

EMC CORP  
Form 425  
October 19, 2015

Filed by Denali Holding Inc.

Pursuant to Rule 425 under the Securities Act of 1933

and deemed filed pursuant to Rule 14a-12

of the Securities Exchange Act of 1934

Subject Company: EMC Corporation (Commission File No. 1-09853)

The following communication was posted on the Dell company blog on October 19, 2015.

**Message from Michael Dell: Committed to VMware Independence and to Open Ecosystem**

Given our recent announcement to acquire EMC, I thought it would be helpful to share some of my thoughts and intentions about VMware, and our plans following the close of the transaction.

Since I founded Dell more than 31 years ago, the company has been committed to a heterogeneous and open architecture that prioritizes customer choice first and foremost. We intend that once combined, Dell and EMC will continue to offer choice and multiple partner offerings as we always have and always will.

VMware is an amazing company filled with very talented people creating innovative software and solutions that are leading the way in a cloud-based, connected world. It thrives on a vibrant ecosystem in its VMware Partner Network of OEM partners, Systems Integrators, Solution Providers, Resellers and of course hundreds of thousands of customers around the world.

We intend for VMware to remain an independent public company. Further, we believe it is very important to maintain VMware's successful business model supporting an open and independent ecosystem. We do not plan to do anything proprietary with VMware as regards Dell or EMC, nor place any limitations on VMware's ability to partner with any other company.

Until the transaction closes, Dell and EMC will continue to operate as separate companies and compete in the marketplace.

Once the transaction closes, we plan to handle VMware the same way as EMC by keeping VMware independent, leaving VMware free to continue using its cash flow to invest in its business and to continue its committed relationships with its VMware Partner Network. Lots of customers use VMware together with many other OEM products and solutions. VMware will remain committed to its partners and making it easy for customers to use its products on any hardware or platform that they desire.

VMware is a crown jewel of the EMC federation. Our intent is only to continue to help it thrive, innovate and grow, as an independent company with an independent and open ecosystem.

Best,

Michael

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**Disclosure Regarding Forward Looking Statements**

This communication contains forward-looking statements, which reflect Denali Holding Inc.'s current expectations. In some cases, you can identify these statements by such forward-looking words as anticipate, believe, could,

estimate, expect, intend, confidence, may, plan, potential, should, will and would, or similar expressions, risks that could cause our actual results to differ materially from the results we anticipate include, but are not limited to: (i) the failure to consummate or delay in consummating the proposed transaction; (ii) the risk that a condition to closing of the proposed transaction may not be satisfied or that required financing for the proposed transaction may not be available or may be delayed; (iii) the risk that a regulatory approval that may be required for the proposed transaction is delayed, is not obtained, or is obtained subject to conditions that are not anticipated; (iv) risk as to the trading price of Class V Common Stock to be issued by Denali Holding Inc. in the proposed transaction relative to the trading price of shares of VMware, Inc. common stock; (v) the effect of the announcement of the proposed transaction on Denali Holding Inc.'s relationships with its customers, operating results and business generally; and (vi) adverse changes in general economic or market conditions. Denali Holding Inc. undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

### **Additional Information and Where to Find It**

This communication does not constitute an offer to sell or a solicitation of an offer to sell or a solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended, and otherwise in accordance with applicable law. This communication is being made in respect of the proposed business combination transaction between EMC Corporation and Denali Holding Inc. The proposed transaction will be submitted to the shareholders of EMC Corporation for their consideration. In connection with the issuance of Class V Common Stock of Denali Holding Inc. in the proposed transaction, Denali Holding Inc. will file with the SEC a Registration Statement on Form S-4 that will include a preliminary proxy statement/prospectus regarding the proposed transaction and each of Denali Holding Inc. and EMC Corporation plans to file with the SEC other documents regarding the proposed transaction. After the registration statement has been declared effective by the SEC, a definitive proxy statement/prospectus will be mailed to each EMC Corporation shareholder entitled to vote at the special meeting in connection with the proposed transaction. **INVESTORS ARE URGED TO READ THE PROXY STATEMENT/PROSPECTUS AND ANY OTHER DOCUMENTS RELATING TO THE TRANSACTION FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY IF AND WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION.** Investors may obtain copies of the proxy statement/prospectus (when available) and all other documents filed with the SEC regarding the proposed transaction, free of charge, at the SEC's website (<http://www.sec.gov>) or from Denali Holding Inc.'s website (<http://www.dell.com/futurereadydell>).

### **Participants in the Solicitation**

Denali Holding Inc. and certain of its directors and executive officers may be deemed to be participants in the solicitation of proxies from EMC Corporation shareholders in connection with the proposed transaction. Additional information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of EMC Corporation shareholders in connection with the proposed transaction and a description of their direct and indirect interest, by security holdings or otherwise, will be set forth in the proxy statement/prospectus filed with the SEC in connection with the proposed transaction.

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ONT-FAMILY: Times New Roman; DISPLAY: inline">Laurent Ohana resigned from our board of directors on August 9, 2013. In connection with his resignation, he agreed to provide consulting services to us for a four month period through December 9, 2013 for which he was paid \$20,000. In addition, we agreed that all of Mr. Ohana's

unvested options (12,500 shares) became vested in full upon his resignation.

The following table sets forth the compensation awarded to, earned by or paid to all persons who served as members of our board of directors (other than our Named Executive Officers) during the year ended December 31, 2013. No director who is also a Named Executive Officer received any compensation for services as a director in 2013.

Name	Option Awards(2) (3) (\$)	Fees earned or paid in cash \$(1)	All other compensation (\$)	Total (\$)
Emanuel Pearlman	\$ 21,000	\$50,000	—	\$ 71,000
Niv Harizman	\$ 107,000	\$46,250	—	\$ 153,250
Allison Hoffman	\$ 32,000	\$45,620	—	\$ 77,620
Laurent Ohana	\$ 15,000	\$33,750	\$20,000(4)	\$ 68,750

- (1) Represents director's fees payable in cash to each non-management director of \$10,000 per quarter (or \$40,000 per annum) for 2013 plus cash fees for serving on Board committees.
- (2) The amounts included in the "Option Awards" column represent the grant date fair value of stock option awards (vested) to directors, computed in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions see Note C[1] to our Financial Statements included in this Prospectus.
- (3) The aggregate grant date fair values for 2013 calculated in accordance with FASB ASC Topic 718 reflect the following: (i) 5-year options to purchase 25,000 shares of our common stock granted to each of Emanuel Pearlman, Laurent Ohana, Niv Harizman and Allison Hoffman on January 24, 2013 at an exercise price of \$1.19 per share which options vested over a one year period in equal quarterly amounts and (ii) a 5-year options to purchase 300,000 shares of our common stock granted to Niv Harizman on June 19, 2013, at an exercise price of \$1.88 per share, which option vested 100,000 shares on the date of grant and 100,000 shares on each of the first and second anniversary from the grant date. The aggregate number of option awards outstanding at December 31, 2013 for each director was as follows: Mr. Pearlman – options to purchase 100,000 shares; Mr. Harizman – options to purchase 375,000 shares; and Ms. Hoffman options to purchase 75,000 shares.
- (4) Includes \$20,000 of consulting fees paid to Mr. Ohana in 2013 following his resignation as a director.

## Outstanding Equity Awards at December 31, 2013

The following table sets forth information relating to unexercised and outstanding options for each Named Executive Officer as of December 31, 2013:

Name	Number of Securities Underlying Unexercised Options		Option Exercise Price (\$)	Option Expiration Date
	Exercisable	Unexercisable		
Corey M. Horowitz Chairman and CEO	208,335	(1)	\$ 1.19	11/01/22
	750,000	—	\$ 0.83	6/08/19
	400,000	—	\$ 0.68	11/26/14
	1,100,000	—	\$ 0.25	11/26/14
	10,000	—	\$ 0.68	6/22/14
	7,500	—	\$ 0.68	10/25/14
David Kahn Chief Financial Officer	75,000	—	\$ 1.40	4/12/17
	100,000	—	\$ 1.59	2/03/16
Jonathan Greene Executive Vice President	75,000	—	\$ 0.68	2/02/14
	150,000	—	\$ 0.90	4/16/15
	240,000	—	\$ 1.60	3/10/16

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

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of April 20, 2014 for (i) each person known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock, (ii) each of our directors, (iii) each of our executive officers, and (iv) all of our executive officers and directors as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)	PERCENTAGE OF COMMON STOCK BENEFICIALLY OWNED(2)
Corey M. Horowitz(3)	7,783,343	27.5%
CMH Capital Management Corp(4)	2,171,372	8.4%
Steven D. Heinemann (5)	2,877,378	11.2%
Goose Hill Capital LLC(6)	2,292,145	8.9%
Looking Glass LLC(7)	1,750,000	6.4%
Barry Rubenstein(8)	1,534,583	6.0%
Jonathan Auerbach(9)	1,494,182	5.8%
Hound Partners Offshore Fund, L.P.(10)	1,366,230	5.3%
Emigrant Capital Corporation (11)	1,312,500	5.1%
Jonathan E. Greene(12)	430,281	1.6%
Niv Harizman(13)	295,793	1.1%
David C. Kahn(14)	262,506	1.0%
Emanuel Pearlman(15)	108,750	*
Allison Hoffman(16)	83,750	*
All officers and directors as a group (6 Persons)	8,964,423	30.6%

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\* Less than 1%.

- (1) Unless otherwise indicated, we believe that all persons named in the above table have sole voting and investment power with respect to all shares of common stock beneficially owned by them. Unless otherwise indicated the address for each listed beneficial owner is c/o Network-1 Technologies, Inc., 445 Park Avenue, Suite 912, New York, New York 10022.
- (2) A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days from April 20, 2014 upon the exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants and other convertible securities held by such person (but not those held by any other person) and which are exercisable or convertible within 60 days from April 20, 2014 have been exercised and converted. Assumes a base of 25,715,743 shares of our common stock

outstanding.

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- (3) Includes (i) 2,640,292 shares of common stock held by Mr. Horowitz, (ii) 2,559,167 shares of common stock subject to currently exercisable stock options held by Mr. Horowitz, (iii) 2,171,372 shares of common stock held by CMH Capital Management Corp., an entity solely owned by Mr. Horowitz, (iv) 67,471 shares of common stock owned by Donna Slavitt, the wife of Mr. Horowitz, (v) an aggregate of 342,750 shares of common stock held by two trusts and a custodian account for the benefit of Mr. Horowitz's three children and (vii) 2,291 shares of common stock held by Horowitz Partners, a general partnership of which Mr. Horowitz is a partner. Does not include 208,333 shares of common stock subject to options which are not currently exercisable within 60 days of the date hereof.
- (4) Includes 2,171,372 shares of common stock. Corey M. Horowitz, by virtue of being the sole officer, director and shareholder of CMH Capital Management Corp., has the sole power to vote and dispose of the shares of common stock owned by CMH Capital Management Corp.
- (5) Includes 585,233 shares of common stock owned by Mr. Heinemann and 2,292,145 shares of common stock owned by Goose Hill Capital LLC. Goose Hill Capital LLC is an entity in which Mr. Heinemann is the sole member. Mr. Heinemann, by virtue of being the sole member of Goose Hill Capital LLC, has the sole power to vote and dispose of the shares owned by Goose Hill Capital LLC. The aforementioned beneficial ownership is based upon a Form 4 filed by Mr. Heinemann with the Securities and Exchange Commission on January 15, 2014 and Amendment No. 2 to Schedule 13(G) filed by Mr. Heinemann and Goose Hill Capital LLC with the Securities and Exchange Commission on February 10, 2014. The address for Mr. Heinemann is 106 Goose Hill Road, Cold Spring Harbor, New York 11724.
- (6) Includes 2,292,145 shares of common stock. Steven D. Heinemann, by virtue of being the sole member of Goose Hill Capital LLC, has the sole power to vote and dispose of the shares owned by Goose Hill Capital LLC. The aforementioned beneficial ownership is based upon a Form 4 filed by Mr. Heinemann with the Securities and Exchange Commission on January 15, 2014 and Amendment No. 2 to Schedule 13(G) filed by Mr. Heinemann and Goose Hill Capital LLC with the Securities and Exchange Commission on February 10, 2014. The address for Goose Hill Capital LLC is 106 Goose Hill Road, Cold Spring Harbor, New York 11724.
- (7) Includes 1,750,000 shares of common stock subject to currently exercisable warrants held by Looking Glass LLC (formerly Mirror Worlds, LLC). Plainfield Special Situations Master Fund Limited is the sole member of Looking Glass LLC and therefore may be deemed to have beneficial ownership of, and the shared power to vote and dispose of, the shares of common stock beneficially owned by Looking Glass LLC. Max Holmes, by virtue of his position as the manager of Plainfield Special Situations Master Fund Limited, may also be deemed to beneficially own, and have the shared power to vote and dispose of such shares of common stock. In addition, David Walker and Ian Stokoe, by virtue of their position as joint voluntary liquidators of the Plainfield Special Situations Master Fund Limited, may also each be deemed to beneficially own and have shared power to vote and dispose of such shares of common stock. The aforementioned information is based upon Amendment No. 4 to Schedule 13D jointly filed by Looking Glass LLC, Plainfield Special Situations Master Fund Limited, Max Holmes, David Walker and Ian Stoke with the Securities and Exchange Commission on April 14, 2014. The address of Looking Glass LLC is 60 Arch Street, 2nd floor, Greenwich, Connecticut 06830.



- (8) Includes (i) 150,011 shares of common stock held by Mr. Rubenstein, (ii) 10,000 shares of common stock subject to currently exercisable stock options held by Mr. Rubenstein, and (iii) 584,224, 479,983, 309,316 and 1,049 shares of common stock held by Woodland Venture Fund, Seneca Ventures, Woodland Partners and Marilyn Rubenstein, respectively. The aforementioned beneficial ownership by Mr. Rubenstein is based upon Amendment No. 10 to Schedule 13D jointly filed by Mr. Rubenstein and related parties with the Securities and Exchange Commission on November 1, 2013. Barry Rubenstein is a general partner of Woodland Venture Fund, Seneca Ventures and Woodland Partners. Woodland Services Corp. is a general partner of Woodland Venture Fund and Seneca Ventures and, by virtue of such position, may be deemed to have shared power to vote and dispose of the shares held by Woodland Venture Fund and Seneca Ventures. Marilyn Rubenstein is the wife of Barry Rubenstein. Barry Rubenstein, by virtue of being a General Partner of Woodland Venture Fund, Seneca Ventures and Woodland Partners, and the husband of Marilyn Rubenstein, may be deemed to have shared power to vote and dispose of the shares held by Woodland Venture Fund, Seneca Ventures, Woodland Partners and Marilyn Rubenstein. The address of Barry Rubenstein is 68 Wheatley Road, Brookville, New York 11545.
- (9) Includes (i) 127,952 shares of common stock owned by Hound Partners LLC, and (ii) 1,366,230 shares of common stock held by Hound Partners Offshore Fund, LP. Jonathan Auerbach is the managing member of Hound Performance, LLC and Hound Partners, LLC. Hound Performance, LLC is the general partner of Hound Partners Offshore Fund, L.P. Hound Partners, LLC is the investment manager of Hound Partners Offshore Fund, L.P. The shares may be deemed to be beneficially owned by Hound Partners LLC and Jonathan Auerbach. The shares held by Hound Partners Offshore Fund, L.P. may also be deemed to be beneficially owned by Hound Performance, LLC. The aforementioned beneficial ownership is based in part upon Amendment No. 5 to Schedule 13G jointly filed by Hound Partners, LLC, Hound Performance, LLC, Jonathan Auerbach and Hound Partners Offshore Fund, LP with the Securities and Exchange Commission on February 13, 2014. Jonathan Auerbach, by virtue of being the managing member of Hound Performance, LLC and Hound Partners, LLC, has the shared power to vote and dispose of the shares held by Hound Partners, LLC and Hound Partners Offshore Fund, LP. Hound Performance, LLC, by virtue of being the general partner of Hound Partners Offshore Fund L.P., has shared power to vote and dispose of the shares owned by Hound Partners Offshore Fund, LP.
- (10) Includes 1,366,230 shares of common stock owned by Hound Partners Offshore Fund, LP. Jonathan Auerbach and Hound Performance, LLC, by virtue of being the managing member and general partner of Hound Partners Offshore Fund, LP, respectively, have shared power to vote and dispose of the shares held by Hound Partners Offshore Fund, L.P.
- (11) Includes 1,312,500 shares of common stock owned by Emigrant Capital Corporation. Emigrant Capital Corporation (“Emigrant Capital”) is a wholly-owned subsidiary of Emigrant Savings Bank (“ESB”), which is a wholly-owned subsidiary of Emigrant Bancorp, Inc. (“EBI”). EBI is a wholly-owned subsidiary of New York Private Bank & Trust Corporation (“NYPBTC”). The Paul Milstein Revocable 1998 Trust (the “Trust”) owns 100% of the voting stock of NYPBTC. ESB, EBI, NYPBTC and the Trust each may be deemed to be the beneficial owner of the shares of common stock held by Emigrant Capital. The aforementioned is based upon a Schedule 13G/A filed jointly by Emigrant Capital, ESB, EBI, NYPBTC, the Trust and others with the Securities and Exchange Commission on January 12, 2005. Howard Milstein, by virtue of being an officer of New York Private Bank and Trust Corporation and trustee of the Paul Milstein Revocable 1998 Trust, both indirect owners of Emigrant Capital, may be deemed to have sole power to vote and dispose of the securities owned by Emigrant Capital. The address of Emigrant Capital Corporation is 6 East 43rd Street, 8th Floor, New York, New York 10017.



- (12) Includes 40,281 shares of common stock and 390,000 shares of common stock subject to currently exercisable options issued to Mr. Greene. Does not include options to purchase 50,000 shares of common stock which are not currently exercisable.
- (13) Includes 12,043 shares of common stock and 283,750 shares of common stock subject to currently exercisable options issued to Mr. Harizman. Does not include options to purchase 126,250 shares of common stock which are not currently exercisable.
- (14) Includes (i) 16,000 shares of common stock owned by Mr. Kahn, (ii) 50,216 shares of common stock owned by Stephanie Kahn, a daughter of David Kahn, (iii) 21,290 shares of common stock owned by Rebecca Kahn, also a daughter of David Kahn and (iv) 175,000 shares of common stock subject to currently exercisable stock options owned by Mr. Kahn. Does not include options to purchase 50,000 shares of common stock which are not currently exercisable.
- (15) Includes 108,750 shares of common stock subject to currently exercisable stock options issued to Mr. Pearlman. Does not include options to purchase 26,250 shares of common stock which are not currently exercisable.
- (16) Includes 83,750 shares of common stock subject to currently exercisable options issued to Ms. Hoffman. Does not include options to purchase 26,250 shares of common stock which were not currently exercisable.

The Equity Compensation Plan information presented on page 19 of this Prospectus is incorporated herein in its entirety.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Since the last two fiscal years there were no transactions with related persons requiring disclosure under Item 404 of Regulation S-K under the Securities Act.

#### Review, Approval or Ratification of Transactions with Related Persons

Upon establishment of an Audit Committee in January 2013, the Audit Committee assumed responsibility for reviewing and approving related-persons transactions in accordance with its charter (prior to 2013 the Board of Directors had such responsibility). A related person is any executive officer, director, nominee for director or more than 5% stockholder of the Company, including immediate family members, and any entity owned or controlled by such persons. In addition, pursuant to our Code of Ethics, all of our officers and employees are to avoid conflicts of interest and to refrain from taking part or exercising influence in any transaction in which such party's personal interest may conflict with the best interest of the Company. Except for provisions of the Audit Committee Charter, there are no written procedures governing review of related-persons transactions.

## DESCRIPTION OF SECURITIES

Our authorized capital stock consists of 50,000,000 shares of common stock, par value \$.01 per shares, and 10,000,000 shares of preferred stock, par value \$.01 per share. As of April 20, 2014, we had outstanding 25,715,743 shares of common stock and no outstanding shares of preferred stock.

### Common Stock

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

The 6,079,186 shares of our common stock being registered for resale by the selling stockholders (listed on page 33 of this Prospectus) consist of the following shares:

1,750,000 shares of common stock subject to currently exercisable 5-year warrants held by Looking Glass LLC (formerly Mirror Worlds, LLC). On May 21, 2013 we issued to Looking Glass LLC such warrants (to purchase 875,000 shares of common stock at an exercise price of \$2.10 per share and 875,000 shares of common stock at an exercise price of \$1.40 per share) in connection with our acquisition of the Mirror Worlds Patent Portfolio and certain other assets of Looking Glass LLC (formerly Mirror Worlds, LLC).

750,000 shares of common stock subject to currently exercisable warrants issued to Recognition Interface, LLC (“Recognition”) in connection with our acquisition of the Mirror Worlds Patent Portfolio and certain other assets of Looking Glass LLC (formerly Mirror Worlds, LLC) on May 21, 2013. The warrants were issued to Recognition in accordance with our agreement, dated May 21, 2013, with Recognition, as follows:

- On May 21, 2013, a 5-year warrant to purchase 250,000 shares of common stock at an exercise price of \$1.40 per share;
- On May 21, 2013, a 5-year warrant to purchase 250,000 shares of common stock at an exercise price of \$2.10 per share;
- On July 26, 2013, a 5-year warrant to purchase 125,000 shares of common stock at an exercise price of \$1.40 per share; and
- On July 26, 2013, a 5-year warrant to purchase 125,000 shares of common stock at an exercise price of \$2.10 per share.

440,000 shares of common stock owned by Sucaba LLC, acquired pursuant to exercise on July 22, 2013 of 60-day warrants to purchase 500,000 shares of common stock, at an exercise price of \$2.05 per share, by Abacus & Associates, Inc. (“Abacus”). At the time of exercise of the warrants, Abacus directed us to issue the 440,000 shares

to Sucaba LLC and 40,000 shares to Sucaba CRUT, LLC, both affiliates of Abacus. The warrants were issued to Abacus on May 21, 2013 in connection with our acquisition of the Mirror Worlds Patent Portfolio and certain other assets of Looking Glass LLC (formerly Mirror Worlds, LLC) and our agreement, dated May 21, 2013, with Recognition.

60,000 shares of common stock owned by Sucaba CRUT, representing the balance of the shares issued as a result of the aforementioned warrant exercise by Abacus on July 22, 2013.

495,302 shares of common stock owned by Corey M. Horowitz, our Chairman and Chief Executive Officer, consisting of:

(i) 24,832 shares of common stock issued on March 14, 1996 as a result of conversion of outstanding debt, (ii) 117,138 shares of common stock issued on July 8, 1998 in exchange for cancellation of outstanding warrants and options to purchase an aggregate of 133,471 shares of common stock, (iii) 44,333 shares of common stock in other private transactions prior to the Company's completion of its initial public offering in October 1998, (iv) 249,724 net shares of common stock as a result of a cashless exercise of options (including delivery of shares for withholding taxes) to purchase 750,000 shares in June 2013 at an exercise price of \$0.68 per share originally issued to CMH Capital Management Corp. in April 2002 for financial advisory services, and reissued to Mr. Horowitz in April 2010; (v) 79,525 net shares of common stock acquired pursuant to a cashless exercise of warrants (including delivery of shares for withholding taxes) to purchase 250,000 shares in October 2013 at an exercise price of \$0.68 per share, originally issued to CMH Capital Management Corp. in October 2001 in consideration of financial advisory services, and reissued to Mr. Horowitz in April 2010 (Mr. Horowitz is the sole officer, director and shareholder of CMH Capital Management Corp.) and (vi) less aggregate gifts by Mr. Horowitz of 20,250 shares of common stock to two trusts and a custodian account for the benefit of his three children;

2,171,372 shares of common stock owned by CMH Capital Management Corp. ("CMH"), an entity in which Mr. Horowitz is the sole shareholder, officer and director. CMH acquired the shares in April 2004 pursuant to an exchange of 1,084,935 shares of our Series E convertible preferred stock as part of an exchange agreement between the Company and its preferred stockholders. In November 2003 CMH purchased the Series E convertible preferred shares from an unaffiliated third party for a purchase price of \$35,000;

67,471 shares of common stock owned by Donna M. Slavitt, the wife of Corey M. Horowitz, our Chairman and Chief Executive Officer. Ms. Slavitt acquired the shares in April 2004, pursuant to an exchange of shares of our Series E convertible preferred stock (which she purchased as part of a private offering of common stock completed in October 2001);

An aggregate of 342,750 shares of common stock, 114,250 shares each, owned by the Logan Zev Horowitz 1999 Trust, the Dylan Max Horowitz 1999 Trust and Corey M. Horowitz as custodian for Zachary Jordon Horowitz. The trusts and the custodian account acquired the shares by gifts on an annual basis from Mr. Horowitz for the benefit of his three children from 2004 to 2013; and

2,291 shares of common stock owned by Horowitz Partners. Horowitz Partners received the shares in 2000 as a result of a distribution of the shares by Security Partners, L.P., an entity of which Corey Horowitz was the general partner. Mr. Horowitz is a partner of Horowitz Partners, a general partnership.

## Preferred Stock

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

## Warrants and Options

As of April 20, 2014, there were outstanding options and warrants to purchase an aggregate of 6,987,500 shares of our common stock at exercise prices ranging from \$0.25 to \$2.10.

In connection with our acquisition of the patent portfolio and certain other assets of Mirror Worlds, LLC completed on May 21, 2013, we issued to Mirror Worlds, LLC (which subsequently changed its name to Looking Glass LLC) 5-year warrants to purchase an aggregate of 875,000 shares of common stock at an exercise price of \$1.40 per share and 5-year warrants to purchase an aggregate of 875,000 shares of common stock at an exercise price of \$2.10 per share. The shares underlying the aforementioned warrants are being registered for resale in this Prospectus pursuant to a Registration Rights Agreement, dated May 21, 2013 with Mirror Worlds, LLC. Also in connection with the acquisition, we issued to Recognition Interface, LLC (“Recognition”) (i) 5-year warrants to purchase 250,000 shares of our common stock at \$1.40 per share, and (ii) 5-year warrants to purchase 250,000 shares of our common stock at \$2.10 per share. In addition, we issued to Abacus and Associates, Inc. (“Abacus”), an entity affiliated with Recognition, a 60-day warrant to purchase 500,000 shares of our common stock at \$2.05 per share. On July 22, 2013, Abacus exercised the 60 Day warrant and, in accordance with our agreement with Recognition, we issued additional 5-year warrants to Recognition consisting of (i) warrants to purchase 125,000 shares at an exercise price of \$1.40 per share, and (ii) warrants to purchase 125,000 shares at an exercise price of \$2.10 per share. The shares underlying the warrants issued to Recognition and the shares issued as a result of the exercise of the Abacus warrant are being registered for resale in this Prospectus pursuant to a Registration Rights Agreement, dated May 21, 2013, with Recognition.

## Transfer Agent

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

## LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for us by the law firm of Eiseman Levine Lehrhaupt & Kakoyiannis, P.C., 805 Third Avenue, New York, New York. Sam Schwartz, a member of such firm, owns 26,084 shares of our common stock.

## EXPERTS

Our financial statements as of December 31, 2013 and 2012 and for each of the years then ended appearing in this Prospectus and Registration Statement have been audited by Radin, Glass Co., LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon authority of said firm as experts in accounting and auditing.

## DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

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

In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 on official business days during the hours of 10:00 a.m. – 3:00 p.m. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains in Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our SEC filings are also available to you on the SEC's Internet site at <http://www.sec.gov> and are also accessible through our own website, <http://www.network-1.com>.

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

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

Network-1 Technologies, Inc.  
445 Park Avenue, Suite 912  
New York, New York 10022  
Attention: Corey M. Horowitz, Chairman and  
Chief Executive Officer  
(212) 829-5770





NETWORK-1 TECHNOLOGIES, INC.

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NETWORK-1 TECHNOLOGIES, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Network-1 Technologies, Inc.

We have audited the accompanying balance sheets of Network-1 Technologies, Inc. as of December 31, 2013 and 2012 and the related statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Network-1 Technologies, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Radin, Glass & Co., LLP

New York, New York  
March 21, 2014

## NETWORK-1 TECHNOLOGIES, INC.

## Balance Sheets

	December 31, 2013	2012
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 18,938,000	\$ 21,983,000
Marketable securities	530,000	547,000
Royalty receivables	814,000	775,000
Other current assets	276,000	222,000
<b>Total Current Assets</b>	<b>20,558,000</b>	<b>23,527,000</b>
<b>OTHER ASSETS:</b>		
Deferred tax asset	5,659,000	6,194,000
Patent, net of accumulated amortization	5,136,000	65,000
Other investments	196,000	—
Security deposits	19,000	19,000
<b>Total Other Assets</b>	<b>\$ 11,010,000</b>	<b>6,278,000</b>
<b>TOTAL ASSETS</b>	<b>\$ 31,568,000</b>	<b>\$ 29,805,000</b>

## LIABILITIES AND STOCKHOLDERS' EQUITY

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 136,000	\$ 232,000
Accrued expenses	628,000	593,000
<b>TOTAL LIABILITIES</b>	<b>764,000</b>	<b>825,000</b>

## COMMITMENTS AND CONTINGENCIES

## STOCKHOLDERS' EQUITY

Common stock, \$0.01 par value; authorized 50,000,000 shares; 25,854,548 and 25,392,269 issued and outstanding at December 31, 2013 and December 31, 2012, respectively	259,000	254,000
Additional paid-in capital	61,129,000	58,046,000
Accumulated deficit	(30,553,000)	(29,306,000)
Other comprehensive income (loss)	(31,000)	(14,000)

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TOTAL STOCKHOLDERS' EQUITY	30,804,000	28,980,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$31,568,000	\$29,805,000

See notes to condensed financial statements

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## NETWORK-1 TECHNOLOGIES, INC.

## Statements of Income and Comprehensive Income

	Years Ended December 31,	
	2013	2012
ROYALTY REVENUE	\$8,017,000	\$8,698,000
COST OF REVENUE	2,359,000	2,602,000
GROSS PROFIT	5,658,000	6,096,000
OPERATING EXPENSES:		
General and administrative	2,735,000	2,438,000
Depreciation and Amortization	1,008,000	9,000
Non-cash compensation	390,000	316,000
TOTAL OPERATING EXPENSES	4,133,000	2,763,000
OPERATING INCOME	1,525,000	3,333,000
OTHER INCOME (EXPENSES):		
Interest income, net	36,000	39,000
INCOME BEFORE INCOME TAXES	1,561,000	3,372,000
INCOME TAXES (BENEFIT):		
Current	10,000	37,000
Deferred	535,000	709,000
Total Income Taxes (Benefits)	545,000	746,000
NET INCOME	\$1,016,000	\$2,626,000
Net Income Per Share		
Basic	\$0.04	\$.10
Diluted	\$0.04	\$.09
Weighted average common shares outstanding		
Basic	25,589,238	25,744,330
Diluted	27,954,685	28,472,753
NET INCOME	\$1,016,000	\$2,626,000
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized gain (loss) arising during the period	(17,000)	(9,000)

COMPREHENSIVE INCOME	\$999,000	\$2,617,000
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See notes to condensed financial statements

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## NETWORK-1 TECHNOLOGIES, INC.

Statement of Changes in Stockholders' Equity  
For the Years Ended December 31, 2013 and 2012

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Other Comprehensive Income	Stockholders' Equity
Balance – December 31, 2011	25,037,518	\$ 250,000	\$ 57,728,000	\$ (30,575,000)	\$ (5,000 )	\$ 27,398,000
Granting of options	—	—	316,000	—	—	316,000
Proceeds from exercise of options and warrants	1,441,268	14,000	2,000	—	—	16,000
Value of shares delivered to fund withholding taxes	(350,160 )	(3,000 )	—	(484,000 )	—	(487,000 )
Treasury stock purchased and retired	(736,357 )	(7,000 )	—	(873,000 )	—	(880,000 )
Unrealized gain (loss) on bonds	—	—	—	—	(9,000 )	(9,000 )
Net income	—	—	—	2,626,000	—	2,626,000
Balance – December 31, 2012	25,392,269	\$ 254,000	\$ 58,046,000	\$ (29,306,000)	\$ (14,000 )	\$ 28,980,000
Granting of options	—	—	390,000	—	—	390,000
Shares and warrants issued in connection with patent acquisitions	403,226	4,000	1,612,000	—	—	1,616,000
Proceeds from exercise of options and warrants	1,581,142	16,000	1,081,000	—	—	1,097,000
Value of shares delivered to fund	(435,216 )	(4,000 )	—	(777,000 )	—	(781,000 )



withholding taxes

Treasury stock purchased and retired	(1,086,872 )	(11,000 )	—	(1,486,000 )	—	(1,497,000 )
Unrealized gain (loss) on bonds	—	—	—		(17,000 )	(17,000 )
Net income	—	—	—	1,016,000	—	1,016,000
Balance – December 31, 2013	25,854,549	\$ 259,000	\$ 61,129,000	\$ (30,553,000)	\$ (31,000 )	\$ 30,804,000

See notes to condensed financial statements

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## NETWORK-1 TECHNOLOGIES, INC.

## Statements of Cash Flows

	Years Ended December 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$1,016,000	\$2,626,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of Patents	1,008,000	9,000
Stock-based compensation	390,000	316,000
Non-cash royalty revenue	(70,000)	) —
Source (use) of cash from changes in operating assets and liabilities:		
Royalty receivables	(39,000)	) (15,000)
Other current assets	(54,000)	) (16,000)
Deferred tax asset	535,000	709,000
Accounts payable and accrued expenses	(61,000)	) (956,000)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>2,725,000</b>	<b>2,673,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of patents and other assets	(4,463,000)	) —
Investments	(126,000)	) —
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(4,589,000)</b>	<b>) —</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Value of shares delivered to fund withholding taxes	(781,000)	) (487,000)
Repurchase of treasury stock	(1,497,000)	) (880,000)
Proceeds from exercises of options and warrants	1,097,000	16,000
<b>NET CASH (USED IN) FINANCING ACTIVITIES</b>	<b>(1,181,000)</b>	<b>) (1,351,000)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(3,045,000)</b>	<b>) 1,322,000</b>
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<b>21,983,000</b>	<b>20,661,000</b>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<b>\$18,938,000</b>	<b>\$21,983,000</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the years for:		
Interest	—	—

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Taxes	\$352,000	\$266,000
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Value of shares and warrants issued to purchase patents	\$1,616,000	—

See notes to condensed financial statements

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## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note A - The Company

Network-1 Technologies, Inc. (the “Company”) is engaged in the development, licensing and protection of its intellectual property assets. The Company presently owns twenty-two (22) patents that relate to various technologies including patents covering (i) the delivery of power over Ethernet (PoE) cables for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras; (ii) foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system; (iii) enabling technology for identifying media content on the Internet and taking further action to be performed based on such identification including, among others, the insertion of advertising and the facilitation of the purchase of goods and services related to such content; and (iv) systems and methods for the transmission of audio, video and data over computer and telephony networks in order to achieve high quality of service (QoS). The Company’s strategy is to pursue licensing and strategic alliances with companies in industries that manufacture and sell products that make use of the technologies underlying the Company’s intellectual property as well as with other users of the technologies who benefit directly from the technologies including corporate entities and educational institutions. The Company has been actively engaged in licensing its remote power patent (U.S. Patent No. 6,218,930) covering the control of power delivery over Ethernet cables (the “Remote Power Patent”). The Company has entered into sixteen (16) license agreements with respect to its Remote Power Patent. The Company’s current strategy includes continuing to pursue licensing opportunities for its Remote Power Patent and efforts to monetize two patent portfolios (the Cox and Mirror Worlds patent portfolios) acquired by the Company in 2013 (See Note D[2] hereof). The Company continually reviews opportunities to acquire or license additional intellectual property. In addition, the Company may enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property.

The accompanying financial statements include the accounts of the Company and its wholly-owned subsidiary, Mirror Worlds Technologies, LLC (a single member LLC).

## Note B –Summary of Significant Accounting Policies

[1] Cash and cash equivalents:

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

Cash and cash equivalents as of December 31 are composed of:

	2013	2012
Cash	\$ 1,903,000	\$ 1,444,000
Money market fund	17,035,000	20,539,000
Total	\$ 18,938,000	\$ 21,983,000

[2] Marketable securities

Marketable securities are classified as available-for-sale and are recorded as fair market value. Unrealized gain and losses are reported as other comprehensive income. Realized gains and losses are included in income in the period they are realized. The Company's marketable securities consist of a corporate bond (face value \$500,000) with a 5% coupon and a maturity date of June 2015.

[3] Revenue recognition:

The Company recognizes revenue received from the licensing of its intellectual property in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104") and related authoritative pronouncements. Under this guidance, revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been performed pursuant to the terms of the license agreement, (iii) amounts are fixed or determinable and (iv) collectability of amounts is reasonably assured. One licensee (Cisco Systems, Inc. and affiliate) constituted approximately 77% of the Company's revenue for each of the years ended December 31, 2013 and 2012.

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## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note B – Summary of Significant Accounting Policies (continued)

## [4] Patents:

The Company owns patents that relate to various computing, telecommunications and data networking and Internet related technologies. The Company capitalizes the costs associated with acquisition, registration and maintenance of the patents and amortizes these assets over their remaining useful lives, ranging from three (3) years to fifteen (15) years, on a straight-line basis.

## [5] Impairment of long-lived assets:

Intangible assets with finite lives are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Accordingly, the Company records impairment losses on long-lived assets used in operations or expected to be disposed of when indicators of impairment exist and the undiscounted cash flows expected to be derived from those assets are less than carrying amounts of those assets. At December 31, 2013 and 2012, there was no impairment to the Company's patents.

## [6] 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. Deferred tax assets are reduced, if necessary, by a valuation allowance when the likelihood of realization is not assured.

## [7] Earnings (Loss) Per Share:

Basic Earnings (loss) per share is calculated by dividing the net income (loss) by the weighted average number of outstanding common shares during the period. Diluted per share data included the dilutive effects of options, warrants and convertible securities. Potential shares of 6,782,500 and 5,832,500 at December 31, 2013 and 2012, respectively, consisted of options and warrants. Computations of basic and diluted weighted average common shares outstanding are as follows:

	2013	2012
Weighted-average common shares outstanding - basic	25,589,238	25,744,330
Dilutive effect of options and warrants	2,365,447	2,728,423
Weighted-average common shares outstanding - diluted	27,954,685	28,472,753
Options and Warrants excluded from the computation of diluted income (loss) per share because the effect of inclusion would have been anti-dilutive	4,417,053	3,104,077

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NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

Note B – Summary of Significant Accounting Policies (continued)

[8] Use of estimates:

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

[9] Financial instruments:

The carrying amounts of cash and cash equivalents, accounts payable and accrued expenses approximate their fair value due to the short period to maturity of these instruments. The investment in a corporate bond is reported at the closing price reported on the active market on which the bond is traded.

[10] Stock-based compensation:

The Company accounts for its stock-based compensation at fair value estimated on the grant date using the Black-Scholes option pricing model. See Note C[1] for further discussion of the Company's stock-based compensation.

[11] Allowance for Doubtful Accounts:

The Company uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to their expected net realizable value. There was no allowance for doubtful accounts at December 31, 2013 and 2012.

[12] Fair Value Measurements:

Accounting Standard Codification ("ASC") Topic 820 ("ASC 820") utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.





## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note B – Summary of Significant Accounting Policies (continued)

The Company's financial assets subject to fair value measurements and the necessary disclosures are as follows:

	Fair Value as of December 31, 2013	Fair Value Measurements at December 31, 2013 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 18,938,000	\$18,938,000	\$—	\$—
Corporate bond	530,000	—	530,000	—
Total	\$ 19,468,000	\$18,938,000	\$530,000	\$—

	Fair Value as of December 31, 2012	Fair Value Measurements at December 31, 2012 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 21,983,000	\$21,983,000	\$—	\$—
Corporate bond	547,000	—	547,000	—
Total	\$ 22,530,000	\$21,983,000	\$547,000	\$—

[13] Subsequent event evaluation:

The Company has evaluated subsequent events from the balance sheet date through the issuance date of the financial statements and has determined that there are no such events that would have a material impact on the financial statements.

[14] Recently issued accounting standards:

In July 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-11 “Presentation of an Unrecognized Tax Benefit When a Net Operation Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” ASU No. 2013-11 is a new accounting standard on the financial statement presentation of unrecognized tax benefits. The new standard provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new standard becomes effective for the Company on January 1, 2014 and will be applied prospectively to unrecognized tax benefits that exist at the effective date with retrospective application permitted. Adoption of the guidance will not have a material impact on the Company's financial statements.

In February 2013, the FASB issued updated guidance that amends the reporting of amounts reclassified out of accumulated other comprehensive income (“AOCI”). These amendments do not change the current requirements for reporting net income or other comprehensive income in the financial statements. However, the guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component, either on the face of the financial statement where net income is presented or in the notes to the financial statements. This guidance is effective for fiscal periods beginning after December 15, 2012, and is to be applied

prospectively. The Company complied with this guidance as of January 1, 2013, and the adoption of the guidance has not had a material impact on the Company's financial statements.

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## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note B – Summary of Significant Accounting Policies (continued)

## [15] INVESTMENT IN LIFESTREAMS

In May 2013, as part of the acquisition of the Mirror Worlds patent portfolio (See Note D[2] hereof), the Company acquired from Mirror Worlds, LLC 250,000 shares of common stock of Lifestreams Technologies Corporation (“Lifestreams”), a company engaged in the development of next generation applications and methodologies designed to organize and display digital data. In addition, in July 2013 the Company made an additional investment of \$50,000 in Lifestreams as part of a financing and received 123,456 shares of Series A preferred stock and, as part of an amended license agreement between the Company’s subsidiary and Lifestreams, the Company received a warrant to purchase 7.5% of the then outstanding shares of common stock of Lifestreams on a fully diluted basis (post-financing). The warrant is valued at \$70,000 based on the Black-Scholes option model and recorded as non-cash royalty income. Since the investment in Lifestreams does not have a readily determinable fair value, such investment was recorded utilizing the cost-method. At December 31, 2013, the Company’s investment in Lifestreams consists of the following:

	Number of Shares	Value
Common Stock	250,000	\$ 76,000
Series A Preferred Stock	123,456	50,000
Warrants	1,305,000	70,000
		\$ 196,000

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## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note C - Stockholders' Equity

[1] Stock options:

On October 9, 2013, the Company's 2013 Stock Incentive Plan ("2013 Plan") was approved by the Company's stockholders (previously approved by the Company's Board of Directors on August 7, 2013). The 2013 Plan provides for the grant of any or all of the following types of awards: (a) stock options, (b) restricted stock, (c) deferred stock, (d) stock appreciation rights, and (e) other stock-based awards. Awards under the 2013 Plan may be granted singly, in combination, or in tandem. Subject to standard anti-dilution adjustments as provided in the 2013 Plan, the 2013 Plan provides for an aggregate of 2,600,000 shares of the Company's common stock to be available for distribution pursuant to the 2013 Plan. The Compensation Committee will generally have the authority to administer the 2013 Plan, determine participants who will be granted awards under the 2013 Plan, the size and types of awards, the terms and conditions of awards and the form and content of the award agreements representing awards. Awards under the 2013 Plan may be granted to employees, directors and consultants of the Company and its subsidiaries.

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, provided for the granting of both incentive and non-qualified options to purchase common stock of the Company. A total of 4,000,000 were eligible to be issued under the 1996 Plan. As of March 2006, in accordance with the terms of the plan, no further options were eligible to be issued under the Plan.

At December 31, 2013, no awards had been made under the 2013 Stock Incentive Plan, options to purchase 417,500 shares were outstanding under the 1996 Plan and options to purchase 3,865,000 shares of common stock were outstanding representing option grants outside of the 2013 Plan and the 1996 Plan.

The fair value of options on the date of grant is estimated using the Black-Scholes option-pricing model utilizing the following weighted average assumptions:

	Year Ended December 31, 2013	2012
Risk-free interest rates	0.78% - 1.24%	0.71% - 1.75%
Expected option life in years	5 years	5 years - 10 years
Expected stock price volatility	43.54% - 44.31%	43.54% - 45.86%
Expected dividend yield	0.00%	0.00%

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## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note C - Stockholders' Equity (continued)

The weighted average fair value of the options, on the option grant date during the years ended December 31, 2013 and 2012 was \$0.68 and \$0.59 per share, respectively.

The following table summarizes stock option activity for the years ended December 31:

	2013	Weighted Average Exercise Price	2012	Weighted Average Exercise Price
	Options Outstanding		Options Outstanding	
Options outstanding at beginning of year	5,582,500	\$ 0.78	7,208,070	\$ 0.69
Granted	400,000	\$ 1.71	925,000	\$ 1.24
Cancelled/expired/exercised	(1,700,000 )	\$ 0.67	(2,550,570 )	\$ 0.66
Options outstanding at end of year	4,282,500	\$ 0.91	5,582,500	\$ 0.78
Options exercisable at end of year	3,790,834	\$ 0.84	4,826,250	\$ 0.71

During the years ended December 31, 2013 and 2012, the Company granted stock options to purchase an aggregate of 400,000 and 925,000 shares of its common stock, respectively, to its officers, directors and consultants. The fair value of these options based on the Black-Scholes option-pricing model amounted to \$271,000 and \$549,000, respectively, for the 2013 and 2012 grants. The Company recorded non-cash compensation of \$123,000 and \$141,000 for the vesting portion of these options for the years ended December 31, 2013 and 2012, respectively. The Company also recognized non-cash compensation of \$265,000 and \$157,000 in 2013 and 2012, respectively, for the options that were granted in prior years but vested in 2013 and 2012.

During the year ended December 31, 2013, options to purchase an aggregate of 1,402,500 shares of the Company's common stock were exercised (primarily on a cashless or net exercise basis) at prices ranging from \$0.54 per share to \$1.35 per share, resulting in cash proceeds to the Company of \$72,000. As most of these options were exercised on a cashless (net exercise) basis, an aggregate of 679,401 net shares of common stock were issued. In addition, during the year ended December 31, 2013 an aggregate of 381,741 shares were delivered by the Company's Chief Executive and Executive Vice President with a value of \$690,000 to fund payroll withholding taxes on exercise.

During the year ended December 31, 2012, options to purchase an aggregate of 2,478,070 shares of the Company's common stock were exercised at prices of between \$0.14 and \$0.68 per share, for total cash proceeds to the Company of \$16,000. As most of these options were exercised on a cashless (net exercise) basis, 962,537 shares of common stock were issued. In addition, during the year ended December 31, 2012 an aggregate of 350,100 shares were delivered by the Company's Chief Executive Officer with a value of \$486,000 to fund payroll withholding taxes on exercise.



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## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note C- Stockholders' equity (continued)

The following table presents information relating to all stock options outstanding and exercisable at December 31, 2013:

Range of Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Options Exercisable	Weighted Average Exercise Price
\$0.25 - \$1.88	4,282,500	\$0.91	3.30	3,790,834	\$ 0.84

[2]

## Warrants:

As of December 31, 2013, the following are the outstanding warrants to purchase shares of the Company's common stock:

Number of Warrants	Exercise Price	Expiration Date
1,125,000	\$2.10	May 21, 2018
1,125,000	\$1.40	May 21, 2018
125,000	\$2.10	July 26, 2018
125,000	\$1.40	July 26, 2018
2,500,000		

The outstanding warrants at December 31, 2013 pertain to 5-year warrants issued in connection with the Company's (through Mirror Worlds Technologies, LLC, its wholly-owned subsidiary) purchase of the patent portfolio owned by Mirror Worlds, LLC in May 2013 (See Note D[2]). Such warrants include warrants to purchase an aggregate of 1,750,000 shares of common stock (875,000 shares at \$2.10 per share and 875,000 shares at \$1.40 per share) owned by Looking Glass LLC (formerly Mirror Worlds, LLC) and warrants to purchase an aggregate of 750,000 shares (375,000 shares at \$2.10 per share and 375,000 shares at \$1.40 per share) owned by Recognition Interface, LLC.

On October 7, 2013, warrants to purchase 250,000 shares of the Company's common stock were exercised (on a cashless basis) by the Company's Chairman and Chief Executive Officer and 53,475 shares were delivered to satisfy withholding taxes (with a value of \$91,000) which resulted in a net issuance of 96,525 shares of common stock.

On July 22, 2013, warrants, issued in connection with the Company's purchase of the patent portfolio of Mirror Worlds, LLC (described above), to purchase an aggregate of 500,000 shares of common stock were exercised by Abacus & Associates, Inc., at a price of \$2.05 per share or aggregate proceeds to the Company of \$1,025,000 (see

Note D[2]).

During the year ended December 31, 2012, warrants to purchase an aggregate of 300,000 shares of the Company's common stock were exercised (on a cashless basis) by an affiliated entity of the Company's Chairman and Chief Executive Officer, which resulted in a net issuance of 128,572 shares of common stock.

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NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

Note D - Commitments and Contingencies

[1] Legal fees:

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

Dovel & Luner, LLP provides legal services to the Company with respect to the Company's pending patent litigation filed in September 2011 against sixteen (16) data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler (see Note I[2]). The terms of the Company's agreement with Dovel & Luner LLP essentially provides for legal fees on a full contingency basis ranging from 12.5% to 35% (with certain exceptions) of the net recovery (after deduction for expenses) depending on the stage of the preceding in which a result (settlement or judgment) is achieved. For the year ended December 31, 2013 and December 31, 2012, the Company incurred legal fees and expenses of \$206,000 and \$344,000, respectively, with respect to the litigation.

Dovel & Luner, LLP provided legal services to the Company with respect to the Company's patent litigation settled in July 2010 against several major data networking equipment manufacturers. (see Note I[3]). The terms of the Company's agreement with Dovel & Luner, LLP provided for legal fees of a maximum aggregate cash payment of \$1.5 million plus a contingency fee of up to 24% (based on the settlement being achieved at the trial stage) including legal fees of local counsel in Texas. With respect to royalty payments payable quarterly by Cisco in accordance with the Company's settlement and license agreement with Cisco (See Note I[3]), the Company has an obligation to pay Dovel & Luner 24% of such royalties received after expenses). During the years ended December 31, 2013 and 2012, total contingency fees incurred to Dovel & Luner, LLP (including local counsel) approximated \$1,611,000 and \$1,726,000, respectively.

With respect to the Company's litigation against D-Link, which was settled in May 2007, the Company utilized the services of Blank Rome, LLP, on a full contingency basis. In accordance with the Company's contingency fee agreement with Blank Rome LLP, once the Company recovers its expenses related to the litigation (which was recovered in the first quarter of 2013), the Company is obligated to pay legal fees to Blank Rome LLP equal to 25% of the royalty revenue received by the Company from its license agreement with D-Link. During the year ended December 31, 2013, the Company incurred legal fees to Blank Rome of \$41,000.

[2] Patent Acquisitions:

On February 28, 2013, the Company completed the acquisition of four (4) patents (as well as a pending patent application) from Dr. Ingemar Cox, a technology leader in digital watermarking content identification, digital rights management and related technologies, for a purchase price of \$1,000,000 in cash and 403,226 shares of the Company's common stock. In addition, the Company is obligated to pay Dr. Cox 12.5% of the net proceeds (after deduction of

expenses) generated by the Company from licensing, sale or enforcement of the patents. Since the acquisition of the patent portfolio from Dr. Cox, the Company has filed seven (7) additional related patent applications with the United States Patent and Trademark Office seeking patent protection based upon the original patent application filed in 2000. Professional fees and filing fees of \$169,000 were capitalized as patent cost.

## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note D - Commitments and Contingencies (continued)

On May 21, 2013, the Company's newly formed subsidiary, Mirror Worlds Technologies, LLC, acquired all of the patents previously owned by Mirror Worlds, LLC (which subsequently changed its name to Looking Glass LLC), consisting of nine (9) issued United States patents and five (5) pending applications covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system. As consideration for the patent acquisition, the Company paid Mirror Worlds, LLC \$3,000,000 in cash and issued 5-year warrants to purchase an aggregate of 1,750,000 shares of the Company's common stock (875,000 shares of common stock at an exercise price of \$1.40 per share and 875,000 shares of common stock at an exercise price of \$2.10 per share). As part of the acquisition, the Company also entered into an agreement with Recognition Interface, LLC ("Recognition"), an entity that financed the commercialization of the patent portfolio prior to its sale to Mirror Worlds, LLC and also retained an interest in the licensing proceeds of the patent portfolio held by Mirror Worlds, LLC. Pursuant to the terms of the Company's agreement with Recognition, Recognition received (i) 5-year warrants to purchase 250,000 shares of the Company's common stock at \$1.40 per share, and (ii) 5-year warrants to purchase 250,000 shares of common stock at \$2.10 per share. Recognition also received from the Company an interest in the net proceeds realized from the monetization of the patent portfolio as follows: (i) 10% of the first \$125 million of net proceeds, (ii) 15% of the next \$125 million of net proceeds, and (iii) 20% of any portion of the net proceeds in excess of \$250 million. In addition, Abacus and Associates, Inc. ("Abacus"), an investment entity affiliated with Recognition, received a 60-day warrant to purchase 500,000 shares of the Company's common stock at \$2.05 per share. In accordance with the Company's agreement with Recognition, as a result of the exercise of the 60-day warrant by Abacus in July 2013, additional 5-year warrants to purchase an aggregate of 250,000 shares (125,000 shares at an exercise price of \$2.10 per share and 125,000 shares at an exercise price of \$1.40 per share) of the Company's common stock were issued to Recognition. Professional fees and filing fees of \$409,000 were capitalized as patent cost.

## [3] Amended Patent Purchase Agreement:

On January 18, 2005, the Company and Merlot Communications, Inc., the successor of which is BAXL Technologies, Inc. (the "Seller"), amended the Patent Purchase Agreement originally entered into in November 2003 (the "Amendment") pursuant to which the Company paid an additional purchase price of \$500,000 to Seller for the restructuring of future contingent payments to Seller from the licensing or sale of the patents (including the Remote Power Patent and the QoS family of patents). The Amendment provided for future contingent payments by the Company to Seller of \$1.0 million upon achievement of \$25 million of Net Royalties (as defined) which payment was accrued in 2011 and subsequently paid, an additional contingency payment of \$1.0 million upon achievement of \$50 million of Net Royalties and an additional contingency payment of \$500,000 upon achievement of \$62.5 million of Net Royalties from the licensing or sale of the patents acquired from Seller.

## [4] Services agreement:

On November 30, 2004, the Company entered into a master services agreement (the "Agreement") with ThinkFire Services USA, Ltd. ("ThinkFire") pursuant to which ThinkFire has been granted the exclusive worldwide rights (except for direct efforts by the Company and related companies) to negotiate license agreements for the Remote Power Patent with respect to certain potential licensees agreed to between the parties. Either the Company or ThinkFire can terminate the Agreement upon 60 days' notice for any reason or upon 30 days' notice in the event of a

material breach. The Company agreed to pay ThinkFire a fee not to exceed 20% of the royalty payments received from license agreements consummated by ThinkFire on its behalf after the Company recovers its expenses. For the years ended December 31, 2013 and December 31, 2012, fees incurred to ThinkFire amounted to \$104,000 and \$97,000, respectively.

NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

Note D - Commitments and Contingencies (continued)

[5] Operating leases:

The Company leases its principal office space in New York City at a monthly base rent of approximately \$3,600 which lease expires in November 2014.

On June 16, 2011, the Company entered into a four-year lease agreement commencing July 18, 2011 to rent office space, consisting of approximately 2,400 square feet, for offices in New Canaan, Connecticut. In accordance with the lease, the Company pays a base rent of \$6,400 per month for the first two years, \$6,800 per month for the third year and \$7,000 per month for the fourth year. The base rent is subject to annual adjustments to reflect increases in real estate taxes and operating expenses. The Company also entered into a one year sublease (which expired July 2012) at a base rent of \$3,700 per month to sublet approximately 50% of the space to a third party.

On May 15, 2014, Mirror Worlds Technologies, LLC, the Company's wholly-owned subsidiary, entered into a one year lease, at a base rent of \$620 per month, to rent office space consisting of approximately 420 square feet in Tyler, Texas. On January 7, 2014, the lease was renewed for a fifteen (15) month period expiring on April 30, 2015.

Rental expense for the years ended December 31, 2013 and 2012 aggregated \$132,000 and \$99,000, respectively, net of sublease income of \$26,000 in the year ended December 31, 2012.

[6] 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 401(k) Plan expense for the years ended December 31, 2013 and 2012 was \$33,500 and \$33,000, respectively.

Note E – Income Taxes

At December 31, 2013, the Company had net operating loss carryforwards (NOLs) totaling approximately \$25,239,000 expiring through 2029, with a future tax benefit of approximately \$8,581,000. At December 31, 2013 and 2012, \$5,659,000 and \$6,194,000, respectively, was recorded as a deferred tax asset on the Company's balance sheet. During the year ended December 31, 2013, as a result of income (before taxes) for the year of \$1,561,000, \$545,000 was recorded as income tax expense and the deferred tax asset was reduced by \$535,000 to \$5,659,000. To the extent that the Company earns income in the future, the Company will report income tax expense and such expense attributable to federal income taxes will reduce the recorded income tax asset reflected on the balance sheet. Management will continue to evaluate the recoverability of the NOL and adjust the deferred tax asset appropriately. Utilization of NOL credit carryforwards can be subject to a substantial annual limitation due to ownership change limitations that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions.





## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note E – Income Taxes (continued)

The principal components of the net deferred tax assets are as follows:

	Year Ended December 31, 2013	2012
Deferred tax assets:		
Net operating loss carryforwards	\$ 8,581,000	\$ 8,840,000
Options and warrants not yet deducted, for tax purposes	1,149,000	420,000
	9,730,000	9,250,000
Valuation allowance	(4,071,000 )	(3,066,000 )
Net deferred tax assets	\$ 5,659,000	\$ 6,194,000

The reconciliation between the taxes as shown and the amount that would be computed by applying the statutory federal income tax rate to the income before income taxes is as follows:

	Year Ended December 31, 2013	2012
Income tax - statutory rate	34.0%	34.0%
State and local, net	1.0%	0.0%
Valuation allowance on deferred tax assets	0.0%	(12.0)%
	35.0%	22.0%

While only the tax returns for the four years ended December 31, 2013 are open for examination for taxes payable for those years, tax authorities could challenge returns for earlier years to the extent that they generated loss carry forwards that are available for those or future years.

## Note F - Concentrations

The Company places its cash investments in high quality financial institutions which at December 31, 2013 exceed the Federal Insurance Deposit Corporation \$250,000 limit. At December 31, 2013, the Company invested \$17,035,000 in a money market fund.

Note G - Related Party Transactions

- [1] On August 16, 2013, the Company repurchased 15,112 shares of the Company's common stock from a former director of the Company at a purchase price of \$1.78 per share or aggregate consideration of \$26,824.
- [2] On April 25, 2012, the Company repurchased 27,757 shares of its common stock from its Chief Financial Officer at a purchase price of \$1.35 per share or aggregate consideration of \$37,472.

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NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

Note H - Employment Arrangements and Other Agreements

[1] On November 1, 2012, the Company entered into a new employment agreement (the "Agreement") with its Chairman and Chief Executive Officer for three successive one year terms (unless terminated by the Company) at an annual base salary of \$415,000. The Agreement established an annual target bonus of \$150,000 for the Chairman and Chief Executive Officer based on performance criteria to be established on an annual basis by the Board of Directors (or compensation committee). For the years ended December 31, 2013 and December 31, 2012, the Chairman and Chief Executive Officer received a cash bonus of \$175,000 and \$150,000, respectively. In connection with the Agreement, the Chairman and Chief Executive Officer was issued a 10-year option to purchase 500,000 shares of the Company's common stock at an exercise price of \$1.19 per share, which vests in equal quarterly amounts of 41,667 shares beginning November 1, 2012 through August 31, 2015, subject to acceleration upon a change of control. The Chairman and Chief Executive Officer shall forfeit the balance of unvested shares if his employment has been terminated "For Cause" (as defined) by the Company or by him without "Good Reason" (as defined).

Under the terms of the Agreement, the Chairman and Chief Executive Officer also receives incentive compensation in an amount equal to 5% of the Company's gross royalties or other payments or proceeds (without deduction of legal fees or any other expenses) with respect to its Remote Power Patent and a 10% net interest (gross royalties and other payments or proceeds after deduction of all legal fees and litigation expenses related to licensing, enforcement and sale activities, but in no event shall he receive less than 6.25% of the gross recovery) of the Company's royalties and other payments with respect to its other patents besides the Remote Power Patent (the "Additional Patents") (the "Incentive Compensation"). For the years ended December 31, 2013 and December 31, 2012, the Chairman and Chief Executive Officer earned Incentive Compensation of \$397,000 and \$435,000, respectively. The Incentive Compensation shall continue to be paid to the Chairman and Chief Executive Officer for the life of each of the Company's patents with respect to licenses entered into with third parties during the term of his employment or at anytime thereafter, whether he is employed by the Company or not; provided, that, the Chairman and Chief Executive Officer's employment has not been terminated by the Company "For Cause" (as defined) or terminated by him without "Good Reason" (as defined). In the event of a merger or sale of substantially of the assets of the Company, the Company has the option to extinguish the right of Chairman and Chief Executive Officer to receive future Incentive Compensation by payment to him of a lump sum payment, in an amount equal to the fair market value of such future interest as determined by an independent third party expert if the parties do not reach agreement as to such value. In the event that Chairman and Chief Executive Officer's employment is terminated by the Company "Other Than For Cause" (as defined) or by him for "Good Reason" (as defined), the Chairman and Chief Executive Officer shall also be entitled to (i) a lump sum severance payment of 12 months base salary, (ii) a pro-rated portion of the \$150,000 target bonus provided bonus criteria have been satisfied on a pro-rated basis through the calendar quarter in which the termination occurs and (iii) accelerated vesting of all unvested options and warrants.

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

[2]

On June 8, 2009, the Company entered into an Employment Agreement (the "Agreement") with the Chairman and Chief Executive Officer for a three year term (which expired in June 2012) at an annual base salary of \$375,000 (retroactive to April 1, 2009) for the first year and increasing 5% on each of April 1, 2010 and April 1, 2011. During the term of the Agreement, the Chairman and Chief Executive Officer received a cash bonus in an amount no less than \$150,000 on an annual basis. In connection with the Agreement, the Chairman and Chief Executive Officer was issued a 10-year option to purchase 750,000 shares of common stock at an exercise price of \$0.83 per share, which vested in equal quarterly amounts of 62,500 shares

NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

Note H - Employment Arrangements and Other Agreements (continued)

beginning June 30, 2010 through March 31, 2012. In addition to the aforementioned option grant, the Company extended for an additional 5 years the expiration dates of all options (an aggregate of 417,500 shares) expiring in the calendar year 2009 owned by the Chairman and Chief Executive Officer. Under the terms of the Agreement, the Chairman and Chief Executive Officer also received additional bonus compensation in an amount equal to 5% of the Company's royalties or other payments with respect to the Company's Remote Power Patent (before deduction of payments to third parties including, but not limited to, legal fees and expenses and third party license fees).

[3] On February 3, 2011, the Company entered into an agreement with its Chief Financial Officer for his continued service through December 31, 2012. In consideration for his services, the Chief Financial Officer was compensated at the rate of \$9,000 per month for the year ending December 31, 2011 and was to be compensated at the rate of \$9,450 per month for the year ending December 31, 2012. In connection with the agreement, the Chief Financial Officer was also issued a five year option to purchase 100,000 shares of the Company's common stock at an exercise price of \$1.59 per share. The option vested 50,000 shares on the date of grant and the balance of the shares (50,000) vested on the one year anniversary date (February 3, 2012) from the date of grant.

[4] On April 12, 2012, the Company entered into an agreement, with its Chief Financial Officer which amended the agreement, dated February 3, 2011 (See Note H[3] above), pursuant to which he continued to serve the Company. The amendment (the "Amendment") provided as follows: (i) the term of service of the Chief Financial Officer shall be extended until December 31, 2013; (ii) monthly compensation shall be increased to \$11,000 per month; and (iii) the Chief Financial Officer was granted a 5-year option to purchase 75,000 shares of the Company's common stock at an exercise price of \$1.40 per share, which option vests over a one year period in equal quarterly amounts of 18,750 shares. Except as provided in the Amendment, all other terms of the Agreement, dated February 3, 2011, remain in full force and effect.

Note I – Litigation

[1] On May 23, 2013, through the Company's wholly-owned subsidiary Mirror Worlds Technologies, LLC, the Company initiated patent litigation in the United States District Court for the Eastern District of Texas, Tyler Division, against Apple, Inc., Microsoft, Inc., Hewlett-Packard Company, Lenovo Group Ltd., Lenovo (United States), Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics America, Inc. and Samsung Telecommunications America L.L.C., for infringement of the '227 Patent (one of the patents we acquired as part of the acquisition of the Mirror Worlds patent portfolio). The Company seeks, among other things, monetary damages based upon reasonable royalties. The lawsuit alleges that the defendants have infringed and continue to infringe the claims of the '227 Patent by making, selling, offering to sell and using infringing products including Mac OS and Windows operating systems and personal computers and tablets that include versions of those operating systems, and by encouraging others to make, sell, and use these products. In September 2013 and October 2013, the defendants filed their answers to the Company's complaint. Defendants Apple and Microsoft, Inc. also filed counterclaims for a declaratory, judgment of non infringement or our '227 Patent and invalidity of our '227 Patent. In December 2013, the litigation was severed into two consolidated actions, Mirror Worlds v Apple, et. al. and Mirror Worlds v. Microsoft, et. al.

[2] In September 2011, the Company initiated patent litigation against 16 data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of its Remote Power Patent. Named as defendants in the lawsuit, excluding related parties, were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inx., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transitions Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties. During the year ended December 31, 2012, the Company reached settlement

## NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

## Note I – Litigation (continued)

agreements with defendants Motorola Solutions, Inc. ("Motorola"), Transition Networks, Inc. ("Transition Networks") and GarretCom, Inc. ("GarretCom"). In February 2013, the Company reached settlement agreements with Allied Telesis, Inc. ("Allied Telesis") and NEC Corporation ("NEC"). As part of the settlements, Motorola, Transition Networks, GarretCom, Allied Telesis and NEC each entered into a non-exclusive license agreement for the Company's Remote Power Patent pursuant to which each such defendant agreed to license the Remote Power Patent for its full term (which expires in March 2020) and pay a license initiation fee and quarterly or annual royalties based on their sales of PoE products. On March 5, 2013, the Court granted the motion of certain of the defendants to stay the litigation pending completion of the Inter Partes review described in Note I[5] below.

[3] In July 2010, the Company settled its patent litigation pending in the United States District Court for the Eastern District of Texas, Tyler Division, against Adtran, Inc, Cisco Systems, Inc. and Cisco-Linksys, LLC, (collectively, "Cisco"), Enterasys Networks, Inc., Extreme Networks, Inc., Foundry Networks, Inc., and 3Com Corporation, Inc. As part of the settlement, Adtran, Cisco, Enterasys, Extreme Networks and Foundry Networks each entered into a settlement agreement with the Company and entered into non-exclusive licenses for our Remote Power Patent (the "Licensed Defendants"). Under the terms of the licenses, the Licensed Defendants paid the Company aggregate upfront payments of approximately \$32 million and also agreed to license the Remote Power Patent for its full term, which expires in March 2020. In accordance with the Settlement and License Agreement, dated May 25, 2011, which expanded upon the July 2010 agreement, Cisco is obliged to pay the Company royalties (which began in the first quarter of 2011) based on its sales of PoE products up to maximum royalty payments per year of \$8 million through 2015 and \$9 million per year thereafter for the remaining term of the patent. The royalty payments are subject to certain conditions including the continued validity of the Company's Remote Power Patent, and the actual royalty amounts received may be less than the caps stated above, as was the case in 2013 and 2012. Under the terms of the Agreement, if the Company grants other licenses with lower royalty rates to third parties (as defined in the Agreement), Cisco shall be entitled to the benefit of the lower royalty rates provided it agrees to the material terms of such other license. Under the terms of the Agreement, the Company has certain obligations to Cisco and if it materially breaches such terms, Cisco will be entitled to stop paying royalties to the Company. This would have a material adverse effect on the Company's business, financial condition and results of operations.

In May 2009, the Company achieved a settlement with Netgear, Inc. ("Netgear"), also a defendant in the above referenced litigation in Tyler, Texas which was settled with the other defendants in July 2010. As part of the settlement and under its special licensing program, Netgear entered into a license agreement with the Company for the Remote Power Patent effective April 1, 2009. Under the terms of the license, Netgear licenses the Remote Power Patent from the Company for its full term (which expires in March 2020), and pays quarterly royalties (which began as of April 1, 2009) based on its sales of Power over Ethernet products, including those Power over Ethernet products which comply with the Institute of Electrical and Electronic Engineers 802.3af and 802.3at Standards. Licensed products include Netgear's Power over Ethernet enabled switches and wireless access points. The royalty rates included in the license are 1.7% of the sales price of Power Sourcing Equipment, which includes Ethernet switches, and 2% of the sales price of Powered Devices, which includes wireless access points. The royalty rates are subject to adjustment, under certain circumstances, if the Company grants a license to other licensees with lower royalty rates and Netgear is able to and agrees to assume all material terms and conditions of such other license. In addition, Netgear made a payment of \$350,000 to the Company with respect to the settlement.



[4] On July 20, 2012, an unknown third party filed with the United States Patent and Trademark Office (USPTO) a request for an Ex Parte Reexamination, requesting that our Remote Power Patent be reexamined by the USPTO. The request for reexamination was stayed on December 21, 2012 pending the termination or completion of the Inter Partes Review proceedings described in Note I[5] below.

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NETWORK-1 TECHNOLOGIES, INC.

Notes to Financial Statements  
December 31, 2013 and 2012

Note I – Litigation (continued)

[5] Avaya Inc., Dell Inc., Sony Corporation of America and Hewlett Packard Co. are petitioners in Inter Partes Review proceedings (which have been joined together) (the “IPR Proceeding”) pending at the United States Patent and Trademark Office before the Patent Trial and Appeal Board (the “Patent Board”) involving the Company’s Remote Power Patent. Petitioners in the IPR Proceeding seek to cancel certain claims of our Remote Power as unpatentable. A hearing on the merits of the IPR Proceeding was held on January 9, 2014 and a decision is pending. In the event that the Patent Board renders a decision in the IPR Proceeding that the Remote Power Patent is invalid, such a determination (unless overturned by the United States Court of Appeals for the Federal Circuit) would have a material adverse effect on the Company’s business, financial condition and results of operations as our entire current revenue stream is dependent upon the continued validity of the Company’s Remote Power Patent.

Note J – Stock Repurchase Program

On August 22, 2011, the Company announced that the Board of Directors approved a share repurchase program to repurchase up to \$2,000,000 of shares of its common stock over the next 12 months (“Share Repurchase Program”). The common stock may be repurchased from time to time in open market transactions or privately negotiated transactions in the Company’s discretion. The timing and amount of the shares repurchased will be determined by management based on its evaluation of market conditions and other factors. The repurchase program may be increased, suspended or discontinued at any time. On January 31, 2012, the Board of Directors increased the Share Repurchase Program to repurchase up to an additional \$2,000,000 (or an aggregate of \$4,000,000) of the Company’s common stock. On January 14, 2013, the Board of Directors increased the Share Repurchase Program to repurchase up to an additional \$1,000,000 (or an aggregate of \$5,000,000) of the Company’s common stock over the next 12 months.

On December 10, 2013, the Board of Directors further increased the Share Repurchase up to an additional \$2,000,000 shares of common stock over the next 12 months (for a total of up to \$7,000,000 since inception of the Share Repurchase Program). During the year ended December 31, 2013, the Company repurchased an aggregate of 1,086,872 shares of common stock pursuant to its Share Repurchase Program at a cost of \$1,485,732 or an average price per share of \$1.37.

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