

Network-1 Reports Third Quarter 2012 Results

NEW YORK, Nov. 14, 2012 /PRNewswire/ -- Network-1 Security Solutions, Inc. (OTC BB: NSSI) today announced financial results for the quarter ended September 30, 2012.

Network-1 had revenues of \$1,418,000 and \$7,809,000 for the three and nine months ended September 30, 2012, respectively, as compared with revenue of \$1,222,000 and \$6,611,000 for the three and nine months ended September 30, 2011, respectively.

Network-1 reported net income of \$194,000 or \$0.01 per share (basic) and \$0.01 (diluted) for the third quarter ended September 30, 2012 as compared to a net income of \$248,000 or \$0.01 per share (basic) and \$0.01 (diluted) for the third quarter ended September 30, 2011.

Network-1 reported net income for the nine months ended September 30, 2012 of \$2,854,000 or \$0.11 per share (basic) and \$0.10 per share (diluted), compared with a net income of \$8,580,000 or \$0.33 per share (basic) and \$0.28 (diluted) for the nine months ended September 30, 2011.

Included in the net income for the nine month period ended September 30, 2011 were (i) a one-time, non-cash income tax benefit of \$7,000,000 (recorded on the balance sheet as a deferred tax asset) and (ii) \$1,000,000 of additional patent expense payable to a third party because Network-1 achieved \$25 million in net royalties from licensing its Remote Power Patent. Before consideration of the one-time income tax benefit and patent expense, net income for the nine months ended September 30, 2011 was \$1,826,000 or \$0.07 per share (basic) and \$0.06 per share (diluted).

At September 30, 2012, Network-1 had net operating loss carryforwards (NOLs) totaling approximately \$24,980,000 expiring between 2020 and 2031, with a future tax benefit of approximately \$8,470,000. During the three month period ended September 30, 2012 as a result of income (before taxes) for the period of \$346,000, \$152,000 was recorded as income tax expense, of which \$141,000 was a non-cash expense, and accordingly the deferred tax asset was reduced by \$141,000 to \$6,194,000. During the three month period ended September 30, 2011 as a result of income (before taxes) for the period of \$421,000, \$173,000 was recorded as income tax expense, of which \$140,000 was a non-cash expense, and accordingly the deferred tax asset was reduced by \$140,000 to \$6,860,000.

To the extent 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. Management will continue to evaluate the recoverability of the NOL and adjust the deferred tax asset appropriately.

"It was a quarter of continued growth for Network-1", commented Corey M. Horowitz,

Chairman and CEO of Network-1. "Our royalty revenues from our Remote Power Patent for the quarter were higher from most of our royalty paying licensees as compared with the second quarter of 2011. We now have 14 licensees to this important technology, including some of the largest technology companies in the world", he continued.

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 2012, Network-1 reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola") and Transition Networks, Inc. ("Transition Networks"). In October 2012, Network-1 reached a settlement agreement with defendant GarrettCom, Inc. ("GarrettCom"). As part of the settlements, Motorola, Transition Networks and GarrettCom each entered into a non-exclusive license agreement for 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 or annual royalties based on their sales of PoE products.

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 six patents covering various telecommunications and data networking technologies and is currently focusing its licensing efforts on its Remote Power Patent (U.S. Patent No. 6,218,930) covering 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. Network-1 has entered into fourteen (14) license agreements with respect to its Remote Power Patent which include, among others, license agreements with Cisco Systems, Inc. and Cisco-Linksys, Microsemi Corporation, Motorola Solutions, Inc., Extreme Networks, Inc., Netgear, Inc. and several other major data networking equipment manufacturers.

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, 2011 and its Quarterly Report on 10-Q for the quarter ended September 30, 2012 including, among others, the ability of Network-1 to enter into additional license agreements with third parties for its intellectual property or the intellectual property of its strategic partners, the ability of Network-1 to receive significant royalties from its existing license agreements, the uncertainty of patent litigation, 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, risks associated with the pending reexamination of the Remote

Power Patent by the United States Patent and Trademark Office, 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 September 30,		Nine Months Ended September 30,	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
ROYALTY REVENUE	\$ 1,418,000	\$ 1,222,000	\$ 7,809,000	\$ 6,611,000
COST OF REVENUE	<u>393,000</u>	<u>341,000</u>	<u>2,341,000</u>	<u>1,883,000</u>
GROSS PROFIT	<u>1,025,000</u>	<u>881,000</u>	<u>5,468,000</u>	<u>4,728,000</u>
OPERATING EXPENSES:				
General and Administrative	624,000	411,000	1,660,000	1,693,000
Additional Patent Expense	—	—	—	1,000,000
Non-Cash compensation	<u>58,000</u>	<u>59,000</u>	<u>223,000</u>	<u>268,000</u>
TOTAL OPERATING EXPENSES	<u>682,000</u>	<u>470,000</u>	<u>1,883,000</u>	<u>2,961,000</u>
OPERATING INCOME	343,000	411,000	3,585,000	1,767,000
OTHER INCOME (EXPENSES):				
Interest income, net	<u>3,000</u>	<u>10,000</u>	<u>22,000</u>	<u>42,000</u>
INCOME BEFORE INCOME TAXES	<u>346,000</u>	<u>421,000</u>	<u>3,607,000</u>	<u>1,809,000</u>
INCOME TAXES (BENEFIT)				
Current	11,000	33,000	44,000	89,000
Deferred	<u>141,000</u>	<u>140,000</u>	<u>709,000</u>	<u>(6,860,000)</u>
Total Income Taxes (Benefit)	<u>152,000</u>	<u>173,000</u>	<u>753,000</u>	<u>(6,771,000)</u>
NET INCOME	<u>\$ 194,000</u>	<u>\$ 248,000</u>	<u>\$ 2,854,000</u>	<u>\$ 8,580,000</u>
Net Income per share - Basic	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.11</u>	<u>\$ 0.33</u>
- Diluted	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.10</u>	<u>\$ 0.28</u>

Weighted average number of common shares outstanding:

- Basic	<u>25,963,093</u>	<u>26,014,578</u>	<u>25,659,085</u>	<u>25,979,596</u>
- Diluted	<u>28,516,642</u>	<u>30,991,041</u>	<u>28,544,972</u>	<u>30,956,059</u>
NET INCOME	\$ 194,000	\$ 248,000	\$ 2,854,000	\$ 8,580,000
OTHER COMPREHENSIVE INCOME NET OF TAX:				
Unrealized gain (loss) arising during period	<u>(6,000)</u>	=	<u>(4,000)</u>	=
COMPREHENSIVE INCOME	<u>\$ 188,000</u>	<u>\$ 248,000</u>	<u>\$ 2,850,000</u>	<u>\$ 8,560,000</u>

Condensed Balance Sheet as of September 30, 2012

Cash and cash equivalents	<u>\$ 22,213,000</u>
Total current assets	<u>\$ 24,320,000</u>
Total assets	<u>\$ 30,600,000</u>
Total current liabilities	<u>\$ 668,000</u>
Total long term liabilities	<u>\$ -0-</u>
Total stockholders' equity	<u>\$29,932,000</u>

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SOURCE Network-1 Security Solutions, Inc.