



Network-1 Security Solutions, Inc. (NSSI.OB-OTB: BB)

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No Longer a Security Software Company, Network-1 Security Solutions, Inc. is Helping Other Companies Monetize Their Intellectual Property – the First Being a Patent Covering Power Over Ethernet, Which is a New Solution to Bringing Operating Power to Network Devices

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Company Profile:

Network-1 is an intellectual property licensing company. It focuses on the acquisition, development, licensing and protection of intellectual property assets. The Company presently owns six patents (the "Patent Portfolio") covering various telecommunications and data networking technologies including, among others, patents covering the delivery of power over Ethernet cable for the purpose of remotely powering network devices, and the transmission of audio, video and data over computer and telephony networks. The Company's strategy is to pursue licensing opportunities with companies in the industries that manufacture and sell products that make use of the technologies underlying its patents as well as with other users of the technology.

Network-1 has recently been licensing its remote power patent (U.S. Patent No. 6,218,930) covering the control of power delivery of Ethernet cables (the "Remote Power Patent"). The Company had entered into 11 license agreements with respect to its Remote Power Patent that includes, among others, license agreements with Cisco Systems, Inc. and Cisco-Linksys, Extreme Networks, Inc., Netgear, Inc. and several other major data networking equipment manufacturers, Microsemi Corporation and D-Link Corporation.

Network-1's strategy includes continuing to pursue licensing opportunities for the Remote Power Patent from vendors of Power over Ethernet equipment in order to resolve possible infringement of the Remote Patent by such vendors.

In addition, Network-1 continually reviews opportunities to acquire or license additional intellectual property for the purpose of pursuing licensing opportunities. It also reviews new opportunities to form strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property.

Corey M. Horowitz J.D. **Chairman, CEO and Secretary**

Mr. Horowitz is Chairman and Chief Executive Officer of the Network-1 and has served as Chairman of the Board of Directors of the Company since January 1996. Mr. Horowitz is a private investor and President and sole shareholder of CMH Capital Management Corp., a New York investment advisory and merchant banking firm, which he founded in September 1991. Mr. Horowitz has a B.A. in Economics from the University of Michigan and a J.D. from Northeastern University School of Law. He began his career practicing corporate law at Skadden, Arps, Slate, Meagher & Flom in New York City.

Technology
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Interview conducted by: **Bud Wayne, Editorial Executive, CEOCFOinterviews.com, Published – January 28, 2011**

CEOCFO: Mr. Horowitz, how did you come to be a part of Network-1 Security Solutions, and what is your vision for the company?

Mr. Horowitz: Network-1 Security Solutions was originally a security software company. It sold software that provided security for networks and I had been an early investor in the company. I made several investments as far back as 1995 to help the company grow as a security vendor in a time when networks were growing quickly and the need for security was

opportunities. One of the opportunities presented to us was to help a company named Merlot Communications that was affiliated with us that needed some funding support. We analyzed the company and agreed that we would provide some funding for that company and in return we acquired their intellectual property and agreed to license it for the benefit of both companies.

Between 1995 and 2004 a lot of companies were innovating and creating a lot of great technologies and as a result a lot of new patents were issued. However, a lot of companies failed and couldn't succeed in their businesses but still had a lot of very interesting intellectual property. They deserve to reap the benefits of those inventions and the intellectual property, so we decided that we would build a business based on licensing intellectual property. We acquired the intellectual property from Merlot, we gave it some cash to fund its business and we gave it an interest in the outcome of our licensing of the intellectual property. Therefore, our vision was and is to work with companies that have intellectual property that don't have the financial where-with-all or the resources to monetize that intellectual property. Network-1 will undertake to do it for them and share in the benefits of such licensing.

CEO CFO: What is your current technology or product focus?

Mr. Horowitz: Between 2004 and 2010, we spent six years licensing intellectual property related to a technology standard called Power over Ethernet. That standard is a standard that allows companies to send operating power over their data and computer networks to certain devices connected to the network. Therefore, devices attached to the network, whether they are VOIP telephones, network security cameras or Wi-Fi wireless access points that require power to operate, now can receive that operating power over the data network. Instead of having to plug every one of those devices into the wall, they can just plug it into their computer network and the companies can then send operating power over the network to those devices. Companies want to have the central delivery of operating power to power those devices because its easier to control the power by having it centrally supplied and backed up so you can provide for power in the event of a power failure.

In 2003, the IEEE, which is standard body for technology improvements, came up with a way of sending operating power over data networks, call Power over Ethernet, that happens to use the technologies described in our patent. So basically, our product focus related to Power over Ethernet is to license the vendors of Power over Ethernet products to the technologies described in our patent.

CEO CFO: What is your revenue model?

Mr. Horowitz: We focus on licensing revenues. In the case of our Power over Ethernet patent we have now licenses from a selection of companies that pay us royalties for the use of the technologies described in the patent. Some have paid us one-time payments and others pay royalties through the expiration of the patent, which is 2020. They pay us based on the sales of those products that are licensed; those products that are compliant with the industry standard for Power over Ethernet. It is very good model because those are very high margin royalties. We don't have a big infrastructure, we don't have a lot of cost of goods, but we do have very high margin licensing revenues.

CEO CFO: How many players are in this particular area you are in?

Mr. Horowitz: Virtually every large technology company licenses their intellectual property. There are also several so-called non-practicing entities or partnerships that accumulate intellectual property for the purpose of licensing the patents to third parties.

CEO CFO: What about the Power over Ethernet?

Mr. Horowitz: In the Power over Ethernet space, I believe there are one or two other companies trying to license patents related to the technology. They have different patents than ours and I think they are in litigation presently. We have been in litigation twice, and both times we went were successful in licensing the patent to the defendants in the case. In fact, we went to trial this summer and settled during the trial resulting in licenses with Cisco Systems, Adtran, Foundry Networks, Extreme Networks, and Enterasys Networks. We also have licenses with NetGear, D-Link Corporation and Microsemi. There are also probably over two hundred other companies practicing the same Power over Ethernet standard that we would like to license.

CEO CFO: Would you tell us about your revenue and financial position for Network-1?

Mr. Horowitz: We recently released our financials for the 3rd Quarter. We had approximately \$31 million in royalties during the quarter, but that was because we had a large payment from the settlement of our recent litigation. In 2009, we had royalties of about \$800,000. At the end of the 3rd quarter we had about \$24 million in cash.

CEO CFO: You are on the cutting edge of technology as far as I can see!

Mr. Horowitz: I think a lot of companies now understand the benefits of intellectual property licensing as you can see by all the articles and patent litigation stories that always appear in the news. Many big companies are starting to sue companies for patent infringement and many companies are realizing that they have a valuable asset on their balance sheet. Therefore, they believe its proper to monetize the asset if possible. Again, it is very expensive, very time consuming, very difficult, and we would like to be able to partner with companies that don't want to do it themselves, or

CEOCFO: You are actually sending operating power to devices over an Ethernet cable? Are there any complications to watch out for?

Mr. Horowitz: You will recall those days when your phone in your home would ring when somebody called you. You never plugged in your phone at home into a power source. What happened was the phone company sent you power over the phone line. Those were telephone lines, not Ethernet cables. This is almost the same thing, but now the technology allows you to send it over the lines that carry data in an Ethernet network. It is going to be mixed with data. The beauty of the regular phone system was that everything attached to the phone lines was a telephone. In an Ethernet environment, lots of things can be attached to those Ethernet cables, so you don't want to send power without knowing what is at the other end because the thing at the other end may not be built to accept power. What the invention covers is making sure that before you send power, you can be sure that the thing at the other end is something that can accept the power.

CEOCFO: To accomplish growth what do you need to do going forward, are you going to remain focused on this remote power patent or are you going to look for other technologies to add to the mix?

Mr. Horowitz: We see the industry growing by virtue of companies recognizing that they have patents and that it would be wise to monetize these patents. They are sitting on company's balance sheets and they either don't know what to do with them or don't want to spend the time building a licensing company. Their business is to build products and build technology. Therefore, they may choose to partner with Network-1 and let us do it for them. That is where the growth is going to come from, aside from the fact that our royalties are growing from Power over Ethernet, because that's a growth industry. We are also going to get growth because we are going to be doing this for other partners with strong patents as well. We are presently in conversations with lots of companies who have patents who are saying why don't you do this for us? They are more than happy to let us do the work. We will do the financing; we will take the stress, take the time, monitor the effort and make sure it is done the right way because they don't really know how to do this.

CEOCFO: So this is the first of many to come then?

Mr. Horowitz: That is our plan and objective.

CEOCFO: In closing, why should potential investors be interested in Network-1 Security Solutions?

Mr. Horowitz: They should be interested because companies are starting to realize how valuable intellectual property is. It is a very difficult endeavor, so very few people have the expertise that we have. It is not as though you are going to have lots of competition because at the end of the day patents are monopolies, so nobody else can have the same patent you have. We manage the process well, we have low overhead, low expenses and high margin revenues and we have an expertise that few other people have. It makes for an interesting story because there are very few public opportunities to do this. We believe our stock is very attractive for these reasons and because it is trading at a discount to the value of the deals we already have in place.

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