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Network-1 Reports First Quarter 2013 Results

NEW YORK, May 15, 2013 /PRNewswire/ -- Network-1 Security Solutions, Inc. (OTC BB: NSSI) today announced financial results for the three months ended March 31, 2013.

Network-1 had revenue of \$4,064,000 for the three months ended March 31, 2013 as compared with revenue of \$4,425,000 for the three months ended March 31, 2012. The decrease of \$361,000 or 8% in revenue for the three months ended March 31, 2013 was primarily due to greater license initiation fees achieved from patent litigation settlements of \$565,000 in the three months ended March 31, 2012 as compared with \$258,000 in the three months ended March 31, 2013. Net of such license initiation fees, royalty revenue for the three months ended March 31, 2013 decreased 1.4% to \$3,806,000 from \$3,860,000.

Network-1 reported net income of \$1,392,000 or \$0.06 per share (\$.05 per share on a diluted basis) for the three months ended March 31, 2013 as compared to \$1,923,000 or \$0.08 per share (\$.07 per share on a diluted basis) for the three months ended March 31, 2012. Included in the expenses for the quarter ended March 31, 2013 and March 31, 2012 were non-cash compensation expenses of \$112,000 and \$91,000, respectively.

At March 31, 2013, Network-1 had net operating loss carryforwards (NOLs) totaling approximately \$23,087,000 expiring through 2029, with a future tax benefit of approximately \$7,850,000. During the second quarter of 2011, as a result of the Network-1's recent results and projected future operating results, management determined that a portion of the NOL was more likely than not to be utilized resulting in the recording of a one-time, non-cash, income tax asset of \$7,000,000 (income) or \$29 per share (basic) for the three months ended June 30, 2011. Accordingly, at March 31, 2012 and March 31, 2013, \$6,483,000 and \$5,579,000, respectively, were recorded as a deferred tax asset on our balance sheet. During the three month period ended March 31, 2013 as a result of income (before taxes) for the period of \$2,055,000, \$663,000 was recorded as income tax expense and the deferred tax asset was reduced by \$615,000 to \$5,579,000. To the extent that Network-1 earns income in the future, it 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.

At March 31, 2013, Network-1's principal sources of liquidity consisted of cash and cash equivalents of approximately \$20 million and working capital of approximately \$22,800,000.

In September 2011, Network-1 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, Inc., Motorola Solutions, Inc., NEC

Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties. In March 2013, the Court granted certain defendants' motion to stay the litigation pending the disposition of two Inter Partes review proceedings filed at the United States Patent and Trademark Office. (See Network-1's Form 10-Q for the quarter ended March 31, 2013 at pages 25 and 26 for information regarding the Inter Partes review proceedings).

In the first quarter of 2013, Network-1 reached settlement agreements with Allied Telesis, Inc. and NEC Corporation. As part of the settlements, Allied Telesis and NEC each entered into a non-exclusive license agreement for the Network-1'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 royalties based on their sales of PoE products. In 2012 Network-1 had reached settlements with Motorola Solutions, Inc., Transition Networks, Inc. and GarrettCom, Inc. As of March 31, 2013, Network-1 has entered into 16 license agreements with respect to its Remote Power Patent.

In addition, during the first quarter of 2013 Network-1 completed the acquisition of 4 patents (as well as a pending patent application) pertaining to enabling technology for identification of media content. Network-1 is obligated to pay the seller 12.5% of the net proceeds generated by Network-1 from licensing, sale or enforcement of the patents. In March 2013, Network-1 filed 6 additional related patent applications with the United States Patent and Trademark Office seeking patent protection based upon the original patent application filed in 2000.

Consistent with its activities over the past several years, Network-1 plans on continuing its licensing activities relating to its intellectual property assets. Such licensing activities may require the expenditure of cash to support the licensing and enforcement of the intellectual property. In addition, Network-1 may acquire additional intellectual property assets in the future to develop, commercialize, license or otherwise monetize such intellectual property. In this regard, Network-1 continually reviews opportunities to acquire or license additional intellectual property for the purpose of pursuing licensing opportunities related to its existing intellectual property portfolio or otherwise. Network-1 may also enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property. The form of such relationships may vary depending upon the opportunity and may include, among other things, a strategic investment in such third party or the formation of a joint venture for the purpose of monetizing such third party's intellectual property assets.

ABOUT NETWORK-1 SECURITY SOLUTIONS, INC.

Network-1 Security Solutions, Inc. is engaged in the acquisition, development, licensing and protection of its intellectual property and proprietary technologies. It currently owns ten patents covering various telecommunications and data networking technologies and technologies relating to the identification of media content. Network-1 currently has 16 license agreements with respect to its Remote Power Patent, which include, among others, license agreements with Cisco Systems, Inc., Cisco Linksys, Inc., Extreme Networks, Inc., Netgear Inc., Motorola Solutions, Inc., Allied Telesis, Inc., NEC Corporation and several other data networking vendors. The Remote Power Patent covers the remote delivery of power over Ethernet networks. The Remote Power Patent was granted by the U.S. Office of

Patents and Trademarks on April 21, 2001 and expires on March 11, 2020. In addition, Network-1 seeks to acquire additional intellectual property assets and enter into strategic relationships with third parties to monetize their intellectual property assets.

This release contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements address future events and conditions concerning Network-1's business plans. Such statements are subject to a number of risk factors and uncertainties as disclosed in the Network-1's Annual Report on Form 10-K for the year ended December 31, 2012 including, among others, the continued validity of Network-1's Remote Power Patent, the ability of Network-1 to enter into additional license agreements, the ability of Network-1 to receive significant royalties from its existing license agreements, the uncertainty of patent litigation, risks related to the reexamination of Network-1's Remote Power Patent by the United States Patent and Trademark Office, Network-1's ability to achieve revenues and profits from its intellectual property or the intellectual property of its strategic partners, Network-1's ability to execute its strategy to acquire additional patents or enter into strategic relationships with third parties to license or otherwise monetize their intellectual property, the continued viability of the PoE market, future economic conditions and technology changes and legislative, regulatory and competitive developments. Except as otherwise required to be disclosed in periodic reports, Network-1 expressly disclaims any future obligation or undertaking to update or revise any forward-looking statement contained herein.

The condensed statements of operations and condensed balance sheets are attached.

	Three Months Ended	
	March 31,	
	<u>2013</u>	<u>2012</u>
ROYALTY REVENUE	\$ 4,064,000	\$ 4,425,000
COST OF REVENUE	<u>1,225,000</u>	<u>1,386,000</u>
GROSS PROFIT	<u>2,839,000</u>	<u>3,039,000</u>
OPERATING EXPENSES:		
General and administrative	678,000	590,000
Non-cash compensation	<u>112,000</u>	<u>91,000</u>
TOTAL OPERATING EXPENSES	<u>790,000</u>	<u>681,000</u>
OPERATING INCOME	2,049,000	2,358,000
OTHER INCOME (EXPENSES):		
Interest income, net	<u>6,000</u>	<u>9,000</u>
INCOME BEFORE INCOME TAXES	<u>2,055,000</u>	<u>2,367,000</u>
INCOME TAXES (BENEFIT)		
Current	48,000	24,000

Deferred	<u>615,000</u>	<u>420,000</u>
Total Income Taxes (Benefits)	<u>663,000</u>	<u>444,000</u>
NET INCOME	<u>\$ 1,392,000</u>	<u>\$ 1,923,000</u>
Net Income per share		
Basic	<u>\$ 0.06</u>	<u>\$ 0.08</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.07</u>
Weighted average number of common shares outstanding:		
Basic	<u>25,013,484</u>	<u>25,549,328</u>
Diluted	<u>27,455,394</u>	<u>29,063,017</u>
NET INCOME	<u>\$ 1,392,000</u>	<u>\$ 1,923,000</u>
OTHER COMPREHENSIVE INCOME NET OF TAX:		
Unrealized gain (loss) arising during the period	<u>(5,000)</u>	<u>(1,000)</u>
COMPREHENSIVE INCOME	<u>\$ 1,387,000</u>	<u>\$ 1,922,000</u>

Condensed Balance Sheet as of March 31, 2013

Cash and cash equivalents	<u>\$ 19,811,000</u>
Total current assets	<u>\$ 24,483,000</u>
Total assets	<u>\$ 31,869,000</u>
Total current liabilities	<u>\$ 1,685,000</u>
Total long term liabilities	<u>\$ 0</u>
Total stockholders' equity	<u>\$ 30,184,000</u>

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SOURCE Network-1 Security Solutions, Inc.

