

Network-1 Reports 2012 Year-End Financial Results

NEW YORK, March 22, 2013 /PRNewswire/ -- Network-1 Security Solutions, Inc. (OTC: NSSI), a company engaged in the acquisition, development, licensing, and protection of intellectual property, today announced financial results for the year ended December 31, 2012.

Network-1 had revenues of \$8,698,000 or a 17.6% increase for the year ended December 31, 2012 as compared with \$7,398,000 of revenues for the year ended December 31, 2011. Network-1 reported net income of \$2,626,000 or \$0.10 per share (\$0.09 per share on a diluted basis) for the year ended December 31, 2012 as compared to net income of \$8,493,000 or \$0.33 per share (\$0.27 per share on a diluted basis) for the year ended December 31, 2011. 2011 net income includes \$6,903,000 (or \$0.22 per share on a diluted basis) recorded as a one-time non-cash income tax benefit. Also, included in the results for 2012 and 2011 are non-cash compensation expenses of \$316,000 and \$303,000, respectively.

"It was a very good year for Network-1," commented Corey M. Horowitz, Chairman and CEO of Network-1. "We have materially grown our royalty revenue from our Remote Power Patent and we now have 16 licensees to this important technology, including some of the largest technology companies in the world. We added 5 new licensees during the past twelve months representing a 45% increase in licensees. We look forward to licensing our technology to other vendors of Power over Ethernet equipment and pursuing new licensing avenues for our recently acquired patents relating to the identification of media content on the Internet as well as continuing to review new opportunities in the intellectual property monetization arena," he added.

The following are financial and strategic highlights:

- In September 2011, Network-1 initiated patent litigation against 16 additional 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 Transitions Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties. During 2012 and 2013 to date, we settled with 5 of the defendants each of who have become licensees to the Remote Power Patent.
- On February 28, 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 on the Internet from Dr. Ingemar Cox, a technology leader in digital watermarking and content identification technologies. Dr. Cox now serves as a

consultant to Network-1 and will receive 12.5% of the net proceeds generated by the Company from licensing, sale or enforcement of the patents. We anticipate continuing to prosecute the pending patent application and plan on filing several new patent applications with the United States Patent and Trademark Office based on the inventions contemplated by Dr. Cox's original patent filings. In March 2013, we 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.

- On January 31, 2012, the Board of Directors increased the previously announced share repurchase program to repurchase up to an additional \$2,000,000 (an aggregate of \$4,000,000) of its common stock. During 2012, Network-1 repurchased 736,357 shares of common stock at an average price of \$1.19. On January 24, 2013, the Board of Directors further increased our share repurchase program to repurchase up to an additional \$1,000,000 (or an aggregate of \$5,000,000) of our common stock. From January 1, 2013 through March 20, 2013, Network-1 repurchased an aggregate of 704,200 shares of common stock pursuant to the Share Repurchase Program at an average price of \$1.20. To date, under our share repurchase program we have purchased an aggregate of 2,980,656 shares of our common stock at an average price of \$1.24.
- At December 31, 2012, Network-1 had net operating loss carryforwards (NOLs) totaling approximately \$25,255,000 expiring through 2029, with a future tax benefit of approximately \$8,840,000. During 2011, as a result of 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 tax benefit. Accordingly, at December 31, 2011, \$6,903,000 was recorded as a deferred tax asset on the balance sheet and \$6,903,000 (or \$0.22 per share on a diluted basis) was also recorded as income tax benefit for the year ended December 31, 2011. During 2012, we realized a tax savings of \$709,000 by using the tax benefit associated with our net operating loss carryforwards.
- At December 31, 2012 Network-1's principal sources of liquidity consisted of working capital of approximately \$22,702,000 which includes cash and cash equivalents of approximately \$21,983,000. Management believes based on Network-1's current cash position and projected licensing revenue from its existing licensing agreements that Network-1 will have sufficient cash to fund its operations for the foreseeable future.

Consistent with its activities over the past several years, Network-1 plans on continuing its intellectual property development and licensing activities relating to our 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 10 patents covering various telecommunications and data networking technologies and technologies relating to the identification of media content on the Internet. 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 proceedings pending in the United States Patent and Trademark Office concerning our Remote Power Patent, 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 new legislation, regulations and court rulings which may be adverse to enforcement of patents. 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 sheet are attached.

Years Ended
December 31,

	2012	2011
ROYALTY REVENUE	\$ 8,698,000	\$ 7,398,000
COST OF REVENUE	<u>2,602,000</u>	<u>2,106,000</u>
GROSS PROFIT	<u>6,096,000</u>	<u>5,292,000</u>
OPERATING EXPENSES:		
General and administrative	2,447,000	2,456,000

Additional patent expense	—	1,000,000
Non-cash compensation	<u>316,000</u>	<u>303,000</u>
TOTAL OPERATING EXPENSES	<u>2,763,000</u>	<u>3,759,000</u>
OPERATING INCOME	3,333,000	1,533,000
OTHER INCOME (EXPENSES):		
Interest income, net	<u>39,000</u>	<u>48,000</u>
INCOME BEFORE INCOME TAXES	<u>3,372,000</u>	<u>\$ 1,581,000</u>
INCOME TAXES (BENEFIT):		
Current	37,000	(9,000)
Deferred	<u>709,000</u>	<u>(6,903,000)</u>
Total Income Taxes (Benefits)	<u>746,000</u>	<u>(6,912,000)</u>
NET INCOME	<u>\$ 2,626,000</u>	<u>\$ 8,493,000</u>
Net Income Per Share		
Basic	<u>\$.10</u>	<u>\$ 0.33</u>
Diluted	<u>\$.09</u>	<u>\$ 0.27</u>
Weighted average common shares outstanding		
Basic	<u>25,744,330</u>	<u>25,813,038</u>
Diluted	<u>28,472,753</u>	<u>30,930,483</u>
NET INCOME	<u>\$ 2,626,000</u>	<u>\$ 8,493,000</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized gain (loss) arising during the period	<u>(9,000)</u>	<u>(5,000)</u>
COMPREHENSIVE INCOME	<u>\$ 2,617,000</u>	<u>\$ 8,488,000</u>

Condensed Balance Sheet as of December 31, 2012

Cash and cash equivalents \$ 21,983,000

Total current assets

\$ 23,527,000

Total assets	\$ <u>29,805,000</u>
Total current liabilities	\$ <u>825,000</u>
Total long term liabilities	\$ <u>-0-</u>
Total stockholders' equity	\$ <u>29,980,000</u>

Contacts:

Network-1 Security Solutions, Inc.
Corey M. Horowitz, Chairman and CEO
212-829-5770

SOURCE Network-1 Security Solutions, Inc.