

NETWORK 1 SECURITY SOLUTIONS INC
Form DEF 14A
August 20, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

Network-1 Security Solutions, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(I) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11 (a)(2) and identity the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Network-1 Security Solutions, Inc.

445 Park Avenue, Suite 1020
New York, New York 10022

August 20, 2013

Dear Fellow Stockholders:

You are cordially invited to attend the Annual Meeting of Stockholders of Network-1 Security Solutions, Inc. (the “Company”) which will be held on October 9, 2013, at 10:00 A.M. (local time), at the offices of Eiseman Levine Lehrhaupt & Kakoyiannis, P.C., 805 Third Avenue, 10th Floor, New York, New York 10022.

The Notice of Annual Meeting and Proxy Statement, which follow, describe the business to be conducted at the meeting.

Your vote is very important. Whether or not you plan to attend the meeting in person, we appreciate a prompt submission of your vote. We hope to see you at the meeting.

Cordially,

Corey M. Horowitz
Chairman and Chief Executive Officer

NETWORK-1 SECURITY SOLUTIONS, INC.
445 Park Avenue, Suite 1020
New York, New York 10022

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 9, 2013

To the Stockholders of Network-1 Security Solutions, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Network-1 Security Solutions, Inc. (the "Company") will be held on Wednesday, October 9, 2013, at 10:00 A.M. (local time), at the offices of Eiseman Levine Lehrhaupt & Kakoyiannis, P.C., 10th Floor, 805 Third Avenue, New York, New York 10022.

1. To elect five directors to serve until the next Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified;
2. To approve an amendment to our Certificate of Incorporation to change our name to Network-1 Technologies, Inc.;
3. To approve our 2013 Stock Incentive Plan;
4. To approve, by non-binding advisory vote, the resolution approving named executive officer compensation ("Say on Pay Vote");
5. To approve, by non-binding advisory vote, the frequency of future non-binding advisory votes on resolutions approving future named executive officer compensation ("Say When on Pay Vote");
6. To ratify the appointment of Radin, Glass & Co., LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013; and
7. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Only stockholders of record at the close of business on August 15, 2013 are entitled to notice of and to vote at the Annual Meeting or any adjournments thereof.

Your Board of Directors believes that the election of the nominees specified in the accompanying proxy statement as directors at the Annual Meeting is in the best interest of the Company and its stockholders and, accordingly, unanimously recommends a vote "FOR" such nominees. The Board of Directors recommends that you vote "FOR" approving an amendment to the Company's Certificate of Incorporation to change the Company's name to Network-1 Technologies, Inc., "FOR" the approval of our 2013 Stock Incentive Plan and "FOR" the Say on Pay Vote and Say When on Pay Vote. Further, the Board of Directors recommends a vote "FOR" ratifying the appointment of Radin, Glass & Co., LLP as the Company's independent registered public accounting firm.

By Order of the Board of Directors,

August 20, 2013
Chief Financial Officer and Secretary

David Kahn

PLEASE NOTE THAT ATTENDANCE AT THE ANNUAL MEETING WILL BE LIMITED TO STOCKHOLDERS OF NETWORK-1 SECURITY SOLUTIONS, INC. AS OF THE RECORD DATE (OR THEIR AUTHORIZED REPRESENTATIVES) HOLDING EVIDENCE OF OWNERSHIP. IF YOUR SHARES ARE HELD BY A BANK OR BROKER, PLEASE BRING TO THE MEETING YOUR BANK OR BROKER STATEMENT EVIDENCING YOUR BENEFICIAL OWNERSHIP OF NETWORK-1 SECURITY SOLUTIONS, INC. STOCK TO GAIN ADMISSION TO THE MEETING.

NETWORK-1 SECURITY SOLUTIONS, INC.

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 9, 2013

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors ("Board") of Network-1 Security Solutions, Inc., (the "Company", "Network-1", "we", "us", or "our") for use at the Annual Meeting of Stockholders (the "Annual Meeting") to be held on October 9, 2013, including any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting.

Management intends to mail this proxy statement and the accompanying form of proxy to stockholders on or about August 26, 2013.

Proxies in the accompanying form, duly executed and returned to the management of the Company and not revoked, will be voted at the Annual Meeting. Any proxy given pursuant to such solicitation may be revoked by the stockholder at any time prior to the voting of the proxy by a subsequently dated proxy, by written notification to the Secretary of the Company, or by personally withdrawing the proxy at the meeting and voting in person.

The address and telephone number of the principal executive offices of the Company are:

445 Park Avenue, Suite 1020
New York, New York 10022
Telephone No.:
(212) 829-5770

If your shares are held in street name through a broker, bank, or other nominee, you need to contact the record holder of your shares regarding how to revoke your proxy.

At the Annual Meeting, the stockholders of the Company will vote on proposals (1) to elect five individuals to serve as directors, (2) to approve an amendment to our Certificate of Incorporation to change the Company's name to Network-1 Technologies, Inc., (3) to approve the adoption of our 2013 Stock Incentive Plan, (4) to approve by non-binding advisory vote the resolution on named executive compensation, (5) to approve by non-binding advisory vote, the frequency of future non-binding advisory votes on resolutions on approving future named executive compensation, (6) to ratify the appointment of Radin, Glass & Co., LLP as the Company's independent accountants for the fiscal year ending December 31, 2013, and (7) any other matters properly brought before the Annual Meeting or any adjournment or adjournments thereof.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on October 9, 2013: This Proxy Statement and the Company's Annual Report to Stockholders are available for review on the Internet at <http://www.network-1.com./sec/proxy2013/>

Your Vote is Important

Please vote as promptly as possible by signing, dating and returning the enclosed Proxy Card. You may also vote by attending the Annual Meeting and voting in person.

OUTSTANDING STOCK AND VOTING RIGHTS

Only holders of the Company's common stock (the "Common Stock") at the close of business on August 15, 2013, (the "Record Date") are entitled to receive notice of and to vote at the Annual Meeting. As of the Record Date, the Company had 26,047,683 shares of Common Stock outstanding. Each share of Common Stock is entitled to one vote on all matters. There are no cumulative voting rights.

VOTING PROCEDURES

The directors will be elected by the affirmative vote of the holders of a plurality of the shares of Common Stock that are present in person or represented by proxy at the Annual Meeting, provided a quorum is present. Therefore, the nominees receiving the greatest number of votes cast at the meeting will be elected as directors of the Company. The affirmative vote of a majority of the issued and outstanding shares of Common Stock will be required to approve the proposal to amend the Company's Certificate of Incorporation to change our name to Network-1 Technologies, Inc. All other matters at the Annual Meeting will be decided by the affirmative vote of the holders of a majority of the votes represented by the shares of Common Stock cast with respect thereto, provided a quorum is present. A quorum is present if, as of the Record Date, at least a majority of the outstanding shares entitled to vote at the Annual Meeting are present in person or represented by proxy at the Annual Meeting.

Votes will be counted and certified by one or more Inspectors of Election who are expected to be either an employee of American Stock Transfer & Trust Company, LLC, the transfer agent for the Common Stock, or a representative of the Company's legal counsel. In accordance with Delaware law, abstentions and "broker non-votes" (i.e., proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owner or other person entitled to vote shares as to a matter with respect to which the brokers or nominees do not have discretionary power to vote) will be treated as present for purposes of determining the presence of a quorum. Abstentions and broker non-votes will have no effect on the election of directors. For purposes of determining approval of any other matter presented at the meeting, abstentions will be deemed present and entitled to vote and will, therefore, have the same legal effect as a vote "against" a matter presented at the meeting. Broker non-votes will be deemed not entitled to vote on the subject matter as to which the non-vote is indicated and will, therefore, have no legal effect on the vote on that particular matter, although it will have the same practical effect as a vote against the proposal to amend the Company's Certificate of Incorporation to change our name.

Proxies will be voted in accordance with the instructions thereon. Unless otherwise stated, all shares represented by a proxy will be voted as instructed. If a proxy is executed but no instructions as to how to vote are given, the persons named as proxies in the accompanying proxy card intend to vote to ratify the appointment of Radin, Glass & Co., LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013 described below. The other matters to be voted upon at this meeting are considered "non-routine" and brokers may not vote such matters in their discretion in the absence of specific instructions from the stockholder.

PROPOSAL I
ELECTION OF DIRECTORS

The Company's bylaws provide that at each annual meeting of stockholders, directors shall be elected to hold office until the expiration of the term for which they are elected, and until their respective successors are duly elected and qualified or until the director's earlier resignation or removal. The Company's Board of Directors has fixed the number of members of the Board of Directors at five members.

At the Annual Meeting, proxies granted by stockholders will be voted individually for the election, as directors of the Company, of the five persons listed below, unless a proxy specifies that it is not to be voted in favor of a nominee for director. In the event any of the nominees listed below is unable to serve, it is intended that the proxy will be voted for such other nominees as are designated by the Board of Directors. Each of the persons named below of whom all are presently members of the Company's Board of Directors, has indicated to the Board of Directors of the Company that he or she will be available to serve.

All nominees have been recommended by the Company's Nominating and Corporate Governance Committee.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE ELECTION OF THE NOMINEES SPECIFIED BELOW.

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

NAME	AGE	POSITION	DIRECTOR SINCE
Corey M. Horowitz	58	Chairman, Chief Executive Officer and Chairman of the Board of Directors	April 1994
David C. Kahn	61	Chief Financial Officer, Secretary and a Director	April 2012
Emanuel Pearlman	53	Director	January 2012
Niv Harizman	49	Director	December 2012
Allison Hoffman	42	Director	December 2012

Corey M. Horowitz became our Chairman and Chief Executive Officer in December 2003. Mr. Horowitz has also served as Chairman of our Board of Directors since January 1996 and has been a member of our Board of Directors since April 1994. Mr. Horowitz is also President and sole shareholder of CMH Capital Management Corp. (“CMH”), a New York investment advisory and private equity firm, which he founded in September 1991. During the period June 2001 through December 2003, CMH rendered financial advisory services to us. From January 1986 to February 1991, Mr. Horowitz was a general partner in charge of mergers and acquisitions at Plaza Securities Co., a New York investment partnership. We believe Mr. Horowitz’s qualifications to serve on our Board of Directors include his significant experience and expertise as an executive in the intellectual property field and his understanding of our intellectual property and the patent acquisition, licensing and enforcement business combined with his private equity and corporate transactional experience.

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

Emanuel Pearlman became a director of our company in January 2012. Mr. Pearlman currently serves as Chairman and CEO of Liberation Investment Group, LLC, a New York based investment management and financial consulting firm, a position he has held since January 2003. From December 2009 to the present, Mr. Pearlman has served on the board of directors of Fontainebleau Miami JV, LLC as Chairman of the Audit and Compensation committee. From September 2010 to the present he served as Chairman of the Board of Empire Resorts, Inc. (NASDAQ: NYNY). From January 2012 to January 2013, he served on the board of directors of Dune Energy, Inc. (OTCBB: DUNR.OB) as Chairman of the Nominating and Governance Committee. From October 2006 to March 2010, Mr. Pearlman served on the board of directors of Multimedia Games, Inc. (NASDAQ: MGAM). Mr. Pearlman was previously a director of our company from December 1999 to December 2002. We believe Mr. Pearlman’s qualifications to serve on our Board include his significant investment and financial experience and expertise combined with his Board experience.

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

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

CORPORATE GOVERNANCE

Director Independence

While we are not listed on the NYSE MKT LLC or Nasdaq, our Board of Directors has adopted the independence rules of the NYSE MKT LLC in making its determination of director independence. Three of our current five directors, Emanuel Pearlman, Allison Hoffman and Niv Harizman, are considered independent directors based upon the standard of independence adopted by the Board of Directors as promulgated under Rule 803A of the NYSE MKT LLC Company Guide. Laurent Ohana, who was considered an independent director, resigned as director of the Company on August 9, 2013.

Leadership Structure

Corey M. Horowitz, our Chairman and Chief Executive Officer, serves as Chairman of the Board of Directors. The Company does not have a lead independent director. The majority of the members of our Board of Directors are independent and all members of Board committees (including Chairpersons) are independent. The Company believes its leadership is appropriate given the size of the Company, the majority of independent directors and the independent leadership of the committees of the Board.

Board Oversight of Risk

With respect to the oversight of the Company's risk, the Company's executive officers supervise the day-to-day risk management responsibilities and in turn report, when necessary, to the Audit Committee with respect to financial and operational risk and to the full Board with respect to risks associated with the Company's overall strategy.

BOARD OF DIRECTOR MEETINGS AND BOARD COMMITTEES

During the year ended December 31, 2012, the Board held 12 meetings. During 2012, each of the Company's directors attended at least seventy-five percent of the aggregate of: (1) the total number of meetings of the Board of Directors; and (2) the total number of meetings of all Board committees on which they served.

The Company's current policy strongly encourages that all of its Directors attend all Board and Committee meetings and the Company's Annual Meeting of Stockholders, absent extenuating circumstances that would prevent their attendance. There was no Annual Meeting of Stockholders last year.

BOARD COMMITTEES

The Board of Directors currently has four committees: an Audit Committee; a Compensation Committee; a Nominating and Corporate Governance Committee (which were established in January 2013) and a Strategic Development Committee (established in June 2013). Each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee has a charter. These charters are available on the Company's website at: <http://www.network-1.com/sec.htm>. Each member of each committee is, and Robert Pons while serving as a director during 2012 and member of our Compensation Committee (until September 2012) was, an "independent" director under the standards of the NYSE MKT LLC.

Audit Committee

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

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

Compensation Committee

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

Nominating and Corporate Governance Committee

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

Strategic Development Committee

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

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers and directors, and persons who own more than ten percent (10%) of the registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten percent (10%) stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To the best of our knowledge, based solely on review of the copies of such forms furnished to us or amendments thereto, we believe that all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent (10%) stockholders were complied with during 2012.

CODE OF ETHICS

Network-1 has developed and adopted a Code of Ethics to cover its executive officers and employees. Copies of the Code of Ethics can be obtained, without charge, upon written request, addressed to:

Network-1 Security Solutions, Inc.
445 Park Avenue, Suite 1020
New York, New York 10022
Attention: Corporate Secretary

COMMUNICATIONS WITH THE BOARD

The Board of Directors, through its Nominating and Corporate Governance Committee, has established a process for stockholders to send communications to the Board of Directors. Stockholders may communicate with the Board of Directors individually or as a group by writing to: The Board of Directors of Network-1 Security Solutions, Inc. c/o Corporate Secretary, 445 Park Avenue, Suite 1020, New York, NY 10022. Stockholders should identify their communication as being from a Network-1 stockholder. The Corporate Secretary may require reasonable evidence that the communication or other submission is made by a Network-1 stockholder before transmitting the communication to the Board of Directors.

CONSIDERATION OF DIRECTOR NOMINEES

Stockholders wishing to recommend director candidates to the Nominating and Corporate Governance Committee must submit their recommendations in writing to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Network-1 Security Solutions, Inc., 445 Park Avenue, Suite 1020, New York, NY 10022.

The Nominating and Corporate Governance Committee will consider nominees recommended by Network-1 stockholders provided that the recommendation contains sufficient information for the Nominating and Corporate Governance Committee to assess the suitability of the candidate, including the candidate's qualifications, and complies with the procedures set forth below under "Deadline and Procedures for Submitting Board Nominations". In addition, it must include information regarding the recommended candidate relevant to a determination of whether the recommended candidate would be barred from being considered independent under applicable NYSE MKT LLC Rules, or, alternatively, a statement that the recommended candidate would not be so barred. Candidates recommended by stockholders that comply with these procedures will receive the same consideration that candidates recommended by the Nominating and Corporate Governance Committee receive. A nomination which does not comply with the above requirements will not be considered.

The qualities and skills sought in prospective members of the Board are determined by the Nominating and Corporate Governance Committee. When reviewing candidates to our Board, the Nominating and Corporate Governance Committee consider the evolving needs of the Board and seek candidates that fill any current or anticipated

future needs. The Nominating and Corporate Governance Committee generally requires that director candidates be qualified individuals who, if added to the Board, would provide the mix of director characteristics, experience, perspectives and skills appropriate for Network-1. Criteria for selection of candidates will include, but not be limited to: (i) business and financial acumen, as determined by the Nominating and Corporate Governance Committee in its discretion, (ii) qualities reflecting a proven record of accomplishment and ability to work with others, (iii) knowledge of our industry, (iv) relevant experience and knowledge of corporate governance practices, and (v) expertise in an area relevant to Network-1. Such persons should not have commitments that would conflict with the time commitments of a Director of Network-1. Such persons shall have other characteristics considered appropriate for membership on the Board of Directors, as determined by the Nominating and Corporate Governance Committee. While the Nominating and Corporate Governance Committee does not have a formal policy with respect to diversity, the Board and the Nominating and Corporate Governance Committee believe that it is important that the Board members represent diverse viewpoints. In considering candidates for the Board, the Nominating and Corporate Governance Committee and the Board consider the entirety of each candidate's credentials in the context of the foregoing standards.

DEADLINE AND PROCEDURES FOR SUBMITTING BOARD NOMINATIONS

A stockholder wishing to nominate a candidate for election to our Board of Directors at a meeting of our stockholders must give written notice, containing the required information specified above, that must be delivered personally to or mailed to and received by our Corporate Secretary at our principal executive offices (currently located at 445 Park Avenue, Suite 1020, New York, NY 10022), not less than 50 days nor more than 75 days prior to the meeting; provided, however, that, in the event that we give less than 65 days' notice of prior public disclosure of the date of the meeting to our stockholders, notice by the stockholder to be timely must be received by our Corporate Secretary not later than the close of business on the tenth day following the earlier of (i) the day on which such notice of the date of the meeting was mailed or (ii) such public disclosure was made. Any such notice must set forth: (i) the name and record address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (ii) the class or series and number of shares of our stock which are held of record, owned beneficially and represented by proxy by such stockholder as of the record date for the meeting (if such date shall then have been made publicly available) and of the date of such notice; (iii) a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iv) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) under which the nomination or nominations are to be made by such stockholder; (v) the name, age, business address and residence address of the nominee and such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed by us pursuant to the proxy rules of the SEC, had each nominee been nominated, or intended to be nominated by our Board of Directors; and (vi) the written consent of each nominee to serve as our director, if so elected.

COMPENSATION OF DIRECTORS

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

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

In June 2013, Niv Harizman was appointed as the sole member of our Strategic Development Committee to assist the Chairman and Chief Executive Officer with respect to certain designated matters. In consideration for serving on the Strategic Development Committee, Mr. Harizman was issued a 5-year option to purchase 300,000 shares of our common stock, which option vested 100,000 shares on the date of grant and will vest 100,000 shares on the first and second anniversary from the grant date.

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

The following table sets forth the compensation paid to all persons who served as members of our board of directors (other than our Named Executive Officers) during the year ended December 31, 2012. No director who is also a Named Executive Officer received any compensation for services as a director in 2012.

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

(1) Represents director's fees payable in cash to each non-management director of \$10,000 per quarter (or \$40,000 per annum) for 2012.

(2) The amounts included in the "Option Awards" column represent the grant date fair value of stock option awards to directors, computed in accordance with FASB ASC Topic 718. For the discussion of valuation assumptions see Note D[1] to our Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

(3) The aggregate grant date fair values for 2012 calculated in accordance with FASB ASC Topic 718 reflect the following: (i) 5-year options to purchase 50,000 shares granted to Emanuel Pearlman on January 27, 2012, (ii) 5-year options to purchase 10,000 shares and 15,000 shares of our common stock granted to each of Emanuel Pearlman, Laurent Ohana and Robert Pons on January 31, 2012 and February 24, 2012 at exercise prices of \$1.21 and \$1.35 per share, respectively, which options vest over a one year period in equal quarterly amounts, (iii) a 5-year option to purchase 125,000 shares of our common stock granted to Robert Pons on April 11, 2012, at an exercise price of \$1.40 per share, which option shares vested in full upon Mr. Pons' resignation from the Board in December 2012, and (iv) a 5-year option to purchase 50,000 shares of our common stock granted to each of Niv Harizman and Allison Hoffman on December 19, 2012, at an exercise price of \$1.14 per share, which options vest over a one year period in equal quarterly amounts. The aggregate number of option awards outstanding at December 31, 2012 for each director was as follows: Mr. Pearlman – options to purchase 75,000 shares; Mr. Ohana – options to purchase 25,000 shares; Mr. Pons – options to purchase 225,000 shares; Mr. Harizman – options to purchase 50,000 shares and Ms. Hoffman options to purchase 50,000 shares.