or held without notice to such person shall have the same force and effect as if such notice had been duly given. If any such person shall deliver to the Corporation a written notice setting forth such person's then current address, the requirement that notice be given to such person shall be reinstated. In the event that the action taken by the Corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate need not state that notice was not given to persons to whom notice was not required to be given pursuant to this paragraph.

ARTICLE XIII

AMENDMENTS

Section 44. AMENDMENTS. Except as otherwise set forth in paragraph (i) of Section 42 of these By-laws, or as provided in the Certificate of Incorporation, these By-laws may be amended, repealed or adopted by vote of the holders of the shares at the time entitled to vote in the election of any Directors. By-laws may also be amended, repealed or adopted by the Board, but any By-law adopted by the Board may be amended by the shareholders entitled to vote thereon as hereinbefore provided.

ARTICLE XIV

LOANS TO OFFICERS

Section 45. LOANS TO OFFICERS. The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiaries, including any officer or employee who is a Director of the Corporation or its subsidiaries, whenever, in the judgment of the Board of Directors, such loan, guarantee or assistance may reasonably be expected to benefit the Corporation. The loan, guarantee or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation. Nothing in this By-law shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the Corporation at common law or under statute.

EXHIBIT 4.2

NETWORK-1 SECURITY SOLUTIONS, INC.
1996 STOCK OPTION PLAN
(AS AMENDED)

1. Purpose of Plan

The purpose of the 1996 Stock Option Plan (the "Plan") is to provide an incentive to Key Employees, Directors and Consultants (as hereinafter defined) of Network-1 Security Solutions, Inc. (the "Company") who are in a position to contribute materially to the long term success of the Company, to increase their interest in the Company's welfare and to aid in attracting and retaining Key Employees, Directors and Consultants of outstanding ability.

2. Definitions

Unless otherwise specified or unless the context otherwise requires, the following terms, as used in this Stock Option Plan, have the following meanings:

a) "Affiliate" means a corporation which for purposes of Section 422 of the Code, is a parent or subsidiary of the Company, direct or indirect, each as defined in Section 424 of the Code.

b) "Board of Directors" or "Board" means the Board of Directors of the Company.

c) "Code" means the United States Internal Revenue Code of 1986, as such may be amended from time to time.

d) "Compensation Committee" means the committee to which the Board of Directors delegates the power to act under or pursuant to the provisions of the Plan, or the Board of Directors if no committee is selected.

e) "Company" means Network-1 Security Solutions, Inc., a Delaware corporation.

f) "Consultant" means any person retained by the Company or any of its Affiliates to render services on a consultant basis.

g) "Disability" or "Disabled" means permanent and total disability as defined in Section 22(e)(3) of the Code.

h) "Incentive Stock Option" means an Option, as identified below, which is designated by the Compensation Committee as such and which, when granted, is intended to be an "incentive stock option" as defined in section 422 of the Code.

i) "Key Employee" means an employee of the Company or of an Affiliate, (including, without limitation, an employee who is also serving as an officer or director of the Company or of an Affiliate), designated by the Board of Directors or the Committee to be eligible to be granted one or more options under the Plan.

j) "Non-Qualified Stock Option" shall mean an Option, as defined below, which is designated by the Compensation Committee as such and which, when granted, is not intended to be an "Incentive Stock Option" as defined in Code Section 422.

k) "Option" means a right or option granted under the Plan.

l) "Option Agreement" means an agreement between the Company and a

Participant executed and delivered pursuant to the Plan.

m) "Participant" means a Key Employee to whom one or more Incentive Stock Options or Non-Qualified Stock Options are granted under the Plan and an employee, nonemployee director, consultant or independent contractor ("Non Key Employee") to whom one or more Non-Qualified Stock Options are granted under the Plan.

n) "Plan" means this Stock Option Plan.

o) "Shares" means the following shares of the capital stock of the Company as to which Options have been or may be granted under the Plan; 750,000 authorized and unissued common stock, ($0.01) par value, including fractional shares, any shares of capital stock into which the shares are changed or for which they are exchanged within the provisions of Section 9 of the Plan.

3. Aggregate Number of Shares

750,000 Shares of the Company's common stock, par value $.01 per share (the "Common Stock"), shall be the aggregate number of Shares which may be issued under this Plan. Notwithstanding the foregoing, in the event of any change in the outstanding shares of Common Stock of the Company by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Compensation Committee deems in its sole discretion to be similar circumstances, the aggregate number and kind of Shares which may be issued under this Plan shall be appropriately adjusted in a manner determined in the sole discretion of the Compensation Committee. Reacquired shares of the Company's Common Stock, as well as unissued shares, may be used for the

purpose of this Plan. Shares of the Company's Common Stock subject to Options which have terminated unexercised, either in whole or in part, shall be available for future Options granted under this Plan.

4. Class of Persons Eligible to Receive Options

(a) All Key Employees, as defined in Section 2 above, including officers of the Company and of any present or future Company Affiliate, all members of the Board of Directors of the Company who are not Key Employees (the "Nonemployee Directors") and Consultants to the Company and to any present or future Company Affiliate are eligible to receive an Option or Options under this Plan. The individuals who shall, in fact, receive an Option or Options under this Plan (the "Participants") shall be selected by the Compensation Committee, in its sole discretion, except as otherwise specified in Sections 5 and 6 hereof.

(b) Notwithstanding any other provision of this Plan, the aggregate fair market value (determined as of the time the option is granted) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any individual during any calendar year shall not exceed $100,000.

5. Administration of Plan

(a) This Plan shall be administered by the Compensation Committee of the Board of Directors. Prior to the time at which the stock of the Company is required to be registered under Section 12 of the Securities Exchange Act of 1934 ("Registration Date"), the Compensation Committee shall be composed of all or certain members of the Board of Directors as the Board shall determine. From and after the Registration Date, the Compensation Committee shall be composed of a minimum of two members of the Board of Directors as the Board shall determine, each of whom shall be a "disinterested person" within the meaning of Rule 16b-3 (c) (2) (i) under the Securities Exchange Act of 1934, as amended, of the Securities and Exchange Commission (the "SEC") or any future corresponding rule.

(b) The Compensation Committee shall, in addition to its other authority

and subject to the provisions of this Plan, determine the Participants, whether the Option shall be an Incentive Stock Option or a Non-Qualified Stock Option (as such terms are defined in Section 2),

the number of Shares to be subject to each of the options, the time or times at which the Options shall be granted, the rate of Option exercisability, and, subject to Section 6 hereof, the price at which each of the Options is exercisable and the duration of the Option.

(c) The Compensation Committee shall adopt such rules for the conduct of its business and administration of this Plan as it considers desirable. A majority of the members of the Compensation Committee shall constitute a quorum for all purposes. The vote or written consent of a majority of the members of the Compensation Committee on a particular matter shall constitute the act of the Compensation Committee on such matter. The Compensation Committee shall have the right to construe the Plan and the Options issued pursuant to it, to correct defects and omissions and to reconcile inconsistencies to the extent necessary to effectuate the Plan and the Options issued pursuant to it, and such action shall be final, binding and conclusive upon all parties concerned. No member of the Compensation Committee or the Board of Directors shall be liable for any act or omission (whether or not negligent) taken or omitted in good faith, or for the exercise of any authority or discretion granted in connection with the Plan to the Compensation Committee or the Board of Directors, or for the acts or omissions of any other members of the Compensation Committee or the Board of Directors. Subject to the numerical limitations on Compensation Committee membership set forth in Section 5(a) hereof, the Board of Directors may at any time appoint additional members of the Compensation Committee and may at any time remove any member of the Compensation Committee with or without cause. Vacancies in the Compensation Committee, however caused, may be filled by the Board of Directors, if it so desires.

6. Incentive Stock Options and Non-Qualified Stock Options

(a) Options issued pursuant to this Plan may be either Incentive Stock Options granted pursuant to Section 6(b) hereof or Non-Qualified Stock Options granted pursuant to Section 6(c) hereof, as determined by the Compensation Committee. The Compensation Committee may grant both an Incentive Stock Option and a Non-Qualified Stock Option to the same person, or more than one of each type of Option to the same person, subject to the restrictions set forth in (b) and (c) below.

The Option price for Incentive Stock Options issued under this Plan shall be equal at least to the fair market value (as defined below) of the Company's Common Stock on the date of the grant of the Option as determined by the Compensation Committee in accordance with its interpretation of the requirements of Section 422 of the Code and the regulations thereunder. The Option price for Non-Qualified Stock Options issued under this Plan may, in the sole discretion of the Compensation Committee, be less than the fair market value of the Common Stock on the date of the grant of the Option. If an Incentive Stock Option is granted to an individual who, at the time the Option is granted, owns stock possessing more than 10% of the total combined voting power of all shares of stock of the Company or any parent or subsidiary corporation of the Company (a "10% Shareholder"), the Option price shall not be less than 110% of the fair market value of the Company's Common Stock on the date of grant of the option. The fair market value of the Company's Common Stock on any particular date shall mean the last reported sale price of a share of the Company's Common Stock on any stock exchange on which such stock is then listed or admitted to trading, or on the Nasdaq Stock Market, on such date, or if no sale took place on such day, the last such date on which a sale took place, or if the Common Stock is not then quoted on the

Nasdaq Stock Market, or listed or admitted to trading on any stock exchange, the average of the bid and asked prices in the over-the-counter market on such date, or if none of the foregoing, a price determined by the Compensation Committee.

(b) Subject to the authority of the Compensation Committee set forth in Section 5(b) hereof, Incentive Stock Options issued pursuant to this Plan shall be issued only to Key Employees of the Company substantially in the form set forth in Appendix A hereof, which form is hereby incorporated by reference and made a part hereof, and shall contain substantially the terms and conditions set forth therein. Nonemployee Directors and Consultants shall not be eligible for Incentive Stock Options. Incentive Stock Options shall not be exercisable after the expiration of ten years (five years in the case of 10% Shareholders) from the date such Options are granted, unless terminated earlier under the terms of the Option. At the time of the grant of an Incentive Stock Option hereunder, the Compensation Committee may, in its discretion, modify or amend any of the Option terms contained in Appendix

A for any particular Participant, provided that the Option as modified or amended satisfies the requirements of Section 422 of the Code and the regulations thereunder. Each of the Options granted pursuant to this Section 6(b) is intended, if possible, to be an "Incentive Stock Option" as that term is defined in Section 422 of the Code and the regulations thereunder. In the event this Plan or any Option granted pursuant to this Section 6(b) is in any way inconsistent with the applicable legal requirements of the Code or the regulations thereunder for an Incentive Stock Option, this Plan and such Option shall be deemed automatically amended as of the date hereof to conform to such legal requirements, if such conformity may be achieved by amendment.

(c) Subject to the authority of the Compensation Committee set forth in Section 5(b) hereof, Non-Qualified Stock Options issued pursuant to this Plan shall be issued to Participants of the Company substantially in the form set forth in Appendix B hereof, which form is hereby incorporated by reference and made a part hereof, and shall contain substantially the terms and conditions set forth therein. Non-Qualified Stock Options shall expire not more than ten years after the date they are granted, unless terminated earlier under the Option terms. At the time of granting a Non-Qualified Stock Option hereunder, the Compensation Committee may, in its discretion, modify or amend any of the Option terms contained in Appendix B for any particular Participant.

(d) Neither the Company nor any of its current or future parent, subsidiaries or affiliates, nor their officers, directors, shareholders, stock option plan committees, the Compensation Committees, employees or agents shall have any liability to any optionee in the event: (i) an Option granted pursuant to Section 6(b) hereof does not qualify as an "Incentive Stock Option" as that term is used in Section 422 of the Code and the regulations thereunder; (ii) any optionee does not obtain the tax treatment pertaining to an Incentive Stock Option; or (iii) any Option granted pursuant to Section 6(c) hereof is an "Incentive Stock Option."

7. Exercise of Option and Issue of Stock

Options shall be exercised by giving written notice to the Company. Such written notice shall: (1) be signed by the person exercising the Option, (2) state the number of shares and with respect to which the Option, if any, is being exercised, (3)

contain the legend required by Appendix A and B, page 5, paragraph (b) therein,

and (4) specify a date (other than a Saturday, Sunday or legal holiday) not less than five (5) nor more than ten (10) days after the date of such written notice, as the date on which the Shares will be taken up and payment made therefor. The conditions specified above may be waived in the sole discretion of the Company. Such tender and conveyance shall take place at the principal office of the Company during ordinary business hours, or at such other hour and place agreed upon by the Company and the person(s) exercising the Option. On the date specified in such written notice (which date may be extended by the Company in order to comply with any law or regulation which requires the Company to take any action with respect to the Option Shares prior to issuance thereof) the Company shall accept payment for the Option Shares (in the forms set forth below) and shall deliver to the person(s) exercising the Option in exchange therefor a certificate or certificates for fully paid non-assessable shares. In the event of any failure to take up and pay for the number of Shares specified in such written notice of the exercise of the Option on the date set forth therein (or on the extended date as above provided) the exercise of the Option shall terminate with respect to such number of Shares, but shall continue with respect to the remaining Shares covered by the Option and not yet acquired pursuant thereto.

The payment may be in any of the following forms: (a) cash, which may be evidenced by a check; (b) certificates representing shares of Common Stock of the Company, which will be valued by the Secretary of the Company at the fair market value per share of the Company's Common Stock (as determined in accordance with the Plan) on the last trading day immediately preceding the date of delivery of such certificates to the Company, accompanied by an assignment of the stock to the Company, or (c) any combination of cash and Common Stock of the Company valued as provided in clause (b). Any assignment of stock shall be in a form and substance satisfactory to the Secretary of the Company, including guarantees of signature(s) and payment of all transfer taxes if the Secretary deems such guarantees necessary or desirable or determines that such taxes are due and payable.

8. Assignability and Transferability of Option

By its terms, an Option granted to a Participant shall not be transferable by the Participant otherwise than by will or the laws of descent and distribution, and shall be exercisable, during the Participant's lifetime only by such Participant and Participant's legal guardian or custodian in the event of disability. Any attempted transfer, assignment, pledge, hypothecation or other disposition of any Option or of any rights granted thereunder, otherwise than by will or the laws of descent

and distribution, or the levy of any attachment or similar process upon an Option or such rights, shall be null and void.

9. Adjustments Upon Changes in Capitalization

In the event that the authorized and outstanding shares of Common Stock of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of any reorganization, merger, consolidation, recapitalization, reclassification, change in par value, stock split-up, combination of shares or dividend payable in capital stock, or the like, appropriate adjustments to prevent dilution or enlargement of the rights granted to or available for, Participants, shall be made in the manner and kind of shares for the purpose of which Options may be granted under the Plan, and, in addition, appropriate adjustment shall be made in the number and kind of shares and in the option price per share subject to outstanding Options. No such adjustment shall be made which shall, within the meaning of Section 424 of the Code, constitute such a modification, extension or renewal of an Incentive Stock Option as to cause it to be considered as the grant of a new Incentive Stock Option.

10. Modification, Amendment, Suspension and Termination

Options shall not be granted pursuant to this Plan after the expiration of ten years from the date the Plan is adopted by the Board of Directors of the Company. The Board of Directors reserves the right at any time, and from time to time, to modify or amend this Plan in any way, or to suspend or terminate it,

effective as of such date, which date may be either before or after the taking of such action, as may be specified by the Board of Directors; provided, however, that such action shall not affect Options granted under the Plan prior to the actual date on which such action occurred. If a modification or amendment of this Plan is required by the Code or the regulations thereunder to be approved by the shareholders of the Company in order to permit the granting of Incentive Stock Options pursuant to the modified or amended Plan, such modification or amendment shall also be approved by the shareholders of the Company in such manner as is prescribed by the Code and the regulations thereunder. If the Board of Directors voluntarily submits a proposed modification, amendment, suspension or termination for shareholder approval, such submission shall not require any future modifications, amendments, suspensions or terminations (whether or not relating to the same provision or subject matter) to be similarly submitted for shareholder approval.

11. Effectiveness of Plan

This Plan shall become effective on the date of its adoption by the Company's Board of Directors, subject however to approval by the holders of the Company's Common Stock in the manner as prescribed in the Code and the regulations thereunder. Options may be granted under this Plan prior to obtaining shareholder approval, provided such Options shall not be exercisable before
such shareholder approval is obtained.

12. Indemnification of Compensation Committee

In addition to such other rights of indemnification as they may have as directors or as members of the Compensation Committee, the members of the Compensation Committee (or the directors acting with respect to the Plan if there is no Compensation Committee) shall be indemnified by the Company against all reasonable expenses, including attorneys fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein to which they or any of them may be a party by reason of any action taken by them as members of the Compensation Committee and against all amounts paid by them in settlement thereof (provided such settlement is approved by legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Compensation Committee member is liable for gross negligence or willful misconduct in the performance of his or her duties. To receive such indemnification, a Compensation Committee member must first offer in writing to the Company the opportunity, at its own expense, to defend any such action, suit or proceeding.

13. General Conditions

(a) Nothing contained in this Plan or any Option granted pursuant to this Plan shall confer upon any employee the right to continue in the employ of the Company or any present or future parent, affiliated or subsidiary corporation or interfere in any way with the rights of the Company or any present or future parent, affiliated or subsidiary corporation to terminate his employment in any way.

(b) Corporate action constituting an offer of stock for sale to any employee under the terms of the Options to be granted hereunder shall be deemed complete as of the date when the Compensation Committee authorizes the grant of the Option to the employee, regardless of when the Option is actually delivered to the employee or acknowledged or agreed to by him.

(c) If the Company's Common Stock has not been registered under Section 12 of the Securities Exchange Act of 1934, the exercise of an Option will

not be effective unless and until the Option holder executes and delivers to the Company a Stock Restriction Agreement, in the form on file in the office of the Secretary of the Company.

(d) The use of the masculine pronoun shall include the feminine gender whenever appropriate.

APPENDIX A

INCENTIVE STOCK OPTION

To: ----------
Name

Address

Date of Grant: ----------

You are hereby granted an option* (the "Option"), effective as of the date hereof, to purchase ___ shares of Common Stock, par value $.01 per share ("Common Stock"), of Network-1 Security Solutions, Inc. (the "Company") at a price of ___ per share pursuant to the Company's 1996 Stock Option Plan adopted by the Company's Board of Directors and Stockholders effective March 7, 1996, as amended (the "Plan"). Your option price is intended to equal at least the fair market value of the Company's Common Stock as of the date hereof; provided, however, that if, at the time this option is granted, you own stock possessing more than 10% of the total combined voting power of all shares of stock of the Company or any parent or subsidiary (an "Affiliate") of the Company (a "10% Shareholder"), your option price is intended to be at least 110% of the fair market value of the Company's Common Stock as of the date hereof.

Your Option may first be exercised on and after [one year from the date of grant], but not before that time. Your Option may be exercised either: (i) on and after _____ and prior to the Termination Date (as hereinafter defined), for up to _____% of the total number of shares subject to the Option minus the number of shares previously purchased by exercise of the Option (as adjusted for any change in the outstanding shares of the Common Stock of the Company, by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Compensation Committee deems in its sole discretion to be similar circumstances); or (ii) each succeeding year thereafter and prior to the Termination Date (as hereinafter defined) for up to an additional [twenty (20%) percent] of the total number of shares subject to the Option minus the number of shares previously purchased by exercise of the Option (as adjusted for any change in the outstanding shares of the Common Stock of the Company by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Compensation Committee deems

in its sole discretion to be similar circumstances). No fractional shares shall be issued or delivered.

* This Incentive Stock Option is to be issued only to Key Employees of the Company. Nonemployee Directors and Consultants are not eligible for this option.

This Option shall terminate and is not exercisable after the expiration of ten years from the date of its grant (five years from the date of grant if, at the time of the grant, you are a 10% Shareholder) (the "Scheduled Termination Date"), except if terminated earlier as hereinafter provided (the "Termination Date").

In the event of a "change of control" (as hereafter defined) of the Company, your Option may, from and after the date of the change of control, and notwithstanding the second paragraph of this option, be exercised for up to 100% of the total number of shares then subject to the Option minus the number of shares previously purchased upon exercise of the Option (as adjusted for any changes in the outstanding Common Stock by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Compensation Committee deems in its sole discretion to be similar circumstances).

A "change of control" shall be deemed to have occurred upon the happening of any of the following events:

1. A change within a twelve-month period in a majority of the members of the Board of Directors of the Company;

2. A change within a twelve-month period in the holders of more than 50% of the outstanding voting stock of the Company; or

3. Any other event deemed to constitute a "change in control" by the Compensation Committee.

You may exercise your option as set forth in Section 7 of the Plan.

If the Company's Common Stock has not been registered under Section 12 of the Securities Exchange Act of 1934, the exercise of your option will not be effective unless and until you execute and deliver to the Company a Stock Restriction Agreement, in the form on file in the office of the Secretary of the Company.

Your Option will, to the extent not previously exercised by

you, terminate thirty (30) days after the date on which your employment by the Company or Affiliate of the Company is terminated, whether such termination is voluntary or not, other than by reason of disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder, or death, in which case your Option will terminate six (6) months from the date of termination of employment due to disability or death (but in no event later than the Scheduled Termination Date). After the date your employment is terminated, as aforesaid, you may exercise this Option only for the number of shares which you had a right to purchase and did not purchase on the date your employment terminated. If you are employed by an Affiliate of the Company, your employment shall be deemed to have terminated on the date your employer ceases to be an Affiliate of the Company, unless you are on that date transferred to the Company or another Affiliate of the Company. Your employment shall not be deemed to have terminated if you are transferred from the Company to an Affiliate, or vice versa, or from one Affiliate to another Affiliate.

Anything in this Option to the contrary notwithstanding, your option will terminate immediately if your employment is terminated for cause (as determined by the Company in its sole and absolute discretion). Your employment shall be deemed to have been terminated for cause if you are terminated due to, among other reasons, (i) your willful misconduct or gross negligence, (ii) your material breach of any agreement with the Company or (iii) your failure to render satisfactory services to the Company.

If you die while employed by the Company or an Affiliate of the Company, your legatee(s), distributee(s), executor(s) or administrator(s), as the case may be, may, at any time within six (6) months after the date of your death (but in no event later than the Scheduled Termination Date), exercise the Option as to any shares which you had a right to purchase and did not purchase during your lifetime. If your employment with the Company, or an Affiliate is terminated by

reason of your becoming disabled (within the meaning of Section 22(e)(3) of the Code and the regulations thereunder), you or your legal guardian or custodian may at any time within six (6) months after the date of such termination (but in no event later than the Scheduled Termination Date), exercise the Option as to any shares which you had a right to purchase and did not purchase prior to such termination. Your legatee, distributee, executor, administrator, guardian or custodian must present proof of his authority satisfactory to the Company prior to being allowed to exercise this Option.

This Option is not transferable otherwise than by will or the laws of descent and distribution, and is exercisable during your lifetime only by you, including, for this purpose, your legal

guardian or custodian in the event of disability. Until the Option price has been paid in full pursuant to due exercise of this Option and the purchased shares are delivered to you, you do not have any rights as a shareholder of the Company. The Company reserves the right not to deliver to you the shares purchased by virtue of the exercise of this Option during any period of time in which the Company deems, in its sole discretion, that such delivery would violate a federal, state, local or securities exchange rule, regulation or law.

Notwithstanding anything to the contrary contained herein, this Option is not exercisable until all of the following events occur and during the following periods of time:

(a) Until the Plan pursuant to which this Option is granted is approved by the shareholders of the Company in the manner prescribed by the Code and the regulations thereunder;

(b) Until this Option and the optioned shares are approved and/or registered with such federal, state and local regulatory bodies or agencies and securities exchanges as the Company may deem necessary or desirable; or

(c) During any period of time in which the Company deems that the exercisability of this Option, the offer to sell the shares optioned hereunder, or the sale thereof, may violate a federal, state, local or securities exchange rule, regulation or law, or may cause the Company to be legally obligated to issue or sell more shares than the Company is legally entitled to issue or sell.

The following two paragraphs shall be applicable if, on the date of exercise of this Option, the Common Stock to be purchased pursuant to such exercise has not been registered under the Securities Act of 1933, as amended, and under applicable state securities laws, and shall continue to be applicable for so long as such registration has not occurred:

(a) The optionee hereby agrees, warrants and represents that he will acquire the Common Stock to be issued hereunder for his own account for investment purposes only, and not with a view to, or in connection with, any resale or other distribution of any of such shares, except as hereafter permitted. The optionee further agrees that he will not at any time make any offer, sale, transfer, pledge or other disposition of such Common Stock to be issued hereunder without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel acceptable to the Company to the effect that the proposed transaction will be exempt from such registration The optionee shall execute such instruments, representations, acknowledgements and agreements as the Company

may, in its sole discretion, deem advisable to avoid any violation of federal, state, local or securities exchange rule, regulation or law.

(b) The certificates for Common Stock to be issued to the optionee hereunder shall bear the following legend:

"The shares represented by this certificate have not been registered

under the Securities Act of 1933, as amended, or under applicable state securities laws. The shares have been acquired for investment and may not be offered, sold, transferred, pledged or otherwise disposed of without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel acceptable to the Company that the proposed transaction will be exempt from such registration."

The foregoing legend shall be removed upon registration of the legended shares under the Securities Act of 1933, as amended, and under any applicable state laws or upon receipt of any opinion of counsel acceptable to the Company that said registration is no longer required.

The sole purpose of the agreements, warranties, representations and legend set forth in the two immediately preceding paragraphs is to prevent violations of the Securities Act of 1933, as amended, and any applicable state securities laws.

It is the intention of the Company and you that this option shall, if possible, be an "Incentive Stock Option" as that term is used in Section 422 of the Code and the regulations thereunder. In the event this Option is in any way inconsistent with the legal requirements of the Code or the regulations thereunder for an "Incentive Stock Option" this Option shall be deemed automatically amended as of the date hereof to conform to such legal requirements, if such conformity may be achieved by amendment.

This Option shall be subject to the terms of the Plan in effect on the date this Option is granted, which terms are hereby incorporated herein by reference and made a part hereof. In the event of any conflict between the terms of this Option and the terms of the Plan in effect on the date of this Option, the terms of the Plan shall govern. This Option constitutes the entire understanding between the Company and you with respect to the subject matter hereof and no amendment, modification or waiver of this Option, in whole or in part, shall be binding upon the Company unless in writing and signed by an appropriate officer of the Company. This Option and the performances of the parties hereunder shall be construed in accordance with and governed by the laws of

the State of New York without regard to principles of conflict of law.

Please sign the copy of this Option and return it to the Company, thereby indicating your understanding of and agreement with its terms and conditions.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: _____

I hereby acknowledge receipt of a copy of the foregoing Stock Option and the Network-1 Security Solutions, Inc. 1996 Stock Option Plan, and having read such documents, hereby signify my understanding of, and my agreement with, their terms and conditions.

_____ _____
(Signature) (Date)

APPENDIX B

NON-QUALIFIED STOCK OPTION

To: _____

Name

_____

Address

Date of Grant: _____

You are hereby granted an option (the "Option"), effective as of the date hereof, to purchase _____ shares of Common Stock, par value $.01 per share ("Common Stock"), of Network-1 Security Solutions, Inc. (the "Company") at a price of ___ per share pursuant to the Company's 1996 Stock Option Plan adopted by the Company's Board of Directors and Stockholders effective March 7, 1996 (the "Plan"). [Your option price is intended to equal at least the fair market value of the Company's Common Stock as of the date hereof.]

Your Option may first be exercised on and after one (1) year from the date of Grant, but not before that time. Your Option may be exercised either: (i) on and after _____ and prior to the Termination Date (as hereinafter defined), for up to _____% of the total number of shares subject to the Option minus the number of shares previously purchased by exercise of the Option (as adjusted for any change in the outstanding shares of the Common Stock of the Company, by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Compensation Committee deems in its sole discretion to be similar circumstances); or (ii) each succeeding year thereafter and prior to the Termination Date (as hereinafter defined) for up to an additional [twenty (20%) percent] of the total number of shares subject to the Option minus the number of shares previously purchased by exercise of the Option (as adjusted for any change in the outstanding shares of the Common Stock of the Company by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Compensation Committee deems in its sole discretion to be similar circumstances). No fractional shares shall be issued or delivered.

This Option shall terminate and is not exercisable after the expiration of [ten years] from the date of its grant (the "Scheduled Termination Date"), except if terminated earlier as hereinafter provided (the "Termination Date").

In the event of a "change of control" (as hereafter defined) of the Company, your Option may, from and after the date of the change of control, and notwithstanding the second paragraph of this option, be exercised for up to 100% of the total number of shares then subject to the Option minus the number of shares previously purchased upon exercise of the Option (as adjusted for any changes in the outstanding Common Stock by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Compensation Committee deems in its sole discretion to be similar circumstances).

A "change of control" shall be deemed to have occurred upon the happening of any of the following events:

1. A change within a twelve-month period in a majority of the members of the Board of Directors of the Company;

2. A change within a twelve-month period in the holders of more than 50% of the outstanding voting stock of the Company; or

3. Any other event deemed to constitute a "change in control" by the Compensation Committee.

You may exercise your option as set forth in Section 7 of the Plan.

If the Company's Common Stock has not been registered under Section 12 of the Securities Exchange Act of 1934, the exercise of your Option will not be effective unless and until you execute and deliver to the Company a Stock

Restriction Agreement, in the form on file in the office of the Secretary of the Company.

Your Option will, to the extent not previously exercised by you, terminate thirty (30) days after the date on which your employment by the Company or a parent or subsidiary corporation (an "Affiliate") of the Company is terminated, whether such termination is voluntary or not, other than by reason of disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder, or death, in which case your Option will terminate six (6) months from the date of termination of employment due to disability or death (but in no event later than the Scheduled Termination Date). After the date your employment is terminated, as aforesaid, you may exercise this Option only for the number of shares which you had a right to purchase and did not purchase on the date your employment terminated. If you are employed by an Affiliate of the Company, your employment shall be deemed to have terminated on the date your employer ceases to be an Affiliate of the Company, unless you are on that date transferred to the Company or another Affiliate of the

Company. Your employment shall not be deemed to have terminated if you are transferred from the Company to an Affiliate, or vice versa, or from one Affiliate to another Affiliate.

Anything in this Option to the contrary notwithstanding, your Option will terminate immediately if your employment is terminated for cause (as determined by the Company in its sole and absolute discretion). Your employment shall be deemed to have been terminated for cause if you are terminated due to, among other reasons, (i) your willful misconduct or gross negligence, (ii) your material breach of any agreement with the Company or (iii) your failure to render satisfactory services to the Company.

If you die while employed by the Company or an Affiliate of the Company your legatee(s), distributee(s), executor(s) or administrator(s), as the case may be, may, at any time within six (6) months after the date of your death (but in no event later than the Scheduled Termination Date), exercise the Option as to any shares which you had a right to purchase and did not purchase during your lifetime. If your employment with the Company or an Affiliate is terminated by reason of your becoming disabled (within the meaning of Section 22(e)(3) of the Code and the regulations thereunder), you or your legal guardian or custodian may at any time within six (6) months after the date of such termination (but in no event later than the Scheduled Termination Date), exercise the Option as to any shares which you had a right to purchase and did not purchase prior to such termination. Your legatee, distributee, executor, administrator, guardian or custodian must present proof of his authority satisfactory to the Company prior to being allowed to exercise this Option.

This Option is not transferable otherwise than by will or the laws of descent and distribution, and is exercisable during your lifetime only by you, including, for this purpose, your legal guardian or custodian in the event of disability. Until the Option price has been paid in full pursuant to due exercise of this Option and the purchased shares are delivered to you, you do not have any rights as a shareholder of the Company. The Company reserves the right not to deliver to you the shares purchased by virtue of the exercise of this Option during any period of time in which the Company deems, in its sole discretion, that such delivery would violate a federal, state, local or securities exchange rule, regulation or law.

Notwithstanding anything to the contrary contained herein, this Option is not exercisable until all the following events occur and during the following periods of time:

(a) Until the Plan pursuant to which this Option is granted is approved by the shareholders of the Company in the

manner prescribed by the Code and the regulations thereunder;

(b) Until this Option and the optioned shares are approved and/or registered with such federal, state and local regulatory bodies or agencies and securities exchanges as the Company may deem necessary or desirable; or

(c) During any period of time in which the Company deems that the exercisability of this Option, the offer to sell the shares optioned hereunder, or the sale thereof, may violate a federal, state, local or securities exchange rule, regulation or law, or may cause the Company to be legally obligated to issue or sell more shares than the Company is legally entitled to issue or sell.

The following two paragraphs shall be applicable if, on the date of exercise of this Option, the Common Stock to be purchased pursuant to such exercise has not been registered under the Securities Act of 1933, as amended, and under applicable state securities laws, and shall continue to be applicable for so long as such registration has not occurred:

(a) The optionee hereby agrees, warrants and represents that he will acquire the Common Stock to be issued hereunder for his own account for investment purposes only, and not with a view to, or in connection with, any resale or other distribution of any of such shares, except as hereafter permitted. The optionee further agrees that he will not at any time make any offer, sale, transfer, pledge or other disposition of such Common Stock to be issued hereunder without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel acceptable to the Company to the effect that the proposed transaction will be exempt from such registration. The optionee shall execute such instruments, representations, acknowledgements and agreements as the Company may, in its sole discretion, deem advisable to avoid any violation of federal, state, local, or securities exchange rule, regulation or law.

(b) The certificates for Common Stock to be issued to the optionee hereunder shall bear the following legend:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or under applicable state securities laws. The shares have been acquired for investment and may not be offered, sold, transferred, pledged or otherwise disposed of without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel

> acceptable to the Company that the proposed transaction will be exempt from such registration."

The foregoing legend shall be removed upon registration of the legended shares under the Securities Act of 1933, as amended, and under any applicable state laws or upon receipt of any opinion of counsel acceptable to the Company that said registration is no longer required.

The sole purpose of the agreements, warranties, representations and legend set forth in the two immediately preceding paragraphs is to prevent violations of the Securities Act of 1933, as amended, and any applicable state securities laws.

It is the intention of the Company and you that this Option shall not be an "Incentive Stock Option" as that term is used in Section 422 of the Code and the regulations thereunder.

This Option shall be subject to the terms of the Plan in effect on the date this Option is granted, which terms are hereby incorporated herein by reference and made a part hereof. In the event of any conflict between the terms of this Option and the terms of the Plan in effect on the date of this Option, the terms of the Plan shall govern. This Option constitutes the entire understanding between the Company and you with respect to the subject matter hereof and no amendment, modification or waiver of this Option, in whole or in part, shall be binding upon the Company unless in writing and signed by an appropriate officer of the Company. This Option and the performances of the parties hereunder shall

be construed in accordance with and governed by the laws of the State of New York without regard to principles of conflict of laws.

Please sign the copy of this Option and return it to the Company, thereby indicating your understanding of and agreement with its terms and conditions.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: _____

I hereby acknowledge receipt of a copy of the foregoing Stock Option and the Network-1 Security Solutions, Inc. 1996 Stock Option Plan, and having read such documents, hereby signify my understanding of and my agreement with their terms and conditions.

_____ _____

(Signature) (Date)

Exhibit 10.1

EMPLOYMENT AGREEMENT dated as of May 18, 1998, between NETWORK-1 SOFTWARE & TECHNOLOGY, INC., a Delaware corporation with its principal office located at 909 Third Avenue, 9th Floor, New York, New York 10022 (the "Company"), and AVI A. FOGEL residing at 22 Hollywood Drive, Chestnet Hill, Massachusetts (the "Executive").

The Company desires to enter into this Agreement in order to assure itself of the service of Executive, and Executive desires to accept employment with the Company, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and obligations hereinafter set forth, the parties agree as follows:

SECTION 1. Employment. The Company hereby employs Executive, and Executive hereby accepts employment by the Company, upon the terms and conditions hereinafter set forth.

SECTION 2. Term. The employment of Executive hereunder shall be for a period commencing on the date hereof (the "Commencement Date") and ending on the fourth anniversary of the Commencement Date (the "Term") or such earlier date upon which the employment of the Executive shall terminate in accordance with the provisions hereof. The period commencing on the Commencement Date and ending on the date of termination of the Executive's employment hereunder shall be called the "Term of Employment" for Executive, and the date on which the Executive's employment hereunder shall terminate shall be called the "Termination Date.".

SECTION 3. Duties. During the Term of Employment, Executive shall be employed as the President and Chief Executive Officer of the Company and shall perform such duties as are consistent therewith as the Board of Directors of the Company (the "Board") shall designate. Executive shall use his best efforts to perform well and faithfully the foregoing duties and responsibilities. In addition, effective upon the Commencement Date, Executive shall serve as a member of the Board. For purposes of this Agreement, so long as Executive shall serve as a member of the Board, any references herein to decisions or determinations to be made by the Board with respect to Executive (including, without limitation, matters relating to compensation and termination) shall be made by a majority of the then members of the Board excluding Executive, who shall recuse himself and abstain from voting with respect to any such matters.

SECTION 4. Time to be Devoted to Employment. During the Term of Employment, Executive shall devote all of his business time, attention and energies to the business of the Company (except for vacations to which he is entitled pursuant to Section 6(b) and periods of illness or incapacity). During the Term of Employment, Executive shall not engage in any business activity which, in the reasonable judgment of the Board, conflicts with the duties of Executive hereunder, whether or not such activity is pursued for gain, profit or other pecuniary advantage.

SECTION 5. Compensation.

(a) The Company shall pay to Executive an annual base salary (the "Base Salary") during the Term of Employment of not less than $150,000 per annum, payable in such installments (but not less often than monthly) as is generally the policy of the Company with respect to its executive officers, which Base Salary shall be subject to such increases as the Board, in its sole discretion, may from time to time determine. Executive's Base Salary and performance shall be reviewed at least annually by the Board.

(b) In addition, to the Base Salary set forth in paragraph 5(a) above, during the term of employment, Executive shall be eligible to receive incentive compensation of up to $50,000 per annum (to be distributed as directed

by the Board of Directors) based upon the Company's attainment of certain financial results to be established by mutual agreement between the Board and Executive.

(c) On the Commencement Date the Company shall grant to the Executive a non-qualified stock option (the "Option") of five (5) years' duration for the purchase of 475,000 shares (the "Shares") of the Company's Common Stock at an exercise price of $1.50 per share. The Option shall vest as to 34% of the Shares covered thereby on the Commencement Date and an additional 22% of the Shares covered thereby on each anniversary of the Commencement Date, conditioned only on the Executive's continued employment by the Company. The form of Option is attached as Exhibit A hereto.

SECTION 6. Business Expenses; Benefits.

(a) The Company shall reimburse Executive, in accordance with the practice from time to time for executive officers of the Company, for all reasonable and necessary expenses and other disbursements incurred by Executive for or on behalf of the Company in the performance of Executive's duties hereunder. Executive shall provide such appropriate documentation of expenses and disbursements as may from time to time be required by the Company.

(b) During the Term of Employment, Executive shall be entitled to four (4) weeks vacation per year.

(c) During the Term of Employment, Executive shall be entitled to participate in the group health, life and disability insurance benefits, and retirement plan benefits made available from time to time for its employees generally.

SECTION 7. Involuntary Termination.

(a) If Executive is incapacitated or disabled (such condition being hereinafter referred to as a "Disability") in a manner that would qualify Executive for benefits under the disability policy of the Company (the "Disability Policy"), the Term of Employment and employment of the Executive under this Agreement shall cease (such termination, as well as a termination under Section 7(b), being hereinafter referred to as an "Involuntary Termination") and Executive shall be entitled to receive the benefits payable under the Disability Policy and in accordance with Section 9 hereof.

(b) If Executive dies during the Term of Employment, the Term of Employment and Executive's employment hereunder shall cease as of the date of the Executive's death and Executive shall be entitled to receive the benefits payable in accordance with Section 9 hereof.

SECTION 8. Termination by the Company.

(a) Termination For Cause. The Company may terminate the Term of Employment and the employment of the Executive hereunder at any time for Cause (as hereinafter defined) (such termination being referred to herein as a "Termination For Cause") by giving Executive written notice of such termination, effective immediately upon the giving of such notice to the Executive. As used in this Agreement, "Cause" means the Executive's (a) commission of an act (i) constituting a felony or (ii) involving fraud, moral turpitude, theft or dishonesty which is not a felony and which materially adversely affects the Company or could reasonably be expected to materially adversely affect the Company, (b) repeated failure to be reasonably available to perform his duties, which, if curable, shall not have been cured within 10 business days of written notice thereof from the Company, (c) repeated failure to follow the lawful directions of the Board, which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company, (d) material breach of any agreement with the Company (including any provisions of this or any agreement between Executive and the

Company) which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company.

(b) Termination Other Than for Cause. The Company may terminate this Agreement and the employment of Executive other than for cause as defined in Section 8(a) above (such termination shall be defined as a "Termination Other Than for Cause") by giving Executive written notice of such termination, which notice shall be effective upon the giving of such notice or such later date set forth therein.

SECTION 9. Effect of Termination.

(a) Upon the termination of the Term of Employment and Executive's employment hereunder due to Termination for Cause (as defined in Section 8(a) above), neither Executive nor his beneficiary or estate shall have any further rights or claims against the Company under this Agreement, except to receive (i) the unpaid portion, if any, of the Base Salary provided for in Section 5(a), computed on a pro rata basis to the Termination Date (based on the actual number of days elapsed over the actual number of days elapsed over the year in which such termination occurs), (ii) any unpaid accrued benefits of Executive, (iii) reimbursement for any expenses for which Executive shall not have been reimbursed as provided in Section 6(a), and (iv) Executive's rights under the vested portion of the Option.

(b) Upon the termination of Executive's employment hereunder due to an Involuntary Termination, neither Executive nor his beneficiary or estate shall have any further rights or claims against the Company under this Agreement except the right to receive (i) the amounts set forth in Section 9(a), and (ii)the vesting of all of the Options that would have vested in the year of Involuntary Termination and one-half of the Options that would have vested in the year following the year of Involuntary Termination.

(c) Upon the termination of Executive's employment upon a Termination Other Than for Cause (as defined in Section 8(b) above), neither Executive nor his beneficiary nor his estate shall have any rights or claims against the Company except to receive (i) the amounts set forth in 9(b) (including Options), and (ii) the lesser of (A) one year's Base Salary as in effect at the time of the Termination Other Than for Cause or (B) Executive's Base Salary for the balance of the term of this Agreement.

(d) For purposes of this Section 9, if Executive is asked to assume any duties or the material reduction of duties, either of which is substantially inconsistent with the position of

President and Chief Executive Officer of the Company, Executive, upon 30 days notice to the Board of Directors setting forth in reasonable detail the respects in which Executive believes such assignment or duties are substantially inconsistent with the level of Executive's position, may resign from the Company and such resignation will be treated as a Termination Other Than For Cause pursuant to this Section 9.

(e) Upon the termination of Executive's employment hereunder for any reason, Executive shall, upon the written request of a majority of the members of the Board, immediately resign as a member of the Board.

SECTION 10. Insurance. The Company may, for its own benefit, in its sole discretion, maintain "key-man" life and disability insurance policies covering Executive. Executive will cooperate with the Company and provide such information or other assistance as the Company may reasonably request in connection with the Company's obtaining and maintaining such policies.

SECTION 11. Disclosure of Information. Executive will not, either during the Term of Employment or at any time thereafter, divulge, publish, communicate, furnish or make accessible to anyone any knowledge or information with respect to the Company's confidential, secret or proprietary products, technology, methods, plans, materials and processes, or with respect to any other confidential, secret or proprietary aspects of the business, activities or

products of the Company including, without limitation, (a) software programs, source code, object code, product development information, research and development projects or other technical data pertaining to the Company's products (whether or not subject to patent, trademark or copyright protection) or (b) any customer or client lists, telephone leads, prospects lists, sales figures and forecasts, purchase costs, financial projections, advertising and marketing plans and business strategies and plans; except as such items set forth in clauses (a) and (b) above may already be in the public domain through no fault of Employee (all of the foregoing items set forth in clauses (a) and (b) being referred to herein collectively as "Confidential Property"). Upon the termination of the Term of Employment, Executive shall return to the Company all property (including Confidential Property) of the Company (or any subsidiary or affiliate thereof) then in the possession of Executive and all books, records, computer tapes or discs and all other material containing non-public information concerning the business, clients or affairs of the Company or any subsidiary or affiliate thereof.

SECTION 12. Right to Inventions. Executive shall promptly disclose, grant and assign to the Company for its sole use and benefit any and all marks, designs, logos, inventions, improvements, technical information and suggestions relating in any way to the business conducted by the Company, which he may develop or which may be acquired by Executive during the Term of Employment (whether or not during usual working hours), together with all trademarks, patent applications, letters, patent, copyrights and reissues thereof that may at any time be granted for or upon any such mark, design, logo, invention, improvement or technical information (collectively, "Inventions"). In connection therewith, Executive shall (at the Company's sole cost and expense) take all actions reasonably necessary or desirable to assign and/or confirm the assignment of any Invention to the Company.

SECTION 13. Restrictive Covenant.

(a) The Company is in the business of developing, marketing, licensing and supporting network software security products and also provides consulting in network security, network design, troubleshooting and engineering (the "Business"). Executive acknowledges and recognizes that the Business has been conducted, and sales of its products have been made, throughout the United States, and Executive further acknowledges and recognizes the highly competitive nature of the industry in which the Business is involved. Accordingly, in consideration of the premises contained herein, the consideration to be received hereunder, stock options to be granted Executive, Executive shall not, during the Non-Competition Period (as defined below): (i) directly or indirectly engage, whether or not such engagement shall be as a partner, stockholder, affiliate or other participant, in any Competitive Business (as defined below), or represent in any way any Competitive Business, whether or not such engagement or representation shall be for profit, (ii) interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any other person or entity, including, without limitation, any customer, supplier, employee or consultant of the Company, (iii) induce any employee of the Company to terminate his employment with the Company or to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business), or (iv) affirmatively assist or induce any other person or entity to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business). Anything contained in this Section 13 to the contrary notwithstanding, an investment by Executive in any publicly traded company in which Executive and his affiliates exercise no operational or strategic

control and which constitutes less than 5% of the capital of such entity shall not constitute a breach of this Section 13.

(b) As used herein, "Non-Competition Period" shall mean the

period commencing on the date hereof and terminating on the Termination Date; provided, however, that if the Term of Employment shall have been terminated pursuant to Section 8 (a), then "Non-Competition Period" shall mean the period commencing on the date hereof and ending on the second anniversary of the Termination Date. "Competitive Business" shall mean any business in any State of the United States engaged in the development, marketing and licensing of network software security products, or in any other line of business in which the Company was engaged or had a formal plan to enter as of the Termination Date.

(c) Executive understands that the foregoing restrictions may limit his ability to earn a livelihood in a business similar to the business of the Company, but he nevertheless believes that he has received and will receive sufficient consideration and other benefits as an employee of the Company and as otherwise provided hereunder and pursuant to other agreements between the Company and Executive to justify clearly such restrictions which, in any event (given his education, skills and ability), Executive does not believe would prevent him from earning a living.

SECTION 14. Enforcement; Severability; Etc. It is the desire and intent of the parties that the provisions of this Agreement shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated to be invalid or unenforceable, such provision shall be deemed amended to (a) delete therefrom the portion thus adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made or (b) otherwise to render it enforceable in such jurisdiction.

SECTION 15. Remedies. Executive acknowledges and understands that the provisions of this Agreement are of a special and unique nature, the loss of which cannot be adequately compensated for in damages by an action at law, and that the breach or threatened breach of the provisions of this Agreement would cause the Company irreparable harm. In the event of a breach or threatened breach by Executive of the provisions of this Agreement, the Company shall be entitled to an injunction restraining him from such breach. Nothing contained in this Agreement shall be construed as prohibiting the Company from or

limiting the Company in pursuing any other remedies available for any breach or threatened breach of this Agreement.

SECTION 16. Notices. All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given and delivered if personally delivered or if sent by a nationally-recognized overnight courier, by telecopy, or by registered or certified mail, return receipt requested and postage prepaid, addressed as follows:

if to the Company, to: Network-1 Software & Technology, Inc.
909 Third Avenue, 9th Floor
New York, New York 10022
Telecopier: (212) 293-3090
Telephone: (212) 293-3068
Attention: Robert Russo

with copies to: Bizar Martin & Taub, LLP
1350 Avenue of the Americas
29th Floor
New York, NY 10019
Telecopier:(212) 581-8958
Telephone: (212) 265-8600
Attention: Sam Schwartz, Esq.

if to Executive, to: Avi A. Fogel
22 Hollywood Drive
Chestnut Hill, Massachusetts 02167-3070

or to such other address as the party to whom notice is to be given may have furnished to the other party or parties in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of nationally-recognized overnight courier, on the next business day after the date when sent, (c) in the case of telecopy transmission, when received, and (d) in the case of mailing, on the third business day following that on which the piece of mail containing such communication is posted.

SECTION 17. Binding Agreement; Benefit. The provisions of this Agreement will be binding upon, and will inure to the benefit of, the respective heirs, legal representatives, successors and assigns of the parties.

SECTION 18. Governing Law. This Agreement will be governed by, construed and enforced in accordance with, the laws of the State of Massachusetts (without giving effect to principles of conflicts of laws).

SECTION 19. Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement must be in writing and shall not operate or be construed as a waiver of any other breach.

SECTION 20. Entire Agreement; Amendments. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements or understandings between the parties with respect thereto. This Agreement may be amended only by an agreement in writing signed by the parties.

SECTION 21. Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 22. Assignment. This Agreement is personal in its nature and the parties shall not, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that the Company may assign this Agreement to any of its subsidiaries and affiliates.

SECTION 23. Gender. Any reference to the masculine gender shall be deemed to include the feminine and neuter genders unless the context otherwise requires.

SECTION 24. Counterparts. This Agreement may be executed in counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Employment Agreement as of the date first written above.

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.

/s/ Avi Fogel
- ----------
Avi A. Fogel

By: /s/ Robert Russo

NEITHER THE OPTION REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAW AND MAY NOT BE TRANSFERRED IN VIOLATION OF SUCH ACT OR LAWS, THE RULES AND REGULATIONS THEREUNDER OR THE PROVISIONS OF THIS OPTION CERTIFICATE

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.

_____

OPTION TO PURCHASE

SHARES OF COMMON STOCK

AS HEREIN DESCRIBED

Dated: as of May ____, 1998

This certifies that, for value received

NAME: Avi A. Fogel ("Optionee")

ADDRESS: 22 Hollywood Drive
Chestnut Hill, MA 02167-3070

or permitted assigns (the "Holder") are entitled, subject to the terms set forth herein, to purchase from Network-1 Software & Technology, Inc. (the "Company"), a Delaware corporation, having its offices at 909 Third Avenue, 9th Floor, New York, New York 10022, Four Hundred Seventy Five Thousand (475,000) shares of the Company's common stock subject to adjustment as set forth herein.

1. As used herein:

(a) "Common Stock" or "Common Shares" shall initially refer to the Company's common stock including Underlying Securities, as more fully set forth in Section 5 hereof.

(b) "Option Price" or "Common Share Price" shall be One Dollar and Fifty Cents ($1.50) per share.

(c) "Underlying Securities" or "Underlying Shares" or "Underlying Stock" shall refer to the Common Shares or other securities or property issuable or issued upon exercise of this Option.

(d) "Change of Control" shall mean:

(i) the acquisition by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended(the "Exchange Act"), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty (40%) percent or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors where such person, entity or group owned less than 5% of such voting power on the date of this Option; or

(ii) The shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (other than to a subsidiary or subsidiaries).

2. (a) The purchase rights represented by this Option may be exercised by the Holder hereof, in whole or in part (but not as to less than a whole

Common Share), as to the vested portion (as defined below) of this Option only, at any time, and from time to time, during the period commencing this date, until May __, 2003 (the "Expiration Date"), by the presentation of this Option, with the purchase form attached duly executed, at the Company's office (or such office or agency of the Company as it may designate in writing to the Holder hereof by notice pursuant to Section 13 hereof), specifying the number of Common Shares as to which the Option is being exercised, and upon payment by the Holder to the Company in cash or by certified check or bank draft, in an amount

equal to the Option Price times the number of Common Shares then being purchased hereunder. This Option shall vest as follows:

(i) As to 34% of the Underlying Shares on the date of this Option;

(ii) As to the balance of 66% of the Underlying Shares, 22% of such shares on each of the first three anniversary dates of the date of this Option, provided the Optionee is then an employee of the Company;

(iii) As to 50% of the remaining Underlying Shares if a Change in Control occurs within one year of the date of this Option, provided the Optionee is then an employee of the Company;

(iv) As to all of the unvested portion of this Option if a Change of Control occurs more than one year after the date of this Option, provided the Optionee is then an employee of the Company.

The portion of this Option which has vested pursuant to (i) to

(iv) above shall be referred to as the "vested portion".

(b) The Company agrees that the Holder hereof shall be deemed the record owner of such Underlying Securities as of the close of business on the date on which this Option shall have been presented and payment made for such Underlying Securities as aforesaid. Certificates for the Underlying Securities so obtained shall be delivered to the Holder hereof within a reasonable time, not exceeding seven (7) days, after the rights represented by this Option shall have been so exercised. If this Option shall be exercised in part only or transferred in part subject to the provisions herein, the Company shall, upon surrender of this Option for cancellation or partial transfer, deliver a new Option evidencing the rights of the Holder hereof to purchase the balance of the Underlying Shares which such Holder is entitled to purchase hereunder.

3. Subject to the provisions of Section 8 hereof, (i) this Option is exchangeable at the option of the Holder at the aforesaid office of the Company for other Options of different denominations entitling the Holder thereof to purchase in the aggregate the same number of Common Shares as are purchasable hereunder; and (ii) this Option may be divided or combined with other Options which carry the same rights, in either case, upon presentation hereof at the aforesaid office of the Company together with a written notice, signed by the Holder hereof, specifying the names and denominations in which new Options are to be issued, and the payment of any transfer tax due in connection therewith.

4. Subject and pursuant to the provisions of this Section 4, the Option Price and number of Common Shares subject to this Option shall be subject to adjustment from time to time as set forth hereinafter in this Section 4.

(a) If the Company shall at any time subdivide its outstanding Common Shares by recapitalization, reclassification, stock dividend, or split-up thereof or other means, the number of Common Shares subject to this Option

immediately prior to such subdivision shall be proportionately increased and the Option Price shall be proportionately decreased, and if the Company shall at any time combine the outstanding Common Shares by recapitalization, reclassification or combination thereof or other means, the number of Common Shares subject to this Option immediately prior to such combination shall be proportionately decreased and the Option Price shall be proportionately increased. Any such adjustment to the Option Price shall become effective at the close of business on the record date for such subdivision or combination.

(b) If the Company after the date hereof shall distribute to all of the holders of its Common Shares any securities including, but not limited to Common Shares, or other assets (other than a cash distribution made as a dividend payable out of earnings or out of any earned surplus legally available for dividends under the laws of the jurisdiction of incorporation of the Company), the Board of Directors shall be required to make such equitable adjustment in the Option Price and the type and/or number of Underlying Securities in effect immediately prior to the record date of such distribution as may be necessary to preserve to the Holder of this Option rights substantially proportionate to and economically equivalent to those enjoyed hereunder by such Holder immediately prior to the happening of such distribution. Any such adjustment made reasonably and in good faith by the Board of Directors shall be final and binding upon the Holders and shall become effective as of the record date for such distribution.

(c) No adjustment in the number of Common Shares subject to this Option or the Option Price shall be required under this Section 4 unless such adjustment would require an increase or decrease in such number of shares of at least 1% of the then adjusted number of Common Shares issuable upon exercise of the Option, provided, however, that any adjustments which by reason of the foregoing are not required at the time to be made shall be carried forward and taken into account and included in determining the amount of any subsequent adjustment. If the Company shall make a record of the Holders of its Common Shares for the purpose of entitling them to receive any dividend or distribution and legally abandon its plan to pay or deliver such dividend or distribution then no adjustment in the number of Common Shares subject to the Option shall be required by reason of the making of such record.

(d) In case of any capital reorganization or reclassification or change of the outstanding Common Shares (exclusive of a change covered by Section 4(a) hereof or which solely affects the par value of such Common Shares) or in the case of any merger or consolidation of the Company with or into another corporation (other than a consolidation or merger in which the Company is the continuing corporation and which does not result in any reclassification, change, capital reorganization or change in the ownership of the outstanding Common Shares), or in the case of any sale or conveyance or transfer of all or substantially all of the assets of the Company and in connection with which the Company is dissolved, the Holder of this Option shall have the right thereafter (until the expiration of the right of exercise of this Option) to receive upon the exercise hereof, for the same aggregate Option Price payable hereunder immediately prior to such event, the kind and amount of shares of stock or other securities or property receivable upon such reclassification, change, capital reorganization, merger or consolidation, or upon the dissolution following any sale or other transfer, by a holder of the number of Common Shares of the Company equal to the number of common shares obtainable upon exercise of this Option immediately prior to such event; and if any reorganization, reclassification, change, merger, consolidation, sale or transfer also results in a change in Common Shares covered by Section 4(a), then such adjustment shall be made pursuant to both this Section 4(d) and Section 4(a). The provisions of this Section 4(d) shall similarly apply to successive reclassification, or capital reorganizations, mergers or consolidations, changes, sales or other transfers.

(e) The Company shall not be required to issue fractional Common Shares upon any exercise of this Option. As to any final fraction of a Common Share which the Holder of this Option would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the "current market price" (as defined in Section 4(f) below) of a share of such stock on the

business day preceding the day of exercise. The Holder of this Option, by his acceptance hereof, expressly waives any right to receive any fractional shares of stock upon exercise of this Option.

(f) As used herein, the "current market price" per share of Common Stock on any date shall be: (i) if the Common Stock is listed or admitted for trading on any national securities exchange, the last reported sales price as reported on such national securities exchange; (ii) if the Common Stock is not listed or admitted for trading on any national securities exchange, the average of the last reported closing bid and asked quotation for the Common Stock as reported on the Automated Quotation System of NASDAQ or a similar service if NASDAQ is not reporting such information; (iii) if the Common Stock is not listed or admitted for trading on any national securities exchange or quoted by NASDAQ

or a similar service, the average of the last reported bid and asked quotation for the Common Stock as quoted by a market maker in the Common Stock (or if there is more than one market maker, the bid and asked quotation shall be obtained from two market makers and the average of the lowest bid and highest asked quotation shall be the "current market price"); or (iv) if the Common Stock is not listed or admitted for trading on any national securities exchange or quoted by NASDAQ and there is no market maker in the Common Stock, the fair market value of such shares as determined by the Board of Directors.

(g) Irrespective of any adjustments pursuant to this Section 4 in the Option Price or in the number, or kind, or class of shares or other securities or other property obtainable upon exercise of this Option, and without impairing any such adjustment the certificate representing this Option may continue to express the Option Price and the number of Common Shares obtainable upon exercise at the same price and number of Common Shares as are stated herein.

(h) Until this Option is exercised, the Underlying Shares, and the Option Price shall be determined exclusively pursuant to the provisions hereof.

(i) Upon any adjustment of this Option the Company shall give written notice thereof to the Holder which notice shall include the number of Underlying Securities purchasable and the price per share upon exercise of this Option and shall set forth in reasonable detail the events which resulted in such adjustment

5. For the purposes of this Option, the terms "Common Shares" or "Common Stock" shall mean (i) the class of stock designated as the common stock of the Company on the date set forth on the first page hereof or (ii) any other class of stock resulting from successive changes or reclassification of such Common Stock consisting solely of changes from par value to no par value, or from no par value to par value or changes in par value. If at any time, as a result of an adjustment made pursuant to Section 4, the securities or other property obtainable upon exercise of this Option shall include shares or other securities of another corporation or other property, then thereafter, the number of such other shares or other securities or property so obtainable shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Shares contained in Section 4, and all other provisions of this Option with respect to Common Shares shall apply on like terms to any such other shares or other securities or property. Subject to the foregoing, and unless the context requires otherwise, all references herein to Common Shares shall, in the event of an adjustment pursuant to Section 4, be deemed to refer also to any other shares or other securities or property when obtainable as a result of such adjustments.

6. The Company covenants and agrees that:

(a) During the period within which the rights represented by this Option may be exercised, the Company shall, at all times, reserve and keep

available out of its authorized capital stock, solely for the purposes of issuance upon exercise of this Option, such number of its Common Shares as shall be issuable upon the exercise of this Option and at its expense will obtain the listing thereof on all quotation systems or national securities exchanges on which the Common Shares are then listed; and if at any time the number of authorized Common Shares shall not be sufficient to effect the exercise of this Option, the Company will take such corporate action as may be necessary to increase its authorized but unissued Common Shares to such number of shares as shall be sufficient for such purpose; the Company shall have analogous obligations with respect to any other securities or property issuable upon exercise of this Option;

(b) All Common Shares which may be issued upon exercise of the rights represented by this Option will, upon issuance, be validly issued, fully paid, non-assessable and free from all taxes, liens and charges with respect to the issuance thereof; and

(c) All original issue taxes payable in respect of the issuance of Common Shares upon the exercise of the rights represented by this Option shall be borne by the Company, but in no event shall the Company be responsible or liable for income taxes or transfer taxes upon the transfer of any Options.

7. Until exercised, this Option shall not entitle the Holder hereof to any voting rights or other rights as a shareholder of the Company.

8. This Option may not be transferred, sold or assigned except to, in whole or in part (i) any entity controlled by, or under common control with, the Optionee, (ii) the spouse, lineal descendants, estate or a trust for the benefit of any of the foregoing, or (iii) by operation of law. No transfer of all or a portion of the Option (as permitted hereby) or the Underlying Securities shall be made at any time unless the Company shall have been supplied with evidence reasonably satisfactory to it that such transfer is not in violation of the Securities Act of 1933, as amended (the "Act"). Subject to the satisfaction of the aforesaid condition and upon surrender of this Option or certificates for any Underlying Securities at the office of the Company, the Company shall deliver a new Option or Options or new certificate or certificates for Underlying Securities to and in the name of the permitted assignee or assignees named therein. Any such certificate may bear a legend reflecting the restrictions on transfer set forth herein.

9. If this Option is lost, stolen, mutilated or destroyed, the Company shall, on such terms as to indemnity or otherwise as the Company may reasonably impose, issue a new Option of like denomination, tenor and date. Any such new Option shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Option shall be at any time enforceable by anyone.

10. Any Option issued pursuant to the provisions of Section 9 hereof, or upon transfer, exchange, division or partial exercise of this Option or combination thereof with another Option or Options, shall set forth each provision set forth in Sections 1 through 15, inclusive, of this Option as each such provision is set forth herein, and shall be duly executed on behalf of the Company by a duly authorized officer.

11. Upon surrender of this Option for transfer or exchange or upon the exercise hereof, this Option shall be canceled by the Company, and shall not be reissued by the Company and, except as provided in Section 2 in case of a partial exercise, Section 3 in case of an exchange or Section 8 in case of a transfer, or Section 9 in case of mutilation. Any new Option certificate shall be issued promptly but not later than fifteen (15) days after receipt of the old Option certificate.

12. This Option shall inure to the benefit of and be binding upon the Holder hereof, the Company and their respective successors, heirs, executors, legal representatives and assigns.

13. All notices required hereunder shall be in writing and shall be deemed given when telegraphed, delivered personally or within two (2) days after

mailing when mailed by certified or registered mail, return receipt requested, to the party to whom such notice is intended, at the address of such other party as set forth on the first page hereof, or at such other address of which the Company or Holder has been advised by the notice hereunder.

14. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be in any way impaired thereby, it being intended that all of the rights and privileges of the Holders shall be enforceable to the fullest extent permitted by law.

15. The validity, interpretation and performance of this Option and of the terms and provisions hereof shall be governed by the laws of the State of New York applicable to agreements entered into and performed entirely in such state.

IN WITNESS WHEREOF, the Company has caused this Option to be executed by its duly authorized officer as of May ___, 1998.

Network-1 Software & Technology, Inc.

By:

PURCHASE FORM
To Be Executed
Upon Exercise of Option

The undersigned record holder of the within Option hereby irrevocably elects to exercise the right to purchase _____ Common Shares evidenced by the within Option, according to the terms and conditions thereof, and herewith makes payment of the purchase price in full.

The undersigned requests that certificates for such shares shall be issued in the name set forth below.

Dated: ,

Signature

Print Name of Signatory

Name to whom certificates are
to be issued if different from above

Address

Social Security No. or other

identifying number

If said number of shares shall not be all the shares purchasable under the within Option, the undersigned requests that a new Option for the unexercised portion shall be registered in the name of:

(Please Print)

Address

Social Security No. or other
identifying number

Signature

Print Name of Signatory

FORM OF ASSIGNMENT

FOR VALUE RECEIVED , hereby sells, assigns and transfers to (Social Security or I.D. No.) the within Option, or that portion of this Option purchasable for _____ common shares together with all rights, title and interest therein, and does hereby irrevocably constitute and appoint _____ attorney to transfer such Option on the register of the within named Company, with full power of substitution.

(Signature)

Dated: , 19

Signature Guaranteed:

- ---

May 30, 1998

Avi A. Fogel
22 Hollywood Drive
Chestnut Hill, Massachusetts 02167-3070

Re: Amendment to Employment Agreement

Dear Avi:

This letter agreement shall serve to amend Section 5(a) and 5(b) of your Employment Agreement, dated May 18, 1998, with Network-1 Security Solutions, Inc. (the "Employment Agreement"), as follows:

SECTION 5. Compensation.

(a) The Company shall pay to Executive an annual base salary (the "Base Salary") during the Term of Employment of $150,000 per annum, payable in such installments (but not less often than monthly) as is generally the policy of the Company with respect to its executive officers, which Base Salary shall be subject to annual increases of up to 20% as the Board, in its sole discretion, may from time to time determine. Executive's Base Salary and performance shall be reviewed at least annually by the Board.

(b) In addition to the Base Salary set forth in paragraph 5(a) above, during the term of employment, Executive shall be eligible to receive a cash bonus of up to $50,000 per annum (to be distributed as directed by the Board of Directors) subject to the discretion of the Board of Directors.

All other terms and provisions of the Employment Agreement shall remain in full force and effect.

If the foregoing confirms our agreement, kindly execute this letter at the appropriate place provided below:

Very truly yours,

Network-1 Security Solutions, Inc.

By: /s/ Robert Russo

Robert Russo, Vice President

Agreed and Accepted:

/s/ Avi A. Fogel
- ---
Avi A. Fogel

EXHIBIT 10.2

EMPLOYMENT AGREEMENT dated as of May 18, 1998, between NETWORK-1 SECURITY SOLUTIONS, INC., a Delaware corporation with its principal office located at 909 Third Avenue, 9th Floor, New York, New York 10022 (the "Company"), and ROBERT OLSEN residing at 138 Ford Road, Sudbury, Massachusetts 01776 (the "Executive").

The Company desires to enter into this Agreement in order to assure itself of the service of Executive, and Executive desires to accept employment with the Company, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and obligations hereinafter set forth, the parties agree as follows:

SECTION 1. Employment. The Company hereby employs Executive, and Executive hereby accepts employment by the Company, upon the terms and conditions hereinafter set forth.

SECTION 2. Term. The employment of Executive hereunder shall be for a period commencing on the date hereof (the "Commencement Date") and ending on the third anniversary of the Commencement Date (the "Term") or such earlier date upon which the employment of the Executive shall terminate in accordance with the provisions hereof. The period commencing on the Commencement Date and ending on the date of termination of the Executive's employment hereunder shall be called the "Term of Employment" for Executive, and the date on which the Executive's employment hereunder shall terminate shall be called the "Termination Date."

SECTION 3. Duties. During the Term of Employment, Executive shall be employed as the Vice President of Product Management of the Company and shall perform such duties as are consistent therewith as the Board of Directors of the Company (the "Board") shall designate. Executive shall use his best efforts to perform well and faithfully the foregoing duties and responsibilities.

SECTION 4. Time to be Devoted to Employment. During the Term of Employment, Executive shall devote all of his business time, attention and energies to the business of the Company (except for vacations to which he is entitled pursuant to Section 6(b) and periods of illness or incapacity). During the Term of Employment, Executive shall not engage in any business activity which, in the reasonable judgment of the Board, conflicts with the duties of Executive hereunder, whether or not such activity is pursued for gain, profit or other pecuniary advantage.

SECTION 5. Compensation.

(a) The Company shall pay to Executive an annual base salary (the "Base Salary") during the Term of Employment of not less than $120,000 per annum, payable in such installments (but not less often than monthly) as is generally the policy of the Company with respect to its executive officers, which Base Salary shall be subject to such increases as the Board, in its sole discretion, may from time to time determine. Executive's Base Salary and performance shall be reviewed at least annually by the Board.

(b) In addition, to the Base Salary set forth in paragraph 5(a) above, during the term of employment, Executive shall be eligible to receive incentive compensation of up to $30,000 per annum (to be distributed s directed by the Board of Directors) based upon the Company's attainment of certain goals to be established by the Board and the Company's Chief Executive Officer in consultation with Executive.

(c) On the Commencement Date the Company shall grant to the Executive an incentive stock option (the "Option") of ten (10) years' duration for the purchase of 95,000 shares (the "Shares") of the Company's Common Stock at an exercise price of $3.47 per share post-split per share. The Option shall vest as to 34% of the Shares covered thereby on the Commencement Date and an additional 22% of the Shares covered thereby on each

anniversary of the Commencement Date, conditioned only on the Executive's continued employment by the Company. The form of Option is attached as Exhibit A hereto.

SECTION 6. Business Expenses; Benefits.

(a) The Company shall reimburse Executive, in accordance with the practice from time to time for executive officers of the Company, for all reasonable and necessary expenses and other disbursements incurred by Executive for or on behalf of the Company in the performance of Executive's duties hereunder. Executive shall provide such appropriate documentation of expenses and disbursements as may from time to time be required by the Company.

(b) During the Term of Employment, Executive shall be entitled to four (4) weeks vacation per year.

(a) During the Term of Employment, Executive shall be entitled to participate in the group health, life and disability insurance benefits, and retirement plan benefits made available from time to time for its employees generally.

SECTION 7. Involuntary Termination.

(a) If Executive is incapacitated or disabled (such condition being hereinafter referred to as a "Disability") in a manner that would qualify Executive for benefits under the disability policy of the Company (the "Disability Policy"), the Term of Employment and employment of the Executive under this Agreement shall cease (such termination, as well as a termination under Section 7(b), being hereinafter referred to as an "Involuntary Termination") and Executive shall be entitled to receive the benefits payable under the Disability Policy and in accordance with Section 9 hereof.

(b) If Executive dies during the Term of Employment, the Term of Employment and Executive's employment hereunder shall cease as of the date of the Executive's death and Executive shall be entitled to receive the benefits payable in accordance with Section 9 hereof.

SECTION 8. Termination by the Company.

(a) Termination For Cause. The Company may terminate the Term of Employment and the employment of the Executive hereunder at any time for Cause (as hereinafter defined) (such termination being referred to herein as a "Termination For Cause") by giving Executive written notice of such termination, effective immediately upon the giving of such notice to the Executive. As used in this Agreement, "Cause" means the Executive's (a) commission of an act (i) constituting a felony or (ii) involving fraud, moral turpitude, theft or dishonesty which is not a felony and which materially adversely affects the Company or could reasonably be expected to materially adversely affect the Company, (b) repeated failure to be reasonably available to perform his duties, which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company, (c) repeated failure to follow the lawful directions of the Board, which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company, (d) material breach of any agreement with the Company (including any provisions of this or any agreement between Executive and the Company) which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company or (e) voluntary resignation (except as set forth in paragraph 9(d) hereof).

(b) Termination Other Than for Cause. The Company may terminate this Agreement and the employment of Executive other than for cause as defined in Section 8(a) above (such termination shall be defined as a "Termination Other Than for Cause") by giving Executive written notice of such termination, which notice

shall be effective upon the giving of such notice or such later date set forth therein.

SECTION 9. Effect of Termination.

(a) Upon the termination of the Term of Employment and Executive's employment hereunder due to Termination for Cause (as defined in Section 8(a) above), neither Executive nor his beneficiary or estate shall have any further rights or claims against the Company under this Agreement, except to receive (i) the unpaid portion, if any, of the Base Salary provided for in Section 5(a), computed on a pro rata basis to the Termination Date (based on the actual number of days elapsed over the actual number of days elapsed over the year in which such termination occurs), (ii) any unpaid accrued benefits of Executive, (iii) reimbursement for any expenses for which Executive shall not have been reimbursed as provided in Section 6(a), and (iv) Executive's rights under the vested portion of the Option.

(b) Upon the termination of Executive's employment hereunder due to an Involuntary Termination, neither Executive nor his beneficiary or estate shall have any further rights or claims against the Company under this Agreement except the right to receive (i) the amounts set forth in Section 9(a), and (ii)the vesting of all of the Options that would have vested in the year of Involuntary Termination and one-half of the Options that would have vested in the year following the year of Involuntary Termination.

(c) Upon the termination of Executive's employment upon a Termination Other Than for Cause (as defined in Section 8(b) above), neither Executive nor his beneficiary nor his estate shall have any rights or claims against the Company except to receive (i) the amounts set forth in 9(b) (including Options), and (ii) the lesser of (A) one year's Base Salary as in effect at the time of the Termination Other Than for Cause or (B) Executive's Base Salary for the balance of the term of this Agreement.

(d) For purposes of this Section 9, if Executive is asked to assume any duties or the material reduction of duties, either of which is substantially inconsistent with the position of Vice President of Product Management of the Company, Executive, upon 30 days notice to the Board of Directors setting forth in reasonable detail the respects in which Executive believes such assignment or duties are substantially inconsistent with the level of Executive's position, may resign from the Company and such resignation will be treated as a Termination Other Than For Cause pursuant to this Section 9.

SECTION 10. Insurance. The Company may, for its own benefit, in its sole discretion, maintain "key-man" life and disability insurance policies covering Executive. Executive will

cooperate with the Company and provide such information or other assistance as the Company may reasonably request in connection with the Company's obtaining and maintaining such policies.

SECTION 11. Disclosure of Information. Executive will not, either during the Term of Employment or at any time thereafter, divulge, publish, communicate, furnish or make accessible to anyone any knowledge or information with respect to the Company's confidential, secret or proprietary products, technology, methods, plans, materials and processes, or with respect to any other confidential, secret or proprietary aspects of the business, activities or products of the Company including, without limitation, (a) software programs, source code, object code, product development information, research and development projects or other technical data pertaining to the Company's products (whether or not subject to patent, trademark or copyright protection) or (b) any customer or client lists, telephone leads, prospects lists, sales figures and forecasts, purchase costs, financial projections, advertising and marketing plans and business strategies and plans; except as such items set forth in clauses (a) and (b) above may already be in the public domain through no fault of Employee (all of the foregoing items set forth in clauses (a) and (b) being referred to herein collectively as "Confidential Property"). Upon the termination of the Term of Employment, Executive shall return to the Company all property (including Confidential Property) of the Company (or any subsidiary or affiliate thereof) then in the possession of Executive and all books, records, computer tapes or discs and all other material containing non-public information concerning the business, clients or affairs of the Company or any

subsidiary or affiliate thereof.

SECTION 12. Right to Inventions. Executive shall promptly disclose, grant and assign to the Company for its sole use and benefit any and all marks, designs, logos, inventions, improvements, technical information and suggestions relating in any way to the business conducted by the Company, which he may develop or which may be acquired by Executive during the Term of Employment (whether or not during usual working hours), together with all trademarks, patent applications, letters, patent, copyrights and reissues thereof that may at any time be granted for or upon any such mark, design, logo, invention, improvement or technical information (collectively, "Inventions"). In connection therewith, Executive shall (at the Company's sole cost and expense) take all actions reasonably necessary or desirable to assign and/or confirm the assignment of any Invention to the Company.

SECTION 13. Restrictive Covenant.

(a) The Company is in the business of developing, marketing, licensing and supporting network software security products and also provides consulting in network security, network design, troubleshooting and engineering (the "Business"). Executive acknowledges and recognizes that the Business has been conducted, and sales of its products have been made, throughout the United States, and Executive further acknowledges and recognizes the highly competitive nature of the industry in which the Business is involved. Accordingly, in consideration of the premises contained herein, the consideration to be received hereunder, stock options to be granted Executive, Executive shall not, during the Non-Competition Period (as defined below): (i) directly or indirectly engage, whether or not such engagement shall be as a partner, stockholder, affiliate or other participant, in any Competitive Business (as defined below), or represent in any way any Competitive Business, whether or not such engagement or representation shall be for profit, (ii) interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any other person or entity, including, without limitation, any customer, supplier, employee or consultant of the Company, (iii) induce any employee of the Company to terminate his employment with the Company or to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business), or (iv) affirmatively assist or induce any other person or entity to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business). Anything contained in this Section 13 to the contrary notwithstanding, an investment by Executive in any publicly traded company in which Executive and his affiliates exercise no operational or strategic control and which constitutes less than 5% of the capital of such entity shall not constitute a breach of this Section 13.

(b) As used herein, "Non-Competition Period" shall mean the period commencing on the date hereof and terminating on the Termination Date; provided, however, that if the Term of Employment shall have been terminated pursuant to Section 8 (a), then "Non-Competition Period" shall mean the period commencing on the date hereof and ending on the second anniversary of the Termination Date. "Competitive Business" shall mean any business in any State of the United States engaged in the development, marketing and licensing of network software security products, or in any other line of business in which the Company was engaged or had a formal plan to enter as of the Termination Date.

(c) Executive understands that the foregoing restrictions may limit his ability to earn a livelihood in a business similar to the business of the Company, but he nevertheless believes that he has received and will receive

sufficient consideration and other benefits as an employee of the Company and as otherwise provided hereunder and pursuant to other agreements between the Company and Executive to justify clearly such restrictions which, in any event (given his education, skills and ability), Executive does not believe would prevent him from earning a living.

SECTION 14. Enforcement; Severability; Etc. It is the desire and intent of the parties that the provisions of this Agreement shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated to be invalid or unenforceable, such provision shall be deemed amended to (a) delete therefrom the portion thus adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made or (b) otherwise to render it enforceable in such jurisdiction.

SECTION 15. Remedies. Executive acknowledges and understands that the provisions of this Agreement are of a special and unique nature, the loss of which cannot be adequately compensated for in damages by an action at law, and that the breach or threatened breach of the provisions of this Agreement would cause the Company irreparable harm. In the event of a breach or threatened breach by Executive of the provisions of this Agreement, the Company shall be entitled to an injunction restraining him from such breach. Nothing contained in this Agreement shall be construed as prohibiting the Company from or limiting the Company in pursuing any other remedies available for any breach or threatened breach of this Agreement.

SECTION 16. Notices. All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given and delivered if personally delivered or if sent by a nationally-recognized overnight courier, by telecopy, or by registered or certified mail, return receipt requested and postage prepaid, addressed as follows:

if to the Company, to: Network-1 Security Solutions, Inc.
22 Hollywood Drive
Chestnut Hill, MA 02167-3070
Attention: Avi Fogel, President
and Chief Executive Officer

with copies to: Bizar Martin & Taub, LLP
1350 Avenue of the Americas
29th Floor
New York, NY 10019
Telecopier:(212) 581-8958
Telephone: (212) 265-8600
Attention: Sam Schwartz, Esq.

if to Executive, to: Robert P. Olsen
138 Ford Road
Sudbury, Massachusetts 02167-3070

or to such other address as the party to whom notice is to be given may have furnished to the other party or parties in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of nationally-recognized overnight courier, on the next business day after the date when sent, (c) in the case of telecopy transmission, when received, and (d) in the case of mailing, on the third business day following that on which the piece of mail containing such communication is posted.

SECTION 17. Binding Agreement; Benefit. The provisions of this Agreement will be binding upon, and will inure to the benefit of, the respective heirs, legal representatives, successors and assigns of the parties.

SECTION 18. Governing Law. This Agreement will be governed by, construed and enforced in accordance with, the laws of the State of Massachusetts (without giving effect to principles of conflicts of laws).

SECTION 19. Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement must be in writing and shall not

operate or be construed as a waiver of any other breach.

SECTION 20. Entire Agreement; Amendments. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements or understandings between the parties with respect thereto. This Agreement may be amended only by an agreement in writing signed by the parties.

SECTION 21. Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 22. Assignment. This Agreement is personal in its nature and the parties shall not, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that the Company may assign this Agreement to any of its subsidiaries and affiliates.

SECTION 23. Gender. Any reference to the masculine gender shall be deemed to include the feminine and neuter genders unless the context otherwise requires.

SECTION 24. Counterparts. This Agreement may be executed in counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Employment Agreement as of the date first written above.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: /s/ Avi A. Fogel

Avi A. Fogel, President and
Chief Executive Officer

/s/ Robert P. Olsen

Robert P. Olsen

INCENTIVE STOCK OPTION

To: Robert P. Olsen
138 Ford Road, Sudbury, Massachusetts 01776
Address

Date of Grant: May 18, 1998

You are hereby granted an option (the "Option"), effective as of the date hereof, to purchase 95,000 shares of Common Stock, par value $.01 per share ("Common Stock"), of Network-1 Security Solutions, Inc. (the "Company") at a price of $3.47 per share pursuant to the Company's 1996 Stock Option Plan (the "Plan") adopted by the Company's Board of Directors effective March 7, 1996 and approved by the stockholders of the Company. Your option price is intended to equal at least the fair market value of the Company's Common Stock as of the date hereof; provided, however, that if, at the time this option is granted, you own stock possessing more than 10% of the total combined voting power of all shares of stock of the Company or any parent or subsidiary (an "Affiliate") of the Company (a "10% Shareholder"), your option price is intended to be at least 110% of the fair market value of the Company's Common Stock as of the date hereof.

This Option shall vest as follows: (i) as to 34% of the shares

underlying this Option on the date of this Option;(ii) as to the balance of 66% of the shares underlying this Option, 22% of such shares on each of the first three anniversary dates of the date of this Option, provided you are then an employee of the Company; (iii) as to 50% of the remaining shares underlying this Option if a Change in Control (as hereinafter defined) occurs within one year of the date of this Option, provided you are then an employee of the Company; (iv) as to all of the unvested portion of this Option if a Change of Control (as hereinafter defined) occurs more than one year after the date of this Option, provided you are then an employee of the Company.

The shares subject to this Option shall be adjusted for any change in the outstanding shares of the Common Stock of the Company by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Compensation Committee deems in its sole discretion to be similar circumstances. No fractional shares shall be issued or delivered.

This Option shall terminate and is not exercisable after the expiration of ten years from the date of its grant (five years from the date of grant if, at the time of the grant, you are a 10% Shareholder) (the "Scheduled Termination Date"), except if

terminated earlier as hereinafter provided (the "Termination Date").

A "Change of Control" shall be deemed to have occurred upon the happening of any of the following events:

(i) the acquisition by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended(the "Exchange Act"), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty (40%) percent or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors where such person, entity or group owned less than 5% of such voting power on the date of this Option; or

(ii) The shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (other than to a subsidiary or subsidiaries).

(iii) Any other event deemed to constitute a "Change in Control" by the Compensation Committee.

You may exercise your option as set forth in Section 7 of the Plan.

If the Company's Common Stock has not been registered under Section 12 of the Securities Exchange Act of 1934, the exercise of your option will not be effective unless and until you execute and deliver to the Company a Stock Restriction Agreement, in the form on file in the office of the Secretary of the Company.

Your Option will, to the extent not previously exercised by you, terminate thirty (30) days after the date on which your employment by the Company or Affiliate of the Company is terminated, whether such termination is voluntary or not, other than by reason of disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder, or death, in which case your Option will terminate six (6) months from the date of termination of employment due to

disability or death (but in no event later than the Scheduled Termination Date). After the date your employment is terminated, as aforesaid, you may exercise this Option only for the number of shares which you had a right to purchase and did not purchase on the date your employment terminated. If you are employed by an Affiliate of the Company, your employment shall be deemed to have terminated on the date your employer ceases to be an Affiliate of the Company, unless you are on that date transferred to the Company or another Affiliate of the Company. Your employment shall not be deemed to have terminated if you are transferred from the Company to an Affiliate, or vice versa, or from one Affiliate to another Affiliate.

If you die while employed by the Company or an Affiliate of the Company, your legatee(s), distributee(s), executor(s) or administrator(s), as the case may be, may, at any time within six (6) months after the date of your death (but in no event later than the Scheduled Termination Date), exercise the Option as to any shares which you had a right to purchase and did not purchase during your lifetime. If your employment with the Company, or an Affiliate is terminated by reason of your becoming disabled (within the meaning of Section 22(e)(3) of the Code and the regulations thereunder), you or your legal guardian or custodian may at any time within six (6) months after the date of such termination (but in no event later than the Scheduled Termination Date), exercise the Option as to any shares which you had a right to purchase and did not purchase prior to such termination. Your legatee, distributee, executor, administrator, guardian or custodian must present proof of his authority satisfactory to the Company prior to being allowed to exercise this Option.

This Option is not transferable otherwise than by will or the laws of descent and distribution, and is exercisable during your lifetime only by you, including, for this purpose, your legal guardian or custodian in the event of disability. Until the Option price has been paid in full pursuant to due exercise of this Option and the purchased shares are delivered to you, you do not have any rights as a shareholder of the Company. The Company reserves the right not to deliver to you the shares purchased by virtue of the exercise of this Option during any period of time in which the Company deems, in its sole discretion, that such delivery would violate a federal, state, local or securities exchange rule, regulation or law.

Notwithstanding anything to the contrary contained herein, this Option is not exercisable until all of the following events occur and during the following periods of time:

(a) Until this Option and the optioned shares are approved and/or registered with such federal, state and local regulatory bodies or agencies and securities exchanges as the Company may deem necessary or desirable; or

(b) During any period of time in which the Company deems that the exercisability of this Option, the offer to sell the shares optioned hereunder, or the sale thereof, may violate a federal, state, local or securities exchange rule, regulation or law, or may cause the Company to be legally obligated to issue or sell more shares than the Company is legally entitled to issue or sell.

The following two paragraphs shall be applicable if, on the date of exercise of this Option, the Common Stock to be purchased pursuant to such exercise has not been registered under the Securities Act of 1933, as amended, and under applicable state securities laws, and shall continue to be applicable for so long as such registration has not occurred:

(a) The optionee hereby agrees, warrants and represents that he will acquire the Common Stock to be issued hereunder for his own account for investment purposes only, and not with a view to, or in connection with, any resale or other distribution of any of such shares, except as hereafter permitted. The optionee further agrees that he will not at any time make any offer, sale, transfer, pledge or other disposition of such Common Stock to be issued hereunder without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel acceptable to the Company to the effect that the proposed transaction will be exempt from such registration. The optionee shall execute such instruments, representations, acknowledgements and agreements as the Company may, in its sole discretion, deem advisable to

avoid any violation of federal, state, local or securities exchange rule, regulation or law.

(b) The certificates for Common Stock to be issued to the optionee hereunder shall bear the following legend:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or under applicable state securities laws. The shares have been acquired for investment and may not be offered, sold, transferred, pledged or otherwise disposed of without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel

> acceptable to the Company that the proposed transaction will be exempt from such registration."

The foregoing legend shall be removed upon registration of the legended shares under the Securities Act of 1933, as amended, and under any applicable state laws or upon receipt of any opinion of counsel acceptable to the Company that said registration is no longer required.

The sole purpose of the agreements, warranties, representations and legend set forth in the two immediately preceding paragraphs is to prevent violations of the Securities Act of 1933, as amended, and any applicable state securities laws.

It is the intention of the Company and you that this option shall, if possible, be an "Incentive Stock Option" as that term is used in Section 422 of the Code and the regulations thereunder. In the event this Option is in any way inconsistent with the legal requirements of the Code or the regulations thereunder for an "Incentive Stock Option" this Option shall be deemed automatically amended as of the date hereof to conform to such legal requirements, if such conformity may be achieved by amendment.

This Option shall be subject to the terms of the Plan in effect on the date this Option is granted, which terms are hereby incorporated herein by reference and made a part hereof. In the event of any conflict between the terms of this Option and the terms of the Plan in effect on the date of this Option, the terms of the Plan shall govern. This Option constitutes the entire understanding between the Company and you with respect to the subject matter hereof and no amendment, modification or waiver of this Option, in whole or in part, shall be binding upon the Company unless in writing and signed by an appropriate officer of the Company. This Option and the performances of the parties hereunder shall be construed in accordance with and governed by the laws of the State of New York without regard to principles of conflict of law.

Please sign the copy of this Option and return it to the Company, thereby indicating your understanding of and agreement with its terms and conditions.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: _____

I hereby acknowledge receipt of a copy of the foregoing Stock Option and the Network-1 Security Solutions, Inc. 1996 Stock Option

Plan, and having read such documents, hereby signify my understanding of, and my agreement with, their terms and conditions.

_____ _____

(Signature) (Date)

Exhibit 10.3

EMPLOYMENT AGREEMENT dated as of May 19, 1998, between NETWORK-1 SECURITY SOLUTIONS, INC., a Delaware corporation with its principal office located at 909 Third Avenue, 9th Floor, New York, New York 10022 (the "Company"), and Murray P. Fish residing at 3 Wabanaki Way, Andover, MA 01810 (the "Executive").

The Company desires to enter into this Agreement in order to assure itself of the service of Executive, and Executive desires to accept employment with the Company, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and obligations hereinafter set forth, the parties agree as follows:

SECTION 1. Employment. The Company hereby employs Executive, and Executive hereby accepts employment by the Company, upon the terms and conditions hereinafter set forth.

SECTION 2. Term. The employment of Executive hereunder shall be for a period commencing on the date hereof (the "Commencement Date") and ending on the third anniversary of the Commencement Date (the "Term") or such earlier date upon which the employment of the Executive shall terminate in accordance with the provisions hereof. The period commencing on the Commencement Date and ending on the date of termination of the Executive's employment hereunder shall be called the "Term of Employment" for Executive, and the date on which the Executive's employment hereunder shall terminate shall be called the "Termination Date."

SECTION 3. Duties. During the Term of Employment, Executive shall be employed as the Chief Financial Officer of the Company and shall perform such duties as are consistent therewith as the Chief Executive Officer ("CEO") and the Board of Directors of the Company (the "Board") shall designate. Executive shall use his best efforts to perform well and faithfully the foregoing duties and responsibilities.

SECTION 4. Time to be Devoted to Employment. During the Term of Employment, Executive shall devote all of his business time, attention and energies to the business of the Company (except for vacations to which he is entitled pursuant to Section 6(b) and periods of illness or incapacity). During the Term of Employment, Executive shall not engage in any business activity which, in the reasonable judgment of the Board, conflicts with the duties of Executive hereunder, whether or not such activity is pursued for gain, profit or other pecuniary advantage.

SECTION 5. Compensation.

(a) The Company shall pay to Executive an annual base salary (the "Base Salary") during the Term of Employment of not less than $120,000 per annum, payable in such installments (but not less often than monthly) as is generally the policy of the Company with respect to its executive officers, which Base Salary shall be subject to such increases as the Board, in its sole discretion, may from time to time determine. Executive's Base Salary and performance shall be reviewed at least annually by the Board.

(b) In addition, to the Base Salary set forth in paragraph 5(a) above, during the term of employment, Executive shall be eligible to receive incentive compensation of up to $30,000 per annum (to be distributed as directed by the Board of Directors) based upon the Company's attainment of certain goals to be established by the Board and the CEO.

(c) On the Commencement Date the Company shall grant to the Executive an incentive stock option (the "Option") of ten (10) years' duration for the purchase of 94,234 shares (the "Shares") of the Company's Common Stock at an exercise price of $3.47 per share. The Option shall vest as to 34% of the Shares covered thereby on the Commencement Date and an additional 22% of the Shares covered thereby on each anniversary of the

Commencement Date, conditioned only on the Executive's continued employment by the Company. The form of Option is attached as Exhibit A hereto.

SECTION 6. Business Expenses; Benefits.

(a) The Company shall reimburse Executive, in accordance with the practice from time to time for executive officers of the Company, for all reasonable and necessary expenses and other disbursements incurred by Executive for or on behalf of the Company in the performance of Executive's duties hereunder. Executive shall provide such appropriate documentation of expenses and disbursements as may from time to time be required by the Company.

(b) During the Term of Employment, Executive shall be entitled to four (4) weeks vacation per year.

(a) During the Term of Employment, Executive shall be entitled to participate in the group health, life and disability insurance benefits, and retirement plan benefits made available from time to time for its employees generally.

SECTION 7. Involuntary Termination.

(a) If Executive is incapacitated or disabled (such condition being hereinafter referred to as a "Disability") in a manner that would qualify Executive for benefits under the disability policy of the Company (the "Disability Policy"), the Term of Employment and employment of the Executive under this Agreement shall cease (such termination, as well as a termination under Section 7(b), being hereinafter referred to as an "Involuntary Termination") and Executive shall be entitled to receive the benefits payable under the Disability Policy and in accordance with Section 9 hereof.

(b) If Executive dies during the Term of Employment, the Term of Employment and Executive's employment hereunder shall cease as of the date of the Executive's death and Executive shall be entitled to receive the benefits payable in accordance with Section 9 hereof.

SECTION 8. Termination by the Company.

(a) Termination For Cause. The Company may terminate the Term of Employment and the employment of the Executive hereunder at any time for Cause (as hereinafter defined) (such termination being referred to herein as a "Termination For Cause") by giving Executive written notice of such termination, effective immediately upon the giving of such notice to the Executive. As used in this Agreement, "Cause" means the Executive's (a) commission of an act (i) constituting a felony or (ii) involving fraud, moral turpitude, theft or dishonesty which is not a felony and which materially adversely affects the Company or could reasonably be expected to materially adversely affect the Company, (b) repeated failure to be reasonably available to perform his duties, which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company, (c) repeated failure to follow the lawful directions of the CEO or the Board, which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company, (d) material breach of any agreement with the Company (including any provisions of this or any agreement between Executive and the Company) which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company or (e) voluntary resignation (except as set forth in paragraph 9(d) hereof).

(b) Termination Other Than for Cause. The Company may terminate this Agreement and the employment of Executive other than for cause as defined in Section 8(a) above (such termination shall be defined as a "Termination Other Than for Cause") by giving Executive written notice of such termination, which notice

shall be effective upon the giving of such notice or such later date set forth therein.

SECTION 9. Effect of Termination.

(a) Upon the termination of the Term of Employment and Executive's employment hereunder due to Termination for Cause (as defined in Section 8(a) above), neither Executive nor his beneficiary or estate shall have any further rights or claims against the Company under this Agreement, except to receive (i) the unpaid portion, if any, of the Base Salary provided for in Section 5(a), computed on a pro rata basis to the Termination Date (based on the actual number of days elapsed over the actual number of days elapsed over the year in which such termination occurs), (ii) any unpaid accrued benefits of Executive, (iii) reimbursement for any expenses for which Executive shall not have been reimbursed as provided in Section 6(a), and (iv) Executive's rights under the vested portion of the Option.

(b) Upon the termination of Executive's employment hereunder due to an Involuntary Termination, neither Executive nor his beneficiary or estate shall have any further rights or claims against the Company under this Agreement except the right to receive (i) the amounts set forth in Section 9(a), and (ii)the vesting of all of the Options that would have vested in the year of Involuntary Termination and one-half of the Options that would have vested in the year following the year of Involuntary Termination.

(c) Upon the termination of Executive's employment upon a Termination Other Than for Cause (as defined in Section 8(b) above), neither Executive nor his beneficiary nor his estate shall have any rights or claims against the Company except to receive (i) the amounts set forth in 9(b) (including Options), and (ii) the lesser of (A) six month's Base Salary as in effect at the time of the Termination Other Than for Cause or (B) Executive's Base Salary for the balance of the term of this Agreement.

(d) For purposes of this Section 9, if Executive is asked to assume any duties or the material reduction of duties, either of which is substantially inconsistent with the position of Chief Financial Officer, Executive, upon 30 days notice to the Board of Directors setting forth in reasonable detail the respects in which Executive believes such assignment or duties are substantially inconsistent with the level of Executive's position, may resign from the Company and such resignation will be treated as a Termination Other Than For Cause pursuant to this Section 9.

SECTION 10. Insurance. The Company may, for its own benefit, in its sole discretion, maintain "key-man" life and

disability insurance policies covering Executive. Executive will cooperate with the Company and provide such information or other assistance as the Company may reasonably request in connection with the Company's obtaining and maintaining such policies.

SECTION 11. Disclosure of Information. Executive will not, either during the Term of Employment or at any time thereafter, divulge, publish, communicate, furnish or make accessible to anyone any knowledge or information with respect to the Company's confidential, secret or proprietary products, technology, methods, plans, materials and processes, or with respect to any other confidential, secret or proprietary aspects of the business, activities or products of the Company including, without limitation, (a) software programs, source code, object code, product development information, research and development projects or other technical data pertaining to the Company's products (whether or not subject to patent, trademark or copyright protection) or (b) any customer or client lists, telephone leads, prospects lists, sales figures and forecasts, purchase costs, financial projections, advertising and marketing plans and business strategies and plans; except as such items set forth in clauses (a) and (b) above may already be in the public domain through no fault of Employee (all of the foregoing items set forth in clauses (a) and (b) being referred to herein collectively as "Confidential Property"). Upon the termination of the Term of Employment, Executive shall return to the Company all property (including Confidential Property) of the Company (or any subsidiary or affiliate thereof) then in the possession of Executive and all books,

records, computer tapes or discs and all other material containing non-public information concerning the business, clients or affairs of the Company or any subsidiary or affiliate thereof.

SECTION 12. Right to Inventions. Executive shall promptly disclose, grant and assign to the Company for its sole use and benefit any and all marks, designs, logos, inventions, improvements, technical information and suggestions relating in any way to the business conducted by the Company, which he may develop or which may be acquired by Executive during the Term of Employment (whether or not during usual working hours), together with all trademarks, patent applications, letters, patent, copyrights and reissues thereof that may at any time be granted for or upon any such mark, design, logo, invention, improvement or technical information (collectively, "Inventions"). In connection therewith, Executive shall (at the Company's sole cost and expense) take all actions reasonably necessary or desirable to assign and/or confirm the assignment of any Invention to the Company.

SECTION 13. Restrictive Covenant.

(a) The Company is in the business of developing, marketing, licensing and supporting network software security products and also provides consulting in network security, network design, troubleshooting and engineering (the "Business"). Executive acknowledges and recognizes that the Business has been conducted, and sales of its products have been made, throughout the United States, and Executive further acknowledges and recognizes the highly competitive nature of the industry in which the Business is involved. Accordingly, in consideration of the premises contained herein, the consideration to be received hereunder, stock options to be granted Executive, Executive shall not, during the Non-Competition Period (as defined below): (i) directly or indirectly engage, whether or not such engagement shall be as a partner, stockholder, affiliate or other participant, in any Competitive Business (as defined below), or represent in any way any Competitive Business, whether or not such engagement or representation shall be for profit, (ii) interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any other person or entity, including, without limitation, any customer, supplier, employee or consultant of the Company, (iii) induce any employee of the Company to terminate his employment with the Company or to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business), or (iv) affirmatively assist or induce any other person or entity to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business). Anything contained in this Section 13 to the contrary notwithstanding, an investment by Executive in any publicly traded company in which Executive and his affiliates exercise no operational or strategic control and which constitutes less than 5% of the capital of such entity shall not constitute a breach of this Section 13.

(b) As used herein, "Non-Competition Period" shall mean the period commencing on the date hereof and terminating on the Termination Date; provided, however, that if the Term of Employment shall have been terminated pursuant to Section 8 (a), then "Non-Competition Period" shall mean the period commencing on the date hereof and ending on the second anniversary of the Termination Date. "Competitive Business" shall mean any business in any State of the United States engaged in the development, marketing and licensing of network software security products, or in any other line of business in which the Company was engaged or had a formal plan to enter as of the Termination Date.

(c) Executive understands that the foregoing restrictions may limit his ability to earn a livelihood in a

business similar to the business of the Company, but he nevertheless believes that he has received and will receive sufficient consideration and other benefits as an employee of the Company and as otherwise provided hereunder

and pursuant to other agreements between the Company and Executive to justify clearly such restrictions which, in any event (given his education, skills and ability), Executive does not believe would prevent him from earning a living.

SECTION 14. Enforcement; Severability; Etc. It is the desire and intent of the parties that the provisions of this Agreement shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated to be invalid or unenforceable, such provision shall be deemed amended to (a) delete therefrom the portion thus adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made or (b) otherwise to render it enforceable in such jurisdiction.

SECTION 15. Remedies. Executive acknowledges and understands that the provisions of this Agreement are of a special and unique nature, the loss of which cannot be adequately compensated for in damages by an action at law, and that the breach or threatened breach of the provisions of this Agreement would cause the Company irreparable harm. In the event of a breach or threatened breach by Executive of the provisions of this Agreement, the Company shall be entitled to an injunction restraining him from such breach. Nothing contained in this Agreement shall be construed as prohibiting the Company from or limiting the Company in pursuing any other remedies available for any breach or threatened breach of this Agreement.

SECTION 16. Notices. All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given and delivered if personally delivered or if sent by a nationally-recognized overnight courier, by telecopy, or by registered or certified mail, return receipt requested and postage prepaid, addressed as follows:

if to the Company, to: Network-1 Security Solutions, Inc.
22 Hollywood Drive
Chestnut Hill, MA 02167-3070
Attention: Avi Fogel, President
and Chief Executive Officer

with copies to: Bizar Martin & Taub, LLP
1350 Avenue of the Americas
29th Floor
New York, NY 10019
Fax: (212) 581-8958
Telephone: (212) 265-8600
Attention: Sam Schwartz, Esq.

if to Executive, to: Murray P. Fish
3 Wabanaki Way
Andover, MA 01810

or to such other address as the party to whom notice is to be given may have furnished to the other party or parties in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of nationally-recognized overnight courier, on the next business day after the date when sent, (c) in the case of telecopy transmission, when received, and (d) in the case of mailing, on the third business day following that on which the piece of mail containing such communication is posted.

SECTION 17. Binding Agreement; Benefit. The provisions of this Agreement will be binding upon, and will inure to the benefit of, the respective heirs, legal representatives, successors and assigns of the parties.

SECTION 18. Governing Law. This Agreement will be governed by,

construed and enforced in accordance with, the laws of the State of Massachusetts (without giving effect to principles of conflicts of laws).

SECTION 19. Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement must be in writing and shall not operate or be construed as a waiver of any other breach.

SECTION 20. Entire Agreement; Amendments. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements or understandings between the parties with respect thereto. This Agreement may be amended only by an agreement in writing signed by the parties.

SECTION 21. Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 22. Assignment. This Agreement is personal in its nature and the parties shall not, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that the Company may assign this Agreement to any of its subsidiaries and affiliates.

SECTION 23. Gender. Any reference to the masculine gender shall be deemed to include the feminine and neuter genders unless the context otherwise requires.

SECTION 24. Counterparts. This Agreement may be executed in counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Employment Agreement as of the date first written above.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: /s/ Avi A. Fogel

Avi A. Fogel, President and
Chief Executive Officer

/s/ Murray P. Fish

Murray P. Fish

INCENTIVE STOCK OPTION

To: Murray P. Fish

Address

Date of Grant: May 19, 1997

You are hereby granted an option (the "Option"), effective as of the date hereof, to purchase 94,234 shares of Common Stock, par value $.01 per share ("Common Stock"), of Network-1 Security Solutions, Inc. (the "Company") at a price of $3.47 per share pursuant to the Company's 1996 Stock Option Plan (the "Plan") adopted by the Company's Board of Directors and approved by

the stockholders of the Company on March 7, 1996. Your option price is intended to equal at least the fair market value of the Company's Common Stock as of the date hereof; provided, however, that if, at the time this option is granted, you own stock possessing more than 10% of the total combined voting power of all shares of stock of the Company or any parent or subsidiary (an "Affiliate") of the Company (a "10% Shareholder"), your option price is intended to be at least 110% of the fair market value of the Company's Common Stock as of the date hereof.

This Option shall vest as follows: (i) as to 34% of the shares underlying the Option on the date of this Option;(ii) as to the balance of 66% of the shares underlying the Option, 22% of such shares on each of the first three anniversary dates of the date of this Option, provided the Optionee is then an employee of the Company; (iii) as to 50% of the remaining shares underlying the Option if a Change in Control (as hereinafter defined) occurs within one year of the date of this Option, provided the Optionee is then an employee of the Company; (iv) as to all of the unvested portion of this Option if a Change of Control (as hereinafter defined) occurs more than one year after the date of this Option, provided the Optionee is then an employee of the Company.

The shares subject to this Option shall be adjusted for any change in the outstanding shares of the Common Stock of the Company by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Compensation Committee deems in its sole discretion to be similar circumstances. No fractional shares shall be issued or delivered.

This Option shall terminate and is not exercisable after the expiration of ten years from the date of its grant (five years from the date of grant if, at the time of the grant, you are a 10% Shareholder) (the "Scheduled Termination Date"), except if

terminated earlier as hereinafter provided (the "Termination Date").

A "change of control" shall be deemed to have occurred upon the happening of any of the following events:

(i) the acquisition by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended(the "Exchange Act"), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty (40%) percent or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors where such person, entity or group owned less than 5% of such voting power on the date of this Option; or

(ii) The shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (other than to a subsidiary or subsidiaries).

(iii) Any other event deemed to constitute a "change in control" by the Compensation Committee.

You may exercise your option as set forth in Section 7 of the Plan.

If the Company's Common Stock has not been registered under Section 12 of the Securities Exchange Act of 1934, the exercise of your option will not be effective unless and until you execute and deliver to the Company a Stock

Restriction Agreement, in the form on file in the office of the Secretary of the Company.

Your Option will, to the extent not previously exercised by you, terminate thirty (30) days after the date on which your employment by the Company or Affiliate of the Company is terminated, whether such termination is voluntary or not, other than by reason of disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder, or death, in which case your Option will terminate six (6) months from the date of termination of employment due to disability or death (but in no event later than the Scheduled Termination Date). After the date your employment is terminated, as aforesaid, you may exercise this Option only for the number of shares which you had a right to purchase and did not purchase on the date your employment terminated. If you are employed by an Affiliate of the Company, your employment shall be deemed to have terminated on the date your employer ceases to be an Affiliate of the Company, unless you are on that date transferred to the Company or another Affiliate of the Company. Your employment shall not be deemed to have terminated if you are transferred from the Company to an Affiliate, or vice versa, or from one Affiliate to another Affiliate.

If you die while employed by the Company or an Affiliate of the Company, your legatee(s), distributee(s), executor(s) or administrator(s), as the case may be, may, at any time within six (6) months after the date of your death (but in no event later than the Scheduled Termination Date), exercise the Option as to any shares which you had a right to purchase and did not purchase during your lifetime. If your employment with the Company, or an Affiliate is terminated by reason of your becoming disabled (within the meaning of Section 22(e)(3) of the Code and the regulations thereunder), you or your legal guardian or custodian may at any time within six (6) months after the date of such termination (but in no event later than the Scheduled Termination Date), exercise the Option as to any shares which you had a right to purchase and did not purchase prior to such termination. Your legatee, distributee, executor, administrator, guardian or custodian must present proof of his authority satisfactory to the Company prior to being allowed to exercise this Option.

This Option is not transferable otherwise than by will or the laws of descent and distribution, and is exercisable during your lifetime only by you, including, for this purpose, your legal guardian or custodian in the event of disability. Until the Option price has been paid in full pursuant to due exercise of this Option and the purchased shares are delivered to you, you do not haveany rights as a shareholder of the Company. The Company reserves the right not to deliver to you the shares purchased by virtue of the exercise of this Option during any period of time in which the Company deems, in its sole discretion, that such delivery would violate a federal, state, local or securities exchange rule, regulation or law.

Notwithstanding anything to the contrary contained herein, this Option is not exercisable until all of the following events occur and during the following periods of time:

(a) Until this Option and the optioned shares are approved and/or registered with such federal, state and local regulatory bodies or agencies and securities exchanges as the Company may deem necessary or desirable; or

(b) During any period of time in which the Company deems that the exercisability of this Option, the offer to sell the shares optioned hereunder, or the sale thereof, may violate a federal, state, local or securities exchange rule, regulation or law, or may cause the Company to be legally obligated to issue or sell more shares than the Company is legally entitled to issue or sell.

The following two paragraphs shall be applicable if, on the date of exercise of this Option, the Common Stock to be purchased pursuant to such

exercise has not been registered under the Securities Act of 1933, as amended, and under applicable state securities laws, and shall continue to be applicable for so long as such registration has not occurred:

(a) The optionee hereby agrees, warrants and represents that he will acquire the Common Stock to be issued hereunder for his own account for investment purposes only, and not with a view to, or in connection with, any resale or other distribution of any of such shares, except as hereafter permitted. The optionee further agrees that he will not at any time make any offer, sale, transfer, pledge or other disposition of such Common Stock to be issued hereunder without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel acceptable to the Company to the effect that the proposed transaction will be exempt from such registration. The optionee shall execute such instruments, representations, acknowledgements and agreements as the Company may, in its sole discretion, deem advisable to avoid any violation of federal, state, local or securities exchange rule, regulation or law.

(b) The certificates for Common Stock to be issued to the optionee hereunder shall bear the following legend:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or under applicable state securities laws. The shares have been acquired for investment and may not be offered, sold, transferred, pledged or otherwise disposed of without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel

> acceptable to the Company that the proposed transaction will be exempt from such registration."

The foregoing legend shall be removed upon registration of the legended shares under the Securities Act of 1933, as amended, and under any applicable state laws or upon receipt of any opinion of counsel acceptable to the Company that said registration is no longer required.

The sole purpose of the agreements, warranties, representations and legend set forth in the two immediately preceding paragraphs is to prevent violations of the Securities Act of 1933, as amended, and any applicable state securities laws.

It is the intention of the Company and you that this option shall, if possible, be an "Incentive Stock Option" as that term is used in Section 422 of the Code and the regulations thereunder. In the event this Option is in any way inconsistent with the legal requirements of the Code or the regulations thereunder for an "Incentive Stock Option" this Option shall be deemed automatically amended as of the date hereof to conform to such legal requirements, if such conformity may be achieved by amendment.

This Option shall be subject to the terms of the Plan in effect on the date this Option is granted, which terms are hereby incorporated herein by reference and made a part hereof. In the event of any conflict between the terms of this Option and the terms of the Plan in effect on the date of this Option, the terms of the Plan shall govern. This Option constitutes the entire understanding between the Company and you with respect to the subject matter hereof and no amendment, modification or waiver of this Option, in whole or in part, shall be binding upon the Company unless in writing and signed by an appropriate officer of the Company. This Option and the performances of the parties hereunder shall be construed in accordance with and governed by the laws of the State of New York without regard to principles of conflict of law.

Please sign the copy of this Option and return it to the Company, thereby indicating your understanding of and agreement with its terms and conditions.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: _____

I hereby acknowledge receipt of a copy of the foregoing Stock Option and the Network-1 Security Solutions, Inc. 1996 Stock Option

Plan, and having read such documents, hereby signify my understanding of, and my agreement with, their terms and conditions.

- ---------- ----------
(Signature) (Date)

Exhibit 10.4

EMPLOYMENT AGREEMENT dated as of June 30, 1998, between NETWORK-1 SECURITY SOLUTIONS, INC., a Delaware corporation with its principal office located at 909 Third Avenue, 9th Floor, New York, New York 10022 (the "Company"), and WILLIAM HANCOCK residing at 4907 Wareham Drive, Arlington, Texas 76017 (the "Executive").

The Company desires to enter into this Agreement in order to assure itself of the service of Executive, and Executive desires to accept employment with the Company, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and obligations hereinafter set forth, the parties agree as follows:

SECTION 1. Employment. The Company hereby employs Executive, and Executive hereby accepts employment by the Company, upon the terms and conditions hereinafter set forth.

SECTION 2. Term. The employment of Executive hereunder shall be for a period commencing on the date hereof (the "Commencement Date") and ending on the third anniversary of the Commencement Date (the "Term") or such earlier date upon which the employment of the Executive shall terminate in accordance with the provisions hereof. The period commencing on the Commencement Date and ending on the date of termination of the Executive's employment hereunder shall be called the "Term of Employment" for Executive, and the date on which the Executive's employment hereunder shall terminate shall be called the "Termination Date."

SECTION 3. Duties. During the Term of Employment, Executive shall be employed as Chief Technology Officer of the Company and shall perform such duties as are consistent therewith as the Chief Executive Officer ("CEO") and the Board of Directors (the "Board") of the Company shall designate. Executive shall use his best efforts to perform well and faithfully the foregoing duties and responsibilities.

SECTION 4. Time to be Devoted to Employment. During the Term of Employment, Executive shall devote all of his business time, attention and energies to the business of the Company (except for writing articles for magazines and publishing books, vacations to which he is entitled pursuant to Section 6(b) and periods of illness or incapacity). During the Term of Employment, Executive shall not engage in any business activity which, in the reasonable judgment of the Board, conflicts with the duties of Executive hereunder, whether or not such activity is pursued for gain, profit or other pecuniary advantage.

SECTION 5. Compensation.

(a) The Company shall pay to Executive an annual base salary (the "Base Salary") during the Term of Employment of $160,000 per annum, payable in such installments (but not less often than monthly) as is generally the policy of the Company with respect to its executive officers, which Base Salary shall be subject to such increases as the Board, in its sole discretion, may from time to time determine.

SECTION 6. Business Expenses; Benefits.

(a) The Company shall reimburse Executive, in accordance with the practice from time to time for executive officers of the Company, for all reasonable and necessary expenses and other disbursements incurred by Executive for or on behalf of the Company in the performance of Executive's duties hereunder. Executive shall provide such appropriate documentation of expenses and disbursements as may from time to time be required by the Company.

(b) During the Term of Employment, Executive shall be entitled to four (4) weeks vacation per year.

(c) During the Term of Employment, Executive shall be entitled to participate in the group health, life and disability insurance benefits, and

retirement plan benefits made available from time to time for its employees generally.

SECTION 7. Involuntary Termination.

(a) If Executive is incapacitated or disabled (such condition being hereinafter referred to as a "Disability") in a manner that would qualify Executive for benefits under the disability policy of the Company (the "Disability Policy"), the Term of Employment and employment of the Executive under this Agreement shall cease (such termination, as well as a termination under Section 7(b), being hereinafter referred to as an "Involuntary Termination") and Executive shall be entitled to receive the benefits payable under the Disability Policy and in accordance with Section 9 hereof.

(b) If Executive dies during the Term of Employment, the Term of Employment and Executive's employment hereunder shall cease as of the date of the Executive's death and Executive shall be entitled to receive the benefits payable in accordance with Section 9 hereof.

SECTION 8. Termination by the Company.

(a) Termination For Cause. The Company may terminate the Term of Employment and the employment of the Executive hereunder at any time for Cause (as hereinafter defined) (such termination being referred to herein as a "Termination For Cause") by giving Executive written notice of such termination, effective immediately upon the giving of such notice to the Executive. As used in this Agreement, "Cause" means the Executive's (a) commission of an act (i) constituting a felony or (ii) involving fraud, moral turpitude, theft or dishonesty which is not a felony and which materially adversely affects the Company or could reasonably be expected to materially adversely affect the Company, (b) repeated failure to be reasonably available to perform his duties, which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company, (c) repeated failure to follow the lawful directions of the Board or the CEO, which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company, (d) material breach of any agreement with the Company (including any provisions of this or any agreement between Executive and the Company) which, if curable, shall not have been cured within 30 business days of written notice thereof from the Company or (e) voluntary resignation (except as set forth in paragraph 9(d) hereof).

(b) Termination Other Than for Cause. The Company may terminate this Agreement and the employment of Executive other than for cause as defined in Section 8(a) above (such termination shall be defined as a "Termination Other Than for Cause") by giving Executive written notice of such termination, which notice shall be effective upon the giving of such notice or such later date set forth therein.

SECTION 9. Effect of Termination.

(a) Upon the termination of the Term of Employment and Executive's employment hereunder due to Termination for Cause (as defined in Section 8(a) above), neither Executive nor his beneficiary or estate shall have any further rights or claims against the Company under this Agreement, except to receive (i) the unpaid portion, if any, of the Base Salary provided for in Section 5(a), computed on a pro rata basis to the Termination Date (based on the actual number of days elapsed over the actual number of days elapsed over the year in which such termination occurs), (ii) any unpaid accrued benefits of Executive and (iii) reimbursement for any expenses for which Executive shall not have been reimbursed as provided in Section 6(a).

(b) Upon the termination of Executive's employment hereunder due to an Involuntary Termination, neither Executive nor

his beneficiary or estate shall have any further rights or claims against the Company under this Agreement except the right to receive the amounts set forth in Section 9(a).

(c) Upon the termination of Executive's employment upon a Termination Other Than for Cause (as defined in Section 8(b) above), neither Executive nor his beneficiary nor his estate shall have any rights or claims against the Company except to receive (i) the amounts set forth in 9(a), and (ii) the lesser of (A) six months Base Salary as in effect at the time of the Termination Other Than for Cause or (B) Executive's Base Salary for the balance of the term of this Agreement.

(d) For purposes of this Section 9, if Executive is asked to assume any duties or the material reduction of duties, either of which is substantially inconsistent with the position of Chief Technology Officer of the Company, Executive, upon 30 days notice to the Chief Executive Officer and the Board of Directors setting forth in reasonable detail the respects in which Executive believes such assignment or duties are substantially inconsistent with the level of Executive's position, may resign from the Company and such resignation will be treated as a Termination Other Than For Cause pursuant to this Section 9.

(e) Upon termination of Executive's employment for Cause in accordance with Section 8(a) hereof, the Company shall have an option to repurchase (the "Repurchase Option") 50% of the shares of common stock (after giving effect to the exercise of all outstanding options and warrants and the conversion or exchange of outstanding securities into common stock) of the Company then owned by Executive or any of his Affiliates at a purchase price equal to $1.00 per share. The Company shall have the right to exercise the Repurchase Option within 30 days of the effective date of termination of Executive's employment for Cause in accordance with Section 8 hereof. For purposes herein Affiliates shall be defined as (i) any entity controlled by or under common control with Executive or (ii) the spouse, lineal descendant, estate or a trust for the benefit of Executive.

SECTION 10. Insurance. The Company may, for its own benefit, in its sole discretion, maintain "key-man" life and disability insurance policies covering Executive. Executive will cooperate with the Company and provide such information or other assistance as the Company may reasonably request in connection with the Company's obtaining and maintaining such policies.

SECTION 11. Disclosure of Information. Executive will not, either during the Term of Employment or at any time thereafter, divulge, publish, communicate, furnish or make accessible to anyone any knowledge or information with respect to the Company's confidential, secret or proprietary products,

technology, methods, plans, materials and processes, or with respect to any other confidential, secret or proprietary aspects of the business, activities or products of the Company including, without limitation, (a) software programs, source code, object code, product development information, research and development projects or other technical data pertaining to the Company's products (whether or not subject to patent, trademark or copyright protection) or (b) any customer or client lists, telephone leads, prospects lists, sales figures and forecasts, purchase costs, financial projections, advertising and marketing plans and business strategies and plans; except as such items set forth in clauses (a) and (b) above may already be in the public domain through no fault of Employee (all of the foregoing items set forth in clauses (a) and (b) being referred to herein collectively as "Confidential Property"). Upon the termination of the Term of Employment, Executive shall return to the Company all property (including Confidential Property) of the Company (or any subsidiary or affiliate thereof) then in the possession of Executive and all books, records, computer tapes or discs and all other material containing non-public information concerning the business, clients or affairs of the Company or any subsidiary or affiliate thereof.

SECTION 12. Right to Inventions. Executive shall promptly disclose, grant and assign to the Company for its sole use and benefit any and all marks, designs, logos, inventions, improvements, technical information and suggestions relating in any way to the business conducted by the Company, which

he may develop or which may be acquired by Executive during the Term of Employment (whether or not during usual working hours), together with all trademarks, patent applications, letters, patent, copyrights and reissues thereof that may at any time be granted for or upon any such mark, design, logo, invention, improvement or technical information (collectively, "Inventions"). In connection therewith, Executive shall (at the Company's sole cost and expense) take all actions reasonably necessary or desirable to assign and/or confirm the assignment of any Invention to the Company.

SECTION 13. Restrictive Covenant.

(a) The Company is in the business of developing, marketing, licensing and supporting network software security products and also provides consulting in network security, network design, troubleshooting and engineering (the "Business"). Executive acknowledges and recognizes that the Business has been conducted, and sales of its products have been made, throughout the United States, and Executive further acknowledges and recognizes the highly competitive nature of the industry in which the Business is involved. Accordingly, in consideration of the premises contained herein, the consideration to be received

hereunder, stock options to be granted Executive, Executive shall not, during the Non-Competition Period (as defined below): (i) directly or indirectly engage, whether or not such engagement shall be as a partner, stockholder, affiliate or other participant, in any Competitive Business (as defined below), or represent in any way any Competitive Business, whether or not such engagement or representation shall be for profit, (ii) interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any other person or entity, including, without limitation, any customer, supplier, employee or consultant of the Company, (iii) induce any employee of the Company to terminate his employment with the Company or to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business), or (iv) affirmatively assist or induce any other person or entity to engage in any Competitive Business in any manner described in the foregoing clause (i) (as well as an officer or director of any Competitive Business). Anything contained in this Section 13 to the contrary notwithstanding, an investment by Executive in any publicly traded company in which Executive and his affiliates exercise no operational or strategic control and which constitutes less than 5% of the capital of such entity shall not constitute a breach of this Section 13.

(b) As used herein, "Non-Competition Period" shall mean the period commencing on the date hereof and terminating on the Termination Date; provided, however, that if the Term of Employment shall have been terminated pursuant to Section 8 (a), then "Non-Competition Period" shall mean the period commencing on the date hereof and ending on the second anniversary of the Termination Date. "Competitive Business" shall mean any business in any State of the United States engaged in the development, marketing and licensing of network software security products, or in any other line of business in which the Company was engaged or had a formal plan to enter as of the Termination Date; provided, however, during the period beginning on the Termination Date and ending on the second anniversary thereof, Executive shall not be precluded from engaging in consulting services in the computer industry including, but not limited to, network design, troubleshooting and engineering.

(c) Executive understands that the foregoing restrictions may limit his ability to earn a livelihood in a business similar to the business of the Company, but he nevertheless believes that he has received and will receive sufficient consideration and other benefits as an employee of the Company and as otherwise provided hereunder and pursuant to other agreements between the Company and Executive to justify clearly such restrictions which, in any event (given his education, skills and ability), Executive does not believe would prevent him from earning a living.

SECTION 14. Enforcement; Severability; Etc. It is the desire and intent of the parties that the provisions of this Agreement shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated to be invalid or unenforceable, such provision shall be deemed amended to (a) delete therefrom the portion thus adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made or (b) otherwise to render it enforceable in such jurisdiction.

SECTION 15. Remedies. Executive acknowledges and understands that the provisions of this Agreement are of a special and unique nature, the loss of which cannot be adequately compensated for in damages by an action at law, and that the breach or threatened breach of the provisions of this Agreement would cause the Company irreparable harm. In the event of a breach or threatened breach by Executive of the provisions of this Agreement, the Company shall be entitled to an injunction restraining him from such breach. Nothing contained in this Agreement shall be construed as prohibiting the Company from or limiting the Company in pursuing any other remedies available for any breach or threatened breach of this Agreement.

SECTION 16. Notices. All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given and delivered if personally delivered or if sent by a nationally-recognized overnight courier, by telecopy, or by registered or certified mail, return receipt requested and postage prepaid, addressed as follows:

if to the Company, to: Network-1 Security Solutions, Inc.

909 Third Avenue, 9th Floor
New York, New York 10022
Fax: (212) 293-3090
Telephone: (212) 293-3068
Attention: Avi Fogel, President
and Chief Executive Officer

with copies to: Bizar Martin & Taub, LLP
1350 Avenue of the Americas
29th Floor
New York, NY 10019
Fax: (212) 581-8958
Telephone: (212) 265-8600
Attention: Sam Schwartz, Esq.

if to Executive, to: William Hancock
4907 Wareham Drive
Arlington, Texas 76017

or to such other address as the party to whom notice is to be given may have furnished to the other party or parties in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of nationally-recognized overnight courier, on the next business day after the date when sent, (c) in the case of telecopy transmission, when received, and (d) in the case of mailing, on the third business day following that on which the piece of mail containing such communication is posted.

SECTION 17. Binding Agreement; Benefit. The provisions of this Agreement will be binding upon, and will inure to the benefit of, the respective heirs, legal representatives, successors and assigns of the parties.

SECTION 18. Governing Law. This Agreement will be governed by, construed and enforced in accordance with, the laws of the State of Massachusetts (without giving effect to principles of conflicts of laws).

SECTION 19. Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement must be in writing and shall not operate or be construed as a waiver of any other breach.

SECTION 20. Entire Agreement; Amendments. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements or understandings between the parties with respect thereto. This Agreement may be amended only by an agreement in writing signed by the parties.

SECTION 21. Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 22. Assignment. This Agreement is personal in its nature and the parties shall not, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that the Company may assign this Agreement to any of its subsidiaries and affiliates.

SECTION 23. Gender. Any reference to the masculine gender shall be deemed to include the feminine and neuter genders unless the context otherwise requires.

SECTION 24. Counterparts. This Agreement may be executed in counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Employment Agreement as of the date first written above.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: /s/ Avi A. Fogel

Avi A. Fogel, President and
Chief Executive Officer

/s/ William Hancock

William Hancock

Exhibit 10.5

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT made as of this 4th day of April, 1994, by and between NETWORK-1 SOFTWARE & TECHNOLOGY, INC., a Delaware corporation with a principal place of business at 33-20 28th Street, Long Island City, NY 11101 (hereinafter referred to as the "Company") and ROBERT RUSSO, residing at 33-20 28th Street, Long Island City, NY 11106 (hereinafter referred to as "Executive").

W I T N E S S E T H:

WHEREAS, Executive is President and Chief Operating Officer of the Company; and

WHEREAS, Executive's services have and will continue to constitute a major factor in the growth and development of the Company; and

WHEREAS, the Company desires to employ and retain the experience, ability and services of Executive as President and Chief Operating Officer;

NOW, THEREFORE, it is mutually agreed by and between the parties hereto as follows:

1. EMPLOYMENT

The Company hereby agrees to employ Executive as its President and Chief Operating Officer and Executive hereby accepts such employment subject to and upon the terms and conditions of this Agreement.

2. DUTIES

Executive shall, during the term of his employment with the

Company, devote his full business time and efforts to the affairs of the Company and shall perform such functions consistent with such office as the Board of Directors of the Company may reasonably request.

3. COMPENSATION

As compensation for his services hereunder, the Company shall pay Executive, a salary payable bi-weekly in the amount of $145,000 per annum for the first year of Executive's employment; and for each year thereafter at a rate equal to ten (10%) percent above the previous year's salary. Executive may also receive such bonus compensation as the Board of Directors, in its sole discretion, may determine; provided that as long as a designee of the Purchasers (as defined in the Stock Purchase Agreement dated as of April ___, 1994, among the Company and such Purchasers) (the "Purchasers Designee") is a member of the Board of Directors of the Company, any such bonus compensation shall be approved by such Purchasers Designee.

4. REIMBURSEMENT OF EXPENSES

The Company shall also reimburse Executive for all reasonable expenses incurred in connection with his performance of services hereunder, including, but not limited to, expenses for business travel, entertainment and meals, upon Executive's presentation of an itemized account of such expenditures. Executive's substantiation of such expenses shall be made in a manner acceptable to the Company and as required by the Internal Revenue Service.

5. TERM

This Agreement shall be for a term of three (3) years commencing upon the date hereof, unless sooner terminated pursuant to the terms herein.

6. TERMINATION

The Company shall have the right to terminate this Agreement for cause if Executive shall commit any of the following acts of default (the "Act(s) of Default"):

(i) Executive shall have materially breached any of the provisions or covenants set forth herein; or

(ii) Executive shall have committed any material act of malfeasance, disloyalty or breach of trust against the Company; or

(iii) Executive shall have committed any act of gross negligence or bad faith in the performance of his duties and obligations hereunder.

In the event the Company elects to terminate this Agreement as set forth above, the Company shall send written notice of termination to Executive describing the action of Executive constituting the Act of Default, and this Agreement shall terminate ten (10) days after the date of postmark of such written notice. In the event this Agreement is terminated for cause pursuant to this paragraph, Executive shall not be entitled to receive any compensation or additional benefits pursuant to Sections 3 and 7 hereof after the date of termination. Nothing contained in this Agreement shall be deemed to limit any other rights the Company may have to terminate Executive's employment hereunder upon any ground permitted by law.

7. ADDITIONAL BENEFITS

Nothing contained herein shall be deemed to limit or affect the right of Executive to receive other forms of additional compensation or to participate in any retirement, disability, profit sharing, stock option, cash bonus or other plan or arrangement, or in any other benefits now or hereafter provided by the Company for executives of similar position.

8. DEATH OR DISABILITY

(a) In the event that Executive shall become incapacitated by reason of mental or physical disability or otherwise during the term of this Agreement so that he is prevented from performing his principal duties and services hereunder for a period of four (4) consecutive months, or for shorter periods aggregating four (4) months in any twelve (12) month period, the Company shall have the right to terminate this Agreement by sending written notice of termination to Executive, and thereupon his employment pursuant to this Agreement shall terminate; provided, however, in such event, the Company shall pay to Executive the salary on a monthly basis as set forth in Section 3 hereof for a period of six (6) months from the date of termination.

(b) In the event of the death of Executive during the term of this Agreement, the Company shall pay to his estate the salary on a monthly basis as set forth in Section 3 hereof for the period of six (6) months from the date of death.

9. RESTRICTIVE COVENANT

(a) Executive agrees that during the term of this Agreement or any renewals or extensions hereof, and for a period of two (2)

years thereafter in the event that Executive has breached this Agreement including, without limitation, voluntary termination or has otherwise been terminated for cause including as a result of any Act of Default as set forth in Section 6 hereof, he will not, directly or indirectly, engage or participate in any activity, make any financial investment, or become employed by or become a principal or director of or render advisory or other services to or for any person, firm or corporation located in the United States that engages, directly or indirectly, in competition with any of the business operations, activities or products of the Company including, but not limited to, (i) network consulting and training and (ii) network management and network security products (as such operations, activities and products may exist at any time during the term of Executive's employment with the Company). Nothing contained herein, however, shall restrict Executive from making any investments in any business or enterprise whose securities are listed on a national securities exchange or actively traded in the over-the-counter market, which business or enterprise is or might be directly or indirectly in competition with any of the business operations, activities or products of the Company; provided, however, that such investment does not result in Executive owning 5% or more of the outstanding voting securities of such entity or otherwise give Executive the right to control or influence the policy decisions of such business.

(b) Executive will not, either during the term of this Agreement or at any time thereafter, divulge, furnish or make accessible to anyone (otherwise than in the regular course of

business of the Company) any knowledge or information with respect to confidential or secret methods, plans, products, technology, materials, or processes of the Company, or with respect to any other confidential or secret aspects of the business, activities or products of the Company including, without limitation, (x) products, technologies, processes, designs, materials, developments, inventions or discoveries (whether or not subject to patent, trademark or copyright protection) or (y) any customer or client lists, telephone leads, prospects lists, advertising and marketing plans and strategies and sales promotion materials, forms or literature; except as such items set forth in clauses (x) and (y) may already be in the public domain through no fault of Executive (all of the foregoing items set forth in clauses (x) and (y) being referred to herein collectively as "Intangible Property").

(c) Executive agrees that any such Intangible Property that he may conceive, make, invent, develop or suggest during the term of this Agreement (whether individually or jointly with any other person or persons), relating in any way to the business or activities of the Company, shall be the sole, exclusive and absolute property of the Company. Executive will immediately disclose any such Intangible Property to Company, except where the same is lawfully protected from disclosure to the Company as a trade secret of a third party or by any other lawful bar to such disclosure. Executive shall return all tangible evidence of Intangible Property to the Company prior to or at the termination of his employment.

(d) Executive agrees that during the term of this Agreement or any renewals or extensions hereof, and for a period of two (2) year thereafter, he will not:

(i) Directly or indirectly solicit, raid, entice or induce any employee of the Company, or any subsidiary of the Company or any entity which directly or indirectly is controlled by or is under common control with the Company, to be employed by any other person, corporation or entity; or

(ii) Directly or indirectly approach any such employee for such purposes; or

(iii) Authorize or knowingly approve the taking of such actions by other persons on behalf of any such person, corporation or entity or assist any such person, corporation or entity in taking such action.

(e) Executive agrees that during the term of this Agreement or any renewals or extensions hereof, he will not at any time enter into on behalf of the Company or cause the Company to enter into, directly or indirectly, any transactions with any entity in which he or any member of his immediate family may be interested as a partner, trustee, director, officer, employee, shareholder, lender of money or guarantor, unless the material facts as to his interest (or the interest of such family member) and as to the transaction are disclosed or are known to the Board of Directors of the Company and the transaction is authorized, approved and ratified by the Directors.

(f) Executive acknowledges that the services to be rendered by him hereunder are of a special, unique and extraordinary

character and that it would be very difficult or impossible to replace such services, and further that irreparable injury would be sustained by the Company in the event of a violation by Executive of any of the provisions of this Agreement and by reason thereof, Executive consents and agrees that if he violates any of the provisions of this Agreement, the Company shall be entitled to an injunction to be issued by any court of competent jurisdiction restraining him from committing or continuing any violation of this Agreement, in addition to all other remedies available to the Company under this Agreement or otherwise.

10. REPRESENTATION AND WARRANTY OF EXECUTIVE

Executive represents and warrants that he is not a party to any agreement, contract or understanding, whether of employment or otherwise, or under any physical or mental disability which would in any way restrict or prohibit him from undertaking or performing in accordance with the terms and conditions of this Agreement.

11. SEVERABILITY

If any provision of this Agreement shall be held invalid or unenforceable, the remainder of this Agreement shall nonetheless remain in full force and effect. In the event that a court of competent jurisdiction determines that any covenant set forth herein is impermissibly broad in scope, duration or geographical area, then the parties intend that such court should limit the scope duration or geographical area of such covenant to the extent and only to the extent necessary to render such covenant reasonable and enforceable, and enforce the covenant as so limited.

12. NOTICES

All notices required or permitted to be given under the terms of this Agreement shall be in writing and shall be deemed to have been duly given as of the date of postmark if delivered to the addressee by certified mail, return receipt requested as follows:

IF TO THE COMPANY: Network-1 Software & Technology, Inc.
2307 Roosevelt Drive
Arlington, Texas 76016
Attn.: William Hancock
Executive Vice President

WITH A COPY TO: Bizar & Martin
485 Madison Avenue
New York, NY 10002
Attn: Sam Schwartz, Esq.

IF TO EXECUTIVE: Robert Russo
33-20 28th Street
Long Island City, NY 11106

13. BENEFIT

This Agreement shall inure to, and shall be binding upon, the parties hereto and the successors and assigns of the Company and the personal representatives and heirs of Executive.

14. WAIVER

The waiver by either party of any breach or violation of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach or violation hereof. Any such waiver must be in writing and signed by the party charged with making the same.

15. GOVERNING LAW

This Agreement shall be governed by and construed in all respects in accordance with the laws of the State of New York, without regard to its principles of conflict of laws.

16. ENTIRE AGREEMENT

This Agreement supersedes all prior agreements and

understandings between the Company and Executive and contains the entire agreement between the parties hereto with respect to the subject matter hereof. No modification, addition or amendment shall be made hereto, except by written agreement signed by both parties hereto and approved by the uanimous consent of the Board of Directors so long as the Purchasers Designee is a member of the Board of Directors.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.

By:/s/ William Hancock

William Hancock,
Executive Vice President

EXECUTIVE:

/s/ Robert Russo

Robert Russo

February 16, 1996

Mr. Robert Russo
Network-1 Software & Technology, Inc.
909 Third Avenue
New York, New York 10022

Re: Extension of Employment Agreement

Dear Bob:

This letter agreement shall supplement the Employment Agreement, dated April 4, 1994, between yourself and Network-1 Software & Technology, Inc. and shall serve to extend the term of said Employment Agreement for an additional two (2) year period expiring April 4, 1999.

If the foregoing correctly confirms our understanding, kindly execute this agreement at the appropriate place provided below.

Very truly yours,

Network-1 Software & Technology Inc.

By: /s/ William Hancock

William Hancock, Vice-President

Agreed and Accepted:

/s/ Robert Russo
- ----------
Robert Russo

Exhibit 10.6

June 30, 1998

Avi A. Fogel, President and Chief Executive Officer
Network-1 Security Solutions, Inc.
909 Third Avenue - 9th Floor
New York, New York 10022

Dear Avi:

This letter shall confirm that each of the undersigned agree that the provision in paragraph 3 of our respective employment agreements, dated April 4, 1994, and as amended on February 16, 1996, with Network-1, providing for a 10% increase in salary was waived by us at the time we were eligible for such 10% increases due to the financial circumstances of Network-1 and we will make no claim for such 10% increase at any time in the future.

Very truly yours,

/s/ Robert Russo

Robert Russo

/s/ William Hancock

William Hancock

N/A

Kenneth Conquest

AGREED AND ACCEPTED:

Network-1 Security Solutions, Inc.

By /s/ Avi A. Fogel

Avi A. Fogel, President and
and Chief Executive Officer

Exhibit 10.7

[LOGO] LEASE AND SERVICE AGREEMENT

This Agreement is made this 5th day of June, by and between ALLIANCE Wellesley LP d/b/a ALLIANCE Business Centers ("Lessor") having offices known in the building located at 70 Walnut Street, Wellesley Massachusetts 02181 (the "Facility and or the "Building") and Network-1 Software and Technology, Inc., ("Lessee") a New York corporation with an address of 909 Third Avenue, New York, NY 10022.

The parties for themselves, their heirs, legal representatives, successors and assigns, agree as follows:

1. Demise and Description of Property.

a. Lessor Leases to Lessee and Lessee leases from Lessor, the "Premises" (defined below), being a subpart of Lessor's total leased facility space, for the term and subject to the conditions and covenants hereinafter set forth and to all encumbrances, restrictions, zoning laws, regulations or statutes affecting the Building, Facility or Premises.

b. The Premises consists of Facility office space number(s) #411 & 412 as shown in the floor plan amended hereto. Lessor hereby grants Lessee the privilege to use in common with other lessees and parties that Lessor may designate certain office amenities located in the Facility, the use of all of which are subject to such reasonable rules and regulations as Lessor currently has in place and may adopt from time to time. The amenities are more particularly described in attached Exhibit "A." "The Operating Standards" as presently in place and governing the use of the Premises and the Facility are attached in Exhibit "B".

2. Use.

a. The premises shall be used by Lessee solely for a software and technology business and such other normally incident uses and for no other purpose, in strict accordance with the Operation Standards. Additionally, Lessor shall not offer at the Premises any services which Lessor provides to its lessees, including, but not limited to those amenities or services described in attached Exhibit "A." In the event Lessee breaches any provision of this paragraph, Lessor shall be entitled to exercise any rights or remedies available to the Lessor pursuant to this Agreement together with such other rights and remedies as the Lessor may otherwise have and choose to exercise.

b. Lessee shall not make nor permit to be made any use of the Premises which would violate any of the terms of this Agreement or which, directly or indirectly, is forbidden by statute, ordinance or government regulations, which may be dangerous to life, limb or property, which may invalidate or increase the premium of any policy of insurance carried on the building or on the Facility, which will suffer or permit the Premises to be used in any manner or anything to be brought into or kept there which, in the sole judgment of lessor, shall in any way impair or tend to impair the high quality character, reputation or appearance of the Building or the Facility, or which may or tend to impair or interfere with any services performed by Lessor or Lessee or for others.

3. Term.

a. The term of this Agreement shall be for a period of three months, commencing 9:00 a.m. on the first day of June, 1998, and ending 5:00 p.m. on the last day of August 31, 1998, unless renewed as provided in paragraph "3(b)" herein.

b. Upon the ending term date set forth herein or any extension thereof, the Agreement shall be extended for the same period of time as the initial term and upon the same terms and conditions as herein contained except for the amount of base rental charges, which shall each be increased by seven percent (7%), unless either party notifies the other in writing by certified or registered mail, return receipt requested, or delivered by hand that the Agreement shall not be extended within the period hereinafter specified or automatically renewed. If Lessee has less than three offices, such notice shall be given at least 60 days prior to the expiration date of this Agreement. If Lessee has three or more offices, such notice shall be given at least 90 days prior to the

expiration date of this Agreement.

c. In the event the entire Premises or the Facility are damaged, destroyed or taken by eminent domain or acquired by private purchase in lieu of eminent domain so as to render the Premises fully untenantable and unrestorable in Lessor's sole judgment, then within 90 days thereafter by written notice to the other party, either party shall be able to terminate this Agreement, which will terminate as of the date thereof.

4. Rent.

a. For and during the term of this Agreement, Lessee shall pay Lessor as rent for the Premises a total rental of $7,680.00, payable in equal monthly installments of $2,560.00, each payable in advance of the first day of each calendar month after the commencement of the term, or a daily prorated amount for any partial calendar month during the term. If any payment of rent or other charges due under this Agreement is not received within five (5) calendar days after its due date, the Lessee will also pay, as additional rent, a late payment charge which shall be an amount equal to 10% of any amount owed to Lessor or $50 whichever is greater.

b. It is additionally specifically covenanted and agreed that the financial terms of this Agreement are strictly confidential and Lessee agrees not to knowingly or willfully divulge this information to or any other Lessee or potential Lessee of Lessor. Any such disclosure by the Lessee of the financial terms of this Agreement as

set forth herein above, shall constitute a material breach of this lease.

c. the first such payment of rental as well as the payment of the Deposit as set forth below shall be paid by Lessee simultaneously with execution of this Agreement. Should the Lessee fail to make such payment prior to the commencement of the term of this Agreement, then, at Lessor's sole option, the agreement shall be null and void and of no further effect.

d. The rental payable during the term of this agreement shall be increased on the first day of the month following notification of any rental increase (however designated) which the Lessor might receive from the Lessor's over-landlord ("Building"). The term "direct expenses" as used herein shall refer to the same items and costs as are used by the building in its determination of expenses and costs passed on to Lessor. Lessor shall immediately notify lessee in writing of any such increase, and shall bill lessee upon such notification for each and every month thereafter for the balance of the term.

e. Rent charges are based on the value of the rental Premises and services to be used by four person(s) only. If more than said number of person(s) habitually use the Premises or services, the Fixed Monthly Rental charges will be increased by a factor of $100.00 for each additional person who habitually uses the Premises.

f. If a Lessee check is returned for any reason, Lessee will pay an additional charge of $100.00 per returned check and, for the purpose of considering default and/or late charges, it will be as if the payment represented by the returned check had never been made.

5. Security Deposit.

a. Lessee shall deposit with lessor $3,840.00 or the equivalent of 1.5 months rent, in good or certified funds with a domestic bank, as a non-interest bearing security deposit. Lessor may use the security deposit to cure any default of Lessee under this Agreement, restore the Premises including any and all furniture, fixtures and equipment provided by Lessor and vendors at the Premises to their original condition and configuration, reasonable wear and tear excepted, to pay for repairs to any damage to the Premises. Executive Suite or Building caused by Lessee or lessee's guests, to pay any rent or other charges which lessee owes Lessor at or prior to the expiration of this Agreement, and to reimburse Lessor for costs or expenses arising from any other obligation of Lessee which Lessee has failed to perform. If lessor transfers control or

ownership of the Premises and Lessor transfers the security deposit to such purchaser, Lessee will look solely to the new Lessor for the return of the Security deposit, and the lessor named in this Agreement shall be released from all liability for the return of the security deposit.

b. The security deposit (less any sums used by Lessor in accordance with the terms and conditions of this Agreement) will be returned within sixty (60) days after the termination of any services rendered or expiration of the term hereof. The security deposit shall not under any circumstances be applied in lieu of , be the final payment(s) of fixed Monthly rental charges or service charges under this Agreement.

c. In the event that by reason of the Lessee's default in its obligations pursuant to this Agreement or otherwise, including But not limited to the payment of the Fixed Monthly Rental Charge, any amounts due by reason of the Lessee's use of additional services hereto and/or by reason of the Lessee's use of telephone services as supplied pursuant to this Agreement. Lessor shall be entitled to apply any of the security deposited pursuant to this Agreement to any outstanding sums due or owing to the Lessor, and Lessor shall have the right to charge the Lessee, as additional rent, such sums as are necessary to replenish any and all amounts applied so as to cause the security to be returned to its entire amount. The failure to pay such amounts as are necessary to replenish the security shall be considered a breach of this Agreement and shall entitle the Lessor to exercise any of its rights pursuant to this Agreement or otherwise.

6. Delivery of Possession.

If, for any reason whatsoever, Lessor cannot deliver possession of the Premises to Lessee at the commencement of the term, this Agreement shall not be void nor voidable nor shall Lessor be liable to lessee for any loss or damage resulting therefrom; but there shall be an abatement of rent for the period between the stated term commencement and the time when Lessor does deliver possession of the Premises.

7. Services.

a. So long as Lessee is not in default hereunder, Lessor shall make available certain amenities to Lessee as more particularly described in Exhibit "A." Such services shall be offered to Lessee, in conjunction with such services being offered by Lessor to its other Lessees, without charge for the reasonable use of the same.

b. In addition, provided Lessee is not in default hereunder and provided the cost thereof does not exceed the Security Deposit, Lessor shall make available to Lessee certain other services the cost of which shall be billed to the Lessee as additional rent and the payment of which shall be subject to the same terms and conditions as those governing the payment of the Fixed Monthly Rental Charge herein regardless of when such charges are billed to the Lessee.

8. Telephone Services.

a. Provided Lessee is not in default of any of the terms, covenants, conditions or provisions of this Agreement, Lessor will make available to Lessee, a telecommunications package which will consist of some combination of telephone equipment, numbers, lines, conference calling, voice mail, local, long distance and international service, and directory listing. All components of the telecommunications package including any telephone numbers used by Lessee will remain at all times the property of Lessor and Lessee will acquire no rights in the components beyond the term specified by Lessor.

b. Upon Lessee's written request, Lessee shall be entitled to appoint Lessor as its exclusive agent for the sole purpose of procuring and arranging Lessee's local "white pages" listings, Lessor shall have no involvement nor responsibility for any "yellow pages" listings desired by Lessee.

c. Lessor shall not be liable for any interruption or error in the performance of its services to Lessee under this Section. Lessee waives any recourse as against the Lessor for any claimed Liability arising from the provision of telecommunication services including, but not limited to; injuries to persons or property arising out of mistakes, omissions, interruptions, delays, errors or defects in transmissions occurring in the course of furnishing telecommunications services provided same are not caused by the willful acts of

the Lessor, as well any claim for business interruption and for consequential damages.

d. Lessor shall use reasonable efforts to provide Telephone services to Lessee in a first-class, professional manner. Telephone

service charges shall be as per Lessor's then scheduled rates for the same, or as the same may be amended by Lessor from time to time.

e. In the event that any toll fraud is traceable to telecommunications services employed by Lessee, such toll fraud shall be deemed to be a material default in the Lessee's obligations hereunder. Lessee further hereby agrees to indemnify, hold harmless and to reimburse Lessor for all charges associated with any such toll fraud including, but not limited to, unauthorized use of calling cards or telephone lines.

f. It is expressly acknowledged and agreed that Lessor shall be the sole and exclusive provider of telecommunication services to Lessee. Lessee hereby agrees and covenants that it will not sue any other telephone service or telephone carrier to provide it service in the Premises. In the event that Lessee uses or acquires any other telephone service at the Premises, such use and/or installation shall constitute a material default in the Lessee's obligations hereunder.

9. Furniture and Fixtures.

At its own cost and expense, Lessor shall furnish and install furniture, fixtures and equipment as are in Lessor's sole opinion necessary to provide suitable office accommodations for Lessee, upon such terms and conditions routinely applicable to the Facility. All such furniture, fixtures and equipment shall remain Lessor's property.

10. Insurance; Waiver of Claims.

a. Lessor has no obligation to and will not carry insurance for Lessee's benefit. Lessor will not be liable to Lessee or to any other person for damages on account of loss, damage or theft, to any business or personal property of Lessee. Lessee hereby waives any claims against Lessor from any loss, cost liability or expense (including reasonable attorneys' fees) arising from Lessee's use of the Premises or any common areas made available to Lessee by Lessor or from the conduct of Lessee's business, or from any activity, work, or thing done in the Premises or common areas by Lessee or Lessee's agents, contractors, visitors or employees. To the extent that Lessor has any liability for any of the forgoing pursuant to any law, ordinance or statute, Lessee shall seek recovery for such loss(es)/or damage(s) from its own insurance company as provided for in subparagraph (c) herein prior to making any claims against Lessor.

b. The Lessor shall not be liable or responsible to the Lessee for any injury or damage resulting from the acts or omissions of Lessor, its employees, persons leasing office space or obtaining services from the Lessor, or other persons occupying any part of the Premises or Building, or for any failure of services provided such as water, gas or electricity, HVAC or for any injury or damage to person or property caused by any person except for such loss or damage arising from the willful or grossly negligent misconduct of the Lessor, its agents, servants, or employees or from the Lessor's failure to make repairs which it is obligated to make hereunder. Neither Lessor or any of its agents, employees, officers or directors shall be responsible for damages resulting from any error, omission or defect in any work performed or provided as part of the services rendered, whether uncompensated services or compensated services.

c. Lessee shall provide Lessor with a certificate of insurance evidencing General/Public Liability coverage with liability limits not less than One Million Dollars ($1,000,000) per occurrence for Bodily Injury and/or Property Damage Liability and One Hundred Thousand Dollars ($100,000) per occurrence for Fire/Legal Liability. Said insurance coverage shall remain in force during the term of this Agreement and renewals thereof. The Lessor, Alliance National, Inc. and Alliance Business Centers, Inc. shall be named as an additional named insured on each of these policies. Lessee's failure to provide or maintain such insurance shall not reduce or otherwise alter Lessee's liability or

responsibility to pay any judgement rendered against Lessee for such Liability and Damages. Failure to maintain such insurance and/or to name the Lessor and its designees, as set forth above, shall constitute a material breach of this Agreement.

d. Both parties hereby agree to defend, indemnify and hold the other harmless from and against any and all claims, damages, injury, loss and expenses to or of any person or property resulting from the acts or negligence of their agents, employees, invitees and/or licensees while in the Building, Executive Suite and/or Premises.

e. Any fire and extended risk casualty insurance that Lessee maintains shall include a waiver of subrogation in favor of Lessor and Building Landlord, and any fire and extended risk insurance carried on the Facility by Lessor shall likewise contain a waiver of subrogation in favor of Lessee.

11. Waiver of Breach.

Should Lessor not insist upon the strict performance of any term or condition of this Agreement or to exercise any right or remedy available for a breach thereof, and no acceptance of full or partial payment during the continuance of any such breach shall constitute a waiver of any such breach or any such term or condition. No term or condition of this Agreement required to be performed by Lessee and no breach thereof, shall be waived, altered or modified, except by a written instrument executed by Lessor. No waiver of any breach shall affect or alter any term or condition in this Agreement, and each term or condition shall continue in full force and effect with respect to any other than existing or subsequent breach thereof.

12. Operating Standards.

The Operating Standards attached to this Agreement as Exhibit "B" are hereby made an integral part of this Agreement. Lessee, its employees, agents, guests, invitees, visitors and/or any other persons caused to be present in and around the Premises by the Lessee shall perform and abide by the rules and regulations and any amendments or additions to said rules and regulations as Lessor may make. In addition, Lessee, its employees and agents shall abide by all applicable governmental rules, regulations, statutes and ordinances relating in any way to the Premises or the Facility or Lessee's use or occupancy of the Premises or the Facility, failing which Lessee shall be in default hereunder and shall pay any fines or penalties imposed for such violation(s) directly to the appropriate governmental authority or to the Lessor, if Lessor has paid such amount on behalf of Lessee. Such remedy shall not be exclusive. It is hereby further explicitly agreed and understood that full compliance with the Operating Standards as set forth constitutes a material obligation of this Agreement, and that the failure to so comply shall constitute a violation of this Agreement entitling the Lessor to exercise any of its remedies pursuant to this Agreement or otherwise.

13. Employment of Lessor's Employees.

a. Lessee agrees that it will not, during the term of this Agreement and any renewals thereof, or for the period of one year

after the expiration or sooner termination of this Agreement, hire or issue an offer to employ any person who is or has been an employee of Lessor or Lessor's agent without prior consent from Lessor. If Lessee either hires an employee of Lessor or Lessor's agent; or hires any person who has been an employee of Lessor or its agent within six months prior to the time they are hired by Lessee, Lessee will, at Lessors sole option, be liable to Lessor for liquidated damages equal to six months wages of the employee, at the rate last paid that employee by Lessor.

b. If Lessor assists in hiring an employee for Lessee, Lessee shall pay to the Lessor a commission equal to 20% of that employee's annual salary. The provisions hereof shall survive the expiration or sooner termination of the term thereof.

14. Alteration.

If Lessee requires any special wiring or office alterations for extraordinary business machines or other purposes not consistent with the current wiring, extraordinary telephone equipment or computer equipment. Such alteration shall be done (i) only with the express written permission of the Lessor, and if said permission is granted, then (ii) by an agent designated by Lessor at Lessee's cost. The electrical current shall be used for ordinary lighting purposes only, unless written permission to do otherwise shall first have been obtained from Lessor at an agreed cost to Lessee. Lessor further reserves the sole and exclusive right to limit the number and type of lines and telephone equipment Lessee can install in the leased Premises.

15. Re-Entry.

Lessor and its agents shall have the right to enter the Premises at any time for the purpose of making any repairs, alterations, inspections which it shall deem necessary for the preservation, safety or improvements of said Premises, without in any way being deemed or held to have committed an eviction (constructive or otherwise) of or trespass against Lessee.

b. In the event that any such relocation is effected, the Lessee hereby acknowledges that, unless otherwise agreed in writing, that all of the terms and conditions of this Agreement shall remain in full force and effect.

16. Relocation.

a. Lessee agrees that the Lessor may, in its sole discretion, relocate the lessee from its present Premises to a like or similar office space within the same facility upon ten (10) days notice to the Lessee. In the event that the Lessor requires the Lessee to relocate, the Lessor hereby agrees to bear the reasonable cost of any such relocation, which cost shall be limited to the cost associated with the physical transfer of the Lessee's property to any different office, which the Lessor may designate.

17. Assignment and Subletting.

No assignment or subletting of the Premises, this Agreement or any part thereof shall be made by Lessee without Lessor's prior written consent which consent may be withheld for any or no reason in Lessor's sole discretion. Neither all nor any part of Lessee's interest in the Premises or this Agreement shall be encumbered, assigned or transferred, in whole or in part, either by act of the Lessee of by operation of law.

18. Surrender.

a. On expiration of the term, any extended term, or sooner termination of this Agreement, Lessee shall promptly surrender and deliver the Premises to Lessor, without demand, and in as good condition as when let, ordinary wear and tear excepted.

b. Upon Lessee serving a notice of cancellation as provided in 3b herein Lessor shall have the right to show Lessee's Premises during the 60 day period (for one or two offices) or 90 day period (for three or more offices) as the case may be.

c. Without prior written approval of Lessor, Lessee shall not remove any of its property from the Premises upon termination of this Agreement or at any other time, except during Lessor's normal business hours. In the event Lessor consents to Lessee's removing property before or after normal business hours, any expenses incurred by Lessor as a result, including but not limited to expenses for personnel, security, elevator, utilities and the like shall be paid by Lessee in advance, to the extent determinable by Lessor, by certified and/or bank check.

d. If Lessee vacates the Premises and leaves behind any property, whatsoever, same will be deemed abandoned by Lessee and may be disposed of by Lessor at Lessee's expense. If Lessee defaults in the payment of sums due to Lessor, and Lessor changes the locks, removes Lessee's property, or otherwise denies access to Lessee, Lessor shall not be liable for conversion or partial, actual and/or constructive eviction.

19. Holding Over.

a. In the event that Lessee, should not renew this Agreement in accordance

with the terms and conditions hereof, and/or fail to surrender the Premises upon the expiration of the term of the Agreement as provided herein. Lessee agrees to pay Lessor, as liquidated damages, a sum equal to twice the monthly rent and all additional charges for services provided by Lessor to Lessee, for each month that Lessee retains possession of the Premises or any part thereof, provided, however, that the acceptance of such sums, representing liquidated damages shall not be deemed to be permission to Lessee to continue in possession of the Premises.

20. Default and Remedies.

a. If the Lessee shall default in fulfilling any of its terms, conditions, covenants or provisions of this Agreement, including but not limited to:

1. Payment of fixed Monthly Rental Charges and/or any other charges hereunder within ten days of the date such charges become due;

2. Becomes comes insolvent, makes an assignment for benefit or creditors, or files a voluntary petition under any bankruptcy or insolvency law, or has filed against it an involuntary petition under any such law;

3. Defaults in fulfilling any of the terms, conditions, covenants or provisions of this Agreement including but not limited to the breach of any of the terms and conditions set forth in the exhibits attached hereto;

4. The abandonment and/or vacatur of the Premises by the Lessee;

then, after five days notice of any such default(s), the Lessor may, at its sole discretion, terminate this Agreement upon five days notice to the Lessee, and upon the expiration of such notice period, the Lessee shall quit and surrender the Premises to the Lessor. In the event that the Lessee fails to quit and surrender the Premises, the Lessor may re-enter and take possession of the Premises and remove all persons and property therefrom, as well as disconnect any telephone lines installed for the benefit of Lessee, without any liability whatsoever to Lessee. In addition, Lessor may elect concurrently or alternately to accelerate all of Lessee's obligations hereunder including without limitation the rental, direct expenses, Schedule B Costs, and Telephone Services costs, and/or the re-letting of the Premises or any part thereof, for all or any part of the remainder of said term, to a party satisfactory to Lessor, at any monthly rental rate. Lessor, in its sole discretion, may accept notwithstanding the foregoing. Lessor shall have no obligation, implied or otherwise, to mitigate its damage(s) under such circumstances.

b. Should Lessor be unable to re-let the Premises, or should each monthly re-rental be less than the rental, Lessee is obligated to pay under this Agreement or any renewal thereof, at Lessor's option Lessee shall pay the amount of such deficiency, plus the expenses of reletting, immediately in one lump sum (if allowable under law) to Lessor upon demand and/or as such obligations accrue.

c. If Lessee shall default in the observance or performance of any term or covenant on Lessee's part to be observed or performed under or by virtue of any of the terms or provisions in any article of this lease, then, unless otherwise provided elsewhere in this lease. Lessor may immediately or at any time thereafter and with notice perform the obligation of Lessee thereunder, and if Lessor in connection therewith or in connection with any default by Lessee in the covenant to pay rent hereunder, makes any expenditures or incurs any obligations for the payment of money, including but not limited to attorney's fees, in instituting, prosecuting or defending any actions or proceeding, such sums so paid or obligations incurred with interest and costs shall be deemed to be additional rent hereunder and shall be paid by Lessee to Lessor rendition of any bill or statement to Lessee therefor, and if Lessee's lease term shall have expired at the time of making of such expenditures or incurring of such obligations, such sums shall be recoverable by Lessor as damages.

21. Mail & Telephone Forwarding.

a. After termination or expiration of the term of this Agreement, Lessee hereby agrees that it will take all reasonable steps to notify all parties of Lessee's new address and phone numbers. Lessor shall have no obligation, to

notify any person or entity of Lessee's new address and/or phone numbers, except as expressly provided herein.

b. Lessor will, unless otherwise instructed by Lessee in writing, forward mail to Lessee at its new address and give out new telephone number via voice mail message for a period of three (3) months at the rate of $150.00 per month, which sums shall be deducted from any amounts deposited with the Lessor as security hereunder and paid to the Lessor in advance. In the event that there is not sufficient security remaining on deposit to pay for the charges set forth herein, unless the Lessee shall pay the charges set forth herein to the Lessor in advance, Lessor shall have no obligation to provide the services set forth herein.

22. Notices.

Any notice under this Agreement shall be in writing and shall be either delivered by hand or by first class mail to the party at the address set forth below. Lessor hereby designates its address as:

ALLIANCE BUSINESS CENTERS
70 Walnut Street
Wellesley, MA 02181
Attn: Management

With a copy by regular first class mail to:
ALLIANCE Business Centers
122 East 42nd Street, Suite 2707
New York, NY 10168
Attn: Legal Department

Lessee hereby designates its address (which address must be an address within the United States), as

Mr. Sam Schwartz
Bizar, Martin & Taub, LLP
1350 Avenue of Americas
New York, NY 10019
212-265-8600
212-581-8958

If such mail is properly addressed and mailed, as above, it shall be deemed notice for all purposes, given when sent or delivered, even if returned as undelivered.

23. Landlord's Election Under This Agreement.

Upon early termination of the main Building lease, this Agreement shall terminate unless the Building Landlord under the main lease elects to have this Agreement assigned to the Building Landlord or another entity as provided in the main lease. Upon notice to Lessor of the termination of the main lease and such election (i) the Agreement shall be deemed to have been assigned by Lessor to the Bsuilding Landlord or to such other entity as is designated in such notice by the Building Landlord, (ii) the Building Landlord shall be deemed to be the Lessor under this Agreement and shall assume all rights and responsibilities of Lessor under this Agreement, and (iii) Lessee shall be deemed to have attorned to the Building Landlord as Lessor under this Agreement.

24. Time of Essence.

Time is of the essence as to the performance by Lessee of all covenants, terms and provisions of this Agreement.

25. Severability.

The invalidity of any one or more of the sections, subsections, sentences, clauses or words contained in this Agreement or the application thereof to any particular set of circumstances, shall not affect the validity of the remaining portions of this Agreement or of their valid application to any other set of circumstances. All of said sections, subsections, sentences, clauses and words are inserted conditionally on being valid in law, and in the event that one or more of the sections, subsections, sentences, clauses or words contained herein shall be deemed invalid, this Agreement shall be construed as if such invalid

sections, subsections, sentences, clauses or words had not been inserted. In

the event that any part of this Agreement shall be held to be unenforceable or invalid, the remaining parts of this Agreement shall nevertheless continue to be valid and enforceable as though the invalid portions had not been a part hereof. In addition, the parties acknowledge (i) that this Agreement has been fully negotiated by and between the parties in good faith and is the result of the joint efforts of both parties, (ii) that both parties have been provided with the opportunity to consult with legal counsel regarding its terms, conditions and provisions and (iii) that regardless of whether or not either party has elected to consult with legal counsel, it is the intent of the parties that in no event shall the terms, conditions or provisions of this Agreement be construed against either party as the drafter of this Agreement.

26. Execution by Lessee.

The party or parties executing this Agreement on behalf of the Lessee warrant(s) and represent(s): (i) that such executing party (or parties) has (or have) complete and full authority to execute this Agreement on behalf of Lessee; (ii) that Lessee shall fully perform its obligations hereunder.

27. Assumption Agreement and Covenants.

This Agreement is subject and subordinate to the main Building lease governing the Facility, under which Lessor is bound as tenant; and the provisions of the main lease, other than as to the payment of rent or other monies, are incorporated into this Agreement as if completely herein rewritten. Lessee shall comply with and be bound by all provisions of the main lease except that the payment of rent shall be governed by the provisions of this Agreement, and Lessee shall indemnify and hold Lessor harmless from and against any claim or liability under the main lease of Lessor arising from Lessee's breach of the Main Lease or this Agreement. Lessor covenants and warrants that the use of the Premises as a business office is consistent with and does not violate the terms of the initial lease

28. Covenant and Conditions.

Each term, provision and obligation of this Agreement to be performed by Lessee shall be construed as both a covenant and condition.

29. Entire Agreement.

This Agreement embodies the entire understandings between the parties relative to its subject matter, and shall not be modified, changed or altered in any respect except in writing signed by all parties

30. Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

One data line to be determined for 24 hr internet access at a reduced rate to be determined. Other data lines will have a 40% discount.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Agreement as of the date first above written.

LESSOR: ALLIANCE BUSINESS CENTERS

By: /s/ T. Revy, AGM 6/15/98

LESSEE: NETWORK 1 SOFTWARE & TECHNOLOGY

(If a corporation)

By: /s/ Murray P. Fish

Title: CFO

[Corporate Seal]

LESSEE:
(If an individual or partnership)

By:

By:

EXHIBIT "A"

- Furnished Private Office
- Furnished, Decorated Reception Room with Professional Receptionist
- Personalized Telephone Answering During Office Hours
- 24 hour Voicemail
- Twenty hours of Conference Room or private furnished offices, subject to prior scheduling and use by other lessees
- Complete Mail Room Facility
- Receipt of Mail and Packages
- Complete Kitchen Facilities with Coffee Machine
- Utilities and Maintenance
- HVAC During Normal Business Hours
- Janitorial Services
- 8 hours per month courtesy use of other ALLIANCE Business Centers affiliated facilities. Locations subject to current affiliation and availability.

EXHIBIT "B" OPERATING STANDARDS

1. Lessees and their guests will conduct themselves in a businesslike manner; proper attire will be worn at all times; and the noise level will be kept to a level so as not to interfere with or annoy other Lessees.

2. Lessee shall not provide or offer to provide any services to Lessor's customers if such services are available from Lessor.

3. Lessee will not affix anything to the walls of the Premises without the prior written consent of the Lessor.

4. Lessee will not prop open any corridor doors, exit doors or doors connecting corridors during or after business hours.

5. Lessees using public areas may only do so with the consent of the Lessor, and those areas must be kept neat and attractive at all times.

6. Lessee will not conduct any activity within the Premises, Executive Suite or Building, which in the sole judgment of the Landlord will create excessive traffic or is inappropriate to the executive office suite environment.

7. Lessee may not conduct business in the corridors or any other areas except

in its designated offices or conference rooms without the written consent of Lessor.

8. All corridors, halls, elevators and stairways shall not be obstructed by Lessee or used for any purpose other than normal egress and ingress.

9. No advertisement, identifying signs or other notices shall be inscribed, painted or affixed on any part of the corridors, doors, or public areas.

10. Without Lessor's specific prior written permission, Lessee is not permitted to place "mass market", direct mail or advertising (i.e. newspaper, classified advertisements, yellow pages, billboards) using Lessor's assigned telephone number or take any such action that would generate a excessive of incoming calls.

11. Lessee shall not solicit clients of Lessor or and their employees in the Building without first obtaining Lessor's prior written approval.

12. Immediately following Lessee's use of conference room space and/or audio/visual equipment, Lessee shall clean up and return the space and equipment to the state and condition it was in prior to Lessee's use. If not, Lessor may charge Lessee for any other expenses required to restore the conference space and/or equipment to its original condition.

13. Lessor must be notified in writing if Lessor desires to utilize the conference room or other common areas of the Executive Suite during evening or weekend hours. Lessor may deny the Lessee access if the desired usage is inappropriate and may disrupt normal operations.

14. Lessee shall not, without Lessor's written consent, store or operate any computer (except a desktop/laptop computer or fax machine) or any other large business machines, reproduction equipment, heating equipment, stove, speaker phones, radios, stereo equipment or other mechanical amplification equipment, refrigerator or coffee equipment, or conduct a mechanical business, do any cooking, or use or allow to be used on the Premises oil, burning fluids, gasoline, kerosene for heating, warming or lighting. No article deemed extra hazardous on account of fire or any explosives shall be brought into said Premises or Facility. No offensive gases, odors or liquids shall be permitted.

15. Lessee will bring no animals into the Premises or Facility except for those assisting disabled individuals.

16. Lessee shall not remove furniture fixtures or decorative material from offices or common areas without the written consent of Lessor.

17. Lessee shall not make any additional copies of any Lessor issued keys. All keys and security cards are the property of Lessor and must be returned upon request or by the close of the business on the expiration or sooner termination of the Agreement term. Any lost or unreturned keys or cards shall incur a $25.00 per item charge and the cost to re-key the office.

18. Lessee shall not smoke nor allow smoking in any area of the Facility, including the Premises, and shall comply with all governmental regulations and ordinances concerning smoking.

19. Lessee shall not allow more than three visitors in the reception lobby of the Premises at any one time.

20. Lessee's parking rights (if any) are defined by Lessor's Agreement with the owner of the Building, Landlord reserves the right to modify parking arrangements if required to do so by Building management.

21. Lessee shall cooperate and be courteous with all other occupants of the Facility and Lessor's staff and personnel.

22. Lessor reserves the right to make such other reasonable rules and regulations as in its judgment may from time to time be needed for the safety, care, appropriate operation and cleanliness of the Facility.

Exhibit 10.8

[LOGO] GREATER DALLAS ASSOCIATION OF REALTORS(R), INC. [LOGO]

COMMERCIAL LEASE AGREEMENT

TABLE OF CONTENTS

An Exhibit or Exhibits may be attached to this Lease which shall be made a part of this Lease for all purposes [check all boxes which apply].

EXHIBITS TO LEASE

|X| Exhibit A Floor Plan/Site Plan
|X| Exhibit B Legal Description of Property
|X| Exhibit C Renewal Options
|_| Exhibit D Right of First Refusal for Additional Space
|X| Exhibit E Guarantee
|_| Exhibit F Expense Reimbursement
|_| Exhibit G Percentage Rental/Gross Sales Reports
|X| Exhibit H Construction of Improvements
|_| Exhibit I _____

ARTICLE ONE: DEFINED TERMS

As used in this Lease, the following terms set forth in this Article One shall have the respective meanings set forth hereinbelow:

1.01. Date of Lease: June 29, 1994

1.02. Landlord: Greenview Limited Partnership
Address of Landlord: c/o Republic Management, 8100 Lomo Alto, Ste. 240, Dallas, TX 75225
Telephone: (214) 696-6084

1.03. Tenant: Network-1 Software & Technology, Inc.
Address of Tenant: P.O. Box 8370 Long Island, NY 11101
Telephone: _____

1.04. Premises:

A. Street Address (including county): 878 Greenview Drive, Tarrant County, Grand Prairie, TX

B. Floor or site plan: Being a floor area of approximately 7,489 square feet and being approximately IRR by IRR feet (measured to the exterior of outside walls and to the center of the interior walls, and being more particularly shown in outline on the floor/site plan attached hereto as Exhibit A. (The aforementioned street address and the floor or site plan shall collectively be referred to herein as the "Demised Premises".)

C. Legal description: The legal description of the property on which the floor/site plan is situated is more particularly described in Exhibit B attached hereto (the "Property").

1.05. Lease Term: 5 years and -0- months beginning on the date set forth in Exhibit H and ending on the 31st day of July, 1999.

1.06. Base Rent: $262,115 total Base Rent for the Lease Term payable in monthly installments of $4,368.58 per month in advance

1.07. Security Deposit: $4,368.58

1.08. Permitted Use: [See Section 6.01] Office warehouse

1.09. Principal Broker: [If none, so state] Republic Management, Inc.
Address: 8100 Lomo Alto, Ste. 240, Dallas, Texas 75225

1.10 Cooperating Broker: [If none, so state] Walker Property Advisors
Address: 2000 E. Lamar, Ste. 600, Arlington, TX 76006

1.11. Professional Service Fees: [See Article 14]

A. Payments due to the Principal Broker shall be calculated and paid in accordance with Paragraph |_| A or |_| B of Section 14.01. [Check applicable paragraph] *Based on 42 months

B. The percentage applicable for leases in Sections 14.01 and 14.02 shall be Six and one half percent (6 1/2%) and the percentage applicable in Section 14.02 in the event of a sale shall be n/a percent (___%).

1.12 Holdover Rent: [See Section 2.04] 125% of Base Rental per month in advance.

1.13. Daily Late Charge: [See Section 3.03] Twenty-five ($25.00) Dollars ($25.00) per day, after the fifth of each month.

1.14. Acceptance: [See Section 16.13] The number of days for acceptance of this offer to lease shall be 5 days.

ARTICLE TWO: LEASE AND LEASE TERM

2.01. Lease of Demised Premises for Lease Term. Landlord leases the Demised Premises to Tenant and Tenant leases the Demised Premises from Landlord for the Lease Term stated in Section 1.05. As used herein, the "Commencement Date" shall be the date specified in Section 1.05 for the beginning of the Lease Term, unless advanced or delayed under any provision of this Lease.

2.02. Delay in Commencement. Landlord shall not be liable subject to Exhibit H, Paragraph 5, to Tenant if Landlord does not deliver possession of the Demised Premises to Tenant on the first date specified in Section 1.05 above. Landlord's nondelivery of possession of the Demised Premises to Tenant on that date shall not affect this Lease or the obligations of Tenant under this Lease. However, the Commencement Date shall be delayed until possession of the Demised Premises is delivered to Tenant. The Lease Term shall be extended for a period equal to the delay in delivery of possession of the Demised Premises to Tenant, plus the number of days necessary for the Lease Term to expire on the last day of a month. If Tenant gives such notice, the Lease shall be canceled effective as of the date of its execution, and no party hereto shall have any obligations, one to the other. If Tenant does not give such notice within the time specified, Tenant shall have no right to cancel the Lease, and the Lease Term shall commence upon the delivery of possession of the Demised Premises to Tenant. If delivery of possession of the Demised Premises to Tenant is delayed, Landlord and Tenant shall upon such delivery, execute an amendment to this Lease setting forth the Commencement Date and expiration date of the Lease Term.

2.03. Early Occupancy. If Tenant occupies the Demised Premises prior to the Commencement date, Tenant's occupancy of the Demised Premises shall be subject to all of the provisions of this Lease. Early occupancy of the Demised Premises shall not advance the expiration date of the Lease Term. Unless

provided otherwise herein, Tenant shall pay Base Rent and all other charges specified in this Lease for the period of occupancy.

2.04. Holding Over. Tenant shall vacate the Demised Premises upon the expiration of the Lease Term or earlier termination of this Lease. Tenant shall reimburse Landlord for and Indemnify Landlord against all damages incurred by Landlord as a result of any delay by Tenant in vacating the Demised Premises. If Tenant does not vacate the Demised Premises upon the expiration of the Lease Term or earlier termination of the Lease, Tenant's occupancy of the Demised Premises shall be a "month to month" tenancy, subject to all of the terms of this Lease applicable to a month to month tenancy, except that the Base Rent per month then in effect shall be the amount designated in Section 1.12.

ARTICLE THREE: RENT AND SECURITY DEPOSIT

3.01. Manner of Payment. All sums payable hereunder by Tenant (the "Rent") shall be made to the Landlord at the address designated in Section 1.02 or to such other party or address as Landlord may designate. Any and all payments made to a designated third party for the account of the Landlord shall be deemed made to Landlord when received by said designated third party. All sums payable by Tenant hereunder, whether or not expressly denominated as rent, shall constitute rent for the purposes of Section 502(b)(6) of the Bankruptcy Code and for all other purposes. The Base Rent is the minimum rent for the Demised Premises and is subject to the terms and conditions contained in this Lease together with the Exhibits attached hereto, if any.

3.02. Time of Payment. Upon execution hereof, Tenant shall pay the installment of rent for the first month of the Lease Term. On or before the first day of the second month of the Lease Term and of each month thereafter, the installment of rent and other sums due hereunder shall be due and payable, in advance, without off-set, deduction or prior demand. If the Lease Term commences or ends on a day other than the first or last day of a calendar month, the rent for any fractional calendar month following the Commencement Date or preceding the end of the Lease Term shall be prorated by days.

3.03. Late Charges. Tenant's failure to pay sums due hereunder promptly may cause Landlord to incur unanticipated costs. The exact amount of such costs are impractical or extremely difficult to ascertain. Such costs may include, but are not limited to processing and accounting charges and late charges which may be imposed on Landlord by any ground lease, deed of trust or mortgage encumbering the Demised Premises. Therefore, if any sum due hereunder is not received within 5 days of when due, Tenant shall pay the Landlord a late charge equal to the Daily Late Charge for each day after the due date until such delinquent sum is received. If any check tendered in payment of any sum due from Tenant hereunder is dishonored for any reason, Tenant shall pay a late charge for each day after said due date until good funds are received by the Landlord. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of such late payment or such dishonored check.

3.04. Security Deposit. Upon execution hereof, Tenant shall deposit with Landlord a cash Security Deposit in the sum stated in Section 1.07. Landlord may apply all or part of the Security Deposit to any unpaid rent or other charges due from Tenant or to cure any other defaults of Tenant. If Landlord uses any part of the Security Deposit, Tenant shall restore the Security Deposit to its full amount within ten (10) days after landlord's written demand. Tenant's failure to restore the full amount of the Security Deposit within the time specified shall be a default under this Lease. No interest shall be paid on the Security Deposit. Landlord shall not be required to keep the Security Deposit separate from its other accounts and no trust relationship is created with respect to the Security Deposit. Upon any termination of this Lease not resulting from Tenant's default, and after Tenant has vacated the Demised Premises in the manner required by this Lease, Landlord shall refund the unused portion of the Security Deposit to Tenant. Landlord will hold the security deposit in accordance with applicable law.

3.05. Good Funds Payments. If, for any reason whatsoever, any two or more payments by check from Tenant to Landlord for Rent are dishonored and returned unpaid, thereafter, Landlord may, at Landlord's sole option, upon written notice to Tenant, require that all future payments of Rent for the remaining term of the Lease shall be made by cash, cashier's check, or money order and that the delivery of Tenant's personal or corporate check will no longer constitute payment of Rent as provided in this Lease. Any acceptance by Landlord of a

payment for Rent by Tenant's personal or corporate check thereafter shall not be construed as a waiver of Landlord's rights to insist upon payment by good funds as set forth in this Section 3.05.

ARTICLE FOUR: TAXES

4.01. Payment by Landlord. Landlord shall pay the real estate taxes on the Demised Premises during the Lease Term.

4.02. Improvements by Tenant. In the event the real estate taxes levied against the Demised Premises fir the real estate tax year in which the Lease Term commences are increased in the current tax year or subsequent tax years as a result of any alterations, additions or improvements made by Tenant or by Landlord at the request of Tenant, Tenant shall pay to Landlord upon demand the amount of such increase and continue to pay such increase during the term of this Lease. Landlord shall use reasonable efforts to obtain from the tax assessor or assessors a written statement of the total amount of such increase.

4.03. Joint Assessment. If the real estate taxes are assessed against the Demised Premises jointly with other property not constituting a part of the Demised Premises, the real estate taxes for such years shall be equal to the amount bearing the same proportion to the aggregate assessment that the total square feet of building area in the Demised Premises bears to the square feet of building area included in the joint assessment.

4.04. Personal Property Taxes. Tenant shall pay all taxes assessed against trade fixtures, furnishings, equipment, or any other personal property belonging to Tenant. Tenant shall use reasonable efforts to have its personal property taxed separately from the Demised Premises, but if any of Tenant's personal property is taxed with the Demised Premises, Tenant shall pay the taxes for the personal property within fifteen (15) days after Tenant receives a written statement for such personal property taxes.

ARTICLE FIVE: INSURANCE AND INDEMNITY

5.01. Casualty Insurance. During the Lease Term, Landlord shall maintain policies of insurance covering loss of or damage to the Demised Premises in such amount or percentage of replacement value as Landlord deems reasonable in relation to the age, location, type of construction and physical condition of the Demised Premises and the availability of such insurance at reasonable rates. Such policies shall provide protection against all perils included within the classification of fire and extended coverage and any other perils which Landlord deems necessary. Landlord may obtain insurance coverage for Tenant's fixtures, equipment or building improvements installed by Tenant in or on the Demised Premises. Tenant shall at Tenant's expense, maintain such primary or additional insurance on its fixtures, equipment and building improvements as Tenant deems necessary to protect its interest. Tenant shall not do or permit to be done anything which invalidates any such insurance policies.

Demised Premises, whether such damage or injury is caused by or results from: (a) fire, steam, electricity, water, gas or rain; (b) the breakage, leakage, obstruction or other defects or pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures or any other cause; (c) conditions arising on or about the Demised Premises or upon other portions of any building of which the Demised Premises is a part, or from other sources or places; or (d) any act or omission of any other tenant of any building of which the Demised Premises is a part. Landlord shall not be liable for any such damage or injury even though the cause of or the means of repairing such damage or injury are not accessible to Tenant. The provisions of this Section 6.08 shall not, however, exempt Landlord from liability for Landlord's gross negligence or willful misconduct.

ARTICLE SEVEN: PROPERTY CONDITION, MAINTENANCE, REPAIRS AND ALTERATIONS

7.01. Property Conditions. Intentionally omitted.

7.02. Acceptance of Demised Premises. Tenant acknowledges that a full and complete inspection of the Demised Premises and adjacent common areas has been made and Landlord has fully and adequately disclosed the existence of any defects which would interfere with Tenant's use of the Demised Premises for their intended commercial purpose. Tenant specifically acknowledges that as a

result of such inspection and disclosure, Tenant has taken possession of the Demised Premises and has made its own determination to fully accept same in its as-is condition, subject to completion of Landlord's work described in Exhibit H.

7.03. Obligation to Repair. Except as otherwise provided herein, including, without limitation, the provisions of Section 17, Landlord shall be under no obligation to perform any repair, maintenance or management service in the Demised Premises or adjacent common areas. Tenant shall be fully responsible, at its expense, for all repair, maintenance and management services other than those which are expressly assumed by Landlord.

A. Landlord's Obligation to Repair.

(1) Subject to the provisions of Article Eight (Damage or Destruction) and Article Nine (Condemnation) and except for damage caused by any act or omission of Tenant, Landlord shall keep the foundation, roof and the structural portions of exterior walls of the improvements of the Demised Premises in good order, condition and repair. Landlord shall not be obligated to maintain or repair windows, doors, plate glass or the surfaces of walls. In addition, Landlord shall not be obligated to make any repairs under this Section until a reasonable time after receipt of written notice from Tenant of the need of such repairs. If any repairs are required to be made by Landlord, Tenant shall, at Tenant's sole cost and expense, promptly remove Tenant's fixtures, inventory, equipment and other property, to the extent required to enable Landlord to make such repairs. Landlord's liability hereunder shall be limited to the cost of such repairs or corrections. Tenant waives the benefit of any present or future law which might give Tenant the right to repair the Demised Premises at Landlord's expense or to terminate the Lease because of the condition. Landlord is responsible for the care of the landscaping & regular mowing of grass & maintenance of the paving and parking lot.

(2) Landlord and Tenant expressly agree that all repair, maintenance management and other services to be performed by Landlord or Landlord's agents exclusively consist of the exercise of professional judgment by such service providers, and Tenant expressly waives any claims for breach of warranty arising from the performance of such services.

B. Tenant's Obligation to Repair. Subject to the provisions of the last sentence of Section 7.01, the preceding Section 7.03.A, Article Eight (Damage or Destruction) and Article Nine (Condemnation), Tenant shall, at all times, keep all other portions of the Demised Premises in good order, condition and repair, including but not limited to repairs (including all necessary replacements) of the windows, plate glass, doors, heating system, air conditioning equipment, electrical and lighting system, fire protection sprinkler system, dock levelers, interior and exterior plumbing and the interior of the building in general. Landlord is responsible for plumbing repairs below the slab if not caused by Tenant's actions. In addition, Tenant shall, at Tenant's expense, repair any damage to any portion of the Property, including the roof, foundation, or structural portions of the exterior walls of the Demised Premises, caused by Tenant's acts or omissions. If Tenant fails to maintain and repair the Property as required by this Section, Landlord may, on ten (10) days' prior written notice, enter the Demised Premises and perform such maintenance or repair on behalf of Tenant, except that no notice shall be required in case of emergency, and Tenant shall reimburse Landlord for all costs incurred in performing such maintenance or repair immediately upon demand.

7.04. Alterations, Additions and Improvements. Tenant shall not create any openings in the roof or exterior walls, or make any alterations, additions or improvements to the Demised Premises without the prior written consent of Landlord. Consent for nonstructural alterations, additions or improvements shall not be unreasonably withheld by Landlord. Tenant shall have the right to erect or install shelves, bins, machinery, air conditioning or heating equipment and trade fixtures, provided that Tenant complies with all applicable governmental laws, ordinances, codes, and regulations. At the expiration or termination of this Lease, Tenant shall, subject to the restrictions of Section 7.05 below, have the right to remove such items so installed by it, provided Tenant is not in default at the time of such removal and provided further that Tenant shall,

at the time of removal of such items, repair in a good and workmanlike manner any damage caused by installation or removal thereof. Tenant shall pay for all costs incurred or arising out of alterations, additions or improvements in or to the Demised Premises and shall not permit a mechanic's or materialman's lien to be filed against the Demised Premises. Upon request by Landlord, Tenant shall deliver to Landlord proof of payment reasonably satisfactory to Landlord of all costs incurred or arising out of any such alterations, additions or improvements.

7.05. Conditions upon Termination. Upon the termination of the Lease, Tenant shall surrender the Demised Premises to Landlord, broom clean and in the same condition as received except for ordinary wear and tear which Tenant was not otherwise obligated to remedy under any provisions of the Lease. Tenant shall not be obligated to repair any damage which Landlord is required to repair under Article Eight (Damage or Destruction). In addition, Landlord may require Tenant to remove any alterations, additions or improvements (whether or not made with Landlord's consent) prior to the termination of the Lease and to restore the Demised Premises to its prior condition, all at Tenant's expense. All alterations, additions and improvements which Landlord has not required Tenant to remove shall become Landlord's property and shall be surrendered to Landlord upon the termination of the Lease. In no event, however, shall Tenant remove any of the following materials or equipment without Landlord's prior written consent; any power wiring or power panels; lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; carpets or other floor coverings; heaters, air conditioners or any other heating or air conditioning equipment; fencing or security gates; or other similar building operating equipment and decorations.

ARTICLE EIGHT: DAMAGE OR DESTRUCTION

8.01. Notice. If the building or other improvements situated on the Demised Premises should be damaged or destroyed by fire, tornado or other casualty, Tenant shall immediately give written notice thereof to the Landlord.

8.02. Partial Damage. If the building or other improvements situated on the Demised Premises are damaged by fire, tornado, or other casualty but not to such an extent that rebuilding or repairs cannot reasonably be completed within ninety (90) days from the date Landlord receives written notification by Tenant of the happening of the damage, this Lease shall not terminate, but Landlord shall, at its sole cost and risk, proceed forthwith and use reasonable diligence to rebuild or repair such building and other improvements on the Demised Premises (other than leasehold improvements made by Tenant or any assignee, subtenant or other occupant of the Demised Premises) to substantially the condition in which they existed prior to such damage within said ninety (90) days, provided, however, if the casualty occurs during the final eighteen (18) months of the Lease Term, Landlord shall not be required to rebuild or repair such damage unless Tenant shall exercise its renewal option (if any is contained herein) within fifteen (15) days after the date of receipt by Landlord of the notification of the occurrence of the damage. If Tenant does not elect to exercise its renewal option or if there is no renewal option contained herein or previously unexercised at such time, this Lease shall terminate at the option of Landlord and the Rent shall be abated for the unexpired portion of this Lease, effective from the date of actual receipt by Landlord of the written notification of the damage. If the building and other improvements are to be rebuilt or repaired and are untenantable in whole or in part following such damage, the monthly installments of Rent payable hereunder during the period in which they are untenantable shall be adjusted equitably. Landlord will give written notice of whether Landlord intends to repair or rebuild the Premises within forty-five (45) days.

8.03 Substantial or Total Destruction. If the building or other improvements situated on the Demised Premises are substantially or totally destroyed by fire, tornado, or other casualty, or so damaged that rebuilding or repairs cannot reasonably be completed within ninety (90) days from the date Landlord receives written notification by Tenant of the happening of the damage, this Lease shall terminate at the option of either Landlord or Tenant and monthly installments of Rent shall be abated for the unexpired portion of this Lease, effective from the date of receipt by Landlord or Tenant or such written notification. If this Lease is not terminated, the building and the improvements shall be rebuilt or repaired and monthly installments of Rent abated to the

extent provided under Section 8.02.

ARTICLE NINE: CONDEMNATION

If, during the term of this Lease or any extension or renewal thereof, all or a substantial part of the Demised Premises are taken for any public or quasi-public use under any governmental Law, ordinance or regulation or by right or eminent domain, or are sold to the condemning authority under threat of condemnation, this Lease shall terminate and the monthly installments of Rent shall be abated during the unexpired portion of this Lease, effective from the date of taking of the Demised Premises by the condemning authority. If less than a substantial part of the Demised Premises is taken for public or quasi-public use under any governmental law, ordinance or regulation, or by right of eminent domain, or is sold to the condemning authority under threat of condemnation, Landlord, at its option, may by written notice terminate this Lease or shall forthwith at its sole expense restore and reconstruct the buildings and improvements (other than leasehold improvements made by Tenant or any assignee, subtenant or other occupant of the Demised Premises) situated on the Demised Premises in order to make the same reasonably tenantable and suitable for the use for which the Demised Premises is leased as defined in Section 6.01. The monthly installments of Base Rent payable hereunder during the unexpired portion of this Lease shall be adjusted equitably. Landlord and Tenant shall each be entitled to receive and retain such separate award, and portions of lump sum awards as may be allocated to their respective interests in any condemnation proceedings. The termination of this Lease shall not affect the rights of the respective parties to such awards.

ARTICLE TEN: ASSIGNMENT AND SUBLETTING

Tenant shall not, without the prior written consent of Landlord not to be unreasonable withheld, assign this Lease or sublet the Demised Premises or any portion thereof. Any assignment or subletting shall be expressly subject to all terms and provisions of this Lease, including, the provisions of Section 6.01 pertaining to the use of the Demised Premises. In the event of any assignment or subletting, Tenant shall remain fully liable for the full performance of all Tenant's obligations under this Lease. Tenant shall not assign its rights hereunder or sublet the Demised Premises without first obtaining a written agreement from the assignee or sublessee whereby the assignee or sublessee agrees to assume the obligations of Tenant hereunder and to be bound by the terms of this Lease. No such assignment or subletting shall constitute a novation. In the event of the occurrence of an event of default while the Demised Premises is assigned or sublet, Landlord, in addition to any other remedies provided herein or by law, may at Landlords option, collect directly from such assignee or subtenant all rents becoming due under such assignment or subletting and apply such rent against any sums due to Landlord hereunder. No direct collection by Landlord from any such assignee or subtenant shall release Tenant from the performance of its obligations hereunder.

ARTICLE ELEVEN: DEFAULT AND REMEDIES

11.01. Default. Each of the following events shall be an event of default under this Lease:

A. Failure of Tenant to pay any installment of the Rent or other sum payable to Landlord hereunder on the date that same is due and such failure shall continue for a period of ten (10) days;

B. Failure of Tenant to comply with any term, condition or covenant of this Lease, other than the payment of Base Rent or other sum of money, and such failure shall not be cured within thirty (30) days after written notice thereof to Tenant;

C. Tenant or any guarantor of Tenant's obligations hereunder shall generally fail to pay its debts as they become due or shall admit in writing its inability so pay its debts, or shall make a general assignment for the benefit of creditors;

D. Tenant or any guarantor of Tenant's obligations hereunder shall commence any case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial

part of its property;

E. Any case, proceeding or other action against Tenant or any guarantor of Tenant's obligations hereunder shall be commenced seeking to have an order for relief entered against it as debtor, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its property, and Tenant (i) fails to obtain a dismissal of such case, proceeding, or other action within ninety (90) days of its commencement; or (ii) converts the case from one chapter of the Federal Bankruptcy Code to another chapter; or (iii) is the subject of an order of relief which is not fully stayed within thirty (30) business days after the entry thereof; and

F. Abandonment by Tenant of substantial portion of the Demised Premises or cessation of the use of the Demised Premises for the purpose leased, or any other legal purpose.

11.02. Remedies. Upon the occurrence of any of the events of default listed in Section 11.01, Landlord shall have the option to pursue any one or more of the following remedies without any prior notice or demand whatsoever:

A. Terminate this Lease, in which event Tenant shall immediately surrender the Demised Premises to Landlord. If Tenant fails to so surrender the Demised Premises, Landlord may, without prejudice to any other remedy which it may have for possession of the Demised Premises or arrearages in Rent, enter upon and take possession of the Demised Premises and expel or remove Tenant and any other person who may be occupying the Demised Premises or any part thereof, by force if necessary, without being liable for prosecution or any claim for damages therefor. Tenant shall pay to Landlord on demand the amount of all loss and damage which Landlord may suffer by reason of such termination, whether through inability to relet the Demised Premises on satisfactory terms or otherwise.

B. Enter upon and take possession of the Demised Premises, by force if necessary, without terminating this Lease and without being liable for prosecution or for any claim for damages therefor, and expel or remove Tenant and any other person who may be occupying the Demised Premises or any part thereof. Landlord may relet the Demised Premises and receive the rent therefor. Tenant agrees to pay to Landlord monthly or on demand from time to time any deficiency that may arise by reason of any such reletting. In determining the amount of such deficiency, the professional service fees, reasonable attorneys' fees, remodeling expenses and other costs of reletting shall be subtracted from the amount of rent received under such reletting.

C. Enter upon the Demised Premises, by force if necessary, without terminating this Lease and without being liable for prosecution or for any claim for damages therefor, and do whatever Tenant is obligated to do under the terms of this Lease. Tenant agrees to pay Landlord on demand for expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease, together with interest thereon at the rate of twelve percent (l2%) per annum from the date expended until paid. Landlord shall not be liable for any damages resulting to Tenant from such action, whether caused by negligence of Landlord or otherwise.

D. In addition to the foregoing remedies, Landlord shall have the right to change or modify the locks on the Demised Premises in the event Tenant fails to pay the monthly installment of Rent when due & such failure continues for 15 days. Landlord shall not be obligated to provide another key to Tenant or allow Tenant to regain entry to the Demises Premises unless and until Tenant pays Landlord all Rent which is delinquent. Tenant agrees that Landlord shall not be liable for any damages resulting to the Tenant from the lockout. At such time that Landlord changes or modified the lock, Landlord shall post a "Notice of Change of Locks" on the front of the Demised Premises. Such Notice shall state the following:

(1) That Tenant's monthly installment of Rent is delinquent, and therefore, under authority of Section 11.02D of Tenant's Lease, the Landlord has exercised its contractual right to change or modify

Tenant's door lock;

(2) That the Notice has been posted on the Tenant's front door by a representative of Landlord and that Tenant should make arrangements to pay the delinquent installment of Rent when Tenant picks up the key; and

(3) That the failure of the Tenant to comply with the provisions of the Lease and the Notice and/or tampering with or changing the door lock(s) by Tenant may subject the Tenant to legal liability.

E. No re-entry or taking possession of the Demised Premises by Landlord shall be construed as an election to terminate this Lease, unless a written notice of such intention is given to Tenant. Notwithstanding any such reletting or re-entry or taking possession, Landlord may, at any time thereafter, elect to terminate this Lease for a previous default. Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies provided by law, nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any monthly installment of Rent due to Landlord hereunder or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants herein contained. Forbearance by Landlord to enforce one or more of the remedies herein provided upon an event of default shall not, be deemed or construed to constitute a waiver of any other violation or default. The loss or damage that Landlord may suffer by reason of termination of this Lease or the deficiency from any reletting as provided for above shall include the expense of repossession and any repairs or remodeling undertaken by Landlord following possession. Should Landlord terminate this Lease at any time for any default, in addition to any other remedy Landlord may have, Landlord may recover from Tenant all damages Landlord may incur by reason of such default, including the cost of recovering the Demised Premises and the cost of the rental then remaining unpaid.

11.03. Notice of Default. Tenant shall give written notice of any failure by Landlord to perform any of its obligations under this Lease to Landlord and to any ground lessor, mortgagee or beneficiary under any deed of trust encumbering the Demised Premises whose name and address have been furnished to Tenant in writing. Landlord shall not be in default under this Lease unless Landlord (or such ground lessor, mortgagee or beneficiary) fails to cure such nonperformance within thirty (30) days after receipt of Tenant's notice. However, if such nonperformance reasonably requires more than thirty (30) days to cure, Landlord shall not be in default if such cure is commenced within such 30-day period and thereafter diligently pursued to completion.

11.04. Limitation of Landlord's Liability. As used in this Lease, the term "Landlord" means only the current owner or owners of the fee title to the Demised Premises or the leasehold estate under a ground lease of the Demised Premises at the time in question. Each Landlord is obligated to perform the obligations of Landlord under this Lease only during the time such Landlord owns such interest or title. Any Landlord who transfers its title or interest is relieved of all liability with respect to the obligations of Landlord under this Lease accruing on or after the date of transfer. However, each Landlord shall deliver to its transferee the Security Deposit held by Landlord if such Security Deposit has not then been applied under the terms of this Lease. The exclusive remedies of Tenant for the failure of Landlord to perform any of its obligations under this lease shall be to proceed against the interest of Landlord in and to the project and the Property

ARTICLE TWELVE: LANDLORD'S CONTRACTUAL LIEN

ARTICLE THIRTEEN: PROTECTION OF LENDERS

13.01. Subordination. Landlord shall have the right to subordinate this Lease to any future ground Lease, deed of trust or mortgage encumbering the Demised Premises, and advances made on the security thereof and any renewals, modifications, consolidations, replacements or extensions thereof, whenever made or recorded. Landlord's right to obtain such a future subordination is subject to Landlord's providing Tenant with a written Subordination, Nondisturbance and Attornment Agreement from any such ground lessor, beneficiary or mortgagee

wherein Tenant's right to peaceable possession of the Demised Premises during the Lease Term shall not be disturbed if Tenant pays the Rent and performs all of Tenant's obligations under this Lease and is not otherwise in default. If any ground lessor, beneficiary, or mortgagee elects to have this Lease superior to the lien of its ground lease, deed of trust or mortgage and gives written notice thereof to Tenant, this Lease shall be deemed superior to such ground lease, deed of trust or mortgage whether this Lease is dated prior or subsequent so the date of said ground lease, deed of trust or mortgage or the date of recording thereof. Tenant's rights under this Lease, unless specifically modified at the time this Lease is executed, are subordinated to any existing ground lease, deed of trust or mortgage encumbering the Demised Premises.

13.02. Attornment. If Landlord's interest in the Demised Premises is transferred voluntarily or involuntarily to any ground lessor, beneficiary under a deed of trust, mortgagee or purchaser at a foreclosure sale, Tenant shall attorn to the transferee of or successor to Landlord's interest in the Demised Premises and recognize such transferee or successor as Landlord under this Lease. Tenant waives the protection of any statute or rule of law which gives or purports to give Tenant any right to terminate this Lease or surrender possession of the Demised Premises upon the transfer of Landlord's interest.

13.03. Signing of Documents. Tenant shall sign and deliver any instruments or documents necessary or appropriate to evidence any such attornment or subordination or agreement to do so. If Tenant fails to do so within thirty (30) days after written request, Tenant hereby makes, constitutes and irrevocably appoints Landlord, or any transferee or successor of Landlord, the attorney-in-fact of Tenant to execute and deliver any such instrument or document.

13.04. Estoppel Certificate.

A. Upon Landlords written request, Tenant shall execute, acknowledge and deliver to Landlord a written statement certifying; (i) that none of the terms or provisions of this Lease have been changed (or if they have been changed, stating how they have been changed); (ii) that this Lease has not been canceled or terminated; (iii) the last date of payment of the Base Rent and other charges and the time period covered by such payment; and (iv) that Landlord is not in default under this Lease (or, if Landlord is claimed to be in default, stating why). Tenant shall deliver such statement to Landlord within ten (10) days after Landlord's request. Any such statement by Tenant may be furnished by Landlord to any prospective purchaser or lender of the Demised Premises. Such purchaser or lender may rely conclusively upon such statement as true and correct.

B. If Tenant does not deliver such statement to Landlord within such 10-day period, Landlord, and any prospective purchaser or lender, may conclusively presume and rely upon the following facts: (i) that the terms and provisions of this Lease have not been changed except as otherwise represented by Landlord; (ii) that this Lease has not been canceled or terminated except as otherwise represented by Landlord; (iii) that not more than one monthly installment of Base Rent or other charges have been paid in advance; and (iv) that Landlord is not in default under the Lease. In such event, Tenant shall be estopped from denying the truth of such facts.

ARTICLE FOURTEEN: PROFESSIONAL SERVICE FEES

14.01. Amount and Manner of Payment of Service Fees. Fees due to the Principal Broker shall be calculated and paid in accordance with Article 1.11 as follows:

A. Landlord agrees to pay to the Principal Broker a fee for negotiating this Lease equal to the percentage stated in Section 1.11B of each monthly Rent payment at the time such payment is due.

B. Landlord agrees so pay to the Principal Broker a fee for negotiating this Lease equal to the percentage stated in Section 1.11B of the total Rent to become due to Landlord during the term of this Lease. Said fees shall be payable to the Principal Broker on the date of the execution of this Lease.

14.02. Intentionally omitted.

14.03. Intentionally omitted.

14.04. Intentionally omitted.

14.05. Intentionally omitted.

14.06. Intentionally omitted.

14.07. Intentionally omitted.

ARTICLE FIFTEEN: ENVIRONMENTAL REPRESENTATIONS AND INDEMNITY

15.01. Tenant's Compliance with Environmental Laws. Tenant, at Tenant's expense, shall comply with all laws, rules, orders, ordinances, directions, regulations and requirements of federal, state, county and municipal authorities pertaining to Tenant's use of the Property and with the recorded covenants, conditions and restrictions, regardless of when they become effective, including, without limitation, all applicable federal, state and local laws, regulations or ordinances pertaining to air and water quality, Hazardous Material (as defined hereinafter), waste disposal, air emissions and other environmental matters, all zoning and other land use matters, and with any direction of any public officer or officers, pursuant to law, which shall impose any duty upon Landlord or Tenant with respect to the use or occupation of the Property.

15.02. Tenant's Indemnification. Tenant shall not cause or permit any hazardous material to be brought upon, kept or used in or about the Property by Tenant, its agents, employees, contractors or invitees without the prior written consent of Landlord. If Tenant breaches the obligations stated in the preceding Section or sentence, or if the presence of Hazardous Material on the Property caused or permitted by Tenant results in contamination of the Property or any other property, or if contamination of the Property or any other property by Hazardous Material otherwise occurs for which Tenant is legally liable to Landlord for damage resulting therefrom, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Property, damages for the loss or restriction on use of rentable or unusable space or of any amenity or appurtenance of the Property, damages arising from any adverse impact on marketing of building space or land area, and sums paid in settlement of claims, attorneys fees, consultant fees and expert fees) which arise during or after the Lease Term as a result of such contamination. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial work, removal or restoration work required by any federal, state or local government agency or political subdivision because of Hazardous Material present in the soil or ground water on or under the Property. Without limiting the foregoing, if the presence of any Hazardous Material on the Property or any other property caused or permitted by Tenant results in any contamination of the Property, Tenant shall promptly take all actions at its sole expense as are necessary to return the Property to the condition existing prior to the introduction of any such Hazardous Material to the Property, provided that Landlord's approval of such actions shall first be obtained. The foregoing indemnity shall survive the expiration or earlier termination of this Lease.

15.03. Intentionally omitted.

15.04. Intentionally omitted.

indemnification provided by this Article 15.04 shall specifically cover costs incurred in connection with any investigation of site conditions or any clean-up, remedial work, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of the presence or suspected presence of Hazardous Material in the soil or groundwater on or under the Property, unless the Hazardous Material is released by Tenant or is present solely as a result of the negligence or willful conduct of Tenant, its officers, employees, or agents.

15.05. Definitions. For purposes of this Article 15, the term "Hazardous Material" shall mean any pollutant, toxic substance, hazardous waste, hazardous material, hazardous substance, or oil as defined in or pursuant to the Resource Conservation and Recovery Act, as amended, the Comprehensive Environmental Response, Compensation and Liability Act, as amended, the Federal Clean Water Act, as amended, or any other federal, state or local environmental law, regulation, ordinance, rule, or bylaw, whether existing as of the date hereof, previously enforced or subsequently enacted.

15.06. Survival. The indemnities contained in this Article 15 shall survive the expiration or earlier termination of this Lease.

15.07. Intentionally omitted.

ARTICLE SIXTEEN: MISCELLANEOUS

16.01. Forces Majeure. In the event performance by Landlord of any term, condition or covenant in this Lease is delayed or prevented by any Act of God, strike, lockout, shortage of material or labor, restriction by any governmental authority, civil riot, flood, or any other cause not within the control of Landlord, the period for performance of such term, condition or covenant shall be extended for a period equal to the period Landlord is so delayed or hindered.

16.02. Interpretation. The captions of the Articles or Sections of this Lease are to assist the parties in reading this Lease and are not a part of the terms or provisions of this Lease. Whenever required by the context of this Lease, the singular shall include the plural and the plural shall include the singular. For convenience, each party hereto is referred to in the neuter gender, but the masculine, feminine and neuter genders shall each include the other. In any provision relating to the conduct, acts or omissions of Tenant, the term "Tenant" shall include Tenants agents, employees, contractors, invitees, successors or others using the Demised Premises with Tenant's expressed or implied permission.

16.03. Waivers. All waivers must be in writing and signed by the waiving party. Landlords failure to enforce any provisions of this Lease or its acceptance of late installments of Rent shall not be a waiver and shall not estop Landlord from enforcing that provision or any other provision of this Lease in the future. No statement on a payment check from Tenant or in a letter accompanying a payment check shall be binding on Landlord. Landlord may, with or without notice to Tenant, negotiate, cash, or endorse such check without being bound to the conditions of such statement.

16.04. Severability. A determination by a court of competent jurisdiction that any provision of this Lease or any part thereof is invalid or unenforceable shall not cancel or invalidate the remainder of such provision or this Lease, which shall remain in full force and effect.

16.05. Joins and Several Liability. All parties signing this Lease as Tenant shall be jointly and severally liable for all obligations of Tenant.

16.06. Incorporation of Prior Agreements; Modifications. This Lease is the only agreement between the parties pertaining to the lease of the Demised Premises and no other agreements are effective. All amendments to this Lease shall be in writing and signed by all parties. Any other attempted amendment shall be void.

16.07. Notices. All notices required or permitted under this Lease shall be in writing and shall be personally delivered or shall be deemed to be delivered, whether actually received or not, when deposited in the United States mail, postage pre-paid, registered or certified mail, return receipt requested, addressed as stated herein. Notices to Tenant shall be delivered to the address specified in Section 1.03 above, except that, upon Tenant's taking possession of the Demised Premises, the Demised Premises shall be Tenant's address for notice purposes. Notices to any ether party hereto shall be delivered to the address specified in Article One as the address for such party. Any party hereto may change its notice address upon written notice to the other parties.

16.08. Attorneys' Fees. If on account of any breach or default by any party hereto in its obligations to any other party hereto (including but not limited to the Principal Broker), it shall become necessary for the nondefaulting party to employ an attorney to enforce or defend any of its rights

or remedies hereunder, the defaulting party agrees to pay the nondefaulting party its reasonable attorneys' fees, whether or not suit is instituted in connection therewith.

16.09. Venue. All obligations hereunder, including but not limited to the payment of fees so the Principal Broker, shall be performable and payable in the county in which the Property is located.

16.10. Governing Law. The laws of the State of Texas shall govern this Lease.

16.11. Survival. All obligations of any party hereto not fulfilled at the expiration or the earlier termination of this Lease shall survive such expiration or earlier termination as continuing obligations of such party.

16.12. Binding Effect. This Lease shall inure to the benefit of and be binding upon each of the parties hereto and their respective heirs, representatives, successors and assigns; provided, however, Landlord shall have no obligation to Tenants successors or assigns unless the rights or interests of such successors or assigns are acquired in accordance with the terms of this Lease.

16.13. Execution as Offer. The execution of this Lease by the first party to do so constitutes an offer to lease the Demised Premises. Unless within the number of days stated in Section 1.14 above after the date of its execution by the first party to do so, this Lease is signed by the other party and a fully executed copy is delivered to the first party, such offer shall be automatically withdrawn and terminated.

ARTICLE SEVENTEEN: ADDITIONAL PROVISIONS

Additional provisions may be set forth in the blank space below, and/or an Exhibit or Exhibits may be attached hereto which shall be made a part of this Lease for all purposes.

17.1 Landlord agrees to warrant the major components of HVAC units for a period of one (1) year. Tenant must show Landlord evidence of a regular HVAC maintenance program.

17.2 Tenant shall have a cancellation option after three years of the lease, if a six month rent penalty is paid and a six month notice is given to Landlord. After four (4) years, a three month rent penalty, with a six (6) month notice.

EFFECTIVE as of the date stated in Section 1.01 above.

BROKERS: REPUBLIC MANAGEMENT, INC.

/s/ Republic Management
- ----------
Principal Broker, Member of the
Greater Dallas Association of REALTORS', Inc.

By: /s/ Craig M. Franks

Name:

Address:

- ----------
- ----------
Telephone: ----------
License No.: ----------

Walker Property Advisors
- ----------
Cooperating Broker

By:

Name:

Address:

- ---
- ---
Telephone: ---
License No.: ---

LANDLORD: GREENVIEW LIMITED PARTNERSHIP

/s/ Devcor Equities INC. G.P.
- ---

By: /s/ J. P. DiBlasio

Name: J. P. DiBlasio

Title: Exec-Vice President

Date of Execution by Landlord: July 14, 1994

TENANT:

Network-1 Software & Technology, Inc.
- ---

By: /s/ Robert Russo

Name: Robert Russo

Title: President

Date of Execution by Tenant:

****

[For voluntary use only by members of the
Greater Dallas Association of REALTORS', Inc.]

o / o Greenview
Grand Prairie, Texas

Exhibit "A"

[Floor plan graphic omitted]

Exhibit "B"

Greenview Tech
Lot 7, Box 2
GISD Comm, #5
Grand Prairie, Texas 75050
Tarrant County

GREATER DALLAS ASSOCIATION OF REALTORS(R), INC.

EXHIBIT C

RENEWAL OPTIONS

PROPERTY ADDRESS OR DESCRIPTION: 878 Greenview Drive, Tarrant County, Grand Prairie, TX 75050

DATE OF LEASE 6/29/94

1. Option(s) to Extend Term

Landlord hereby grants to Tenant One options(s) [the "Options(s)"] to extend the Lease Terms for additional term(s) of 5 years, each [the "Extension(s)"], on the same terms, conditions and covenants set forth in the Lease Agreement, except as provided below. Each Option, shall be exercised only by written notice delivered to the Landlord at least One Hundred Eighty Days (180) days before the expiration of the Lease Term or the preceding Extension of the Lease Term. If Tenant fails to deliver Landlord written notice of the exercise of an Option within the prescribed time period, such Option and any succeeding Options shall lapse, and there will be no further right to extend the Lease Term, Each Option shall be exercisable by Tenant on the express condition that at the time of the exercise, and at all times prior to the commencement of such Extension(s), Tenant shall not be in default under any of the provisions of this Lease. The foregoing Option(s) are personal to Tenant and may not be exercised by any assignee or subtenant.

2. Calculation of Rent

The Base Rent during the Extension(s) shall be determined by one of the following methods: [INDICATED BY CHECKING The APPROPRIATE BOX UPON THE EXECUTION OF THE LEASE AGREEMENT]

|_| (a) Consumer Price Index Adjustment
|X| (b) Fair Rental Value Adjustment
|_| (c) Fixed Rental Adjustment

A. Consumer Price Index Adjustment

The monthly rent during the particular Extension shall be determined by multiplying the monthly installment of Base Rent during the Lease Term by a fraction determined as follows:

(1) The numerator shall be the latest Index.
(2) The denominator shill be the initial Index.

If such computation would reduce the rent for the particular Extension, it shall be disregarded, and the rent during the immediately preceding period shall apply instead.

The Index, as defined herein, shall mean the Consumer Price Index for Urban Consumers (all items), Dallas/Fort Worth, Texas, area (1984 = 100) published by the United States Department of Labor, Bureau of Labor Statistics.

The initial Index shall mean the Index published for the nearest calendar month preceding the commencement date of the Lease Term. The latest Index shall mean the Index published for the nearest calendar month preceding the first day of the Extension.

If a base year other than 1984 is adopted, the Index shall be converted in accordance with the appropriate conversion factor. If the Index is discontinued or revised, such other Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would have been obtained it if had not been discontinued or revised.

B. Fair Rental Value Adjustment

The Base Rent shall be increased on the first day of the particular Extension to the "Fair Rental Value" of the Demised Premises, determined in the following manner:

(1) If the Landlord and Tenant have not been able to agree on the Fair Rental Value Adjustment prior to the date the option is required to be exercised, the rent for the Extension shall be determined as follows: Within fifteen (15) days following the exercise of the option, Landlord and Tenant shall endeavor in good faith to agree upon a single appraiser. If Landlord and Tenant are unable to agree upon a single appraiser within said fifteen (15) day period, each shall then, by written notice to the other, given within ten (10) days after said fifteen(15) day period, appoint one appraiser. Within ten (10) days after the two appraisers are

appointed, they shall appoint a third appraiser. If either Landlord or Tenant fails to appoint its appraiser within the prescribed time period the single appraiser appointed shall determine the Fair Rental Value of the Demised Premises. Each party shall bear the cost of the appraiser appointed by it and the parties shall share equally the cost of the third appraiser.

(2) The "Fair Rental Value" of the Demised Premises shall mean the price that a ready and willing tenant would pay as of the commencement of the Extension as monthly rent to a ready and willing landlord of demised premises comparable to the Demised Premises if such property were exposed for lease on the open market for a reasonable period of time and taking into account all of the purposes for which such property may be used and not just the use proposed to be made of the Demised Premises by Tenant. The Fair Rental Value of the Demised Premises shall be the average of the two of the three appraisals which are closest in amount, and the third appraisal shall be disregarded. In no event shall the rent be reduced by reason of such computation. If the Fair Rental Value is not determined prior to the commencement of the Extension, then Tenant shall continue to pay to Landlord the rent applicable to the Demised Premises immediately prior to such Extension until the Fair Rental Value is determined, and when it is determined, Tenant shall pay to Landlord within ten (10) days after receipt of such notice the difference between the rent actually paid by Tenant to Landlord and the new rent determined hereunder. Tenant will give written approval of Fair Rental Value within fifteen (15) days of their notice of its determination, no notice of approval will allow tenant not to extend the lease.

C. Fixed Adjustments

The Base Rent shall be increased to the following amounts on the following dates:

Date	Amount

INITIALS: LANDLORD: JPD INITIALS: TENANT: RR

GREATER DALLAS ASSOCIATION OF REALTORS(R), INC.

EXHIBIT E

GUARANTEE

PROPERTY ADDRESS OR DESCRIPTION: 878 Greenview Drive, Tarrant County, Grand Prairie, TX 75050

DATE OF LEASE: 6/29/94

1. In order to induce Greenview Limited Partnership ("Landlord") to execute the Lease to which this Guarantee is attached (the "Lease") with Network-1 Software & Technology, Inc ("Tenant") for the Demised Premises in 878 Greenview Dr., Tarrant County, State of Texas, the undersigned (whether one or more than one) has guaranteed and by this instrument does hereby guarantee the full payment and performance of all liabilities, obligations, and duties (including, but not limited to, payment of Rent) imposed upon Tenant under the terms of the Lease, as if the undersigned has executed the Lease as Tenant thereunder.

2. The undersigned hereby waives notice of acceptance of this guarantee

and all other notices in connection herewith or in connection with the liabilities, obligations, and duties guaranteed hereby, including notices of default by Tenant under the Lease, and waives diligence, presentment, and suit on the part of Landlord in the enforcement of any liability, obligation, or duty guaranteed hereby.

3. The undersigned further agrees that Landlord shall not be first required to enforce against Tenant or any other person any liability, obligation, or duty guaranteed hereby before seeking enforcement thereof against the undersigned. Suit may be brought and maintained against the undersigned by Landlord to enforce any liability, obligation, or duly guaranteed hereby without joinder of Tenant or any other person. The liability of the undersigned shall not be affected by any indulgence, compromise, settlement, or variation of terms which may be extended to Tenant by Landlord or agreed upon by Landlord and Tenant, and shall not be impaired, modified, changed, released, or limited in any manner whatsoever by any impairment, modification, change, release, or limitation of the liability of Tenant or its estate in bankruptcy, or of any remedy for the enforcement thereof, resulting from the operation of any present or future provision of the United States Bankruptcy Code, or any similar law or statute of the United States or any state thereof. Landlord and Tenant, without notice to or consent by the undersigned, may at any time or times enter into such extensions, amendments, assignments, subleases, or other covenants respecting the Lease as they may deem appropriate; and the undersigned shall not be released thereby, but shall continue to be fully liable for the payment and performance of all liabilities, obligations and duties of Tenant under the Lease as so extended, amended, assigned or otherwise, modified.

4. It is understood that other agreements similar to this guarantee may, at Landlord's sole option and discretion, be executed by other persons with respect to the Lease. This guarantee shall be cumulative of any such agreements and the liabilities and obligations of the undersigned hereunder shall in no event be affected or diminished by reason of such other agreements. Moreover, in the event Landlord obtains another signature of more than one guarantor on this page or by obtaining additional guarantee agreements, or both, the undersigned agrees that Landlord, in Landlord's sole discretion, may (i) bring suit against all guarantors of the Lease, jointly and severally, or against any one or more of them: (ii) compound or settle with any one or more of the guarantors for such consideration as Landlord may deem proper; and (iii) release one or more of the guarantors from liability. The undersigned further agrees that no such action shall impair the rights of Landlord to enforce the Lease against any remaining guarantor or guarantors, including the undersigned.

5. If the party executing this guarantee is a corporation, then the undersigned officer personally represents and warrants that the Board of Directors of such corporation, in a duly held meeting, has determined that this guarantee may reasonably be expected to benefit the corporation.

6. The undersigned agrees that if Landlord shall employ an attorney to present, enforce, or defend any of Landlord's rights or remedies hereunder, the undersigned shall pay the reasonable attorney's fees incurred by Landlord in such connection.

7. This agreement shall be binding upon the undersigned and the successors, heirs, executors, and administrators of the undersigned, and shall inure to the benefit of Landlord and Landlord's heirs, executors, administrators, successors and assigns.

8. See Below

EXECUTED this _____ day of _____ 19__, to be effective the same day as the effective day of the Lease.

GUARANTOR(S)

WITNESS or ATTEST Name: William Hancock

(printed or typed)

- ---------- By: /s/ William Hancock

Signature of Witness ----------

(Signature)

Printed Name of Witness:

---------- Title: Executive V.P

Address of Witness: ----------

---------- Address: 4907 Wareham Dr.

- ---------- ----------

- ---------- Arlington, TX 76017

(If the Signatory is signing as officer of a corporate Guarantor, specify the title of the Signatory in such corporation.)

8. Notwithstanding anything herein to the contrary, the maximum liability of Guarantor hereunder shall not exceed the following amount: Year 1 - $15,000.00, Year 2 -- $10,000.00, Year 3 -- $5,000,000. This guarantee shall terminate on August 1, 1997.

INITIALS: LANDLORD: JPD INITIALS: TENANT:

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GREATER DALLAS ASSOCIATION OF REALTORS(R), INC.

EXHIBIT E

GUARANTEE

PROPERTY ADDRESS OR DESCRIPTION: 878 Greenview Drive, Tarrant County, Grand Prairie, TX 75050

DATE OF LEASE: 6/29/94

1. In order to induce Greenview Limited Partnership ("Landlord") to execute the Lease to which this Guarantee is attached (the "Lease") with Network-1 Software & Technology, Inc ("Tenant") for the Demised Premises in 878 Greenview Dr., Tarrant County, State of Texas, the undersigned (whether one or more than one) has guaranteed and by this instrument does hereby guarantee the full payment and performance of all liabilities, obligations, and duties (including, but not limited to, payment of Rent) imposed upon Tenant under the terms of the Lease, as if the undersigned has executed the Lease as Tenant thereunder.

2. The undersigned hereby waives notice of acceptance of this guarantee and all other notices in connection herewith or in connection with the liabilities, obligations, and duties guaranteed hereby, including notices of default by Tenant under the Lease, and waives diligence, presentment, and suit on the part of Landlord in the enforcement of any liability, obligation, or duty guaranteed hereby.

3. The undersigned further agrees that Landlord shall not be first required to enforce against Tenant or any other person any liability, obligation, or duty guaranteed hereby before seeking enforcement thereof against the undersigned. Suit may be brought and maintained against the undersigned by Landlord to enforce any liability, obligation, or duly guaranteed hereby without joinder of Tenant or any other person. The liability of the undersigned shall not be affected by any indulgence, compromise, settlement, or variation of terms which may be extended to Tenant by Landlord or agreed upon by Landlord and Tenant, and shall not be impaired, modified, changed, released, or limited in any manner whatsoever by any impairment, modification, change, release, or limitation of the liability of Tenant or its estate in bankruptcy, or of any remedy for the enforcement thereof, resulting from the operation of any present or future provision of the United States Bankruptcy Code, or any similar law or statute of the United States or any state thereof. Landlord and Tenant, without notice to or consent by the undersigned, may at any time or times enter into such extensions, amendments, assignments, subleases, or other covenants respecting the Lease as they may deem appropriate; and the undersigned shall not be released thereby, but shall continue to be fully liable for the payment and performance of all liabilities, obligations and duties of Tenant under the Lease as so extended, amended, assigned or otherwise, modified.

4. It is understood that other agreements similar to this guarantee may, at Landlord's sole option and discretion, be executed by other persons with

respect to the Lease. This guarantee shall be cumulative of any such agreements and the liabilities and obligations of the undersigned hereunder shall in no event be affected or diminished by reason of such other agreements. Moreover, in the event Landlord obtains another signature of more than one guarantor on this page or by obtaining additional guarantee agreements, or both, the undersigned agrees that Landlord, in Landlord's sole discretion, may (i) bring suit against all guarantors of the Lease, jointly and severally, or against any one or more of them: (ii) compound or settle with any one or more of the guarantors for such consideration as Landlord may deem proper; and (iii) release one or more of the guarantors from liability. The undersigned further agrees that no such action shall impair the rights of Landlord to enforce the Lease against any remaining guarantor or guarantors, including the undersigned.

5. If the party executing this guarantee is a corporation, then the undersigned officer personally represents and warrants that the Board of Directors of such corporation, in a duly held meeting, has determined that this guarantee may reasonably be expected to benefit the corporation.

6. The undersigned agrees that if Landlord shall employ an attorney to present, enforce, or defend any of Landlord's rights or remedies hereunder, the undersigned shall pay the reasonable attorney's fees incurred by Landlord in such connection.

7. This agreement shall be binding upon the undersigned and the successors, heirs, executors, and administrators of the undersigned, and shall inure to the benefit of Landlord and Landlord's heirs, executors, administrators, successors and assigns.

8. See Below

EXECUTED this _____ day of _____ 19__, to be effective the same day as the effective day of the Lease.

GUARANTOR(S)

WITNESS or ATTEST Name: Robert Russo

(printed or typed)

- ---------- By: /s/ Robert Russo
Signature of Witness ----------
(Signature)
Printed Name of Witness:
---------- Title: President
Address of Witness: ----------
---------- Address: 33-20 28th St.
- ---------- ----------
- ---------- Long Island City, NY 11106

(if the Signatory signing as officer of a corporate Guarantor, specify the title of the Signatory in such corporation.)

8. Notwithstanding anything herein to the contrary, the maximum liability of Guarantor hereunder shall not exceed the following amount: Year 1 - $15,000.00, Year 2 -- $10,000.00, Year 3 -- $5,00o,00~ This guarantee shall terminate on August 1, 1997,

INITIALS: LANDLORD: JPD INITIALS: TENANT: RR
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GREATER DALLAS ASSOCIATION OF REALTORS(R), INC.

EXHIBIT H.

CONSTRUCTION OF IMPROVEMENTS

PROPERTY ADDRESS OR DESCRIPTION: 878 Greenview Dr., Tarrant County Grand, Prairie, TX 75050

DATE OF LEASE: 6/29/94

1. Construction of Improvements:

A. Landlord agrees to construct (or complete) a building and other improvements upon the Demised Premises in accordance with Paragraph 6 being prepared forthwith by Landlord and delivered to Tenant. Upon approval by Tenant, two or more sets or said Plans and Specifications shall be signed by both parties, with one signed set retained by Tenant. Changes to said Paragraph 6 thereafter shall be made only by written addenda signed by both parties.

2. Completion Date:

A. It is estimated by Landlord that the building and other Improvements shall be completed by July 30, 1994.

B. Landlord shill notify Tenant in writing when construction has been completed. Tenant shall thereupon inspect the building and other improvements, and if same have in fact been completed in accordance with the Plans and Specifications, the Lease Term shall begin upon the date of completion with Base Rent due and payable as provided in Article Three of the Lease.

C. If the building and other improvements have not in fact been completed in accordance with the Paragraph 6, written notification of the items deemed incomplete shall be given by Tenant to Landlord immediately following inspection. Landlord shall forthwith proceed to finish the incomplete items, and the lease term shall begin upon the date that such items are in fact complete.

D. Completion, as used herein, shall mean substantial completion. Substantial completion shall mean at such time as the Landlord completes the requirements that allow Tenant to obtain a Certificate of Occupancy issued by the local municipal authorities whose jurisdiction includes the Demised Premises, and is the stage when the construction is sufficiently complete in accordance with the Plans and Specifications that the Tenant can occupy or utilize the Demised Premises for its intended use, except for minor "punch list" items remaining to be completed.

3. Letter of Acceptance: Tenant agrees to execute and deliver to Landlord, with a copy to the Principal Broker, a Letter of Acceptance, addressed to Landlord and signed by Tenant (or its authorized representative) acknowledging that construction has been completed in accordance with the Paragraph 6 and acknowledging the Commencement Date of the Lease Term.

4. Taking of Possession: The taking of possession of the Demised Premises along with the letter in Paragraph 3 by Tenant shall be deemed conclusively to be acknowledgement by Tenant that construction has been completed in accordance with Paragraph 6 (except for latent defects) and that the Lease Term has begun as of the later of August 1, 1994 or Landlord's completion of items in Paragraph 6.

5. Failure to Complete: In the event that the building and other improvements have not been completed in accordance with the Plans and Specifications by August 15, 1994, or by such date as extended by application of Section 16.01, Tenant shall have the right and option to terminate this Lease by giving written notice of Tenant's intention to terminate as of a certain date not less than fifteen (15) days prior to said certain date. If the building and other improvements have not been completed by said certain date, the lease shall, at the option of Tenant, terminate with no further liability of one party to the other, and Tenant's payments shall be promptly returned.

6. Landlord agrees at his sole cost and expense to perform the following work by August 15th:

A.) Construct 130 linear feet of vinyl sheetrock wall, with [ILLEGIBLE] walls up to the deck
B.) Install new glass front door, same as existing
C.) Divide electrical service and HVAC units; i.e. install separate meters or sub-meters for electrical & gas.
D.) Construct a handicap restroom next to existing

E.) Items A & D above to be substantially similar to that currently on Premises.

INITIALS: LANDLORD: JPD ---------- ----------

INITIALS: TENANT: RR ----------

CMH Capital Management Corp.
909 Third Avenue, 9th Floor
New York, NY 10022

August 30, 1996

Robert Russo, President
Network-1 Software & Technology, Inc.
909 Third Avenue
New York, New York 10022

Dear Bob:

This letter agreement shall set forth the terms of retention of CMH Capital Management Corp. ("CMH") by Network-1 Software & Technology, Inc. ("Network-1") for financial advisory services.

1. CMH agrees to provide financial advisory services to Network-1 for a term of [one (1) year from the date hereof] which services shall include, but not be limited to, advice related to strategic business relationships, structuring securities offerings and other financings, assistance in updating Network-1's Business Plan including preparation of financial projections, attendance at meetings with potential strategic partners and business relationships, and general advice related to Network-1 and its products.

2. In consideration of services to be provided by CMH, CMH shall receive from Network-1 within ninety (90) days of the date hereof a seven (7) year warrant to purchase up to 50,000 shares of common stock of Network-1 at an exercise price of $5.00 per share. The form of Warrant is attached hereto as Exhibit A.

3. In addition to the compensation described in paragraph 2 herein, Network-1 agrees to promptly reimburse CMH upon request from time to time for all reasonable out-of-pocket expenses incurred in connection with CMH's performance of services pursuant to this agreement. Any such expenses in excess of $500 shall be subject to the prior approval of Network-1.

4. In connection with CMH providing financial advisory services as provided herein, Network-1 agrees to indemnify and hold harmless CMH, including its officers and directors, against any and all losses, claims, damages, liabilities or reasonable costs (including legal fees and expenses) directly or indirectly, relating to or arising out of CMH's activities as a financial advisor for Network-1 as provided herein, provided, however, such indemnity agreement shall not apply to any such loss, claim, damage, liability or cost to the extent it is found in a final judgment by a court of competent jurisdiction to have resulted

primarily and directly from the negligence or willful misconduct of CMH. Network-1 also agrees that CMH shall not have any liability whether direct or indirect, in contract or otherwise to Network-1 for or in connection with the engagement of CMH as provided herein except for any such liability for losses, claims, damages, liabilities or costs that is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily and directly from CMH's negligence or willful misconduct.

5. Either party hereto may terminate this agreement at any time after ninety (90) days from the date hereof upon written notice, without liability or continuing obligation to the other (except for expenses incurred), up to the date of termination. The termination of this agreement shall not affect the consideration received by CMH as provided in paragraph 2 or the indemnification provided in paragraph 4 hereof.

6. The validity and interpretation of this agreement shall be governed by the laws in the State of New York, applicable to agreements made and

to be fully performed therein.

7. The benefits of this agreement shall inure to respective successors and permitted assigns of the parties hereto and the obligations and liabilities assumed in this agreement by the parties hereto shall be binding upon their respective successors and permitted assigns.

8. This agreement constitutes the complete understanding among the parties hereto with respect to the subject matter hereof and no amendment or modification of any provisions hereof shall be valid unless made in writing and signed by all the parties hereto.

If the foregoing correctly sets forth our agreement, please sign a copy of this letter in the space provided and return it to us.

Very truly yours,

CMH Capital Management Corp.

By: /s/ Corey Horowitz

Corey Horowitz, President

Agreed and Accepted this
30th day of August, 1996.

Network-1 Software & Technology, Inc.

By: /s/ Robert Russo

Robert Russo, President

CMH Capital Management Corp.
909 Third Avenue, 9th Floor
New York, New York 10022

January 15, 1997

Robert Russo, President
Network-1 Software & Technology, Inc.
909 Third Avenue, 9th Floor
New York, New York 10022

Dear Bob:

This letter shall serve to amend the financial advisory agreement (the "1996 Advisory Agreement"), dated August 30, 1996, between Network-1 Software & Technology, Inc. ("Network-1") and CMH Capital Management Corp. ("CMH") as follows:

1. The term of the 1996 Advisory Agreement shall be extended until January 15, 1999.

2. CMH shall receive on the date hereof an additional seven (7) year warrant to purchase up to 50,000 shares of common stock of Network-1 at an exercise price of $4.00 per share. The form of warrant is attached hereto as Exhibit A.

3. In addition, at any time between the date hereof and January 15, 1999, if Network-1 shall complete a merger or sale of substantially all of its assets, then CMH shall be entitled to a cash fee equal to 2% of the value of the total consideration received in connection with such transaction. If all or a portion of the consideration paid in the transaction is other than cash, then the value of such non-cash consideration shall be equal to the fair market value

on the date the transaction is consummated.

4. All other terms and provisions set forth in the 1996 Advisory Agreement shall remain in full force and effect.

If the foregoing correctly sets forth our agreement, please sign a copy of this letter at the appropriate space provided below.

Very truly yours,

CMH Capital Management Corp.

By: /s/ Corey Horowitz

Corey Horowitz, President

Agreed and Accepted:

Network-1 Software & Technology, Inc.

By: /s/ Robert Russo

Robert Russo, President

CMH Capital Management Corp.

Corey M. Horowitz
President

January 30, 1997

Robert Russo, President
Network-1 Software & Technology, Inc.
909 Third Avenue, 9th Floor
New York, N.Y. 10022

Dear Bob:

This letter shall serve to amend the financial advisory agreement (the "1996 Advisory Agreement"), dated August 30, 1996, between Network-1 Software & Technology, Inc. ("Network-1") and CMH Capital Management Corp. "CMH"), as amended by the letter agreement (the "Letter Agreement"), dated January 15, 1997 between Network-1 and CMH.

1. Network-1 has requested that CMH review, negotiate and develop new business opportunities for Network-1. In this regard, CMH has engaged in conversations and negotiations with third parties, and has provided general business advice to Network-1. CMH has expended, and will continue to expend, significant time to the affairs of Network-1 to assist Network-1 in achieving its business plan.

2. In consideration of the services described above, Network-1 agrees to pay CMH a monthly fee (the "Monthly Fee") equal to $12,500 beginning on January 31, 1997. Network-1's obligation to pay the Monthly Fee shall continue for two (2) years from the date hereof, unless terminated earlier by agreement between network-1 and CMH.

3. Since Network-1's cash flow is insufficient to permit regular monthly payments of the Monthly Fee, payments to CMH shall accrue until the earlier of (a) the receipt by Network-1 of proceeds from a financing in excess of $5 million, or (b) such time as network-1 shall, in its discretion, determine that regular monthly payments can be made to CMH.

4. All other terms and provisions set forth in the 1996 Agreement and the Letter Agreement shall remain in full force and effect.

5. If the foregoing correctly sets forth our agreement, please sign a copy of this letter in the appropriate space provided below.

Very truly yours,

CMH Capital Management Corp.

/s/ Corey Horowitz

Corey M. Horowitz

Agreed and Accepted:

Network-1 Software & Technology, Inc.

/s/ Robert Russo, President
- ---
Robert Russo, President

909 Third Avenue, 9th Floor, New York, NY 10022 Phone: 212.293.3082 Fax: 212.293.3090 Internet: CMH@Interramp.com

Exhibit 10.10

May 14, 1998

Robert Russo, President
Network-1 Software & Technology, Inc.
909 Third Avenue, Ninth Floor
New York, New York 10022

Dear Bob:

This letter shall serve to amend paragraph 3 of our letter agreement, dated January 15, 1997, between Network-1 Software & Technology, Inc. ("Network-1") and CMH Capital Management Corp. ("CMH") (the "CMH January 1997 Letter Agreement"), a copy which is attached hereto, to provide as follows:

"3. In addition, at any time between the date hereof and January 15, 2001, if Network-1 shall complete a merger or sale of substantially all of its assets (a "Transaction"), then CMH shall be entitled to a cash fee equal to 3% of the Transaction Value. "Transaction Value" shall mean the total proceeds and other consideration paid or received or to be paid or received in connection with a Transaction, including, without limitation: (i) cash; (ii) notes, securities and other property; (iii) liabilities, including all debt, pension liabilities, guarantees and capitalized leases directly or indirectly assumed, acquired, refinanced or extinguished and (iv) payments made in installments. For purposes of computing any fees payable to CMH hereunder, non-cash consideration shall be valued as follows: (x) publicly traded securities shall be valued at the average of their closing prices (as reported in The Wall Street Journal) for the five trading day period immediately preceding the closing of the Transaction and (y) any other non-cash consideration shall be valued at the fair market value thereof as determined in good faith by the Company and CMH."

You understand that Applewood Associates, L.P. ("Applewood") will be working with CMH to provide financial advisory services to Network-1 including, but not limited to, advice related to strategic business relationships including potential mergers and acquisitions, structuring securities offerings and other financings, assisting in updating Network-1's business plan, and general advice related to Network-1 and its products. CMH agrees to immediately advise Applewood of any contacts with respect to a proposed Transaction, and CMH agrees to work together with Applewood in all respects with respect to a Transaction. CMH further agrees that in the event it is due a fee from Network-1 pursuant to paragraph 3 of the CMH January 1997 Letter Agreement, as amended above, CMH agrees to share a portion of its fee with Applewood as follows: 1/3 of the CMH fee or 1% of the Transaction Value shall be paid to Applewood if Network-1 enters into a definitive agreement with respect to a Transaction within one year from the date hereof and 1/2 of the CMH fee or 1.5% of the Transaction Value if Network-1 enters into a definitive agreement with respect to a Transaction after one (1) year from the date hereof.

All other terms and provisions of the January 1997 Letter Agreement shall remain in full force and effect. If the foregoing currently sets forth our agreement, please sign a copy of this letter at the appropriate space provided below.

CMH Capital Management Corp.

By: /s/ Corey Horowitz

Corey Horowitz, President

Agreed and Accepted:

Network-1 Software & Technology, Inc.

By: /s/ Robert Russo

Robert Russo, President

Applewood Associates, L.P.

By: /s/ Irwin Lieber

Exhibit 10.11

MASTER SOFTWARE LICENSE AGREEMENT

BETWEEN

ELECTRONIC DATA SYSTEMS CORPORATION

AND

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.

- ---

EDS CONFIDENTIAL

- ---

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FOR

MASTER SOFTWARE LICENSE AGREEMENT

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LIST OF EXHIBITS

MASTER SOFTWARE LICENSE AGREEMENT

THIS MASTER SOFTWARE LICENSE AGREEMENT (the "Agreement"), dated November 10, 1997 (the "Effective Date"), is between NETWORK-1 SOFTWARE & TECHNOLOGY, INC., a Delaware corporation ("Network-1"), and ELECTRONIC DATA SYSTEMS CORPORATION, a Delaware corporation ("EDS").

W I T N E S S E T H:

WHEREAS, EDS desires to have the right to license computer software programs and to obtain services from Network-1 from time to time; and

WHEREAS, Network-1 is willing to provide computer software programs and services to EDS in accordance with the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the premises, and other good and valuable consideration received and to be received, Network-1 and EDS agree as follows:

ARTICLE I. AGREEMENT, TERM, AND DEFINITIONS

1.1 Agreement and Term. The parties agree that the terms and conditions of this Agreement apply to the provision of licensed software programs and related services to EDS by Network-1. The term of this Agreement commences on the Effective Date and the Agreement shall continue to be in effect until terminated by either party as set forth in this Agreement.

1.2 Certain Definitions. The following definitions apply to this Agreement:

(a) "Applicable Specifications" means the functional, performance, operational, compatibility, and other specifications or characteristics of a Product described in applicable Documentation and such other specifications or characteristics of a Product agreed upon in writing by the parties.

(b) "Documentation" means user guides, operating manuals, education materials, product descriptions and specifications, technical manuals, supporting materials, and other information relating to the Products or used in conjunction with the Services, whether distributed in print, magnetic, electronic, or video format, in effect as of the date (i) a Product is shipped to or is accepted by EDS, as applicable, or (ii) the Service is provided to EDS.

(c) "Employee" means those employees, agents, subcontractors, consultants, and representatives of Network-1 provided or to be

provided by Network-1 to perform Services pursuant to this Agreement.

(d) "Licensed Software" means computer programs in object code (including micro code) and/or source code, as applicable, provided or to be provided by Network-1 pursuant to this Agreement. The definition of Licensed Software also includes any enhancements, translations, modifications, updates, releases, or other changes to Licensed Software which are provided or to be provided as part of Network-1's performance of warranty Service obligations or pre-paid support Services pursuant to this Agreement.

(e) "Products" means, individually or collectively as appropriate, any hardware, Licensed Software, Documentation, and Work Products (as

later defined in this Agreement) supplies, accessories, and other commodities, provided or to be provided by Network-1 pursuant to this Agreement.

(f) "Services" includes, but is not limited to, installation, education, acceptance testing, support, development, warranty, and time and materials services, provided or to be provided by Network-1 pursuant to this Agreement.

(g) "Site" means geographically contiguous buildings, each of which, in whole or in part, is occupied or accessed by EDS or a customer of EDS. "Geographically contiguous" means adjacent tracts or parcels of real property separated, if at all, only by publicly dedicated rights of way or private easements.

(h) "Warranty Period" means the period specified in Section 5.1(e) of this Agreement during which the Network-1 is obligated to perform its warranty obligations.

ARTICLE II. PURCHASE ORDERS

2.1 Preparation of Purchase Orders. Network-1 agrees that licensed software programs and related services which Network-1 generally makes available to other customers shall be made available to EDS under the terms and conditions of this Agreement. EDS may request information about licensed software programs and related services in order to prepare purchase orders and Network-1 shall promptly provide to EDS, at no charge, sufficiently detailed information which is responsive to EDS' request. From time to time and/or at EDS' request, Network-1 shall provide written information to EDS about licensed software programs and related services, and new releases, versions or options related thereto, available or to be available from Network-1.

2.2 Issuance and Aceptance of Purchase Orders. References in this Section to purchase orders also apply to alterations to Purchase Orders (as later defined in this Section). The following governs the issuance and acceptance of purchase orders under this Agreement:

(a) EDS may issue to Network-1 written purchase orders identifying the Licensed Software and Services EDS desires to obtain from Network-1. Each purchase order may include other terms and conditions applicable to the Licensed Software and Services ordered; such other terms shall be consistent with the terms and conditions of this Agreement, or shall be necessary to place a purchase order, such as billing and shipping information, required delivery dates, installation locations, and Charges (as later defined in this Agreement).

(b) Network-1 shall promptly accept purchase orders by providing to EDS a written or an oral acceptance of such purchase order, or by commencing performance pursuant to such purchase order. Network-1 shall accept purchase orders which do not establish new or conflicting terms and conditions from those set forth in this Agreement. Network-1 shall also accept purchase orders incorporating terms and conditions which have been separately agreed upon in writing by the parties.

(c) Network-1 may reject a purchase order which does not meet the conditions described in subsection (b) above by promptly providing to EDS a written explanation of the reasons for such rejection. Network-1 shall accept an alteration to the originally issued purchase order if such alteration remedies the items set forth in Network-1's written rejection.

Purchase orders accepted in accordance with this Section are referred to as "Purchase Orders." EDS shall have no responsibility or liability for Licensed Software or Services provided without a Purchase Order.

2.3 Purchase Order Alterations. EDS may issue an alteration to a Purchase Order in order to, without limitation, (i) change a location for delivery, (ii) modify the quantity or type of Licensed Software and Services to be delivered or performed, (iii) implement any change or modification as required by or permitted in this Agreement, (iv) correct typographical or clerical errors, or (v) order Licensed Software or Services which are of superior quality, or are enhancements to or are new releases or new options of the Licensed Software or Services set forth in the Purchase Order.

2.4 Evaluation Purchase Orders. EDS may issue a purchase order to Network-1 for Licensed Software evaluation by EDS at no charge for an evaluation period agreed upon by the parties. Network-1 shall provide the Licensed Software listed in the evaluation Purchase Order to EDS and shall pay all related transportation and insurance costs. Such Licensed Software shall be protected by EDS in accordance with the non-disclosure requirements specified in this Agreement which are applicable to Licensed Software. At the conclusion of the evaluation period, EDS shall have the option to acquire such Licensed Software pursuant to this Agreement or to return such Licensed Software to Network-1 at Network-1's expense without obligation to Network-1. Licensed Software which Network-1 and EDS agree to be the subject of beta testing by EDS shall be subject to a separate agreement between the parties containing applicable beta test terms and conditions.

2.5 Cancellation of Purchase Orders. Except as otherwise agreed upon by the parties, EDS may cancel all or a portion of a Purchase Order relating to Licensed Software, without charge or penalty at any time prior to the scheduled delivery date of the affected Licensed Software. Purchase Orders, or portions thereof, for Services may be canceled as specified in the applicable sections of this Agreement.

ARTICLE III. PROVISION OF LICENSED SOFTWARE AND SERVICES

3.1 General EDS is entitled to obtain Licensed Software and Services for the benefit of and use by affiliates of EDS. Such affiliates and their respective employees are entitled to use the Licensed Software and Services in accordance with this Agreement and have and are entitled to all rights, benefits, and protections granted to EDS pursuant to this Agreement with respect to such Licensed Software and Services. However, an affiliate of EDS shall only be entitled to obtain Licensed Software and Services directly from Network-1 pursuant to this Agreement if EDS so provides written notice to Network-1. EDS is responsible for compliance by its affiliates with the terms and conditions set forth in this Agreement. EDS and its affiliates have the right to transfer or remarket the Licensed Software and Services to third parties.

3.2 Transportation of Lincensed Software. Network-1 shall deliver Licensed Software to EDS on the delivery date set forth in the applicable Purchase Order or as otherwise agreed upon by the parties. Charges for transportation of Licensed Software shall be paid by Network-1. The method and mode of all transportation shall be those selected by Network-1.

3.3 Risk if Loss. All risk of loss of, or damage to, Licensed Software shall be borne by Network-1 until receipt of delivery of such Licensed Software by EDS. Network-1 agrees to insure Licensed Software until receipt of delivery of such Licensed Software by EDS. If loss to or damage of Licensed Software

occurs prior to receipt of delivery by EDS, Network-1 shall immediately provide a replacement item or, if Licensed Software is not immediately replaceable, Network-1 shall give EDS highest priority for the provision of replacement Licensed Software.

3.4 Installation of Licensed Software. If installation is set forth in the governing Purchase Order or is included in the Charge for Licensed Software, Network-1 shall install Licensed Software in good working order at the designated location on or before the installation date set forth in the applicable Purchase Order or as otherwise agreed upon by the parties. Installation Services shall include performance of Network-1's usual and customary diagnostic tests to determine the operational status of the Licensed Software. Network-1 shall inform EDS of any education Services which are included with installation, and such education may be performed at a time mutually agreed upon by Network-1 and EDS.

3.5 Right to Cancel for Delays. In the event of a delay in delivery of all or any portion of Licensed Software listed on a Purchase Order or Licensed Software listed on a series of Purchase Orders which relate to a specific project or request for proposal (the Licensed Software listed on such series of Purchase Orders referred to as "Related Licensed Software"), or in the event of a delay in the performance of Services which is not excused in this Agreement, EDS may cancel without charge all or any portion of the Licensed Software, Related Licensed Software or Services for which delivery or performance has been so delayed. If, in EDS' opinion, the delivered Licensed Software or Related Licensed Software are not operable without the remaining undelivered Licensed Software or Related Licensed Software, EDS may, at Network-1's expense, return any delivered Licensed Software or Related Licensed Software to Network-1. EDS shall not be liable for any expenses incurred by Network-1 for canceled, undelivered, or returned Licensed Software or Related Licensed Software. EDS shall receive a refund of all amounts paid to Network-1 with respect to the canceled and/or returned Licensed Software, Related Licensed Software and Services.

3.6 Resale of Products by EDS. During the term of this Agreement, EDS may promote and resell Products, in conjunction with EDS providing systems integration, outsourcing or facilities management services to a customer of EDS ("ITS Customer"), in accordance with the following terms and conditions:

(a) Charges for Purchase Orders identified for resale shall be as set forth in Exhibit B.

(b) For a Purchase Order not identified as subject to Auto Payment as defined in Section 6.3, Network-1 may invoice EDS for resale products upon delivery and payment will be made in accordance with the provisions of Section 6.4, Payment Through Invoicing.

(c) Network-1 shall extend the same warranties and indemnifications, with respect to Products resold by EDS hereunder, as Network-1 extends to other end user customers.

(d) The term of agreements, warranties and indemnities extended by Network-1 to an ITS Customer shall commence upon delivery of a Product to an ITS Customer and the ITS Customer shall be governed by Network-1's then current End User Software License Agreement from the delivery date to such ITS Customer.

(e) Network-1 shall make available to ITS Customers all training, technical support and other services related to the Products, on the same terms and conditions, that are currently generally available or that may be generally available by Network-1 to other end user customers.

(f) During the term that EDS is providing services to an ITS Customer, EDS shall have authorized access to Licensed Software acquired under this Section 3.6, in accordance with the provisions of Exhibit E,

titled "Reseller Access Authorization".

3.7 Time and Matericals Services. If available from Network-1 (to be determined at the sole discretion of Network-1), EDS may obtain on a time and materials basis from Network-1 consulting, development and other Services (excluding support Services which are provided pursuant to other sections of this Agreement) agreed upon by the parties in accordance with the terms and conditions set forth below.

(a) EDS may specify on a purchase order the names, required number and skill levels of Employees to perform Services.

(b) During the course of performance of Services, EDS may request replacement of an Employee or a proposed Employee. In such event, Network-1 shall, within five (5) working days of receipt of such request from EDS, provide a substitute Employee of sufficient skill, knowledge, and training to perform the applicable Services. If, within the first thirty (30) days after an Employee's commencement of Services, EDS notifies Network-1 (i) such Employee's level of performance is unacceptable, (ii) such Employee has failed to perform as required, or (iii) such Employee, in EDS' sole opinion, lacks the skill, knowledge or training to perform at the required level, then EDS shall not be required to pay for Services provided by such Employee during such period and Network-1 shall refund to EDS all amounts paid for such Employee's Services. If EDS requests replacement of an Employee for the above-referenced reasons after such thirty (30) day time period, or at any time for a reason other than the reasons indicated above, EDS shall not be required to pay for, and shall be entitled to a refund of, any sums paid to Network-1 for such Employee's Services after the date of EDS' requested replacement of such Employee.

(c) Network-1 shall not replace, without EDS' consent, an Employee then currently performing Services until the governing Purchase Order expires or is terminated; however, Network-1 may replace, without EDS' consent, an Employee for reasons relating to the Employee's termination with Network-1, promotion, illness, death, or causes beyond Network-1's control.

(d) EDS shall reimburse Network-1 for reasonable expenses incurred by Employees in the performance of Services (if requested by Network-1 in advance and approved by EDS) which are related to travel, lodging, and meals; such expenses shall be reimbursed in accordance with EDS' guidelines for its own employees.

(e) Network-1 shall establish and shall retain, for a period of three (3) years following the performance of time and materials Services, records which adequately substantiate the applicability and accuracy of Charges for such Services and related expenses to EDS. Upon receipt of reasonable advance notice from EDS, Network-1 shall produce such records for audit by EDS.

(f) Purchase Orders for Services provided or to be provided under this Section may be canceled at any time without charge or penalty, upon written notice to Network-1.

(g) The parties agree that the ownership of any Work Product created by or on behalf of Network-1 in its performance of time and material Service shall be negotiated in good faith by the parties and documented in a separate agreement supplemental to this Agreement. Such separate

agreement shall be signed prior to commencement of Services. In the event that an agreement is not signed and Network-1 commences performance of Services, then the parties agree that EDS shall own any Work Product created by or on behalf of Network-1 in the performance of such Services.

3.8 Service in General. In connection with the performance of any Services pursuant to this Agreement:

(a) For purposes of this Agreement, the following definition applies:

"Work Product(s)" means (in any form including source code) any and all ideas, processes, methods, programming aids, formulas, manufacturing techniques, mask works, reports, programs, manuals, tapes, card decks, listings, software, flowcharts and systems and any improvements, enhancements, or modifications to any of the foregoing, which are developed, prepared, conceived, made, or suggested by any Employee or by Network-1 as part of, in connection with, or in relationship to the performance of Services (except in connection with Network-1's performance of warranty Service obligations or pre-paid support Services) pursuant to this Agreement. Work Products also means all such developments as are originated or conceived during the term of this Agreement but are completed or reduced to practice thereafter.

(b) Unless a specific number of Employees is set forth in the governing Purchase Order, Network-1 warrants it will provide sufficient Employees to complete the Services ordered within the applicable time frames established pursuant to this Agreement or as set forth in such Purchase Order.

(c) Network-1 warrants that Employees shall have sufficient skill, knowledge, and training to perform Services and that the Services shall be performed in a professional and workmanlike manner.

(d) Employees performing Services in the United States must be United States citizens or lawfully admitted in the United States for permanent residence or lawfully admitted in the United States holding a visa authorizing the performance of Services on behalf of Network-1.

(e) Network-1 warrants that all Employees utilized by Network-1 in performing Services are under a written obligation to Network-1 requiring Employee: (i) to maintain the confidentiality of information of Network-1's customers, and (ii) if such Employee is not a full-time employee whose work is considered a "work for hire" under Section 101 of the United States Copyright Code, to assign all of Employee's right, title, and interest to Network-1 in and to any Work Product which is developed, prepared, conceived, made, or suggested by such Employee while providing Services on behalf of Network-1.

(f) Network-1 shall require Employees providing Services at an EDS location to comply with applicable EDS security and safety regulations and policies.

(g) Network-1 shall provide for and pay the compensation of Employees and shall pay all taxes, contributions, and benefits (such as, but not limited to, workers' compensation benefits) which an employer is required to pay relating to the employment of employees. EDS shall not be liable to Network-1 or to any Employee for Network-1's failure to perform its compensation, benefit, or tax obligations. Network-1 shall indemnify, defend and hold EDS harmless from and against all such taxes, contributions and benefits and will comply with all associated governmental regulations, including the filing of all necessary reports and returns.

(h) Network-1 shall allow EDS or its designated third party to conduct a background investigation and drug screening ("Investigation") of any Employee performing Services in the United States, Canada and Mexico if EDS intends to provide the Employee with unescorted access to an EDS location. In connection with such Investigation EDS shall provide to Network-1 a standard form authorizing the Investigation and Network-1 shall promptly secure the completion of such form by the Employee. Any and all information obtained in connection with an Investigation of any Employee or acquired or made known during such Investigation shall be deemed confidential and shall not be revealed to persons without a bona fide need to know. If, after reviewing the results of an Investigation, EDS elects not to accept an Employee for performance of Services under this Agreement, Network-1 agrees

to not utilize such Employee in the performance of Services. EDS shall waive the Investigation for an Employee if Network-1 provides EDS with written confirmation that: (i) Network-1 has conducted a background and drug screening investigation of such Employee with satisfactory results, or (ii) the Employee has been employed with Network-1 for at least five (5) years in good standing.

3.9 Use of Existing Materials. For purposes of this Agreement, "Existing Materials" means any confidential or proprietary materials which belong to third parties or in which Network-1 has a pre-existing intellectual property interest. To the extent that Work Product(s) under development may incorporate or require the use of Existing Materials, or to the extent Network-1 intends, in its performance of Services, to utilize any such Existing Materials (except as such are utilized by Network-1 in the performance of warranty Service obligations or pre-paid support Services), Network-1 shall: (i) notify EDS of such intent prior to commencement of performance of Services; (ii) identify to EDS the ownership of such Existing Materials; (iii) describe the use to which Network-1 intends to put such Existing Materials; and (iv) explain Network-1's ability to proceed with performance of the Services without the use of such Existing Materials. EDS may require that Network-1 perform Services without the use of such Existing Materials. If any such Existing Material is owned by a third party and/or is used in the performance of Services, Network-1 warrants that it has acquired all licenses and authorizations necessary to utilize the Existing Material in the manner and for the purpose intended by Network-1 in its actual use of such Existing Material in the performance of Services. To the extent that Existing Materials are incorporated in Work Products, Network-1 grants to EDS and its affiliates a royalty-free, irrevocable, worldwide, non-exclusive, perpetual right to use the Work Product together with the Licensed Software in accordance with the terms and conditions of this Agreement or in a separate agreement supplemental to this Agreement.

3.10 Further Acts. During and subsequent to the term of this Agreement, Network-1 shall do, or cause to be done, all such further acts and shall execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, any and all further documentation or assignments as EDS may reasonably require to evidence EDS' right to use the Licensed Software or Work Products, in accordance with this Agreement.

3.11 Time of Performance. Time is expressly made of the essence with respect to each and every term and provision of this Article.

3.12 EDS Business Practices. Network-1 shall comply with the EDS Business Practices set forth in Exhibit A.

ARTICLE IV. PROVISION OF LICENSED SOFTWARE

4.1 Acceptance of Licensed Software. EDS shall accept delivered copy(ies) of Licensed Software on the date (the "Acceptance Date") when all necessary Documentation has been received and the Licensed Software performs in accordance with and/or conforms to its Applicable Specifications. In the event Licensed Software does not so perform, EDS may (i) continue to test the Licensed Software with the assistance of Network-1, (ii) permit Network-1 to repair or replace the Licensed Software at no additional expense to EDS, or (iii) return the Licensed Software and Documentation to Network-1, at Network-1's expense and without liability to Network-1, and any amounts paid by EDS for the Licensed Software and Documentation shall be refunded by Network-1 to EDS. Acceptance of Licensed Software does not waive any warranty rights provided in this Agreement for the Licensed Software.

4.2 Grant of License. For each item of Licensed Software received by EDS, Network-1 grants EDS and EDS has a worldwide, nonexclusive, irrevocable, perpetual license to use, execute, store, and display the object code version of the Licensed Software, on behalf of EDS and customers of EDS (a "License") in accordance with the type of License selected and in accordance with the terms and conditions of this Agreement. A Purchase Order shall designate the type of License which is selected; if a Purchase Order fails to designate the type of License desired, then such

License shall be deemed to be a Network Software License (as later defined in this Section).

(a) A "CPU Software License" permits EDS to use the Licensed Software on any single computer (which may include more than one central processing unit) or item of equipment ("CPU") and to copy the Licensed Software as necessary for archival, maintenance, disaster recovery testing, or back-up purposes. If EDS desires to run parallel operations in the process of conducting a disaster recovery test or transferring operations from one CPU to another CPU, EDS may operate the Licensed Software on two (2) CPUs for the period of time reasonably necessary to complete the disaster recovery test or transfer.

(b) A "Site Software License" permits EDS to use the Licensed Software at the Site designated in the Purchase Order and to copy the Licensed Software as necessary for dissemination at the Site and for archival, maintenance, disaster recovery testing, or back-up purposes. Notwithstanding the foregoing, the Licensed Software may be used at other than the designated Site, if (i) the designated Site cannot be used, (ii) the designated Site is replaced or changed by EDS, or (iii) EDS provides Network-1 with prior written notice. If EDS desires to run parallel operations in the process of conducting a disaster recovery test or transferring operations from one Site to another Site, EDS may operate the Licensed Software at two (2) Sites for the period of time reasonably necessary to complete the disaster recovery test or transfer.

(c) A "Network Software License" permits EDS to use the Licensed Software on any single computer, file server, or item of equipment which may be accessed by multiple, networked devices (collectively hereinafter referred to as the "Network"). Portions of the Licensed Software may be downloaded as appropriate for use by the devices on the Network. If EDS desires to run parallel operations in the process of conducting a disaster recovery test or transferring operations from one Network to another Network, EDS may operate the Licensed Software on two (2) Networks for the period of time reasonably necessary to complete the disaster recovery test or transfer.

(d) A "Corporate Software License" permits EDS to use the Licensed Software at any EDS or EDS customer location and on any items of equipment and to make and use unlimited copies of the Licensed Software.

(e) Any License granted under this Agreement permits EDS to (i) use Licensed Software for its corporate purposes including, but not limited to, providing services to or processing data of customers of EDS, providing remote access to the Licensed Software, and performing disaster recovery, disaster testing, and backup as EDS deems necessary, and (ii) use and copy Licensed Software and Documentation for the purpose of creating and using training materials relating to the Licensed Software, which training materials may include flow diagrams, system operation schematics, or screen prints from operation of the Licensed Software. Access to and use of the Licensed Software by customers of EDS shall be considered authorized use under this Section so long as such use is in conjunction with EDS' provision of services to, or EDS' processing the data of, such customers, and so long as any such customers are bound by obligations of confidentiality.

(f) EDS shall not disassemble, de-compile, or reverse engineer the Licensed Software.

The governing License also includes the right to use the source code version of Licensed Software solely in accordance with the terms and conditions of the Section of this Agreement titled "Provision of Source Code."

4.3 Transfer of Licensed Software. During the performance or upon termination of a contract with an EDS customer or upon any transfer of equipment

incorporating Licensed Software to a third party (such customers and third parties referred to as "Transferee"), (i) the applicable License may be assigned to such Transferee, or (ii) upon request by EDS, the Licensed Software will be licensed directly by Network-1 to such Transferee. Any assignment of Licensed Software in accordance with this Section shall be in accordance with the terms and conditions of Network-1's standard software license agreement or as agreed upon by Network-1 and Transferee at no additional charge to EDS or Transferee, and EDS shall have no further liability or responsibility with respect to Licensed Software.

4.4 Ownership of Licensed Software and Modifications. The Licensed Software shall be and remain the property of Network-1 or third parties which have granted Network-1 the right to license the Licensed Software and EDS shall have no rights or interests therein except as set forth in this Agreement. EDS shall be entitled to develop interfaces to the Licensed Software and all such software interfaces to the Licensed Software developed by EDS shall be and remain the property of EDS, and Network-1 and its Employees shall have no rights or interests therein. Except with respect to software interfaces to the Licensed Software developed by EDS as provided above, or pursuant to ss.4.11(c) Provision of Source Code of this Agreement, EDS may not modify, enhance or otherwise change the Licensed Software. Except in connection with Network-1's performance of warranty Service obligations or pre-paid support Services, all modifications of and software derivative of the Licensed Software developed at EDS' expense by Network-1 and its Employees shall be considered Work Product, the ownership of which shall be determined as set forth in ss.3.7(g) Time and Materials Services.

4.5 Central Distribution. EDS may centrally distribute Licensed Software, including Corrections, Improvements, and Updates thereto, and related Documentation to end users of the Licensed Software by copying the Licensed Software onto EDS supplied disks and physically distributing the Licensed Software, or by electronically transmitting the Licensed Software directly from a host computer to the hard disk of one or more central processing

units. Network-1 shall provide to EDS, as part of Network-1's price for Licensed Software, a master disk or disks of the applicable Licensed Software and one copy of all Documentation relating thereto which EDS shall be entitled to copy for such distribution. As part of Network-1's price for Updates for Licensed Software, Network-1 shall update master disks and the then current documentation related thereto. EDS shall keep records of such electronic distribution and shall provide a report of sales to Network-1 in monthly Purchase Orders. EDS shall also provide, upon Network-1's reasonable request from time to time, a written report setting forth the total number of copies distributed. If the foregoing monthly Purchase Order is not identified as being subject to automatic payment then Network-1 shall invoice EDS for such centrally distributed Licensed Software and Documentation based on EDS' written report of sales in accordance with the applicable per copy Charge for copies of Licensed Software.

4.6 Proprietary Markings. EDS shall not remove or destroy any proprietary markings or proprietary legends placed upon or contained within the Licensed Software.

4.7 Duplication of Documentation. EDS may duplicate Licensed Software Documentation, at no additional charge, for EDS' use or for use by a customer of EDS in connection with the provision of Licensed Software so long as all required proprietary markings are retained on all duplicated copies.

4.8 Non-Disclosure. During the term of a License, EDS will treat the Licensed Software with the same degree of care and confidentiality which EDS provides for similar information belonging to EDS which EDS does not wish disclosed to the public, but not less than reasonable care. This provision shall not apply to Licensed Software, or any portion thereof, which is (i) already known by EDS without an obligation of confidentiality, (ii) publicly known or becomes publicly known through no unauthorized act of EDS, (iii) rightfully received from a third party

without obligation of confidentiality, (iv) disclosed without similar restrictions by Network-1 to a third party, (v) approved by Network-1 for disclosure, or (vi) required to be disclosed pursuant to a requirement of a governmental agency or law so long as EDS provides Network-1 with timely prior written notice of such requirement. It will not be a violation of this Section if (A) EDS provides access to and the use of the Licensed Software to third parties providing services to EDS so long as EDS secures execution by such third parties of a confidentiality agreement as would normally be required by EDS, or (B) EDS independently develops software which is similar to Licensed Software, so long as such independent development is substantiated by written documentation.

4.9 Licensed Software Support Services. The support Services set forth below for the Licensed Software shall be provided by Network-1 to EDS during the Warranty Period at no charge to EDS. Thereafter, such support Services shall be provided by Network-1, upon EDS' request, for either a fixed or open-ended term, at the applicable Charges set forth in Exhibit B, upon the terms contained in the next Section. EDS may discontinue such support Services at any time by providing thirty (30) days' advance written notice to Network-1. If such support Services were provided by Network-1 for an open-ended term, EDS shall promptly receive a refund of pre-paid support Charges which reflects the amount for discontinued support Services after the effective date of the notice.

(a) Network-1 shall promptly notify EDS of any defects, errors or malfunctions ("Defects") in the Licensed Software or Documentation of which Network-1 becomes aware from any source and shall promptly provide to EDS modified versions of Licensed Software or Documentation which incorporate corrections of any Defects ("Corrections"). Network-1 shall also provide to EDS all operational and support

assistance necessary to cause Licensed Software to perform in accordance with its Applicable Specifications and remedial support designed to provide a by-pass or temporary fix to a Defect until the Defect can be permanently corrected. Network-1 shall use its best efforts to respond to requests from EDS for Licensed Software support in a manner and time frame which are reasonably responsive considering the nature and severity of the Defect which gave rise to such request.

(b) Network-1 shall provide to EDS all upgrades, modifications, improvements, enhancements, extensions, and other changes to Licensed Software developed by Network-1 ("Improvements") and all updates to the Licensed Software necessary to cause the Licensed Software to operate under new versions or releases of the Licensed Software's current operating system(s) ("Updates") which are generally made available to other customers of Network-1. EDS shall have the option to implement any Improvement or Update and any failure by EDS to so implement shall not affect EDS' right to continue to receive support and maintenance Services.

(c) Network-1 shall provide telephone hot-line support between 8:00 a.m. and 5:00 p.m. at the applicable maintenance location. In addition, Network-1 shall provide to EDS, at the request of EDS and at Network-1's then current established charges therefor, additional telephone hot-line support for up to twenty-four (24) hours per day, seven (7) days per week.

(d) Network-1 shall provide to EDS any revisions to the existing Documentation developed for the Licensed Software or necessary to reflect all Corrections, Improvements, or Updates.

(e) Network-1 shall make Licensed Software training available to persons designated by EDS to the extent agreed upon by the parties.

(f) If the applicable Charge for Licensed Software is payable on a periodic basis, and such Charge includes provision of support Services, then if an Event of Default as described in the Section of this Agreement titled "Provision of Source Code" occurs or an event described in the Section of this Agreement titled "Termination for

Insolvency or Bankruptcy" occurs and if Network-1 fails to provide the support Services described above, then EDS' Charge for the affected Licensed Software shall be immediately reduced to reflect such failure by subtracting that portion of the Charge allocable to the provision of support Services.

4.10 Licensed Software Support Services Options. EDS may obtain the support Services described in the previous Section for Licensed Software on a central site support basis and/or on an individual site support basis. In the absence of a designation of central or individual site support in a Purchase Order, such support shall be deemed to be individual site support. The Charges for each option shall be as set forth in Exhibit B or as otherwise agreed upon by the parties. Where "central site support" is requested, support Services shall be provided by Network-1 to and shall be requested by EDS through a single point of contact identified by EDS on a Purchase Order. To the extent necessitated by geographic diversity or where required in order to support multiple time zones, EDS may designate multiple central site support locations. With respect to central site support, Network-1 shall provide to EDS one master disk and one copy of all Documentation relating to each Correction, Improvement, or Update. EDS shall be entitled to copy the disk and Documentation and distribute the copies or electronically transmit the copied information to each location supported by the central site. A designation of central site support shall not prevent an individual user of Licensed Software from contacting Network-1 in the event of an emergency. Where "individual site support" is

requested, support Services shall be provided by Network-1 to the applicable licensed CPU, Site, or Network, or, in the case of a Corporate Software License, to a licensed user.

4.11 Provision of Source Code. EDS' ability to utilize adequately Licensed Software will be seriously jeopardized if Network-1 fails to maintain or support such Licensed Software unless complete Licensed Software source code and related Documentation is made available to EDS for EDS' use in satisfying EDS' maintenance and support requirements. Therefore, Network-1 agrees that if an "Event of Default" occurs, then Network-1 will provide to EDS one copy of the most current version of the source code for the affected Licensed Software and associated Documentation in accordance with the following:

(a) An Event of Default shall be deemed to have occurred if Network-1: (i) ceases to market or make available maintenance or support Services for the Licensed Software during a period in which EDS is entitled to receive or to purchase, or is receiving or purchasing, such maintenance and support and Network-1 has not promptly cured such failure within thirty (30) days after receipt of EDS' written demand that Network-1 make available or perform such maintenance and support, (ii) becomes insolvent, executes an assignment for the benefit of creditors, or becomes subject to bankruptcy or receivership proceedings, (iii) ceases business operations generally or (iv) has transferred all or substantially all of its assets or obligations set forth in this Agreement to a third party which has not assumed all of the obligations of Network-1 set forth in this Agreement.

(b) Network-1 will promptly and continuously update and supplement the source code as necessary with all revisions, Corrections, enhancements, and other changes developed for the Licensed Software and Documentation. Such source code shall be in a form suitable for reproduction and use by computer and photocopy equipment, and shall consist of a full source language statement of the program or programs comprising the Licensed Software and complete program maintenance Documentation which comprise the pre-coding detail design specifications, and all other material necessary to allow a reasonably skilled programmer or analyst to maintain and enhance the Licensed Software without the assistance of Network-1 or reference to any other materials.

(c) The governing License for the Licensed Software includes the right to use source code received under this Section as necessary to

modify, maintain, and update the Licensed Software solely for purposes of providing support for EDS and customers of EDS that, absent the Event of Default, would have been provided by Network-1 under this Agreement, and for no other purpose whatsoever. EDS shall not distribute the Licensed Software source code received under this Section to any third party and such source code shall remain subject to the terms and provisions of this Agreement.

(d) Upon request by EDS, Network-1 will deposit in escrow with an escrow agent acceptable to EDS and pursuant to a mutually acceptable escrow agreement supplemental to this Agreement, a copy of the source code which corresponds to the most current version of the Licensed Software in use by EDS. EDS shall pay all fees of the escrow agent for services provided. At a minimum, the terms and conditions of such mutually acceptable escrow agreement supplemental to this Agreement shall allow EDS to conduct an audit of, or shall require that the escrow agent conduct an audit of, the copy of source code in escrow to ensure that such copy meets the requirements established in this Section. Network-1's entry into, or failure to enter into, an agreement with an escrow agent or to deposit the described materials

in escrow shall not relieve Network-1 of its obligations to EDS described in this Section.

(e) If, as a result of an Event of Default, Network-1 fails to provide required support Services, then any periodic license fee which EDS is required to pay under this Agreement for Licensed Software shall be reduced to reflect such lack of support Services. At such time as Network-1 commences offering the support Services described in this Agreement for Licensed Software, EDS may obtain such support Services as provided for elsewhere in this Agreement.

4.12 Acquisition of Third Party Software. If EDS has acquired software products from a third party and rights to such software products are subsequently acquired by Network-1 (whether through purchase of the third party in whole or in part, through purchase of the software products, through acquisition of the rights to market the software, or through any other means), then EDS shall have the option of (i) continuing to use the software products under the original license agreement with such third party at no additional charge to EDS other than applicable fees identified in such license agreement, or (ii) using the software products under the terms and conditions of this Agreement.

4.13 Software from an Authorized Third Party. If EDS acquires Network-1's software products from a value added reseller, dealer, distributor, or other Network-1 authorized third party provider or if the Licensed Software is embedded in software products acquired from a third party, Network-1 agrees that, at EDS' option, such software products shall be deemed to have been acquired under this Agreement.

ARTICLE V. WARRANTIES, INDEMNITIES, AND LIABILITIES

5.1 Warranty. Network-1 represents and warrants that:

(a) Network-1 has not and will not enter into agreements or commitments which are inconsistent with or conflict with the rights granted to EDS in this Agreement;

(b) The Products are and shall be free and clear of all liens and encumbrances, and EDS shall be entitled to use the Products without disturbance;

(c) No portion of the Products contain, at the time of delivery, any "back door," "time bomb," "Trojan horse," "worm," "drop dead device," "virus," or other computer software routines or hardware components designed to (i) permit access or use of either the Products or EDS' computer systems by Network-1 or a third party not authorized by this Agreement, (ii) disable, damage or erase the Products or data, or (iii) perform any other such actions;

(d) The Products and the design thereof shall not contain preprogrammed preventative routines or similar devices which prevent EDS from exercising the rights set forth in Article IV of this Agreement or from utilizing the Products for the purpose for which they were designed;

(e) Each Product and its media (i) shall be new and shall be free from defects in manufacture, materials, and design, (ii) shall be manufactured in a good and workmanlike manner using a skilled staff fully qualified to perform their respective duties, and (iii) shall function properly under ordinary use and operate in conformance with

its Applicable Specifications and Documentation from the date of receipt until the date ninety (90) days after EDS requests, and Network-1 provides, the pass-key necessary for installation and activation of the Licensed Software.

(f) The Products are, and shall continue to be, data, program, and upward compatible with any other Products available or to be available from Network-1 so that data files created for a Product can be utilized without adaptation with other Products and Products will operate with other Products and will not result in the need for alteration, emulation, or other loss of efficiency. Network-1 shall provide to EDS at least ninety (90) days prior written notice to discontinue any Product.

(g) Neither the performance nor the functionality of the Products will be affected by any changes to the date format or date calculations within any part of the Product either before, during or after the year 2000.

During the Warranty Period, Network-1 will provide warranty Service to EDS at no additional cost and will include all Services or replacement Products or Product media necessary to enable Network-1 to comply with the warranties set forth in this Agreement. Network-1 shall pass through to EDS any manufacturers' warranties which Network-1 receives on the Products and, at EDS' request, Network-1 shall enforce such warranties on EDS' behalf. Network-1 agrees that EDS shall be entitled to pass through to Product end users any warranties received from Network-1 for such Products pursuant to this Agreement.

5.2 Proprietary Rights Indemnification. Network-1 represents and warrants that (i) at the time of delivery to EDS, no Product provided under this Agreement is the subject of any litigation ("Litigation"), and (ii) Network-1 has all right, title, ownership interest, and/or marketing rights necessary to provide the Products to EDS and that each License, the Products and their sale, license, and use hereunder do not and shall not directly or indirectly violate or infringe upon any copyright, patent, trade secret, or other proprietary or intellectual property right of any third party or contribute to such violation or infringement ("Infringement"). Network-1 shall indemnify and hold EDS and Product end users and their respective successors, officers, directors, employees, and agents harmless from and against any and all actions, claims, losses, damages, liabilities, awards, costs, and expenses (including legal fees) resulting from or arising out of any Litigation, any breach or claimed breach of the foregoing warranties, or which is based on a claim of an Infringement and Network-1 shall defend and settle, at its expense, all suits or proceedings arising therefrom. EDS shall inform Network-1 of any such suit or proceeding against EDS and shall have the right to participate in the defense of any such suit or proceeding at its expense and through counsel of its choosing. Network-1 shall notify EDS of any actions, claims, or suits against Network-1 based on an alleged Infringement of any party's intellectual property rights in and to the Products. In the event a permanent injunction is obtained against use of the Products by EDS or customers of EDS, Network-1 shall promptly, at its option and expense, either (A) procure for EDS and Product end users the right to continue to use the infringing Product as set forth in this Agreement, or (B) replace or modify the infringing Products to make its use non-infringing while being capable of performing the same function without degradation of performance. If, after the use of best efforts,

neither option (A) or (B) is accomplished by Network-1 within thirty (30) days of the effective date of such permanent injunction, then: (i) the applicable Purchase Order may be immediately terminated by EDS, (ii) Network-1 shall promptly refund to EDS a pro rata amount of any prepaid Charges for maintenance and support Services related thereto, and (iii) Network-1 shall promptly refund to EDS all prepaid fees or Charges, less depreciation based on a five (5) year straight line basis, for Product(s) subject to such

permanent injunction which cannot be used by EDS or customers of EDS and which have been paid by EDS to Network-1 pursuant to such Purchase Order.

5.3 Cross Indemnification. In the event any act or omission of a party or its employees, servants, agents, or representatives causes or results in (i) damage to or destruction of property of the other party or third parties, and/or (ii) death or injury to persons including, but not limited to, employees or invitees of either party, then such party shall indemnify, defend, and hold the other party harmless from and against any and all claims, actions, damages, demands, liabilities, costs, and expenses, including reasonable attorneys' fees and expenses, resulting therefrom. The indemnifying party shall pay or reimburse the other party promptly for all such damage, destruction, death, or injury.

5.4 Limitation of Liability. Neither party shall be liable to the other pursuant to this Agreement for any amounts representing loss of profits, loss of business or indirect, consequential, exemplary, or punitive damages of the other party. The foregoing shall not limit the indemnification, defense and hold harmless obligations set forth in this Agreement.

5.5 Insurance. Network-1 shall, at Network-1's sole expense, maintain the following insurance:

a) Commercial General Liability Insurance including contractual coverage: The limits of this insurance for bodily injury and property damage combined shall be at least:

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Each Occurrence Limit	$1,000,000
General Aggregate Limit	$1,000,000
Products-Completed Operations Limit	$1,000,000
Personal and Advertising injury Limit	$1,000,000

</TABLE>

c) Workers' Compensation Insurance: Such insurance shall provide coverage in amounts not less than the statutory requirements in the state where the work is performed, even if such coverage is elective in that state.

d) Employers Liability Insurance: Such insurance shall provide limits of not less than $1,000,000 per occurrence.

The insurance specified in (a) and (b) above shall: (i) name EDS, its directors, officers, employees and agents as additional insureds, and, (ii) provide that such insurance is primary coverage with respect to all insureds and additional insureds.

The above insurance coverages may be obtained through any combination of primary and excess or umbrella liability insurance. EDS may require higher limits or other types of insurance coverage(s) as necessary and appropriate under the applicable purchase order.

Network-1 shall provide at EDS' request certificates evidencing the coverages, limits and provisions specified above on or before the execution of the Agreement and thereafter upon the renewal of any of the policies. Network-1 shall require all insurers to provide EDS with a thirty (30) day advanced written notice of any cancellation, nonrenewal

or material change in any of the policies maintained in accordance with this Agreement.

5.6 Survival of Article V. The provisions of this Article V, excluding ss.5.5 Insurance, shall survive the term or termination of this Agreement for any reason.

ARTICLE VI. PAYMENTS TO SUPPLIER

6.1 Charges, Prices, and Fees for Licensed Software and Services. Charges, prices, and fees ("Charges") and discounts, if any, for Licensed Software and Services shall be determined as set forth in Exhibit B, in a Purchase Order, or as otherwise agreed upon by the parties, unless modified as set forth in this Agreement. Upon EDS' request, Network-1 shall: (i) provide to EDS current copies of Network-1's standard published prices, and (ii) records which substantiate that EDS has received the Charges and discounts to which EDS is entitled to under this Agreement. In no event shall Charges exceed Network-1's then current established charges, prices and fees. If promotional discounts or programs are extended to other customers, dealers, or distributors of Network-1, EDS shall be entitled to participate in such promotional discounts or programs. All purchases which utilize any such discounts shall be deemed for all purposes including, without limitation, for purposes of calculating accumulated purchases and any discounts hereunder, to have been purchased or licensed under this Agreement.

6.2 Modifications to Charges. Where a change in an established Charge for Licensed Software or Services is provided for in this Agreement, Network-1 shall give to EDS at least forty-five (45) days' prior written notice of such change.

(a) Any increase in a Charge for Services shall not occur during the first twelve (12) months of this Agreement, during the term of the applicable Purchase Order or during the specified period for performance of Services, whichever period is longer. Thereafter, any increase in a Charge for Services shall not exceed five percent (5%) of such Charge.

(b) All purchase orders issued by EDS prior to the end of the required notice period will be honored at the then current Charges so long as the scheduled delivery date of the applicable Licensed Software or Services is within forty-five (45) days after the effective date of the increase.

(c) If Network-1's established Charge, less any applicable discount or promotion, on the scheduled delivery date is lower than the established Charge for such Licensed Software or Service stated in the applicable Purchase Order, then EDS shall be entitled to obtain such Licensed Software or Service at such lower Charge, less any applicable discount or promotion.

6.3 Auto Payment. This Section shall apply to Purchase Orders identified as being subject to automatic payment by EDS.

(a) Single Payment for Recurring Charges. All Charges which are due and payable on a monthly, annual or other periodic basis for Products and Services ("Recurring Charges") shall be paid by EDS on the same date of the month for each month that such Charges are due (the "Remit Date"). The initial payment for a Recurring Charge shall be made on the first Remit Date after the Applicable Event provided that such Applicable Event occurs at least five (5) days prior to the first Remit Date. An "Applicable Event" is the event set forth in a Purchase Order that initiates payment of Charges (such as the installation, receipt, or acceptance of the Product; or the commencement or completion of Services). If the Applicable Event occurs less than five (5) days prior to the first Remit Date, the initial payment for such Recurring Charge shall be made on the following Remit Date, and EDS shall not be subject to interest or penalties as a result of such late payment.

(b) Payment for Other Charges. Except for Recurring Charges, or unless otherwise agreed to by the parties in writing, all payments due Network-1 for Products and Services shall be paid within thirty (30) days after the date of the Applicable Event.

(c) Invoices Required Under Auto Payment. Network-1 must send EDS an invoice to receive payment for any amounts due for any Charges which are payable and have not been identified on the applicable Purchase Order which is subject to automatic payment.

(d) Reconciliation. From time to time, at either party's request, the other party shall assist with the reconciliation of the payments made by EDS to Network-1.

(e) Taxing Jurisdictions. Network-1 shall provide EDS with the list of states and taxing jurisdictions, and their respective registration numbers where Network-1 is qualified and registered to collect sales/use taxes in all of the taxing jurisdictions within that state. If such written notification is not received by EDS from Network-1, then EDS shall remit the appropriate tax directly to the taxing authority. Network-1 shall promptly notify EDS of any additional jurisdictions to which Network-1 may qualify and register to collect sales/use taxes.

6.4 Payment Through Invoicing. This Section applies to Purchase Orders issued by EDS which are not identified as being subject to automatic payment or to any invoice received by EDS from Network-1 as permitted by this Agreement.

(a) Except as otherwise set forth in this Agreement, any undisputed sum due to Network-1 pursuant to this Agreement shall be payable within thirty (30) days after receipt by EDS of a correct invoice therefor from Network-1. Network-1 shall invoice EDS on or after the applicable Acceptance Date for the Licensed Software covered by such invoice. Periodic payments, if any, due to Network-1 pursuant to this Agreement shall be invoiced at the beginning of the period to which they apply. Payment for any other Services shall be invoiced as agreed upon by the parties or, in the absence of an agreement, upon completion of such Services.

(b) A "correct" invoice shall contain (i) Network-1's name and invoice date, (ii) the specific Purchase Order number if applicable, (iii) description including serial number as applicable, price, and quantity of the Licensed Software or Services actually delivered or rendered, (iv) credits (if applicable), (v) name (where applicable), title, phone number, and complete mailing address of responsible official to whom payment is to be sent, and (vi) other substantiating documentation or information as may reasonably be required by EDS from time to time. A correct invoice must be submitted to the appropriate invoice address listed on the applicable Purchase Order.

6.5 Taxes.

(a) Unless EDS provides evidence of exemption, EDS shall pay or reimburse Network-1, where EDS is liable under applicable tax statute, amounts equal to taxes which are imposed upon EDS' acquisition of Products or Services including federal excise taxes, or sales or use taxes; provided, however, EDS shall not be obligated to pay or reimburse Network-1 for any taxes attributable to the sale of any Products or Services which are imposed on or measured by net or gross income, capital, net worth, franchise, privilege, any other taxes, or assessments, nor any of the foregoing imposed on or payable by Network-1.

(b) Network-1 agrees to reasonably cooperate with EDS in the audit or minimization of any applicable tax and shall make available to EDS, and any taxing authority, all information, records, or documents

relating to any audits or assessments attributable to or resulting from the payment process under this Agreement, and the filing of any tax returns or the contesting of any tax.

EDS shall not be obligated to pay or reimburse Network-1 for additions to taxes, penalties, interest, fees, or other expenses or costs, if any, incurred by EDS as a result of, or attributable to, (i) Network-1's failure to verify taxability of a purchase, (ii) Network-1's failure to correctly calculate or remit taxes in a timely manner, or (iii) Network-1's negligence, misconduct or failure to file properly any required returns or reports, or other required documents.

(c) Upon written notification by EDS and subsequent verification by Network-1, Network-1 shall reimburse or credit, as applicable, EDS in a timely manner, for any and all taxes erroneously paid by EDS.

(d) EDS shall provide Network-1 with, and Network-1 shall accept in good faith, resale, direct pay, or other exemption certificates, as applicable. Network-1 agrees to separately identify on the invoice the taxable and non-taxable purchases, the types of tax and the taxing authorities.

(e) Where Products are destined or Services are performed internationally, then at EDS' direction, payment may be made by EDS or its affiliate (i) in country to the local affiliate, (ii) in the United States, or (iii) in a country mutually agreed upon by the parties.

(f) If EDS or an affiliate of EDS is required by law to make any deduction or to withhold from any sum payable hereunder, then the sum payable by EDS or such affiliate of EDS upon which the deduction is based shall be paid to Network-1 net of such deduction or withholding. EDS or such affiliate of EDS shall pay the applicable tax authorities any such required deduction or withholding.

ARTICLE VII. TERMINATION

7.1 Termination for Cause. Except as provided below by the section of this Agreement titled "Termination for Non-Payment," in the event that either party materially or repeatedly defaults in the performance of any of its duties or obligations set forth in this Agreement, and such default is not substantially cured within thirty (30) days after written notice is given to the defaulting party specifying the default, then the party not in default may, by giving written notice thereof to the defaulting party, terminate the applicable License or Purchase Order relating to such default as of a date specified in such notice of termination.

7.2 Termination for Insolvency of Bankruptcy. Either party may immediately terminate this Agreement and any Purchase Order by giving written notice to the other party in the event of (i) the liquidation or insolvency of the other party, (ii) the appointment of a receiver or similar officer for the other party, (iii) an assignment by the other party for the benefit of all or substantially all of its creditors, (iv) entry by the other party into an agreement for the composition, extension, or readjustment of all or substantially all of its obligations, or (v) the filing of a meritorious petition in bankruptcy by or against the other party under any bankruptcy or debtors' law for its relief or reorganization.

7.3 Termination for Non-Payment. Network-1 may terminate a Purchase Order, or any portion thereof, if EDS fails to pay when due any undisputed amounts due pursuant to such Purchase Order and such failure continues for a period of sixty (60) days after the last day payment is due, so long as Network-1 gives EDS written notice of the expiration date of the aforementioned sixty (60) day period at least thirty (30) days prior to the expiration date.

7.4 Termination of Software License. EDS may terminate any License for any reason by providing written notice to Network-1. If EDS elects to so terminate a License, EDS shall return to Network-1 or, at EDS' option,

destroy, all copies of the Licensed Software and Documentation in EDS' possession which are the subject of the terminated License, except as may be necessary for archival purposes.

7.5 Rights Upon Termination. Unless specifically terminated as set forth in this Article, all Licenses (and EDS' right to use the Licensed Software in accordance with such Licenses) and Purchase Orders which require performance or extend beyond the term of this Agreement shall, at EDS' option, be so performed and extended and shall continue to be subject to the terms and conditions of this Agreement.

ARTICLE VIII. MISCELLANEOUS

8.1 Binding Nature, Assignment, and Subcontracting. This Agreement shall be binding on the parties and their respective successors in interest and assigns. Neither party shall have the power to assign this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld. If Network-1 subcontracts or delegates any of its duties or obligations of performance in this Agreement or in a Purchase Order to any third party, Network-1 shall remain fully responsible for complete performance of all of Network-1's obligations set forth in this Agreement or in such Purchase Order and for any such third party's compliance with the non-disclosure and confidentiality provisions set forth in this Agreement.

For purposes of this Agreement, the following transactions relating to the parties shall not be deemed an assignment of this Agreement and shall not give rise to any requirement of approval or consent by any party to this Agreement, nor result in any right to terminate of alter this Agreement: any merger (including, without limitation, a reincorporation merger), consolidation, reorganization, stock exchange, sale of stock or substantially all of the assets or other similar or related transaction in which EDS or Network-1, as applicable, is the surviving entity or, if not the surviving entity, the surviving entity continues to conduct the business conducted by such party prior to consummation of the transaction.

8.2 Counterparts. This Agreement may be executed in several counterparts, all of which taken together shall constitute one single agreement between the parties.

8.3 Headings. The Article and Section headings used in this Agreement are for reference and convenience only and shall not enter into the interpretation hereof.

8.4 Authorized Agency. From time to time and at any time, EDS may assume operational responsibility for computer software programs acquired directly or indirectly from Network-1 by third parties which become customers or affiliates, or which are acquired by EDS, after the Effective Date.

(a) With respect to such customers, and immediately upon execution of a contract between EDS and a customer, the computer software programs

acquired from Network-1 by such customer shall be governed by the terms and conditions of this Agreement and EDS may use such computer software programs in accordance with this Agreement at no additional charge to EDS or its customer, provided, however, that such computer software programs may only be used by EDS on behalf of that customer. With respect to each such customer, Network-1, EDS and the customer shall execute an access agreement authorizing EDS' use of the computer software programs. Such access agreement shall be in a form substantially similar to the Third Party System Access Agreement attached to this Agreement as Exhibit C.

(b) With respect to any such affiliate, and upon Network-1's receipt of written notice from EDS and such affiliate, the license or other agreement governing the use and support of such computer software programs shall automatically be deemed to have been assigned to EDS, provided, however, that such assigned license or other agreement shall be superseded by, and the use and support of the computer

software programs shall be governed by, the terms and conditions of this Agreement.

(c) With respect to any third party with which EDS either (i) buys, leases, or otherwise acquires all or a substantial part of the assets or business of such third party, or (ii) consolidates with or merges with said third party, the license or other agreement governing the use and support of such computer software programs shall automatically be deemed to have been assigned to EDS. At that time, EDS may supersede such assigned license or other agreement with the terms and conditions of this Agreement, in which case the use and support of such computer software programs shall be governed by the terms and conditions of this Agreement, or EDS may elect to have the assigned license or other agreement continue to govern the use of such computer software programs.

8.5 Relationship of Parties. Network-1 is performing pursuant to this Agreement only as an independent contractor. Network-1 has the sole obligation to supervise, manage, contract, direct, procure, perform or cause to be performed its obligations set forth in this Agreement, except as otherwise agreed upon by the parties. Nothing set forth in this Agreement shall be construed to create the relationship of principal and agent between Network-1 and EDS. Network-1 shall not act or attempt to act or represent itself, directly or by implication, as an agent of EDS or its affiliates or in any manner assume or create, or attempt to assume or create, any obligation on behalf of, or in the name of, EDS or its affiliates.

8.6 Confidentiality. Network-1 acknowledges that in the course of performance of its obligations pursuant to this Agreement, Network-1 may obtain confidential and/or proprietary information of EDS or its affiliates or customers. "Confidential Information" includes: information relating to development plans, costs, finances, marketing plans, equipment configurations, data, access or security codes or procedures utilized or acquired, business opportunities, names of customers, research, and development; the terms, conditions and existence of this Agreement; any information designated as confidential in writing or identified as confidential at the time of disclosure if such disclosure is verbal or visual; and any copies of the prior categories or excerpts included in other materials created by the recipient party. Network-1 hereby agrees that all Confidential Information communicated to it by EDS, its affiliates, or customers, whether before or after the Effective Date, shall be and was received in strict confidence, shall be used only for purposes of this Agreement, and shall not be disclosed by Network-1, its agents or employees without the prior written consent of EDS. This provision shall not apply to Confidential Information which is (i) already known by Network-1 without an obligation of confidentiality, (ii) publicly known or becomes publicly known

through no unauthorized act of Network-1, (iii) rightfully received from a third party (other than an EDS customer or an EDS affiliate) without obligation of confidentiality, (iv) disclosed without similar restrictions by EDS to a third party (other than an EDS customer or an EDS affiliate), (v) approved by EDS for disclosure, or (vi) required to be disclosed pursuant to a requirement of a governmental agency or law so long as Network-1 provides EDS with timely prior written notice of such requirement. Except with respect to Licensed Software, which shall be governed by the section of this Agreement titled "Non-Disclosure," information received by EDS from Network-1 shall only be considered proprietary and/or confidential after a separate agreement in the form of Exhibit D, attached hereto, has been executed by a duly authorized representative of each party for the specific purpose of disclosing such information. The provisions of this Section shall survive the term or termination of this Agreement for any reason.

8.7 Media Release. Except for any announcement intended solely for internal distribution by Network-1 or any disclosure required by legal, accounting, or regulatory requirements beyond the reasonable control of Network-1, all media releases, public announcements, or public disclosures (including, but not limited to, promotional or marketing material) by Network-1 or its employees or agents relating to this

Agreement or its subject matter, or including the name, trade name, trade mark, or symbol of EDS or any affiliate of EDS, shall be coordinated with and approved in writing by EDS prior to the release thereof. Network-1 shall not represent directly or indirectly that any Licensed Software or Service provided by Network-1 to EDS has been approved or endorsed by EDS or include the name, trade name, trade mark, or symbol of EDS or any affiliate of EDS on a list of Network-1's customers without EDS' express written consent.

8.8 Media Releases. In the event of any disagreement regarding performance under or interpretation of this Agreement and prior to the commencement of any formal proceedings, the parties shall continue performance as set forth in this Agreement and shall attempt in good faith to reach a negotiated resolution by designating a representative of appropriate authority to resolve the dispute.

8.9 Electronic Communications. If Network-1 and EDS mutually agree, business communications between the parties, including, but not limited to, purchase orders, invoices, and payment may be submitted electronically. In such case, the parties shall mutually agree in writing upon supplemental terms and conditions, including technical standards, for the electronic exchange of such items.

8.10 Proposals and Special Projects. EDS may request a written proposal, quote, or bid from Network-1 for the provision of Licensed Software and/or Services for a specific EDS project which may be governed by separately negotiated terms and conditions. In such event, any Licensed Software and Services obtained for such project shall be deemed for purposes of calculating accumulated purchases and any discounts set forth in this Agreement, to have been obtained pursuant to this Agreement.

8.11 Governmental Customers. This Agreement shall apply to the acquisition of Licensed Software or Services for use in or in support of the performance of, or resale under, a contract with a federal, state, county, or local governmental entity (a "Governmental Customer"). Network-1 and EDS may negotiate in good faith a supplemental agreement incorporating required flow-down provisions or other provisions relating to, applicable to, or required by such Governmental Customer or the proposed contract between EDS and such Governmental Customer. All Licensed Software and Services obtained pursuant to this Section shall be deemed for purposes of calculating accumulated purchases and any discounts set forth in this Agreement, to have been obtained pursuant to this Agreement.

8.12 International Business. This Agreement shall apply to the acquisition of Licensed Software and Services for use in or in support of the performance or remarketing of Licensed Software and Services in countries outside the United States and its territories. Network-1 and EDS and/or their respective agents, distributors, or affiliates authorized to conduct business in such countries may negotiate in good faith supplemental agreements incorporating further terms and conditions required by local law. All Licensed Software and Services obtained pursuant to this Section shall be deemed for purposes of calculating accumulated purchases and any discounts set forth in this Agreement, to have been obtained pursuant to this Agreement.

8.13 Compliance with Laws. In the performance of Services or the provision of Products pursuant to this Agreement, Network-1 shall comply with the requirements of all applicable laws, ordinances, and regulations of the United States or any state, country, or other governmental entity. In particular, Network-1 agrees to comply with the United States Export Administration Act; with Executive Order No. 11246, as amended by Executive Order No. 11375; the Vietnam Era Veterans Readjustment Assistance Act of 1974; the Rehabilitation Act of 1973; the Immigration Reform and Control Act of 1986; and the Americans With Disabilities Act. This Section incorporates by reference all provisions required by such laws, orders, rules, regulations, and ordinances. Network-1 shall indemnify, defend, and hold EDS harmless from and against any and all claims, actions, or damages arising from or caused by Network-1's failure to comply with the foregoing.

8.14 Labor. Network-1 shall comply with any labor jurisdictions applicable to

Network-1's performance pursuant to this Agreement and shall cooperate with EDS in resolving any disputes resulting from any jurisdictional or labor claims or stoppages. Upon request by Network-1, EDS shall provide to Network-1 clarification and guidelines regarding relationships with labor and Network-1's responsibilities with respect thereto.

8.15 Exports. Neither party shall export any Licensed Software or information protected hereunder by an obligation of confidentiality from the United States, either directly or indirectly, without first obtaining a license or clearance as required from the U.S. Department of Commerce or other agency or department of the United States Government.

8.16 Notices. Wherever one party is required or permitted to give notice to the other pursuant to this Agreement, such notice shall be deemed given when delivered in hand, when mailed by registered or certified mail, return receipt requested, postage prepaid, or when sent by a third party courier service where receipt is verified by the receiving party's acknowledgment, and addressed as follows:

In the case of EDS:

Electronic Data Systems Corporation
5400 Legacy Drive
Plano, Texas 75024
Attn: Manager, Contracts Administration

In the case of Network-1:

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.
909 Third Ave.
9th Floor
New York, NY 10022
Attn: Robert Russo, President

Either party may from time to time change its address for notification purposes by giving the other party written notice of the new address and the date upon which it will become effective; first class, postage prepaid, mail shall be acceptable for provision of change of address notices.

8.17 Force Majeure. The term "Force Majeure" shall be defined to include fires or other casualties or accidents, acts of God, severe weather conditions, strikes or labor disputes, war or other violence, or any law, order, proclamation, regulation, ordinance, demand, or requirement of any governmental agency.

(a) A party whose performance is prevented, restricted, or interfered with by reason of a Force Majeure condition shall be excused from such performance to the extent of such Force Majeure condition so long as such party provides the other party with prompt written notice describing the Force Majeure condition and takes all reasonable steps to avoid or remove such causes of nonperformance and immediately continues performance whenever and to the extent such causes are removed.

(b) If, due to a Force Majeure condition, the scheduled time of delivery or performance is or will be delayed for more than thirty (30) days after the scheduled date, the party not relying upon the Force Majeure condition may terminate, without liability to the other party, the Purchase Order or any portion thereof covering the delayed Products or Services.

(c) If a Force Majeure condition or other delay by Network-1 causes EDS to terminate its business relationship with a third party for whom delayed Products were ordered and EDS has no alternative use for the Products after using reasonable efforts to relocate or otherwise utilize the Products, then EDS may terminate the applicable Purchase Order and Network-1 shall refund to EDS all amounts paid thereunder.

8.18 Severability. If, but only to the extent that, any provision of this Agreement is declared or found to be illegal, unenforceable, or void,

then both parties shall be relieved of all obligations arising under such provision, it being the intent and agreement of the parties that this Agreement shall be deemed amended by modifying such provision to the extent necessary to make it legal and enforceable while preserving its intent. If that is not possible, another provision that is legal and enforceable and achieves the same objective shall be substituted. If the remainder of this Agreement is not affected by such declaration or finding and is capable of substantial performance, then the remainder shall be enforced to the extent permitted by law.

8.19 Waiver. Any waiver of this Agreement or of any covenant, condition, or agreement to be performed by a party under this Agreement shall (i) only be valid if the waiver is in writing and signed by an authorized representative of the party against which such waiver is sought to be enforced, and (ii) apply only to the specific covenant, condition or agreement to be performed, the specific instance or specific breach thereof and not to any other instance or breach thereof or subsequent instance or breach.

8.20 Remedies. All remedies set forth in this Agreement, or available by law or equity shall be cumulative and not alternative, and may be enforced concurrently or from time to time.

8.21 Survival of Terms. Termination or expiration of this Agreement for any reason shall not release either party from any liabilities or obligations set forth in this Agreement which (i) the parties have expressly agreed shall survive any such termination or expiration, or (ii) remain to be

performed or by their nature would be intended to be applicable following any such termination or expiration.

8.22 Nonexclusive Market and Purchase Rights. It is expressly understood and agreed that this Agreement does not grant to Network-1 an exclusive right to provide to EDS any or all of the Licensed Software and Services and shall not prevent EDS from developing or acquiring from other suppliers computer software programs or services similar to the Licensed Software and Services. Network-1 agrees that acquisitions by EDS pursuant to this Agreement shall neither restrict the right of EDS to cease acquiring nor require EDS to continue any level of such acquisitions. Estimates or forecasts furnished by EDS to Network-1 prior to or during the term of this Agreement shall not constitute commitments.

8.23 GOVERNING LAW. THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL NOT BE GOVERNED BY THE PROVISIONS OF THE 1980 UNITED NATIONS CONVENTION ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS. RATHER THESE RIGHTS AND OBLIGATIONS SHALL BE GOVERNED BY THE LAWS, OTHER THAN CHOICE OF LAW RULES, OF THE STATE OF NEW YORK.

8.24 Entire Agreement. This Agreement constitutes the entire and exclusive statement of the agreement between the parties with respect to its subject matter and there are no oral or written representations, understandings or agreements relating to this Agreement which are not fully expressed in the Agreement. This Agreement shall not be amended except by a written agreement signed by both parties. All exhibits, documents, and schedules referenced in this Agreement or attached to this Agreement, and each Purchase Order are an integral part of this Agreement. In the event of any conflict between the terms and conditions of this Agreement and any such exhibits, documents, or schedules, the terms of this Agreement shall be controlling unless otherwise stated or agreed. In the event of a conflict between the terms and conditions of this Agreement and a Purchase Order issued in accordance with Article II, the Purchase Order shall be controlling with respect to those transactions covered by that Purchase Order. Any other terms or conditions included in any shrink-wrap license agreements, quotes, invoices, acknowledgments, bills of lading, or other forms utilized or exchanged by the parties shall not be incorporated in this Agreement or be binding upon the parties unless the parties expressly agree in writing or unless otherwise provided for in this Agreement.

IN WITNESS WHEREOF, Network-1 and EDS acknowledge that each of the

provisions of this Agreement were expressly agreed to and have each caused this Agreement to be signed and delivered by its duly authorized officer or representative as of the Effective Date.

ELECTRONIC DATA SYSTEMS CORPORATION	NETWORK-1 SOFTWARE & TECHNOLOGY, INC.
By: /s/ Joe B. Dorfmeister	By: /s/ Robert Russo
Printed Name: Joe B. Dorfmeister	Printed Name: Robert Russo
Title: Contract Manager	Title: President
Date: 11/18/97	Date: 11/18/97

Fed. Tax ID #: 11 3027591

EXHIBIT A

EDS BUSINESS PRACTICES

EDS' suppliers have played a key role in our continuous growth and success. We sincerely appreciate your support. In order to avoid any conflict of interest between our suppliers and EDS employees and to keep business relationships on a professional basis, EDS has established and briefed its employees on the following business practices. Please review these business practices carefully and give a copy of this Exhibit to any of your associates who have a need to know.

1. EDS expects its suppliers to provide a quality product or service for which they will be fairly paid.

2. In selecting suppliers, EDS will test the market to assure quality of service and fairness of price.

3. No EDS employee is to ask for anything of value from a supplier. Gifts from a supplier such as tickets to athletic events, concerts or the theater, personal travel, or any type of personal item are discouraged by our business practices.

4. If any EDS employee is offered or accepts an item of value from a supplier, the employee is to report it to the appropriate EDS management.

5. If any EDS employee engages in any type of unethical behavior such as requesting anything of value from a supplier, the supplier is requested to report the incident to the Director of Purchasing or the General Counsel of EDS.

6. Occasional meals during visits to a supplier's facilities or a customer's location during which a supplier incurs normal and reasonable marketing expenses are acceptable. The EDS employee is required to report such meal expenses to their management.

EDS appreciates your cooperation in complying with these business practices.

EXHIBIT B

CHARGES, PRICES, AND FEES

I. LICENSED SOFTWARE:

<TABLE>

<CAPTION>

Product	List Price	EDS Discount
<S>	<C>	<C>
FireWall/Plus-NT(TM) Enterprise		
Full Featured:		
50 concurrent sessions	$ 3,750.00	*%
100 concurrent sessions	$ 5,750.00	*%
250 concurrent sessions	$ 9,000.00	*%
Unlimited concurrent sessions - Intel Only	$13,000.00	*%
Unlimited concurrent sessions - DEC Alpha Only	$20,000.00	*%
FireWall/Plus-NT(TM) Server		
Full Featured (Limited to an NT(TM) Server with only 1 Network Interface Card.)		
Unlimited concurrent sessions	$ 1,995.00	*%
FireWall/Plus-NT(TM)Workstation	$ 995.00	*%
FireWall/Plus-NT(TM) Premiere	As Negotiated	NA

- ----------
</TABLE>

<TABLE>
<CAPTION>

	EDS PRICE	EDS Discount
<S>	<C>	<C>
V-ONE SmartGate(TM)		
SmartGate Software Client Tokens Model # (SG-000-0400)	$ *	N/A
SmartGate Server (Unix) Model # (SS-000-0400)	$ *	N/A

</TABLE>

II. DISCOUNTS:

EDS may obtain Product(s), other than V-ONE SmartGate Product(s), from Network-1 at a discount of * percent (*%) from the then current List Price, as determined in accordance with ss. 6.2 Modifications to Charges. EDS may obtain V-ONE SmartGate Product(s) at the EDS Price, as set forth above. EDS may obtain the FireWall/Plus-NT(TM) Premiere Product at a price to be mutually agreed upon, and no discount shall apply.

* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the Securities and Exchange Commission.

III. SERVICES:

A. Licensed Software Support Options (as set forth in ss. 4.9 Licensed Software Support Options).

Annual Maintenance Fees shall be initially established as fifteen percent (15%) of the List Price or EDS Price (as set forth in ss. Exhibit B - Section I. LICENSED SOFTWARE) effective as of the issuance of the applicable Purchase Order. Such Annual Maintenance Fee, once initially established, is then subject to modification in accordance with ss. 6.2 Modifications to Charges.

B. Upon issuance of a Purchase Order for * copies of the "FireWall/Plus-NT(TM) Enterprise Unlimited concurrent sessions - Intel Only" product, EDS shall also receive, at no additional Charge, one (1) week of on-site installation assistance and training from Network-1 on the Network-1 FireWall/Plus(TM) Product. This offer is only valid for the EDS Plano facility located at 5400 Legacy Drive, Plano, Texas. The class sizes and dates of such training shall be determined by EDS and set forth on the Purchase Order, or communicated to Network-1 by EDS by any other mutually agreeable means.

C. From time to time and at any time, EDS may request on-site installation assistance and/or training at any EDS site. Such training will be provided at locations and for class sizes and dates to be mutually agreed upon by EDS and Network-1. The Charge for such training shall be as follows:

(a) * for all training held at the EDS Plano facility located at 5400 Legacy Drive, Plano, Texas.

(b) After one (1) year from the Effective Date of this Agreement, or for all training to be conducted at any site other than the EDS Plano facility located at 5400 Legacy Drive, Plano, Texas: the Charge shall be as mutually agreed upon by EDS and Network-1 and set forth in the governing Purchase Order, such Charge not to exceed Network-1's standard rate for similar training services.

EDS will be responsible for the travel and lodging expenses of EDS students. EDS shall reimburse Network-1 for reasonable expenses incurred by Employees in the performance of such training (if requested by Network-1 in advance and approved by EDS) which are related to travel, lodging, and meals; such expenses shall be reimbursed in accordance with EDS' guidelines for its own employees.

* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the Securities and Exchange Commission.

EXHIBIT C

THIRD PARTY SYSTEM ACCESS AGREEMENT

AMONG

{CUSTOMER},

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.

AND

ELECTRONIC DATA SYSTEMS CORPORATION

THIS Third Party System Access Agreement (the "Access Agreement") effective as of {Effective Date}, is by and among {CUSTOMER LEGAL NAME} ("Customer"), NETWORK-1 SOFTWARE & TECHNOLOGY, INC. ("Network-1") and ELECTRONIC DATA SYSTEMS CORPORATION ("EDS").

W I T N E S S E T H:

WHEREAS, Network-1 owns certain software products (hereinafter referred to as "Software") more specifically described in the {Network-1/Customer Agreement Name}, dated {Network-1/Customer Agreement Date}, between Customer and Network-1 (the "License Agreement"); and

WHEREAS, Network-1 and EDS have entered into a {EDS/Network-1 Agreement Name}, dated {EDS/Network-1 Agreement Date}, pursuant to which EDS may obtain certain software products and services from Network-1 (the "Master Agreement");

WHEREAS, Customer and EDS have entered into an information technology services agreement (the "ITS Agreement") pursuant to which EDS will provide data

processing and other services ("Services") requiring that EDS have access to the Software; and

WHEREAS, the parties desire that EDS undertake appropriate contractual commitments to assure that the Software will be used only in accordance with and subject to the terms and conditions of the Master Agreement and this Access Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Customer, Network-1 and EDS hereby agree as follows:

1. Network-1 hereby grants EDS the right to use, execute, store and display (collectively "Access") the Software set forth in Attachment 1 to this Access Agreement for the purpose of performing its obligations pursuant to the ITS Agreement. The parties agree that EDS' Access of such Software, and Network-1's support and maintenance obligations with respect to the Software, shall be governed by the terms and conditions of the Master Agreement; provided, however, EDS may Access the Software for the sole and exclusive purpose of providing Services on behalf of Customer.

2. Customer shall be entitled to all protections under the Master Agreement, including, but not limited to, proprietary rights indemnification as defined in the Master Agreement.

3. The parties agree that EDS shall be Customer's agent for payment of any fees due to Network-1 under the Master Agreement from the date of this Access Agreement until Network-1 is notified otherwise. In the event of a conflict

between this Access Agreement and the License Agreement, this Access Agreement will prevail.

4. This Access Agreement shall commence as of the date first set forth above and shall continue in effect until the earlier of (i) the termination of the ITS Agreement, (ii) Network-1's receipt of written notice from EDS that EDS' need to Access the Software has ceased, or (iii) the termination of the License Agreement. Upon termination of this Access Agreement, EDS shall discontinue all use of the Software and; provided that the License Agreement has not terminated, Customer's continued use of and Network-1's support and maintenance obligations with respect to the Software shall be governed by the terms and conditions of the License Agreement. At such time, EDS shall have no further liability or responsibility with respect to such Software.

IN WITNESS WHEREOF, the parties have caused this Access Agreement to be executed as of the dates indicated.

NETWORK-1 SOFTWARE & TECHNOLOGY, INC. {CUSTOMER}

By: By:
---------- ----------
Printed Name: Printed Name:
---------- ----------
Title: Title:
---------- ----------
Date: Date:
---------- ----------
ELECTRONIC DATA SYSTEMS CORPORATION

By:

Printed Name:

Title:

Date:

ATTACHMENT 1

SOFTWARE

This Attachment 1 shall automatically be deemed to include any and all software products obtained by Customer from Network-1 after the effective date of the ITS Agreement.

EXHIBIT D

NON-DISCLOSURE AGREEMENT

THIS NON-DISCLOSURE AGREEMENT, dated |D|, is between ELECTRONIC DATA SYSTEMS CORPORATION ("EDS") and NETWORK-1 SOFTWARE & TECHNOLOGY, INC. ("Network-1").

W I T N E S S E T H:

WHEREAS, Network-1 may provide information to EDS in connection with the business purposes described in Schedule A, attached hereto, (the "Business Purpose") and Network-1 desires EDS to keep certain of such information confidential; and

WHEREAS, in consideration of the disclosure of such information to EDS, EDS is willing to keep such information confidential in accordance with the terms and conditions set forth in this Non-Disclosure Agreement;

NOW, THEREFORE, EDS and Network-1 hereby agree as follows:

1. Information. As used herein, "Information" shall mean both (i) written information received by EDS from Network-1 which is marked or identified as confidential, and (ii) oral or visual information identified as confidential at the time of disclosure which is summarized in writing and provided to EDS by Network-1 in such written form promptly after such oral or visual disclosure.

2. Confidentiality. EDS may use Information received under this Non-Disclosure Agreement, and may provide such Information to its affiliates and their respective employees for their use, only in connection with the Business Purpose. EDS agrees that, for a period of one (1) year from receipt of Information, EDS will treat the Information with the same degree of care and confidentiality which EDS provides for similar information belonging to EDS which EDS does not wish disclosed to the public, but not less than reasonable care. The foregoing shall not prevent EDS from disclosing Information which is (i) already known by EDS without an obligation of confidentiality, (ii) publicly known or becomes publicly known through no unauthorized act of EDS, (iii) rightfully received from a third party without obligation of confidentiality, (iv) independently developed by EDS without use of the Information, (v) disclosed without similar restrictions by Network-1 to a third party,

(vi) approved by Network-1 for disclosure, or (vii) required to be disclosed pursuant to a requirement of a governmental agency or law so long as EDS provides Network-1 with timely prior written notice of such requirement.

3. Return of Information. Upon completion of the Business Purpose and upon the written request of Network-1, EDS shall return all copies of the Information to Network-1 or certify in writing that all copies of the Information have been destroyed. EDS may return the Information, or any part thereof, to Network-1 at any time.

4. Disclaimer of Warranty and Limitation of Liability. Network-1 makes no warranty, express or implied, with respect to the Information. Neither party shall be liable to the other hereunder for amounts representing loss of profits, loss of business, or indirect, consequential, exemplary, or punitive damages of the other party in connection with the provision or use of the Information hereunder.

5. No Further Rights. Nothing contained in this Non-Disclosure Agreement shall be construed as granting or conferring any rights by license or otherwise in the Information except as provided hereunder.

6. No Commitment. The parties expressly agree that the provision of Information under this Non-Disclosure Agreement and discussions held in connection with the Business Purpose shall not prevent EDS from pursuing similar discussions with third parties or obligate EDS to continue discussions with Network-1 or to take, continue or forego any action relating to the Business Purpose. Any estimates or forecasts provided by EDS to Network-1 shall not constitute commitments.

7. Media Releases. All media releases and public announcements or disclosures by Network-1 relating to this Non-Disclosure Agreement, its subject matter or the Business Purpose shall be coordinated with and approved by EDS in writing prior to the release thereof.

8. Miscellaneous. Any notices required by this Non-Disclosure Agreement shall be given in hand or sent by first class mail to the applicable address set forth in Schedule A. The parties agree that this Non-Disclosure Agreement and any attachments hereto (i) are the complete and exclusive statement between the parties with respect to the protection of the confidentiality of the Information, (ii) supersede all related discussions and other communications between the parties, (iii) may only be modified in writing by authorized representatives of the parties, and (iv) SHALL BE GOVERNED BY THE LAWS, OTHER THAN CHOICE OF LAW RULES, OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, EDS and Network-1 have each caused this Non-Disclosure Agreement to be signed and delivered by its duly authorized officer or representative, all as of the date first set forth above.

ELECTRONIC DATA SYSTEMS CORPORATION	NETWORK-1 SOFTWARE & TECHNOLOGY, INC.
By: ----------	By: ----------
Printed Name: ----------	Printed Name: ----------
Title: ----------	Title: ----------
Date: ----------	Date: ----------

SCHEDULE A
BUSINESS PURPOSE AND NOTICES

Business Purpose:

||

Addresses for Notices:

EDS:
Electronic Data Systems Corporation
5400 Legacy Drive
Plano, Texas 75024
Attention: Manager, Contracts Administration

Network-1:

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.
909 Third Ave.
9th Floor
New York, NY 10022
Attention: Robert Russo, President

EXHIBIT E

RESELLER ACCESS AUTHORIZATION
---

1. Network-1 hereby grants EDS the right to use, execute, store and display (collectively "Access") the Products purchased for resale under Section 3.6 of this Agreement, for the purpose of performing its service obligations to the ITS Customer.

2. EDS shall Access the Licensed Software in accordance with the terms and restrictions of this Agreement.

3. Network-1 agrees that EDS shall be the ITS Customer's agent for payment of any fees due to Network-1 for the Licensed Software from the date the ITS Customer signs the Network-1 End User License Agreement ("Resale Date"), until Network-1 is notified otherwise.

4. This Reseller Access Authorization shall commence as of the Resell Date and shall continue in effect until the earlier of (i) Network-1's receipt of written notice from EDS that EDS' need to Access the Licensed Software has ceased, or (ii) the termination of the Network-1 End User License Agreement. Upon termination of Access, EDS shall discontinue all use of the Licensed Software. Provided that the End User License Agreement has not terminated, the ITS Customer's continued use of and Network-1's support and maintenance obligations with respect to the Licensed Software shall be governed by the terms and conditions of the Network-1 End User License Agreement. At such time, EDS shall have no further liability or responsibility with respect to such Licensed Software.

5. During the period of EDS' Access, in the event of any conflict between this Agreement and the Network-1 End User License Agreement with the ITS Customer, this Agreement will prevail.

May 29, 1998

Electronic Data Systems Corporation
5400 Legacy Corporation
Plano, Texas 75024

Attention: Joe Dorfmeister, Software Contracting Manager

Re: EDS/Network-1
Master Software License Agreement

Dear Mr. Dorfmeister:

This letter shall serve to amend the Master Software License Agreement,

dated November 18, 1997, between Electronic Data Systems Corporation ("EDS") and Network-1 Software & Technology, Inc. ("Network-1") (the "Agreement") as follows:

Network-1 shall be authorized to grant licenses or distribution rights with respect to the Products and the Licensed Software to third parties (the "Third Party Distributors") on an exclusive basis in certain designated foreign territories; provided, that, Network-1 warrants the Products and Licensed Softward shall be made available to EDS in such territories by the Third Party Distributors at the prices and terms set forth in Exhibit B to the Agreement.

All other terms and provisions of the Agreement shall remain in full force and effect. Capitalized terms herein shall have the same meaning as set forth in the Agreement.

If the foregoing confirms our understanding, kindly execute this letter at the appropriate space provided below.

Very truly yours,

Network-1 Software & Technology, Inc.

By: /s/ Robert Russo

Robert Russo, VP

Agreed and Accepted:

Electronic Data Systems Corporation

By: /s/ Joe B. Dorfmeister 5/29/98

Joe Dorfmeister, Software Contract Manager

Exhibit 10.12

Software Distribution Agreement

This Software Distribution Agreement (the "Agreement") is made and entered into this 5th day of June, 1997 by and between Network-1 Software & Technology, Inc., a Delaware corporation with its principal offices at 909 Third Avenue, 9th Floor, New York, New York 10022 ("Network-1") and Trusted Information Systems, Inc., a Delaware corporation with offices at 15204 Omega Drive, Rockville, Maryland 20850 ("TIS").

1. Definitions. As used in this Agreement:

(a) "Confidential Information" shall mean confidential or other proprietary information that is disclosed by either party to the other under this Agreement including, without limitation, software, code and designs, product specifications and other confidential business information. Confidential information shall not include information which (i) is or becomes public knowledge without any action by or involvement of a party; (ii) has been independently developed other than pursuant to this Agreement; (iii) constitutes residuals (the "Residuals") as such term is defined in paragraph 6 of the Non-Disclosure Agreement, dated April 7, 1997, between Network-1 and TIS; (iv) is disclosed by a party with the prior written approval of the other party; or (v) is disclosed pursuant to any judicial or government order provided that such party gives the other party sufficient prior notice to contest such order.

(b) "Derivative Work" means any work which is based upon one or more pre-existing works such as a revision, modification, translation, abridgement, condensation, expansion, collection, compilation or any other form in which such pre-existing work may be recast, transformed or adopted, and which, in the absence of this Agreement or other authorizations by the owner of the pre-existing work, would constitute a copyright infringement. Derivative Work does not include Residuals.

(c) "Effective Date" shall mean the date identified on the signature page of this Agreement as the effective date.

(d) "End User(s)" means any person or entity which is granted a sublicense by TIS (including its resellers and distributors), in accordance with this Agreement, to use the Licensed Product as a component of the TIS Gauntlet Firewall Product.

(e) "TIS Gauntlet Firewall Product" shall mean the family of firewall and other software products developed by and for and owned by TIS for use on Microsoft based operating systems (including, but not limited to, Windows/NT and Windows 95) as set forth on Exhibit "A" (including any such additional products to be added by any unilateral amendments provided by TIS to Network-1) and any Updates or Upgrades relating to such products.

(f) "TIS Gauntlet/Licensed Product" shall mean the TIS Gauntlet Firewall Product which includes the Licensed Product as a component.

(g) "Intellectual Property Rights" shall mean all forms of intellectual property rights and protections that may be obtained for or may pertain to, the Licensed Product, Confidential Information and marks and may include without limitation:

(i) all right, title and interest in and to all Letters Patent and all filed, pending or potential applications for Letters Patent, including any reissue, reexamination, division, continuation or continuations -in-part applications throughout the world now or hereafter filed;

(ii) all right, title and interest in and to all trade secret rights and equivalent rights arising under the common law, state law, federal law and laws of foreign countries;

(iii) all right, title and interest in and to all mask works, copyrights, other literary property or authors rights, whether or not

protected by copyright or as a mask work, under common law, state law, federal law and laws of foreign countries; and

(iv) all right, title and interest in and to all proprietary indicia, trademarks, tradenames, symbols, logos and/or brand names under common law, state law, federal law and laws of foreign countries.

(h) "Licensed Product" means Network-1's NDIS Shim software product as defined in Exhibit B, as it may be amended from time to time including any and all Updates and Upgrades.

(i) "Net Receipts" shall mean the actual gross receipts less sales, use, excise, value added or other similar taxes and allowances for returns, defects and replacements received by TIS from distribution of the TIS Gauntlet/Licensed Product (or the TIS Gauntlet Firewall Product without the Licensed Product (for the period ending December 31, 1998 pursuant to Section 6(b) herein). If the TIS Gauntlet/Licensed Product is distributed with other products that do not contain the TIS Gauntlet/Licensed Product in a bundle for a single price, the Net Receipts attributable to the TIS Gauntlet/Licensed Product will be determined by pro rating the receipts from the sale or license of the package according to the suggested retail prices, or if no suggested retail price is announced, the values established by TIS for the separate works contained in the package, whether or not such products are distributed separately, provided that such values are reasonably related to the values or cost of the separate products. Net Receipts will not include any receipts from copies of the TIS Gauntlet/Licensed Product which are distributed by TIS to previous purchasers of the TIS Gauntlet/Licensed Product as back-up, replacement or update copies for which TIS does not receive its standard payment. No Royalties will be credited or paid to Network-1 with respect to any receipts from copies of the TIS Gauntlet/Licensed Product supplied for promotional purposes (as well as evaluation purposes) to the press, trade, sales representatives or potential customers for the TIS Gauntlet/Licensed Product. Amounts received by TIS as deposits or advances will not be deemed to have been

received until shipment of the TIS Gauntlet/Licensed Products to the End User making the deposit or advance has been made against such deposit or advance. Partial payment of an invoice will be pro-rated over all products included in the invoice. Amounts received by TIS in foreign currencies will be deemed converted into U.S. dollars at the exchange rate on the date of actual payment.

(j) "Royalties" shall mean the royalties payable with respect to distribution of the TIS Gauntlet/Licensed Product as described in Section 6 hereof.

(k) "Source Code" shall mean program code applicable to the Licensed Product, expressed in the form suitable for modification by humans as well as any Updates and Upgrades as defined herein and any and all applicable related documentation.

(l) "Specifications" shall mean the published Specifications applicable to the Licensed Product that are in effect as of the date the Licensed Product is delivered to TIS. During the term, if Network-1 substantially amends its specifications, Network-1 shall inform TIS of the revised Specifications.

(m) "Term" shall mean the period beginning on the Effective Date and terminating on the date this Agreement is terminated under Section 13 hereof.

(n) "Update" means the release of the Licensed Product which is a minor release or bug fix or an error correction.

(o) "Upgrade" means a new revision of the Licensed Product that includes enhancements which increase performance or increase functionality for which Network-1 charges a license fee.

2. Grant of License.

(a) Subject to the terms and conditions set forth in this Agreement, Network-1 hereby grants to TIS a worldwide, perpetual (subject to termination as provided in Section 13), non-exclusive license to (i) incorporate and/or bundle the Licensed Product only with the TIS Gauntlet Firewall Product and to market,

distribute, and sublicense the Licensed Product solely as a component of the TIS Gauntlet Firewall Product; and (ii) to use the License Product for testing, demonstration, training, promotional and evaluation purposes by its personnel, end users, resellers and distributors.

(b) If Network-1 should make any Updates or Upgrades to the Licensed Product, Network-1 shall make (at no additional cost to TIS) the same available to TIS under the terms and conditions of this Agreement.

(c) TIS may not modify, enhance or otherwise change the Licensed Product except to the extent required to integrate the Licensed Product with the TIS Gauntlet Firewall

Product. Any such permissible modification, enhancement or change to the Licensed Product by TIS shall be the exclusive property of TIS (the "TIS Modifications") and TIS will automatically grant Network-1, a worldwide, fully paid-up, non-exclusive, perpetual, irrevocable license to market, sublicense, use and distribute the TIS Modifications except that Network-1 may not sublicense, distribute or otherwise provide the TIS Modifications to direct competitors of TIS as listed on Exhibit C hereto (Exhibit C may be amended by TIS upon consent of Network-1 which shall not be unreasonably withheld).

(d) TIS agrees to allow Network-1 to enforce its rights under any agreement TIS may have with any third party or End User to protect any confidentiality and proprietary property of Network- 1 included in the Licensed Product.

(e) Except as otherwise provided herein, TIS shall not copy the Licensed Product in whole or in part, except as reasonably necessary for archival backup purposes and for use by TIS of the Licensed Product as permitted under this Agreement. TIS agrees to reproduce on all documentation relating to the TIS Gauntlet/Licensed Product, proprietary trademark or copyright markings as follows: "The NDIS Shim is a product of Network-1 Software & Technology, Inc."

(f) Network-1, at its sole discretion, shall have the right to modify the Licensed Product at any time during the Term provided that Network-1 provides TIS with Beta source code relating to such modification as soon as it is available and gives TIS thirty (30) days prior notice of such change, including any revised or additional Specifications.

(g) All licenses to End Users, whether granted by TIS directly or through a reseller or distributor, shall contain TIS' standard license, a copy of which is attached hereto as Exhibit D.

3. Source Code Escrow.

Network-1 has deposited in escrow with TIS the Source Code which shall be maintained in escrow by TIS in a secure environment at its office location at 15204 Omega Drive, Rockville, Maryland 20850 (or such other location TIS provides Network-1 upon 30 days prior notice). TIS shall employ such procedures with respect to the Source Code that are no less restrictive than the strictest procedures used by it to protect its own confidential and proprietary source code which procedures shall be no less than reasonable care. TIS shall allow a limited number of its employees and consultants (a list of consultants will be provided to Network- 1 prior to access) to have access to the Source Code provided such employees or consultants execute confidentiality agreements in the form annexed hereto as Exhibit E, and only for the following purposes: (i) integrating the Licensed Product with TIS Gauntlet Firewall Product and (ii) maintenance and bug fixes.

4. Marketing and Distribution of the Licensed Product.

TIS will be responsible for and have sole discretion (except as otherwise expressly provided herein) with respect to determining and implementing all or any marketing strategies, policies or programs relating to

the distribution of the Licensed Product by TIS as provided herein, including, without limitation, methods of marketing, pricing, packaging, labeling and identification, protection, advertising, terms and conditions of sale and/or license, collection of end users' names, scope and expense of marketing, and use of warranty or user registration procedures. TIS shall have the right to distribute the Licensed Product in accordance with the terms of this Agreement in a variety of forms, and by any variety of methods, in its sole discretion.

5. Delivery and Acceptance.

(a) Delivery. Network-1 has delivered the Licensed Product to TIS and will provide (at no additional cost to TIS) all Updates and Upgrades to TIS' designated representatives of which TIS will advise Network-1 in writing. TIS has evaluated the Licensed Product and the Licensed Product is hereby deemed accepted by TIS. Except as set forth in Section 6 hereof, TIS shall not be required to make any payments to Network-1 with respect to the Licensed Product.

6. Royalty Payments.

(a) Non-Refundable Royalty Payment. Upon execution of this Agreement, TIS shall pay to Network-1 a non-refundable advance against Royalties of $500,000 (the "Non-Refundable Advance"). The Non-Refundable Advance will be credited to TIS' account against which all future Royalties of TIS pursuant to Section 6(b) herein shall be applied until the Non-Refundable Advance is thereby drawn down in its entirety. TIS shall have no obligation to pay Royalties to Network-1 until the Royalties payable pursuant to Section 6(b) exceed $500,000 (the amount of the Non-Refundable Advance). Notwithstanding the aforementioned credit against Royalties, in no event shall TIS be entitled to a refund of any portion of the Non-Refundable Advance.

(b) Royalty Payments. Beginning on the date of TIS' first shipment of a particular TIS Gauntlet/Licensed Product, and continuing through and including December 31, 1998 (the "Initial Period") regardless of whether the Licensed Product is distributed as a component of such particular TIS Gauntlet Firewall Product during the Initial Period, TIS shall be obligated to Network-1 for Royalties of * percent (*%) of TIS' Net Receipts derived from such particular TIS Gauntlet Firewall Product. (For example, if during the Initial Period Net Receipts from a particular TIS Gauntlet/Licensed Product are $5 million and Net Receipts from the same particular TIS Gauntlet Firewall Product distributed without the Licensed Product are $5 million - the Royalties credited Network-1 shall be *% of $10 million or $*). Beginning on January 1, 1999 and continuously thereafter or until this Agreement is terminated in accordance with the provisions of Section 13 hereof, TIS' obligation to Network-1 for Royalties shall equal *% of the

* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the Securities and Exchange Commission.

Net Receipts derived solely from the TIS Gauntlet/Licensed Product. All royalty payments pursuant to this Section 6(b) shall be made by TIS to Network-1 on a quarterly basis, within thirty (30) days following the end of each calendar quarter.

(c) Reports of Royalties. TIS shall deliver to Network- 1, along with its payment of Royalties due for each quarter, a written report showing, in reasonable detail, its calculation of Royalties payable with respect to such calendar quarter. TIS shall maintain such books and records as are necessary to properly calculate the amount of Royalties to be paid pursuant to this Agreement. A certified public accountant to be chosen by Network- 1, and approved by TIS (which approval shall not be unreasonably withheld), may, upon reasonable notice and during normal TIS business hours, but no more often than once each year, inspect the records of TIS on which such reports are based. Any information revealed in such inspections shall be confidential and not disclosed to anyone, except to the extent necessary to identify to Network-1, TIS or any fact finder in any action instituted to enforce the terms of this Agreement, any inaccuracy which may be found in the amount of Royalties due to Network-1 or except as otherwise provided by law. The fees and expenses of the independent certified public accountant shall be paid by Network-1, unless the inspection uncovers an underpayment for the evaluation period in question in excess of 5% of the amount actually paid by TIS during the period of the audit, in which case

the fees and expenses of the certified public accountant shall be paid by TIS.

7. Support. Network-1 shall provide TIS with technical support in connection with integration of the Licensed Product with the TIS Gauntlet Firewall Product which shall include (i) up to one (1) week on-site support for purposes of integration of the Licensed Product with the TIS Gauntlet Firewall Product, (ii) support for bug fixes related to the Licensed Product and (iii) support for modifications to the Licensed Product caused by operating system changes provided that the Licensed Product is then currently offered by Network-1 on such operating system. Except as otherwise provided herein, following TIS' release of the TIS Gauntlet/Licensed Product, any technical support provided by Network-1 to TIS on site shall be billed at Network-1's standard rates of $2,000 per day.

8. Intellectual Property Rights. Except as otherwise specifically provided in this Agreement, TIS hereby acknowledges that Network-1 and its licensors (as their interests may appear) retain all Intellectual Property Rights (including, without limitation, any and all related patents, trademarks, copyrights or proprietary or trade secret rights) in the Licensed Product and Confidential Information, including, without limitation, all corrections, modifications and other Derivative Works to the Licensed Product. Except for the TIS Modifications, TIS hereby assigns to Network-1 all Intellectual Property Rights it may hereafter possess in the Licensed Product and Confidential Information and all Derivative Works and agrees (i) to execute all documents, and take all actions, that may be necessary to confirm such rights, and (ii) to retain all proprietary marks, legends and patent and copyright notices that appear on the Licensed Product or Confidential Information delivered to TIS by Network-1 and all whole or partial copies thereof.

9. Confidentiality. TIS agrees to observe complete confidentiality with respect

to the Confidential Information, not to disclose or permit any third party or entity access to, the Confidential Information (or any portion thereof) without the prior written approval of Network-1 (except such disclosure which is required to perform any obligations under this Agreement) and to insure that any employees, or any third parties who receive access to the Confidential Information, are advised of the confidential and proprietary nature thereof and are prohibited from copying, utilizing or otherwise revealing the Confidential Information in any manner not already permitted under this agreement or the Non-Disclosure Agreement between the parties, dated April 7, 1997. Without limiting the foregoing, TIS agrees to employ with regard to the Confidential Information, procedures no less restrictive than the strictest procedures used by it to protect its own confidential and proprietary information which procedures shall be no less than reasonable care.

10. Warranties. Network-1 represents and warrants that (i) the Licensed Product is, and the Upgrades and Updates will be, the original creation of Network-1, Network-1 is the sole and exclusive owner of the Licensed Product, and will be the sole and exclusive owner of the Upgrades and Updates (except as otherwise disclosed to TIS) and, Network-1 has the rights to grant licenses therefor as granted to TIS under this Agreement, (ii) the grant to and the exercise by TIS of any and all rights set forth in this Agreement and Network-1's disclosures to TIS pursuant to this Agreement do not, and will not, violate the U.S. patent rights, copyrights, trade secret rights, trademark rights or other proprietary contractual or other rights of any third party, (iii) for a period of ninety (90) days following the first use of the Licensed Product by an End User, the Licensed Product and Upgrades will substantially conform to and operate as described in applicable Specifications, and (iv) Network-1 has full power and authority to enter into this Agreement and to grant the rights and obligations set forth herein and this Agreement is enforceable in accordance with its terms.

11. Disclaimer. EXCEPT FOR THE EXPRESS WARRANTIES STATED IN SECTION 10 HEREIN, NETWORK-1 DISCLAIM(S) ALL EXPRESS OR IMPLIED WARRANTIES WITH RESPECT TO THE LICENSED PRODUCT FURNISHED HEREUNDER, INCLUDING, WITHOUT LIMITATION, ALL IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

12. Indemnification.

(a) By Network-1. Network-1 agrees to indemnify, hold harmless and defend TIS, its officers, directors, employees, contractors, licensors and agents, from any claims, liabilities, damages, costs and expenses (including reasonable attorneys' fees and costs of suit) to the extent they arise out of (i) a material breach of this Agreement by Network-1, (ii) a breach of any of the representations and warranties set forth in Section 10 hereof or any other representations set forth in this Agreement and (iii) any claims of infringement of any U.S. copyright, patent or trade secret or other proprietary rights, arising from the Licensed Product and any modification, enhancement or misuse of the Licensed Product by Network-1. If Network-1 receives notice of an alleged infringement, Network-1 shall use its best efforts, subject to commercial reasonableness, to either obtain the right to continue use of the Licensed Product,

or to modify the Licensed Product so that it is no longer infringing.

(b) By TIS. TIS agrees to indemnify, hold harmless and defend Network-1, its officers, directors, employees, contractors, licensors and agents, from any claims, liabilities, damages, costs and expenses including reasonable attorneys' fees and costs of suit) to the extent they arise out of (i) a material breach by TIS of the terms and provisions of this Agreement, and (ii) any claim of infringement of any U.S. copyright, patent or trade secret or other proprietary rights relating to the TIS Gauntlet Firewall Product excluding any such claim relating to the Licensed Product.

(c) Indemnification Conditions. Promptly after receipt by Network-1 or TIS of notice of any claim that may affect the Licensed Product or the commencement of any action, proceeding, or investigation in respect of which indemnity or reimbursement may be sought as provided above, such party (the "Indemnitee") shall notify the party from whom indemnification is claimed (the "Indemnitor"), but the failure of such Indemnitee to notify the Indemnitor with respect to a particular action, proceeding or investigation shall not relieve the Indemnitor from any obligation or liability (i) which it may have pursuant to this Agreement if the Indemnitor is not substantially prejudiced by the failure to notify or (ii) which it may have otherwise than pursuant to this Agreement. The Indemnitor shall promptly assume the defense of the Indemnitee with counsel reasonably satisfactory to the Indemnitee, and the fees and expenses of such counsel shall be at the sole cost and expense of the Indemnitor. The Indemnitee will cooperate with the Indemnitor in the defense of any action, proceeding or investigation for which the Indemnitor assumes the defense. Notwithstanding the foregoing, the Indemnitee shall have the right to employ separate counsel in any action, proceeding, or investigation and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnitee unless (i) the Indemnitor has agreed to pay such fees and expenses, (ii) the Indemnitor shall have failed promptly to assume the defense of such action, proceeding or investigation and employ counsel reasonably satisfactory to the Indemnitee, or (iii) in the reasonable judgment of the Indemnitee there may be one or more defenses available to the Indemnitee which are not available to the Indemnitor with respect to such action, claim, or proceeding, in which case the Indemnitor shall not have the right to assume the defense of such action, proceeding or investigation on behalf of the Indemnitee. The Indemnitor shall not be liable for the settlement by the Indemnitee of any action, proceeding or investigation effected without its consent, which consent shall not be unreasonably withheld. The Indemnitor shall not enter into any settlement in any action, suit or proceeding to which the Indemnitee is a party, unless such settlement includes a general release of the Indemnitee with no payment by the Indemnitee of consideration.

13. Term and Termination.

(a) Term of Agreement. Subject to the foregoing limitation, this Agreement shall continue perpetually, unless terminated in accordance with the provisions of Section 13 below.

(b) Termination. TIS may terminate this Agreement effective at the end of any calendar year beginning with the year ended December 31, 1998 by giving Network-1 prior written notice at any time during the month of October preceding such year end. Network-1 may terminate this Agreement upon thirty (30) days prior notice if for any two consecutive calendar quarters after December 31, 1998, TIS does not pay Network-1 minimum Royalties of $* per quarter, payment to be provided in accordance with the terms of this Agreement. In addition, if at any time after December 31, 1998, TIS does not offer the Licensed Product as part of any TIS Gauntlet Firewall Product for any ninety (90) day period, Network-1 shall have the right to terminate this Agreement upon thirty (30) days prior notice.

(c) Termination Upon Breach. Each party shall have the right to terminate this Agreement provided (i) such party provides thirty (30) days prior notice to the other party; (ii) the other party is in a material breach of any of the terms of this Agreement; and (iii) the prior breach is not cured within such thirty (30) day period. Any such notice shall provide, in reasonable detail, a description of the alleged breach and the requested cure of that breach.

(d) Effect of Termination. In the event of a termination of this Agreement pursuant to this Section 13, TIS shall have the right, for a period of 180 days, to distribute its existing inventory of the TIS Gauntlet/Licensed Product pursuant to the terms of this Agreement. Any such termination shall not affect the rights of any End User that has purchased the TIS Gauntlet/Licensed Product from TIS in accordance with the terms of this Agreement prior to its termination. Upon termination of this Agreement, for any reason, TIS will return to Network-1 all copies of the Licensed Product or certify to Network-1 that TIS has destroyed all such copies, except that TIS may retain one (1) copy of the object code for the Licensed Product solely for the purpose of supporting its existing licensees.

14. Limitation of Liability. EXCEPT FOR PAYMENTS DUE PURSUANT TO SECTION 6 HEREIN AND THE INDEMNIFICATION PROVISIONS OF SECTION 12 HEREOF, IN NO EVENT SHALL EITHER PARTY (OR ITS LICENSORS) BE LIABLE FOR ANY LOSS REVENUES OR PROFITS OR OTHER SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES ARISING OUT OF THIS AGREEMENT OR RELATED TO THE LICENSED PRODUCT, EVEN IF THE PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

15. General Provisions.

(a) Export Compliance. The rights and obligations of TIS shall be subject to such United States laws and regulations as shall from time to time govern the license and delivery of technology abroad by persons subject to the jurisdiction of the United States, including the Export Administration Act of 1979, as amended, any successor legislation to the Export Administration Act of 1979, and the Export Administration regulations issued by the Department

* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the Securities and Exchange Commission.

of Commerce, International Trade Administration, Office of Export Administration. TIS agrees that it shall not, directly or indirectly, export, reexport or transship the Licensed Product or any parts or copies thereof in such manner as to violate such laws and regulations in effect from time to time.

(b) Publicity. Neither party shall, without first obtaining the written consent of the other party, which consent shall not be unreasonably withheld, announce this Agreement in a press release or other promotional material. In addition, neither party shall disclose the terms and conditions of this Agreement to any third party, except as may be required (i) to implement and enforce the terms of this Agreement, or (ii) by legal procedure or by law, or (iii) by Network-1 in connection with an Initial Public Offering ("IPO"). In the case of clause (iii) above, Network-1 may, for the sole purpose of initiating or affecting its IPO, disclose the full terms and conditions of this Agreement only to its legal counsel, its investment bankers, its investment bankers' legal counsel, securities regulatory authorities and potential investors who are bound by a confidentiality agreement covering the terms and conditions of this

Agreement as Confidential Information of Network-1 and TIS. In addition, Network-1 may disclose in a prospectus for an IPO such material information concerning this Agreement as the attorneys who advise Network-1 on matters relating to the Securities Act of 1933, as amended, shall advise is necessary to be disclosed in such prospectus. A copy of the proposed IPO prospectus disclosure shall be provided to TIS and TIS shall not unreasonably withhold its consent to such disclosure.

(c) Equitable Relief. Each party acknowledges that any breach of its obligations under this Agreement with respect to the grant of the license hereunder, Intellectual Proprietary Rights or Confidential Information will cause the other party irreparable injury for which there are inadequate remedies at law, and that such party will be entitled to seek equitable relief with respect to any such breach in addition to all other remedies provided by this Agreement or available at law.

(d) Successors and Assigns. Except as otherwise provided herein, this Agreement may not be assigned in whole or in part by either party without the prior written consent of the other party, except either party may assign this Agreement without the other's prior written consent to an Affiliated Entity, or in the event of a merger or other reorganization involving such party, or sale of all or substantially all of such party's assets. For purposes hereof, Affiliated Entity shall be defined as entity controlled by, or under common control with, such party. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their successors and assigns.

(e) Governing Law. This Agreement will be governed and interpreted in accordance with the laws of the State of New York without reference to conflicts of law principles.

(f) Relationship of Parties. Neither party will have and will not represent that it has, any power, right or authority to bind the other party or to assume or create any obligation or responsibility, express or implied, on behalf of the other party or in the other party's name,

except as herein expressly provided. Nothing stated in this Agreement shall be construed as constituting TIS and Network-1 as partners or as creating the relationship of principal/agent, employer/employee or franchise/franchisee between the parties.

(g) Attorneys' Fees. In the event that any legal action is required in order to enforce or interpret any of the provisions of this Agreement, the prevailing party in such action shall recover all reasonable costs and expenses, including attorneys' fees, incurred in connection therewith.

(h) Further Actions. At any time and from time to time, each party agrees without further consideration, to take such action and to execute and deliver such documents as may be reasonably necessary to effectuate the purposes of this Agreement.

(i) Waiver. The failure of either party to enforce any provision of this Agreement shall not be deemed a waiver of that or any other provision of this Agreement.

(j) Force Majeure. Except for the obligation to make payments as provided herein, nonperformance of either party shall be excused to the extent the performance is rendered impossible by strike, fire, flood, governmental acts or orders or restrictions, failure of suppliers, or any other reason where failure to perform is beyond the reasonable control of and is not caused by the negligence of the nonperforming party.

(k) Severability. If any of the provisions of this Agreement are found or deemed by a court of competent jurisdiction to be invalid or unenforceable, they shall be severable from the remainder of the Agreement and shall not cause the invalidity or unenforceability of the Agreement.

(l) Notices. Notices to either party shall be in writing and shall be deemed delivered when served in person or three business days after being deposited in the United States mail, first-class certified mail, postage

prepaid, return receipt requested, or one business day after being dispatched by a nationally recognized one-day express courier service addressed as follows:

To Network-1: Network-1 Software & Technology, Inc.
909 Third Avenue, 9th Floor
New York, New York 10022 Attn:
Robert Russo, President

with a copy to: Bizar Martin & Taub, LLP
1350 Avenue of the Americas, 29th Floor
New York, New York 10019
Attn: Sam Schwartz, Esq.

To TIS: Trusted Information Systems, Inc.

15204 Omega Drive
Rockville, Maryland 20850
Attn: Jeffrey H. Schneider, Esq.

with a copy to: Kenneth A. Mendelson, Esq.
Trusted Information Systems
3060 Washington Road (Route 97)
Gleenwood, Maryland 21738

(m) Entire Agreement. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof, and, with the exception of the Non-Disclosure Agreement, dated April 7, 1997, between the parties, supersedes in its entirety any and all written or oral agreements or understandings previously existing between the parties with respect to such subject matter. Each party acknowledges that it is not entering into this Agreement on the basis of any representations not expressly contained herein. Any amendments or modifications of this Agreement must be in writing and signed by both parties hereto.

(n) All section headings herein are inserted for convenience only and shall not modify or affect the construction or interpretation of any provision of this Agreement.

(o) Counterparts. This Agreement may be executed in two or more counterparts, each of which when so executed shall be deemed an original, and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties have entered into this Agreement as of the date first set forth above.

Network-1 Software & Technology, Inc.

By: /s/ Robert Russo

Printed Name:Robert Russo

Title: President

Trusted Information Systems, Inc.

By: /s/ Jeffrey H. Schneider

Printed Name:Jeffrey H. Schneider

Title: Director of Contracts

Exhibit A

List of TIS Gauntlet Firewall Products

IGINL	Gauntlet Internet Firewall for WinNT
GPEF	Gauntlet PC Extender for Win3.1/Win.11
GPEG	Gauntlet PC Extender for Win95
GHNTL	Gauntlet Internet Firewall System NT

As of 6/4/97

Exhibit B

Description of NDIS SHIM

Network-1 is providing TIS with the full source code and "Make" files for a Microsoft Windows-NT NDIS Shim and the source code to install the Shim on the Windows-NT operating system. The NDIS Shim is an intermediate NDIS driver that "binds" to all Ethernet Adapters and to which all protocol stacks "bind" to the Shim. The installation code will seemlessly add the Shim to the NDIS bindery via the Network Control Panel Applet with a Microsoft standard OEMSETUP.INI file. The Shim will allow all packets received from the adapters or protocol stacks (regardless of protocol) to be passed to a queuing driver so that the packet can be processed at a later time. It will also allow another driver to send packets to it for writing to the network adapters or to the protocol stacks. Network-1 is also providing TIS with the full source code and "Make" files for a Microsoft Windows-NT intermediate driver. * The source code for installing this driver is also included.

Network-1 is also providing TIS with the full Source Code and "Make" files for another Microsoft Windows-NT driver. *

* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the Securities and Exchange Commission.

Exhibit C

TIS COMPETITORS

1. Altivista Internet Software Inc.
2. ANS Communications
3. Borderware
4. Check Point Software Technologies Inc.
5. Cyberguard Corp.
6. Cycon Technologies
7. Global Internet Software Group Inc.
8. Global Technology Associates Inc.
9. IBM
10. Milkyway Networks Corp.
11. NEC Technologies Inc.

12. Netguard Ltd.
13. Raptor Systems Inc.
14. Seattle Software Labs Inc.
15. Secure Computing Corp.
16. Sidewinder
17. Sun Microsystems Inc.
18. Technologies Inc.
19. Ukiah Software Inc.

As of 6/4/97

EXHIBIT D

END USER LICENSE
GAUNTLET(R) SOFTWARE LICENSE AGREEMENT

1. NOTICE. TRUSTED INFORMATION SYSTEMS ("TIS") IS WILLING TO HAVE ITS GAUNTLET(R) SOFTWARE ("SOFTWARE") LICENSED TO YOU ONLY ON THE CONDITION THAT YOU ACCEPT ALL OF THE TERMS CONTAINED IN THIS LICENSE AGREEMENT. PLEASE READ THIS LICENSE AGREEMENT CAREFULLY. BY USING THIS SOFTWARE YOU AGREE TO BE BOUND BY THE TERMS OF THIS AGREEMENT. IF YOU DO NOT AGREE TO THESE TERMS WE ARE UNWILLING TO LICENSE THE SOFTWARE TO YOU AND YOU SHOULD NOT RUN THIS SOFTWARE. IN SUCH CASE, PROMPTLY RETURN THE SOFTWARE AND ALL OTHER MATERIAL IN THE PACKAGE ALONG WITH PROOF OF PAYMENT TO TIS OR TO THE AUTHORIZED RESELLER FROM WHICH YOU OBTAINED THE SOFTWARE FOR A FULL REFUND OF THE PRICE YOU PAID.

2. Ownership and License. This is a license agreement and NOT an agreement for sale. TIS continues to own the copy of the Gauntlet(R) Software which is to be delivered under this license agreement ("Agreement") and all other copies that you are authorized by this Agreement to make. Your rights to use the Software are specified in this Agreement, and TIS retains all rights not expressly granted to you in this Agreement. Nothing in this Agreement constitutes a waiver of TIS' rights under U.S. Copyright law or any other federal or state law. In this license agreement, "the Software" refers to the executable modules, the help files, the configuration scripts, configuration files, and any similar files provided hereunder.

3. Permitted Uses. You are granted the following rights to the Software:

(a) Right to Install and Use. You may install and use the Software on any single machine at any single location. Your use of the Software on that machine is limited to protecting the number of machines (tiered users) specified in your purchase order. If you desire to have a "hot standby computer," you may install the Software on another, unconnected system. If you wish to use the Software on more than one connected machine, you must obtain a license for an additional copy of the Software for each additional computer on which you want to use it;

(b) Right to Copy. You may copy the Software for backup or archival purposes, and you may make an unlimited number of copies of the documentation, provided that TIS' copyright notice appears on each copy and provided that the documentation is copied in its entirety;

4. Prohibited Uses. You may not, without prior written permission from TIS:

(a) Use, copy, modify, merge, or distribute, transfer copies of the Software or documentation except as specifically permitted in this Agreement;

(b) Reverse engineer the Software, in whole or in part, by any means, including, but not limited to, decompiling, disassembling, reverse computing, or any similar operation or technique;

(c) Use any backup or archival copies of the Software (or allow someone else to use such copies) for any purpose other than to replace the original copy in the event it is destroyed or becomes defective;

(d) Sublicense, lend, lease, or rent the Software; or

(e) Publish any results of benchmark tests run on the Oracle SQL*Net Application technology which may be provided hereunder.

5. Limited Warranty. TIS makes the following limited warranties [to the original

consumer licensee of the Software], for a period of thirty (30) calendar days from the date you acquired the Software from TIS or TIS' authorized reseller:

(a) Media. The disks and documentation in this package will be free from defects in materials and workmanship under normal use. If the disks or documentation fail to conform to this warranty, you may, as your sole and exclusive remedy, obtain a replacement free of charge if you return the defective disk(s) or documentation to TIS or TIS' authorized reseller with a dated proof of purchase.

(b) Software. If the Software fails to operate in accordance with TIS' published specifications current at the time of the granting of this license, you may, as your sole and exclusive remedy, return all of the Software and the documentation to TIS or the authorized reseller from whom you acquired it, along with a dated proof of purchase, specifying the problem, and TIS will provide you with a new copy of the Software or a full refund at TIS' election.

6. WARRANTY DISCLAIMER. TIS DOES NOT WARRANT THAT THIS SOFTWARE WILL MEET YOUR REQUIREMENTS OR THAT ITS OPERATION WILL BE UNINTERRUPTED OR ERROR-FREE. TIS EXCLUDES AND EXPRESSLY DISCLAIMS ALL EXPRESS AND IMPLIED WARRANTIES NOT STATED HEREIN, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

(a) Some states do not allow the exclusion of implied warranties, so the above exclusion may not apply to you. This warranty gives you specific legal rights, and you may also have other legal rights, which vary from state to state.

7. LIMITATION OF LIABILITY. IF THE SOFTWARE BEING LICENSED TO YOU HEREUNDER CONTAINS THE ORACLE SQL*NET APPLICATION PROXY, IN NO EVENT SHALL TIS BE LIABLE TO YOU FOR ANY DAMAGES ARISING FROM YOUR USE OF ORACLE'S SQL*NET APPLICATION PROXY WHETHER DIRECT, INDIRECT, INCIDENTAL, OR CONSEQUENTIAL (INCLUDING LOSS OF PROFITS). WITH THE EXCEPTION OF DAMAGES ARISING FROM YOUR USE OF ORACLE'S SQL*NET APPLICATION PROXY, TIS' LIABILITY TO YOU FOR ANY LOSSES SHALL BE LIMITED TO DIRECT DAMAGES, AND SHALL NOT EXCEED THE AMOUNT YOU ORIGINALLY PAID FOR THE SOFTWARE. IN NO EVENT WILL TIS BE LIABLE TO YOU FOR ANY INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES (INCLUDING LOSS OF PROFITS) EVEN IF TIS HAD BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

(a) Some jurisdictions do not allow these limitations or exclusions, so they may not apply to you.

8. United States Government Restricted Rights. The enclosed Software and documentation are provided with Restricted Rights unless provided pursuant to 18 C.F.R. 252.227-7202. Use, reproduction or disclosure by the U.S. Government or any agency or instrumentality thereof is subject to restrictions as set forth in subdivision (c)(1)(ii) of the Rights in Technical Data and Computer Software clause at 48 C.F.R. 252.227-7014, or in subdivision (c)(1) and (2) of the Commercial Computer Software Restricted Rights Clause at 48 C.F.R. 52-227-19, as applicable. Contractor Manufacturer is Trusted Information Systems, Incorporated, 3060 Washington Road, Glenwood, MD 21738.

9. Export Controls. You agree that you will not directly or indirectly transfer the Software or documentation to any country to which such transfer would be prohibited by the U.S. Export Administration Act, the regulations issued thereunder, or any other export control statute or regulation.

10. Governing Law. This agreement is to be construed under the laws of the State of Maryland, USA, exclusive of conflict of laws provisions. This Agreement is not to be governed by the 1980 United Nations Convention on Contracts for the International Sale of Goods, as amended.

11. Termination. This license and your right to use this Software automatically terminate if you fail to comply with any provisions of this Agreement, destroy the copies of the Software in your possession, or voluntarily return the Software to TIS or TIS' authorized reseller. Upon termination you will destroy all copies of the Software and documentation. Otherwise, the restrictions on your rights to use the Software will expire upon expiration of the copyright to the Software.

12. Miscellaneous Provisions. This is the entire agreement between us relating to the contents of this package, and supersedes any prior purchase order,

communications, advertising, or representations concerning the contents of this package. No change or modification of this Agreement will be valid unless it is in writing, and is signed by TIS.

13. Third Party Beneficiary. If the software being licensed to you hereunder contains the Oracle SQL*Net Application Proxy, then, to the extent permitted by law, the Oracle Corporation is hereby designated as a third party beneficiary of this license.

14. Canadian Transactions. If you acquired this Software in Canada, you agree to the following:

(a) The parties hereto have expressly required that the present Agreement and its Exhibits be drawn up in the English Language. / Les parties aux presentes ont expressment exige que la presente convention et ses Annexes soient redigees en langue anglaise.

If you have any questions about this Agreement, write TIS at:
gauntlet-sales@tis.com
or
Trusted Information Systems, Inc.
15204 Omega Drive
Rockville, MD 20850
Attention: Gauntlet Administration
Phone Number 888-FIREWALL (or, outside of the U.S. or Canada, 301.527.9500)

EXHIBIT E
EMPLOYEE AGREEMENT REGARDING CONFIDENTIALITY AND INVENTIONS

This Agreement is intended to set forth in writing my responsibility to Trusted Information Systems, Inc. ("TIS"). I recognize that TIS is engaged in a continuous program of research, development, and production respecting its business, present and future. As part of my employment with TIS, I have certain obligations relating to the business interests of TIS, confidential and proprietary information, and inventions which I develop during that employment.

As part of the conditions of employment by TIS, I acknowledge and agree that:

1. Effective Date. This agreement ("Agreement") shall be effective as of _____, 19___.

2. TIS Proprietary Information.

2.1 Confidentiality. I will maintain in confidence and will not disclose or use, either during or after the term of my employment, any proprietary or confidential information or know-how belonging to TIS (referred to herein as "Proprietary Information"), whether or not in written form, except to the extent required to perform duties on behalf of TIS. Proprietary Information includes any information, not generally known in the relevant trade or industry, which was obtained from TIS, or which was learned, discovered, developed, conceived, originated or prepared by me in the scope of my employment. Such Proprietary Information includes, but is not limited to, software, technical and business information relating to TIS' inventions or products, research and development, production processes, machines and equipment, finances, customers, marketing, as well as production, marketing and future business plans, and any other information which is identified as confidential by TIS. Upon termination of my employment or at the request of my supervisor before termination, I will deliver to TIS all written and tangible material in my possession incorporating the Proprietary Information or otherwise relating to TIS' business.

2.2 Third-Party Proprietary Information. I recognize that TIS has received and will receive confidential or proprietary information from third parties, subject to a duty on TIS' part to maintain the confidentiality of such information and to use it only for certain limited purposes. My obligations with respect to TIS Proprietary Information shall also extend to confidential and/or proprietary information belonging to customers and suppliers of TIS who may have disclosed such information to me as the result of my status as an

employee of TIS. I will not use such third-party information for the benefit of anyone other than TIS or such third party, or in any manner inconsistent with TIS' agreement with such third party.

3. Inventions.

3.1 Definition of Inventions. As used in this Agreement, the term "Inventions" means any new or useful art, discovery, contribution, finding or improvement whether or not patentable, and all related know-how. Inventions include, but are not limited to, all designs, discoveries, algorithms, formulae, processes, manufacturing techniques, computer software, inventions and improvements.

3.2 Disclosure and Assignment of Inventions.

(a) I will promptly disclose and describe to TIS all Inventions which I may solely or jointly conceive, develop, or reduce to practice during the period of my employment with TIS (i) which relate to TIS' business or actual or demonstrably anticipated research or development, (ii) which were developed, in whole or part, on TIS' time or with the use of any of TIS' equipment, supplies, facilities or trade secret information, or (iii) which resulted from any work I performed for TIS (referred to herein as "TIS Inventions"). I hereby assign to TIS all my right, title and interest worldwide in TIS Inventions and in all intellectual property rights based on TIS Inventions. However, I do not assign or agree to assign any Inventions which were made by me prior to my employment with TIS, which Inventions, if any, are identified on Exhibit A to this Agreement. Exhibit A contains no confidential information. I have no rights in any Inventions other than the Inventions specified in Exhibit A. If no such list is attached, I have no such Inventions or I grant an irrevocable, non-exclusive, royalty-free, worldwide license to TIS to make, use and sell Inventions developed by me prior to my employment with TIS.

3.3 Non-Assignable Inventions. This Agreement does not apply to an Invention which qualifies fully as a non-assignable Invention under the provisions of Section 2870 of the California Labor Code.

4. Moral Rights. TIS retains moral rights for work done while at TIS. "Moral Rights" means any personal rights which an author may have under applicable law which are separate and apart from the proprietary aspect of copyright, including, but not limited to, rights to identification of authorship, rights of approval on modifications or limitation on subsequent modification, and rights to cause or suppress publication.

5. TIS Materials. Upon termination of my employment with TIS or at any other time upon TIS' request I will promptly deliver to TIS all documents and other materials furnished to me by TIS or prepared by me for TIS. I will retain no copies of TIS' or other proprietary material.

6. Competitive Employment. During the term of my employment with TIS, I will not engage in any employment, consulting, or other activity in any business competitive with TIS without TIS' written consent.

7. Non-Solicitation. During the term of my employment with TIS and for a period of two (2) years thereafter, I will not solicit or cause others to solicit any employees of TIS to terminate their employment with TIS.

8. Acts to Secure Proprietary Rights.

8.1 Further Acts. I agree to perform, during and after my employment, all acts deemed necessary or desirable by TIS to permit and assist it, at its expense, in perfecting and enforcing the full benefits, enjoyment, rights and title throughout the world in the TIS Inventions. Such acts are intended primarily to include, but are not limited to, execution of documents and assistance or cooperation in the registration and enforcement of patents and copyrights or in

other legal proceedings.

8.2 Appointment of Attorney-In-Fact: In the event that TIS is unable for any reason whatsoever to secure my signature to any lawful document required to apply for or enforce any patent, copyright or other applications with respect to any TIS Inventions (including improvements, renewals, extensions, continuations, divisions or continuations in part thereof), I hereby irrevocably appoint TIS and its duly authorized officers and agents as my agents and attorneys-in-fact to execute and file any such application and to do all other lawfully permitted acts to further the prosecution, issuance and enforcement of patents, copyrights or other rights therein with the same legal force and effect as if executed by me.

9. No Conflicting Obligation. My performance of this Agreement and as an employee of TIS does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by me prior to my employment with TIS. I will not disclose to TIS, or induce TIS to use, any confidential or proprietary information or material belonging to any previous employer or other person or entity. I am not a party to any other agreement which will interfere with my full compliance with this Agreement. I will not enter into any agreement in conflict with the provisions of this Agreement.

10. Survival. Notwithstanding the termination of my employment, Sections 2, 3, 7 and 8 shall survive such termination. This Agreement does not in any way restrict my right or the right of TIS to terminate my employment at any time.

11. Specific Performance. A breach of any of the promises or agreements contained herein will result in irreparable and continuing damage to TIS for which there will be no adequate remedy at law, and TIS shall be entitled to injunctive relief and/or a decree for specific performance, and such other relief as may be proper.

12. Waiver. The waiver by TIS of a breach of any provision of this Agreement by me will not operate or be construed as a waiver of any other subsequent breach by me.

13. Severability. If any part of this Agreement is found invalid or unenforceable, that part will be amended to achieve as nearly as possible the same economic effect as the original provision and the remainder of the Agreement will remain in full force.

14. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Maryland as applied to agreements entered into and to be performed entirely within Maryland and Maryland residents.

15. Choice of Forum/Attorney Fees. The panics hereby submit to the jurisdiction of the United States District Court for the District of Maryland and the Maryland State courts in any litigation arising out of the Agreement. If court proceedings are required to enforce any provision or to remedy any breach of this Agreement, the prevailing party shall be entitled to an award of reasonable and necessary expenses of litigation, including reasonable attorney's fees.

16. Entire Agreement. This Agreement, including all exhibits to this Agreement, constitutes the entire agreement between the parties relating to this subject matter and supersedes all prior or simultaneous representations, discussions, negotiations, and agreements, whether written or oral. This Agreement

may be amended or modified only with the written consent of both me and TIS. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

17. Assignment. This Agreement may be assigned by TIS. I may not assign or delegate my duties under this Agreement without TIS' prior written approval. This Agreement shall be binding upon my heirs, successors, and permitted assignees.

EMPLOYEE:

Date:
---------- ----------
Signature

Printed Name

Witnessed by:
Date: TRUSTED INFORMATION SYSTEMS, INC.

By

Title

LIMITED EXCLUSION NOTIFICATION

THIS IS TO NOTIFY you in accordance with Section 2870 of the California Labor code that the above Agreement between you and TIS does not require you to assign to TIS, any invention for which no equipment, supplies, facility or trade secret information of TIS was used and which was developed entirely on your own time, and (a) which does not relate (1) to the business of TIS or (2) to TIS' actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by you for TIS. This limited exclusion does not apply to any patent or invention covered by a contract between TIS and the United States or any of its agencies requiring full title to such patent or invention to be in the United States.

I ACKNOWLEDGE RECEIPT of a copy of this notification.

Signature

Printed Name of Employee

Date

Witnessed by:

TRUSTED INFORMATION SYSTEMS, INC.

- ---
Representative

Dated

Exhibit 10.13

Software Distribution Agreement

This Software Distribution Agreement (the "Agreement") is made and entered into this 26th day of September, 1997 by and between Trusted Information Systems, Inc., a Delaware corporation with offices at 15204 Omega Drive, Rockville, Maryland 20850 ("TIS") and Network-1 Software & Technology, Inc., a Delaware corporation with its principal offices at 909 Third Avenue, 9th Floor, New York, New York 10022 ("Network-1").

1. Definitions. As used in this Agreement:

(a) "Confidential Information" shall mean confidential or other proprietary information that is disclosed by either party to the other under this Agreement including, without limitation, software, code and designs, product specifications and other confidential business information. Confidential information shall not include information which (i) is or becomes public knowledge without any action by or involvement of a party; (ii) has been independently developed other than pursuant to this Agreement; (iii) constitutes residuals (the "Residuals") as such term is defined in paragraph 6 of the Non-Disclosure Agreement, dated April 7, 1997, between Network-1 and TIS; (iv) is disclosed by a party with the prior written approval of the other party; or (v) is disclosed pursuant to any judicial or government order provided that such party gives the other party sufficient prior notice to contest such order.

(b) "Derivative Work" means any work which is based upon one or more pre-existing works such as a revision, modification, translation, abridgement, condensation, expansion, collection, compilation or any other form in which such pre-existing work may be recast, transformed or adopted, and which, in the absence of this Agreement or other authorizations by the owner of the pre-existing work, would constitute a copyright infringement. Derivative Work does not include Residuals.

(c) "Effective Date" shall mean the date identified on the signature page of this Agreement as the effective date.

(d) "End User(s)" means any person or entity which is granted a sublicense by Network-1, in accordance with this Agreement, to use the Licensed Product as a component of the Network-1 FireWall/Plus Product.

(e) "Network-1 FireWall/Plus Product" shall mean the firewall software product(s) and other software products developed by and for and owned by Network-1 for use on Microsoft based operating systems (including Windows/NT and Windows 95) as set forth on Exhibit A (including any unilateral amendments provided by Network-1 to TIS) and any Updates or Upgrades relating to such products.

(f) "Network-1 FireWall/Licensed Product" shall mean the Network-1 FireWall/Plus Product which includes the Licensed Product as a component.

(g) "Intellectual Property Rights" shall mean all forms of intellectual property rights and protections that may be obtained for or may pertain to, the Licensed Product, Confidential Information and marks and may include without limitation:

(i) all right, title and interest in and to all Letters Patent and all filed, pending or potential applications for Letters Patent, including any reissue, reexamination, division, continuation or continuations-in-part applications throughout the world now or hereafter filed;

(ii) all right, title and interest in and to all trade secret rights and equivalent rights arising under the common law, state law,

federal law and laws of foreign countries;

(iii) all right, title and interest in and to all mask works, copyrights, other literary property or authors rights, whether or not protected by copyright or as a mask work, under common law, state law, federal law and laws of foreign countries; and

(iv) all right, title and interest in and to all proprietary indicia, trademarks, tradenames, symbols, logos and/or brand names under common law, state law, federal law and laws of foreign countries.

(h) "Licensed Product" means TIS' software proxies for Enterprise Firewall platform and associated software as defined in Exhibit B, as it may be amended from time to time by mutual agreement of the parties.

(i) "Net Receipts" shall mean the actual gross receipts less sales, use, excise, value added or other similar taxes and allowances for returns, defects and replacements received by Network-1 from distribution of the Network-1 FireWall/Licensed Product. If the Network-1 FireWall/Licensed Product is distributed with other products that do not contain the Network-1 FireWall/Licensed Product in a bundle for a single price, the Net Receipts attributable to the Network-1 FireWall/Licensed Product will be determined by pro rating the receipts from the sale or license of the package according to the suggested retail prices, or if no suggested retail price is announced, the values established by Network-1 for the separate works contained in the package, whether or not such products are distributed separately, provided that such values are reasonably related to the values or cost of the separate products. Net Receipts will not include any receipts from copies of the Network-1 FireWall/Licensed Product which are distributed by Network-1 to previous purchasers of the Network-1 FireWall/Licensed Product as back-up, replacement or update copies for which Network-1 does not receive its standard payment. No Royalties will be credited or paid to TIS with respect to any receipts from copies of the Network-1 FireWall/Licensed Product supplied for promotional purposes (as well as evaluation purposes) to the press, trade, sales representatives or potential customers for the Network-1 FireWall/Licensed Product. Amounts received by Network-1 as deposits or advances will not be deemed to have been received until shipment of the Network-1 FireWall/Licensed Product to the End User making the deposit or advance has been made against such deposit or advance.

Partial payment of an invoice will be pro-rated over all products included in the invoice. Amounts received by Network-1 in foreign currencies will be deemed converted into U.S. dollars at the exchange rate on the date of actual payment.

(j) "Royalties" shall mean the royalties payable with respect to distribution of the Network-1 FireWall/Licensed Product as described in Section 6 hereof.

(k) "Source Code" shall mean program code applicable to the Licensed Product, expressed in the form suitable for modification by humans as well as any Updates and Upgrades as defined herein and any and all applicable related documentation.

(l) "Specifications" shall mean the published Specifications applicable to the Licensed Product that are in effect as of the date the Licensed Product is delivered to Network-1. During the term, if TIS substantially amends its specifications, TIS shall inform Network-1 of the revised Specifications.

(m) "Term" shall mean the period beginning on the Effective Date and terminating on the date this Agreement is terminated under Section 13 hereof.

(n) "Update" means the release of the Licensed Product which is a minor release or bug fix or an error correction.

(o) "Upgrade" means a new revision of the Licensed Product that includes enhancements which increase performance or increase functionality

for which TIS charges a license fee.

2. Grant of License.

(a) Subject to the terms and conditions set forth in this Agreement, TIS hereby grants to Network-1 a worldwide, perpetual (subject to termination as provided in Section 13), non-exclusive license to (i) incorporate and/or bundle the Licensed Product only with the Network-1 FireWall/Plus Product and to market, distribute, and sublicense the Licensed Product solely as a component of the Network-1 FireWall/Plus Product; and (ii) to use the License Product for testing, demonstration, training, promotional and evaluation purposes by its personnel, end users, resellers and distributors.

(b) If TIS should make any Updates or Upgrades to the Licensed Product, TIS shall make (at no additional cost to Network-1) the same available to Network-1 under the terms and conditions of this Agreement.

(c) Network-1 may not modify, enhance or otherwise change the Licensed Product except to the extent required to integrate the Licensed Product with the Network-1 FireWall/Plus Product. Any such permissible modification, enhancement or change to the Licensed Product by Network-1 shall be the exclusive property of Network-1 (the "Network-1 Modifications") and Network-1 will automatically grant TIS, a worldwide, fully paid-up, non-

exclusive, perpetual, irrevocable license to market, sublicense, use and distribute the Network-1 Modifications except that TIS may not sublicense, distribute or otherwise provide the Network-1 Modifications to direct competitors of Network-1 as listed on Exhibit C hereto (Exhibit C may be amended by Network-1 upon consent of TIS which shall not be unreasonably withheld).

(d) Network-1 agrees to allow TIS to enforce its rights under any agreement Network-1 may have with any third party or End User to protect any confidentiality and proprietary property of TIS included in the Licensed Product.

(e) Network-1 shall not market, distribute or sublicense the Licensed Product to any party deemed a competitor of TIS as set forth on Exhibit D hereto (the "TIS Competitor"). In the event of a merger or sale of substantially all of the assets of Network-1 with or to any TIS Competitor, TIS shall have the right to terminate this Agreement upon six (6) months notice. In addition, at no time shall any TIS Competitor have access to the Source Code as provided in Section 3 hereof without the express written consent of TIS.

(f) Network-1 shall not market, distribute or sublease the Licensed Product to any Original Equipment Manufacturer without first obtaining the written consent of TIS.

(g) Except as otherwise provided herein, Network-1 shall not copy the Licensed Product in whole or in part, except as reasonably necessary for archival backup purposes and for use by Network-1 of the Licensed Product as permitted under this Agreement. Network-1 agrees to reproduce on all documentation relating to the Network-1 FireWall/Licensed Product, proprietary trademark or copyright markings as follows: "The [Describe proxies actually used from Exhibit B] Software Proxies are a product of Trusted Information Systems, Inc."

(h) TIS, at its sole discretion, shall have the right to modify the Licensed Product at any time during the Term provided that TIS provides Network-1 with Beta source code relating to such modification as soon as it is available and gives Network-1 thirty (30) days prior notice of such change, including any revised or additional Specifications.

(i) All licenses to End Users, whether granted by Network-1 directly or through a distributor, shall contain Network-1's standard license, a copy of which is attached hereto as Exhibit E.

(j) Nothing in this Agreement shall obligate Network-1 to

incorporate the Licensed Product with the Network-1 FireWall/Plus Product and Network-1 may offer its Network-1 FireWall/Plus Product without the Licensed Product at anytime hereafter subject to Network-1's obligation to pay TIS the Minimum Royalty Payment set forth in paragraph 6(b) herein and TIS' right of termination as provided in paragraph 13(b) hereof.

3. Source Code Escrow.

TIS has deposited in escrow with Network-1 the Source Code which shall be maintained in escrow by Network-1 in a secure environment at its office location at 878

Greenview Drive, Grand Prairie, Texas 75050 (or such other location Network-1 provides TIS upon 30 days prior notice). Network-1 shall employ such procedures with respect to the Source Code that are no less restrictive than the strictest procedures used by it to protect its own confidential and proprietary source code which procedures shall be no less than reasonable care. Network-1 shall allow a limited number of its employees and consultants (a list of consultants who have had access to the Source Code as of the date hereof is attached hereto as Schedule 1 and after the date hereof a list of consultants will be provided to TIS prior to access) to have access to the Source Code provided such employees or consultants execute confidentiality agreements in the form annexed hereto as Exhibit F, and only for the following purposes: (i) integrating the Licensed Product with Network-1 FireWall/Plus Product and (ii) maintenance and bug fixes.

4. Marketing and Distribution of the Licensed Product.

Network-1 will be responsible for and have sole discretion (except as otherwise expressly provided herein) with respect to determining and implementing all or any marketing strategies, policies or programs relating to the distribution of the Licensed Product by Network-1 as provided herein, including, without limitation, methods of marketing, pricing, packaging, labeling and identification, protection, advertising, terms and conditions of sale and/or license, collection of end users' names, scope and expense of marketing, and use of warranty or user registration procedures. Network-1 shall have the right to distribute the Licensed Product in accordance with the terms of this Agreement in a variety of forms, and by any variety of methods, in its sole discretion.

5. Delivery and Acceptance.

(a) Delivery. TIS has delivered the Licensed Product to Network-1 and will provide all Updates and Upgrades to Network-1's designated representatives of which Network-1 will advise TIS in writing. Network-1 has evaluated the Licensed Product and the Licensed Product is hereby deemed accepted by Network. Except as set forth in Section 6 hereof, Network-1 shall not be required to make any payments to TIS with respect to the Licensed Product.

6. Royalty Payments.

(a) Royalty Payments. Network-1 shall pay to TIS Royalties of *% of the Net Receipts derived from distribution of the Network-1 FireWall/Licensed Product. Network-1 agrees that in no event shall the Royalties payable to TIS hereunder be less than $* per unit of Network-1 FireWall/Licensed Product sold by Network-1 in accordance with the terms of this Agreement. The Royalties shall be paid to TIS by Network-1 on a quarterly basis, within thirty (30) days following the end of each calendar quarter.

* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the Securities and Exchange Commission.

(b) Minimum Royalty Payment. For the period ending March 30,

1999, Network-1 agrees to pay to TIS total Royalties of a minimum of $100,000 pursuant to Section 6(a) herein (the "Minimum Royalty Payment") regardless of the Net Receipts derived from distribution of Network 1 FireWall/Licensed Product. In the event the Minimum Royalty Payment has not been paid by April 30, 1999 (for the period ending March 30, 1999), Network-1 shall be obligated to make an additional payment to TIS by May 15, 1999 in an amount equal to the difference between the Minimum Royalty Payment and the Royalties paid to TIS for the period ending March 30, 1999. In the event the Minimum Royalty Payment is not paid by Network-1 as provided herein, Network-1 shall be in breach of this Agreement and TIS shall have the right to terminate this Agreement in accordance with Section 13(c) hereof. Any such termination shall not relieve Network-1 of its obligation to pay TIS the Minimum Royalty Payment.

(c) Reports of Royalties. Network-1 shall deliver to TIS, along with its payment of Royalties due for each quarter, a written report showing, in reasonable detail, its calculation of Royalties payable with respect to such calendar quarter. Network-1 shall maintain such books and records as are necessary to properly calculate the amount of Royalties to be paid pursuant to this Agreement. A certified public accountant to be chosen by TIS, and approved by Network-1 (which approval shall not be unreasonably withheld), may, upon reasonable notice and during normal business hours, but no more often than once each year, inspect the records of Network-1 on which such reports are based. Any information revealed in such inspections shall be confidential and not disclosed to anyone, except to the extent necessary to identify to TIS, Network-1 or any fact finder in any action instituted to enforce the terms of this Agreement, any inaccuracy which may be found in the amount of Royalties due to TIS or except as otherwise provided by law. The fees and expenses of the independent certified public accountant shall be paid by TIS, unless the inspection uncovers an underpayment for the evaluation period in question in excess of 5% of the amount actually paid by Network-1 during the period of the audit, in which case the fees and expenses of the certified public accountant shall be paid by Network-1.

7. Support. TIS shall provide Network-1 with technical support in connection with integration of the Licensed Product with the Network-1 FireWall/Plus Product which shall include (i) up to one (1) week on-site support for purposes of integration of the Licensed Product with the Network-1 FireWall/Plus Product, (ii) support for bug fixes related to the Licensed Product and (iii) support for modifications to the Licensed Product caused by operating system changes provided that the Licensed Product is then currently offered by TIS on such operating system. Except as otherwise provided herein, following Network-1's release of the Network-1 FireWall/Licensed Product, any technical support provided by TIS to Network-1 on site shall be billed at TIS's standard rates of $2,000 per day.

8. Intellectual Property Rights. Except as otherwise specifically provided in this Agreement, Network-1 hereby acknowledges that TIS and its licensors (as their interests may appear) retain all Intellectual Property Rights (including, without limitation, any and all related patents, trademarks, copyrights or proprietary or trade secret rights) in the Licensed Product and Confidential Information, including, without limitation, all corrections, modifications and other

Derivative Works to the Licensed Product. Except for the Network-1 Modifications, Network-1 hereby assigns to TIS all Intellectual Property Rights it may hereafter possess in the Licensed Product and Confidential Information and all Derivative Works and agrees (i) to execute all documents, and take all actions, that may be necessary to confirm such rights, and (ii) to retain all proprietary marks, legends and patent and copyright notices that appear on the Licensed Product or Confidential Information delivered to Network-1 by TIS and all whole or partial copies thereof.

9. Confidentiality. Network-1 agrees to observe complete confidentiality with respect to the Confidential Information, not to disclose or permit any third party or entity access to, the Confidential Information (or any portion thereof) without the prior written approval of TIS (except such disclosure which is required to perform any obligations under this Agreement) and to insure that any employees, or any third parties who receive access to the Confidential Information, are advised of the confidential and

proprietary nature thereof and are prohibited from copying, utilizing or otherwise revealing the Confidential Information in any manner not already permitted under this Agreement or the Non-Disclosure Agreement between the parties, dated April 7, 1997. Without limiting the foregoing, Network-1 agrees to employ with regard to the Confidential Information, procedures no less restrictive than the strictest procedures used by it to protect its own confidential and proprietary information which procedures shall be no less than reasonable care.

10. Warranties. TIS represents and warrants that (i) the Licensed Product is, and the Upgrades and Updates will be, the original creation of TIS, TIS is the sole and exclusive owner of the Licensed Product, and will be the sole and exclusive owner of the Upgrades and Updates (except as otherwise disclosed to Network-1) and, TIS has the rights to grant licenses therefor as granted to TIS under this Agreement, (ii) the grant to and the exercise by Network-1 of any and all rights set forth in this Agreement and TIS's disclosures to Network-1 pursuant to this Agreement do not, and will not, violate the U.S. patent rights, copyrights, trade secret rights, trademark rights or other proprietary contractual or other rights of any third party, (iii) for a period of ninety (90) days following the first use of the Licensed Product by an End User, the Licensed Product and Upgrades will substantially conform to and operate as described in applicable Specifications, and (iv) TIS has full power and authority to enter into this Agreement and to grant the rights and obligations set forth herein and this Agreement is enforceable in accordance with its terms.

11. Disclaimer. EXCEPT FOR THE EXPRESS WARRANTIES STATED IN SECTION 10 HEREIN, TIS DISCLAIM(S) ALL EXPRESS OR IMPLIED WARRANTIES WITH RESPECT TO THE LICENSED PRODUCT FURNISHED HEREUNDER, INCLUDING, WITHOUT LIMITATION, ALL IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

12. Indemnification.

(a) By TIS. TIS agrees to indemnify, hold harmless and defend Network-1, its officers, directors, employees, contractors, licensors and agents, from any claims, liabilities,

damages, costs and expenses (including reasonable attorneys' fees and costs of suit) to the extent they arise out of (i) a material breach of this Agreement by TIS, (ii) a breach of any of the representations and warranties set forth in Section 10 hereof or any other representations set forth in this Agreement and (iii) any claims of infringement of any U.S. copyright, patent or trade secret or other proprietary rights, arising from the Licensed Product and any modification, enhancement or misuse of the Licensed Product by TIS. If TIS receives notice of an alleged infringement, TIS shall use its best efforts, subject to commercial reasonableness, to either obtain the right to continued use of the Licensed Product, or to modify the Licensed Product so that it is no longer infringing.

(b) By Network-1. Network-1 agrees to indemnify, hold harmless and defend TIS, its officers, directors, employees, contractors, licensors and agents, from any claims, liabilities, damages, costs and expenses (including reasonable attorneys' fees and costs of suit) to the extent they arise out of (i) a material breach by Network-1 of the terms and provisions of this Agreement, and (ii) any claim of infringement of any U.S. copyright, patent or trade secret or other proprietary rights relating to the Network-1 FireWall/Plus Product excluding any such claim relating to the Licensed Product.

(c) Indemnification Conditions. Promptly after receipt by TIS or Network-1 of notice of any claim that may affect the Licensed Product or the commencement of any action, proceeding, or investigation in respect of which indemnity or reimbursement may be sought as provided above, such party (the "Indemnitee") shall notify the party from whom indemnification is claimed (the "Indemnitor"), but the failure of such Indemnitee to notify the Indemnitor with respect to a particular action, proceeding or investigation shall not relieve the Indemnitor from any obligation or liability (i) which it may have pursuant to this Agreement if the Indemnitor is not substantially prejudiced by the failure to notify or (ii) which it may have otherwise than

pursuant to this Agreement. The Indemnitor shall promptly assume the defense of the Indemnitee with counsel reasonably satisfactory to the Indemnitee, and the fees and expenses of such counsel shall be at the sole cost and expense of the Indemnitor. The Indemnitee will cooperate with the Indemnitor in the defense of any action, proceeding or investigation for which the Indemnitor assumes the defense. Notwithstanding the foregoing, the Indemnitee shall have the right to employ separate counsel in any action, proceeding, or investigation and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnitee unless (i) the Indemnitor has agreed to pay such fees and expenses, (ii) the Indemnitor shall have failed promptly to assume the defense of such action, proceeding or investigation and employ counsel reasonably satisfactory to the Indemnitee, or (iii) in the reasonable judgment of the Indemnitee there may be one or more defenses available to the Indemnitee which are not available to the Indemnitor with respect to such action, claim, or proceeding, in which case the Indemnitor shall not have the right to assume the defense of such action, proceeding or investigation on behalf of the Indemnitee. The Indemnitor shall not be liable for the settlement by the Indemnitee of any action, proceeding or investigation effected without its consent, which consent shall not be unreasonably withheld. The Indemnitor shall not enter into any settlement in any action, suit or proceeding to which the Indemnitee is a party, unless such settlement includes a general release of the Indemnitee with no payment by the Indemnitee of consideration.

13. Term and Termination.

(a) Term of Agreement. Subject to the foregoing limitation, this Agreement shall continue perpetually, unless terminated in accordance with the provisions of Section 13 below.

(b) Termination. Network-1 may terminate this Agreement effective at the end of any calendar year beginning with the year ended December 31, 1998 by giving TIS prior written notice at any-time during the month of October preceding such year end. TIS may terminate this Agreement upon thirty (30) days prior notice if for any two consecutive calendar quarters after December 31, 1998, Network-1 does not pay TIS minimum Royalties of $* per quarter, payment to be provided in accordance with the terms of this Agreement. In addition, if at any time after December 31, 1998, Network-1 does not offer the Licensed Product as part of any Network-1 FireWall/Licensed Plus Product for any ninety (90) day period, TIS shall have the right to terminate this Agreement upon thirty (30) days prior notice.

(c) Termination Upon Breach. Each party shall have the right to terminate this Agreement provided (i) such party provides thirty (30) days prior notice to the other party; (ii) the other party is in a material breach of any of the terms of this Agreement; and (iii) the prior breach is not cured within such thirty (30) day period. Any such notice shall provide, in reasonable detail, a description of the alleged breach and the requested cure of that breach.

(d) Effect of Termination. In the event of a termination of this Agreement pursuant to this Section 13, Network-1 shall have the right, for a period of 180 days, to distribute its existing inventory of the Network-1 FireWall/Licensed Product pursuant to the terms of this Agreement. Any such termination shall not affect the rights of any End User that has purchased the Network-1 FireWall/Licensed Product from Network-1 in accordance with the terms of this Agreement prior to its termination. Upon termination of this Agreement, for any reason, Network-1 will return to TIS all copies of the Licensed Product or certify to TIS that Network-1 has destroyed all such copies, except that Network-1 may retain one (1) copy of the object code for the Licensed Product solely for the purpose of supporting its existing licensees.

14. Limitation of Liability. EXCEPT FOR PAYMENTS DUE PURSUANT TO SECTION 6 HEREIN AND THE INDEMNIFICATION PROVISIONS OF SECTION 12 HEREOF, IN NO EVENT SHALL EITHER PARTY (OR ITS LICENSORS) BE LIABLE FOR ANY LOSS REVENUES OR PROFITS OR OTHER SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES ARISING OUT OF THIS AGREEMENT OR RELATED TO THE LICENSED PRODUCT, EVEN IF THE PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

15. General Provisions.

* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the Securities and Exchange Commission.

(a) Export Compliance. The rights and obligations of Network-1 shall be subject to such United States laws and regulations as shall from time to time govern the license and delivery of technology abroad by persons subject to the jurisdiction of the United States, including the Export Administration Act of 1979, as amended, any successor legislation to the Export Administration Act of 1979, and the Export Administration regulations issued by the Department of Commerce, International Trade Administration, Office of Export Administration. Network-1 agrees that it shall not, directly or indirectly, export, reexport or transship the Licensed Product or any parts or copies thereof in such manner as to violate such laws and regulations in effect from time to time.

(b) Publicity. Neither party shall, without first obtaining the written consent of the other party, which consent shall not be unreasonably withheld, announce this Agreement in a press release or other promotional material. In addition, neither party shall disclose the terms and conditions of this Agreement to any third party, except as may be required (i) to implement and enforce the terms of this Agreement, or (ii) by legal procedure or by law or (iii) by Network-1 in connection with an Initial Public Offering ("IPO"). In the case of clause (iii) above, Network-1 may, for the sole purpose of initiating or affecting its IPO, disclose the full terms and conditions of this Agreement only to its legal counsel, its investment bankers, its investment bankers' legal counsel, securities regulatory authorities and potential investors who are bound by a confidentiality agreement covering the terms and conditions of this Agreement as Confidential Information of Network-1 and TIS. In addition, Network-1 may disclose in a prospectus for an IPO such material information concerning this Agreement as the attorneys who advise Network-1 on matters relating to the Securities Act of 1933, as amended, shall advise is necessary to be disclosed in such prospectus. A copy of the proposed IPO prospectus disclosure shall be provided to TIS and TIS shall not unreasonably withhold its consent to such disclosure.

(c) Equitable Relief. Each party acknowledges that any breach of its obligations under this Agreement with respect to the grant of the license hereunder, Intellectual Proprietary Rights or Confidential Information will cause the other party irreparable injury for which there are inadequate remedies at law, and that such party will be entitled to seek equitable relief with respect to any such breach in addition to all other remedies provided by this Agreement or available at law.

(d) Successors and Assigns. Except as otherwise provided herein, this Agreement may not be assigned in whole or in part by either party without the prior written consent of the other party, except either party may assign this Agreement without the other's prior written consent to an Affiliated Entity, or in the event of a merger or other reorganization involving such party, or sale of all or substantially all of such party's assets. For purposes hereof, Affiliated Entity shall be defined as an entity controlled by, or under common control with, such party. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their successors and assigns.

(e) Governing Law. This Agreement will be governed and interpreted in accordance with the laws of the State of New York without reference to conflicts of law principles.

(f) Relationship of Parties. Neither party will have and will not represent that it has, any power, right or authority to bind the other party or to assume or create any obligation or responsibility, express or implied, on behalf of the other party or in the other party's name, except as herein

expressly provided. Nothing stated in this Agreement shall be construed as constituting Network-1 and TIS as partners or as creating the relationship of principal/agent, employer/employee or franchise/franchisee between the parties.

(g) Attorneys' Fees. In the event that any legal action is required in order to enforce or interpret any of the provisions of this Agreement, the prevailing party in such action shall recover all reasonable costs and expenses, including attorneys' fees, incurred in connection therewith.

(h) Further Actions. At any time and from time to time, each party agrees without further consideration, to take such action and to execute and deliver such documents as may be reasonably necessary to effectuate the purposes of this Agreement.

(i) Waiver. The failure of either party to enforce any provision of this Agreement shall not be deemed a waiver of that or any other provision of this Agreement.

(j) Force Majeure. Except for the obligation to make payments as provided herein, nonperformance of either party shall be excused to the extent the performance is rendered impossible by strike, fire, flood, governmental acts or orders or restrictions, failure of suppliers, or any other reason where failure to perform is beyond the reasonable control of and is not caused by the negligence of the nonperforming party.

(k) Severability. If any of the provisions of this Agreement are found or deemed by a court of competent jurisdiction to be invalid or unenforceable, they shall be severable from the remainder of the Agreement and shall not cause the invalidity or unenforceability of the Agreement.

(l) Notices. Notices to either party shall be in writing and shall be deemed delivered when served in person or three business days after being deposited in the United States mail, first-class certified mail, postage prepaid, return receipt requested, or one business day after being dispatched by a nationally recognized one-day express courier service addressed as follows:

To TIS: Trusted Information Systems, Inc.
15204 Omega Drive
Rockville, Maryland 20850
Attn: Jeffrey H. Schneider, Esq.

with a copy to: Kenneth A. Mendelson, Esq.
Trusted Information Systems
3060 Washington Road
(Route 97)
Gleenwood, Maryland 21738

To Network-1: Network-1 Software & Technology, Inc.
909 Third Avenue, 9th Floor
New York, New York 10022
Attn: Robert Russo, President

with a copy to: Bizar Martin & Taub, LLP
1350 Avenue of the Americas,
29th Floor
New York, New York 10019
Attn: Sam Schwartz, Esq.

(m) Entire Agreement. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof, and, with the exception of the Non-Disclosure Agreement, dated April 7, 1997, between the parties, supersedes in its entirety any and all written or oral agreements or understandings previously existing between the parties with respect to such subject matter. Each party acknowledges that it is not entering into this Agreement on the basis of any representations not expressly contained herein. Any amendments or modifications of this

Agreement must be in writing and signed by both parties hereto.

(n) All section headings herein are inserted for convenience only and shall not modify or affect the construction or interpretation of any provision of this Agreement.

(o) Counterparts. This Agreement may be executed in two or more counterparts, each of which when so executed shall be deemed an original, and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties have entered into this Agreement as of the date first set forth above.

Trusted Information Systems, Inc.

By: /s/ Jeffrey H. Schneider

Printed Name: Jeffrey H. Schneider

Title: Director of Contracts

Network-1 Software & Technology, Inc.

By: /s/ Robert Russo

Printed Name: Robert Russo

Title: President

Effective Date: September 26, 1997

EXHIBIT A

FireWall/Plus Enterprise

EXHIBIT B

LICENSED PRODUCTS

The following proxies and libraries have been provided by TIS to Network-1:

Proxies
- http,
- ahttp,
- ftp,
- authserver,
- logserver

Libraries
- the authentication libraries
- firewall library
- the NT-specific firewall library, and
- the Unix emulation library

EXHIBIT C

NETWORK-1 COMPETITORS

In addition to entities which sell/license a generic firewall, the following is a list of competitors of Network-1:

1. Altivista Internet Software Inc.

2. ANS Communications
3. Border Network Technologies Inc.
4. Check Point Software Technology Inc.
5. Cisco Systems, Inc.
6. Digital Equipment Corporation
7. Cyberguard Corp.
8. Cycon Technologies
9. Global Internet Software Group Inc.
10. Global Technology Associates Inc.
11. IBM
12. Microsoft Corporation
13. Milkyway Networks Corp.
14. Network Systems Corporation
15. NEC Technologies
16. Netguard Ltd.
17. Raptor Systems Inc.
18. Seattle Software Labs Inc.
19. Secure Computing Corp.
20. Sidewinder
21. Sun Microsystems Inc.
22. Technologies Inc.
23. Ukiah Software Inc.
24. Data General
25. Hewlett Packard
26. Radguard
27. V-One Corp.

EXHIBIT D

TIS COMPETITORS

In addition to entities which sell/license a generic firewall, the following is a list of TIS' competitors:

1. Altivista Internet Software Inc.
2. ANS Communications
3. Boarderware
4. Check Point Software Technologies Inc.
5. Cyberguard Corp.
6. Cycon Technologies
7. Global Internet Software Group Inc.
8. Global Technology Associates Inc.
9. IBM
10. Milkyway Networks Corp.
11. NEC Technologies Inc.
12. Netguard Ltd.
13. Raptor Systems Inc.
14. Seattle Software Labs Inc.
15. Secure Computing Corp.
16. Sidewinder
17. Sun Microsystems Inc.
18. Technologies Inc.
19. Ukiah Software Inc.
20. Data General
21. Digital Equipment Corp.
22. Hewlett Packard
23. Radguard
24. V-One Corp.

NETWORK-1 SOFTWARE AND TECHNOLOGY, INC. SOFTWARE LICENSE AGREEMENT

BEFORE OPENING THIS CD JEWEL CASE, PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF THIS AGREEMENT CAREFULLY. THIS IS A LEGAL AGREEMENT BETWEEN YOU AND NETWORK-1 SOFTWARE AND TECHNOLOGY, INC. ("NETWORK-1") AND THE TERMS OF THIS AGREEMENT GOVERN YOUR USE OF THIS SOFTWARE. OPENING THIS JEWEL CASE OR USE OF THE ENCLOSED MATERIALS WILL CONSTITUTE YOUR ACCEPTANCE OF THE TERMS AND CONDITIONS OF THIS AGREEMENT. IF YOU DO NOT AGREE TO THE TERMS OF THIS LICENSE, PROMPTLY RETURN THE UNOPENED JEWEL CASE CONTAINING THE SOFTWARE TO THE PLACE WHERE YOU OBTAINED IT.

1. Grant of License. The application, demonstration, system and other software accompanying this License, whether on disk, in read only memory or on any other media (the "Software") and the related documentation are

licensed to you by Network-1. In consideration of payment of the license fee, Network-1 as Licensor, grants to you, as Licensee, a non-exclusive right to use and display this copy of the Software on a single computer (i.e., a single CPU) only at one location at any time. To "use" the Software means that the Software is either loaded in the temporary memory (i.e., RAM) of a computer or installed on the permanent memory of a computer (i.e., hard disk, CD ROM, etc.). You may use at one time as many copies of the Software as you have licenses for. You may install the Software on a common storage device shared by multiple computers, provided that if you have more computers having access to the common storage device than the number of licensed copies of the Software, you must have some software mechanism which locks-out any concurrent users in excess of the number of licensed copies of the Software (an additional license is not needed for the one copy of Software stored on the common storage device accessed by multiple computers).

2. Ownership of Software. As Licensee, you own the disk or other physical media on which the Software is originally or subsequently recorded or fixed, but Network-1 retains title and ownership of the Software, both as originally recorded and all subsequent copies made of the Software regardless of the form or media in or on which the original or copies may exist. This License does not constitute a sale of the original Software or any copy.

3. Restrictions. The Software contains copyrighted material, trade secrets, and other proprietary material. Except as permitted by applicable legislation, you may not decompile, reverse engineer, disassemble or otherwise reduce the Software to a human-perceivable form. You may not modify, network, rent, lease, loan, distribute or create derivative works based on the Software in whole or in part.

4. Transfer Restrictions. This Software is licensed to only you, the Licensee, and may not be transferred to anyone else without the prior written consent of Network-1. Any authorized transferee of the Software shall be bound by the terms and conditions of this Agreement. In no event may you transfer, assign, rent, lease, sell or otherwise dispose of the Software on a temporary or permanent basis except as expressly provided herein.

5. Export Law Assurances. You agree and certify that neither the Software nor any other technical data received from Network-1, nor the direct product thereof, will be exported outside the United States except as authorized and as permitted by the laws and regulations of the United States and the laws and regulations of the jurisdiction in which you obtained the Software.

6. Termination. This License is effective until terminated. This License will terminate automatically without notice from Network-1 if you fail to comply with any provision of this License. Upon termination you shall destroy the written materials and all copies of the Software, including modified copies, if any.

7. Government End Users. If the Software is supplied to the United States Government, the Software is classified as "restricted computer software" as defined in the clause 52.227-19 of the Federal Acquisition Regulations System ("FAR"). The United States Government's rights to the Software are as provided in Clause 52.227-19 of the FAR.

8. Limited Warranty on Media. Network-1 warrants the media on which the Software is recorded to be free from defects in materials and workmanship under normal use for a period of ninety (90) days from the date of purchase as evidenced by a copy of the receipt. The entire liability of Network-1 and your exclusive remedy will be replacement of the media not meeting Network-l's limited warranty and which is returned to Network-1 or a Network-1 authorized representative with a copy of the receipt. Network-1 will have no responsibility to replace media damaged by accident, abuse or misapplication. ANY IMPLIED WARRANTIES ON THE MEDIA, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ARE LIMITED IN DURATION TO NINETY (90) DAYS FROM THE DATE OF DELIVERY. THIS WARRANTY GIVES YOU SPECIFIC LEGAL RIGHTS AND YOU MAY ALSO HAVE OTHER RIGHTS WHICH VARY BY JURISDICTION. THE TERMS OF THIS DISCLAIMER DO NOT LIMIT OR EXCLUDE ANY LIABILITY FOR DEATH OR PERSONAL INJURY CAUSED BY NETWORK-1'S NEGLIGENCE.

9. Disclaimer of Warranty on Software (for the purposes of paragraphs 9 and 10 hereof, Network-1, the directors, officers, employees, agents and representatives of Network-1, and Network-1's Licensors are collectively referred to as "Network-1"). You expressly acknowledge and agree that use of the Software is at your sole risk. The Software and related documentation are provided "AS IS" and without warranty of any kind. NETWORK-1 EXPRESSLY DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. NETWORK-1 DOES NOT WARRANT THAT THE FUNCTIONS CONTAINED IN THE SOFTWARE WILL MEET YOUR REQUIREMENTS, OR THAT THE OPERATION OF THE SOFTWARE WILL BE UNINTERRUPTED OR ERROR-FREE, OR THAT DEFECTS IN THE SOFTWARE WILL BE CORRECTED. FURTHERMORE, NETWORK-1 DOES NOT WARRANT OR MAKE ANY REPRESENTATIONS REGARDING THE USE OR THE RESULTS OF THE USE OF THE SOFTWARE OR RELATED DOCUMENTATION IN TERMS OF THEIR CORRECTNESS, ACCURACY, RELIABILITY OR OTHERWISE. NO ORAL OR WRITTEN INFORMATION OR ADVICE GIVEN BY NETWORK-1 OR A NETWORK-1 AUTHORIZED REPRESENTATIVE SHALL CREATE A WARRANTY OR IN ANY WAY INCREASE THE SCOPE OF THIS WARRANTY. SHOULD THE SOFTWARE PROVE DEFECTIVE, YOU (AND NOT NETWORK-1 OR A NETWORK-1 AUTHORIZED REPRESENTATIVE) ASSUME THE ENTIRE COST OF ALL NECESSARY SERVICING, REPAIR OR CORRECTION. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF IMPLIED WARRANTIES, SO THE ABOVE EXCLUSION MAY NOT APPLY TO YOU. THE TERMS OF THIS DISCLAIMER AND) THE LIMITED WARRANTY IN PARAGRAPH 8 DO NOT LIMIT OR EXCLUDE ANY LIABILITY FOR DEATH OR PERSONAL INJURY CAUSED BY NETWORK-1'S NEGLIGENCE.

10. Limitations of Liability. UNDER NO CIRCUMSTANCE INCLUDING NEGLIGENCE, SHALL NETWORK-1 BE LIABLE FOR ANY INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES THAT RESULT FROM THE USE OR INABILITY TO USE THE SOFTWARE OR RELATED DOCUMENTATION, EVEN IF NETWORK-1 OR A NETWORK-1 AUTHORIZED REPRESENTATIVE HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. SOME JURISDICTIONS DO NOT ALLOW THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES SO THE ABOVE LIMITATION OR EXCLUSION MAY NOT APPLY TO YOU. In no event shall Network-1's total liability to you for all damages, losses and causes of action (whether in contract, tort (including negligence) or otherwise) exceed the amount paid by you for the Software.

11. Controlling Law and Severability. This License shall be governed by and construed in accordance with the laws of the United States and the State of New York, as applied to agreements entered into and to be performed entirely within New York between New York residents. Each party hereto irrevocably agrees that the New York State Supreme Court, County of New York and the United States District Court for the Southern District of New York shall have exclusive jurisdiction to settle any dispute and/or controversy of whatever nature arising out of or relating to the Licensee's use of the Software and/or related documentation, and that accordingly any suit, act or proceeding arising out of or relating to such matters shall be brought in such courts and, to this end, each party hereto irrevocably agrees to submit to the jurisdiction of such courts and irrevocably waives any objection which it may have now or hereafter to such exclusive jurisdiction. If for any reason a court of competent jurisdiction finds any provision of this License, or portion thereof, to be unenforceable, that provision of this License shall be enforced to the maximum extend permissible so as to effect the intent of the parties, and the remainder of this License shall continue in full force and effect.

12. Complete Agreement. This License constitutes the entire agreement between the parties with respect to the use of the Software and related documentation, and supersedes all prior or contemporaneous understandings or agreements, written or oral, regarding such subject matter. No amendment to or modification of this License will be binding unless in writing and signed by a duly authorized representative of Network-l.

EXHIBIT F

CONFIDENTIALITY AGREEMENT

This Agreement is intended to set forth in writing my responsibility to NETWORK-1 Software & Technology Inc. ("Network-1") in connection with certain

confidential and proprietary information provided to NETWORK-1 by Trusted Information Systems, Inc. ("TIS"), as follows:

1. As a condition to my having access to source code (the "Source Code") relating to certain software proxies provided by TIS to Network-1, in accordance with the Software Distribution Agreement, dated September, 1997, I agree that I will observe complete confidentiality with respect to the Source Code, and will not disclose the Source Code or any information related thereto to any third party except to the extent required to perform duties on behalf of Network-1.

2. Upon termination of my employment or consulting relationship with Network-1, I will deliver to NETWORK-1 all written and tangible materials in my possession relating to the Source Code or any other proprietary information relating to Network-1's business.

3. I acknowledge that irreparable injury would be sustained by NETWORK-1 in the event of a violation by me of this Agreement and by reason therefore, I agree that if I violate this Agreement, the Company shall be entitled, in addition to all other legal and equitable remedies available to the Company, to an injunction to be issued by any Court of competent jurisdiction restraining me from committing or continuing any violation of this Agreement.

4. This Agreement will be deemed to have been made and delivered in New York City and will be governed as to validity, interpretation, construction, effect and in all other

respects by the internal laws of the State of New York without giving effect to conflict of laws. In addition, I (i) agree that any legal suit, action, or proceeding arising out of or relating to this Agreement shall be instituted exclusively in New York State Supreme Court, County of New York, or the United States District Court for the Southern District of New York, (ii) waive any objection to the venue of any such suit, action, or proceeding and the right to assert that such forum is not a convenient forum, (iii) irrevocably consent to the jurisdiction of the New York State Supreme Court, County of New York, or the United States District Court for the Southern District of New York in any suit, action, or proceeding. I further agree to accept or acknowledge the service of any and all process which may be served in any such suit, action, or proceeding brought in New York Supreme Court, County of New York, or in the United States District Court for the Southern District of New York and agree that service of process upon me by certified mail to my address shall be deemed in every respect effective service of process upon me or in any suit action or proceeding.

This Agreement contains the entire understanding of the parties with respect to the subject matter hereof and supercedes all prior understandings, whether written or oral, with respect to the subject matter hereof. This Agreement shall only be amended by written agreement duly executed by the parties hereto.

IN WITNESS WHEREOF, the parties have signed this Agreement as of the date first written above.

Employee/Consultant

Address

NETWORK-1 SOFTWARE & TECHNOLOGY INC.

By:

SCHEDULE 1

CONSULTANTS

Brad Barton
Joe Goltz

Exhibit 10.14

AVENTAIL CORPORATION
RESELLER AGREEMENT
(Domestic)

This agreement dated this 17th day of April, 1998("Agreement Date") is made and entered into by and between Network-1 Software & Technology, Inc. ("RESELLER") whose principal place of business is located at: 909 Third Ave. New York, NY 10024 and Aventail Corporation ("AVENTAIL") whose place of business is located at 117 S. Main Street, Suite 400, Seattle, WA 98104.

AVENTAIL and RESELLER agree as follows:

1. DEFINITIONS

For purposes of this Agreement, the following terms, whenever initially capitalized, shall have the following meanings:

(a) Product. "Product" shall mean the object code form of each AVENTAIL software product listed in the attached Exhibit A, including without limitation all software components of such product and its corresponding Documentation (whether in electronic or printed form). Products further include the object code form of all Product Releases, Version Releases, Update Releases and Error Corrections made generally available by AVENTAIL to its RESELLERs during the Term of this Agreement. The software components of products as licensed under this Agreement are in object code form only.

(b) Product Release. "Product Release" shall mean a release of any Product which is designated by AVENTAIL as a change in the digit(s) to the left of the decimal point in such Product's version number [(x).xx] (e.g., SOCKS Version 5 Core Server).

(c) Version Release. "Version Release" shall mean a release of any Product which is designated by AVENTAIL as a change in the tenths digit in such Product's version number [x.(x)x] (e.g., SOCKS Version 5.1 Core Server).

(d) Update Release. "Update Release" shall mean a release of any Product which is designated by AVENTAIL as a change in the digit(s) to the right of the tenths digit in such Product's version number [x.x(x)] (e.g., SOCKS Version 5.11 Core Server).

(e) Error Correction. "Error Correction" shall mean a change to the Product which is in a form that allows its application to or insertion in the Product in order to establish substantial conformity with the Product specifications.

(f) End User. "End User" shall mean an individual or entity that licenses a Product for its own use and not for further distribution or sublicensing.

(g) Reseller. "Reseller" shall mean an entity which acquires a Product for further distribution to a End User and not for its own use.

(h) Term. "Term" shall mean the initial term of this Agreement as set forth in Section 3 and any renewals or extensions thereof.

(i) Documentation. "Documentation" means the written descriptions of a Product's features, functions and operation furnished by AVENTAIL as a part of the Products either in electronic or written form.

(j) Territory. "Territory" means the geographic area specified in Exhibit B, within which RESELLER may distribute Products.

(k) Other Terms. All other initially capitalized terms shall have the

meanings hereinafter ascribed to them.

2. APPOINTMENT

AVENTAIL hereby appoints RESELLER as a non-exclusive RESELLER for the Products identified in Exhibit A. Such appointment is restricted to the Territory identified in Exhibit B, and RESELLER shall not distribute or otherwise supply Products directly or indirectly outside such Territory AVENTAIL hereby authorizes RESELLER to distribute copies of the Products to Resellers and End Users in the Territory, subject to the terms and conditions of this Agreement.

3. TERM OF AGREEMENT

This Agreement shall take effect as of the Agreement Date set forth above. Subject to earlier termination as provided in Section 7 or elsewhere in this Agreement, the Agreement shall remain in force for a period that ends one (1) year from the Agreement Date and, except as provided in Section 7 (d), shall automatically renew as of such date unless terminated in writing by either party at least forty-five (45) days prior to expiration.

4. AVENTAIL RESPONSIBILITIES

(a) Order Fulfillment. AVENTAIL shall use commercially reasonable efforts promptly to fill firm orders from RESELLER. Such fulfillment obligation is subject to (i) RESELLER's compliance with credit and/or payment arrangements with respect to RESELLER which are acceptable to AVENTAIL as determined by AVENTAIL from time to time, and (ii) provision by RESELLER of all information required to fulfill an order.

(b) Demonstration and Internal Use Copies. AVENTAIL shall provide a limited number of copies of Products to RESELLER at no charge for purposes of RESELLER's internal use and customer demonstrations. AVENTAIL shall deliver such copies promptly following the Agreement Date.

(c) Training. AVENTAIL shall provide RESELLER at no charge technical and sales training on the Products to assist RESELLER in its Product marketing and it's training and support of Resellers and End Users. The contents, scheduling and other details concerning the provision of such training shall be determined by AVENTAIL in its sole discretion after consultations with RESELLER.

(d) Technical support. Aventail will use reasonable efforts to provide back-up technical support to RESELLER with an average response time of 4 hours. From time to time Aventail will provide direct support to RESELLER's End Users.

(e) Promotion and Recognition of Authorized RESELLERS. AVENTAIL shall acknowledge and promote RESELLER as an authorized RESELLER of the Products on AVENTAIL's Web site and in any AVENTAIL marketing materials and activities which incorporate details concerning AVENTAIL RESELLER in the Territory.

5. RESELLER OBLIGATIONS

(a) Participation in Business Review. Representatives from AVENTAIL channel management and RESELLER executive and/or channel management shall meet at least two (2) times per year to review the status of our mutual business and to conduct joint-planning of upcoming marketing programs and events. All details regarding the time, manner, place and specific agenda for such meetings shall be mutually determined in good faith by the parties. Each party shall cover its own travel and other expenses with respect to participating in such meetings.

(b) Minimum Requirements. RESELLER shall meet the mutually agreed upon minimum annual performance levels specified in Exhibit C.

(c) Marketing. RESELLER shall actively promote, market, and demonstrate the Products to potential End Users located in the Territory. RESELLER shall ensure that its sales force and technical sales support engineers are sufficiently trained in the features, functionality and use of the Products to

carry out such marketing and sales training activities. Further, RESELLER shall maintain a presence on the World Wide Web with Products reasonably displayed.

(d) Further License Restrictions. RESELLER shall also adhere to the following terms and conditions in exercising its rights and undertaking activities under this Agreement:

(i) Use of Trademarks. RESELLER shall use and is hereby authorized to use the same Product names and other trademarks as AVENTAIL uses to market and identify the Products from time to time. RESELLER shall use the appropriate trademark symbol (as provided to it by AVENTAIL from time to time) whenever it first uses a Product name or other AVENTAIL trademark in any advertisement, brochure or other materials prepared by RESELLER. When reasonably feasible, RESELLER shall include a written statement in such materials which acknowledges AVENTAIL's ownership of such Product names and trademarks. RESELLER shall furnish to AVENTAIL an advance copy of each advertisement, brochure or other material containing any AVENTAIL trademarks for AVENTAIL's advance review and approval and shall not use or promptly cease using any material to which AVENTAIL objects. RESELLER shall not use the word "AVENTAIL" as part of RESELLER's corporate or trade name or trademarks unless it first obtains the prior written consent of AVENTAIL. Upon request, RESELLER shall advise and assist AVENTAIL in registering or otherwise protecting AVENTAIL's trademarks and Products in the Territory including without limitation, by assisting in the execution and filing of registration documentation.

(ii) Compliance with Laws. RESELLER shall comply with all applicable laws, regulations, rules, orders and other requirements, now or hereafter in effect, of any applicable governmental authority, in its performance of this Agreement and its distribution and use of the Products. RESELLER shall, at its own expense, obtain and arrange for maintenance in full force and effect of all governmental approvals, consents, licenses, authorizations, declarations, filings, and registrations as may be necessary or advisable for the performance of all of the terms and conditions of the Agreement, including, but not limited to, foreign exchange approvals, import licenses, fair trade approvals and all other approvals which may be required to realize the purposes of this Agreement. Notwithstanding the foregoing, RESELLER shall not provide any confidential information of AVENTAIL or its third party suppliers to any governmental authority or other entity for any reason except with the prior express written consent of AVENTAIL.

(iii) Export Restrictions. Product(s) and related user documentation provided under this Agreement may be subject to the export control laws and regulations of the United States. RESELLER agrees that neither RESELLER nor its End User customers intend to or will, directly or indirectly, (a) export, reexport or transmit such Product(s) or documentation to any country to which export, reexport or transmission is restricted by any applicable U. S. law or regulation, unless an appropriate license, exemption, or similar authorization has been obtained to the satisfaction of AVENTAIL from such governmental entity as may have jurisdiction over such export or transmission; or (b) provide such Product(s) or documentation in any manner to any person whom

RESELLER or its customers knows or has reason to know will utilize them in the design, development or production of nuclear, chemical or biological weapons. RESELLER agrees to defend, indemnify, and hold harmless AVENTAIL from and against any claim, loss, liability expense or damage (including fines or legal fees) incurred by AVENTAIL with respect to any of RESELLER's export or reexport activities contrary to the restriction set forth hereinabove.

(e) End User Licensing Provisions. AVENTAIL in its sole discretion shall establish the terms of the end user license agreements ("EULAs") which shall govern End Users' rights to the Products, and will provide the terms of

such licenses, including revisions thereto, to RESELLER from time to time as part of the Products. RESELLER acknowledges that the Products shall be distributed to End Users subject to the terms of the applicable EULA in its original English language form (or any other language that AVENTAIL may elect) as provided by AVENTAIL to RESELLER. RESELLER shall make commercially reasonable efforts to prevent distribution of Products to any entity or person who intends to copy, reproduce or otherwise use the Products in violation of the EULA. Upon AVENTAIL's written request, RESELLER shall assist AVENTAIL in preventing, investigating, and prosecuting any unauthorized copying of the Products by individuals, corporations, or other entities. RESELLER agrees to promptly inform AVENTAIL of any unauthorized copying or copies which come to RESELLER's attention.

(i) Packaged-Product Licensing. RESELLER acknowledges that "Break the Seal" licensing is used by AVENTAIL, and that for such licensing to afford AVENTAIL adequate protection under the law, RESELLER must provide Products to its Resellers and End Users in unopened and unmodified packages as shipped to RESELLER by AVENTAIL. RESELLER shall cooperate in good faith with AVENTAIL to implement any other licensing method which AVENTAIL may elect to use during the Term.

(ii) No Additional Warranties To Be Made By RESELLER. Neither RESELLER nor any of its employees or agents shall have any right to make any other representation, warranty, or promise, which is not contained on the Product label, documentation, packaging or authorized in writing by AVENTAIL.

(f) RESELLER Support for End Users. RESELLER will offer all of its Reseller customers all necessary technical and marketing training with respect to the Products, including without limitation their installation, initial end-user training, and after-sales telephone and other support. RESELLER will further offer all of its End User customers technical training with respect to the Products, including without limitation installation support and ongoing telephone and other support. RESELLER shall be entitled to charge reasonable fees for all such training and support services. RESELLER shall clearly notify End User customers that RESELLER, and not AVENTAIL, is responsible for making technical support available to them for the Products, and that AVENTAIL is not responsible for providing any support whatsoever directly to the End User, except as provided in 4 (d). In the event a End User customer of RESELLER contacts AVENTAIL for Product support, AVENTAIL shall refer such End User to RESELLER, and RESELLER shall use best efforts to respond or cause the appropriate Reseller to respond to any such support request within one (1) business day of receipt of notice of the same directly or indirectly from AVENTAIL. RESELLER acknowledges that failure to render sufficient Product support to End Users, or to cause Resellers to provide sufficient Product support to their End User customers, may result, at AVENTAIL's option, in termination of this Agreement or an increase in the fees charged to RESELLER for the Products and/or Maintenance Services.

(g) Reservation of Proprietary Rights; Limitations. The Products contain or comprise valuable patent, copyright, trade secret, trademark, title and other proprietary rights of AVENTAIL and its suppliers. Except for the license rights expressly granted within this Agreement, AVENTAIL reserves all such proprietary rights, including without limitation modification, translation, rental and source code rights. No title to or ownership of any Product or proprietary rights related to the Products are transferred to RESELLER under this Agreement. RESELLER will not infringe, violate or contest AVENTAIL's or its suppliers' proprietary rights related to any Product, including without limitation by reverse engineering, reverse compiling, reverse assembling, or making any copies of AVENTAIL's Products for any purpose without AVENTAIL's express written authorization, except to the extent expressly authorized by applicable local law the application of which cannot be excluded by contractual agreement.

6. COMMERCIAL TERMS

(a) Purchase Orders. RESELLER shall order Products from AVENTAIL by

submitting a written purchase order and a completed copy of the Order information form included in Exhibit D . Such written orders may be submitted to AVENTAIL via mail, facsimile or, where available, electronic mail, or other such means as may be determined by AVENTAIL from time to time. Such orders may be accepted by AVENTAIL via written acceptance notification to RESELLER or by the shipment of Products to RESELLER.

(b) Pricing. The license fees payable by RESELLER to AVENTAIL for all Products are shown in Exhibit E to this Agreement. AVENTAIL may from time to time change its reseller price list for the Products; provided, however, that no such change will apply to RESELLER before the expiration of thirty (30) days after notice of the change is given to RESELLER. Firm proposals made by RESELLER to prospective Resellers or End Users will be granted an exception from price increases until the published expiration date of RESELLER's proposal or ninety (90) days after the date of notice to RESELLER, whichever is sooner.

(c) Payment Terms. Unless otherwise specified by AVENTAIL, payments from RESELLER for all orders shall be due and payable within thirty (30) days after the date of AVENTAIL's invoice for the Products or services provided. All monetary amounts are specified and shall be paid in the lawful currency of the United States of America. Any amounts outstanding not paid when due will be assessed a finance charge of the lesser of one and one-half percent (1-1/2%) per month or the maximum rate permissible under applicable law.

(d) Delivery. AVENTAIL will deliver the Products ordered by RESELLER FOB AVENTAIL's shipping location in Seattle, Washington using a delivery service of AVENTAIL's choice. RESELLER will reimburse AVENTAIL for all shipping charges, premiums for freight insurance, inspection fees, duties, imposts, assessments, and other costs incurred by AVENTAIL to transport the Product to the shipping destination.

(e) Taxes. The license fees, charges and other amounts specified in this Agreement are exclusive of all import, export, value added, excise, sales, use and similar taxes. RESELLER shall be liable for all such taxes regardless of whether or not the same are separately stated by AVENTAIL. RESELLER's liability hereunder shall not extend to taxes based on possession of Products prior to delivery or to income or corporate excise taxes assessed against AVENTAIL. RESELLER additionally agrees that in the event it is required to make any tax withholdings on any payments to AVENTAIL, it shall immediately pay to AVENTAIL an additional amount such that, following such additional payment, AVENTAIL receives the same amount from RESELLER that it would have received had no withholding been made.

(f) Approval of Payment Terms. All payment terms specified in this agreement shall be subject to AVENTAIL's continuing approval, which may be revoked, made subject to revised conditions, or otherwise revised from time to time by AVENTAIL at its sole discretion. Without limiting the generality of the foregoing, AVENTAIL may require RESELLER to provide advance payment by sight draft, letters of credit, guarantees, or such other methods or assurances of payment.

7. TERMINATION

(a) Termination by AVENTAIL. In addition to its other remedies under law or this Agreement and in addition to its other rights of termination under this Agreement, AVENTAIL may terminate this Agreement and the licenses granted to RESELLER hereunder in the event that RESELLER defaults in performing any obligation under this Agreement and such default continues unremedied for a period of thirty (30) days following written notice of default. Notwithstanding the foregoing, AVENTAIL may terminate this Agreement immediately upon written notice to RESELLER in the event of a breach by RESELLER of its confidentiality obligations or the reverse engineering

prohibitions in this Agreement, or in the event RESELLER becomes insolvent, enters bankruptcy, reorganization, composition or other similar proceedings under applicable laws, whether voluntary or involuntary, admits in writing its inability to pay its debts, or makes or attempts to make an assignment for the

benefit of creditors.

(b) Termination by RESELLER. RESELLER may terminate this Agreement with or without cause at any time upon ninety (90) days prior written notice of termination to AVENTAIL. Upon such termination, RESELLER will have no right to receive a refund of any payments previously made to AVENTAIL, whether or not they have been applied against actual Products or services received.

(c) Termination of Grant by AVENTAIL In the event that AVENTAIL loses access or license to critical components or technology which are imbedded as part of the Products, and AVENTAIL cannot replace such components or technology within an economically viable period of time, as determined by AVENTAIL, then AVENTAIL reserves the right to terminate RESELLERS' grant to sell those Products which are affected immediately upon written notice.

(d) Effect of Expiration or Termination. Upon the expiration of the Term or other termination of this Agreement, RESELLER shall immediately cease to market and distribute Products, including without limitation through its existing Resellers. RESELLER may continue to use any copies of Products and other development tools it may have licensed for its own use from AVENTAIL solely for the purpose of supporting Resellers and End Users which acquired Products from RESELLER prior to such termination or expiration.

(e) Survival. Sections 1, 5(d), (e), (f), 7, 8, 9, 10 and 11 shall survive any termination of this Agreement.

8. WARRANTIES AND REMEDIES

(a) Warranties. AVENTAIL warrants to RESELLER that upon delivery by AVENTAIL: (a) the diskettes or other physical media upon which a Product is furnished will be free from defects in materials and workmanship; and (b) when installed and operated in accordance with the Documentation, the Products will perform substantially in accordance with the specifications set forth in the published Documentation at the time of delivery.

(b) Remedy. If the Product fails to comply with the warranties set forth in Section 9 (a), AVENTAIL will use reasonable efforts to either correct the noncompliance (e.g., by furnishing an Error Correction for the noncompliant Product) or, at AVENTAIL's option, refund to RESELLER all or an equitable portion of the license fee paid by RESELLER to AVENTAIL for such Product in full satisfaction of RESELLER's claim relating to such noncompliance and terminate RESELLER's rights to such Product under this Agreement, provided that: RESELLER notified AVENTAIL of the noncompliance within ninety (90) days after delivery of the Product to a Reseller or End User; and AVENTAIL is able to reproduce the noncompliance.

(c) Warranty Limitations. AVENTAIL does not warrant that the Product is free from all bugs, errors and omissions. The warranties set forth in Section 9(a) apply only to the latest release of the Product made available by AVENTAIL to RESELLER. Such warranties do not apply to any noncompliance resulting from use or combination of the Product with any products, goods, services or other items furnished by anyone other than AVENTAIL, any modification made by RESELLER or any other person, or any Product which AVENTAIL determines has been subject to misuse, neglect, improper installation, repair, alteration, or damage either by RESELLER or any third party.

(d) Disclaimer And Release. THE WARRANTIES MADE IN THIS SECTION 9 MAY BE ASSERTED BY RESELLER ONLY AND NOT BY RESELLER'S CUSTOMERS. THE WARRANTIES OF AVENTAIL AND THE REMEDIES OF RESELLER SET FORTH IN THIS SECTION 9 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND RESELLER HEREBY WAIVES, RELEASES AND DISCLAIMS, ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF AVENTAIL AND ALL OTHER REMEDIES, RIGHTS AND CLAIMS AGAINST AVENTAIL, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO THE PRODUCTS, DOCUMENTATION, SERVICES AND ANY OTHER ITEMS SUBJECT TO THIS AGREEMENT, INCLUDING, BUT NOT LIMITED TO: (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A

PARTICULAR PURPOSE; (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE; (C) ANY OBLIGATION, LIABILITY, RIGHT, REMEDY OR CLAIM IN TORT, NOTWITHSTANDING ANY FAULT, NEGLIGENCE, STRICT LIABILITY OF AVENTAIL; AND (D) ANY OBLIGATION, LIABILITY, REMEDY, RIGHT OR CLAIM FOR INFRINGEMENT.

(e) Release. Except as specifically otherwise provided in this Agreement, RESELLER releases and shall defend, indemnify and hold harmless AVENTAIL from and against any and all claims, losses, harm, costs, liabilities, damages and expenses (including, but not limited to, reasonable attorney's fees) arising out of or in connection with any act, omission, representation, warranty, fault, negligence or strict liability of RESELLER or anyone acting on RESELLER's behalf in its performance of this Agreement.

9. LIMITATION OF LIABILITY

(a) Force Majeure. Neither party shall be liable to the other for failure or delay in the performance of a required obligation if such failure or delay is caused by strike, riot, fire, flood, natural disaster, or other similar cause beyond such party's control, provided that such party gives prompt written notice of such condition and resumes its performance as soon as possible, and provided further that the other party may terminate this Agreement and all licenses granted hereunder if such condition continues for a period of ninety (90) days, or, if the affected party has previously invoked this force majeure provision one or more times during the Term, if such condition continues for a period of thirty (30) days. The foregoing provisions do not apply to RESELLER's obligation to pay monies to AVENTAIL, nor to AVENTAIL's right to retain any prepaid fees payable by RESELLER.

(b) Dollar Limitations. AVENTAIL's LIABILITY (WHETHER IN CONTRACT, WARRANTY, TORT OR OTHERWISE; AND NOTWITHSTANDING ANY FAULT, NEGLIGENCE, REPRESENTATION, STRICT LIABILITY OR PRODUCT LIABILITY OF AVENTAIL) WITH REGARD TO ANY PRODUCT, DOCUMENTATION, SERVICES OR OTHER ITEMS SUBJECT TO THIS AGREEMENT SHALL IN NO EVENT EXCEED THE TOTAL COMPENSATION PAID BY RESELLER TO AVENTAIL UNDER THIS AGREEMENT.

(c) No Consequential Damages. IN NO EVENT WILL AVENTAIL OR ITS SUPPLIERS HAVE ANY OBLIGATION OR LIABILITY (WHETHER IN CONTRACT, WARRANTY, TORT OR OTHERWISE; AND NOTWITHSTANDING ANY FAULT, NEGLIGENCE, REPRESENTATION, STRICT LIABILITY OR PRODUCT LIABILITY OF AVENTAIL) FOR ANY DAMAGES SUSTAINED BY RESELLER OR ANY OTHER PERSON ARISING FROM OR OTHERWISE RELATED TO ANY LOSS OF USE OR ANY FAILURE OR INTERRUPTION IN THE OPERATION OF ANY PRODUCT OR OTHER ITEMS, FOR ANY COVER OR FOR ANY INCIDENTAL, DIRECT, INDIRECT OR CONSEQUENTIAL DAMAGES OR LIABILITIES (INCLUDING, BUT NOT LIMITED TO, ANY LOSS OF REVENUE, PROFIT OR BUSINESS) EVEN IF AVENTAIL OR ITS EMPLOYEES AND REPRESENTATIVES HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

10. THIRD PARTY RIGHTS, NOTICES AND DISCLAIMERS

(a) Terms Defined. As used in this Section 11, "Development Code and Development Documentation" refer to the Product in source code form (to which RESELLER has rights only if and to the extent specified in Exhibit A). "Code and Documentation" refers to the Product in object code or source code form and all accompanying documentation. The provisions of this Section 11 are included pursuant to AVENTAIL's obligations to its third party suppliers.

(b) Third Party Trade Secrets. RESELLER agrees that the Development Code and Development Documentation contain confidential information of NEC USA, Inc., ("NEC") and embody trade secrets developed by NEC at substantial cost and expense. RESELLER shall hold Development Code and Development Documentation in confidence for NEC. RESELLER shall employ reasonable secrecy precautions, at least as protective as the precautions is uses to protect its own proprietary computer programs, to protect the Development Code and Development Documentation from unauthorized copying, use or disclosure. RESELLER shall allow access to the Development Code

and Development Documentation only to employees and contractors of RESELLER who

have a need to know information contained in the Development Code and Development Documentation, and upon whom RESELLER has imposed a legal duty to protect Development Code and Development Documentation from unauthorized copying, use, or disclosure. RESELLER agrees to use its best efforts to prevent, prosecute and enjoin an actual or threatened unauthorized copying, use or disclosure of Development Code and Development Documentation.

(c) Disclaimer of Warranties. Code provided under this Sublicense may contained or be derived from portions of the Code and Documentation provided by NEC USA, Inc. under license to AVENTAIL. AVENTAIL has assumed responsibility for the selection of such Code and Documentation and its use in producing and licensing the Product(s). NEC USA, Inc., DISCLAIMS ALL WARRANTIES WITH RESPECT TO THE USE OF SUCH CODE OR DOCUMENTATION IN AN PRODUCT(S) DEVELOPED BY RESELLER, INCLUDING, WITHOUT, LIMITATION, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

(d) Proprietary Rights. RESELLER understands and agrees that this Agreement is being entered into by AVENTAIL under the terms and conditions of a License Agreement with NEC USA, Inc., and that AVENTAIL cannot sublicense any code or documentation from NEC USA, Inc. outside of the terms of such License Agreement or in a manner inconsistent therewith. In regard to such License Agreement, RESELLER and AVENTAIL agree that, to the extent that this Agreement or any modification thereof conflicts with the terms and conditions of the License Agreement, RESELLER shall negotiate with good faith with AVENTAIL to modify or amend this Agreement to eliminate such conflict and to ensure AVENTAIL's full compliance with the License Agreement.

11. MISCELLANEOUS

(a) Notices. Any notice or other communication under this Agreement given by either party to the other will be deemed to be properly given if given in writing and delivered in person or by facsimile, if acknowledged received by return facsimile, or if mailed, properly addressed and stamped with the required postage, to the intended recipient at its address specified in this Agreement. Either party may from time to time change its address for notices under this paragraph by giving the other party notice of the change in accordance with this paragraph.

(b) Independent Contractors. RESELLER is, and shall at all times act as, an independent contractor and not as an employee, agent, partner or joint venturer, or franchisee of AVENTAIL. RESELLER is not entitled to, and shall not attempt to, create or assume any obligation, express or implied, on behalf of AVENTAIL. This Agreement shall not be interpreted as or construed as creating or evidencing any association, joint venture, partnership or franchise relationship between the parties or as imposing any partnership or franchise obligation or liability on any party.

(c) Assignment. RESELLER will not assign (directly, by operation of law or otherwise) this Agreement or any of its rights under this Agreement without the prior written consent of AVENTAIL. Subject to the foregoing limitation, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

(d) Nonwaiver. Any failure of AVENTAIL to insist upon or enforce performance by RESELLER of any of the provisions of this Agreement or to exercise any rights or remedies under this Agreement, applicable law or otherwise will not be interpreted or construed as a waiver or relinquishment of AVENTAIL's rights to assert or rely upon such provision, right or remedy in that or any other instance.

(e) Severability. If any provision of this Agreement shall be held by a court of competent jurisdiction to be illegal, invalid or unenforceable, then all other provisions and their application shall not be affected and shall be fully enforceable without regard to the invalid or unenforceable provision; and if any provision in this Agreement is so determined to be unenforceable in equity because of its scope, duration, geographical area or other factor, then the court making that determination shall have the power to reduce or limit such scope, duration, area or other factor, and such provision shall be then enforceable in equity in its reduced or limited form.

(f) Confidentiality. RESELLER expressly undertakes to retain in confidence the terms and conditions of this Agreement, and all information and know-how transmitted to it by AVENTAIL and make no use of such information and know-how except as may be required (i) to implement and enforce the terms of this Agreement, or (ii) by legal procedure or by law or (iii) by RESELLER in connection with an Initial Public Offering ("IPO") or a private placement of its securities ("Private Offering"). In the case of clause (iii) above, RESELLER may, for the sole purpose of initiating or affecting its IPO or Private Offering, disclose the full terms and conditions of this Agreement only to its legal counsel, its investment bankers, its investment bankers' legal counsel, securities regulatory authorities and potential investors who are bound by a confidentiality agreement covering the terms and conditions of this Agreement as confidential information of AVENTAIL and RESELLER. In addition, RESELLER may disclose in a prospectus for an IPO or a private placement memorandum or similar offering document for a Private Offering, such material information concerning this Agreement as the attorneys who advise RESELLER on matters relating to the Securities Act of 1933, as amended, shall advise is necessary to be disclosed in such prospectus or offering document. A copy of the proposed IPO prospectus or offering document disclosure shall be provided to AVENTAIL.

(g) Entire Agreement. This Agreement, and the Exhibits attached hereto, constitutes the entire agreement and supersedes any and all prior agreements between AVENTAIL and RESELLER relating to the subject matter of this Agreement. AVENTAIL will not be bound by, and specifically objects to, any term, condition or other provision which is different from or in addition to the provisions of this Agreement (whether or not it would materially alter this Agreement) and which is proffered by RESELLER in any purchase order, receipt, acceptance, confirmation, correspondence or otherwise.

(h) Amendments. No waiver or amendment of this Agreement will be valid unless set forth in a written instrument referencing this Agreement and signed by AVENTAIL and RESELLER.

(i) Governing Law. This Agreement shall be construed and controlled by the laws of the State of Washington, and RESELLER consents to jurisdiction and venue in the state and federal courts sitting in the State of Washington.

(j) Attorneys' Fees. If either AVENTAIL or RESELLER employs attorneys to enforce any rights arising out of or relating to this Agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees, costs and other expenses.

(k) Controlling Language. This Agreement is executed in the English language which shall be the sole and controlling language used in interpreting or construing its meaning.

IN WITNESS WHEREOF, EACH OF THE PARTIES HAS EXECUTED THIS AGREEMENT BELOW:

AVENTAIL:	RESELLER:
AVENTAIL CORPORATION	NETWORK-1 SOFTWARE & TECHNOLOGY, INC.
Signature: /s/ Chris Dukelow	Signature: /s/ Robert Russo
Printed Name: Chris Dukelow	Printed Name: /s/ Robert Russo
Title: CFO	Title: President

EXHIBIT A -
LICENSED PRODUCTS

Server Products

Aventail Internet Policy Manager
Aventail VPN Server

Client Products

Aventail AutoSOCKS
Aventail VPN Client

Authorized Platforms RESELLER is permitted to sell Products for the following platforms only:

CLIENT PLATFORMS

Microsoft NT workstation Version 4.0 or greater
Microsoft Windows 3.1 and Win95
Any supported Unix Client Workstation

SERVER PLATFORMS

Microsoft NT (Intel platforms) Version 4.0 or greater

Any supported Unix Platforms

EXHIBIT B -
TERRITORY

a) Territory The following geographic area constitutes the Territory:

North America

EXHIBIT C -
MINIMUM REQUIREMENTS

Minimum sales requirement for the term of the agreement shall be :
None

EXHIBIT D -
PRODUCT ORDER FORM

EXHIBIT E -
RESELLER LICENSE FEES

1. Pricing shall be as follows for the first $* of cumulative revenue to

AVENTAIL from RESELLER. Prices below are f.o.b. Seattle, WA as of the Order Date and subject to change.

<TABLE>
<CAPTION>

Product	Connections	PRICE/EACH
<S>	<C>	<C>
AVENTAIL IPM		Per/Server
	25	$ *
	50	$*
	100	$*
	250	$*
	500	$*
	500+	$*
AVENTAIL VPN		Per /Server
	25	$*
	50	$*
	100	$*
	250	$*
	500	$*
	500+	$*
AVENTAIL AutoSOCKS	Units	Per Client
	LESS THAN 25	$*
	25-49	$*
	50-99	$*
	100-249	$*
	250-499	$*
	500+	$*
AVENTAIL VPN CLIENT	Units	Per Client
	LESS THAN 25	$*
	25-49	$*
	50-99	$*
	100-249	$*
	250-499	$*
	500+	$*

</TABLE>

* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the Securities and Exchange Commission.

2. Pricing shall be as follows upon achieving cumulative revenue to AVENTAIL from RESELLER of $*. Prices below are f.o.b. Seattle, WA as of the Order Date and subject to change.

<TABLE>
<CAPTION>

Product	Connections	PRICE/EACH
<S>	<C>	<C>
AVENTAIL IPM		Per/Server
	25	$*
	50	$*
	100	$*
	250	$*

	500	$*
	500+	$*
AVENTAIL VPN		Per /Server
	25	$*
	50	$*
	100	$*
	250	$*
	500	$*
	500+	$*
AVENTAIL AutoSOCKS	Units	Per Client
	LESS THAN 25	$*
	25-49	$*
	50-99	$*
	100-249	$*
	250-499	$*
	500+	$*
AVENTAIL VPN CLIENT	Units	Per Client
	LESS THAN 25	$*
	25-49	$*
	50-99	$*
	100-249	$*
	250-499	$*
	500+	$*

</TABLE>

* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the Securities and Exchange Commission.

Exhibit 10.15

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.
909 Third Avenue
New York, New York 10022

January 31, 1997

Mr. Robert Russo
Mr. William Hancock
c/o Network-1 Software & Technology, Inc.
909 Third Avenue
New York, New York 10022

Re: Transfer of Shares

Dear Messrs. Russo and Hancock:

This letter agreement sets forth the mutual agreements of Network-1 Software & Technology, Inc. with each of Robert Russo ("Russo") and William Hancock ("Hancock") with respect to the transfer and surrender to the Company by Russo of 63,000 shares of common stock, par value $.01 per share, of the Company (the "Common Stock") and by Hancock of 87,000 shares of Common Stock, on the terms and conditions set forth below. Each of the parties hereto acknowledges that the transactions described herein are being entered into as a condition to the closing of the transactions contemplated under a certain Securities Purchase Agreement, dated as of even date herewith, by and among the Company and certain investors.

Simultaneous with the execution of this letter agreement, Russo shall surrender, transfer and assign to the Company 63,000 shares of Common Stock and shall deliver to the Company certificates representing 63,000 shares of Common Stock. Upon receipt of such stock certificates, the Company shall deliver to Russo a check in the amount of $630.00 as payment in full for such shares and shall cancel the shares so delivered.

Simultaneous with the execution of this letter agreement, Hancock shall surrender, transfer and assign to the Company 87,000 shares of Common Stock and shall deliver to the Company certificates representing 87,000 shares of Common Stock. Upon receipt of such stock certificates, the Company shall deliver to Hancock a check in the amount of $870.00 as payment in full for such shares and shall cancel the shares so delivered.

If the foregoing accurately reflects our mutual agreement, please sign this letter agreement in the space indicated below.

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.

By: /s/ Robert Russo

Name: Robert Russo
Title: President

Accepted and Agreed as of the
date first above-written:

/s/ Robert Russo
- ---
Robert Russo

/s/ William Hancock
- ----------
William Hancock

Exhibit 10.16

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.
909 Third Avenue
New York, New York 10022

September 26, 1997

Mr. Robert Russo
Mr. William Hancock
Mr. Kenneth Conquest
c/o Network-1 Software & Technology, Inc.
909 Third Avenue
New York, New York 10022

Re: Transfer of Shares

Dear Messrs. Russo, Hancock and Conquest:

This letter agreement sets forth the mutual agreements of Network-1 Software & Technology, Inc. (the "Company") with each of Robert Russo ("Russo") and William Hancock ("Hancock") and Kenneth Conquest ("Conquest") with respect to the transfer and surrender to the Company by Russo of 181,014 shares of common stock, par value $.01 per share, of the Company (the "Common Stock") and by Hancock of 138,712 shares of Common Stock. Each of the parties hereto acknowledges that the transactions described herein are being entered into as a condition to the closing of the transactions contemplated under a certain Securities Purchase Agreements, dated as of even date herewith, by and among the Company and Applewood Associates, L.P. and CMH Capital Management Corp. pursuant to which such parties have loaned the Company an aggregate of $400,000 and received warrants to purchase an aggregate of 114,286 shares of the Company's Common Stock.

Simultaneous with the execution of this letter agreement, Russo shall surrender, transfer and assign to the Company 181,014 shares of Common Stock and shall deliver to the Company certificates representing 181,014 shares of Common Stock. Upon receipt of such stock certificates, the Company shall deliver to Russo a check in the amount of $1,810.14 as payment in full for such shares and shall cancel the shares so delivered.

Simultaneous with the execution of this letter agreement, Hancock shall surrender, transfer and assign to the Company 138,712 shares of Common Stock and shall deliver to the Company certificates representing 138,712 shares of Common Stock. Upon receipt of such stock certificates, the Company shall deliver to Hancock a check in the amount of $1,387.12 as payment in full for such shares and shall cancel the shares so delivered.

Simultaneous with the execution of this letter agreement, Conquest shall surrender, transfer and assign to the Company 16,274 shares of Common Stock and shall deliver to the Company certificates representing 16,274 shares of Common Stock. Upon receipt of such stock certificates, the Company shall deliver to Hancock a check in the amount of $162.74 as payment in full for such shares and shall cancel the shares so delivered.

If the foregoing accurately reflects our mutual agreement, please sign this letter agreement in the space indicated below.

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.

By: /s/ Robert Russo

Name: Robert Russo
Title: President

Accepted and Agreed as of the
date first above-written:

/s/ Robert Russo
- ----------
Robert Russo

/s/ William Hancock
- ----------
William Hancock

/s/ Kenneth Conquest
- ----------
Kenneth Conquest

Exhibit 10.17

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.
909 Third Avenue
New York, New York 10022

May 14, 1998

Mr. Robert Russo
Mr. William Hancock
c/o Network-1 Software & Technology, Inc.
909 Third Avenue
New York, New York 10022

Re: Transfer of Shares

Dear Messrs. Russo and Hancock:

This letter agreement sets forth the mutual agreements of Network-1 Software & Technology, Inc. (the "Company") with each of Robert Russo ("Russo") and William Hancock ("Hancock") with respect to the transfer and surrender to the Company by Russo of 62,500 shares of common stock, par value $.01 per share, of the Company (the "Common Stock") and by Hancock of 37,500 shares of Common Stock. Each of the parties hereto acknowledges that the transactions described herein are being entered into as a condition to the closing of the transactions contemplated under a certain Securities Purchase Agreement, dated as of even date herewith, by and among the Company and Applewood Associates, L.P. and another party pursuant to which such parties have loaned the Company an aggregate of $1,250,000 and received warrants to purchase an aggregate of 375,000 shares of the Company's Common Stock.

Simultaneous with the execution of this letter agreement, Russo shall surrender, transfer and assign to the Company 62,500 shares of Common Stock and shall deliver to the Company certificates representing 62,500 shares of Common Stock. Upon receipt of such stock certificates, the Company shall deliver to Russo a check in the amount of $625.00 as payment in full for such shares and shall cancel the shares so delivered.

Simultaneous with the execution of this letter agreement, Hancock shall surrender, transfer and assign to the Company 37,500 shares of Common Stock and shall deliver to the Company certificates representing 37,500 shares of Common Stock. Upon receipt of such stock certificates, the Company shall deliver to Hancock a check in the amount of $375.00 as payment in full for such shares and shall cancel the shares so delivered.

If the foregoing accurately reflects our mutual agreement, please sign this letter agreement in the space indicated below.

NETWORK-1 SOFTWARE & TECHNOLOGY, INC.

By: /s/ Robert Russo

Accepted and Agreed as of the
date first above-written:

/s/ Robert Russo
- ---

Robert Russo

/s/ William Hancock
- ----------
William Hancock

Exhibit 10.18

May 14, 1998

Corey Horowitz, President
CMH Capital Management Corp.
909 Third Avenue
New York, New York 10016

Dear Corey:

This letter agreement shall confirm our agreement for CMH Capital Management Corp. ("CMH") to receive 50,339 shares of Common Stock of Network-1 Security Solutions, Inc. ("Network-1") in full satisfaction of accrued advisory fees of $200,000 due CMH from Network-1 pursuant to the letter agreement, dated January 30, 1997, between Network-1 and CMH (the "CMH Letter Agreement"). In addition, Network-1 shall have no further obligation to pay CMH monthly advisory fees in accordance with the CMH Letter Agreement.

Very truly yours,

Network-1 Software Technology, Inc.

By: /s/ Robert Russo

Robert Russo, President

Agreed and Accepted:

CMH Capital Management Corp.

By: /s/ Corey M. Horowitz

Corey M. Horowitz, President

Exhibit 10.19

EXCHANGE AGREEMENT

AGREEMENT, dated as of July 8, 1998, by and among NETWORK-1 SECURITY SOLUTIONS, INC. (the "Company"), a Delaware corporation with offices at 909 Third Avenue, New York, New York 10022, and the securityholders signatory hereto (collectively, the "Securityholders").

WHEREAS, as part of the recapitalization of the Company prior to its initial public offering of its securities and at the request of the Underwriter, Whale Securities Co., L.P., the Board of Directors of the Company has determined that it is in the best interest of the Corporation to reduce the number of outstanding warrants and options by exchanging such securities for shares of Common Stock, par value $.01 per share, of the Company (the "Common Stock"), upon the terms and subject to the conditions set forth herein;

WHEREAS, the number of shares of Common Stock to be issued in exchange for the warrants and options to purchase up to held by the Securityholders (the "Warrants and Options") has been determined by the Board of Directors of the Company based upon the fair market value of such securities utilizing the Black Scholes method of valuation;

WHEREAS, each of the Securityholders and the Company desire that the Securityholders exchange Warrants and Options to purchase up to an aggregate of 1,271,786 shares of Common Stock for an aggregate of 961,249 shares of Common Stock on the terms and subject to the conditions set forth herein. The Common Stock issuable in exchange for the Warrants and Options are referred to herein as the "Shares."

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I.

Issuance of Shares for Warrants and Options

1.1 Exchange Agreement. At the Closing provided for in Section 1.2, the Company will issue to each Securityholder and, subject to the terms and conditions of this Agreement, each Securityholder will exchange the Warrants and Options for the number of Shares set forth in Exhibit A hereto (the "Exchange").

1.2 The Closing. The closing of the Exchange (the "Closing") shall take place at the offices of Bizar Martin & Taub, LLP, 1350 Avenue of the Americas, New York, New York on the date that this Agreement is executed by the parties hereto (the time and date of the Closing being herein referred to as the "Closing Date"). On the Closing Date there will be delivered to the Securityholders the Shares on the Closing Date against delivery and cancellation of the original Warrants or Options.

ARTICLE II.

Representations, Warranties, and Agreements of the Company

The Company represents and warrants to, and agrees with, the Securityholders as follows:

2.1 Corporate Organization and Qualification. The Company is a corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of incorporation, and is qualified to transact business and is in good standing as a foreign corporation in every jurisdiction in which its ownership, leasing, licensing, or use of property or assets or the conduct of its business makes such qualification necessary, except in such jurisdictions where the failure to be so qualified or in good standing would not have a

material adverse effect on the business, results of operations, financial condition, or prospects of the Company. The Company has no subsidiaries and has no investment, whether by way of ownership of stock or other securities or by loan, advance, or otherwise, in any corporation, partnership, firm, association, or other business entity. The Company has all required power and authority to own its property and to carry on its business as now conducted and proposed to be conducted.

2.2 Validity of Transaction. The Company has all requisite power and authority to execute, deliver, and perform this Agreement, and to issue the Shares in exchange for the Warrants and Options. All necessary corporate proceedings of the Company have been duly taken to authorize the execution, delivery, and performance of this Agreement, and to authorize the issuance of the Shares for the Warrants and Options. This Agreement, has been duly authorized, executed, and delivered by the Company, and constitutes the legal, valid, and binding obligation of the Company, and is enforceable as to the Company in accordance with its respective terms, except as may be limited by applicable bankruptcy, reorganization, insolvency, moratorium, or other similar laws or by legal or equitable principles relating to or limiting creditors' rights generally or as rights to indemnification may be limited by applicable securities laws. Except as to filings which may be required under applicable state securities regulations, no consent, authorization, approval, order, license, certificate, or permit of or from, or declaration or filing with, any Federal, state, local, or other governmental authority or of any court or other tribunal is required by the Company in connection with the transactions contemplated hereby. No consent of any party to any contract, agreement, instrument, lease, license, arrangement, or understanding to which the Company is a party, or by which any of its properties or assets is bound, is required for the execution, delivery, or performance by the Company of this Agreement, and the execution, delivery, and performance of this Agreement, will not violate, result in a breach of, conflict with, or (with or without the giving of notice or the passage of time or both) entitle any party to terminate or call a default under any such contract, agreement, instrument, lease, license, arrangement, or understanding, or violate or result in a breach of any term of the Certificate of Incorporation or By-laws of the Company, or violate, result in a breach of, or conflict with any law, rule, regulation, order, judgment, or decree binding on the Company or to which any of its operations, business, properties, or assets is subject. The Shares issuable in exchange for the Warrants and Options are duly authorized, will be validly issued, fully paid, and nonassessable, will not have been issued in violation of any preemptive right of stockholders or rights of first refusal, and the Securityholders will have good title to the Shares, free and clear of

all liens, security interests, pledges, charges, encumbrances, stockholders agreements and voting trusts (other than any created by the Securityholders).

2.3 Capitalization. The authorized capital stock of the Company consists of 25,000,000 shares of Common Stock and 5,000,000 shares of preferred stock, par value $.01 per share (the "Preferred Stock"), of which 250,000 shares have been designated Series A Redeemable Preferred Stock and 500,000 shares have been designated Series B Convertible Preferred Stock, having the designations, dividend rights, voting powers, conversion and redemption rights, rights on liquidation or dissolution, and other preferences and relative, participating, optional, or other preferences and relative, participating, optional, or other special rights, and the qualifications, limitations or restrictions thereof, set forth in their respective Certificates of Designations. Immediately prior to the Closing, the Company shall have 2,652,805 shares of Common Stock and 500,000 shares of Series B Convertible Preferred Stock outstanding. All issued and outstanding shares of Common Stock and Preferred Stock have been validly issued and are fully paid and nonassessable and have not been issued in violation of any Federal or state securities laws. Except for the obligation of the Company to issue (a) securities as referenced in the Letter of Intent, dated May 14, 1998, between the Company and Whale Securities Co., L.P relating to the initial public offering of its securities, (b) upon the exercise of the options and warrants which are currently outstanding to purchase 2,288,036 shares of Common Stock (including 1,271,786 shares of Common Stock subject to Warrants and Options held by the Securityholders but excluding any options issued or to be issued under the Company's Stock Option Plan), there are not, as of the date

hereof, any outstanding or authorized subscriptions, options, warrants, calls, rights, commitments, or any other agreements obligating the Company to issue (i) any additional shares of its capital stock or (ii) any securities convertible into, or exercisable or exchangeable for, or evidencing the right to subscribe for, any shares of its capital stock. Other than the Company's Stock Option Plan, the Company has not adopted or authorized any plan for the benefit of its officers, employees, or directors which require or permit the issuance, sale, purchase, or grant of any shares of the Company's capital stock, any securities convertible into, or exercisable or exchangeable for, or evidencing the right to subscribe for any shares of the Company's capital stock, or any phantom shares or any stock appreciation rights.

ARTICLE III.

Representations, Warranties, and Agreements of the Securityholders

Each of the Securityholders, severally and not jointly, represents and warrants to, and agrees with, the Company as follows:

3.1 Organization. Such Securityholder (if not an individual) is duly organized under the laws of the state of its jurisdiction of organization and has full power and authority to enter into this Agreement and to consummate the transactions set forth herein. All necessary proceedings have been duly taken to authorize the execution, delivery, and performance of this Agreement by such Securityholder (if not an individual).

3.2 Accredited Investor; Access to Information. Such Securityholder and, to the knowledge of such Securityholder, each limited partner of such Securityholder in the case of a Securityholder which is a limited partnership, and each partner of such Securityholder in the case of a Securityholder which is a general partnership, is an "accredited investor," as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act. Such Securityholder, the shareholders of the general partner of such Securityholder, if any, and each of the limited partners of such Securityholder, if any, has had substantial experience in private securities transactions like this one, is capable of evaluating the merits and risks of an investment in the Company, and has had a full opportunity to discuss the business, management, and financial affairs of the Company with the Company's management. Such Securityholder has received all requested documents from the Company and has had a full opportunity to ask questions of, and receive answers from, the officers of the Company.

3.3 Investment Intent. Such Securityholder is acquiring the Shares for its, his or her own account for investment and not with a view to, or for sale in connection with, any public distribution thereof in violation of the Securities Act. Such Securityholder understands that Shares have not been registered for sale under the Securities Act or qualified under applicable state securities laws and that the Shares are being offered and sold to such Securityholder pursuant to one or more exemptions. Such Securityholder understands that it, he or she must bear the economic risk of the investment in the Company for an indefinite period of time, as the Shares cannot be sold unless subsequently registered under the Securities Act and qualified under state securities laws, unless an exemption from such registration and qualification is available. Such Securityholder acknowledges that no public market for the securities of the Company presently exists and none may develop in the future.

3.4 Transfer of Securities. Such Securityholder will not sell or otherwise dispose of the Shares unless (a) a registration statement with respect thereto has become effective under the Securities Act and such Shares have been qualified under applicable state securities laws or (b) there is presented to the Company notice of the proposed transfer and, if it so requests, a legal opinion reasonably satisfactory to the Company that such registration and qualification is not required; provided, however, that no such registration or qualification or opinion of counsel shall be necessary for a transfer by such Securityholder (i) to any entity controlled by, or under common control with, such Securityholder (ii) to a partner or officer of such Securityholder, (iii) to a partner or officer of the general partner of such Securityholder, or (iv) to the spouse, lineal descendants, estate, or a trust for the benefit of any of

the foregoing, provided the transferee agrees in writing to be subject to the terms hereof to the same extent as if he were such Securityholder. Such Securityholder consents that any transfer agent of the Company may be instructed not to transfer any Shares unless it receives satisfactory evidence of compliance with the foregoing provisions, and that there may be endorsed upon any certificate representing such shares (and any certificates issued in substitution therefor) the following legend calling attention to the foregoing restrictions on transferability of such shares, stating in substance:

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR QUALIFIED UNDER ANY STATE SECURITIES LAW."

The Company shall, upon the request of any holder of a stock certificate bearing the foregoing legend and the surrender of such certificate, issue a new stock certificate without such legend if (A) the stock evidenced by such certificate has been effectively registered under the Securities Act and qualified under any applicable state securities law and sold by the holder thereof in accordance with such registration and qualification, or (B) such holder shall have delivered to the Company a legal opinion reasonably satisfactory to the Company to the effect that the restrictions set forth herein are no longer required or necessary under the Securities Act or any applicable state law.

3.5 Authorization. All actions on the part of such Securityholder necessary for the authorization, execution, delivery, and performance by such Securityholder of this Agreement have been taken. This Agreement has been duly authorized, executed, and delivered by such Securityholder, is the legal, valid, and binding obligation of such Securityholder, and are enforceable as to such Securityholder in accordance with their respective terms, except as may be limited by applicable bankruptcy, reorganization, insolvency, moratorium, or other similar laws or by legal or equitable principles relating to or limiting creditors' rights generally or as rights to indemnification may be limited by applicable securities laws.

3.6 Finder or Broker. Neither such Securityholder nor any person acting on behalf of such Securityholder has negotiated with any finder, broker, intermediary, or similar person in connection with the transactions contemplated herein.

ARTICLE IV.

Additional Provisions.

4.1 Indemnification. From and after the Closing, the Company, on the one hand, and the Securityholders (severally and not jointly), on the other hand, shall indemnify and save harmless the other (including officer, directors, employees, agents and representatives) against any loss, claim, liability, expense (including reasonable attorney's fees) or other damage caused by or arising out of (i) the breach of any representation or warranty made by any such party or (ii) the failure by the party against whom indemnification is sought to perform any of its covenants or agreements in this Agreement.

4.2 Communications. All notices or other communications hereunder shall be in writing and shall be given by registered or certified mail (postage prepaid and return receipt requested), by an overnight courier service which obtains a receipt to evidence delivery, or by telex or facsimile transmission (provided that written confirmation of receipt is provided), addressed as set forth below:

If to the Company:

Network-1 Security Solutions, Inc.
70 Walnut Street
Wellesley, MA 02181

Attention: Avi A. Fogel, President and Chief Executive Officer

With a copy to:

Bizar Martin & Taub, LLP
1350 Avenue of the Americas
29th Floor
New York, New York 10019
Attention: Sam Schwartz, Esq.

If to the Securityholders, at their respective addresses as set forth on Exhibit A hereto, or such other address as any party may designate to the other in accordance with the aforesaid procedure. All notices and other communications sent by overnight courier service shall be deemed to have been given as of the next business day after delivery thereof to such courier service, those given by telex or facsimile transmission shall be deemed given when sent, and all notices and other communications sent by mail shall be deemed given as of the third business day after the date of deposit in the United States mail.

4.3 Successors and Assigns. The Company may not sell, assign, transfer, or otherwise convey any of its rights or delegate any of its duties under this Agreement, except to a corporation which has succeeded to substantially all of the business and assets of the Company and has assumed in writing its obligations under this Agreement, and this Agreement shall be binding on the Company and such successor. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the Securityholders and their successors and assigns.

4.4 Amendments and Waivers. Neither this Agreement nor any term hereof may be changed or waived (either generally or in a particular instance and either retroactively or prospectively) absent the written consent each party hereto.

4.5 Survival of Representations. The representations, warranties, covenants, and agreements made herein or in any certificate or document executed in connection herewith shall survive the execution and delivery of this Agreement and the issuance and delivery of the Shares to the Securityholders.

4.6 Delays or Omissions; Waiver. No delay or omission to exercise any right, power, or remedy accruing to either the Company or the Securityholders upon any breach or default by the other under this Agreement shall impair any such right, power, or remedy no shall it be construed to be a waiver of any such breach or default, or any acquiescence therein or in any similar breach or

default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring.

4.7 Entire Agreement; Binding Effect. This Agreement (together with the exhibit attached hereto) contains the entire understanding of the parties with respect to their respective subject matter and all prior negotiations, discussions, commitments, and understandings heretofore had between them with respect thereto are merged herein and therein. This Agreement and the Exchange shall be binding on each Securityholder who executes this Agreement. The failure of any Securityholder named in Exhibit A to execute this Agreement shall not effect the Closing of the Exchange with respect to those Securityholders who have executed this Agreement.

4.8 Headings. All article and section headings herein are inserted for convenience only and shall not modify or affect the construction or interpretation of any provision of this Agreement.

4.9 Counterparts; Governing Law. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to conflict of laws.

4.10 Further Actions. At any time and from time to time, each party agrees, without further consideration, to take such actions and to execute and deliver such documents as may be reasonably necessary to effectuate the purposes of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed on the date hereinabove set forth.

NETWORK-1 SECURITY SOLUTIONS, INC.

By: /s/ Avi A. Fogel

Name: Avi A. Fogel
Title: President and Chief Executive Officer

SECURITYHOLDERS:

APPLEWOOD ASSOCIATES, L.P.

By: /s/ Barry Rubenstein

Name: Barry Rubenstein
Title: General Partner

CMH CAPITAL MANAGEMENT CORP.

By: /s/ Corey Horowitz

Name: Corey Horowitz
Title: President

/s/ Corey Horowitz

COREY M. HOROWITZ

CAPCOR EMPLOYEE PENSION PLAN

By: /s/ Corey Horowitz

Name: Corey Horowitz
Title: Authorized Signatory

RAPTUR MANAGEMENT CO.

By: /s/ Steve Ackerman

Name: Steve Ackerman
Title: President

/s/ Douglas Lipton

DOUGLAS LIPTON

/s/ Lawrence Wein

LAWRENCE WEIN

/s/ Steven Heineman

STEVEN HEINEMAN

/s/ Herb Karlitz

HERB KARLITZ

/s/ Charles Stevenson

CHARLES P. STEVENSON, JR.

/s/ Albert Kalimian

ALBERT KALIMIAN

NAVIGATOR FUND, L.P

By: /s/ Corey Horowitz

Name: Corey Horowitz
Title: Authorized Signatory

NAVIGATOR GLOBAL FUND

By: /s/ Corey Horowitz

Name: Corey Horowitz
Title: Authorized Signatory

/s/ Robert Graifman

ROBERT GRAIFMAN

MBF CAPITAL CORP.

By: /s/ Mark Fisher

Name:
Title:

BENTLEY ONE, LTD.

By: /s/ Gerald Josephson

Name: Gerald Josephson
Title:

BARINGTON CAPITAL GROUP, L.P.

By: /s/ Marc S. Cooper

Name: Marc S. Cooper
Title: Vice-Chairman

GKN SECURITIES CORP.

By: /s/ Peter R. Kent

Name: Peter R. Kent
Title: Chief Operating Officer

/s/ David Nussbaum

DAVID M. NUSSBAUM

/s/ Roger Gladstone

ROGER GLADSTONE

/s/ Robert Gladstone

ROBERT GLADSTONE

/s/ Deborah S. Novick

DEBORAH L. SCHONDORF NOVICK

/s/ Neil Betoff

NEIL BETOFF

/s/ Richard Buonocore

RICHARD BUONOCORE

/s/ Brian K. Coventry

BRIAN K. COVENTRY

/s/ Andrew G. Lazarus

ANDREW G. LAZARUS

EXHIBIT A

<TABLE>
<CAPTION>

NAME AND ADDRESS OF SECURITYHOLDER	WARRANTS OR OPTIONS TO BE EXCHANGED	NUMBER OF SHARES OF COMMON STOCK TO BE RECEIVED

Applewood Associates, L.P. 68 Wheatley Road Brookville, New York 11545	Warrants to purchase 546,250 shares of Common Stock (56,250 shares at an exercise price of $4.00 per share/expires 2/24/2007; 100,000 shares at an exercise price of $3.00 per share/expires 9/26/2007; 90,000 shares at an exercise price of $3.00 per share/expires 3/2/2008; 300,000 shares at an exercise price of $3.00 per share/expires 5/14/2008)	421,337
CMH Capital Management Corp. 909 Third Avenue, 9th Floor New York, New York 10022	Warrants to purchase 29,286 shares of Common Stock (14,286 shares at an exercise price of $3.00 per share/expires 9/26/2007; 15,000 shares at an exercise price of $3.00 per share/expires 3/2/2008)	22,664
Corey M. Horowitz 220 East 63rd Street - PH-D New York, New York 10021	Warrants to purchase 215,000 shares of Common stock (200,000 shares at an exercise price of $1.00 per share/expires 11/29/2005 and 15,000 shares at an exercise price of $3.00 per share/expires 4/23/2008)	188,689
Capcor Employee Pension Plan c/o Corey M. Horowitz CMH Capital Management Corp. 909 Third Avenue, 9th Floor New York, New York 10022	Warrants to purchase 100,000 shares of Common Stock at an exercise price of $2.00 per share/expires 11/29/2005	79,545
Raptur Management Co. c/o Corey Horowitz CMH Capital Management Corp. 909 Third Avenue, 9th Floor New York, New York 10022	Warrants to purchase 22,500 shares of Common Stock at an exercise price of $4.00 per share/expires 2/24/2007	15,825
Douglas Lipton 1235 Park Avenue, Apt 2B New York, New York 10128	Warrants to purchase 11,250 shares of Common Stock at an exercise price of $4.00 per share/expires 2/24/2007	7,913

</TABLE>

<TABLE>
<CAPTION>

NAME AND ADDRESS OF SECURITYHOLDER	WARRANTS OR OPTIONS TO BE EXCHANGED	NUMBER OF SHARES OF COMMON STOCK TO BE RECEIVED
Lawrence Wein 247 West 12th Street New York, New York 10014	Warrants to purchase 5,625 shares of Common Stock at an exercise price of $4.00 per share/expires 2/24/2007	3,956
Steven Heineman 69 LaRue Drive Huntington, New York 11743	Warrants to purchase 5,625 shares of Common Stock at an exercise price of $4.00 per share/expires 2/24/2007	3,956
Herb Karlitz 55 Old Quarry Road Englewood Drive, NJ 07631	Warrants to purchase 18,750 shares of Common Stock (11,250 shares at an exercise price of $4.00 per share/expires 4/29/2007; 7,500 shares at an exercise price of $3.00 per share/expires 3/2/2008)	13,808
Charles P. Stevenson, Jr c/o Corey Horowitz	Warrants to purchase 22,500 shares of Common Stock at an exercise	15,825

CMH Capital Management Corp. price of $4.00 per share/expires
909 Third Avenue, 9th Floor 2/24/2007
New York, New York 10022

Albert Kaliman Warrants to purchase 11,250 shares 7,913
P.O. Box 645 of Common Stock at an exercise
Locust Valley, NY 11560 price of $4.00 per share/expires
2/24/2007

Navigator Fund, L.P. Warrants to purchase 69,075 shares 48,929
c/o Corey Horowitz of Common Stock at an exercise
CMH Capital Management Corp. price of $4.00 per share/expires
909 Third Avenue, 9th Floor 4/29/2007
New York, New York 10022

Navigator Global Fund Warrants to purchase 9,675 shares of 6,853
c/o Corey Horowitz Common Stock at an exercise price
CMH Capital Management Corp. of $4.00 per share/expires 4/29/2007
909 Third Avenue, 9th Floor
New York, New York 10022

Robert Graifman Warrants to purchase 7,500 shares of 5,839
100 Tennyson Common Stock at an exercise price
Short Hills, NJ of $3.00 per share/expires 3/2/2008

MBF Capital Corp. Warrants to purchase 15,000 shares 11,723
12 East 49th Street of Common Stock at an exercise
New York, New York 10017 price of $3.00 per share/expires
4/23/2008

</TABLE>

<TABLE>
<CAPTION>

NAME AND ADDRESS OF SECURITYHOLDER	WARRANTS OR OPTIONS TO BE EXCHANGED	NUMBER OF SHARES OF COMMON STOCK TO BE RECEIVED
<S>	<C>	<C>
Bentley One, Ltd. Harborside Apt # 3 Cloister Drive Paradise Island Nassau, Bahamas P.O. Box N-732	Warrants to purchase 75,000 shares of Common Stock at an exercise price of $3.00 per share/expires 5/14/2008	58,700
Barington Capital Group, L.P. 888 7th Avenue, 17th Floor New York, New York 10019	Options to purchase 25,000 shares of Common Stock at an exercise price of $4.00 per share/expires 3/14/2001	11,110
GKN Securities Corp. 61 Broadway New York, New York 10006	Options to purchase 34,650 shares of Common Stock at an exercise price of $4.00 per share/expires 3/14/2001	15,399
David M. Nussbaum GKN Securities Corp. 61 Broadway New York, New York 10006	Options to purchase 14,025 shares of Common Stock at an exercise price of $4.00 per share/expires 3/14/2001	6,233
Robert Gladstone GKN Securities Corp. 61 Broadway New York, New York 10006	Options to purchase 14,025 shares of Common Stock at an exercise price of $4.00 per share/expires 3/14/2001	6,233
Roger Gladstone GKN Securities Corp. 61 Broadway New York, New York 10006	Options to purchase 14,025 shares of Common Stock at an exercise price of $4.00 per share/expires 3/14/2001	6,233
Deborah L. Schondorf GKN Securities Corp.	Options to purchase 2,150 shares of Common Stock at an exercise price	955

61 Broadway of $4.00 per share/expires 3/14/2001
New York, New York 10006

Neil Betoff Options to purchase 375 shares of 167
GKN Securities Corp. Common Stock at an exercise price
61 Broadway of $4.00 per share/expires 3/14/2001
New York, New York 10006

Richard Buonocore Options to purchase 1,650 shares of 733
GKN Securities Corp. Common Stock at an exercise price
61 Broadway of $4.00 per share/expires 3/14/2001
New York, New York 10006
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NAME AND ADDRESS OF SECURITYHOLDER	WARRANTS OR OPTIONS TO BE EXCHANGED	NUMBER OF SHARES OF COMMON STOCK TO BE RECEIVED
<S>	<C>	<C>
Brian K. Coventry GKN Securities Corp. 61 Broadway New York, New York 10006	Options to purchase 600 shares of Common Stock at an exercise price of $4.00 per share/expires 3/14/2001	267
Andrew G. Lazarus GKN Securities Corp. 61 Broadway New York, New York 10006	Options to purchase1,000 shares of Common Stock at an exercise price of $4.00 per share/expires 3/14/2001	444
TOTAL	1,271,786	961,249

</TABLE>

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the inclusion of our report dated June 17, 1998 (July 8, 1998 with respect to Note J[1] and July 17, 1998 with respect to the third paragraph of Note A), which contains an explanatory paragraph with respect to the Company's ability to continue as a going concern, on the financial statements of Network-1 Security Solutions, Inc. as of December 31, 1997 and 1996 and for each of the years then ended, in its Registration Statement on Form SB-2 and to the reference to our firm under the caption "Experts" in the Prospectus.

/s/ Richard A. Eisner & Company, LLP
New York, New York
July 21, 1998

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM AUDITED FINANCIAL STATEMENTS OF NETWORK-1 SECURITY SOLUTIONS, INC. FOR THE YEAR ENDED DECEMBER 31, 1997, AND FROM UNAUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<SALES>	1,632,000	195,000
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<TOTAL-COSTS>	790,000	252,000
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<EXTRAORDINARY>	0	0
<CHANGES>	0	0
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<EPS-DILUTED>	(1.29)	(0.41)

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