

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

DOCUMENT SECURITY SYSTEMS INC

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-32146



DOCUMENT SECURITY SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

16-1229730

(I.R.S. Employer
Identification No.)

**200 Canal View Boulevard
Suite 300
Rochester, New York 14623**

(Address of principal executive offices)

(585) 325-3610

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.02 per share	DSS	NYSE American LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large Accelerated Filer
Non-Accelerated Filer

Accelerated Filer
Smaller Reporting Company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or

revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes [] No [X]

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant computed by reference to the price at which the common stock was last sold, as reported on the NYSE American LLC exchange on June 30, 2019 was \$11,583,641.

The number of shares of the registrant's common stock outstanding as of March 20, 2020, was 62,086,099.

DOCUMENTS INCORPORATED BY REFERENCE

None.

DOCUMENT SECURITY SYSTEMS, INC. & SUBSIDIARIES
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PART I

ITEM 1 - BUSINESS

Overview

Document Security Systems, Inc. (together with its consolidated subsidiaries (unless the context otherwise requires), referred to herein as “Document Security Systems,” “DSS,” “we,” “us,” “our” or the “Company”) was formed in New York in 1984 and, in 2002, chose to strategically focus on becoming a developer and marketer of secure document and product technologies. We specialize in creating dynamic solutions that protect against fraud and ensure the well-being of consumers worldwide. Our mission is to make and deliver world-class authentication, counterfeit prevention and consumer engagement technology attainable and integrated into every product we offer. The Company holds numerous patents for optical deterrent and authentication technologies that provide protection of printed information from unauthorized alterations, scanning and copying. We operate two production facilities, consisting of a combined security printing and packaging facility and a plastic card facility, where we produce secure and non-secure products for our customers. We also license our anti-counterfeiting technologies to printers and brand-owners. In addition, through our digital division, we provide cloud computing services for our customers, including disaster recovery, back-up and data security services.

Prior to 2006, our primary revenue source in our document security division was derived from the licensing of our technology. In 2006, we began a series of acquisitions designed to expand our ability to produce products for end-user customers. In 2006, we acquired Plastic Printing Professionals, Inc., a privately held plastic cards manufacturer located in the San Francisco, California, area (referred to herein as the “DSS Plastics Group”). In 2008, we acquired DPI of Rochester, LLC, a privately held commercial printer located in Rochester, New York. In 2010, we acquired Premier Packaging Corporation, a privately held packaging company located in Victor, New York (referred to herein as the “DSS Packaging and Printing Group”). In May 2011, we acquired ExtraDev, Inc., a privately held information technology and cloud computing company located in Rochester, New York. In 2016, ExtraDev, Inc. changed its name to DSS Digital Inc. DSS Digital Inc. is also referred to herein as the “DSS Digital Group.”

In July 2013, the Company expanded its business focus by acquiring Lexington Technology Group, Inc. (“Lexington”), a private intellectual property monetization company. Lexington’s business was primarily to acquire intellectual property assets for the purpose or monetizing these assets through a variety of value-enhancing initiatives, including, but not limited to, investments in the development and commercialization of patented technologies, licensing, strategic partnerships and litigation. DSS Technology Management, Inc., which is also referred to herein as “DSS Technology Management,” was established as a DSS subsidiary to house, account for and further develop this line of business. While similar to Lexington’s business model, DSS Technology Management focuses on extracting the economic benefits of intellectual property assets through acquiring or internally developing patents or other intellectual property assets (or interests therein) and then monetizing such assets through a variety of value enhancing initiatives. However, the Company, as we elaborate below, has determined that it is in the best interests of the Company and its stockholders to wind down our intellectual property monetization business and refocus our efforts on our other existing businesses as well as explore potential new business lines

In January 2018, we commenced international operations for our DSS Digital Group with our wholly owned subsidiary, DSS Asia Limited, in our office in Hong Kong. In December 2018, this division acquired Guangzhou Hotapps Technology Ltd, a Chinese company with a valuable license enabling us to do business in China.

We do business in four operating segments as follows:

DSS Packaging and Printing Group - Operating under the name Premier Packaging Corporation (a New York corporation), the DSS Packaging and Printing Group produces custom packaging serving clients in the pharmaceutical, nutraceutical, beverage, specialty foods, photo packaging and direct marketing industries, among others. The group also provides active and intelligent packaging and document security printing services for end-user customers along with technical support for our technology licensees. The division produces a wide array of printed materials, such as folding cartons and paperboard packaging, security paper, vital records, prescription paper, birth certificates, receipts, identification materials, entertainment tickets, secure coupons and parts tracking forms. The division also provides resources and production equipment for our ongoing research and development of security printing and related technologies.

DSS Plastics Group - Manufactures laminated and surface printed cards, which can include magnetic stripes, bar codes, holograms, signature panels, invisible ink, micro fine printing, guilloche patterns, biometrics, radio frequency identification (RFID) and watermarks for printed plastic documents such as ID cards, event badges and driver’s licenses. DSS Plastics Group is headquartered in Brisbane, California and operates under the name of Plastic Printing Professionals, Inc., a New York corporation.

DSS Digital Group - This division researches, develops, markets and sells worldwide the Company's digital products, including and primarily our AuthentiGuard® product, which is a brand authentication application that integrates the Company's counterfeit deterrent technologies with proprietary digital data security-based solutions. The AuthentiGuard® product allows our customers to implement a security mark utilizing conventional printing methods that is copy- and counterfeit-resistant and that can be read and recorded utilizing smartphones and other digital image capture devices, which can be utilized by that customer's suppliers, field personnel and customers throughout its global product supply and distribution chains.

DSS Technology Management - Since its acquisition in 2013, DSS Technology Management's primary mission has been to monetize its various patent portfolios through commercial litigation and licensing. Except for investment in its social networking related patents, we have historically partnered with various third-party funding groups in connection with patent monetization programs. It is our intent to de-emphasize and ultimately wind down this business line. While Management will continue to assert and defend the existing patents and pursue potential infringements as they are identified, we do not intend to seek out new patent portfolios.

Strategic Business Plan

In November 2019, we announced the Company's new strategic business plan, which focuses on strengthening our organization, investing in our core lines of business, improving top line revenues and net margins, controlling costs and creating new long-term recurring revenue streams. This strategic business plan has the following core elements, which are discussed in further detail below:

- Revive the Company's core businesses;
- Optimize cost structure and reduce cash burn;
- Exit unprofitable business lines; and
- Business diversification.

Reviving the Company's Core Businesses – We are upgrading equipment and products to enhance cross-selling opportunities with existing customers and intend to rejuvenate research and development on digital anti-counterfeit technology products.

Substantially Reducing Corporate Overhead and Cash Burn – Since the spring of 2019, we have reduced the Company's monthly cash burn by more than \$160,000, by eliminating non-essential layers of management and redundant operating expenses, as well as by renegotiating vendor contracts. We plan to continue to reduce overhead operating costs, redundancy and cash burn through a series of new management initiatives.

Exiting Unprofitable Business Lines – To preserve capital and stop further cash drain, we intend, as we have noted above, to de-emphasize and ultimately wind down our intellectual property monetization business line.

Since entering the intellectual property ("IP") monetization business in July 2013, we have invested substantial capital and resources into purchasing, maintaining and enforcing our patents. We have also invested substantial resources in the research and development of internally generated IP for our own use and/or for potential profitable licensing opportunities.

However, the costs of funding a patent pool, including patent maintenance fees, litigation (costs for legal counsel, discovery, consultants, expert witnesses and travel), and overhead costs associated with the IP business line, has placed a significant financial strain upon the Company. In 2019, our corporate cash burn reached approximately \$255,000 per month primarily related to recurring costs related to the IP monetization line of business, which reduced resources for our other lines of business, as well as our own patent research and development. Further, because the related IP legal costs are expensed in the year incurred with no corresponding revenue generation, the financial impact to the Company caused us to routinely report negative operating income year over year. Moreover, as a result of the IP monetization line's high capital demand, the Company did not have the capital to initiate and sustain IP litigation against potential major infringers of DSS patents.

In addition, as a result of several court decisions and statutory changes, the patent laws in the United States have changed significantly since our entry into this business. Consequently, the enforcement of patents has become more costly and more difficult for DSS and other patent holders, and the likelihood of successful litigation has decreased. Further, depending upon the type of IP involved and the parties who are the alleged patent infringers, the legal enforcement and recovery process can take five or more years before the matter goes to trial. For instance, the Apple litigation, which we have previously disclosed and which is described in more detail herein, was initiated in September 2013 and was scheduled to go to trial in late February 2020; a period of approximately 6 ½ years.

As a result of the significant financial, working capital and resource allocation to the IP monetization program, we made a critical review of the program. We reviewed all elements and factors related to the operations of this business line, including what we hold in inventory of patents, the potential of that patent portfolio, the timetables involved to monetize those patents, the cost of capital to maintain the patents to monetization, and the probability of successful monetization. As a result of that extensive review, we determined that it was in the best interest of DSS and its stockholders to de-emphasize and ultimately exit the IP monetization line of business.

The process of exiting this line of business will not be immediate. DSS has outstanding contracts with third parties, including attorneys, lenders and former patent holders, which must be addressed. We have determined that the cost to stop all litigation and recovery actions at this time would be too high. As a result, we have elected to not immediately terminate and exit this line of business, but to wind it down in an organized fashion. We will honor our existing contracts and complete the existing IP monetization programs without adding any new costs. We do not intend to make any further investments in acquiring patents that do not directly support our existing and targeted product lines. We estimate that the timetable necessary to exit this business line will be approximately 18 to 24 months.

Implementing Business Diversification Initiatives – We plan to both internally develop and to acquire profitable new businesses, which will in some cases be complimentary to our core businesses and addressable markets. In other instances, we intend to explore opportunities for expansion into new business lines in which we believe we can successfully compete, which are scalable, and which generate sustainable reoccurring revenue. Management has already taken steps toward this diversification by performing initial research and cost analysis into specific new business lines, and in 2019 we formed the following four new subsidiaries, in an effort to grow and expand our technologies and market reach. These four potential new business lines are in various stages of development and have not yet generated any significant revenues.

- DSS BIOHEALTH SECURITY, INC. (a Nevada corporation). This business will be principally involved in the bio-medical sector, including investing in companies that hold bio-medical intellectual property and/or have, or are securing, strategic alliances, partnerships and distribution rights for bio-medical and security products, technologies or enterprises. This new division will focus on open-air defense initiatives that seek to curb transmission of airborne infectious diseases such as tuberculosis and influenza, among others, in open areas.

Consistent with that growth initiative, on March 12, 2020, the Company announced that it had entered into a binding term sheet to acquire Impact Biomedical, Inc. (“Impact”), a company engaged in the development and marketing of biohealth security technologies, in a proposed share exchange transaction with a purchase price capped at \$50 million, subject to completion of due diligence and an independent valuation. According to the terms of the term sheet between the parties, DSS will issue up to 14.5 M shares of common stock and a perpetual convertible preferred stock to which DSS will have certain customary rights and requirements, including appointing members of the Board of Directors of Impact. The preferred stock will be convertible at \$0.216 per share and have a 19.9% blocker. Subject to a favorable due diligence and recommendation, the acquisition is subject to final DSS Board, DSS shareholder, and NYSE approval, of which there can be no guarantee. See Note 16 for further disclosure on this transaction.

- DECENTRALIZE SHARING SYSTEMS, INC. (a Nevada corporation) (“Decentralized”). Decentralized intends to develop and operate its own marketing network. We intend to offer product financing to small and mid-sized network marketing companies in the U.S. to assist them with growth opportunities. Direct marketing or network marketing is designed to sell products or services directly to the public through independent distributors, rather than selling through the traditional retail market. We believe this business has significant growth potential in the now popular “gig economy”. Consistent with the Company’s strategic business plan and vision, we plan to enter the direct marketing or network marketing industry and take advantage of the opportunities that exist. We have entered into partnerships with existing direct marketing companies to access U.S., Canadian, Asian and Pacific Rim markets. In addition, we have acquired various domestic and international operating licenses from those companies. Through the acquisitions we have secured product licenses, formulas, existing sales networks, patents, web sites, and other resources to initiate sales and revenue generation for this line. We are currently planning different options on how to take advantage of this opportunities in the direct selling market and help DSS in its global branding.

- DSS BLOCKCHAIN SECURITY, INC., (a Nevada corporation). This corporate business line will specialize in the development of blockchain security technologies for tracking and tracing solutions for supply chain logistics and cyber security across global markets.
- DSS SECURITIES, INC., (a Nevada corporation) (“DSS Securities”). This line of business will seek to establish or acquire investments in long-term growth and sustainable reoccurring revenue generating activities; not in the trading of securities under an investment format. This Securities group, while not limited to the following investment opportunities, will primarily seek out investment opportunities in the biomedical, health services, and blockchain-based technologies industries. The blockchain-based technologies are anticipated to include digital asset exchanges in multiple jurisdictions, including: (i) security token exchanges, focused on digitized assets from different vertical industries, and (ii) utility token exchanges, focusing on “blue-chip” utility tokens from solid businesses.

Consistent with that development plan, on March 3, 2020, DSS Securities entered into a binding term sheet with LiquidValue Asset Management Pte Ltd (“LVAM”), AMRE Asset Management Inc. (“AAMI”) and American Medical REIT Inc. (“AMRE”), regarding a share subscription and loan arrangement. The terms of the proposed joint venture, which has now been consummated, intends to create a medical real estate investment trust in the United States. AMRE has been formed to originate, acquire, and lease a credit-centric portfolio of licensed medical real estate. AMRE shall provide investors the opportunity for direct ownership of Class A licensed medical real estate. AMRE intends to acquire purpose-built healthcare facilities and lease them to leading clinical operators with strong market share under secure triple net leases. AMRE targets hospitals (both Critical Access and Specialty Surgical), Physician Group Practices, Ambulatory Surgical Centers, and other licensed medical treatment facilities. AAMI is a real estate investment trust (“REIT”) management company that sets the strategic vision and formulates the investment strategy for AMRE. It shall manage the REIT’s assets and liabilities and provide recommendations to AMRE on acquisition and divestments in accordance with the investment strategies.

Pursuant to the term sheet, the DSS Securities will hold 52.5% of the outstanding shares of AAMI, with LVAM and AMRE Tennessee, LLC, holding 35% and 12.5% of the remaining outstanding shares of AAMI, respectively. Further, pursuant to and in connection with the term sheet, on March 3, 2020, the Company entered into a Promissory Note with AMRE, pursuant to which AMRE will issue the Company a promissory note for the principal amount of \$800,000 (the “Note”). The Note matures on March 3, 2022 and accrues interest at the rate of 8.0% per annum, and shall be payable in accordance with the terms set forth in the Note. Under the Note, AMRE may prepay or repay all or any portion of the Note at any time, without a premium or penalty. If not sooner prepaid, the entire unpaid principal balance of the Note including accrued interest will be due and payable in full on March 3, 2022. AMRE’s failure to pay any amount due on the Note within five days of when payment is due constitutes an event of default under the Note, pursuant to which the Company can declare the Note due and payable. The Note also provides the Company an option to provide AMRE an additional \$800,000 on the same terms and conditions as the Note, including the issuance of warrants, See Note 16 for further disclosure on this transaction.

Our Core Products:

Technology and Counterfeit Prevention and Brand Services

DSS Digital Group's core business is counterfeit prevention, brand protection, consumer engagement and validation of authentic print media, including government-issued documents, packaging, ID cards and licenses. We believe we are a leader in the research and development of optical deterrent technologies and have commercialized these technologies with a suite of products that offer our customers an array of brand security solutions. In addition, we provide document security technology to security printers, corporations, consumer product companies and governments for protection of vital records, certifications, travel documents, consumer products, pharmaceutical packaging and school transcripts.

Optical deterrent features such as ours have traditionally been utilized mainly by large security printers for the protection of important printed documents, such as vital records and identification documents. Many of these competitive features were developed pre-1980 and were designed to be effective on the imaging devices of the day, which were mainly photography mechanisms. With the advent of modern-day scanners, digital copiers, digital cameras, smartphones and easy-to-use imaging software such as Adobe Photoshop, many of the pre-1980 optical deterrents such as micro-printing are much less effective in the prevention of counterfeiting.

Unlike some of our competitors, our technologies are built to defeat modern scanners and digital copiers, and we believe that our products are the most effective in doing so in the market today.

Our primary anti-counterfeiting products and technologies have evolved from a traditional analog product to a highly advanced digital system and are marketed under our AuthentiGuard® registered trademark. In October 2012, we introduced AuthentiGuard®, a smartphone application for authentication, targeted to major Fortune 500 companies worldwide. The application is a cloud-enabled solution that permits efficient and cost-effective counterfeit deterrence, authentication and consumer engagement. The solution embeds customizable, covert AuthentiGuard® Prism technology that resists counterfeiting or alteration on product packaging, labeling, documents and credentials. Product verification using the smartphone application creates real-time, accurate authentication results for brand owners, government officials and supply chain personnel that can be integrated into existing information systems.

Since 2012, the AuthentiGuard® product has grown to annual sales of approximately \$1.5 million, and we project that over the next three years annual sales of AuthentiGuard® will increase by an annualized growth rate of approximately 17%. Today, our mission is to make world-class authentication, counterfeit prevention and consumer engagement technology that is assessable and scalable to an expanding customer base. We intend to bring our technology-laden plastic and packaging solutions to a broader range of clients including small businesses, develop long-term relationships with those who use them and grow our business organically.

Printing & Packaging Business

Premier Packaging Corporation provides custom packaging services and serves clients in the pharmaceutical, nutraceutical, beverage, specialty foods, photo packaging and direct marketing industries, among others. The group also provides active and intelligent packaging and document security printing services for end-user customers. In addition, the division produces a wide array of printed materials, such as folding cartons and paperboard packaging, security paper, vital records, prescription paper, birth certificates, receipts, identification materials, entertainment tickets, secure coupons and parts tracking forms. The division also provides resources and production equipment for our ongoing research and development of security printing and related technologies.

IP Patent Monetization Business

Since its acquisition in 2013, DSS Technology Management's primary mission has been the attempted monetization of its various patent portfolios through commercial litigation.

Except for its investment in its social networking related patents, DSS Technology Management and the Company have partnered with various third-party funding groups in connection with patent monetization programs. In connection with this business line, the Company has purchased patents in a variety of fields, including social networking, mobile communications, semi-conductors, Bluetooth and LED, and has initiated patent infringement litigation against a wide range of domestic and global Companies. In connection with these litigation matters, the Company engages with legal firms that typically work under fee caps and contingency fee arrangements. To date, the Company has been or is currently in litigation with, among others, Apple, Samsung, Taiwan Semiconductor Manufacturing Company, Intel, NEC, Lenovo, Seoul Semiconductor, Everlight Electronics, Cree, Nichia and Osram, GMBH. During the course of these litigation matters, the Company typically incurs a variety of legal challenges from defendants, including defendants seeking to have the patents in question adjudicated to be invalid by the United States Patent Office through the *Inter Partes Review* process ("*IPR*"). As a result of these various legal challenges issued by defendants, the Company has experienced varying levels of success in its efforts to monetize its patent investments. In addition, to date, most of settlements or payments received from defendants have been remitted to the Company's third-party funders in accordance with the terms of those respective funding agreements.

The status of pending patent infringement lawsuits which have been filed by DSS Technology Management and the Company are more particularly described in Part 1, Item 3 of this Report.

Intellectual Property

Patents

Our ability to compete effectively depends largely upon our ability to maintain the proprietary nature of our technology, products and manufacturing processes. We principally rely upon patent, trademark, trade secrets and contract law to establish and protect our proprietary rights. During our development, we have expended significant resources on research and development in an effort to become a market leader with the ability to provide our customers effective solutions against an ever-changing array of counterfeit risks. Our position in the security print market is based on our technologies and products. We dedicate two staff members to research and development of print technologies, digital graphic files, and printing techniques to allow us to expand our ability to combat a wide variety of counterfeiting and brand protection issues. The Company recognized a credit in 2019 of approximately \$12,000 primarily due to receipt of a refund on development costs for the development of proprietary blockchain solutions for the Company's AuthentiGuard product line. In comparison, the Company spent approximately \$146,000 on research and development during 2018, primarily toward the development of the Company's AuthentiGuard product line.

We own patents covering semiconductor, light emitting diode, anti-counterfeiting and document authentication, and wireless peripheral technologies, respectively. We also have several patent applications in process, including provisional and Patent Cooperation Treaty ("PCT") patent applications in various jurisdictions including the United States, Canada, and Europe. These applications cover our anti-counterfeiting technologies, including AuthentiGuard®, AuthentiGuard® Prism™, and AuthentiGuard® VeriGlow™, and several other anti-counterfeiting and authentication technologies in development. Our issued patents have remaining durations ranging from 1 to 16 years.

Trademarks

We have registered our "AuthentiGuard®" mark, as well as our "Survivor 21®" electronic check icon and "VeriGlow®" with the U.S. Patent and Trademark Office. A trademark application is pending in Canada for "AuthentiGuard." AuthentiGuard® is registered in several European countries including the United Kingdom. We have also applied to register AuthentiSite TM, AuthentiShare TM, AuthentiSuiteTM, AuthentiBlockTM, and AuthentiChainTM in the U.S.

Websites

The primary website we maintain is www.dsssecure.com, which describes our Company, our history, our patented document security solutions, our major product offerings, and our targeted vertical markets. In addition to the active websites, the Company owns several other domain names reserved for future use or for strategic competitive reasons. Information on our websites or any other website does not constitute a part of this annual report.

Markets and Competition

The security print market is comprised of a few very large companies and an increasing number of small companies with specific technology niches. The expansion of this market is primarily due to the significant expansion of counterfeiting as advancing technologies in digital duplication and scanning combined with increasingly sophisticated design software has enabled easier reproduction of original documents, vital records and IDs, packaging, and labels. Our competitors include Standard Register Company, which specializes in printing security technologies for the check and forms and medical industries; and De La Rue Plc, that specializes in printing secure currency, tickets, labels, lottery tickets and vital records for governments and Fortune 500 companies. Large office equipment manufacturers, called OEMs, such as Sharp, Xerox Canon, Ricoh, Hewlett Packard and Eastman Kodak are developing "smart copier" technology that recognizes particular graphical images and produces warning words or distorted copies. Some of the OEMs are also developing user assigned and variable pantograph "hidden word" technologies in which users can assign a particular hidden word in copy, such as "void" that is displayed when a copy of such document is made. In addition, other competing hidden word technologies are being marketed by competitors such as NoCopi Technologies which sells and markets secure paper products, and Graphic Security Systems Corporation, which markets Scrambled Indicia.

Our packaging division competes with a significant number of national, regional and local companies, many of which are independent and privately-held. The largest competitors in this market are primarily focused on the long-run print order market. They include large integrated paper companies such as Rock-Tenn Company, Caraustar Industries, Inc., Graphic Packaging Holding Company and Mead Westvaco. Our printing division competes primarily with locally-based printing companies in the Rochester and Western New York markets. Most of our competitors in these markets are privately-held, single location operations.

Our plastics division competes with several companies including Bristol ID, AbNote (formerly Arthur Blanks), LaserCard Corporation and L-1 Identity Solutions. The plastics division primarily delivers its products through a dealer network, but also provides products to end-user customers. Competition in the plastic card industry is primarily based on production capabilities based on specialized equipment, geographic location, quality and service. In addition, competition is increasingly influenced by proprietary or niche offerings provided by competitors, such as RFID, biometric, read-write, and security features built into the plastic card.

Our technology division also faces competition in the area of patent acquisitions and enforcement. Entities such as Acacia, RPX, AST, Intellectual Ventures, Wi-LAN, MOSAID, Round Rock Research LLC, IPvalue Management Inc., Vringo Inc. and Pendrell Corporation compete in acquiring rights to patents.

Customers

During 2019, two customers accounted for 45% of our consolidated revenue. As of December 31, 2019, these two customers accounted for 49% of our consolidated trade accounts receivable balance. As of December 31, 2018, these two customers accounted for 44% of our consolidated revenue and 38% of the Company's consolidated trade accounts receivable balance.

Raw Materials

The primary raw materials the Company uses in its businesses are paper, corrugated paperboard, plastic sheets, and ink. The Company negotiates with leading suppliers to maximize its purchasing efficiencies and uses a wide variety of paper grades, formats, ink formulations and colors. Paper and paperboard prices continued to increase in 2019, and we believe increases in future years are expected. Except for certain packaging customers where the Company enters into annual contracts, for which changes in paperboard pricing is absorbed by the Company, the Company has historically passed substantially all increases and decreases to its customers, although there can be no assurances that the Company will continue to do so in the future.

Environmental Compliance

It is the Company's policy to conduct its operations in accordance with all applicable laws, regulations and other requirements. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company may undertake in the future, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material adverse effect on the Company's consolidated annual results of operations, financial position or cash flows.

Government Regulation

We play an active role with the Document Security Alliance group, as one of our research and development management members sits on various committees of that group and has been involved in design recommendations for important U.S. documents. This group of security industry specialists was formed by the U.S. Secret Service to evaluate and recommend security solutions to the federal government for the protection of credentials and vital records.

Our patent monetization business is also faced with potential government regulations. If new legislation, regulations or rules are implemented either by Congress, the U.S. Patent and Trademark Office (the "USPTO"), or the courts that impact the patent application process, the patent enforcement process or the rights of patent holders, these changes could negatively affect our patent monetization efforts and, in turn, our assets, expenses and revenue. United States patent laws have been amended by the Leahy-Smith America Invents Act. The America Invents Act includes several significant changes to U.S. patent law. In general, the legislation attempts to address issues surrounding the enforceability of patents and the increase in patent litigation by, among other things, establishing new procedures for patent litigation. For example, the America Invents Act changes the way that parties may be joined in patent infringement actions, increasing the likelihood that such actions will need to be brought against individual parties allegedly infringing by their respective individual actions or activities. In addition, the U.S. Department of Justice ("DOJ") has conducted reviews of the patent system to evaluate the impact of patent assertion entities, such as our Company, on industries in which those patents relate. It is possible that the findings and recommendations of the DOJ could adversely impact our ability to effectively license and enforce standards-essential patents and could increase the uncertainties and costs surrounding the enforcement of any such patented technologies.

Moreover, new rules regarding the burden of proof in patent enforcement actions could significantly increase the cost of our enforcement actions, and new standards or limitations on liability for patent infringement could negatively impact our revenue derived from such enforcement actions.

Corporate History

The Company was incorporated in 1984 and changed its name to Document Security Systems, Inc. in 2002. Since then, the Company has acquired a plastics card manufacturer, a printing company, a packaging company, an IT services company, and an intellectual property monetization company. See, the "Overview" section above for further details about our acquisitions.

Employees

As of March 20, 2020, all of the Company's 100 employees were full time. It is important that we continue to retain and attract qualified management and technical personnel. Our employees are not covered by any collective bargaining agreement, and we believe that our relations with our employees are generally good.

Available information

Our website address is www.dsssecure.com. Information on our website is not incorporated herein by reference. We make available free of charge through our website our press releases, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after electronically filed with or furnished to the Securities and Exchange Commission.

ITEM 1A – RISK FACTORS

The Company is a smaller reporting company, as such term is defined in Item 10(f)(1) of Regulation S-K, and is therefore not required to provide the information required under this item.

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

Our corporate group and digital division together occupy approximately 5,700 square feet of commercial office space located at 200 Canal View Boulevard, Rochester, New York under a lease that expires in February 2021, at a rental rate of approximately \$6,100 per month. Our Plastics division leases approximately 15,000 square feet under a lease that expires January 31, 2024 for approximately \$19,422 per month. Our DSS Asia division leases commercial office space in Hong Kong under a lease that expires November 30, 2020 for approximately \$3,382 per month. In addition, the Company owns a 40,000 square foot packaging and printing plant in Victor, New York, a suburb of Rochester, New York. We believe that our facilities are adequate for our current operations.

ITEM 3 - LEGAL PROCEEDINGS

On November 26, 2013, DSSTM filed suit against Apple, Inc. ("Apple") in the United States District Court for the Eastern District of Texas, for patent infringement (the "Apple Litigation"). The complaint alleges infringement by Apple of DSSTM's patents that relate to systems and methods of using low power wireless peripheral devices. DSSTM is seeking a judgment for infringement, injunctive relief, and compensatory damages from Apple. On October 28, 2014, the case was stayed by the District Court pending a determination of Apple's motion to transfer the case to the Northern District of California. On November 7, 2014, Apple's motion to transfer the case to the Northern District of California was granted. On December 30, 2014, Apple filed two Inter Partes Review ("IPR") petitions with the Patent Trial and Appeal Board ("PTAB") for review of the patents at issue in the case. The PTAB instituted the IPRs on June 25, 2015. The California District Court then stayed the case pending the outcome of those IPR proceedings. Oral arguments of the IPRs took place on March 15, 2016, and on June 17, 2016, PTAB ruled in favor of Apple on both IPR petitions. DSSTM then filed an appeal with the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit") seeking reversal of the PTAB decisions. Oral arguments for the appeal were held on August 9, 2017. On March 23, 2018, the Federal Circuit reversed the PTAB, finding that the PTAB erred when it found the claims of U.S. Patent No. 6,128,290 to be unpatentable. The Federal Circuit affirmed its decision on July 12, 2018, when it denied Apple's petition for panel rehearing of the Federal Circuit's Opinion and Judgment issued on March 23, 2018. On July 27, 2018, the District Court judge lifted the Stay resuming the litigation, which had a trial date set for the week of February 24, 2020. On January 14, 2020, the Court in the case DSS Technology Management, Inc. v. Apple, Inc., 4:14-cv-05330-HSG pending in the Northern District of California issued an order that denied DSS' motion to amend its infringement contentions. In the same Order, the Court granted Apple's motion to strike DSS' infringement expert report. DSS filed a motion for leave to file a motion for reconsideration of the Court's order denying DSS the right to amend its infringement contentions and motion to strike DSS infringement expert report. On February 18, 2020, the Court denied DSS's motion for leave to file a motion for reconsideration. On February 24, 2020, the Court signed a Final Judgment stipulating that Apple was "entitled to a judgment of non-infringement of U.S. Patent No. 6,128,290 as a matter of law." DSS intends to appeal the ruling.

On February 16, 2015, DSSTM filed suit in the United States District Court, Eastern District of Texas, against defendants Intel Corporation, Dell, Inc., GameStop Corp., Conn's Inc., Conn Appliances, Inc., NEC Corporation of America, Wal-Mart Stores, Inc., Wal-Mart Stores Texas, LLC, and AT&T, Inc. The complaint alleged patent infringement and sought judgment for infringement of two of DSSTM's patents, injunctive relief and money damages. On December 9, 2015, Intel filed IPR petitions with PTAB for review of the patents at issue in the case. Intel's IPRs were instituted by PTAB on June 8, 2016. On June 1, 2017, the PTAB ruled in favor of Intel for all the challenged claims. On July 28, 2017, DSSTM filed a notice of appeal of the PTAB's decision relating to U.S. Patent 6,784,552 with the Federal Circuit. On January 8, 2019, DSSTM entered into a confidential settlement agreement with Intel Corporation, Dell Inc., GameStop Corp, Conn's Inc., Conn Appliances, Inc., Wal-Mart Stores, Inc., Wal-Mart Stores Texas, LLC and AT&T Mobility LLC (collectively, the "Defendants"). The Federal Circuit Appeal involving DSSTM and Intel was dismissed on January 16, 2019, and the District Court case against the Defendants was dismissed, as to all the Defendants, on February 5, 2019. On July 16, 2015, DSSTM filed three separate lawsuits in the United States District Court for the Eastern District of Texas alleging infringement of certain of its semiconductor patents. The defendants were SK Hynix et al., Samsung Electronics et al., and Qualcomm Incorporated. Each respective complaint alleges patent infringement and seeks judgment for infringement, injunctive relief and money damages. On November 12, 2015, SK Hynix filed an IPR petition with PTAB for review of the patent at issue in their case. SK Hynix's IPR was instituted by the PTAB on May 11, 2016. On August 16, 2016, DSSTM and SK Hynix entered into a confidential settlement agreement ending the litigation between them. The pending SK Hynix IPR was then terminated by mutual agreement of the parties on August 31, 2016. On March 18, 2016, Samsung also filed an IPR petition, which was instituted by the PTAB. On September 20, 2017, PTAB ruled in favor of Samsung for all the challenged claims relating to U.S. Patent 6,784,552. DSSTM then appealed this PTAB ruling to the Federal Circuit on November 17, 2017. The Federal Circuit joined this appeal with the Intel appeal effective on December 7, 2017. Qualcomm filed its IPR proceeding on July 1, 2016, which was then later joined with Intel's IPRs in August 2016 by PTAB. On June 1, 2017, the PTAB ruled in favor of Intel/Qualcomm for all the challenged claims. On July 28, 2017, DSSTM filed a notice of appeal of the PTAB's decision relating to U.S. Patent 6,784,552 with the Federal Circuit. A confidential patent license agreement was executed by DSSTM on November 14, 2018, covering Samsung and Qualcomm. On December 12, 2018, DSSTM and Samsung entered into a confidential release. On December 27, 2018, DSSTM and Qualcomm entered into a confidential settlement agreement. The DSSTM - Samsung District Court case was dismissed on December 17, 2018. The DSSTM - Samsung Federal Circuit Appeal was dismissed on January 2, 2019. The Federal Circuit Appeal involving DSSTM and Qualcomm was dismissed on January 16, 2019. The DSSTM - Qualcomm District Court case was dismissed on January 16, 2019. As a result, all of DSSTM's litigation matters originally filed in the District Court for the Eastern District of Texas have been resolved and are now dismissed.

On April 13, 2017, the Company filed a patent infringement lawsuit against Seoul Semiconductor Co., Ltd. and Seoul Semiconductor, Inc. (collectively, "Seoul Semiconductor") in the United States District Court for the Eastern District of Texas, alleging infringement of certain of the Company's Light-Emitting Diode ("LED") patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On June 7, 2017, the Company refiled its patent infringement complaint against Seoul Semiconductor in the United States District Court for the Central District of California, Southern Division. On December 3, 2017, Seoul Semiconductor filed an IPR challenging the validity of certain claims of U.S. Patent No. 6,949,771. This IPR was instituted by the PTAB on June 7, 2018. On April 18, 2019, the PTAB issued a written decision determining claims 1-9 of the '771 patent unpatentable. The Company did not appeal that determination. On December 21, 2017, Seoul Semiconductor filed an IPR challenging the validity of certain claims of U.S. Patent No. 7,256,486. This IPR was instituted by the PTAB on June 21, 2018. On June 10, 2019, the PTAB issued a written decision determining claims 1-3 of the '486 patent unpatentable. On August 12, 2019, the Company filed a Notice of Appeal with the Federal Circuit Court of Appeals challenging the PTAB's decisions. The Company subsequently filed a motion to vacate and remand the PTAB's decision in light of intervening precedent under the Appointments Clause. That motion was granted on January 23, 2020. On January 25, 2018, Seoul Semiconductor filed an IPR challenging the validity of certain claims of U.S. Patent No. 7,524,087. This IPR was instituted by the PTAB on July 27, 2018. On July 22, 2019, the PTAB issued a written decision determining claims 1, 6-8, 15, and 17 of the '087 patent unpatentable. On September 23, 2019, the Company filed a Notice of Appeal with the Federal Circuit Court of Appeals challenging the PTAB's decisions. The Company subsequently filed a motion to vacate and remand the PTAB's decision in light of intervening precedent under the Appointments Clause. That motion was granted on February 3, 2020. These challenged patents are the patents that are the subject matter of the infringement lawsuit, which is pending but stayed pending the outcome of the IPR proceedings.

On April 13, 2017, the Company filed a patent infringement lawsuit against Everlight Electronics Co., Ltd. and Everlight Americas, Inc. (collectively, "Everlight") in the United States District Court for the Eastern District of Texas, alleging infringement of certain of the Company's LED patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On June 8, 2017, the Company refiled its patent infringement complaint against Everlight in the United States District Court for the Central District of California. On June 8, 2018, Everlight filed IPR petitions challenging the validity of claims under U.S. Patent Nos. 7,256,486 and 7,524,087. On June 12, 2018, Everlight filed an IPR petition challenging the validity of claims under U.S. Patent No. 6,949,771, and on June 15, 2018, filed an IPR petition challenging the validity of claims under U.S. Patent No 7,919,787. These challenged patents are the patents that are the subject matter of the infringement lawsuit. On January 18, 2019, the Company and Everlight entered into a confidential settlement agreement resolving the litigation.

On April 13, 2017, the Company filed a patent infringement lawsuit against Cree, Inc. ("Cree") in the United States District Court for the Eastern District of Texas, alleging infringement of certain of the Company's LED patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On June 8, 2017, the Company refiled its patent infringement complaint against Cree in the United States District Court for the Central District of California, and thereafter filed a first amended complaint for patent infringement against Cree in that same court on July 14, 2017. The case is currently pending as of the date of this Report. On June 6, 2018, Cree filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,256,486. This IPR was instituted and joined with the Seoul Semiconductor IPR. On June 7, 2018, Cree filed IPR petitions challenging the validity of certain claims U.S. Patent Nos. 7,524,087 and 6,949,771. Both IPRs were denied by the PTAB on November 14, 2018 as time-barred. The challenged patent is the patent that is the subject matter of the infringement lawsuit, which is pending but stayed pending the outcome of the IPR.

On August 15, 2017, the Company filed a patent infringement lawsuit against Lite-On, Inc., and Lite-On Technology Corporation (collectively, "Lite-On") in the United States District Court for the Central District of California, alleging infringement of certain of the Company's LED patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The case is currently pending but is stayed pending the outcome of IPR proceedings filed by other parties.

On December 7, 2017, DSS filed a patent infringement lawsuit against Nichia Corporation and Nichia America Corporation in the United States District Court for the Central District of California, alleging infringement of certain of DSS's LED patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The case is currently pending as of the date of this Report. On May 10, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,919,787. On May 11, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,652,297. On May 25, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,524,087. On May 29, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 6,949,771. On May 30, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,256,486. The 6,949,771 IPR was denied institution, but the remaining IPRs were instituted by the PTAB. On December 10, 2018, Nichia refiled IPRs relating to 6,949,771, which was denied by the PTAB on April 15, 2019. These challenged patents are the patents that are the subject matter of the infringement lawsuit, which is pending but stayed pending the outcome of the IPR proceedings. On September 17, 2019, the PTAB issued a written decision determining claims 1-14 of the '787 patent unpatentable. The Company did not appeal that determination. On October 30, 2019, the PTAB issued a written decision determining claims 1-17 of the '297 patent unpatentable. The Company did not appeal that determination. On November 19, 2019, the PTAB issued a written decision determining claims 1-5 of the '486 patent unpatentable. The Company has appealed that determination to the U.S. Court of Appeals for the Federal Circuit.

On September 18, 2019, DSS filed a patent infringement lawsuit against Seoul Semiconductor Co., Ltd. and Seoul Semiconductor Inc. in the United States District Court for the Central District of California alleging infringement of U.S. Patent No. 7,315,119. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The Court has conducted an initial scheduling conference and has set a procedural schedule for the case.

On September 19, 2019, DSS filed a patent infringement lawsuit against Cree, Inc. in the United States District Court for the Central District of California alleging infringement of U.S. Patent No. 6,784,460. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On February 11, 2020, Cree filed an IPR petition challenging the validity of the patent claims. The Court has conducted an initial scheduling conference and has set a procedural schedule for the case.

On September 20, 2019, DSS filed a patent infringement lawsuit against Nichia Corp. and Nichia America Corp. in the United States District Court for the Central District of California alleging infringement of U.S. Patent No. 6,879,040. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The Court has conducted an initial scheduling conference and has set a procedural schedule for the case.

In April 2019, DSS commenced an action in New York State Supreme Court, Monroe County against Jeffrey Ronaldi, our former Chief Executive Officer. This New York action seeks a declaratory judgment that, contrary to informal claims made by him, Mr. Ronaldi's employment agreement with us expired by its terms and that he is not entitled to any cash bonuses or other unpaid amounts. The lawsuit also seeks an injunction against Mr. Ronaldi from interfering with any of DSS' IP litigation. The defendant has been granted an extension to respond pending settlement negotiations. Mr. Ronaldi subsequently commenced an action against us in the Superior Court of California, County of San Diego, in November 2019, in which he alleges that we terminated his employment in April 2019 in order to avoid paying him certain employment-related amounts. Mr. Ronaldi contends that he is owed a \$100,000 performance bonus for 2017 under this employment agreement with us as well as \$91,000 in documented and unreimbursed expenses, and that DSS purported to terminate him for cause under the terms of his employment agreement in order to avoid paying such amounts. Mr. Ronaldi also contends that he is entitled to receive additional amounts, either under the terms of the employment agreement, or under theories of implied-in-fact contract or promissory estoppel, including, but not limited to, (i) additional performance bonuses of up to 15% of net litigation proceeds received by us from pending patent infringement litigations, of net licensing proceeds received by us other than from our internally developed IP, or of the net sales proceeds received by us in connection with the sale of any of our patent assets, (ii) earned but unpaid base salary, (iii) an equity grant of shares of our common stock, and (iv) payments for unused personal time and sick days. He seeks actual, compensatory, restitutionary and/or incidental damages in an amount to be determined at trial; prejudgment interest in an amount to be determined at trial; attorneys' fees and costs; other costs of the suit; and such other and further relief as the court deems proper. We have made a motion to have the case dismissed and consolidated with the Monroe Co., New York, litigation. A hearing has been set for April 24, 2020, for the court to consider that request. Additionally, on March 2, 2020, DSS and DSSTM filed a second litigation action against Jeffrey Ronaldi in the State of New York, Supreme Court, County of Monroe alleging acts of self-dealing and conflicts of interest while he served as CEO of both DSS and DSS TM. That litigation is in the process of being served upon the defendant.

On November 20, 2019, DSS Technology Management was sued in the United States District Court, Northern District of California, by Intel Corporation ("Intel") and Apple Inc. ("Apple"). The other defendants in the litigation are Fortress Investment Group LLC, Fortress Credit Co. LLC, Uniloc 2017 LLC, Uniloc USA, INC., Uniloc Luxembourg S.A.R.L., VLSI Technology LLC, INVT SPE LLC, Inventergy Global, INC., IXI IP, LLC, and Seven Networks, LLC. The complaint includes allegations regarding a February 13, 2014 Investment Agreement between DSS Technology Management and Fortress Credit Co. LLC as well as two subsequent agreements. The complaint also contains allegations regarding DSS Technology Management's lawsuit against Intel that was filed in February 2015 in the United States District Court, Eastern District of Texas (referred to below). In the complaint, Intel and Apple allege violations of Section 1 of the Sherman Act and unfair competition under Cal. Bus. & Prof. Code § 17200 against DSS Technology Management. Additional claims are alleged against other defendants. Intel and Apple seek relief from the court including that defendants' conduct be declared a violation of Section 1 of the Sherman Act, Section 7 of the Clayton Act, and Cal. Bus. & Prof. Code § 17200, et seq.; that Intel and Apple recover damages against defendants in an amount to be determined and multiplied to the extent provided by law, including under Section 4 of the Clayton Act; that all contracts or agreements defendants entered into in violation of the Sherman Act, Clayton Act, or Cal. Bus. & Prof. Code § 17200, et seq. be declared void and the patents covered by those transfer agreements be transferred back to the transferors; that all patents transferred to defendants in violation of the Sherman Act, Clayton Act, or Cal. Bus. & Prof. Code § 17200, et seq. be declared unenforceable; and that Intel and Apple recover their costs and expenses associated with this case, together with interest. On December 13, 2019, the court granted the parties' stipulation to extend the deadline for DSS Technology Management and other defendants to respond to the complaint to February 4, 2020. A hearing on any motions filed in response to the complaint is set for April 23, 2020.

In addition to the foregoing, we may become subject to other legal proceedings that arise in the ordinary course of business and have not been finally adjudicated. Adverse decisions in any of the foregoing may have a material adverse effect on our results of operations, cash flows or our financial condition. The Company accrues for potential litigation losses when a loss is probable and estimable.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

Part II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the NYSE American LLC Exchange, where it trades under the symbol "DSS"

Holders of Record

As of March 20, 2020, we had 242 record holders of our common stock. This number does not include the number of persons whose shares are in nominee or in "street name" accounts through brokers.

Dividends

We did not pay dividends during 2019 or 2018. We anticipate that we will retain any earnings and other cash resources for investment in our business. The payment of dividends on our common stock is subject to the discretion of our board of directors and will depend on our operations, financial position, financial requirements, general business conditions, restrictions imposed by financing arrangements, if any, legal restrictions on the payment of dividends and other factors that our board of directors deems relevant.

Securities authorized for issuance under equity compensation plans

As of December 31, 2019, securities issued and securities available for future issuance under both our 2013 and 2020 Employee, Director and Consultant Equity Incentive Plan (the "Plans") is as follows:

Plan Category	Restricted stock to be issued upon vesting	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance (under equity compensation Plans (excluding securities reflected in column (a & b)))
	(a)	(b)	(c)	(d)
Equity compensation plans approved by security holders 2013				
Employee, Director and Consultant Equity Incentive Plan - options	-	577,917	\$ 5.01	-
2013 Employee, Director and Consultant Equity Incentive Plan - warrants	-	1,220,304	\$ 1.12	-
2020 Employee, Director and Consultant Equity Incentive Plan	-	-	-	7,236,125
Total	-	1,798,221	\$ 2.37	7,236,125

The warrants listed in the table above were issued to third party service providers in partial or full payment for services rendered and in conjunction with third party funding agreements.

Recent Issuances of Unregistered Securities

Information regarding any equity securities we have sold during the period covered by this Report that were not registered under the Securities Act of 1933, as amended, and was not included in a quarterly report on Form 10-Q or in a current report on Form 8-K, is set forth below. Each such transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) of the Securities Act or Rule 506 of Regulation D promulgated by the SEC, unless otherwise noted. Unless stated otherwise: (i) the securities were offered and sold only to accredited investors; (ii) there was no general solicitation or general advertising related to the offerings; (iii) each of the persons who received these unregistered securities had knowledge and experience in financial and business matters which allowed them to evaluate the merits and risk of the receipt of these securities, and that they were knowledgeable about our operations and financial condition; (iv) no underwriter participated in, nor did we pay any commissions or fees to any underwriter in connection with the transactions; and, (v) each certificate issued for these unregistered securities contained a legend stating that the securities have not been registered under the Securities Act and setting forth the restrictions on the transferability and the sale of the securities.

On December 17, 2018, the Company sold 612,245 shares of its common stock to an accredited investor, at a price of \$0.98 per share.

On October 29, 2019 and subsequently October 30, 2019, the Audit Committee and the Board approved the issuance of common stock, not to exceed 6,000,000 shares, via private placement with a related party. Pursuant to a Subscription Agreement, the Company issued 6,000,000 shares of Common Stock to LiquidValue Development Pte LTD, a company owned and controlled by Mr. Heng Fai Ambrose Chan, Chairman of the Board of Directors for DSS, for an above market purchase price equal to \$0.30 per share for gross proceeds to the Company of \$1,822,200 (before deductions for placement agent fees and other expenses). This transaction was executed on November 1, 2019.

Shares Repurchased by the Registrant

We did not purchase or repurchase any of our securities in the fiscal year ended December 31, 2019, including the fourth quarter.

ITEM 6 - SELECTED FINANCIAL DATA

Not applicable.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Statements

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions.

Forward-looking statements that may appear in this Annual Report, including without limitation, statements related to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act and contain the words "believes," "anticipates," "expects," "plans," "intends" and similar words and phrases. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected in any forward-looking statement. The forward-looking statements are made as of the date of this Annual Report, and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Investors should consult all of the information set forth in this Annual Report and the other information set forth from time to time in our reports filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, including our reports on Forms 10-Q and 8-K.

The following discussion and analysis provides information that our management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read in conjunction with the financial statements and footnotes included in Item 8 of this Annual Report.

Overview

Document Security Systems, Inc. (together with its consolidated subsidiaries (unless the context otherwise requires), referred to herein as "Document Security Systems," "DSS," "we," "us," "our" or the "Company") was formed in New York in 1984 and, in 2002, chose to strategically focus on becoming a developer and marketer of secure document and product technologies. We specialize in creating dynamic solutions that protect against fraud and ensure the well-being of consumers worldwide. Our mission is to make and deliver world-class authentication, counterfeit prevention and consumer engagement technology attainable and integrated into every product we offer. The Company holds numerous patents for optical deterrent and authentication technologies that provide protection of printed information from unauthorized alterations, scanning and copying. We operate two production facilities, consisting of a combined security printing and packaging facility and a plastic card facility, where we produce secure and non-secure products for our customers. We also license our anti-counterfeiting technologies to printers and brand-owners. In addition, through our digital division, we provide cloud computing services for our customers, including disaster recovery, back-up and data security services.

Prior to 2006, our primary revenue source in our document security division was derived from the licensing of our technology. In 2006, we began a series of acquisitions designed to expand our ability to produce products for end-user customers. In 2006, we acquired Plastic Printing Professionals, Inc., a privately held plastic cards manufacturer located in the San Francisco, California, area (referred to herein as the "DSS Plastics Group"). In 2008, we acquired DPI of Rochester, LLC, a privately held commercial printer located in Rochester, New York. In 2010, we acquired Premier Packaging Corporation, a privately held packaging company located in Victor, New York (referred to herein as the "DSS Packaging and Printing Group"). In May 2011, we acquired ExtraDev, Inc., a privately held information technology and cloud computing company located in Rochester, New York. In 2016, ExtraDev, Inc. changed its name to DSS Digital Inc. DSS Digital Inc. is also referred to herein as the "DSS Digital Group."

In July 2013, the Company expanded its business focus by acquiring Lexington Technology Group, Inc. ("Lexington"), a private intellectual property monetization company. Lexington's business was primarily to acquire intellectual property assets for the purpose of monetizing these assets through a variety of value-enhancing initiatives, including, but not limited to, investments in the development and commercialization of patented technologies, licensing, strategic partnerships and litigation. DSS Technology Management, Inc., which is also referred to herein as "DSS Technology Management," was established as a DSS subsidiary to house, account for and further develop this line of business. While similar to Lexington's business model, DSS Technology Management focuses on extracting the economic benefits of intellectual property assets through acquiring or internally developing patents or other intellectual property assets (or interests therein) and then monetizing such assets through a variety of value enhancing initiatives. However, the Company, as we elaborate below, has determined that it is in the best interests of the Company and its stockholders to wind down our intellectual property monetization business and refocus our efforts on our other existing businesses as well as explore potential new business lines

In January 2018, we commenced international operations for our DSS Digital Group with our wholly owned subsidiary, DSS Asia Limited, in our office in Hong Kong. In December 2018, this division acquired Guangzhou Hotapps Technology Ltd, a Chinese company with a valuable license enabling us to do business in China

We do business in four operating segments: packaging and printing; plastics; digital; and technology management, which includes our IP monetization business.

Impact of COVID-19 Outbreak

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. While the closures and limitations on movement, domestically and internationally, are expected to be temporary, if the outbreak continues on its current trajectory the duration of the supply chain disruption could reduce the availability, or result in delays, of materials or supplies to and from the Company, which in turn could materially interrupt the Company's business operations. Given the speed and frequency of the continuously evolving developments with respect to this pandemic, the Company cannot reasonably estimate the magnitude of the impact to its consolidated results of operations. The Company's manufacturing facilities in both California and New York support business have been deemed essential by their respective state governments and remain operational. We have taken every precaution possible to ensure the safety of our employees.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including losses on inventory; impairment losses related to goodwill and other long-lived assets and current obligations.

RESULTS OF OPERATIONS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2019 AND 2018
Revenue

	Year Ended December 31, 2019	Year Ended December 31, 2018	% change
Revenue			
Printed products	\$ 17,090,000	\$ 16,940,000	1%
Technology sales, services and licensing	\$ 2,148,000	1,575,000	36%
Direct Selling	\$ 171,000	-	n/a
<i>Total revenue</i>	<i>\$ 19,409,000</i>	<i>\$ 18,515,000</i>	<i>5%</i>

Revenue - For the year ended December 31, 2019, revenue increased 5% to approximately \$19.4 million as compared to revenues of \$18.5 million for the year ended December 31, 2018. Printed products sales, which include sales of packaging, printing and plastic products, increased 1% in 2019 as compared to 2018, driven by an increase in the sales of printing and packaging products of 4% offset by a decrease in sales of plastic card products of 8%. The Company's technology sales, services and licensing revenues increased 36% in 2019, as compared to 2018, due primarily to increases in sales of our AuthentiGuard product, which increased approximately \$642,000 year-over-year.

Costs and Expenses

	Year Ended December 31, 2019	Year Ended December 31, 2018	% change
Costs and expenses			
Costs of goods sold, exclusive of depreciation and amortization	\$ 12,602,000	\$ 11,853,000	6%
Sales, general and administrative compensation	4,267,000	4,420,000	(3%)
Depreciation and amortization	1,404,000	1,282,000	10%
Professional fees	1,987,000	1,073,000	85%
Stock based compensation	422,000	132,000	220%
Sales and marketing	616,000	559,000	10%
Rent and utilities	850,000	655,000	30%
Other operating expenses	154,000	104,000	48%
Research and development	(12,000)	146,000	(108%)
<i>Total costs and expenses</i>	<i>\$ 22,290,000</i>	<i>\$ 20,224,000</i>	<i>10%</i>

Costs of revenue sold, exclusive of depreciation and amortization includes all direct cost of the Company's printed products, including its packaging, printing and plastic ID card sales, materials, direct labor, transportation and manufacturing facility costs. In addition, this category includes all direct costs associated with the Company's technology sales, services and licensing including hardware and software that are resold, third-party fees, and fees paid to inventors or others as a result of technology licenses or settlements, if any. Costs of revenue increased 6% in 2019 as compared to 2018, primarily due to an increase in paperboard costs and outside service costs at our packaging division.

Sales, general and administrative compensation costs, decreased 3% in 2019 as compared to 2018, primarily due to the impact cost control activities taken during the year within the Digital and Corporate segments. The cost controlling resulting in a decrease \$1.1 million in annualized payroll and payroll related costs. These measures were offset with additions of key personnel to support the Company's strategic plan.

Depreciation and amortization include the depreciation of machinery and equipment used for production, depreciation of office equipment and building and leasehold improvements, amortization of software, and amortization of acquired intangible assets such as customer lists, trademarks, non-competition agreements and patents, and internally developed patent assets. Depreciation and amortization expense increased by 10% during 2019, as compared to 2018, primarily due to twelve months of expense associated with the non-compete agreement with a former executive, as well as capital additions throughout 2019.

Professional fees increased 85% in 2019 as compared to 2018, primarily due to an increase in legal fees associated with the Company's intellectual property litigation matters, outsourcing corporate legal matters, as well as cost of approximately \$0.5 million associated with the diversification of the Company's revenue portfolio.

Stock based compensation includes expense charges for all stock-based awards to employees, directors and consultants. Such awards include option grants, warrant grants, and restricted stock awards. Stock-based compensation costs increased 220% in 2019 as compared to 2018 due to a stock based compensation totaling approximately \$114,500 accrued for the CEO of a subsidiary of the Company. Also, in July 2019, by unanimous written consent, the Board of Directors authorized the Company to issue individual stock grants of the Company's common stock, pursuant to the Company's 2013 Employee, Director and Consultant Equity Incentive Plan, to certain officers and directors in the amount of 458,719 shares, at \$0.42 per share which were immediately vested and issued on September 6, 2019.

Sales and marketing costs, which includes internet and trade publication advertising, travel and entertainment costs, sales-broker commissions, and trade show participation expenses, increased 10% during 2019 as compared to 2018, primarily due to increase in travel due to on boarding new customers associated with our AuthentiGuard product.

Rent and utilities increased 30% during 2019 as compared to 2018 due to increases in rental costs for warehousing space at the Company's packaging division as well as cost at the Company's plastic division.

Other operating expenses consist primarily of equipment maintenance and repairs, office supplies, IT support, bad debt expense, insurance costs, and corporate travel. Other operating expenses increased 48% in 2019 compared to 2018 which primarily reflected increases in office, equipment rental and maintenance, as well as travel associated with corporate activities costs in 2019.

Research and development costs consist primarily of third-party research costs and consulting costs. During the year ended December 31, 2019, Research and development costs decreased 108% as compared to the same period in 2018 primarily due to development costs related to the development of proprietary blockchain solutions for the Company's AuthentiGuard product line recognized in 2018, as well as receipt of an anticipated \$33,000 refund on development costs for the development of proprietary block chain solutions for DSS International.

Other Income and Expense

	Year Ended December 31, 2019	Year Ended December 31, 2018	% change
Other income and expense			
Interest income	\$ 25,000	\$ 9,000	178%
Interest expense	(157,000)	(145,000)	8%
Amortization of deferred financing costs and debt discount	(2,000)	(47,000)	(96%)
Impairment of investment	-	(160,000)	100%
Gain on extinguishment of liabilities, net	-	3,533,000	100%
<i>Total other income and expense</i>	<i>\$ (134,000)</i>	<i>\$ 3,191,000</i>	<i>104%</i>

Interest income increased 178%, during the year ended December 31, 2019, as compared to the same period in 2018, due revenue recognized on the Company's money market account and notes receivable.

Interest expense increased 8%, during the year ended December 31, 2019, as compared to the same period in 2018, due to the interest expense incurred with the settlement of the swap agreement associated with the consolidation of the two Promissory Notes.

Amortized debt discount decreased 96% during the year ended December 31, 2019, as compared to the same period in 2018, due to a decrease in the total debt carried by the Company in 2019 as compared to 2018.

Impairment of investment During the 4th quarter of 2018, the Company determined that its investment in Singapore eDevelopment ("SED") was impaired due to the decline in the share price of SED, especially since November of 2018, which the Company believes was influenced by a general decline in equity markets in Asia caused by the tariff dispute between the United States and China. The Company has carried its investment in SED at costs in accordance with ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" as the Company determined that these trading value of the SED share did not represent a readily determinable fair value due to a potential lack of liquidity of the SED shares due to a low average trading volume of the SED shares and the effect of the time restriction on the ability of the Company to sell the shares until September 17, 2019. As such, in response to the decline in the trading value of the SED shares in the fourth quarter of 2018, the Company performed an impairment test and determined an impairment of approximately \$160,000 was warranted.

Gain on extinguishment of liabilities, net On June 26, 2018, the Company reached an agreement with one of its third-party IP monetization co-investors that, among other things, discharged the amounts recorded as liabilities by the Company under an agreement executed in 2014. As a result this agreement, the Company recorded a gain of extinguishment of liabilities of \$3,714,129 to reflect the discharge of the notes, a write down of other current liabilities of \$114,000 to reflect the elimination of the contingent equity interests of \$459,000 offset by the repayment of the \$345,000 restricted cash, and the Company wrote-off the value of the underlying patents which had a net book value of \$295,470, all of which resulted in the a net gain on the extinguishment of liabilities of \$3,532,659 recorded in the period ended June 30, 2018.

Net Income (Loss) Per Share

	Year Ended December 31, 2019	Year Ended December 31, 2018	% change
Net income (loss)	\$ (2,889,000)	\$ 1,465,000	(468)%
Income (loss) per common share:			
Basic	\$ (0.11)	\$ 0.09	222%
Diluted	\$ (0.11)	\$ 0.09	222%
Shares used in computing income (loss) per common share:			
Basic	25,505,404	16,724,376	53%
Diluted	25,505,404	16,930,805	51%

During 2019, the Company had net loss of \$2.9 million as compared to a net income of \$1.5 million in 2018, representing a 468% decrease. This achievement of net income in 2018 is primarily due to the impact of a one time net gain from extinguishment of liabilities of approximately \$3.5 million which occurred during the second quarter of 2018, offset by the operating loss incurred during 2018.

Liquidity and Capital Resources

The Company has historically met its liquidity and capital requirements primarily through the sale of its equity securities and debt financings. As of December 31, 2019, the Company had cash of approximately \$1.1 million. As of December 31, 2019, the Company believes that it has sufficient cash to meet its cash requirements for at least the next 12 months from the filing date of this Annual Report. In addition, the Company believes that it will have access to sources of capital from the sale of its equity securities and debt financings.

Operating Cash Flow - During 2019, the Company expended approximately \$5.3 million for operations, which generally reflected by decreases in accrued expenses and other liabilities, and an increase in accounts receivable, offset by a decrease in inventory and an increase in accounts payable balances, respectively.

Investing Cash Flow - During 2019, the Company expended approximately \$989,000 on equipment for its packaging and plastic card operations for various machinery, equipment, and software including a folder-gluer machine for packaging and laminating plates for plastic card operations. In addition, the Company expended approximately \$370,000 on intangible assets, and \$1.8 million on the purchase of investments

Financing Cash Flows - During 2019, the Company made aggregate principal payments on long-term debt of approximately \$274,000 million. In addition, the Company also received proceeds of approximately \$1.1 million in borrowings from the lines of credit for its printing divisions, and approximately \$6.7 million from the sale of the Company's common stock.

Continuing Operations and Going Concern - The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities, which might be necessary should we be unable to continue as a going concern. While the Company has approximately \$1.1 million in cash, and a positive working capital position of approximately \$3.2 million as of December 31, 2019, the Company has incurred negative cash flows from operating and investing activities over the past two years and has incurred negative cash flows from operations in 2019. To continue as a going concern, on June 5, 2019, the Company entered into an underwriting agreement with Aegis Capital Corp., acting as representative of the several underwriters, which provided for the issuance and sale by the Company in an underwritten public offering (the "Offering") of 11,200,000 shares of the Company's common stock. The Company also granted the Underwriters a 45-day option to purchase up to 1,680,000 additional shares of the Company's common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the Offering (519,186 shares were exercised on July 18, 2019.) The net offering proceeds to the Company was approximately \$5.0 million, inclusive of the July 18, 2019 transaction and after deducting underwriting discounts, commissions and other offering expenses. On February 25, 2020, the Company entered into another underwriting agreement with Aegis Capital Corp., acting as representative of the several underwriters, which provided for the issuance and sale by the Company in an underwritten public offering (the "Offering") of 25,555,556 shares (inclusive of 3,333,333 over-allotment that was exercised immediately) of the Company's common stock. The net offering proceeds to the Company approximated \$4.0 million.

The expected use of cash for operations in 2020 will be primarily for funding operating losses, working capital, legal expenses associated with its intellectual property related litigation, and the costs associated with the global roll-out of the Company's AuthentiGuard product line. The Company will also use these funds to make capital improvements at its two manufacturing facilities to increase production capacity and create efficiencies, as well as to diversify its revenue streams and take advantage of profit opportunities.

The Company's management intends to take actions necessary to continue as a going concern. Management's plans concerning these matters includes, among other things, continued growth among our operating segments including international expansion of our AuthentiGuard product, and tightly controlling operating costs and reducing spending growth rates wherever possible to return to profitability.

We believe that our \$1.1 million in aggregate cash and equivalents as of December 31, 2019, as well as the \$4.0 million raised on February 25, 2020 will allow us to fund our four operating segments and planned operations through March 2021. Based on this, as well as the additional funding raised in February 2020, we have concluded that substantial doubt of our ability to continue as a going concern has been alleviated.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on our financial condition, financial statements, revenues or expenses.

Inflation

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material effect on our results of operations during 2019 or 2018 as we are generally able to pass the increase in our material and labor costs to our customers or absorb them as we improve the efficiency of our operations.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the U.S. ("U.S. GAAP") requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. The Company's consolidated financial statements for the fiscal year ended December 31, 2019 describe the significant accounting policies and methods used in the preparation of the consolidated financial statements.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, the Company evaluates its estimates, including those related to the accounts receivable, fair values of intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of options and warrants to purchase the Company's common stock, deferred revenue and income taxes, among others. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Investment - In accordance with ASC 325-20, the Company records its investment in common stock of Singapore eDevelopment Limited at cost, less impairment as the fair market value of the investment is not readily determinable. The Company evaluates investment for indications of impairment at least annually.

Fair Value of Financial Instruments - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurement Topic of the FASB ASC establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The carrying amounts reported in the balance sheet of cash and cash equivalents, accounts receivable, prepaids, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. The fair value of notes receivable approximates their carrying value as the stated or discounted rates of the notes do not reflect recent market conditions. The fair value of revolving credit lines notes payable and long-term debt approximates their carrying value as the stated or discounted rates of the debt reflect recent market conditions. Derivative instruments, as discussed below, are recorded as assets and liabilities at estimated fair value based on available market information. The fair value of investments carried at cost less impairment; however, the fair value is not considered readily determinable based on the lack of liquidity for the shares owned. Impairment of Long-Lived Assets - The Company monitors the carrying value of long-lived assets for potential impairment and tests the recoverability of such assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If a change in circumstance occurs, the Company performs a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If cash flows cannot be separately and independently identified for a single asset, the Company will determine whether impairment has occurred for the group of assets for which the Company can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, the Company measures any impairment by comparing the fair value of the asset or asset group to its carrying value.

Revenue Recognition - The Company sells printed products including packaging printing and fabrication, commercial and security printing and plastic cards and badges, including cards and badges integrated with technology such as RFID and smart chips. The Company also provides information technology services and digital authentication products and services to its customers. The Company recognizes its products and services revenue based on when the title passes to the customer or when the service is completed and accepted by the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for shipped product or service provided. Sales and other taxes billed and collected from customers are excluded from revenue. Customers, including distributors, do not have a general right of return. The Company also derives revenue from royalties from third parties which are typically based on licensees' net sales of products that utilize the Company's technology, or on a per item usage of the technology on the customers' printed products. The Company recognizes license revenue at the time it is reported by the licensee. From time to time, the Company generates license revenues through litigation settlements. For these, the Company recognizes revenue upon the execution of the agreement, when collectability is reasonably assured, or upon receipt of the minimum upfront fee for term agreement renewals, and when all other revenue recognition criteria have been met.

As of December 31, 2019, the Company had no unsatisfied performance obligations for contracts with an original expected duration of greater than one year. Pursuant to Topic 606, the Company has applied the practical expedient with respect to disclosure of the deferral and future expected timing of revenue recognition for transaction price allocated to remaining performance obligations.

Goodwill - Goodwill is the excess of cost of an acquired entity over the fair value of amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is subject to impairment testing at least annually and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. FASB ASC Topic 350 provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If the two-step impairment test is necessary, a fair-value-based test is applied at the reporting unit level, which is generally one level below the operating segment level. The test compares the fair value of an entity's reporting units to the carrying value of those reporting units. This test requires various judgments and estimates. The Company estimates the fair value of the reporting unit using a market approach in combination with a discounted operating cash flow approach. Impairment of goodwill is measured as the excess of the carrying amount of goodwill over the fair values of recognized and unrecognized assets and liabilities of the reporting unit. An adjustment to goodwill will be recorded for any goodwill that is determined to be impaired. The Company tests goodwill for impairment at least annually in conjunction with preparation of its annual business plan, or more frequently if events or circumstances indicate it might be impaired.

Other Intangible Assets and Patent Application Costs - Other intangible assets consists of costs associated with the application for patents, acquisition of patents and contractual rights to patents and trade secrets associated with the Company's technologies. The Company's patents and trade secrets are generally for document anti-counterfeiting and anti-scanning technologies and processes that form the basis of the Company's document security business. Patent application costs are capitalized and amortized over the estimated useful life of the patent, which generally approximates its legal life. In addition, intangible assets include customer lists and non-compete agreements obtained as a result of acquisitions. Intangible asset amortization expense is classified as an operating expense. The Company believes that the decision to incur patent costs is discretionary as the associated products or services can be sold prior to or during the application process. The Company accounts for other intangible amortization as an operating expense, unless the underlying asset is directly associated with the production or delivery of a product. Subsequent to acquisition of patents and trade secrets, legal and associated costs incurred in prosecuting alleged infringements of the patents will be recognized as expense when incurred. Costs incurred to renew or extend the term of recognized intangible assets, including patent annuities and fees, and patent defense costs are expensed as incurred. To date, the amount of related amortization expense for other intangible assets directly attributable to revenue recognized is not material.

Impairment of Long-Lived Assets - The Company monitors the carrying value of long-lived assets for potential impairment and tests the recoverability of such assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If a change in circumstance occurs, the Company performs a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If cash flows cannot be separately and independently identified for a single asset, the Company will determine whether impairment has occurred for the group of assets for which the Company can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, the Company measures any impairment by comparing the fair value of the asset or asset group to its carrying value.

Contingent Legal Expenses - Contingent legal fees are expensed in the consolidated statements of operations in the period that the related revenues are recognized. In instances where there are no recoveries from potential infringers, no contingent legal fees are paid; however, the Company may be liable for

certain out of pocket legal costs incurred pursuant to the underlying legal services agreement that will be paid out from the proceeds from settlements or licenses that arise pursuant to an enforcement action, which will be expensed as legal fees in the period in which the payment of such fees is probable. Any unamortized patent acquisition costs will be expensed in the period in which a conclusion is reached in an enforcement action that does not yield future royalties potential.

Segment Reporting – In accordance with ASC 280, the Company has identified its reportable segments and, for each period for which an income statement is presented, disclose certain information, separately by reportable segment, relative to the segment products or services, revenue, some items of expense and cash flow, profit or loss, and assets.

Continuing Operations and Going Concern – The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities, which might be necessary should we be unable to continue as a going concern.

Share-Based Payments - We measure compensation cost for stock awards at fair value and recognize compensation expense over the service period for which awards are expected to vest. The Company uses the Black-Scholes-Merton option pricing model for determining the estimated fair value for stock-based awards. The Black-Scholes-Merton model requires the use of subjective assumptions which determine the fair value of stock-based awards, including the option's expected term and the price volatility of the underlying stock. For equity instruments issued to consultants and vendors in exchange for goods and services, the Company determines the measurement date for the fair value of the equity instruments issued at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement.

Income Taxes - The Company recognizes estimated income taxes payable or refundable on income tax returns for the current year and for the estimated future tax effect attributable to temporary differences and carry-forwards. Measurement of deferred income items is based on enacted tax laws including tax rates, with the measurement of deferred income tax assets being reduced by available tax benefits not expected to be realized. We recognize penalties and accrued interest related to unrecognized tax benefits in income tax expense.

Leases - The Company adopted ASU No. 2016-02 and its related amendments which introduced Leases (Topic 842, or "ASC 842"), as required, effective January 1, 2019 and elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption, without a restatement of prior periods. The new accounting standard requires lessees to recognize right-of-use ("ROU") assets and corresponding lease liabilities for all leases with lease terms of greater than 12 months. Further, the Company elected a short-term lease exception policy, permitting the Company to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less). As a result of the adoption, the Company adjusted its balance sheet by recording an ROU asset and lease liability. The adoption impacted the accompanying consolidated balance sheet, but did not have an impact on the consolidated statements of operations and comprehensive income (loss). The Company uses a discount rate to determine the present value based on the rate implicit in the lease, if readily determinable, or its incremental borrowing rate.

Recent Accounting Pronouncements - See Note 2 "Summary of Significant Accounting Policies" in the notes to our consolidated financial statements in this Annual Report on Form 10-K for information regarding recent accounting pronouncements.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Financial Statements

DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Document Security Systems, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Document Security Systems, Inc. and Subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statement (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of ASU 2016-02, *Leases (Topic 842)*, and the related amendments. Our opinion is not modified with respect to this matter.

/s/ Freed Maxick CPAs, P.C.

We have served as the Company's auditor since 2004.

Rochester, New York
March 30, 2020

DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31,

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash	\$ 1,096,248	\$ 2,447,985
Accounts receivable, net of \$41,000 and \$50,000 respectively allowance for doubtful accounts	4,211,906	2,217,877
Inventory	1,707,690	1,563,593
Prepaid expenses and other current assets	459,868	285,580
Total current assets	<u>7,475,712</u>	<u>6,515,035</u>
Property, plant and equipment, net	5,060,698	5,014,494
Investment	2,154,175	324,930
Notes receivable	793,195	-
Other assets	49,875	90,319
Right-of-use assets	1,222,742	-
Goodwill	2,453,597	2,453,597
Other intangible assets, net	934,765	881,411
Total assets	\$ <u>20,144,759</u>	\$ <u>15,279,786</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,492,494	\$ 1,347,491
Accrued expenses and deferred revenue	935,041	1,106,346
Other current liabilities	390,494	2,255,942
Revolving line of credit	500,000	-
Current portion of lease liability	397,097	-
Current portion of long-term debt, net	440,699	713,427
Total current liabilities	<u>4,155,825</u>	<u>5,423,206</u>
Long-term debt, net	2,309,847	1,721,936
Long term lease liability	825,645	-
Other long-term liabilities	507,058	391,325
Deferred tax liability, net	43,567	168,986
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock, \$.02 par value; 200,000,000 shares authorized, 36,180,626 shares issued and outstanding (17,425,858 on December 31, 2018)	723,612	348,517
Additional paid-in capital	114,860,150	107,624,666
Accumulated other comprehensive loss	-	(7,052)
Accumulated deficit	(103,280,945)	(100,391,798)
Total stockholders' equity	<u>12,302,817</u>	<u>7,574,333</u>
Total liabilities and stockholders' equity	\$ <u>20,144,759</u>	\$ <u>15,279,786</u>

See accompanying notes.

DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
Revenue:		
Printed products	\$ 17,089,740	\$ 16,940,262
Technology sales, services and licensing	2,147,740	1,574,820
Direct selling	171,750	-
	<u>19,409,230</u>	<u>18,515,082</u>
Costs and expenses:		
Cost of revenue, exclusive of depreciation and amortization	12,602,494	11,853,499
Selling, general and administrative (including stock based compensation)	8,283,266	7,088,610
Depreciation and amortization	1,403,836	1,281,634
	<u>22,289,596</u>	<u>20,223,743</u>
Operating loss	(2,880,366)	(1,708,661)
Other income (expense):		
Interest income	24,953	8,634
Interest expense	(157,319)	(144,819)
Amortization of deferred financing costs and debt discount	(1,901)	(46,251)
Impairment of investment	-	(160,000)
Gain on extinguishment of liabilities, net	-	3,532,659
Income (loss) before income taxes	(3,014,634)	1,481,562
Income tax expense (benefit)	(125,487)	16,593
Net income (loss)	<u>\$ (2,889,147)</u>	<u>\$ 1,464,969</u>
Other comprehensive income (loss):		
Interest rate swap gain (loss)	(15,431)	16,017
Settlement of Interest rate swap	22,483	
Comprehensive income (loss):	<u>\$ (2,882,095)</u>	<u>\$ 1,480,986</u>
Income (loss) per common share:		
Basic	<u>\$ (0.11)</u>	<u>\$ 0.09</u>
Diluted	<u>\$ (0.11)</u>	<u>\$ 0.09</u>
Shares used in computing income (loss) per common share:		
Basic	25,505,404	16,724,376
Diluted	25,505,404	16,930,805

See accompanying notes.

DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31,

	2019	2018
Cash flows from operating activities:		
Net income (loss)	\$ (2,889,147)	\$ 1,464,969
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization	1,403,836	1,281,634
Stock based compensation	421,673	131,733
Paid in-kind interest	-	12,000
Change in deferred tax provision	(125,419)	9,673
Amortization of deferred financing costs and debt discount	1,901	46,251
Gain on extinguishment of liabilities, net	-	(3,532,659)
Impairment of investment	-	160,000
Decrease (increase) in assets:		
Accounts receivable	(1,994,029)	(192,593)
Inventory	(144,097)	87,653
Prepaid expenses and other assets	(133,844)	(31,198)
Increase (decrease) in liabilities:		
Accounts payable	145,003	618,836
Accrued expenses	(279,036)	(113,793)
Other liabilities	(1,749,715)	(1,325,427)
Net cash used by operating activities	<u>(5,342,874)</u>	<u>(1,382,921)</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(988,876)	(1,003,413)
Purchase of investment	(1,829,245)	-
Issuance of notes receivable	(793,195)	-
Purchase of intangible assets	(369,735)	(100,138)
Net cash used by investing activities	<u>(3,981,051)</u>	<u>(1,103,551)</u>
Cash flows from financing activities:		
Payments of long-term debt	(274,468)	(1,188,081)
Borrowings from lines of credit, net	587,750	502,155
Borrowings from revolving lines of credit, net	500,000	-
Borrowings from conversion of note	500,000	-
Issuances of common stock, net of issuance costs	6,658,906	887,755
Receipt of subscription receivable, net of issuance costs	-	288,000
Net cash provided by financing activities	<u>7,972,188</u>	<u>489,829</u>
Net decrease in cash	(1,351,737)	(1,996,643)
Cash and cash equivalents at beginning of year	2,447,985	4,444,628
Cash and cash equivalents at end of year	<u>\$ 1,096,248</u>	<u>\$ 2,447,985</u>

See accompanying notes.

DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2019 and 2018

	Common Stock		Additional Paid-in Capital	Subscription Receivable	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount					
Balance, December 31, 2017	16,599,327	331,987	106,633,708	(300,000)	(23,069)	(101,856,767)	4,785,859
Issuance of common stock, net	826,531	16,530	859,225	300,000	-	-	1,175,755
Stock based payments, net of tax effect	-	-	131,733	-	-	-	131,733
Other comprehensive gain	-	-	-	-	16,017	-	16,017
Net income	-	-	-	-	-	1,464,969	1,464,969
Balance, December 31, 2018	17,425,858	348,517	107,624,666	-	(7,052)	(100,391,798)	7,574,333
Issuance of common stock, net	18,296,049	365,921	6,937,768	-	-	-	7,303,689
Stock based payments, net of tax effect	458,719	9,174	297,716	-	-	-	306,890
Other comprehensive gain	-	-	-	-	7,052	-	7,052
Net loss	-	-	-	-	-	(2,889,147)	(2,889,147)
Balance, December 31, 2019	36,180,626	723,612	114,860,150	-	-	(103,280,945)	12,302,817

See accompanying notes.

DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS

Document Security Systems, Inc. (the "Company"), through two of its subsidiaries, Premier Packaging Corporation, which operates under the assumed name of DSS Packaging Group, and Plastic Printing Professionals, Inc., which operates under the name of DSS Plastics Group, operates in the security and commercial printing, packaging and plastic ID markets. The Company develops, markets, manufactures and sells paper and plastic products designed to protect valuable information from unauthorized scanning, copying, and digital imaging. The Company's subsidiary, DSS Digital Inc., which also operates under the name of DSS Digital Group, researches, develops, markets and sells worldwide the Company's digital products, including and primarily our AuthentiGuard® product, which is a brand authentication application that integrates the Company's counterfeit deterrent technologies with proprietary digital data security-based solutions. The Company's subsidiary, DSS Technology Management ("DSSTM"), Inc., manages, licenses and acquires intellectual property ("IP") assets for the purpose of monetizing these assets through a variety of value-enhancing initiatives, including, but not limited to, investments in the development and commercialization of patented technologies, licensing, strategic partnerships and commercial litigation. In 2018, the Company commenced operations in the Asia Pacific market through its subsidiary DSS Asia Limited, which was formed in 2017.

In 2019, DSS created four new, wholly owned subsidiaries all of which currently have no employees and are in the exploratory stage and looking for opportunities. DSS Blockchain Security, Inc., that intends to specialize in the development of blockchain security technologies for tracking and tracing solutions for supply chain logistics and cyber securities across global markets. Decentralize Sharing Systems, Inc., that amongst other things, intends to provide services to assist companies utilizing blockchain technologies for sharing system solutions in the new economics of the peer-to-peer decentralized sharing marketplaces. DSS Securities, Inc., anticipates establishing or acquiring two parallel streams of digital asset exchanges in multiple jurisdictions: (i) securitized token exchanges, focusing on digitized assets from different vertical industries and (ii) utilities token exchanges, focusing on "blue-chip" utility tokens from solid businesses. DSS BioHealth Security, Inc., to invest in companies that include, but not limited to, holding bio-medical intellectual property and/or which have, or are securing, strategic alliances, partnerships and distributing rights for biomedical and security products, technologies or enterprises. This new division will focus on open-air defense initiatives, which curb transmission of air-borne infectious diseases such as tuberculosis, influenza, among others, in open areas.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of Document Security System and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, the Company evaluates its estimates, including those related to the accounts and notes receivable, inventory, fair values of investments, recoverability of long-lived assets and goodwill, useful lives of intangible assets and property and equipment, contingencies fair values of options and warrants to purchase the Company's common stock, deferred revenue and income taxes, substantial doubt about ability to continue as a going concern among others. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Reclassifications - Certain amounts on the accompanying consolidated balance sheets for the year ended December 31, 2018 have been reclassified to conform to current year presentation.

Cash Equivalents - All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Amounts included in cash equivalents in the accompanying consolidated balance sheets are money market funds whose adjusted costs approximate fair value.

Accounts Receivable - The Company extends credit to its customers in the normal course of business. The Company performs ongoing credit evaluations and generally do not require collateral. Payment terms are generally 30 days but up to net 105 for certain customers. The Company carries its trade accounts receivable at invoice amount less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based upon management's estimates that include a review of the history of past write-offs and collections and an analysis of current credit conditions. At December 31, 2019, the Company established a reserve for doubtful accounts of approximately \$41,000 (\$50,000 – 2018). The Company does not accrue interest on past due accounts receivable.

Inventory - Inventories consist primarily of paper, plastic materials and cards, pre-printed security paper, paperboard and fully prepared packaging which and are stated at the lower of cost or net realizable value on the first-in, first-out (“FIFO”) method. Packaging work-in-process and finished goods included the cost of materials, direct labor and overhead. At the closing of each reporting period, the Company evaluates its inventory in order to adjust the inventory balance for obsolete and slow moving items. No reserve was recorded at December 31, 2019 or 2018. Write-downs and write-offs are charged to cost of goods sold.

Property, Plant and Equipment - Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives or lease period of the assets whichever is shorter. Expenditures for renewals and betterments are capitalized. Expenditures for minor items, repairs and maintenance are charged to operations as incurred. Any gain or loss upon sale or retirement due to obsolescence is reflected in the operating results in the period the event takes place. Depreciation expense in 2019 was approximately \$943,000 (\$795,000 - 2018).

Investment - In accordance with ASC 325-20, the Company records its investment in common stock of Singapore eDevelopment Limited at cost, less impairment as the fair market value of the investment is not readily determinable. The Company evaluates investment for indications of impairment at least annually.

Goodwill - Goodwill is the excess of cost of an acquired entity over the fair value of amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is subject to impairment testing at least annually and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 350 provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If the two-step impairment test is necessary, a fair-value-based test is applied at the reporting unit level, which is generally one level below the operating segment level. The test compares the fair value of an entity’s reporting units to the carrying value of those reporting units. This test requires various judgments and estimates. The Company estimates the fair value of the reporting unit using a market approach in combination with a discounted operating cash flow approach. Impairment of goodwill is measured as the excess of the carrying amount of goodwill over the fair values of recognized and unrecognized assets and liabilities of the reporting unit. The Company performed its annual goodwill impairment test as of December 31, 2019, and no impairment was deemed necessary. At December 31, 2019 and 2018 the Company’s goodwill consisted of approximately \$685,000 and \$1,768,600 for Plastic Printing Professionals, and Premier Packaging Corp., respectively.

Other Intangible Assets and Patent Application Costs - Other intangible assets consist of costs associated with the application for patents, acquisition of patents and contractual rights to patents and trade secrets associated with the Company’s technologies. The Company’s patents and trade secrets are generally for document anti-counterfeiting and anti-scanning technologies and processes that form the basis of the Company’s document security business. Patent application costs are capitalized and amortized over the estimated useful life of the patent, which generally approximates its legal life. In addition, intangible assets include customer lists and non-compete agreements obtained because of acquisitions. Intangible asset amortization expense is classified as an operating expense. The Company believes that the decision to incur patent costs is discretionary as the associated products or services can be sold prior to or during the application process. The Company accounts for other intangible amortization as an operating expense, unless the underlying asset is directly associated with the production or delivery of a product. Subsequent to acquisition of patents and trade secrets, legal and associated costs incurred in prosecuting alleged infringements of the patents will be recognized as expense when incurred. Costs incurred to renew or extend the term of recognized intangible assets, including patent annuities and fees, and patent defense costs are expensed as incurred. To date, the amount of related amortization expense for other intangible assets directly attributable to revenue recognized is not material.

Impairment of Long-Lived Assets - The Company monitors the carrying value of long-lived assets for potential impairment and tests the recoverability of such assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If a change in circumstance occurs, the Company performs a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If cash flows cannot be separately and independently identified for a single asset, the Company will determine whether impairment has occurred for the group of assets for which the Company can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, the Company measures any impairment by comparing the fair value of the asset or asset group to its carrying value.

Fair Value of Financial Instruments - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurement Topic of the FASB ASC establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The carrying amounts reported in the balance sheet of cash and cash equivalents, accounts receivable, prepaids, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. The fair value of notes receivable approximates their carrying value as the stated or discounted rates of the notes do not reflect recent market conditions. The fair value of revolving credit lines notes payable and long-term debt approximates their carrying value as the stated or discounted rates of the debt reflect recent market conditions. Derivative instruments, as discussed below, are recorded as assets and liabilities at estimated fair value based on available market information. The fair value of investments carried at cost less impairment; however, the fair value is not considered readily determinable based on the lack of liquidity for the shares owned.

Derivative Instruments - The Company maintains an overall interest rate risk management strategy that may incorporate the use of interest rate swap contracts to minimize significant fluctuations in earnings that are caused by interest rate volatility. The Company had an interest rate swap that changes variable rates into fixed rates on one Citizens Bank term loan relating to the Company's subsidiary, Premier Packaging. This swap qualified as a Level 2 fair value financial instrument. This swap agreement was not held for trading purposes and the Company did not intend to sell this derivative swap financial instrument. The Company recorded the interest swap agreement on the balance sheet at fair value because the agreement qualifies as a cash flow hedge under accounting principles generally accepted in the United States of America. Gains and losses on these instruments are recorded in other comprehensive loss until the underlying transaction is recorded in earnings. When the hedged item was realized, gains or losses are reclassified from accumulated other comprehensive loss ("AOCI") to the consolidated statement of operations. The valuations of the interest rate swap has been derived from proprietary models of Citizens Bank, N.A (Citizens), based upon recognized financial principles and reasonable estimates about relevant future market conditions and may reflect certain other financial factors such as anticipated profit or hedging, transactional, and other costs. The notional amounts of the swap decreased over the life of the agreements. The Company would be exposed to a credit loss in the event of nonperformance by the counter parties to the interest rate swap agreements. The Company did not anticipate non-performance by the counter parties. The swap was settled in September 2019 with the effect of the settlement of an approximate loss of \$22,000 recorded in other comprehensive income in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

Share-Based Payments - Compensation cost for stock awards are measured at fair value and the Company recognizes compensation expense over the service period for which awards are expected to vest. The Company uses the Black-Scholes-Merton option pricing model for determining the estimated fair value for stock-based awards. The Black-Scholes-Merton model requires the use of subjective assumptions which determine the fair value of stock-based awards, including the option's expected term and the price volatility of the underlying stock. For equity instruments issued to consultants and vendors in exchange for goods and services the Company determines the measurement date for the fair value of the equity instruments issued at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement.

Revenue Recognition - Effective January 1, 2018, the Company adopted Topic 606 using the modified retrospective approach and applied the guidance to those contracts which were not completed as of January 1, 2018. Adoption of Topic 606 did not impact the timing of revenue recognition in the Company's Consolidated Financial Statements for the current or prior interim or annual periods.

The Company sells printed products including packaging printing and fabrication, commercial and security printing and plastic cards and badges, including cards and badges integrated with technology such as RFID and smart chips. The Company also provides information technology services and digital authentication products and services to its customers. The Company recognizes its products and services revenue based on when the title passes to the customer or when the service is completed and accepted by the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for shipped product or service provided. Sales and other taxes billed and collected from customers are excluded from revenue. Customers, including distributors, do not have a general right of return. The Company also derives revenue from royalties from third parties which are typically based on licensees' net sales of products that utilize the Company's technology, or on a per item usage of the technology on the customers' printed products. The Company recognizes license revenue at the time it is reported by the licensee. From time to time, the Company generates license revenues through litigation settlements. For these, the Company recognizes revenue upon the execution of the agreement, when collectability is reasonably assured, or upon receipt of the minimum upfront fee for term agreement renewals, and when all other revenue recognition criteria have been met.

As of December 31, 2019, the Company had no unsatisfied performance obligations for contracts with an original expected duration of greater than one year. Pursuant to Topic 606, the Company has applied the practical expedient with respect to disclosure of the deferral and future expected timing of revenue recognition for transaction price allocated to remaining performance obligations. The Company elected the practical expedient allowing it to not recognize as a contract asset the commission paid to its salesforce on the sale of its products as an incremental cost of obtaining a contract with a customer but rather recognize such commission as expense when incurred as the amortization period of the asset that the Company would have otherwise recognized is one year or less.

Sales Commissions

Sales commissions are expensed as incurred for contracts with an expected duration of one year or less. There were no sales commissions capitalized as of December 31, 2019.

Shipping and Handling Costs

Costs incurred by the Company related to shipping and handling are included in cost of products sold. Amounts charged to customers pertaining to these costs are reflected as revenue.

Costs of revenue - Costs of revenue includes all direct cost of the Company's packaging, commercial and security printing and plastic ID card sales, primarily, paper, plastic, inks, dies, and other consumables, and direct labor, transportation and manufacturing facility costs. In addition, this category includes all direct costs associated with the Company's technology sales, services and licensing including hardware and software that is resold, third-party fees, and fees paid to inventors or others as a result of technology licenses or settlements, if any. Costs of revenue recorded in the DSS Technology Management group include contingent legal fees, inventor royalties, legal, consulting and other professional fees directly related to the Company's patent monetization, litigation and licensing activities. Amortization of patent costs and acquired technology are included in depreciation and amortization on the consolidated statement of operations. Costs of revenue do not include expenses related to product development, integration, and support. These costs are included in research and development, which is a component of selling, general and administrative expenses on the consolidated statement of operations. Legal costs are included in selling, general and administrative.

Contingent Legal Expenses - Contingent legal fees are expensed in the consolidated statements of operations in the period that the related revenues are recognized. In instances where there are no recoveries from potential infringers, no contingent legal fees are paid; however, the Company may be liable for certain out of pocket legal costs incurred pursuant to the underlying legal services agreement that will be paid out from the proceeds from settlements or licenses that arise pursuant to an enforcement action, which will be expensed as legal fees in the period in which the payment of such fees is probable. Any unamortized patent acquisition costs will be expensed in the period a conclusion is reached in an enforcement action that does not yield future royalties potential.

Advertising Costs - Generally consist of online, keyword advertising with Google with additional amounts spent on certain print media in targeted industry publications. Advertising costs were approximately \$81,000 in 2018 (\$67,000 - 2018).

Research and Development - Research and development costs are expensed as incurred. Research and development costs consist primarily of third-party research costs and consulting costs. The Company recognized a credit in 2019 of approximately \$12,000 primarily due to receipt of the anticipated \$33,000 refund on development costs for the development of proprietary blockchain solutions for the Company's AuthentiGuard product line. In comparison, the Company spent approximately \$146,000 and on research and development during 2018 primarily toward the development of the Company's AuthentiGuard product line.

Income Taxes - The Company recognizes estimated income taxes payable or refundable on income tax returns for the current year and for the estimated future tax effect attributable to temporary differences and carry-forwards. Measurement of deferred income items is based on enacted tax laws including tax rates, with the measurement of deferred income tax assets being reduced by available tax benefits not expected to be realized. We recognize penalties and accrued interest related to unrecognized tax benefits in income tax expense.

Earnings Per Common Share - The Company presents basic and diluted earnings per share. Basic earnings per share reflect the actual weighted average of shares issued and outstanding during the period. Diluted earnings per share are computed including the number of additional shares that would have been outstanding if dilutive potential shares had been issued and is calculated utilizing the treasury stock method. In a loss period, the calculation for basic and diluted earnings per share is the same, as the impact of potential common shares is anti-dilutive.

As of December 31, 2019, and 2018, there were 1,798,221 and 2,212,773, respectively, of common stock share equivalents potentially issuable under options, warrants, and restricted stock agreements that could potentially dilute basic earnings per share in the future. For the twelve-months ended December 31, 2019, equivalents were excluded from the calculation of diluted earnings per share since their inclusion would have been anti-dilutive. For the twelve-months ended December 31, 2018, based on the average market price of the Company's common stock during that period of \$1.27, 206,429 common stock equivalents were added to the basic shares outstanding to calculate dilutive earnings per share.

Comprehensive Income (Loss) - Comprehensive income (loss) is defined as the change in equity of the Company during a period from transactions and other events and circumstances from non-owner sources. It consists of net income (loss) and other income and losses affecting stockholders' equity that, under U.S. GAAP, are excluded from net income (loss). The change in fair value of interest rate swaps was the only item impacting accumulated other comprehensive loss for the years ended December 31, 2019 and 2018.

Concentration of Credit Risk - The Company maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk as a result of any non-performance by the financial institutions.

During 2019, two customers accounted for 45% of our consolidated revenue. As of December 31, 2019, these two customers accounted for 49% of our consolidated trade accounts receivable balance. As of December 31, 2018, these two customers accounted for 44% of our consolidated revenue and 38% of our consolidated trade accounts receivable balance.

Continuing Operations and Going Concern - The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities, which might be necessary should we be unable to continue as a going concern. While the Company has approximately \$1.1 million in cash and cash equivalents, and a positive working capital position of approximately \$3.2 million as of December 31, 2019, the Company has incurred negative cash flows from operating and investing activities over the past two years. To continue as a going concern, on June 5, 2019, the Company entered into an underwriting agreement with Aegis Capital Corp., acting as representative of the several underwriters, which provided for the issuance and sale by the Company in an underwritten public offering (the "Offering") of 11,200,000 shares of the Company's common stock. The Company also granted the Underwriters a 45-day option to purchase up to 1,680,000 additional shares of the Company's common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the Offering (519,186 shares were exercised on July 18, 2019.) The net offering proceeds to the Company was approximately \$5.0 million, inclusive of the July 18, 2019 transaction and after deducting underwriting discounts, commissions and other offering expenses. Also, on February 25, 2020, Company entered into an underwriting agreement with Aegis Capital Corp., acting as representative of the several underwriters, which provided for the issuance and sale by the Company in an underwritten public offering (the "Offering") of 25,555,556 shares (inclusive of 3,333,333 over-allotment that was exercised immediately) of the Company's common stock. The net offering proceeds (inclusive of the over-allotment exercise) to the Company approximated \$4.0 million.

The expected use of cash for operations in 2020 will be primarily for funding operating losses, working capital, legal expenses associated with intellectual property related litigation, and the costs associated with the global roll-out of the Company's AuthentiGuard product line. The Company will also use these funds to make capital improvements at its two manufacturing facilities to increase production capacity and create efficiencies, as well as to diversify its revenue streams and take advantage of profit opportunities.

The Company's management intends to take actions necessary to continue as a going concern. Management's plans concerning these matters includes, among other things, continued growth among our operating segments including international expansion of our AuthentiGuard product, and tightly controlling operating costs and reducing spending growth rates wherever possible to return to profitability.

We believe that our \$1.1 million in aggregate cash and equivalents as of December 31, 2019 as well as the \$4.0 million raised on February 25, 2020 will allow us to fund our four operating segments current and planned operations through March 2021. Based on this, we have concluded that substantial doubt of our ability to continue as a going concern has been alleviated.

Recently Adopted Accounting Pronouncements –

In February 2016, the FASB issued ASU No. 2016-02 and its related amendments which introduced Leases (Topic 842, or "ASC 842"), a new comprehensive lease accounting model that supersedes the current lease guidance under Leases (Topic 840). The new accounting standard requires lessees to recognize right-of-use ("ROU") assets and corresponding lease liabilities for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. In July 2018, the FASB added a transition option for implementation that allows companies to continue to use the legacy guidance in ASC 840, Leases, including its disclosure requirements, in the comparative periods presented in the year of adoption. The Company adopted the guidance effective January 1, 2019. The Company elected the transition package of three practical expedients permitted under the transition guidance and elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption, without a restatement of prior periods. Further, the Company elected a short-term lease exception policy, permitting the Company to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less). As a result of the adoption, the Company adjusted its beginning balance as of January 1, 2019 by recording operating lease ROU asset and liabilities through a cumulative-effect adjustment. The adoption impacted the accompanying consolidated balance sheet, but did not have an impact on the consolidated statements of operations and comprehensive income (loss).

At the inception of a contractual arrangement, the Company determines whether the contract contains a lease by assessing whether there is an identified asset and whether the contract conveys the right to control the use of the identified asset in exchange for consideration over a period of time. If both criteria are met, the Company calculates the associated lease liability and corresponding ROU assets upon lease commencement using a discount rate based on a credit adjusted secured borrowing rate commensurate with the term of the lease. The Company records lease liabilities within current or noncurrent liabilities based upon the length of time associated with the lease payments. The operating lease ROU assets includes any lease payments made and excludes lease incentives and initial direct costs incurred, if any, and are recorded as noncurrent assets. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with an initial term of 12 months or less are not recorded on the accompanying consolidated balance sheet. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The impact of the adoption of ASC 842 on the accompanying consolidated balance sheet as of January 1, 2019 was a right-of-use asset and a lease liability of approximately \$1,443,800.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments-Credit Losses (Topic 326)", which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company is currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment", which eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. The annual assessment of goodwill impairment will be determined by using the difference between the carrying amount and the fair value of the reporting unit. The standards update is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently assessing the impact that adopting this new accounting standard will have on its Consolidated Financial Statements and plans to adopt ASU 2017-04 in the first quarter of 2020.

NOTE 3 – INVENTORY

Inventory consisted of the following at December 31:

	2019	2018
Finished Goods	\$ 1,097,616	\$ 1,144,695
Work in Process	246,159	339,091
Raw Materials	363,915	79,807
	<u>\$ 1,707,690</u>	<u>\$ 1,563,593</u>

NOTE 4 – NOTES RECEIVABLE

On October 10, 2019, the Company entered into a convertible promissory note ("Note") with Century TBD Holdings, LLC ("TBD"), a Florida limited liability company. The Company loaned the principal sum of \$500,000, of which up to \$500,000 and all accrued interest can be paid by an "Optional Conversion" of such amount up to 19.8% (non-dilutable) of all outstanding membership interest in TBD. This Note accrues interest at 6% and matures on October 9, 2021. As of December 31, 2019, this Note had outstanding principle and interest of \$506,756.

On October 9, 2019 and November 11, 2019 the Company entered into two, separate on demand, convertible notes ("Note" or "Notes") with RBC Life Sciences, Inc. (RBC), a Nevada corporation. The first Note, dated October 9th, lent the principal sum of \$200,000 and accrues interest at 6% with a maturity date of November 11, 2019. This Note also contains an "Optional Conversion" clause that allows the Company at any time, before or after the occurrence of an Event of Default, at its option, to convert the outstanding principal amount, plus accrued interest into a number of newly issued shares of its common stock equal to 75% of the total shares common stock that will be outstanding upon such conversion at a fully-diluted basis. At December 31, 2019, this Note had outstanding principle and interest of \$203,988. The second Note, dated November 11th, allowed for the borrow by RBC up to an aggregate principal sum of \$800,000 and accrues interest at 10% with a maturity date of November 11, 2024. Interest on any outstanding principal is payable monthly commencing on December 25, 2019. Any amount of principal repaid during this time is allowed to be re-borrowed at any time prior to the earlier of the termination of this Note or the maturity date. This Note also contains an "Optional Conversion" clause that allows the Company at any time, before or after the occurrence of an Event of Default, at its option, to convert the outstanding principal amount, plus accrued interest into a number of newly issued shares of its common stock equal to 100% of the outstanding shares of common stock of RBC direct and indirect subsidiaries. The outstanding principle and interest at December 31, 2019 was \$82,451. See Note 16 for information regarding foreclosure on these Notes subsequent to December 31, 2019.

NOTE 5 - INVESTMENT

As of December 31, 2018, the Company owned 21,196,552 ordinary shares and an existing three-year warrant to purchase up to 105,982,759 ordinary shares at an exercise price of SGD\$0.040 (US\$0.0298) per share of Singapore eDevelopment Limited ("SED"), a company incorporated in Singapore and publicly listed on the Singapore Exchange Limited. The restriction on the sale of shares, and execution of the warrants expired on September 17, 2019. At the time of the investment, the cost of the investment was determined to be the fair value of the Company's common stock issued in the transaction, which was determined to have the most readily determinable fair value. In 2018, the Company adopted ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." has and carries its investment in SED at costs. During the 4th quarter of 2018, the Company determined that its investment in Singapore eDevelopment ("SED") was impaired due to the decline in the share price of SED, especially since November of 2018, which the Company believes was influenced by a general decline in equity markets in Asia caused by the tariff dispute between the United States and China. As such, in response to the decline in the trading value of the SED shares in the fourth quarter of 2018, the Company performed an impairment test and determined an impairment of approximately \$160,000 was warranted. Similar analysis was performed at December 31, 2019 and no further impairment is deemed necessary as the stock price has rebounded in excess of 15%. The carrying value of the initial 21,196,552 ordinary shares investment as of December 31, 2019 was \$324,930.

On December 19, 2019, the Company exercised the warrant, in part, pursuant to which the Company acquired 61,977,577 ordinary shares of SED. The total consideration paid by the Company for these ordinary shares was SGD\$2,479,103.08, or approximately \$1,833,000 USD, the investment value at December 31, 2019. After giving effect to the warrant exercise, the Company now owns 83,174,129 ordinary shares of SED, representing approximately 7.1% of the outstanding shares of SED, and the remaining warrant to purchase 44,005,182 ordinary shares of SED. The Chairman of the Company, Mr. Heng Fai Ambrose Chan, is the Executive Director and Chief Executive Officer of SED.

NOTE 6 - PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31:

	<u>Estimated Useful Life</u>	<u>2019</u>	<u>2018</u>
Machinery and equipment	5-10 years	8,567,911	7,723,763
Building and improvements	39 years	1,961,544	1,923,027
Land		185,000	185,000
Leasehold improvements	3-10 years	776,674	760,286
Furniture and fixtures	7 years	109,862	94,364
Software and websites	3 years	298,797	187,511
Total Cost		11,899,788	10,873,951
Less accumulated depreciation		6,839,090	5,859,457
Property, plant and equipment, net		5,060,698	5,014,494

NOTE 7 - INTANGIBLE ASSETS

During 2019 and 2018, the Company spent approximately \$10,000 and \$20,000, respectively, on capitalized patent application costs.

On June 26, 2018, the Company entered into an agreement with Fortress Credit Co LLC ("Fortress"), which among other things transferred to Fortress all of the remaining economic rights to certain of the Company's semi-conductor related patents (See Note 8) . As a result, the Company wrote-off these patents which had an aggregated gross cost of \$2,655,000 and a net unamortized carrying amount of \$295,470 on the agreement date.

On July 31, 2018, the Company entered into a Non-Compete Letter Agreement (the "Agreement") with its former President and Chief Executive Officer of its wholly owned subsidiary, Premier Packaging Corporation. The Agreement called for payments of \$16,000 per month, for a period of 19 months, as consideration for the two-year non-competition and non-solicitation restrictive covenants. The Company recorded the aggregate cost of the Agreement of \$304,000 as an intangible asset to be amortized over the 24-month period commencing August 1, 2018.

On October 24, 2018, the Company's subsidiary, DSS Asia Limited acquired Guangzhou Hotapps Technology Ltd., ("Guangzhou Hotapps") a Chinese company, in exchange for a 2-year, \$100,000 unsecured promissory note. In connection with this acquisition, the Company acquired the license to do business in China to which the Company allocated a value of \$85,734 as well as a related deferred tax liability of \$33,333 due to outside basis differences and recorded as an intangible asset that it will amortize over a five-year period.

On March 5, 2019, the Company paid \$350,000 and issued 130,435 shares of the Company's common stock valued at \$144,783 in conjunction with the signing of a Master Distributor Agreement with Advanced Cyber Security Corp. ("ACS") for the Company to distribute ACS's EndpointLockV™ cyber security software exclusively in thirteen countries in Asia and Australia, and non-exclusively, in the U.S. and Middle East. The aggregate cost of \$494,783 of the agreement was recorded as an intangible asset to be amortized over the expected useful life of 36 months.

Intangible assets are comprised of the following:

	Useful Life	2019			2018		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired intangibles customer lists, licenses and non-compete agreements	2-10 years	1,788,699	1,202,832	585,867	1,284,065	823,884	460,181
Acquired intangibles patents and patent rights		500,000	500,000	-	500,000	500,000	-
Patent application costs	Varied (1)	1,178,176	829,278	348,898	1,168,155	746,925	421,230
		<u>3,466,875</u>	<u>2,532,110</u>	<u>934,765</u>	<u>2,952,220</u>	<u>2,070,809</u>	<u>881,411</u>

(1) Patent application costs are amortized over their expected useful life which is generally the remaining legal life of the patent. As of December 31, 2019, the weighted average remaining useful life of these assets in service was approximately 6.9 years.

Amortization expense for the year ended December 31, 2019 amounted to approximately \$461,000 (\$487,000 –2018).

Expected amortization for each of the five succeeding fiscal years is as follows:

Year	Amount
2020	383,276
2021	273,626
2022	127,408
2023	39,378
2024	19,112

NOTE 8 – SHORT TERM AND LONG-TERM DEBT

Revolving Credit Lines - The Company's subsidiary Premier Packaging Corporation ("Premier Packaging") has a revolving credit line with Citizens Bank ("Citizens") of up to \$800,000 that bears interest at 1 Month LIBOR plus 2.0% (4.5% as of December 31, 2019). This revolving line of credit was renewed and has a maturity date of May 31, 2020, and is renewed annually. As of December 31, 2019, and December 31, 2018, the revolving line had a balance of \$500,000 and \$0 respectively.

On July 26, 2017, Premier Packaging entered into a Loan Agreement and accompanying Term Note Non-Revolving Line of Credit Agreement with Citizens pursuant to which Citizens agreed to lend up to \$1,200,000 to permit Premier Packaging to purchase equipment from time to time that it may need for use in its business. The aggregate principal balance outstanding under the Equipment Acquisition Line of Credit shall bear interest thereon at a per annum rate of 2% above the LIBOR Advantage Rate until the Conversion Date (as defined in the Term Note Non-Revolving Line of Credit). Effective on the Conversion Date, the interest shall be adjusted to a fixed rate equal to 2% above the bank's Cost of Funds, as determined by Citizens. Current maturities of long-term debt are based on an estimated 48-month amortization which will be adjusted upon conversion. As of December 31, 2019, the line had not yet converted into a credit facility and had a balance of \$898,762 (\$339,000 at December 31, 2018). The Company pays a monthly amount of \$12,756 in principal and interest.

On December 1, 2017, the Company's subsidiary Plastic Printing Professionals entered into a Loan Agreement and accompanying Term Note Non-Revolving Line of Credit Agreement with Citizens pursuant to which Citizens agreed to lend up to \$800,000 to enable Plastic Printing Professionals to purchase equipment from time to time that it may need for use in its business. Advances may be made under this Equipment Acquisition Line of Credit, from time to time, from December 1, 2017 until December 1, 2018. The aggregate principal balance outstanding under the Equipment Acquisition Line of Credit bore interest at 2% above the LIBOR Advantage Rate (as defined in the agreement) until it was converted. Commencing March 30, 2019, the line was converted into two term notes under which the Company will make monthly payments of \$13,657 until November 30, 2023. Interest under the term notes is payable monthly at 5.37%. As of December 31, 2019, the combined balance of the term notes was \$576,946 (\$684,554 at December 31, 2018).

Term Loan Debt - On April 28, 2015, Premier Packaging entered into a term note with Citizens for \$525,000, repayable over a 60-month period. The loan bears interest at 3.62% and is payable in equal monthly installments of \$9,591 until April 28, 2020. Premier Packaging used the proceeds of the term note to acquire a HP Indigo 7800 Digital press. The loan is secured by the printing press. As of December 31, 2019, the loan had a balance of \$39,294 (\$149,542 at December 31, 2018).

Promissory Notes - On August 30, 2011, Premier Packaging purchased the packaging plant it occupies in Victor, New York, for \$1,500,000, which was partially financed with a \$1,200,000 promissory note obtained from Citizens Bank ("Promissory Note"). The Promissory Note called for monthly payments of principal and interest in the amount of \$7,658, with interest calculated as 1 Month LIBOR plus 3.15%. This note, in conjunction with the Construction to Permanent Loan described below, was refinanced as of June 27, 2019.

On December 6, 2013, Premier Packaging entered into a Construction to Permanent Loan with Citizens Bank for up to \$450,000 that was converted into a promissory note upon the completion and acceptance of building improvements to the Company's packaging plant in Victor, New York. In May 2014, the Company converted the loan into a \$450,000 note payable in monthly installments over a 5-year period of \$2,500 plus interest calculated at a variable rate of 1 Month LIBOR plus 3.15%. The note was set to mature in July 2019 at which time a balloon payment of the remaining principal balance of \$300,000 was due. On June 27, 2019 the balloon payment, in conjunction with the remaining balance on promissory note identified above, was refinanced.

On June 27, 2019 Premier Packaging refinanced and consolidated the outstanding principal associated with the two promissory notes for its packaging plant located in Victor, New York, for \$1,156,742 with Citizens Bank. The new Promissory Note calls for monthly payments of \$7,181, with interest fixed at 4.22%. The new Promissory Note matures on June 27, 2029, at which time a balloon payment of \$707,689 is due. As of December 31, 2019, the new, consolidated Promissory Note had a balance of \$1,141,487. At December 31, 2018, the two refinanced notes had outstanding balances of \$869,865 and \$315,000.

The Citizens credit facilities to each of the Company's subsidiaries, Premier Packaging and Plastic Printing Professionals, contain various covenants including fixed charge coverage ratio, tangible net worth and current ratio covenants which are tested annually at December 31. For the year ended December 31, 2019, Premier Packaging was in compliance with the annual covenants, however Plastic Printing Professionals was not. Plastic Printing Professionals has sought and received a one-time waiver from compliance from Citizens for this violation.

On October 24, 2018, the Company's subsidiary, DSS Asia Limited entered into a \$100,000 unsecured promissory note with HotApps International Pte Ltd in conjunction with the acquisition of Guangzhou Hotapps Technology Ltd., a Chinese subsidiary of HotApps International Pte Ltd, by DSS Asia Limited. The promissory note does not accrue interest and is payable in full on October 24, 2020.

Effective on February 18, 2019, Document Security Systems, Inc. entered into a Convertible Promissory Note (the "Note") with LiquidValue Development Pte Ltd (the "Holder") in the principal sum of \$500,000 (the "Principal Amount"), of which up to \$500,000 of the Principal Amount can be paid by the conversion of such amount into the Company's common stock, par value \$0.02 per share, up to a maximum of 446,428 shares of common stock (the "Common Stock"), at a conversion price of \$1.12 per share. The Holder is a related party, owned by one of the Company's directors. The Note carried a fixed interest rate of 8% per annum and had a term of 12- months. Accrued interest was payable in cash in arrears on the last day of each calendar quarter, with the first interest payment due on June 30, 2019, and remained payable until the Principal Amount was paid in full. The Holder is a related party, owned by one of the Company's directors. Effective on March 25, 2019, the Holder exercised its conversion option and converted the Maximum Conversion Amount under the Note. As a result of Holder's election to exercise its full conversion rights under the Note, the Note was cancelled effective on March 25, 2019.

Effective on May 31, 2019, Document Security Systems, Inc. (the "Company" or "Borrower") entered into a Promissory Note (the "Note") with LiquidValue Development Pte Ltd (the "Holder") in the principal sum of \$650,000 (the "Principal Amount"). The Note was not interest bearing with a maturity date of July 31, 2019. The Holder is a related party, owned by one of the Company's directors. This Note was paid in full on June 12, 2019.

A summary of scheduled principal payments of long-term debt, not including revolving lines of credit and other debt which can be settled with non-monetary assets, subsequent to December 31, 2019 are as follows:

Year	Amount
2020	\$ 440,699
2021	307,324
2022	322,160
2023	322,926
2024	185,218
Thereafter	\$ 1,186,387

Other Debt - On February 13, 2014, the Company's subsidiary, DSS Technology Management, Inc. ("DSSTM"), entered into an Investment Agreement (the "Agreement") dated February 13, 2014 (the "Effective Date") with Fortress Credit Co LLC, as collateral agent (the "Collateral Agent" or "Fortress"), and certain investors (the "Investors"), pursuant to which DSSTM contracted to receive a series of advances up to \$4,500,000 (collectively, the "Advances"). On June 26, 2018, the parties agreed that the amounts due under the Agreement having an aggregate remaining balance of \$3,714,129 as of the Maturity Date, are discharged, without the assignment to the Investors of any of the collateral that secured the repayment under the Agreement. In addition, the Company confirmed its obligation to pay the Investors \$345,000 that remained from an aggregate of \$600,000 that had been deposited and restricted to cover expenses related to the IP monetization activities. Furthermore, the parties agreed that in the event there are any future recoveries by DSSTM with respect to monetization activities relating to the collateralized patents or applicable proceed rights set forth in the Agreement, the contractual payment provisions of the original Agreement will apply, and the Investors will be entitled to receive payment of such proceeds. As a result of this agreement, the Company paid \$345,000 from restricted cash and recorded a gain of extinguishment of liabilities of \$3,372,129 to reflect the discharge of the notes, wrote off contingent equity interests of \$459,000 eliminated by the agreement, and wrote-off the underlying patents which had an aggregated gross cost of \$2,655,000 and an net unamortized carrying amount of \$295,470 on the agreement date, all of which resulted in the a net gain on the extinguishment of liabilities of \$3,532,659 recorded 2018. As of December 31, 2018, the balance of the term loan was \$0.

NOTE 9 – OTHER LIABILITIES

On November 14, 2016, the Company entered into a Proceeds Investment Agreement (the "Agreement") with Brickell Key Investments LP ("BKI"). Pursuant to the Agreement, BKI financed an aggregate of \$13,500,000 in a patent purchase and monetization program to be implemented and managed by the Company (the "Financing"). Pursuant to the Agreement, \$3,000,000 of the Financing was used to cover the Company's purchase of a portfolio of U.S. and foreign LED patents and a license from Intellectual Discovery Co., Ltd., a Korean company (collectively, the "LED Patent Portfolio"), resulting in a basis in these assets of \$0. A total of \$6,000,000 of the Financing was directed by BKI to attorneys to cover anticipated attorneys' fees and out-of-pocket expenses for legal proceedings that may transpire relating to enforcement of the LED Patent Portfolio. This amount is not included in the Company's financial statements as the Company has no control over these funds, which are segregated and escrowed in the attorneys' trust account.

In addition, on November 14, 2016, the Company received \$4,500,000 of the Financing, which was required to be used by the Company to pay for the defense of Inter Partes Review or other similar proceedings that may be filed from time to time by defendants with the U.S. Patent & Trademark Office relating to the LED Patent Portfolio, with excess amounts available for general working capital needs. As of December 31, 2019, an aggregate of \$780,988 is recorded as other liabilities by the Company, of which \$390,494 is classified as short-term. Of this amount, the Company allocated \$2,500,000 which it subsequently adjusted to \$1,500,000 for the payment of estimated future Inter Partes Review costs. The Company will reduce this liability as it pays legal and other expenses related to the Inter Partes Review matters involving the LED Patent Portfolio as incurred. For this amount, the Company reduced the liability with an offset to selling, general and administrative costs by \$47,500 per month from January 2017 through July 2017, \$80,000 per month for the remainder of 2017 through March 2018, \$86,500 per month for the remainder of 2018, and through November of 2019. As of December 31, 2019 the liability has been fully amortized. An aggregate of \$955,000 was recorded as a reduction of the liability allocated to working capital in 2019.

On July 8, 2013, the Company's subsidiary, DSSTM, purchased two patents for \$500,000 covering certain methods and processes related to Bluetooth devices. In conjunction with the patent purchases, DSSTM entered into a Proceed Right Agreement with certain investors pursuant to which DSSTM initially received \$250,000 of a total of \$750,000 which it will ultimately receive thereunder, subject to certain payment milestones, in exchange for 40% of the proceeds which it receives, if any, from the use, sale or licensing of the two patents. As of December 31, 2019 and 2018, the Company had received an aggregate of \$750,000 from the investors pursuant to the agreement of which \$0 was in current liabilities in the consolidated balance sheets (\$476,000 as of December 31, 2018). The Company reduced the liability as it paid legal and other expenses related to its litigation involving the Bluetooth patents, for which the amount is available to be used for 50% of all such expenses.

NOTE 10 - STOCKHOLDERS' EQUITY

Sales of Equity – On July 3, 2018, the Company sold 214,286 shares of its common stock, par value \$0.02 per share, to a related party accredited investor, Heng Fai Holdings Limited. The purchase price was \$1.40 per share, for total proceeds of \$300,000.

On December 17, 2018, the Company sold 612,245 shares of its common stock, par value \$0.02 per share, to a related party accredited investor, Heng Fai Holdings Limited. The purchase price was \$0.98 per share, for total proceeds of \$600,000.

On February 18, 2019, the Company had entered into a Convertible Promissory Note with LiquidValue Development Pte Ltd ., a company owned and controlled by Mr. Heng Fai Ambrose Chan, DSS's Chairman, in the principal sum of \$500,000, of which up to \$500,000 of the Principal Amount could be paid by the conversion of such amount into the Company's common stock, par value \$0.02 per share, up to a maximum of 446,428 shares of common stock (the "Maximum Conversion Amount"), at a conversion price of \$1.12 per share. Effective on March 25, 2019, LiquidValue Development Pte Ltd exercised its conversion option and converted the Maximum Conversion Amount under the Note. (Note 8)

On March 5, 2019, the Company issued 130,435 shares of its common stock at \$1.15 per share as partial consideration for a licensing and distribution agreement entered into with Advanced Cyber Security Corp. (Note7)

On June 5, 2019, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Aegis Capital Corp., acting as representative of the several underwriters, which provided for the issuance and sale by the Company in an underwritten public offering (the "Offering") and the purchase by the Underwriters of 11,200,000 shares of the Company's common stock, \$0.02 par value per share. Subject to the terms and conditions contained in the Underwriting Agreement, the shares were sold to the Underwriters at a public offering price of \$0.50 per share, less certain underwriting discounts and commissions. As part of this transaction, 2,000,000 shares were purchased by Heng Fai Ambrose Chan, Chairman of the Board of directors. The Company also granted the Underwriters a 45-day option to purchase up to 1,680,000 additional shares of the Company's common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the Offering (519,186 shares were exercised on July 18, 2019 at \$0.50 per share, less underwriting discounts and expenses). The net offering proceeds to the Company was approximately \$5.0 million, inclusive of the July 18, 2019 transaction and after deducting underwriting discounts, commissions and other offering expenses.

On November 1, 2019, pursuant to a Subscription Agreement, LiquidValue Development Pte LTD, a company owned and controlled by Mr. Heng Fai Ambrose Chan, DSS's Chairman, purchased from the Company, in a private placement, and aggregate of 6,000,000 shares of common stock, for an above market purchase price equal to \$0.30 per share (at the time of LiquidValues' commitment, the closing stock price was \$0.26 per share) for net proceeds to the Company of approximately \$1.6 million after deducting underwriting discounts, commissions and other offering expenses.

Stock Warrants—The following is a summary with respect to warrants outstanding and exercisable at December 31, 2019 and 2018 and activity during the years then ended:

	2019		2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding at January 1,	1,430,116	\$ 4.00	2,645,090	\$ 10.98
Granted	-	-	-	-
Lapsed/terminated	(209,812)	20.78	(1,214,974)	19.20
Outstanding at December 31,	1,220,304	\$ 1.12	1,430,116	\$ 4.00
Exercisable at December 31,	1,220,304	\$ 1.12	1,430,116	\$ 4.00
Weighted average of months remaining		20.7		27.9

The Company did not issue any warrants in 2019 or 2018.

Stock Options - On June 20, 2013 the Company's shareholders adopted the 2013 Employee, Director and Consultant Equity Incentive Plan (the "2013 Plan"). The 2013 Plan provides for the issuance of up to a total of 1,500,000 shares of common stock authorized to be issued for grants of options, restricted stock and other forms of equity to employees, directors and consultants. Under the terms of the 2013 Plan, options granted thereunder may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Internal Revenue Code, or options which do not qualify ("NQSOs"). As of December 31, 2019, no shares remained available under this plan.

On December 9, 2019, the Company's shareholders adopted the 2020 Employee, Director and Consultant Equity Incentive Plan (the "2020 Plan"). The 2020 Plan provides for the issuance of up to a total of 7,236,125 shares of common stock authorized to be issued for grants of options, restricted stock and other forms of equity to employees, directors and consultants. Under the terms of the 2020 Plan, options granted thereunder may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Internal Revenue Code, or options which do not qualify ("NQSOs").

The following is a summary with respect to options outstanding at December 31, 2019 and 2018 and activity during the years then ended:

	2019			2018		
	Number of Options	Weighted Average Exercise Price	Weighted Average life Remaining (Years)	Number of Options	Weighted Average Exercise Price	Weighted Average life Remaining (Years)
Outstanding at January 1,	782,655	\$ 6.66		482,667	\$ 10.72	
Granted	-	-		405,000	1.38	
Lapsed/terminated	(204,738)	7.7		(105,012)	4.96	
Outstanding at December 31,	577,917	\$ 5.01	3.2	782,655	\$ 6.66	3.2
Exercisable at December 31,	408,750	\$ 6.50	3.5	490,988	\$ 8.30	2.8
Expected to vest at December 31,	169,167	\$ 1.43	3.4	291,667	\$ 1.41	4.5
Aggregate intrinsic value of outstanding options at December 31,	\$ -			\$ -		
Aggregate intrinsic value of exercisable options at December 31,	\$ -			\$ -		
Aggregate intrinsic value of options expected to vest at December 31,	\$ -			\$ -		

During the year ended December 31, 2018, the Company issued an aggregate of 405,000 options to purchase the Company's common stock at between \$1.30 and \$1.55 per share with a term of five years to employees at its technology, corporate and printed products divisions, as well as independent board members. For 265,000 options granted during 2018 the options vest pro-ratably as follows: 1/3 on the grant date, 1/3 on the first anniversary of the grant date and 1/3 on the second anniversary of the grant date. For the remaining 140,000 options granted during 2018 the options vest pro-ratably as follows: 1/3 on the first anniversary of the grant date, 1/3 on the second anniversary of the grant date and 1/3 on the third anniversary of the grant date.

The fair value of each option award is estimated on the date of grant utilizing the Black-Scholes-Merton Option Pricing Model. The Company estimates the expected volatility of the Company's common stock at the grant date using the historical volatility of the Company's common stock over the most recent period equal to the expected stock option term.

The following table shows our weighted average assumptions used to compute the share-based compensation expense for stock options and warrants granted during the year ended December 31, 2018. There were no options or warrants granted for compensation during the year ended December 31, 2019.

Volatility	98.20%
Expected option term	3.6 years
Risk-free interest rate	2.7%
Expected forfeiture rate	0.0%
Expected dividend yield	0.0%

The aggregate grant date fair value of options that vested during 2019 and 2018 was approximately \$104,000 and \$122,000, respectively. There were no options exercised during 2019 or 2018.

Restricted Stock - Restricted common stock may be issued under the Company's 2013 or 2020 Plan for services to be rendered which may not be sold, transferred or pledged for such period as determined by our Compensation Committee and Management Resources. Restricted stock compensation cost is measured as the stock's fair value based on the quoted market price at the date of grant. The restricted shares issued reduce the amount available under the employee stock option plans. Compensation cost is recognized only on restricted shares that will ultimately vest. The Company estimates the number of shares that will ultimately vest at each grant date based on historical experience and adjust compensation cost and the carrying amount of unearned compensation based on changes in those estimates over time. Restricted stock compensation cost is recognized ratably over the requisite service period which approximates the vesting period. An employee may not sell or otherwise transfer unvested shares and, if employment is terminated prior to the end of the vesting period, any unvested shares are surrendered to us. The Company has no obligation to repurchase any restricted stock.

On September 6, 2019, the Company issued an aggregate of 224,310 shares of fully vested restricted stock to members of the Company's management team of with a two-year lock-up period and had an aggregated grant date fair value of approximately \$94,000 which is included in stock based compensation for the year ended December 31, 2019. The Company did not grant any restricted stock in 2018.

Stock-Based Compensation – The Company records stock-based payment expense related to options and warrants based on the grant date fair value in accordance with FASB ASC 718. Stock-based compensation includes expense charges for all stock-based awards to employees, directors and consultants. Such awards include option grants, warrant grants, and restricted stock awards. During the twelve months ended December 31, 2019, the Company had stock compensation expense of approximately \$422,000 or less than \$0.01 basic and diluted earnings per share (\$132,000, or less than \$0.01 basic and diluted earnings per share for the corresponding twelve months ended December 31, 2018). Of the \$422,000, \$114,500 was accrued for the CEO of a subsidiary of the Company.

In July 2019, by unanimous written consent, the Board of Directors authorized the Company to issue individual stock grants of the Company's common stock, pursuant to the Company's 2013 Employee, Director and Consultant Equity Incentive Plan, to certain officers and directors in the amount of 458,719 shares, at \$0.42 per share which were immediately vested and issued on September 6, 2019. 224,310 of these shares were fully vested restricted stock to members of the Company's management team of with a two-year lock-up period.

NOTE 11 - INCOME TAXES

Following is a summary of the components giving rise to the income tax provision (benefit) for the years ended December 31:

The provision (benefit) for income taxes consists of the following:

	<u>2019</u>	<u>2018</u>
Currently payable:		
Federal	\$ -	\$ -
State	(68)	6,920
Total currently payable	(68)	6,920
Deferred:		
Federal	(367,473)	458,446
State	(124,975)	67,451
Foreign	(116,863)	(92,690.00)
Total deferred	(609,311)	433,207
Less: increase in allowance	476,972	(423,534)
Net deferred	(125,419)	9,673
Total income tax provision	<u>\$ (125,487)</u>	<u>\$ 16,593</u>

Individual components of deferred taxes are as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Net operating loss carry forwards	\$ 11,188,858	\$ 10,135,005
Equity issued for services	169,445	152,240
Goodwill and other intangibles	675,885	788,288
Investment in pass-through entity	11,621	11,499
Deferred revenue	181,519	472,466
Operating Lease Liability	284,193	-
Other	376,462	470,780
Gross deferred tax assets	12,887,983	12,030,278
Deferred tax liabilities:		
Goodwill and other intangibles	29,046	33,333
Depreciation and amortization	-	31,512
Right -of-use asset	284,193	-
Gross deferred tax liabilities	313,239	64,845
Less: valuation allowance	(12,618,311)	(12,134,419)
Net deferred tax liabilities	<u>\$ (43,567)</u>	<u>\$ (168,986)</u>

The 2017 Tax Cuts and Jobs Act repeals the corporate alternative minimum tax (AMT) and permits existing minimum tax credits carryovers to offset the regular tax liability for any tax year. Further, the credit is refundable for any tax year beginning after December 31, 2017 and before December 31, 2020 in an amount equal to 50 percent of the excess of the minimum tax credit over regular liability. Any remaining credit will be fully refundable for the year ended December 31, 2021. As of December 31, 2019, the Company had \$46,601 of minimum tax credit included in prepaids and other current assets in the accompanying consolidated balance sheet.

The Company has approximately \$50.6 million in federal net operating loss carryforwards (“NOLs”) available to reduce future taxable income, of which \$3.8 million will never expire with the remaining expiring at various dates from 2022 through 2039. Due to the uncertainty as to the Company’s ability to generate sufficient taxable income in the future and utilize the NOLs before they expire and any other deferred tax assets, the Company has recorded a valuation allowance accordingly. The Company’s NOLs are subject to annual limitations as a result of a change in its equity ownership as defined under the Internal Revenue Code Section 382. These limitations, as applicable, could further limit the use of the NOLs. The valuation allowance for deferred tax assets increased by approximately \$484,000 in the year ended December 31, 2019. The increase in the valuation allowance was primarily due to taxable loss in the current year.

The Company has adopted the provisions of ASU 2016-09 as of the beginning of 2018 which requires recognition through opening retained earnings of any pre-adoption date NOL carryforwards from nonqualified stock options and other employee share-based payments (e.g., restricted shares and share appreciation rights), as well as recognition of all income tax effects from share-based payments arising on or after January 1, 2017 (our adoption date) in income tax expense. In light of the Company’s valuation allowance on its deferred tax assets there was no adjustment required to its retained earnings nor was there any windfall tax benefit to recognize in the Company’s income tax provision.

The differences between the United States statutory federal income tax rate and the effective income tax rate in the accompanying consolidated statements of operations are as follows:

	2019	2018
Statutory United States federal rate	21.00%	21.00%
State income taxes net of federal benefit	3.28%	4.00%
Permanent differences	(1.61)%	2.20%
Other	(1.24)%	0.70%
Foreign taxes	(1.09)%	1.70%
Change in valuation reserves	(16.34)%	(28.50)%
Effective rate	4.00%	1.10%

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2019 and 2018, the Company recognized no interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The tax years 2016-2019 generally remain open to examination by major taxing jurisdictions to which the Company is subject.

NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN

The Company maintains a qualified employee savings plans (the “401(k) Plan”) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code and which covers all eligible employees. Employees generally become eligible to participate in the 401(k) Plan two months following the employee’s hire date. Employees may contribute a percentage of their earnings, subject to the limitations of the Internal Revenue Code. Commencing on January 1, 2018, the Company matched 100% of the first 1% of employee contributions, then 50% of additional contributions up to an aggregate maximum match of 3.5%. The total matching contributions for 2019 and 2018 were approximately \$123,000 and \$136,000, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Company has operating leases predominantly for operating facilities. As of December 31, 2019, the remaining lease terms on our operating leases range from less than one year to approximately four years. Renewal options to extend our leases have not been exercised due to uncertainty. Termination options are not reasonably certain of exercise by the Company. There is no transfer of title or option to purchase the leased assets upon expiration. There are no residual value guarantees or material restrictive covenants. There are no significant finance leases as of December 31, 2019. Rent expense for the year ended December 31, 2019 was approximately \$474,000.

Future minimum lease payments as of December 31, 2019 are as follows:

	2020	\$	396,678
	2021		304,669
	2022		289,997
	2023		269,913
	2024		21,860
	Total lease payments	\$	1,283,117
	Less imputed interest		(60,375)
	Present value of remaining lease payments	\$	1,222,742
	Current	\$	397,097
	Non-current	\$	825,645
	Weighted average remaining lease term (years)		4
	Weighted average discount rate		5.4%

Employment Agreements - The Company has employment or severance agreements with members of its management team with terms no longer than twelve months. The employment or severance agreements provide for severance payments in the event of termination for certain causes. As of December 31, 2019, the minimum severance payments under these employment agreements are, in aggregate, approximately \$255,000.

Legal Proceedings -

On November 26, 2013, DSSTM filed suit against Apple, Inc. ("Apple") in the United States District Court for the Eastern District of Texas, for patent infringement (the "Apple Litigation"). The complaint alleges infringement by Apple of DSSTM's patents that relate to systems and methods of using low power wireless peripheral devices. DSSTM is seeking a judgment for infringement, injunctive relief, and compensatory damages from Apple. On October 28, 2014, the case was stayed by the District Court pending a determination of Apple's motion to transfer the case to the Northern District of California. On November 7, 2014, Apple's motion to transfer the case to the Northern District of California was granted. On December 30, 2014, Apple filed two Inter Partes Review ("IPR") petitions with the Patent Trial and Appeal Board ("PTAB") for review of the patents at issue in the case. The PTAB instituted the IPRs on June 25, 2015. The California District Court then stayed the case pending the outcome of those IPR proceedings. Oral arguments of the IPRs took place on March 15, 2016, and on June 17, 2016, PTAB ruled in favor of Apple on both IPR petitions. DSSTM then filed an appeal with the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit") seeking reversal of the PTAB decisions. Oral arguments for the appeal were held on August 9, 2017. On March 23, 2018, the Federal Circuit reversed the PTAB, finding that the PTAB erred when it found the claims of U.S. Patent No. 6,128,290 to be unpatentable. The Federal Circuit affirmed its decision on July 12, 2018, when it denied Apple's petition for panel rehearing of the Federal Circuit's Opinion and Judgment issued on March 23, 2018. On July 27, 2018, the District Court judge lifted the Stay resuming the litigation, which had a trial date set for the week of February 24, 2020. On January 14, 2020, the Court in the case DSS Technology Management, Inc. v. Apple, Inc., 4:14-cv-05330-HSG pending in the Northern District of California issued an order that denied DSS' motion to amend its infringement contentions. In the same Order, the Court granted Apple's motion to strike DSS' infringement expert report. DSS filed a motion for leave to file a motion for reconsideration of the Court's order denying DSS the right to amend its infringement contentions and motion to strike DSS infringement expert report. On February 18, 2020, the Court denied DSS's motion for leave to file a motion for reconsideration. On February 24, 2020, the Court signed a Final Judgment stipulating that Apple was "entitled to a judgment of non-infringement of U.S. Patent No. 6,128,290 as a matter of law." DSS intends to appeal the ruling.

On February 16, 2015, DSSTM filed suit in the United States District Court, Eastern District of Texas, against defendants Intel Corporation, Dell, Inc., GameStop Corp., Conn's Inc., Conn Appliances, Inc., NEC Corporation of America, Wal-Mart Stores, Inc., Wal-Mart Stores Texas, LLC, and AT&T, Inc. The complaint alleged patent infringement and sought judgment for infringement of two of DSSTM's patents, injunctive relief and money damages. On December 9, 2015, Intel filed IPR petitions with PTAB for review of the patents at issue in the case. Intel's IPRs were instituted by PTAB on June 8, 2016. On June 1, 2017, the PTAB ruled in favor of Intel for all the challenged claims. On July 28, 2017, DSSTM filed a notice of appeal of the PTAB's decision relating to U.S. Patent 6,784,552 with the Federal Circuit. On January 8, 2019, DSSTM entered into a confidential settlement agreement with Intel Corporation, Dell Inc., GameStop Corp, Conn's Inc., Conn Appliances, Inc., Wal-Mart Stores, Inc., Wal-Mart Stores Texas, LLC and AT&T Mobility LLC (collectively, the "Defendants"). The Federal Circuit Appeal involving DSSTM and Intel was dismissed on January 16, 2019, and the District Court case against the Defendants was dismissed, as to all the Defendants, on February 5, 2019. On July 16, 2015, DSSTM filed three separate lawsuits in the United States District Court for the Eastern District of Texas alleging infringement of certain of its semiconductor patents. The defendants were SK Hynix et al., Samsung Electronics et al., and Qualcomm Incorporated. Each respective complaint alleges patent infringement and seeks judgment for infringement, injunctive relief and money damages. On November 12, 2015, SK Hynix filed an IPR petition with PTAB for review of the patent at issue in their case. SK Hynix's IPR was instituted by the PTAB on May 11, 2016. On August 16, 2016, DSSTM and SK Hynix entered into a confidential settlement agreement ending the litigation between them. The pending SK Hynix IPR was then terminated by mutual agreement of the parties on August 31, 2016. On March 18, 2016, Samsung also filed an IPR petition, which was instituted by the PTAB. On September 20, 2017, PTAB ruled in favor of Samsung for all the challenged claims relating to U.S. Patent 6,784,552. DSSTM then appealed this PTAB ruling to the Federal Circuit on November 17, 2017. The Federal Circuit joined this appeal with the Intel appeal effective on December 7, 2017. Qualcomm filed its IPR proceeding on July 1, 2016, which was then later joined with Intel's IPRs in August 2016 by PTAB. On June 1, 2017, the PTAB ruled in favor of Intel/Qualcomm for all the challenged claims. On July 28, 2017, DSSTM filed a notice of appeal of the PTAB's decision relating to U.S. Patent 6,784,552 with the Federal Circuit. A confidential patent license agreement was executed by DSSTM on November 14, 2018, covering Samsung and Qualcomm. On December 12, 2018, DSSTM and Samsung entered into a confidential release. On December 27, 2018, DSSTM and Qualcomm entered into a confidential settlement agreement. The DSSTM - Samsung District Court case was dismissed on December 17, 2018. The DSSTM - Samsung Federal Circuit Appeal was dismissed on January 2, 2019. The Federal Circuit Appeal involving DSSTM and Qualcomm was dismissed on January 16, 2019. The DSSTM - Qualcomm District Court case was dismissed on January 16, 2019. As a result, all of DSSTM's litigation matters originally filed in the District Court for the Eastern District of Texas have been resolved and are now dismissed.

On April 13, 2017, the Company filed a patent infringement lawsuit against Seoul Semiconductor Co., Ltd. and Seoul Semiconductor, Inc. (collectively, "Seoul Semiconductor") in the United States District Court for the Eastern District of Texas, alleging infringement of certain of the Company's Light-Emitting Diode ("LED") patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On June 7, 2017, the Company refiled its patent infringement complaint against Seoul Semiconductor in the United States District Court for the Central District of California, Southern Division. On December 3, 2017, Seoul Semiconductor filed an IPR challenging the validity of certain claims of U.S. Patent No. 6,949,771. This IPR was instituted by the PTAB on June 7, 2018. On April 18, 2019, the PTAB issued a written decision determining claims 1-9 of the '771 patent unpatentable. The Company did not appeal that determination. On December 21, 2017, Seoul Semiconductor filed an IPR challenging the validity of certain claims of U.S. Patent No. 7,256,486. This IPR was instituted by the PTAB on June 21, 2018. On June 10, 2019, the PTAB issued a written decision determining claims 1-3 of the '486 patent unpatentable. On August 12, 2019, the Company filed a Notice of Appeal with the Federal Circuit Court of Appeals challenging the PTAB's decisions. The Company subsequently filed a motion to vacate and remand the PTAB's decision in light of intervening precedent under the Appointments Clause. That motion was granted on January 23, 2020. On January 25, 2018, Seoul Semiconductor filed an IPR challenging the validity of certain claims of U.S. Patent No. 7,524,087. This IPR was instituted by the PTAB on July 27, 2018. On July 22, 2019, the PTAB issued a written decision determining claims 1, 6-8, 15, and 17 of the '087 patent unpatentable. On September 23, 2019, the Company filed a Notice of Appeal with the Federal Circuit Court of Appeals challenging the PTAB's decisions. The Company subsequently filed a motion to vacate and remand the PTAB's decision in light of intervening precedent under the Appointments Clause. That motion was granted on February 3, 2020. These challenged patents are the patents that are the subject matter of the infringement lawsuit, which is pending but stayed pending the outcome of the IPR proceedings.

On April 13, 2017, the Company filed a patent infringement lawsuit against Everlight Electronics Co., Ltd. and Everlight Americas, Inc. (collectively, "Everlight") in the United States District Court for the Eastern District of Texas, alleging infringement of certain of the Company's LED patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On June 8, 2017, the Company refiled its patent infringement complaint against Everlight in the United States District Court for the Central District of California. On June 8, 2018, Everlight filed IPR petitions challenging the validity of claims under U.S. Patent Nos. 7,256,486 and 7,524,087. On June 12, 2018, Everlight filed an IPR petition challenging the validity of claims under U.S. Patent No. 6,949,771, and on June 15, 2018, filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,919,787. These challenged patents are the patents that are the subject matter of the infringement lawsuit. On January 18, 2019, the Company and Everlight entered into a confidential settlement agreement resolving the litigation.

On April 13, 2017, the Company filed a patent infringement lawsuit against Cree, Inc. ("Cree") in the United States District Court for the Eastern District of Texas, alleging infringement of certain of the Company's LED patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On June 8, 2017, the Company refiled its patent infringement complaint against Cree in the United States District Court for the Central District of California, and thereafter filed a first amended complaint for patent infringement against Cree in that same court on July 14, 2017. The case is currently pending as of the date of this Report. On June 6, 2018, Cree filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,256,486. This IPR was instituted and joined with the Seoul Semiconductor IPR. On June 7, 2018, Cree filed IPR petitions challenging the validity of certain claims U.S. Patent Nos. 7,524,087 and 6,949,771. Both IPRs were denied by the PTAB on November 14, 2018 as time-barred. The challenged patent is the patent that is the subject matter of the infringement lawsuit, which is pending but stayed pending the outcome of the IPR.

On August 15, 2017, the Company filed a patent infringement lawsuit against Lite-On, Inc., and Lite-On Technology Corporation (collectively, "Lite-On") in the United States District Court for the Central District of California, alleging infringement of certain of the Company's LED patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The case is currently pending but is stayed pending the outcome of IPR proceedings filed by other parties.

On December 7, 2017, DSS filed a patent infringement lawsuit against Nichia Corporation and Nichia America Corporation in the United States District Court for the Central District of California, alleging infringement of certain of DSS's LED patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The case is currently pending as of the date of this Report. On May 10, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,919,787. On May 11, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,652,297. On May 25, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,524,087. On May 29, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 6,949,771. On May 30, 2018, Nichia filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,256,486. The 6,949,771 IPR was denied institution, but the remaining IPRs were instituted by the PTAB. On December 10, 2018, Nichia refiled IPRs relating to 6,949,771, which was denied by the PTAB on April 15, 2019. These challenged patents are the patents that are the subject matter of the infringement lawsuit, which is pending but stayed pending the outcome of the IPR proceedings. On September 17, 2019, the PTAB issued a written decision determining claims 1-14 of the '787 patent unpatentable. The Company did not appeal that determination. On October 30, 2019, the PTAB issued a written decision determining claims 1-17 of the '297 patent unpatentable. The Company did not appeal that determination. On November 19, 2019, the PTAB issued a written decision determining claims 1-5 of the '486 patent unpatentable. The Company has appealed that determination to the U.S. Court of Appeals for the Federal Circuit.

On September 18, 2019, DSS filed a patent infringement lawsuit against Seoul Semiconductor Co., Ltd. and Seoul Semiconductor Inc. in the United States District Court for the Central District of California alleging infringement of U.S. Patent No. 7,315,119. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The Court has conducted an initial scheduling conference and has set a procedural schedule for the case.

On September 19, 2019, DSS filed a patent infringement lawsuit against Cree, Inc. in the United States District Court for the Central District of California alleging infringement of U.S. Patent No. 6,784,460. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On February 11, 2020, Dree filed an IPR petition challenging the validity of the patent claims. The Court has conducted an initial scheduling conference and has set a procedural schedule for the case.

On September 20, 2019, DSS filed a patent infringement lawsuit against Nichia Corp. and Nichia America Corp. in the United States District Court for the Central District of California alleging infringement of U.S. Patent No. 6,879,040. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The Court has conducted an initial scheduling conference and has set a procedural schedule for the case.

In April 2019 DSS commenced an action in New York State Supreme Court, Monroe County against Jeffrey Ronaldi, our former Chief Executive Officer. This New York action seeks a declaratory judgment that, contrary to informal claims made by him, Mr. Ronaldi's employment agreement with us expired by its terms and that he is not entitled to any cash bonuses or other unpaid amounts. The lawsuit also seeks an injunction against Mr. Ronaldi from interfering with any of DSS' IP litigation. The defendant has been granted an extension to respond pending settlement negotiations. Mr. Ronaldi subsequently commenced an action against us in the Superior Court of California, County of San Diego, in November 2019, in which he alleges that we terminated his employment in April 2019 in order to avoid paying him certain employment-related amounts. Mr. Ronaldi contends that he is owed a \$100,000 performance bonus for 2017 under this employment agreement with us as well as \$91,000 in documented and unreimbursed expenses, and that DSS purported to terminate him for cause under the terms of his employment agreement in order to avoid paying such amounts. Mr. Ronaldi also contends that he is entitled to receive additional amounts, either under the terms of the employment agreement, or under theories of implied-in-fact contract or promissory estoppel, including, but not limited to, (i) additional performance bonuses of up to 15% of net litigation proceeds received by us from pending patent infringement litigations, of net licensing proceeds received by us other than from our internally developed IP, or of the net sales proceeds received by us in connection with the sale of any of our patent assets, (ii) earned but unpaid base salary, (iii) an equity grant of shares of our common stock, and (iv) payments for unused personal time and sick days. He seeks actual, compensatory, restitutionary and/or incidental damages in an amount to be determined at trial; prejudgment interest in an amount to be determined at trial; attorneys' fees and costs; other costs of the suit; and such other and further relief as the court deems proper. We have made a motion to have the case dismissed and consolidated with the Monroe Co., New York, litigation. A hearing has been set for April 24, 2020, for the court to consider that request. Additionally, on March 2, 2020 DSS and DSSTM filed a second litigation action against Jeffrey Ronaldi in the State of New York, Supreme Court, County of Monroe alleging acts of self-dealing and conflicts of interest while he served as CEO of both DSS and DSS TM. That litigation is in the process of being served upon the defendant.

On November 20, 2019, DSS Technology Management was sued in the United States District Court, Northern District of California, by Intel Corporation ("Intel") and Apple Inc. ("Apple"). The other defendants in the litigation are Fortress Investment Group LLC, Fortress Credit Co. LLC, Uniloc 2017 LLC, Uniloc USA, INC., Uniloc Luxembourg S.A.R.L., VLSI Technology LLC, INVT SPE LLC, Inventergy Global, INC., IXI IP, LLC, and Seven Networks, LLC. The complaint includes allegations regarding a February 13, 2014 Investment Agreement between DSS Technology Management and Fortress Credit Co. LLC as well as two subsequent agreements. The complaint also contains allegations regarding DSS Technology Management's lawsuit against Intel that was filed in February 2015 in the United States District Court, Eastern District of Texas (referred to below). In the complaint, Intel and Apple allege violations of Section 1 of the Sherman Act and unfair competition under Cal. Bus. & Prof. Code § 17200 against DSS Technology Management. Additional claims are alleged against other defendants. Intel and Apple seek relief from the court including that defendants' conduct be declared a violation of Section 1 of the Sherman Act, Section 7 of the Clayton Act, and Cal. Bus. & Prof. Code § 17200, et seq.; that Intel and Apple recover damages against defendants in an amount to be determined and multiplied to the extent provided by law, including under Section 4 of the Clayton Act; that all contracts or agreements defendants entered into in violation of the Sherman Act, Clayton Act, or Cal. Bus. & Prof. Code § 17200, et seq. be declared void and the patents covered by those transfer agreements be transferred back to the transferors; that all patents transferred to defendants in violation of the Sherman Act, Clayton Act, or Cal. Bus. & Prof. Code § 17200, et seq. be declared unenforceable; and that Intel and Apple recover their costs and expenses associated with this case, together with interest. On December 13, 2019, the court granted the parties' stipulation to extend the deadline for DSS Technology Management and other defendants to respond to the complaint to February 4, 2020. A hearing on any motions filed in response to the complaint is set for April 23, 2020.

In addition to the foregoing, we may become subject to other legal proceedings that arise in the ordinary course of business and have not been finally adjudicated. Adverse decisions in any of the foregoing may have a material adverse effect on our results of operations, cash flows or our financial condition. The Company accrues for potential litigation losses when a loss is probable and estimable.

Contingent Litigation Payments – The Company retains the services of professional service providers, including law firms that specialize in intellectual property licensing, enforcement and patent law. These service providers are often retained on an hourly, monthly, project, contingent or a blended fee basis. In contingency fee arrangements, a portion of the legal fee is based on predetermined milestones or the Company's actual collection of funds. The Company accrues contingent fees when it is probable that the milestones will be achieved, and the fees can be reasonably estimated. As of December 31, 2019, the Company had not accrued any contingent legal fees pursuant to these arrangements.

Contingent Payments – The Company is party to certain agreements with funding partners who have rights to portions of intellectual property monetization proceeds that the Company receives. As of December 31, 2019, there are no contingent payments due.

NOTE 14 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Cash paid for interest	\$ 157,000	\$ 133,000
Non-cash investing and financing activities:		
Impact of adoption of lease accounting standards	\$ 1,568,000	\$ -
Gain from change in fair value of interest rate swap derivatives	\$ 7,000	\$ 16,000
Common stock issued upon conversion of convertible note	\$ 500,000	\$ -
Equity issued to purchase intangible assets	\$ 145,000	\$ -
Elimination of contingent liabilities through agreement	\$ -	\$ 459,000
Purchase of intangible assets to be paid in installments	\$ -	\$ 304,000
	\$	
Purchase of intangible assets with term note inclusive of tax	-	\$ 119,065

NOTE 15 - SEGMENT INFORMATION

The Company's businesses are organized, managed and internally reported as four operating segments. Two of these operating segments, Packaging and Printing, and Plastics are engaged in the printing and production of paper, cardboard and plastic documents with a wide range of features, including the Company's patented technologies and trade secrets designed for the protection of documents against unauthorized duplication and altering. A third operating segment, Digital, is comprised of DSS Digital Group, and DSS International, and is engaged in research, development, marketing and selling worldwide the Company's digital products, including and primarily our AuthentiGuard® product, which is a brand authentication application that integrates the Company's counterfeit deterrent technologies with proprietary digital data security-based solutions. The fourth operating segment, Technology Management, primary mission has been to monetize its various patent portfolios through commercial litigation and licensing. Except for investment in its social networking related patents, we have historically partnered with various third-party funding groups in connection with patent monetization programs.

As reported herein, DSS is in the process of establishing several new business lines, and we anticipate each of these new business division to be future operating segments. For instance, Direct Marketing is a newly added operating segment in December 2019 and focuses on direct marketing or network marketing engaged in the selling of products or services directly to the public, *e.g.*, by online or telephone selling, rather than through retailers. But for the period ending December 31, 2019, these segments have either yet to be materially formed or to have generated any material revenues.

Approximate information concerning the Company's operations by reportable segment for the years ended December 31, 2019 and 2018 is as follows. The Company relies on intersegment cooperation and management does not represent that these segments, if operated independently, would report the results contained herein:

Year Ended December 31, 2019	Packaging and Printing	Plastics	Digital	Technology Management	Corporate	Total
Revenue	\$ 13,230,000	\$ 3,860,000	\$ 2,147,000	\$ -	\$ 172,000	\$ 19,409,000
Depreciation and amortization	904,000	253,000	33,000	82,000	132,000	1,404,000
Interest expense	96,000	32,000	7,000	-	22,000	157,000
Amortized Debt Discount	2,000	-	-	-	-	2,000
Stock based compensation	17,000	-	81,000	-	324,000	422,000
Income tax benefit	-	-	-	-	(125,000)	(125,000)
Net Income (loss)	311,000	(294,000)	(579,000)	(475,000)	(1,852,000)	(2,889,000)
Capital Expenditures	819,000	42,000	24,000	-	104,000	989,000
Identifiable assets	10,425,000	3,934,000	924,000	58,000	4,804,000	20,145,000

Year Ended December 31, 2018	Packaging and Printing	Plastics	Digital	Technology Management	Corporate	Total
Revenue	\$ 12,957,000	\$ 3,983,000	\$ 1,543,000	\$ 32,000	\$ -	\$ 18,515,000
Depreciation and amortization	775,000	159,000	8,000	338,000	2,000	1,282,000
Interest Expense	(89,000)	(24,000)	-	(13,000)	(19,000)	(145,000)
Amortized Debt Discount	(2,000)	-	-	(22,000)	(22,000)	(46,000)
Stock based compensation	6,000	-	99,000	-	27,000	132,000
Income tax expense	-	-	-	-	17,000	17,000
Net Income (loss)	785,000	28,000	(1,267,000)	3,028,000	(1,109,000)	1,465,000
Capital Expenditures	643,000	305,000	54,000	-	1,000	1,003,000
Identifiable assets	9,643,000	3,492,000	955,000	130,000	1,060,000	15,280,000

International revenue, which consists of sales to customers with operations in Canada, Western Europe, Latin America, Africa, the Middle East and Asia comprised 2.0% of total revenue for 2019 (3.4% - 2018). Revenue is allocated to individual countries by customer based on where the product is shipped. The Company had no long-lived assets in any country other than the United States for any period presented.

The following tables disaggregate our business segment revenues by major source:

Printed Products Revenue Information:

Twelve months ended December 31, 2019

Packaging Printing and Fabrication	\$	12,307,000
Commercial and Security Printing		1,159,000
Technology Integrated Plastic Cards and Badges		1,262,000
Plastic Cards, Badges and Accessories		2,361,000
Total Printed Products	\$	<u>17,089,000</u>

Twelve months ended December 31, 2018

Packaging Printing and Fabrication	\$	11,741,000
Commercial and Security Printing		1,241,000
Technology Integrated Plastic Cards and Badges		1,354,000
Plastic Cards, Badges and Accessories		2,604,000
Total Printed Products	\$	<u>16,940,000</u>

Technology Sales, Services and Licensing Revenue Information:

Twelve months ended December 31, 2019

Information Technology Sales and Services	\$	189,000
Digital Authentication Products and Services		1,414,000
Royalties from Licensees		545,000
Total Technology Sales, Services and Licensing	\$	<u>2,148,000</u>

Twelve months ended December 31, 2018

Information Technology Sales and Services	\$	345,000
Digital Authentication Products and Services		772,000
Royalties from Licensees		458,000
Total Technology Sales, Services and Licensing	\$	<u>1,575,000</u>

NOTE 16 – SUBSEQUENT EVENTS

On March 12, 2020, the Company entered into a binding term sheet (the “Term Sheet”) with DSS BioHealth Security, Inc., a Delaware corporation and wholly owned subsidiary of the Company (“DBHS”), Global BioMedical Pte Ltd, a Singapore corporation (“GBM”), and Impact BioMedical Inc., a Nevada corporation and wholly owned subsidiary of GBM (“Impact”). Pursuant to the Term Sheet, the Company will acquire Impact, a company engaged in the development and marketing of biohealth security technologies, in a proposed share exchange transaction with a purchase price capped at \$50 million, subject to completion of due diligence and an independent valuation. In consideration of 100% of Impact, the Company will issue GBM (i) up to 14,500,000 shares of its common stock, par value \$0.02 (the “Common Stock”), at a price of \$0.216 per share (valued at \$3,132,00), and (ii) perpetual convertible preferred stock (“Convertible Preferred Stock”) for the remaining balance of the purchase price, as adjusted by the independent valuation and subject to a 19.9% blocker based on the total issued outstanding shares of Common Stock held or to be held by GBM. Pursuant to the Term Sheet, in consideration for the Convertible Preferred Stock, the Company will have certain rights, including appointing members of the Board of Directors of Impact, as set forth in the Term Sheet. GBM is a 100% owned subsidiary of Singapore eDevelopment Limited whose Chief Executive Office and largest shareholder is Mr. Heng Fai Ambrose Chan, the Chairman of the Board and largest shareholder of the Company. As such, the above transactions constitute related party transactions which have been duly approved by the Company’s Board of Directors and Audit Committee.

On March 3, 2020, the Company entered into a binding term sheet (the “Term Sheet”) with LiquidValue Asset Management Pte Ltd (“LVAM”), AMRE Asset Management Inc. (“AAMI”) and American Medical REIT Inc. (“AMRE”), regarding a share subscription and loan arrangement. The Term Sheet sets out the terms of a proposed joint venture to establish a medical real estate investment trust in the United States. Pursuant to the Term Sheet, the Company will subscribe for 5,250 ordinary shares of AAMI at a purchase price of \$0.01 per share for total consideration of \$52.50. Concurrently, AAMI will issue 2,500 shares to LVAM, and 1,250 shares to AMRE Tennessee, LLC, AMRE’s executive management’s holding company (collectively, the “Subscription Shares”). As a result, the Company will hold 52.5% of the outstanding shares of AAMI, with LVAM and AMRE Tennessee, LLC, holding 35% and 12.5% of the remaining outstanding shares of AAMI, respectively. Further, pursuant to and in connection with the Term Sheet, on March 3, 2020, the Company entered into a Promissory Note with AMRE, pursuant to which AMRE will issue the Company a promissory note for the principal amount of \$800,000.00 (the “Note”). The Note matures on March 3, 2022 and accrues interest at the rate of 8.0% per annum, and shall be payable in accordance with the terms set forth in the Note. As further incentive to enter into the Note, AMRE issued the Company warrants to purchase 160,000 shares of AMRE common stock (the “Warrants”). The Warrants have an exercise price of \$5.00 per share, subject to adjustment as set forth in the Warrant, and expire on March 3, 2024.

On February 25, 2020, the Company, closed its previously announced underwritten public offering of 25,555,556 shares of its common stock. The Offering included 22,222,223 shares of the Company’s common stock, and 3,333,333 additional shares from the exercise of the underwriter’s purchase option to cover over-allotments at the public offering price of \$0.18 per share. The net offering proceeds (inclusive of the over-allotment exercise) to the Company approximated \$4.0 million. Mr. Heng Fai Ambrose Chan, the Chairman of the Board, purchased 11,111,112 shares of Common Stock in the Offering, for an aggregate purchase price of \$2,000,000.

In January 2020, the Company began foreclosure proceedings on both of its Note receivables with RBC identified in Note 4. These proceedings were finalized in February 2020. The Company chose to forego the optional conversion of the outstanding principal and interest into 75% ownership and 100% ownership, respectively, as was allowed in the terms of both agreements. In lieu of common stock, the Company took ownership of certain assets of RBC. Management has concluded that the fair value of these assets equal or exceeds the amounts outstanding under the obligations.

Subsequent to December 31, 2019, the Company has invested approximately \$460,000 for less than 10% ownership of an entity over which one of the Company's directors serves as CEO.

Impact of COVID-19 Outbreak

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. While the closures and limitations on movement, domestically and internationally, are expected to be temporary, if the outbreak continues on its current trajectory the duration of the supply chain disruption could reduce the availability, or result in delays, of materials or supplies to and from the Company, which in turn could materially interrupt the Company's business operations. Given the speed and frequency of the continuously evolving developments with respect to this pandemic, the Company cannot reasonably estimate the magnitude of the impact to its consolidated results of operations. The Company's manufacturing facilities in both California and New York support businesses have been deemed essential by their respective state governments and remain operational. We have taken every precaution possible to ensure the safety of our employees.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including losses on inventory; impairment losses related to goodwill and other long-lived assets and current obligations.

Subsequent to December 31, 2019, the Company has invested approximately \$460,000 for less than 10% ownership of an entity over which one of the Company's directors serves as CEO.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2019. Based on their evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2019, to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and Interim CFO, as appropriate, to allow timely decisions regarding required disclosure.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there were resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management's Annual Report on Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Interim Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the framework established in "Internal Control—Integrated Framework" promulgated by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, commonly referred to as the "COSO" criteria. Based on our assessment, we concluded that, as of December 31, 2019, our internal control over financial reporting was not effective based on those criteria.

In connection with management's assessment of our internal control over financial reporting described above, the following weakness have been identified in the Company's internal control over financial reporting as of December 31, 2019:

1. The Company did not maintain a sufficient complement of qualified accounting personnel and controls associated with segregation of duties.
2. There was no systematic method of documenting that timely and complete monthly reconciliation and closing procedures take place.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

Remediation of the Material Weaknesses

Management believes it has taken significant steps during 2019, and subsequently in 2020, to strengthen our overall internal controls and eliminate the material weakness of those controls. During the 2020 fiscal year, the Company will document and test the remediations put in place. Such remediation includes the following:

- The Company has hired a Vice President of Finance for its Printed Products group, who will also be utilized to assist in the Company's financial reporting process.
- Along with hiring a Senior Corporate Accountant, and a Senior Financial Analyst, the Company has re-assigned responsibilities of other staff members to assist in the Company's financial reporting as well as segregating duties to serve as a check and balance on employees' integrity and to maintain the best control system possible.
- The Company has centralized its accounting functions across all divisions. The goal of this process is to support the segregation of duties and to allow the Interim Chief Financial Officer to focus on ensuring reporting packages, reconciliations, and other financial reports are accurate and timely reported.
- The Company has adopted one ERP system to serve all business divisions to support its centralized accounting function.
- Controls have been put into place to ensure there are proper segregations of duties within the cash function. The preparer of a check or wire is unable to sign or approve the same, whereas the signor or approver does not have the ability to prepare a check or wire.
- A monthly operations and financial review is performed with key members of the management team, executive committee, and accounting team which has enhanced the timeliness, formality and rigor of our financial statement preparation, review and reporting process.
- Routine account reconciliations for all key balance sheet accounts have been initiated. These account reconciliations are reviewed timely by an independent person.
- All manual journal entries are reviewed by an independent person prior to inclusion in the financial statements.
- Capital spend levels of approvals have been set to include the CEO, Interim CFO, the executive team and the Board of Directors.
- The Company hired and consulted an external, independent accounting firm to review the Company's internal controls; such firm only provided a report of its findings, it did not express an opinion. The Company used the report to assist in management's evaluation of the adequacy of the Company's policies and procedures in the areas of internal operational controls.

The Company is committed to maintaining a strong internal control environment and believes that these remediation efforts will represent significant improvements in our controls. The Company has started to implement these steps, however, some of these steps will take time to be fully integrated and confirmed to be effective and sustainable. Additional controls may also be required over time.

Changes in Internal Control over Financial Reporting

While changes in the Company's internal control over financial reporting occurred during the quarter ended December 31, 2019, as the Company continued to implement the remediation steps described above, we have not been able to fully document and test these controls to ensure their effectiveness over financial reporting during the quarter ended December 31, 2019, and thus cannot conclude that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B - OTHER INFORMATION

Please see the disclosure related to the winding down of our intellectual property monetization business included in ITEM 1 – BUSINESS, Overview, Strategic Business Plan, Exiting Unprofitable Business Lines, which information is incorporated in this Item 9B by reference.

DSS intends to hold its 2020 Annual Meeting of Stockholders in late 3rd quarter or early 4th quarter of 2020.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Company's Board of Directors currently consists of seven directors; the Board size was reduced from nine to seven persons on December 9, 2019, pursuant to an October 2019 Special Meeting of the Board, upon recommendation and approval by the Nominating and Corporate Governance Committee to do so. The Board, also upon recommendation and approval by the Nominating and Corporate Governance Committee, reduced the size of the Board to seven members effective at the time of the Annual Meeting.

Our executive officers and directors as of the date of this report are as follows:

NAME	POSITION
Frank D. Heuszel	Chief Executive Officer, Interim Chief Financial Officer and Director
Jason Grady	Chief Operating Officer
Heng Fai Ambrose Chan	Director, Chairman
John Thatch	Director
Jose Escudero	Director
Sassuan Lee	Director
Lowell Wai Wah	Director
William Wu	Director

Biographical and certain other information concerning the Company's officers and directors is set forth below. There are no familial relationships among any of our directors. Except as indicated below, none of our directors is a director in any other reporting companies. None of our directors has been affiliated with any company that has filed for bankruptcy within the last ten years. We are not aware of any proceedings to which any of our directors, or any associate of any such director is a party adverse to us or any of our subsidiaries or has a material interest adverse to us or any of our subsidiaries. Each executive officer serves at the pleasure of the Board of Directors.

Name	Age	Director/Officer Since	Principal Occupation or Occupations and Directorships
Frank D. Heuszel	63	2018	CEO, Interim CFO, Frank Heuszel has served as a director of the Company since July 30, 2018. He has served as the Company's Chief Executive Officer since April 11, 2019, and as the Company's interim Chief Financial Officer since April 17, 2019. Mr. Heuszel is a practicing attorney, a Certified Public Accountant, and a Certified Internal Auditor, and has over 39 years of experience in accounting and finance matters. Mr. Heuszel's law practice focuses on the regulation and operation of banks, corporate restructures, and mergers and acquisitions. Mr. Heuszel's experience and expertise in the areas of evaluating financial statements and complex financial transactions has been beneficial to the Company and qualifies him to serve on the Company's Board of Directors.
Jason Grady	45	2018	Since July 2018, Mr. Grady has been President of Premier Packaging Corporation ("PPC"), a multi-division folding carton and security packaging company and wholly-owned subsidiary of the Company. From April 2010 through July 2018, Mr. Grady served as the Company's Vice President of Sales. Mr. Grady's role included strategic leadership and driving key initiatives that include re-engineering sales organizations, new business development, international sales, sales management and corporate marketing. He was responsible for the overall management of multi-divisional sales including anti-counterfeit & authentication solutions, enterprise security software technologies, and document security printing. Prior to joining the Company, Mr. Grady served as Sales Director for the Paul T. Freund Corporation, a custom-ridged set up box manufacturer, from May 2009 to August 2010. Mr. Grady also served as Vice President of Marketing for Parlec, Inc., a multi-market machine tool manufacturer, from October 2004 to May 2009. Mr. Grady held the position of Marketing Manager for Fonte Health Care Solutions from December 2002 to October 2004 and previously served as Sales and Marketing Executive for OutStart, an enterprise e-learning software company. Mr. Grady obtained an undergraduate degree in marketing and design and a Masters Degree in Business Administration from the Rochester Institute of Technology.

John Thatch has served as a director of the Company since May 9, 2019 and as Lead Independent Director since December 9, 2019. Mr. Thatch is an accomplished professional and entrepreneur who has started, owned and operated several businesses in various industries and in both the public and private arena. The industries in which his companies have operated include the service, retail, wholesale, education, finance, real estate management and technology industries. Since March 2018, Mr. Thatch has served as the Chief Executive Officer and a director of Sharing Services Global Corporation, a publicly traded holding company focused in the direct selling and marketing industry. He is also a principal owner of Superior Wine & Spirits, a Florida-based company that imports, wholesales and distributes wine and liquor throughout the State of Florida. He has been involved in this business venture since February of 2016. Mr. Thatch served as Chief Executive Officer of Universal Education Strategies, Inc. from January 2009 - January 2016, an organization consisting of six companies that specialized in the development and sales of educational products and services. From 2000 - 2005, he was the Chief Executive Officer of Onscreen Technologies, Inc., currently listed on NASDAQ as CUI Global, Inc., a global leader in the development of cutting-edge thermal management technologies for integrated LED technologies, circuits and superconductors. Mr. Thatch was responsible for all aspects of the company including board and shareholder communications, public reporting and compliance with Sarbanes-Oxley, structuring and managing the firm's financial operations, and expansion initiatives for all corporate products and services. Mr. Thatch's public company financial and management experience in the strategic growth and development of various companies qualify him to Board serve on the Company's Board of Directors and a member of the DSS Audit Committee.

Jose Escudero	44	2019	<p>Jose Escudero has served as a director of the Company since August 5, 2019. He has served as the Managing Partner at BMI Capital Spain, a private investment bank, since September 2013. Previously, Mr. Escudero served as Principal at Hallman & Burke, an international consulting firm, from July 2009 through September 2013. Mr. Escudero has a B.Sc. in Economics from the Francisco de Vitoria University and a Master's degree in Corporate Finance and Investment Banking from the Options & Futures Institute. Mr. Escudero's experience in merger and acquisitions, corporate finance, and international trade along with his education in economics and finance and investment banking qualifies him to serve on the Company's Board of Directors</p>
Sassuan Lee	49	2019	<p>Sassuan Lee (also known as Samson Lee) has served as a director of the Company since August 5, 2019. He co-founded STO Global X, a technology and service provider for security token exchange solutions, in December 2017. He has also served as the Chief Crypto-Economic Advisor for Gibraltar Stock Exchange and Gibraltar Blockchain Exchange since September 2017. In November 2016, Mr. Lee founded Coinstreet Partners, a consultancy firm focused on blockchain, fintech, cryptocurrency and digital assets, and has served as its Chief Executive Officer since inception. Mr. Lee previously served as Managing Director at uCast Global Asia from December 2015 through November 2016. Mr. Lee also served as the Executive Vice President of the Greater China region at Movideo from June 2015 through December 2015 and as Vice President and General Manager of the Greater China and South Asia Pacific regions at NeuLion Inc. from July 2008 through June 2015. Mr. Lee received his Bachelor of Commerce degree from the University of Toronto and his MBA and MS degrees from the Hong Kong University of Science and Technology. Mr. Lee's extensive experience and recognized expert in the fields of technology, blockchain, cryptocurrency and fintech, combined with his experience as Chief Executive Officer and Managing Director of successful international businesses qualifies him to serve on the Company's Board of Directors and a member of the DSS Audit Committee</p>
William Wu	53	2019	<p>William Wu has served as a director of the Company since October 20, 2019. He served as the managing director of Investment Banking at Glory Sun Securities Limited since January 2019. Mr. Wu previously served as the executive director and chief executive officer of Power Financial Group Limited from November 2017 to January 2019. Mr. Wu has served as a director of Asia Allied Infrastructure Holdings Limited since February 2015. Mr. Wu previously served as a director and chief executive officer of RHB Hong Kong Limited from April 2011 to October 2017. Mr. Wu served as the chief executive officer of SW Kingsway Capital Holdings Limited (now known as Sunwah Kingsway Capital Holdings Limited) from April 2006 to September 2010. Mr. Wu holds a Bachelor of Business Administration degree and a Master of Business Administration degree of Simon Fraser University in Canada. He was qualified as a chartered financial analyst of The Institute of Chartered Financial Analysts in 1996.</p> <p>Mr. Wu previously worked for a number of international investment banks and possesses over 26 years of experience in the investment banking, capital markets, institutional broking and direct investment businesses. He is a registered license holder to carry out Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Mr. Wu has served as a member of the Guangxi Zhuang Autonomous Region Committee of the Chinese People's Political Consultative Conference in January 2013. Mr. Wu's experience in banking, capital markets, investment banking, Asian economic and banking dynamics, and education in corporate finance and asset management qualifies him to serve on the Company's Board of Directors and a member of the DSS Audit Committee.</p>

Mr. Lo Wah Wai (also known as Lowell Lo) has served as a director of the Company since April 12, 2019. Mr. Lo is currently Chairman and Managing Director of the BMI Intelligence Group Limited, a leading corporate consulting and financial services firm in the Asia Pacific Region he founded in 1995, and is responsible for the overall management, strategic planning and development of the firm. Prior to establishing BMI Intelligence Group Limited, Mr. Lo was the Audit Manager of Deloitte Touche Tohmatsu for nine years, including two years of service in Deloitte's U.S. headquarters. Mr. Lo has extensive experience with initial public offerings and has participated in the listings of several companies including Ajisen Remen, 361 Degrees Group, Lilanz Group and IGG. Mr. Lo's professional qualifications include Hong Kong Certified Public Accountants (CPA), American Institute of Certified Public Accountants (AICPA), Information Systems Auditor and Control Association (ISACA) and Senior International Finance Manager (SIFM). Mr. Lo is also currently and independent, non-executive board member of Chongqing Machinery & Electric Co., Ltd. And Tenfu (Cayman) Holdings Company Limited, both Hong Kong Exchange-listed companies. Mr. Lo received his bachelor's degree in Business Administration from the Chinese University of Hong Kong and a master's degree from the New Jersey Institute of Technology. Mr. Lo's financial expertise and experience in the management and strategic development of various companies qualifies him to serve on the Company's board of directors.

Name	Age	Director Since	Principal Occupation or Occupations and Directorships
Heng Fai Ambrose Chan	75	2017	<p>Heng Fai Ambrose Chan has served as a director of the Company since February 12, 2017 and became Chairman of the Board of Directors on March 27, 2019. He has also served as an officer of the Company's wholly-owned subsidiary, DSS International Inc., since July of 2017. Mr. Chan is an expert in banking and finance, with years of experience in the industry. Mr. Chan has restructured 35 companies in various industries and countries in the past 40 years. Mr. Chan currently serves as the Chief Executive Officer of Singapore eDevelopment Limited (SED), a publicly traded company on the Singapore Stock Exchange. He also serves as a director of BMI Capital Partners International Ltd., a wholly-owned subsidiary of SED. Mr. Chan also serves on the board of Holista CollTech Limited, a publicly traded company listed on the Australian Securities Exchange. Mr. Chan formerly served as (i) Managing Chairman of Heng Fai Enterprises Limited (now known as ZH International Holdings Limited) which trades on the Hong Kong Stock Exchange; (ii) the Managing Director of SGX Catalist-listed SingHaiyi Group Ltd., which under his leadership, transformed from a failing store-fixed business provider with net asset value of less than \$10 million into a property trading and investment company and finally to a property development company with net asset value over \$150 million before Mr. Chan ceded controlling interest in late 2012; (iii) the Executive Chairman of China Gas Holdings Limited, a formerly failing fashion retail company listed on the Hong Kong Stock Exchange, which under his direction, was restructured to become one of the few large participants in the investment in and operation of city gas pipeline infrastructure in China; (iv) a director of Global Med Technologies, Inc., a medical company listed on NASDAQ engaged in the design, development, marketing and support information for management software products for healthcare-related facilities; (v) a director of Skywest Limited, an ASX-listed airline company; and (vi) the Chairman and Director of American Pacific Bank. In 1987, Mr. Chan acquired American Pacific Bank, a full-service U.S. commercial bank, and brought it out of bankruptcy. He recapitalized, refocused and grew the bank's operations. Under his guidance it became a NASDAQ-listed high asset quality bank with zero loan losses for over five consecutive years before it was ultimately bought and merged into Riverview Bancorp Inc. Mr. Chan's international business contacts and experience qualifies him to serve on our Board of Directors.</p>

Board of Directors and Committees

The Company has determined that each of Mr. John Thatch, Mr. William Wu, Mr. Sassuan Lee and Mr. Jose Escudero qualify as independent directors (as defined under Section 803 of the NYSE American LLC Company Guide).

In fiscal 2019, each of the Company's independent directors attended or participated in 62% or more of the aggregate of (i) the total number of meetings of the Board of Directors held during the period in which each such director served as a director and (ii) the total number of meetings held by all committees of the Board of Directors during the period in which each such director served on such committee. During the fiscal year ended December 31, 2019, the Board held 13 meetings and acted by written consent on one occasion.

On December 9, 2019, the Board appointed Mr. Thatch as the Lead Independent Director, effective immediately. Mr. Thatch will serve as the Lead Independent Director until his successor is duly appointed and qualified, or until his earlier removal or resignation or such time as he is no longer considered an independent director under the New York Stock Exchange listing standards. Mr. Thatch's authority, responsibilities, and duties as the Lead Independent Director include the following: (i) preside at all meetings of the Board at which the Chairman of the Board is not present, at all meetings of the independent directors and at all executive sessions of the independent directors, (ii) have a reasonable opportunity to review and comment on Board meeting agendas, (iii) serve as a liaison between the Chairman of the Board and the other members of the Board, (iv) have the authority to call special meetings of the Board and of the independent directors, and (v) perform such other duties as the Board may from time to time delegate.

Audit Committee

The Company has separately designated an Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Audit Committee held 7 meetings in 2019, and acted by written consent on 0 occasions. The Audit Committee is responsible for, among other things, the appointment, compensation, removal and oversight of the work of the Company's independent registered public accounting firm, overseeing the accounting and financial reporting process of the Company, and reviewing related person transactions. As of December 1, 2019, the Audit Committee is comprised of Mr. John Thatch, Mr. Wu and Mr. Sassuan Lee. Each of Mr. Wu, Mr. Thatch and Mr. Lee is qualified as a "financial expert" as defined in Item 407 under Regulation S-K of the Securities Act of 1933, as amended. Each of the members of the Audit Committee is an independent director (as defined under Section 803 of the NYSE American LLC Company Guide). Mr. Thatch serves as Chairman of the Audit Committee. The Audit Committee operates under a written charter adopted by the Board of Directors, which can be found in the Investors/Corporate Governance section of our web site, www.dsssecure.com.

Compensation and Management Resources Committee

The purpose of the Compensation and Management Resources Committee is to assist the Board in discharging its responsibilities relating to executive compensation, succession planning for the Company's executive team, and to review and make recommendations to the Board regarding employee benefit policies and programs, incentive compensation plans and equity-based plans. The Compensation and Management Resources Committee held two meetings in 2019.

The Compensation and Management Resources Committee is responsible for, among other things, (a) reviewing all compensation arrangements for the executive officers of the Company and (b) administering the Company's stock option plans. The Compensation and Management Resources Committee consists of Mr. Jose Escudero, Mr. William Wu and Mr. Sassuan Lee, with Mr. Lee as the Chairman. Each of the members of the Compensation and Management Resources Committee is an independent director (as defined under Section 803 of the NYSE American Company Guide). The Compensation and Management Resource Committee operates under a written charter adopted by the Board of Directors, which can be found in the Investors/Corporate Governance section of our web site, www.dsssecure.com.

The duties and responsibilities of the Compensation and Management Resources Committee in accordance with its charter are to review and discuss with management and the Board the objectives, philosophy, structure, cost and administration of the Company's executive compensation and employee benefit policies and programs; no less than annually, review and approve, with respect to the Chief Executive Officer and the other executive officers (a) all elements of compensation, (b) incentive targets, (c) any employment agreements, severance agreements and change in control agreements or provisions, in each case as, when and if appropriate, and (d) any special or supplemental benefits; make recommendations to the Board with respect to the Company's major long-term incentive plans applicable to directors, executives and/or non-executive employees of the Company and approve (a) individual annual or periodic equity-based awards for the Chief Executive Officer and other executive officers and (b) an annual pool of awards for other employees with guidelines for the administration and allocation of such awards; recommend to the Board for its approval a succession plan for the Chief Executive Officer, addressing the policies and principles for selecting a successor to the Chief Executive Officer, both in an emergency situation and in the ordinary course of business; review programs created and maintained by management for the development and succession of other executive officers and any other individuals identified by management or the Compensation and Management Resources Committee; review the establishment, amendment and termination of employee benefits plans, review employee benefit plan operations and administration; and any other duties or responsibilities expressly delegated to the Compensation and Management Resources Committee by the Board from time to time relating to the Committee's purpose.

The Compensation and Management Resources Committee may request any officer or employee of the Company or the Company's outside counsel to attend a meeting of the Compensation and Management Resources Committee or to meet with any members of, or consultants to, the Compensation and Management Resources Committee. The Company's Chief Executive Officer does not attend any portion of a meeting where the Chief Executive Officer's performance or compensation is discussed, unless specifically invited by the Compensation and Management Resources Committee.

The Compensation and Management Resources Committee has the sole authority to retain and terminate any compensation consultant to be used to assist in the evaluation of director, Chief Executive Officer or other executive officer compensation or employee benefit plans, and has sole authority to approve the consultant's fees and other retention terms. The Compensation and Management Resources Committee also has the authority to obtain advice and assistance from internal or external legal, accounting or other experts, advisors and consultants to assist in carrying out its duties and responsibilities, and has the authority to retain and approve the fees and other retention terms for any external experts, advisors or consultants.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is responsible for overseeing the appropriate and effective governance of the Company, including, among other things, (a) nominations to the Board of Directors and making recommendations regarding the size and composition of the Board of Directors and (b) the development and recommendation of appropriate corporate governance principles. The Nominating and Corporate Governance Committee consists of Mr. John Thatch, the Chairman of the committee, Mr. Sassuan Lee and Mr. Jose Escudero, each of whom is an independent director (as defined under Section 803 of the NYSE American LLC Company Guide). The Nominating and Corporate Governance Committee held 5 meetings in 2019, and did not act by written consent. The Nominating and Corporate Governance Committee operates under a written charter adopted by the Board of Directors, which can be found in the Investors/Corporate Governance section of our web site, www.dsssecure.com. The Nominating and Corporate Governance Committee adheres to the Company's By-Laws provisions and Securities and Exchange Commission rules relating to proposals by shareholders when considering director candidates that might be recommended by stockholders, along with the requirements set forth in the committee's Policy with Regard to Consideration of Candidates Recommended for Election to the Board of Directors, also available on our website. The Nominating and Corporate Governance Committee of the Board of Directors is responsible for identifying and selecting qualified candidates for election to the Board of Directors prior to each annual meeting of the Company's stockholders. In identifying and evaluating nominees for director, the Committee considers each candidate's qualities, experience, background and skills, as well as other factors, such as the individual's ethics, integrity and values which the candidate may bring to the Board of Directors.

Code of Ethics

The Company has adopted a Code of Ethics that establishes the standards of ethical conduct applicable to all directors, officers and employees of the Company. A copy of the Code of Ethics covering all of our employees, directors and officers, is available on the Corporate Governance section of our web site at www.dsssecure.com.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Since April 17, 2019, Frank D. Heuszel has been serving as the Chief Executive Officer and interim Chief Financial Officer of the Company. The biography for Mr. Heuszel is contained herein in the information disclosures relating to the Company's directors above.

On July 11, 2019, the Board appointed Mr. Jason Grady as the Company's Chief Operating Officer, effective July 15, 2019.

At the close of 2018, the Company's Named Executive Officers were Jeffrey Ronaldi, who served as the Company's Chief Executive Officer, and Philip Jones, who served as the Company's Chief Financial Officer. On March 27, 2019, in anticipation of the departure of Jeffrey Ronaldi from his position as the Company's Chief Executive Officer, the Board of Directors of the Company determined to reassign Mr. Ronaldi's responsibilities to Philip Jones, who was then serving as the Company's Chief Financial Officer. Mr. Ronaldi's employment as Chief Executive Officer ended on April 10, 2019. On March 27, 2019, Philip Jones assumed the role of interim Principal Executive Officer in addition to his duties as Chief Financial Officer of the Company. On April 9, 2019, Mr. Jones tendered his resignation as Chief Financial Officer and interim Principal Executive Officer of the Company, with his departure from the Company effective April 17, 2019.

Involvement in Certain Legal Proceedings

None of our directors or executive officers has been involved in any legal proceedings in the past 10 years that would require disclosure under Item 401(f) of Regulation S-K.

ITEM 11 - EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the compensation earned by each of the persons serving as the Company's Chief Executive Officer, Chief Financial Officer and President, referred to herein collectively as the "Named Executive Officers", or NEOs, for services rendered to us for the years ended December 31, 2019 and 2018:

Name and principal position	Year	Salary	Bonus	Stock Awards (1)	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation (2)	Total
Frank D. Heuszel, Chief Executive Officer	2019	\$ 91,615	61,103	31,403	-	-	-	15,843(3)	\$ 199,964
	2018	\$ -	-	-	-	-	-	9,500(4)	\$ 9,500
Jason Grady, Chief Operating Officer	2019	\$ 84,615	61,103	31,403	-	-	-	7,170	\$ 184,291
	2018	\$ -	-	-	-	-	-	-	\$ -
Philip Jones, Chief Financial Officer	2019	\$ 59,231	-	-	-	-	-	2,073	\$ 61,304
	2018	\$ 199,038	-	-	-	25,000	-	-	\$ 224,038
Jeffrey Ronaldi, Chief Financial Officer	2019	\$ 61,297	-	-	-	-	-	-	\$ 61,297
	2018	\$ 200,000	-	67,263	-	-	-	5,086	\$ 272,349
Robert B. Bzdick, President (5)	2019	\$ -	-	-	-	212,124	-	-	\$ 212,124
	2018	\$ 116,667	-	-	-	216,927	-	18,580	\$ 352,174

- (1) Represents the total grant date fair value of restricted stock awards computed in accordance with FASB ASC 718. Our policy and assumptions made in the valuation of share-based payments are contained in Note 10 to our financial statements for the year ended December 31, 2019.
- (2) Includes health insurance premiums, retirement matching funds and automobile expenses paid by the Company.
- (3) Includes \$8,000 Mr. Heuszel received for his service as an independent director from January 1, 2019 through April 18, 2019, after which he no longer served as an independent director as he became the Company's Executive Officer and interim Chief Financial Officer.
- (4) Includes \$9,500 Mr. Heuszel received for his service as an independent director.
- (5) Mr. Bzdick served as President of the Company and Chief Executive Officer of Premier Packaging Corporation, a wholly-owned subsidiary of the Company, until August 1, 2018.

Employment and Severance Agreements

Frank D. Heuszel has served as the Company's Chief Executive Officer since April 11, 2019, and also as the Company's interim Chief Financial Officer since April 17, 2019. Upon his appointment, the Company agreed to pay Mr. Heuszel cash compensation in the amount of \$7,500 per month for his combined services as interim Chief Executive Officer and Chief Financial Officer. On August 27, 2019, the Company entered into an executive employment agreement with Mr. Heuszel. Pursuant to the agreement, Mr. Heuszel shall receive an annual base salary of \$165,000, payable bi-weekly, and shall be eligible to an annual performance bonus in an amount up to 100% of his base salary, upon the Company's achievement of certain net income and gross revenue milestones. In the event of a change in control of the Company or the termination of Mr. Heuszel's employment without cause, Mr. Heuszel shall receive four-months' salary, payable monthly.

On September 5, 2019, the Company entered in an executive employment agreement with Mr. Jason Grady, the Company's Chief Operating Officer. Pursuant to the agreement, Mr. Grady shall receive an annual base salary of \$200,000 and shall be eligible to receive an annual performance bonus, in an amount up to 100% of his base salary, upon the Company's achievement of certain net income and gross revenue milestones. In the event of a change in control of the Company or the termination of Mr. Grady's employment without cause, he shall be entitled to receive four-month's base salary.

The Company's previous Named Executive Officers, Robert Bzdick, Jeffrey Ronaldi and Philip Jones are no longer employed by the Company as of August 1, 2018, April 10, 2019, and April 17, 2019, respectively.

Mr. Jones was an at-will employee. If Mr. Jones' employment had been involuntarily terminated by the Company, he would have been entitled to receive severance payments in the amount of four months current base-salary.

On July 31, 2018, the Company and Robert Bzdick entered into a Non-Compete Letter Agreement (the "Agreement") whereby the parties mutually agreed that Mr. Bzdick's employment as President of the Company and Chief Executive Officer of Premier Packaging Corporation, a wholly-owned subsidiary of the Company, would terminate effective on August 1, 2018. The Agreement voided and replaced Mr. Bzdick's previous employment agreement with the Company, originally dated February 12, 2010, and amended on October 1, 2012, except for the non-competition and non-solicitation covenants contained therein, which were carried forward in their entirety to the new Agreement.

Pursuant to the terms of the Agreement, Mr. Bzdick received his regular wages and contractual bonus sum accrued through the separation date, and also receives the sum of \$16,000 per month, for a period of 19 months, as consideration for the two-year non-competition and non-solicitation restrictive covenants contained in the Agreement, which are identical to the restrictive covenants contained in Mr. Bzdick's previous employment agreement, which are now incorporated by reference into the Agreement. In addition, the Company agreed to continue to pay the cost of Mr. Bzdick's health, dental and vision insurance coverage for a period of 19 months or until he is eligible for such benefits from another employer, whichever is shorter. In the Agreement, Mr. Bzdick specifically acknowledges that, among other remedies, the Company is entitled to cease all payments under the Agreement and recoup all payments previously made in the event Mr. Bzdick revokes, violates or breaches the Agreement, or discontinues any promised act under the Agreement. Moreover, the Agreement further provides that in the event Mr. Bzdick breaches the Agreement by bringing suit or filing a claim with an administrative agency, then he must, as a condition precedent, repay to the Company in cash all consideration received pursuant to the Agreement. The Agreement also contains standard mutual release and damages clauses, and a clause that provides that in any action for breach of the Agreement, the prevailing party shall be entitled to recover attorneys' fees from the opposing party.

Outstanding Equity Awards at Fiscal Year-End

As of December 31, 2019, there were no outstanding equity awards to our Named Executive Officers.

Director Compensation

The following table sets forth cash compensation and the value of stock options awards granted to the Company's non-employee independent directors, who were not also named executive officers, for their service in 2019:

Name	Fees Earned or Paid in			All Other Compensation	Total
	Cash	Stock Awards (1)			
Current Directors					
Heng Fai Ambrose Chan	\$ -	\$ -	\$ 31,403(4)	\$	\$ 31,403
John Thatch	\$ 19,500	\$ 12,842	\$ -	\$	\$ 32,342
Lowell Wai Wah	\$ -	\$ 17,122	\$ -	\$	\$ 17,122
Sassuan Lee	\$ 11,500	\$ 12,842	\$ -	\$	\$ 24,342
Jose Escudero	\$ 10,000	\$ 12,842	\$ -	\$	\$ 22,842
William Wu	\$ 2,000	\$ -	\$ -	\$	\$ 2,000
Prior Directors					
Pamella Avallone (3)	\$ 21,500	\$ 12,842	\$ -	\$	\$ 34,342
Joseph Sanders (2)	\$ 28,000	\$ 12,842	\$ -	\$	\$ 40,842
Clark Marcus (3)	\$ 13,500	\$ -	\$ -	\$	\$ 13,500
Daniel DelGiorno (3)	\$ -	\$ 17,122	\$ -	\$	\$ 17,122
Stanly Grisham (3)	\$ 14,000	\$ 12,842	\$ -	\$	\$ 26,842
Brett Scott (3)	\$ 10,500	\$ 12,842	\$ -	\$	\$ 23,342

- (1) Represents the total grant date fair value of stock awards computed in accordance with FASB ASC 718. Our policy and assumptions made in the valuation of share-based payments are contained in Note 10 to our consolidated financial statements for the year ended December 31, 2019.
- (2) Such person did not stand for re-election at the 2019 Annual Shareholder meeting.
- (3) Resigned as director of the Company during 2019.
- (4) In connection with his employment contract as an officer of the Company's subsidiary, Mr. Chan received \$31,403 in fully vested restricted stock with a two-year lock-up period.

Each independent director (as defined under Section 803 of the NYSE MKT LLC Company Guide) is entitled to receive base cash compensation of \$12,000 annually, provided such director attends at least 75% of all Board of Director meetings, and all scheduled committee meetings. Each independent director is entitled to receive an additional \$1,000 for each Board of Director meeting he attends, and an additional \$500 for each committee meeting he attends, provided such committee meeting falls on a date other than the date of a full Board of Directors meeting. Each of the independent directors is also eligible to receive discretionary grants of options or restricted stock under the Company's 2020 Equity Incentive Plan. Non-independent members of the Board of Directors do not receive compensation in their capacity as directors, except for reimbursement of travel expenses.

On September 23, 2019, the Company entered in an executive employment agreement with Mr. Heng Fai Ambrose Chan, a director of the Company, Chief Executive Officer of the Company's wholly-owned subsidiary DSS International Inc. and Chief Executive Officer of DSS Asia, a wholly-owned subsidiary of DSS International Inc. Pursuant to the agreement, Mr. Chan shall receive an annual base salary of \$250,000, payable quarterly in either cash or common stock, subject to availability of shares under a shareholder-approved stock plan. The calculation of each quarterly payment of common stock shall be the Company's average trading price for the last ten trading days of that quarter. Mr. Chan is also eligible to receive an annual performance bonus, in an amount up to 100% of his base salary, upon the Company's achievement of certain net income and gross revenue milestones. Mr. Chan has the option to have the bonus paid in Company common stock. In the event of a change in control of the Company or the termination of Mr. Chan's employment without cause, Mr. Chan shall receive four-months' salary, payable monthly. In connection with this agreement, Mr. Chan was awarded 74,770 shares of fully vested restricted stock with a two-year lock-up period and had an aggregated grant date fair value of approximately \$31,000.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth beneficial ownership of Common Stock as of March 20, 2020 by each person known by the Company to beneficially own more than 5% of the Common Stock, each director and each of the executive officers named in the Summary Compensation Table (see "Executive Compensation" below), and by all of the Company's directors and executive officers as a group. Each person has sole voting and dispositive power over the shares listed opposite his name except as indicated in the footnotes to the table and each person's address is c/o Document Security Systems, Inc., 200 Canal View Boulevard, Suite 300, Rochester, New York 14623.

For purposes of this table, beneficial ownership is determined in accordance with the Securities and Exchange Commission rules, and includes investment power with respect to shares owned and shares issuable pursuant to warrants or options exercisable within 60 days of March 20, 2020.

The percentages of shares beneficially owned are based on 62,086,099 shares of our Common Stock issued and outstanding as of March 20, 2020, and is calculated by dividing the number of shares that person beneficially owns by the sum of (a) the total number of shares outstanding on March 20, 2020, plus (b) the number of shares such person has the right to acquire within 60 days of March 20, 2020.

Name	Number of Shares Beneficially Owned	Percentage of Outstanding Share Beneficially Owned
Heng Fai Ambrose Chan (1)	22,954,670	37%
John Thatch	30,575	*
Lowell Wai Wah	40,767	*
Sassuan Lee	-	*
Jose Escudero	-	*
Frank Heuszel	74,770	*
William Wu	-	*
Jason Grady	74,770	*
All officers and directors as a group (8 persons)	23,175,552	37%
5% Shareholders		
Heng Fai Ambrose Chan (1)	See Above	See Above
* Less than 1%.		

* Less than 1%.

(1) Includes 2,427,599 individually owned shares of the Company's Common Stock, 500,000 shares of the Company's Common Stock owned by BMI Capital Partners International Limited, 1,786,531 shares of the Company's Common Stock owned by Heng Fai Holdings Limited, 17,557,540 shares of the Company's Common Stock owned by LiquidValue Development Pte Ltd, and 683,000 shares of the Company's Common Stock owned by Hengfai Business Development Pte. Ltd. Mr. Chan has dispositive power over all of these shares.

Equity Compensation Plans Information

The following table sets forth information about our equity compensation plans as of December 31, 2019.

Plan Category	Restricted stock to be issued upon vesting	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance (under equity compensation Plans (excluding securities reflected in column (a & b))
	(a)	(b)	(c)	(d)
Equity compensation plans approved by security holders				
2013 Employee, Director and Consultant Equity Incentive Plan - options	-	577,917	\$ 5.01	-
2013 Employee, Director and Consultant Equity Incentive Plan - warrants	-	1,220,304	\$ 1.12	-
2020 Employee, Director and Consultant Equity Incentive Plan	-	0	0	7,236,125
Total	-	1,798,221	\$ 2.37	7,236,125

2020 Employee Stock Option Plan

Following the Board's approval of same, the Company's shareholders approved the 2020 Employee, Director and Consultant Equity Incentive Plan ("2020 Incentive Plan") at the shareholder meeting held on December 9, 2019. As of the date of this Report, 0 options have been issued pursuant to the Plan. Based on its provisions, there are currently 7,236,125 shares of Common Stock available for issuable under the 2020 Incentive Plan.

Purpose of the Plan. The 2020 Incentive Plan was established by the Company to (i) promote the success and enhance the value of the Company by a) linking the personal interests of participants of the 2020 Incentive Plan to those of Company stockholders and b) providing participants with an incentive for outstanding performance; and (ii) provide flexibility to the Company in its ability to motivate, attract, and retain the services of participants upon whose judgment, interest and special effort the successful conduct of its business is largely dependent.

The Board has the sole authority to implement, interpret, and/or administer the 2020 Incentive Plan unless the Board delegates (i) all or any portion of its authority to implement, interpret, and/or administer the 2020 Incentive Plan to a committee of the Board consisting of non-employee directors (the "Committee"), or (ii) the authority to grant and administer awards to non-executive employees of the Company under the 2020 Incentive Plan to an officer of the Company.

The 2020 Incentive Plan provides for the issuance of shares of Common Stock, including shares that may be issued related to the exercise of options awarded under the 2020 Incentive Plan, in an amount up to twenty percent (20%) of the total issued and outstanding shares of Common Stock as of December 31, 2019 (with additional shares to be authorized every first day of the next fiscal year in accordance with the 2020 Incentive Plan's evergreen provision). The 2020 Incentive Plan shall be effective for 10 years, unless earlier terminated.

Employees, officers, directors, consultants and advisors of the Company or any affiliate of the Company ("Participants") are eligible to receive an award under the 2020 Incentive Plan. The 2020 Incentive Plan provides Participants the opportunity to participate in the enhancement of shareholder value by the award of options and awards of Common Stock, granted as stock bonus awards, restricted stock awards, deferred share awards and performance-based awards, under the 2020 Incentive Plan. The 2020 Incentive Plan further provides for the Company to make payment of bonuses and/or consulting fees to certain Participants in options and Common Stock, or any combination thereof. While our directors and our executive officers may participate in the 2020 Incentive Plan, the amounts and benefits that they may receive from the 2020 Incentive Plan (if any) has not been determined and is not currently determinable.

No single participant under the 2020 Incentive Plan may receive more than 20% of all options awarded in a single year.

In the event of a corporate transaction involving the Company (including, without limitation, any merger, reorganization, consolidation, recapitalization, separation, liquidation, split-up, or share combination), the Committee shall adjust awards in any manner determined by the Committee to be an appropriate and equitable means to prevent dilution or enlargement of rights.

Evergreen Provision

Under the 2020 Incentive Plan, the Company will initially reserve shares of Common Stock for issuance to eligible employees, officers, directors, consultants, and advisors of the Company and its affiliates in amount equal to twenty percent (20%) of the then issued and outstanding shares of the Company's Common Stock as of December 31, 2019, subject to adjustment. The 2020 Incentive Plan provides that on the first day of each fiscal year of the Company during the period beginning in fiscal year 2021 and ending on the second day of fiscal year 2029, the number of shares of Common Stock authorized to be issued under the 2020 Incentive Plan will be increased by an amount equal to the lesser of (i) five percent (5%) of the total number of shares of Common Stock outstanding as of December 31 of the preceding fiscal year and (ii) an amount to be determined by the Company's Board of Directors.

Stock Options

The Board, or the Committee, shall have sole and absolute discretionary authority (i) to determine, authorize, and designate those persons who are to receive options under the 2020 Incentive Plan, (ii) to determine the number of shares of Common Stock to be covered by such options and the terms thereof, (iii) to determine the type of option granted (ISOs or Nonqualified Options), and (iv) to determine other such details concerning the vesting, termination, exercise, transferability and payment of such options. The Board or Committee shall thereupon grant options in accordance with such determinations as evidenced by a written option agreement.

The exercise price per share for Common Stock of options granted under the 2020 Incentive Plan shall be determined by the Board or Committee, but in no case shall be less than one hundred percent (100%) of the fair market value of the Common Stock (determined in accordance with the 2020 Incentive Plan) at the time the option is granted, provided that, with respect to ISOs granted to a person who holds ten percent (10%) or more of the total combined voting power of all classes of stock of the Company, the exercise price per share for Common Stock shall not be less than 110% of the fair market value of the Common Stock and the term of the ISO shall be no more than 5 years from date of grant. The fair market value of the Common Stock with respect to which ISOs may be exercisable for the first time by any Participant during any calendar year under all such plans of the Company and its affiliates shall not exceed \$100,000, or such other amount provided in Section 422 of the Internal Revenue Code.

ISOs under the 2020 Incentive Plan may not be transferred except by will or laws of descent and, during the lifetime of the recipient of the ISO, only be exercised by such recipient. Nonqualified Options may be transferred as a gift in accordance with the applicable securities laws and regulations and with any stock option agreement. Shares issued pursuant to the exercise of options may be endorsed with a legend restricting their transfer or sale.

Each option shall terminate not more than ten years from the date of the grant or at such earlier time as the option agreement may provide. For those who own more than 10% of the total combined voting power of all classes of stock of the Company or an affiliate of the Company, each ISO shall terminate not more than five years from the date of the grant or at such earlier time as the option agreement may provide.

Bonus, Deferred, and Restricted Stock Awards

The Board, or the Committee, may, in its sole discretion, grant awards of Common Stock in the form of bonus awards, deferred awards, and restricted stock awards. Each stock award agreement shall be in such form and shall contain such terms and conditions as the Board, or the committee, deems appropriate. The terms and conditions of each stock award agreement may change from time to time and need not be uniform with respect to Participants, and the terms and conditions of separate stock award agreements need not be identical.

Performance Share Awards

The Board, or the Committee, may authorize grants of shares of Common Stock to be awarded upon the achievement of specified performance objectives, upon such terms and conditions as the Board, or the Committee, may determine. Such awards shall be conferred upon the Participant upon the achievement of specified performance objectives during a specified performance period, such objectives being set forth in the grant and including a minimum acceptable level of achievement and, optionally, a formula for measuring and determining the number of performance shares to be issued. Each performance share award agreement shall be in such form and shall contain such terms and conditions as the Board, or the Committee, deems appropriate. The terms and conditions of each performance share award may change from time to time and need not be uniform with respect to Participants, and the terms and conditions of separate performance share award agreements need not be identical.

Adjustments

If the Company shall effect a subdivision or consolidation of shares or other capital readjustment, the payment of a stock dividend, or other increase or reduction of the number of shares of the Common Stock outstanding, without receiving consideration therefore in money, services or property, then (i) the number, class, and per share price of shares of Common Stock subject to outstanding options and other awards under the 2020 Incentive Plan, and (ii) the number of and class of shares then reserved for issuance under the 2020 Incentive Plan and the maximum number of shares for which awards may be granted to any Participant during a specified time period shall be appropriately and proportionately adjusted. The Board, or the Committee, shall make such adjustments, and its determinations shall be final, binding and conclusive.

Change in Control

If the Company is to be consolidated with or acquired by another entity in a merger, consolidation, or sale of all or substantially all of the Company's assets other than a transaction to merely change the state of incorporation (a "Corporate Transaction"), the administrator of the 2020 Incentive Plan (the "Administrator") or the board of directors of any entity assuming the obligations of the Company (the "Successor Board"), shall, as to outstanding options issued under the 2020 Incentive Plan, either (i) make appropriate provision for the continuation of such options by substituting on an equitable basis for the shares then subject to such options either A) the consideration payable with respect to the outstanding shares of common stock in connection with the Corporate Transaction or B) securities of any successor or acquiring entity; or (ii) upon written notice to the Participants, provide that such options must be exercised (either (A) to the extent then exercisable or, (B) at the discretion of the Administrator, any such options being made partially or fully exercisable), within a specified number of days of the date of such notice, at the end of which period such options which have not been exercised shall terminate whether or not vested; or (iii) terminate such options in exchange for payment of an amount equal to the consideration payable upon consummation of such Corporate Transaction to a holder of the number of shares of common stock into which such option would have been exercisable (either (A) to the extent then exercisable or, (B) at the discretion of the Administrator, any such options being made partially or fully exercisable) less the aggregate exercise price thereof. For purposes of determining the payments to be made pursuant to clause (iii) above, in the case of a Corporate Transaction, the consideration for which, in whole or in part, is other than cash, the consideration other than cash shall be valued at the fair value thereof as determined in good faith by the Board of Directors.

With respect to outstanding stock grants issued under the 2020 Incentive Plan, the Administrator or the Successor Board, shall make appropriate provision for the continuation of such stock grants on the same terms and conditions by substituting on an equitable basis for the Shares then subject to such stock grants either the consideration payable with respect to the outstanding shares of common stock in connection with the Corporate Transaction or securities of any successor or acquiring entity. In lieu of the foregoing, in connection with any Corporate Transaction, the Administrator may provide that, upon consummation of the Corporate Transaction, each outstanding stock grant shall be terminated in exchange for payment of an amount equal to the consideration payable upon consummation of such Corporate Transaction to a holder of the number of shares of common stock comprising such stock grant (to the extent such stock grant is no longer subject to any forfeiture or repurchase rights then in effect or, at the discretion of the Administrator, all forfeiture and repurchase rights being waived upon such Corporate Transaction).

Plan Amendment or Termination

Our Board has the authority to amend, suspend, or terminate our equity incentive plans, provided that such action does not materially impair the existing rights of any participant without such participant's written consent. The 2020 Incentive Plan will terminate on December 9, 2029, except that awards that are granted under the 2020 Incentive Plan prior to its termination will continue to be administered under the terms of the 2020 Incentive Plan until the awards terminate, expire or are exercised.

Other Information

The 2020 Incentive Plan will be effective January 1, 2020, subject to stockholder approval, and, subject to the right of the Committee to amend or terminate the 2020 Incentive Plan, will remain in effect as long as any awards under it are outstanding; provided, however, that no awards may be granted under the 2020 Incentive Plan after January 1, 2030.

The Committee may, at any time, amend, suspend or terminate the Plan, and the Committee may amend any award agreement; provided that no amendment may, in the absence of written consent to the change by the affected participant, materially alter or impair any rights or obligations under an award already granted under the 2020 Incentive Plan.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

Except as disclosed herein, no director, executive officer, shareholder holding at least 5% of shares of our common stock, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction since January 1, 2019, in which the amount involved in the transaction exceeds the lesser of \$120,000 or one percent of the average of our total assets at the year-end for the last two completed fiscal years.

Effective on February 18, 2019, the Company entered into a Convertible Promissory Note (the "Note") with LiquidValue Development Pte Ltd (the "Holder") in the principal sum of \$500,000 (the "Principal Amount"), of which up to \$500,000 of the Principal Amount can be paid by the conversion of such amount into the Company's common stock up to a maximum of 446,428 shares of Common Stock, at a conversion price of \$1.12 per share. The Note carried a fixed interest rate of 8% per annum and had a term of 12-months. Accrued interest was payable in cash in arrears on the last day of each calendar quarter, with the first interest payment due on June 30, 2019, and remained payable until the Principal Amount is paid in full. The Holder is a related party, owned by one of the Company's directors. Effective on March 25, 2019, the Holder exercised its conversion option to convert the Maximum Conversion Amount under the Note and thereby received 446,428 shares of Common Stock. As a result of Holder's election to exercise its full conversion rights under the Note, the Note was cancelled effective on March 25, 2019.

On February 22, 2019, one of the Company's foreign subsidiaries, DSS Cyber Security Pte Ltd. entered into a licensing and distribution agreement with Advanced Cyber Security Corp. ("ACS"). As consideration for the licensing and distribution agreement, the Company paid ACS \$350,000 cash and on March 5, 2019, issued ACS 130,435 shares of the Company's common stock at \$1.15 per share as additional consideration for the agreement. Daniel DelGiorno is the Chief Executive Officer and owner of ACS. Mr. DelGiorno is a former director of the Company and a related party.

On May 31, 2019, the Company issued and sold an unsecured promissory note to LiquidValue Development Pte Ltd, an entity owned by Mr. Chan, in the principal amount of \$650,000. Proceeds from the note were used for general corporate purposes. This Note was paid in full on June 12, 2019.

On June 5, 2019 the Company completed an underwritten public offering (the "Offering") with gross proceeds of \$5.6 million before deducting underwriting discounts and commissions and other estimated offering expenses. The Offering included 11,200,000 shares of the Company's common stock and 1,680,000 additional shares from the exercise of the underwriter's purchase option to cover over-allotments, at the public offering price of \$0.50 per share. Mr. Chan purchased 2,000,000 shares of Common Stock in the Offering, for an aggregate purchase price of \$1,000,000.

On October 29, 2019 and subsequently October 30, 2019, the Audit Committee and the Board of Directors of the Company approved the issuance of common stock, not to exceed 6,000,000 shares, via private placement with a related party. Pursuant to a Subscription Agreement, LiquidValue Development Pte LTD, a company owned and controlled by Mr. Heng Fai Ambrose Chan, DSS's Chairman, purchased from the Company, in a private placement, and aggregate of 6,000,000 shares of common stock, for an above market purchase price equal to \$0.30 per share for gross proceeds to the Company of \$1,822,200 (before deductions for placement agent fees and other expenses). This transaction was executed on November 1, 2019.

Subsequent to December 31, 2019 the Company has invested approximately \$460,000 for less than 10% ownership of an entity over which one of the Company's directors serves as CEO.

As of December 31, 2018, the Company owned 21,196,552 ordinary shares and an existing three-year warrant to purchase up to 105,982,759 ordinary shares at an exercise price of SGD\$0.040 (US\$0.0298) per share of Singapore eDevelopment Limited (“SED”), a company incorporated in Singapore and publicly listed on the Singapore Exchange Limited. The restriction on the sale of shares, and execution of the warrants expired on September 17, 2019. The carrying value of the initial 21,196,552 ordinary shares investment as of December 31, 2019 was \$324,930. On December 19, 2019, the Company exercised the warrant, in part, pursuant to which the Company acquired 61,977,577 ordinary shares of SED. The total consideration paid by the Company for these ordinary shares was SGD\$2,479,103.08, or approximately \$1,833,000 USD, the investment value at December 31, 2019. After giving effect to the warrant exercise, the Company now owns 83,174,129 ordinary shares of SED, representing approximately 7.1% of the outstanding shares of SED, and the remaining warrant to purchase 44,005,182 ordinary shares of SED. Mr. Chan is the Executive Director and Chief Executive Officer of SED.

On February 25, 2020, the Company completed an underwritten public offering (the “Offering”) with gross proceeds of \$4.6 million before deducting underwriting discounts and commissions and other estimated offering expenses. The Offering included 22,222,223 shares of the Company’s common stock and 3,333,333 additional shares from the exercise of the underwriter’s purchase option to cover over-allotments, at the public offering price of \$0.18 per share. Mr. Chan purchased 11,111,112 shares of Common Stock in the Offering, for an aggregate purchase price of \$2,000,000.

On March 3, 2020, the Company entered into a binding term sheet (the “Term Sheet”) with LiquidValue Asset Management Pte Ltd (“LVAM”), AMRE Asset Management Inc. (“AAMI”) and American Medical REIT Inc. (“AMRE”), regarding a share subscription and loan arrangement. The Term Sheet sets out the terms of a proposed joint venture to establish a medical real estate investment trust in the United States. Pursuant to the Term Sheet, the Company will subscribe for 5,250 ordinary shares of AAMI at a purchase price of \$0.01 per share for total consideration of \$52.50. Concurrently, AAMI will issue 2,500 shares to LVAM, and 1,250 shares to AMRE Tennessee, LLC, AMRE’s executive management’s holding company (collectively, the “Subscription Shares”). As a result, the Company will hold 52.5% of the outstanding shares of AAMI, with LVAM and AMRE Tennessee, LLC, holding 35% and 12.5% of the remaining outstanding shares of AAMI, respectively. Further, pursuant to and in connection with the Term Sheet, on March 3, 2020, the Company entered into a Promissory Note with AMRE, pursuant to which AMRE will issue the Company a promissory note for the principal amount of \$800,000.00 (the “Note”). The Note matures on March 3, 2022 and accrues interest at the rate of 8.0% per annum, and shall be payable in accordance with the terms set forth in the Note. The Note also provides the Company an option to provide AMRE an additional \$800,000 on the same terms and conditions as the Note, including the issuance of warrants as hereinafter described. As further incentive to enter into the Note, AMRE issued the Company warrants to purchase 160,000 shares of AMRE common stock (the “Warrants”). The Warrants have an exercise price of \$5.00 per share, subject to adjustment as set forth in the Warrant, and expire on March 3, 2024. Pursuant to the Warrants, if AMRE files a registration statement with the Securities and Exchange Commission for an initial public offering (“IPO”) of AMRE’s common stock and the IPO price per share offered to the public is less than \$10.00 per share, the exercise price of the Warrant shall be adjusted downward to 50% of the IPO price. The Warrant also grants piggyback registration rights to the Company as set forth in the Warrant. The parties to the Term Sheet, including AMRE Tennessee, LLC, also entered into a stockholders’ agreement dated as of March 3, 2020 (the “Stockholders’ Agreement”), regarding their ownership of AAMI’s common stock to regulate certain aspects of the relationship between the stockholders and provide for certain rights and obligations with respect to such ownership, as set forth in the Stockholders’ Agreement. LVAM is an 82% owned subsidiary of Singapore eDevelopment Limited whose Chief Executive Office and largest shareholder is Mr. Chan. Following the consummation of the transactions contemplated by the Term Sheet, Mr. Chan and Mr. Heuszel will be appointed to the board of directors of AAMI.

On March 12, 2020, the Company entered into a binding term sheet (the “Term Sheet”) with DSS BioHealth Security, Inc., a Delaware corporation and wholly owned subsidiary of the Company (“DBHS”), Global BioMedical Pte Ltd, a Singapore corporation (“GBM”), and Impact BioMedical Inc., a Nevada corporation and wholly owned subsidiary of GBM (“Impact”). Pursuant to the Term Sheet, the Company will acquire Impact, a company engaged in the development and marketing of biohealth security technologies, in a proposed share exchange transaction with a purchase price capped at \$50 million, subject to completion of due diligence and an independent valuation. In consideration of 100% of Impact, the Company will issue GBM (i) up to 14,500,000 shares of its common stock, par value \$0.02 (the “Common Stock”), at a price of \$0.216 per share (valued at \$3,132,00), and (ii) perpetual convertible preferred stock (“Convertible Preferred Stock”) for the remaining balance of the purchase price, as adjusted by the independent valuation and subject to a 19.9% blocker based on the total issued outstanding shares of Common Stock held or to be held by GBM. Pursuant to the Term Sheet, in consideration for the Convertible Preferred Stock, the Company will have certain rights, including appointing members of the Board of Directors of Impact, as set forth in the Term Sheet. GBM is a 100% owned subsidiary of Singapore eDevelopment Limited whose Chief Executive Office and largest shareholder is Mr. Heng Fai Ambrose Chan, the Chairman of the Board and largest shareholder of the Company. As such, the above transactions constitute related party transactions which have been duly approved by the Company’s Board of Directors and Audit Committee.

Subsequent to December 31, 2019, the Company has invested approximately \$460,000 for less than 10% ownership of an entity over which one of the Company’s directors serves as CEO.

Review, Approval or Ratification of Transactions with Related Persons

The Board conducts an appropriate review of and oversees all related party transactions on a continuing basis and reviews potential conflict of interest situations where appropriate. The Board has adopted formal standards to apply when it reviews, approves or ratifies any related party transaction. In addition, the Board applies the following standards to such reviews: (i) all related party transactions must be fair and reasonable and on terms comparable to those reasonably expected to be agreed to with independent third parties for the same goods and/or services at the time they are authorized by the Board and (ii) all related party transactions should be authorized, approved or ratified by the affirmative vote of a majority of the directors who have no interest, either directly or indirectly, in any such related party transaction.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

Audit fees consist of fees for professional services rendered for the audit of the Company’s consolidated financial statements included in the Company’s Annual Report on Form 10-K, the review of financial statements included in the Company’s Quarterly Reports on Form 10-Q, and for services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements. The aggregate fees billed for professional services rendered by our principal accountant, Freed Maxick CPAs, P.C., for audit and review services for the fiscal years ended December 31, 2019 and 2018 were approximately \$154,600 and \$125,117, respectively.

Audit Related Fees

The aggregate fees billed for audit related services by our principal accountant, Freed Maxick CPAs, P.C., pertaining to comfort letter related to our registered offering during the years, consents for related registration statements and the audit of the Company's employee benefit plan and review of the stand-alone financial statements for one of the Company's subsidiaries, for the years ended December 31, 2019 and 2018 were approximately \$51,450 and \$26,800, respectively.

Tax Fees

The aggregate fees billed for professional services rendered by our principal accountant, Freed Maxick CPAs, P.C., for tax compliance, tax advice and tax planning during the years ended December 31, 2019 and 2018 were approximately \$29,500 and \$33,305, respectively.

All Other Fees

There were no fees billed for professional services rendered by our principal accountant, Freed Maxick CPAs, P.C., for other related services during the years ended December 31, 2019 and 2018.

Administration of the Engagement; Pre-Approval of Audit and Permissible Non-Audit Services

The Company's Audit Committee Charter requires that the Audit Committee establish policies and procedures for pre-approval of all audit or permissible non-audit services provided by the Company's independent auditors. Our Audit Committee, approved, in advance, all work performed by our principal accountant, Freed Maxick CPAs, P.C. These services may include audit services, audit-related services, tax services and other services. The Audit Committee may establish, either on an ongoing or case-by-case basis, pre-approval policies and procedures providing for delegated authority to approve the engagement of the independent registered public accounting firm, provided that the policies and procedures are detailed as to the particular services to be provided, the Audit Committee is informed about each service, and the policies and procedures do not result in the delegation of the Audit Committee's authority to management. In accordance with these procedures, the Audit Committee pre-approved all services performed by Freed Maxick CPAs, P.C.

PART IV

ITEM 15 – EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(b) Exhibits

<u>Exhibit</u>	<u>Description</u>
3.1	<u>Certificate of Incorporation of Document Security Systems, Inc., as amended (incorporated by reference to exhibit 3.1 to Form 8-K dated August 25, 2016).</u>
3.2	<u>Fourth Amended and Restated By-laws of Document Security Systems, Inc. (incorporated by reference to exhibit 3.1 to Form 8-K dated June 22, 2018).</u>
4.1	<u>Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934*</u>
10.1	<u>Document Security Systems, Inc. 2013 Employee, Director and Consultant Equity Incentive Plan (incorporated by reference to Annex H to Proxy Statement/Prospectus contained in the Registration Statement on Form S-4 originally filed with the SEC on November 26, 2012).</u>
10.2	<u>Investment Agreement dated as of February 13, 2014 by and among DSS Technology Management, Inc., Document Security Systems, Inc., Fortress Credit Co LLC and the Investors named therein (incorporated by reference to exhibit 10.1 to Form 8-K dated February 18, 2014).</u>
10.3	<u>Form of Securities Purchase Agreement for September 2015 Financing (incorporated by reference to exhibit 10.1 to Form 8-K dated September 17, 2015).</u>
10.4	<u>Form of Common Stock Purchase Warrant for September 2015 Financing (incorporated by reference to exhibit 10.2 to Form 8-K dated September 17, 2015).</u>
10.5	<u>Form of amended Securities Purchase Agreement for September 2015 Financing (incorporated by reference to exhibit 10.1 to Form 8-K dated October 2, 2015).</u>
10.6	<u>Form of amended Securities Purchase Agreement (incorporated by reference to exhibit 10.1 to Form 8-K dated November 30, 2015).</u>

- 10.7 [Patent Purchase Agreement between Document Security Systems, Inc. and Intellectual Discovery Co., Ltd. dated November 10, 2016 \(incorporated by reference to exhibit 10.28 to Form 10-K dated March 28, 2017\).](#)
- 10.8 [Patent License Agreement between Document Security Systems, Inc. and Intellectual Discovery Co., Ltd. dated November 10, 2016 \(incorporated by reference to exhibit 10.29 to Form 10-K dated March 28, 2017\).](#)
- 10.9 [Proceeds Investment Agreement between Document Security Systems, Inc. and Brickell Key Investments LP dated November 14, 2016 \(incorporated by reference to exhibit 10.30 to Form 10-K dated March 28, 2017\).](#)
- 10.10 [Common Stock Purchase Warrant between Document Security Systems, Inc. and Brickell Key Investments LP dated November 14, 2016 \(incorporated by reference to exhibit 10.31 to Form 10-K dated March 28, 2017\).](#)
- 10.11 [First Amendment to Investment Agreement and Certain Other Documents between DSS Technology Management, Inc., Document Security Systems, Inc., Fortress Credit Co LLC and Investors dated December 2, 2016 \(incorporated by reference to exhibit 10.32 to Form 10-K dated March 28, 2017\).](#)
- 10.12 [Form of Loan Agreement between Premier Packaging Corporation and Citizens Bank, N.A. \(incorporated by reference to exhibit 10.1 to Form 8-K dated July 28, 2017\).](#)
- 10.13 [Form of Term Note Non-Revolving Line of Credit Agreement between Premier Packaging Corporation and Citizens Bank, N.A. \(incorporated by reference to exhibit 10.2 to Form 8-K dated July 28, 2017\).](#)
- 10.14 [Form of Security Agreement between Premier Packaging Corporation and Citizens Bank, N.A. \(incorporated by reference to exhibit 10.3 to Form 8-K dated July 28, 2017\).](#)
- 10.15 [Form of Common Stock Purchase Warrant \(incorporated by reference to exhibit 4.1 to Form 8-K dated September 6, 2017\).](#)
- 10.16 [Form of Securities Purchase Agreement \(incorporated by reference to exhibit 10.1 to Form 8-K dated September 6, 2017\).](#)
- 10.17 [Securities Exchange Agreement, dated September 12, 2017, between Document Security Systems, Inc. and Hengfai Business Development Pte. Ltd. \(incorporated by reference to exhibit 10.1 to Form 8-K dated September 15, 2017\).](#)
- 10.18 [Form of Loan Agreement between Plastic Printing Professionals, Inc. and Citizens Bank, N.A. \(incorporated by reference to exhibit 10.1 to Form 8-K dated December 6, 2017\).](#)
- 10.19 [Form of Term Note Non-Revolving Line of Credit Agreement between Plastic Printing Professionals, Inc. and Citizens Bank, N.A. \(incorporated by reference to exhibit 10.2 to Form 8-K dated December 6, 2017\).](#)
- 10.20 [Form of Security Agreement between Plastic Printing Professionals, Inc. and Citizens Bank, N.A. \(incorporated by reference to exhibit 10.3 to Form 8-K dated December 6, 2017\).](#)
- 10.21 [Executive Employment Agreement with Frank D. Heuszal \(incorporated by reference to exhibit 10.1 to Form 10-Q dated November 13, 2019\).](#)
- 10.22 [Executive Employment Agreement with Mr. Jason Grady \(incorporated by reference to exhibit 10.2 to Form 10-Q dated November 13, 2019\).](#)
- 10.23 [Executive Employment Agreement with Mr. Heng Fai Ambrose Chan \(incorporated by reference to exhibit 10.3 to Form 10-Q dated November 13, 2019\).](#)
- 10.24 [2020 Employee, Director and Consultant Equity Incentive Plan *](#)
- 10.25 [Term Sheet dated March 3, 2020 \(incorporated by reference to exhibit 10.1 to Form 8-K dated March 6, 2020\).](#)
- 10.26 [Promissory Note dated March 3, 2020 \(incorporated by reference to exhibit 10.2 to Form 8-K dated March 6, 2020\).](#)
- 10.27 [Form of Warrant \(incorporated by reference to exhibit 10.3 to Form 8-K dated March 6, 2020\).](#)
- 10.28 [Stockholder Agreement \(incorporated by reference to exhibit 10.4 to Form 8-K dated March 6, 2020\).](#)

- 10.29 [Term Sheet dated March 12, 2020*](#)
- 21.1 [Subsidiaries of Document Security Systems, Inc.*](#)
- 23.1 [Consent of Freed Maxick CPAs, P.C.*](#)
- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Executive Officer.*](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Financial Officer.*](#)
- 32.1 [Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*](#)
- 32.2 [Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*](#)

- 101.INS XBRL Instance Document*
- 101.SCH XBRL Taxonomy Extension Schema Document*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed herewith

ITEM 16 – Form 10K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DOCUMENT SECURITY SYSTEMS, INC.

March 30, 2020

By: /s/ Frank D. Heuszel
Frank D. Heuszel
Chief Executive Officer
Interim Chief Financial Officer
(Principal Executive Officer)
(Interim Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

March 30, 2020

By: /s/ Frank D. Heuszel
Frank D. Heuszel
Chief Executive Officer
Interim Chief Financial Officer
(Principal Executive Officer)
(Interim Principal Accounting Officer)

March 30, 2020

By: /s/ Jason Grady
Jason Grady
Chief Operating Officer

March 30, 2020

By: /s/ Heng Fai Ambrose Chan
Heng Fai Ambrose Chan
Chairman of the Board and CEO of DSS International, Inc.

March 30, 2020

By: /s/ John Thatch
John Thatch
Director

March 30, 2020

By: /s/ Jose Escudero
Jose Escudero
Director

March 30, 2020

By: /s/ Sassuan Lee
Sassuan Lee
Director

March 30, 2020

By: /s/ Lowell Wai Wah
Lowell Wai Wah
Director

March 30, 2020

By: /s/ William Wu
William Wu
Director

**Description of Securities Registered Pursuant to
Section 12 of the Securities Exchange Act of 1934, as amended**

General

Our authorized capital stock consists of 200,000,000 shares of common stock, \$0.02 par value per share, 62,086,099 of which were issued and outstanding as of March 20, 2020.

The following description of our common stock summarizes the material terms and provisions of the common stock that we may offer under this prospectus but is not complete. For the complete terms of our common stock, please refer to our certificate of incorporation, as amended, (the "Certificate of Incorporation") which may be further amended from time to time, and our fifth amended and restated by-laws, as further amended from time to time (the "By-laws"). The New York Business Corporation Law ("NYBCL") may also affect the terms of these securities.

Holders of our common stock: (i) have equal rights to dividends from funds legally available therefore, ratably when as and if declared by the Company's board of directors; (ii) are entitled to share ratably in all assets of the Company available for distribution to holders of common stock upon liquidation, dissolution, or winding up of the affairs of the Company; (iii) do not have preemptive, subscription or conversion rights and there are no redemption or sinking fund provisions applicable thereto; (iv) are entitled to one non-cumulative vote per share of common stock, on all matters which stockholders may vote on at all meetings of stockholders; and (v) the holders of common stock have no conversion, preemptive or other subscription rights. There is no cumulative voting for the election of directors. Each holder of our common stock is entitled to one vote for each share of our common stock held on all matters submitted to a vote of stockholders.

Anti-Takeover Effects of Certain Provisions of our Certificate of Incorporation, By-laws and the NYBCL

Section 912 of the NYBCL generally provides that a New York corporation may not engage in a business combination with an interested stockholder for a period of five years following the interested stockholder's becoming such. Such a business combination would be permitted where it is approved by the board of directors before the interested stockholder's becoming such. Covered business combinations include certain mergers and consolidations, dispositions of assets or stock, plans for liquidation or dissolution, reclassifications of securities, recapitalizations and similar transactions. An interested stockholder is generally a stockholder owning at least 20% of a corporation's outstanding voting stock. In addition, New York corporations may not engage at any time with any interested stockholder in a business combination other than: (i) a business combination approved by the board of directors before the stock acquisition, or where the acquisition of the stock had been approved by the board of directors before the stock acquisition; (ii) a business combination approved by the affirmative vote of the holders of a majority of the outstanding voting stock not beneficially owned by the interested stockholder at a meeting called for that purpose no earlier than five years after the stock acquisition; or (iii) a business combination in which the interested stockholder pays a formula price designed to ensure that all other stockholders receive at least the highest price per share that is paid by the interested stockholder and that meets certain other requirements.

A corporation may opt out of the interested stockholder provisions described in the preceding paragraph by expressly electing not to be governed by such provisions in its by-laws, which must be approved by the affirmative vote of a majority of votes of the outstanding voting stock of such corporation and is subject to further conditions. However, our By-laws do not contain any provisions electing not to be governed by Section 912 NYBCL. Under our By-laws, any corporate action to be taken by vote of the shareholders, shall be authorized by a majority of votes cast at a meeting of shareholders by the holders of shares entitled to vote thereon.

Transfer Agent and Registrar

The Transfer Agent and Registrar for our common stock is American Stock Transfer and Trust Company, LLC, 6201 15th Ave., Brooklyn, NY 11219, USA, +1-800-937-5449 or +1-718-921-8124.

Listing

Our Common Stock is listed on the New York Stock Exchange under the ticker symbols "DSS."

APPENDIX A

DOCUMENT SECURITY SYSTEMS, INC.
2020 EMPLOYEE, DIRECTOR AND CONSULTANT EQUITY INCENTIVE PLAN

1. DEFINITIONS.

Unless otherwise specified or unless the context otherwise requires, the following terms, as used in this Document Security Systems, Inc. 2020 Employee, Director and Consultant Equity Incentive Plan, have the following meanings:

Administrator means the Board of Directors, unless it has delegated power to act on its behalf to the Committee, in which case the Administrator means the Committee.

Affiliate means a corporation which, for purposes of Section 424 of the Code, is a parent or subsidiary of the Company, direct or indirect.

Agreement means an agreement between the Company and a Participant delivered pursuant to the Plan and pertaining to a Stock Right, in such form as the Administrator shall approve.

Board of Directors means the Board of Directors of the Company.

Cause means, with respect to a Participant (a) dishonesty with respect to the Company or any Affiliate, (b) insubordination, substantial malfeasance or non-feasance of duty, (c) unauthorized disclosure of confidential information, (d) breach by a Participant of any provision of any employment, consulting, advisory, nondisclosure, non-competition or similar agreement between the Participant and the Company or any Affiliate, and (e) conduct substantially prejudicial to the business of the Company or any Affiliate; provided, however, that any provision in an agreement between a Participant and the Company or an Affiliate, which contains a conflicting definition of Cause for termination and which is in effect at the time of such termination, shall supersede this definition with respect to that Participant. The determination of the Administrator as to the existence of Cause will be conclusive on the Participant and the Company.

Code means the United States Internal Revenue Code of 1986, as amended including any successor statute, regulation and guidance thereto.

Committee means the committee of the Board of Directors to which the Board of Directors has delegated power to act under or pursuant to the provisions of the Plan.

Common Stock means shares of the Company's common stock, \$0.02 par value per share.

Company means Document Security Systems, Inc., a New York corporation.

Consultant means any natural person who is an advisor or consultant that provides bona fide services to the Company or its Affiliates, provided that such services are not in connection with the offer or sale of securities in a capital raising transaction, and do not directly or indirectly promote or maintain a market for the Company's or its Affiliates' securities.

Disability or Disabled means permanent and total disability as defined in Section 22(e)(3) of the Code.

Employee means any employee of the Company or of an Affiliate (including, without limitation, an employee who is also serving as an officer or director of the Company or of an Affiliate), designated by the Administrator to be eligible to be granted one or more Stock Rights under the Plan.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Fair Market Value of a Share of Common Stock means:

(1) If the Common Stock is listed on a national securities exchange or traded in the over-the-counter market and sales prices are regularly reported for the Common Stock, the closing or, if not applicable, the last price of the Common Stock on the composite tape or other comparable reporting system for the trading day on the applicable date and if such applicable date is not a trading day, the last market trading day prior to such date;

(2) If the Common Stock is not traded on a national securities exchange but is traded on the over-the-counter market, if sales prices are not regularly reported for the Common Stock for the trading day referred to in clause (1), and if bid and asked prices for the Common Stock are regularly reported, the mean between the bid and the asked price for the Common Stock at the close of trading in the over-the-counter market for the trading day on which Common Stock was traded on the applicable date and if such applicable date is not a trading day, the last market trading day prior to such date; and

(3) If the Common Stock is neither listed on a national securities exchange nor traded in the over-the-counter market, such value as the Administrator, in good faith, shall determine.

ISO means an option intended to qualify as an incentive stock option under Section 422 of the Code.

Non-Qualified Option means an option which is not intended to qualify as an ISO.

Option means an ISO or Non-Qualified Option granted under the Plan.

Participant means an Employee, officer, director, Consultant or advisor of the Company or an Affiliate to whom one or more Stock Rights are granted under the Plan. As used herein, "Participant" shall include "Participant's Survivors" where the context requires.

Plan means this Document Security Systems, Inc. 2019 Employee, Director and Consultant Equity Incentive Plan.

Securities Act means the Securities Act of 1933, as amended.

Shares means shares of the Common Stock as to which Stock Rights have been or may be granted under the Plan or any shares of capital stock into which the Shares are changed or for which they are exchanged within the provisions of Paragraph 3 of the Plan. The Shares issued under the Plan may be authorized and unissued shares or shares held by the Company in its treasury, or both.

Stock-Based Award means a grant by the Company under the Plan of an equity award or an equity based award which is not an Option or a Stock Grant.

Stock Grant means a grant by the Company of Shares under the Plan.

Stock Right means a right to Shares or the value of Shares of the Company granted pursuant to the Plan — an ISO, a Non-Qualified Option, a Stock Grant or a Stock-Based Award.

Survivor means a deceased Participant's legal representatives and/or any person or persons who acquired the Participant's rights to a Stock Right by will or by the laws of descent and distribution.

2. PURPOSES OF THE PLAN.

The Plan is intended to encourage ownership of Shares by Employees and directors of and certain Consultants to the Company and its Affiliates in order to attract and retain such people, to induce them to work for the benefit of the Company or of an Affiliate and to provide additional incentive for them to promote the success of the Company or of an Affiliate. The Plan provides for the granting of ISOs, Non-Qualified Options, Stock Grants and Stock-Based Awards.

3. SHARES SUBJECT TO THE PLAN.

(a) The number of Shares which may be issued from time to time pursuant to this Plan shall be twenty percent (20%) of the total issued and outstanding shares of Common Stock as of December 31, 2019, or the equivalent of such number of Shares after the Administrator, in its sole discretion, has interpreted the effect of any stock split, stock dividend, combination, recapitalization or similar transaction in accordance with Paragraph 24 of the Plan.

In addition, on the first day of each calendar year, for a period of not more than ten (10) years, commencing January 1, 2021, or the first business day of the calendar year if the first day of the calendar year falls on a Saturday or Sunday, the Shares available under this Plan will automatically increase in an amount equal to the lesser of (i) five percent (5%) of the total number of shares of Common Stock outstanding as of December 31 of the preceding fiscal year or (ii) such number of shares of Common Stock as determined by the Board of Directors.

(b) If an Option ceases to be "outstanding", in whole or in part (other than by exercise), or if the Company shall reacquire (at not more than its original issuance price) any Shares issued pursuant to a Stock Grant or Stock-Based Award, or if any Stock Right expires or is forfeited, cancelled, or otherwise terminated or results in any Shares not being issued, the unissued or reacquired Shares which were subject to such Stock Right shall again be available for issuance from time to time pursuant to this Plan. Notwithstanding the foregoing, if a Stock Right is exercised, in whole or in part, by tender of Shares or if the Company's or an Affiliate's tax withholding obligation is satisfied by withholding Shares, the number of Shares deemed to have been issued under the Plan for purposes of the limitation set forth in Paragraph 3(a) above shall be the number of Shares that were subject to the Stock Right or portion thereof, and not the net number of Shares actually issued. However, in the case of ISOs, the foregoing provisions shall be subject to any limitations under the Code.

4. ADMINISTRATION OF THE PLAN.

The Administrator of the Plan will be the Board of Directors, except to the extent the Board of Directors delegates its authority to the Committee, in which case the Committee shall be the Administrator. Subject to the provisions of the Plan, the Administrator is authorized to:

(a) Interpret the provisions of the Plan and all Stock Rights and to make all rules and determinations which it deems necessary or advisable for the administration of the Plan;

(b) Determine which Employees, directors and Consultants shall be granted Stock Rights;

(c) Determine the number of Shares for which a Stock Right or Stock Rights shall be granted, provided, however, that in no event shall Stock Rights with respect to more than 20% of the total Shares available under this Plan in any fiscal year be granted to any Participant in such fiscal year;

(d) Specify the terms and conditions upon which a Stock Right or Stock Rights may be granted;

(e) Amend any term or condition of any outstanding Stock Right, including, without limitation, to accelerate the vesting schedule or extend the expiration date, provided that (i) such term or condition as amended is permitted by the Plan; (ii) any such amendment shall not impair the rights of a Participant under any Stock Right previously granted without such Participant's consent or in the event of death of the Participant the Participant's Survivors; and (iii) any such amendment shall be made only after the Administrator determines whether such amendment would cause any adverse tax consequences to the Participant, including, but not limited to, the annual vesting limitation contained in Section 422(d) of the Code and described in Paragraph 6(b)(iv) below with respect to ISOs and pursuant to Section 409A of the Code; and

(f) Adopt any appendices applicable to residents of any specified jurisdiction as it deems necessary or appropriate in order to comply with or take advantage of any tax or other laws applicable to the Company, any Affiliate or to Participants or to otherwise facilitate the administration of the Plan, which appendices may include additional restrictions or conditions applicable to Stock Rights or Shares issuable pursuant to a Stock Right; provided, however, that all such interpretations, rules, determinations, terms and conditions shall be made and prescribed in the context of not causing any adverse tax consequences under Section 409A of the Code and preserving the tax status under Section 422 of the Code of those Options which are designated as ISOs. Subject to the foregoing, the interpretation and construction by the Administrator of any provisions of the Plan or of any Stock Right granted under it shall be final, unless otherwise determined by the Board of Directors, if the Administrator is the Committee. In addition, if the Administrator is the Committee, the Board of Directors may take any action under the Plan that would otherwise be the responsibility of the Committee.

To the extent permitted under applicable law, the Board of Directors or the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any portion of its responsibilities and powers to any other person selected by it. The Board of Directors or the Committee may revoke any such allocation or delegation at any time. Notwithstanding the foregoing, only the Board of Directors or the Committee shall be authorized to grant a Stock Right to any director of the Company or to any "officer" of the Company as defined by Rule 16a-1 under the Exchange Act.

5. ELIGIBILITY FOR PARTICIPATION.

The Administrator will, in its sole discretion, name the Participants in the Plan; provided, however, that each Participant must be an Employee, director or Consultant of the Company or of an Affiliate at the time a Stock Right is granted. Notwithstanding the foregoing, the Administrator may authorize the grant of a Stock Right to a person not then an Employee, director or Consultant of the Company or of an Affiliate; provided, however, that the actual grant of such Stock Right shall be conditioned upon such person becoming eligible to become a Participant at or prior to the time of the execution of the Agreement evidencing such Stock Right. ISOs may be granted only to Employees who are deemed to be residents of the United States for tax purposes. Non-Qualified Options, Stock Grants and Stock-Based Awards may be granted to any Employee, director or Consultant of the Company or an Affiliate. The granting of any Stock Right to any individual shall neither entitle that individual to, nor disqualify him or her from, participation in any other grant of Stock Rights or any grant under any other benefit plan established by the Company or any Affiliate for Employees, directors or Consultants.

6. TERMS AND CONDITIONS OF OPTIONS.

Each Option shall be set forth in writing in an Option Agreement, duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Administrator may provide that Options be granted subject to such terms and conditions, consistent with the terms and conditions specifically required under this Plan, as the Administrator may deem appropriate including, without limitation, subsequent approval by the shareholders of the Company of this Plan or any amendments thereto. The Option Agreements shall be subject to at least the following terms and conditions:

(a) Non-Qualified Options: Each Option intended to be a Non-Qualified Option shall be subject to the terms and conditions which the Administrator determines to be appropriate and in the best interest of the Company, subject to the following minimum standards for any such Non-Qualified Option:

(i) Exercise Price: Each Option Agreement shall state the exercise price (per share) of the Shares covered by each Option, which exercise price shall be determined by the Administrator and shall be at least equal to the Fair Market Value per share of Common Stock on the date of grant of the Option provided, that if the exercise price is less than Fair Market Value, the terms of such Option must comply with the requirements of Section 409A of the Code unless granted to a Consultant to whom Section 409A of the Code does not apply.

(ii) Number of Shares: Each Option Agreement shall state the number of Shares to which it pertains.

(iii) Option Periods: Each Option Agreement shall state the date or dates on which it first is exercisable and the date after which it may no longer be exercised, and may provide that the Option rights accrue or become exercisable in installments over a period of months or years, or upon the occurrence of certain conditions or the attainment of stated goals or events.

(iv) Option Conditions: Exercise of any Option may be conditioned upon the Participant's execution of a Share purchase agreement in form satisfactory to the Administrator providing for certain protections for the Company and its other shareholders, including requirements that:

A. The Participant's or the Participant's Survivors' right to sell or transfer the Shares may be restricted; and

B. The Participant or the Participant's Survivors may be required to execute letters of investment intent and must also acknowledge that the Shares will bear legends noting any applicable restrictions.

(v) Term of Option: Each Option shall terminate not more than ten years from the date of the grant or at such earlier time as the Option Agreement may provide.

(b) ISOs: Each Option intended to be an ISO shall be issued only to an Employee who is deemed to be a resident of the United States for tax purposes, and shall be subject to the following terms and conditions, with such additional restrictions or changes as the Administrator determines are appropriate but not in conflict with Section 422 of the Code and relevant regulations and rulings of the Internal Revenue Service:

(i) Minimum standards: The ISO shall meet the minimum standards required of Non-Qualified Options, as described in Paragraph 6(a) above, except clause (i) and (v) thereunder.

(ii) Exercise Price: Immediately before the ISO is granted, if the Participant owns, directly or by reason of the applicable attribution rules in Section 424(d) of the Code:

A. 10% or less of the total combined voting power of all classes of stock of the Company or an Affiliate, the exercise price per share of the Shares covered by each ISO shall not be less than 100% of the Fair Market Value per share of the Common Stock on the date of grant of the Option; or

B. More than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, the exercise price per share of the Shares covered by each ISO shall not be less than 110% of the Fair Market Value per share of the Common Stock on the date of grant of the Option.

(iii) Term of Option: For Participants who own:

A. 10% or less of the total combined voting power of all classes of stock of the Company or an Affiliate, each ISO shall terminate not more than ten years from the date of the grant or at such earlier time as the Option Agreement may provide; or

B. More than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, each ISO shall terminate not more than five years from the date of the grant or at such earlier time as the Option Agreement may provide.

(iv) Limitation on Yearly Exercise: The Option Agreements shall restrict the amount of ISOs which may become exercisable in any calendar year (under this or any other ISO plan of the Company or an Affiliate) so that the aggregate Fair Market Value (determined on the date each ISO is granted) of the stock with respect to which ISOs are exercisable for the first time by the Participant in any calendar year does not exceed \$100,000.

7. TERMS AND CONDITIONS OF STOCK GRANTS.

Each Stock Grant to a Participant shall state the principal terms in an Agreement duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Agreement shall be in a form approved by the Administrator and shall contain terms and conditions which the Administrator determines to be appropriate and in the best interest of the Company, subject to the following minimum standards:

(a) Each Agreement shall state the purchase price per share, if any, of the Shares covered by each Stock Grant, which purchase price shall be determined by the Administrator but shall not be less than the minimum consideration required by the Delaware General Corporation Law, if any, on the date of the grant of the Stock Grant;

(b) Each Agreement shall state the number of Shares to which the Stock Grant pertains; and

(c) Each Agreement shall include the terms of any right of the Company to restrict or reacquire the Shares subject to the Stock Grant, including the time and events upon which such rights shall accrue and the purchase price therefor, if any.

8. TERMS AND CONDITIONS OF OTHER STOCK-BASED AWARDS.

The Administrator shall have the right to grant other Stock-Based Awards based upon the Common Stock having such terms and conditions as the Administrator may determine, including, without limitation, the grant of Shares based upon certain conditions, the grant of securities convertible into Shares and the grant of stock appreciation rights, phantom stock awards or stock units. The principal terms of each Stock-Based Award shall be set forth in an Agreement, duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Agreement shall be in a form approved by the Administrator and shall contain terms and conditions which the Administrator determines to be appropriate and in the best interest of the Company.

The Company intends that the Plan and any Stock-Based Awards granted hereunder be exempt from the application of Section 409A of the Code or meet the requirements of paragraphs (2), (3) and (4) of subsection (a) of Section 409A of the Code, to the extent applicable, and be operated in accordance with Section 409A so that any compensation deferred under any Stock-Based Award (and applicable investment earnings) shall not be included in income under Section 409A of the Code. Any ambiguities in the Plan shall be construed to affect the intent as described in this Paragraph 8.

9. EXERCISE OF OPTIONS AND ISSUE OF SHARES.

An Option (or any part or installment thereof) shall be exercised by giving written notice to the Company or its designee (in a form acceptable to the Administrator, which may include electronic notice), together with provision for payment of the aggregate exercise price in accordance with this Paragraph for the Shares as to which the Option is being exercised, and upon compliance with any other condition(s) set forth in the Option Agreement. Such notice shall be signed by the person exercising the Option (which signature may be provided electronically in a form acceptable to the Administrator), shall state the number of Shares with respect to which the Option is being exercised and shall contain any representation required by the Plan or the Option Agreement. Payment of the exercise price for the Shares as to which such Option is being exercised shall be made (a) in United States dollars in cash or by check, or (b) at the discretion of the Administrator, through delivery of shares of Common Stock held for at least six months (if required to avoid negative accounting treatment) having a Fair Market Value equal as of the date of the exercise to the aggregate cash exercise price for the number of Shares as to which the Option is being exercised, or (c) at the discretion of the Administrator, by having the Company retain from the Shares otherwise issuable upon exercise of the Option, a number of Shares having a Fair Market Value equal as of the date of exercise to the aggregate exercise price for the number of Shares as to which the Option is being exercised, or (d) at the discretion of the Administrator, in accordance with a cashless exercise program established with a securities brokerage firm, and approved by the Administrator, or (e) at the discretion of the Administrator, by any combination of (a), (b), (c), and (d) above or (f) at the discretion of the Administrator, by payment of such other lawful consideration as the Administrator may determine. Notwithstanding the foregoing, the Administrator shall accept only such payment on exercise of an ISO as is permitted by Section 422 of the Code.

The Company shall then reasonably promptly deliver the Shares as to which such Option was exercised to the Participant (or to the Participant's Survivors, as the case may be). In determining what constitutes "reasonably promptly," it is expressly understood that the issuance and delivery of the Shares may be delayed by the Company in order to comply with any law or regulation (including, without limitation, state securities or "blue sky" laws) which requires the Company to take any action with respect to the Shares prior to their issuance. The Shares shall, upon delivery, be fully paid, non-assessable Shares.

10. PAYMENT IN CONNECTION WITH THE ISSUANCE OF STOCK GRANTS AND STOCK-BASED AWARDS AND ISSUE OF SHARES.

Any Stock Grant or Stock-Based Award requiring payment of a purchase price for the Shares as to which such Stock Grant or Stock-Based Award is being granted shall be made (a) in United States dollars in cash or by check, or (b) at the discretion of the Administrator, through delivery of shares of Common Stock held for at least six months (if required to avoid negative accounting treatment) and having a Fair Market Value equal as of the date of payment to the purchase price of the Stock Grant or Stock-Based Award, or (c) at the discretion of the Administrator, by any combination of (a) and (b) above; or (d) at the discretion of the Administrator, by payment of such other lawful consideration as the Administrator may determine.

The Company shall when required by the applicable Agreement, reasonably promptly deliver the Shares as to which such Stock Grant or Stock-Based Award was made to the Participant (or to the Participant's Survivors, as the case may be), subject to any escrow provision set forth in the applicable Agreement. In determining what constitutes "reasonably promptly," it is expressly understood that the issuance and delivery of the Shares may be delayed by the Company in order to comply with any law or regulation (including, without limitation, state securities or "blue sky" laws) which requires the Company to take any action with respect to the Shares prior to their issuance.

11. RIGHTS AS A SHAREHOLDER.

No Participant to whom a Stock Right has been granted shall have rights as a shareholder with respect to any Shares covered by such Stock Right except after due exercise of an Option or issuance of Shares as set forth in any Agreement, tender of the aggregate exercise or purchase price, if any, for the Shares being purchased and registration of the Shares in the Company's share register in the name of the Participant.

12. ASSIGNABILITY AND TRANSFERABILITY OF STOCK RIGHTS.

By its terms, a Stock Right granted to a Participant shall not be transferable by the Participant other than (i) by will or by the laws of descent and distribution, or (ii) as approved by the Administrator in its discretion and set forth in the applicable Agreement provided that no Stock Right may be transferred by a Participant for value. Notwithstanding the foregoing, an ISO transferred except in compliance with clause (i) above shall no longer qualify as an ISO. The designation of a beneficiary of a Stock Right by a Participant, with the prior approval of the Administrator and in such form as the Administrator shall prescribe, shall not be deemed a transfer prohibited by this Paragraph. Except as provided above during the Participant's lifetime a Stock Right shall only be exercisable by or issued to such Participant (or his or her legal representative) and shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of any Stock Right or of any rights granted thereunder contrary to the provisions of this Plan, or the levy of any attachment or similar process upon a Stock Right, shall be null and void.

13. EFFECT ON OPTIONS OF TERMINATION OF SERVICE OTHER THAN FOR CAUSE OR DEATH OR DISABILITY.

Except as otherwise provided in a Participant's Option Agreement, in the event of a termination of service (whether as an Employee, director or Consultant) with the Company or an Affiliate before the Participant has exercised an Option, the following rules apply:

(a) A Participant who ceases to be an Employee, director or Consultant of the Company or of an Affiliate (for any reason other than termination for Cause, Disability, or death for which events there are special rules in Paragraphs 14, 15, and 16, respectively), may exercise any Option granted to him or her to the extent that the Option is exercisable on the date of such termination of service, but only within such term as the Administrator has designated in a Participant's Option Agreement.

(b) Except as provided in Subparagraph (c) below, or Paragraph 15 or 16, in no event may an Option intended to be an ISO, be exercised later than three months after the Participant's termination of employment.

(c) The provisions of this Paragraph, and not the provisions of Paragraph 15 or 16, shall apply to a Participant who subsequently becomes Disabled or dies after the termination of employment, director status or consultancy; provided, however, in the case of a Participant's Disability or death within three months after the termination of employment, director status or consultancy, the Participant or the Participant's Survivors may exercise the Option within one year after the date of the Participant's termination of service, but in no event after the date of expiration of the term of the Option.

(d) Notwithstanding anything herein to the contrary, if subsequent to a Participant's termination of employment, termination of director status or termination of consultancy, but prior to the exercise of an Option, the Administrator determines that, either prior or subsequent to the Participant's termination, the Participant engaged in conduct which would constitute Cause, then such Participant shall forthwith cease to have any right to exercise any Option.

(e) A Participant to whom an Option has been granted under the Plan who is absent from the Company or an Affiliate because of temporary disability (any disability other than a Disability as defined in Paragraph 1 hereof), or who is on leave of absence for any purpose, shall not, during the period of any such absence, be deemed, by virtue of such absence alone, to have terminated such Participant's employment, director status or consultancy with the Company or with an Affiliate, except as the Administrator may otherwise expressly provide; provided, however, that, for ISOs, any leave of absence granted by the Administrator of greater than ninety days, unless pursuant to a contract or statute that guarantees the right to reemployment, shall cause such ISO to become a Non-Qualified Option on the 181st day following such leave of absence.

(f) Except as required by law or as set forth in a Participant's Option Agreement, Options granted under the Plan shall not be affected by any change of a Participant's status within or among the Company and any Affiliates, so long as the Participant continues to be an Employee, director or Consultant of the Company or any Affiliate.

14. EFFECT ON OPTIONS OF TERMINATION OF SERVICE FOR CAUSE.

Except as otherwise provided in a Participant's Option Agreement, the following rules apply if the Participant's service (whether as an Employee, director or Consultant) with the Company or an Affiliate is terminated for Cause prior to the time that all his or her outstanding Options have been exercised:

(a) All outstanding and unexercised Options as of the time the Participant is notified his or her service is terminated for Cause will immediately be forfeited.

(b) Cause is not limited to events which have occurred prior to a Participant's termination of service, nor is it necessary that the Administrator's finding of Cause occur prior to termination. If the Administrator determines, subsequent to a Participant's termination of service but prior to the exercise of an Option, that either prior or subsequent to the Participant's termination the Participant engaged in conduct which would constitute Cause, then the right to exercise any Option is forfeited.

15. EFFECT ON OPTIONS OF TERMINATION OF SERVICE FOR DISABILITY.

Except as otherwise provided in a Participant's Option Agreement:

(a) A Participant who ceases to be an Employee, director or Consultant of the Company or of an Affiliate by reason of Disability may exercise any Option granted to such Participant:

(i) To the extent that the Option has become exercisable but has not been exercised on the date of the Participant's termination of service due to Disability; and

(ii) In the event rights to exercise the Option accrue periodically, to the extent of a pro rata portion through the date of the Participant's termination of service due to Disability of any additional vesting rights that would have accrued on the next vesting date had the Participant not become Disabled. The proration shall be based upon the number of days accrued in the current vesting period prior to the date of the Participant's termination of service due to Disability.

(b) A Disabled Participant may exercise the Option only within the period ending one year after the date of the Participant's termination of service due to Disability, notwithstanding that the Participant might have been able to exercise the Option as to some or all of the Shares on a later date if the Participant had not been terminated due to Disability and had continued to be an Employee, director or Consultant or, if earlier, within the originally prescribed term of the Option.

(c) The Administrator shall make the determination both of whether Disability has occurred and the date of its occurrence (unless a procedure for such determination is set forth in another agreement between the Company and such Participant, in which case such procedure shall be used for such determination). If requested, the Participant shall be examined by a physician selected or approved by the Administrator, the cost of which examination shall be paid for by the Company.

16. EFFECT ON OPTIONS OF DEATH WHILE AN EMPLOYEE, DIRECTOR OR CONSULTANT.

Except as otherwise provided in a Participant's Option Agreement:

(a) In the event of the death of a Participant while the Participant is an Employee, director or Consultant of the Company or of an Affiliate, such Option may be exercised by the Participant's Survivors:

(i) To the extent that the Option has become exercisable but has not been exercised on the date of death; and

(ii) In the event rights to exercise the Option accrue periodically, to the extent of a pro rata portion through the date of death of any additional vesting rights that would have accrued on the next vesting date had the Participant not died. The proration shall be based upon the number of days accrued in the current vesting period prior to the Participant's date of death.

(b) If the Participant's Survivors wish to exercise the Option, they must take all necessary steps to exercise the Option within one year after the date of death of such Participant, notwithstanding that the decedent might have been able to exercise the Option as to some or all of the Shares on a later date if he or she had not died and had continued to be an Employee, director or Consultant or, if earlier, within the originally prescribed term of the Option.

17. EFFECT OF TERMINATION OF SERVICE ON STOCK GRANTS AND STOCK-BASED AWARDS.

In the event of a termination of service (whether as an Employee, director or Consultant) with the Company or an Affiliate for any reason before the Participant has accepted a Stock Grant or a Stock-Based Award and paid the purchase price, if required, such grant shall terminate.

For purposes of this Paragraph 17 and Paragraph 18 below, a Participant to whom a Stock Grant has been issued under the Plan who is absent from work with the Company or with an Affiliate because of temporary disability (any disability other than a Disability as defined in Paragraph 1 hereof), or who is on leave of absence for any purpose, shall not, during the period of any such absence, be deemed, by virtue of such absence alone, to have terminated such Participant's employment, director status or consultancy with the Company or with an Affiliate, except as the Administrator may otherwise expressly provide.

In addition, for purposes of this Paragraph 17 and Paragraph 18 below, any change of employment or other service within or among the Company and any Affiliates shall not be treated as a termination of employment, director status or consultancy so long as the Participant continues to be an Employee, director or Consultant of the Company or any Affiliate.

18. EFFECT ON STOCK GRANTS OF TERMINATION OF SERVICE OTHER THAN FOR CAUSE OR DEATH OR DISABILITY.

Except as otherwise provided in a Participant's Stock Grant Agreement, in the event of a termination of service (whether as an Employee, director or Consultant), other than termination for Cause, Disability, or death for which events there are special rules in Paragraphs 19, 20, and 21, respectively, before all forfeiture provisions or Company rights of repurchase shall have lapsed, then the Company shall have the right to cancel or repurchase that number of Shares subject to a Stock Grant as to which the Company's forfeiture or repurchase rights have not lapsed.

19. EFFECT ON STOCK GRANTS OF TERMINATION OF SERVICE FOR CAUSE.

Except as otherwise provided in a Participant's Stock Grant Agreement, the following rules apply if the Participant's service (whether as an Employee, director or Consultant) with the Company or an Affiliate is terminated for Cause:

(a) All Shares subject to any Stock Grant whether or not then subject to forfeiture or repurchase shall be immediately subject to repurchase by the Company at par value.

(b) Cause is not limited to events which have occurred prior to a Participant's termination of service, nor is it necessary that the Administrator's finding of Cause occur prior to termination. If the Administrator determines, subsequent to a Participant's termination of service, that either prior or subsequent to the Participant's termination the Participant engaged in conduct which would constitute Cause, then all Shares subject to any Stock Grant that remained subject to forfeiture provisions or as to which the Company had a repurchase right on the date of termination shall be immediately forfeited to the Company.

20. EFFECT ON STOCK GRANTS OF TERMINATION OF SERVICE FOR DISABILITY.

Except as otherwise provided in a Participant's Stock Grant Agreement, the following rules apply if a Participant ceases to be an Employee, director or Consultant of the Company or of an Affiliate by reason of Disability: to the extent the forfeiture provisions or the Company's rights of repurchase have not lapsed on the date of Disability, they shall be exercisable; provided, however, that in the event such forfeiture provisions or rights of repurchase lapse periodically, such provisions or rights shall lapse to the extent of a pro rata portion of the Shares subject to such Stock Grant through the date of Disability as would have lapsed had the Participant not become Disabled. The proration shall be based upon the number of days accrued prior to the date of Disability.

The Administrator shall make the determination both as to whether Disability has occurred and the date of its occurrence (unless a procedure for such determination is set forth in another agreement between the Company and such Participant, in which case such procedure shall be used for such determination). If requested, the Participant shall be examined by a physician selected or approved by the Administrator, the cost of which examination shall be paid for by the Company.

21. EFFECT ON STOCK GRANTS OF DEATH WHILE AN EMPLOYEE, DIRECTOR OR CONSULTANT.

Except as otherwise provided in a Participant's Stock Grant Agreement, the following rules apply in the event of the death of a Participant while the Participant is an Employee, director or Consultant of the Company or of an Affiliate: to the extent the forfeiture provisions or the Company's rights of repurchase have not lapsed on the date of death, they shall be exercisable; provided, however, that in the event such forfeiture provisions or rights of repurchase lapse periodically, such provisions or rights shall lapse to the extent of a pro rata portion of the Shares subject to such Stock Grant through the date of death as would have lapsed had the Participant not died. The proration shall be based upon the number of days accrued prior to the Participant's date of death.

22. PURCHASE FOR INVESTMENT.

Unless the offering and sale of the Shares shall have been effectively registered under the Securities Act, the Company shall be under no obligation to issue Shares under the Plan unless and until the following conditions have been fulfilled:

(a) The person who receives a Stock Right shall warrant to the Company, prior to the receipt of Shares, that such person is acquiring such Shares for his or her own account, for investment, and not with a view to, or for sale in connection with, the distribution of any such Shares, in which event the person acquiring such Shares shall be bound by the provisions of the following legend (or a legend in substantially similar form) which shall be endorsed upon the certificate evidencing the Shares issued pursuant to such exercise or such grant:

"The shares represented by this certificate have been taken for investment and they may not be sold or otherwise transferred by any person, including a pledgee, unless (1) either (a) a Registration Statement with respect to such shares shall be effective under the Securities Act of 1933, as amended, or (b) the Company shall have received an opinion of counsel satisfactory to it that an exemption from registration under such Act is then available, and (2) there shall have been compliance with all applicable state securities laws."

(b) At the discretion of the Administrator, the Company shall have received an opinion of its counsel that the Shares may be issued in compliance with the Securities Act without registration thereunder.

23. DISSOLUTION OR LIQUIDATION OF THE COMPANY.

Upon the dissolution or liquidation of the Company, all Options granted under this Plan which as of such date shall not have been exercised and all Stock Grants and Stock-Based Awards which have not been accepted, to the extent required under the applicable Agreement, will terminate and become null and void; provided, however, that if the rights of a Participant or a Participant's Survivors have not otherwise terminated and expired, the Participant or the Participant's Survivors will have the right immediately prior to such dissolution or liquidation to exercise or accept any Stock Right to the extent that the Stock Right is exercisable or subject to acceptance as of the date immediately prior to such dissolution or liquidation. Upon the dissolution or liquidation of the Company, any outstanding Stock-Based Awards shall immediately terminate unless otherwise determined by the Administrator or specifically provided in the applicable Agreement.

24. ADJUSTMENTS.

Upon the occurrence of any of the following events, a Participant's rights with respect to any Stock Right granted to him or her hereunder shall be adjusted as hereinafter provided, unless otherwise specifically provided in a Participant's Agreement:

(a) Stock Dividends and Stock Splits. If (i) the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, or (ii) additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Common Stock, each Stock Right and the number of shares of Common Stock deliverable thereunder shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made including, in the exercise or purchase price per share, to reflect such events. The number of Shares subject to the limitations in Paragraph 3(a) and 4(c) shall also be proportionately adjusted upon the occurrence of such events.

(b) Corporate Transactions. If the Company is to be consolidated with or acquired by another entity in a merger, consolidation, or sale of all or substantially all of the Company's assets other than a transaction to merely change the state of incorporation (a "Corporate Transaction"), the Administrator or the board of directors of any entity assuming the obligations of the Company hereunder (the "Successor Board"), shall, as to outstanding Options, either (i) make appropriate provision for the continuation of such Options by substituting on an equitable basis for the Shares then subject to such Options either the consideration payable with respect to the outstanding shares of Common Stock in connection with the Corporate Transaction or securities of any successor or acquiring entity; or (ii) upon written notice to the Participants, provide that such Options must be exercised (either (A) to the extent then exercisable or, (B) at the discretion of the Administrator, any such Options being made partially or fully exercisable for purposes of this Subparagraph), within a specified number of days of the date of such notice, at the end of which period such Options which have not been exercised shall terminate whether or not vested; or (iii) terminate such Options in exchange for payment of an amount equal to the consideration payable upon consummation of such Corporate Transaction to a holder of the number of shares of Common Stock into which such Option would have been exercisable (either (A) to the extent then exercisable or, (B) at the discretion of the Administrator, any such Options being made partially or fully exercisable for purposes of this Subparagraph) less the aggregate exercise price thereof. For purposes of determining the payments to be made pursuant to Subclause (iii) above, in the case of a Corporate Transaction the consideration for which, in whole or in part, is other than cash, the consideration other than cash shall be valued at the fair value thereof as determined in good faith by the Board of Directors.

With respect to outstanding Stock Grants, the Administrator or the Successor Board, shall make appropriate provision for the continuation of such Stock Grants on the same terms and conditions by substituting on an equitable basis for the Shares then subject to such Stock Grants either the consideration payable with respect to the outstanding Shares of Common Stock in connection with the Corporate Transaction or securities of any successor or acquiring entity. In lieu of the foregoing, in connection with any Corporate Transaction, the Administrator may provide that, upon consummation of the Corporate Transaction, each outstanding Stock Grant shall be terminated in exchange for payment of an amount equal to the consideration payable upon consummation of such Corporate Transaction to a holder of the number of shares of Common Stock comprising such Stock Grant (to the extent such Stock Grant is no longer subject to any forfeiture or repurchase rights then in effect or, at the discretion of the Administrator, all forfeiture and repurchase rights being waived upon such Corporate Transaction).

In taking any of the actions permitted under this Paragraph 24(b), the Administrator shall not be obligated by the Plan to treat all Stock Rights, all Stock Rights held by a Participant, or all Stock Rights of the same type, identically.

(c) Recapitalization or Reorganization. In the event of a recapitalization or reorganization of the Company other than a Corporate Transaction pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, a Participant upon exercising an Option or accepting a Stock Grant after the recapitalization or reorganization shall be entitled to receive for the price paid upon such exercise or acceptance if any, the number of replacement securities which would have been received if such Option had been exercised or Stock Grant accepted prior to such recapitalization or reorganization.

(d) Adjustments to Stock-Based Awards. Upon the happening of any of the events described in Subparagraphs (a), (b) or (c) above, any outstanding Stock-Based Award shall be appropriately adjusted to reflect the events described in such Subparagraphs. The Administrator or the Successor Board shall determine the specific adjustments to be made under this Paragraph 24, including, but not limited to the effect of any, Corporate Transaction and, subject to Paragraph 4, its determination shall be conclusive.

(e) Modification of Options. Notwithstanding the foregoing, any adjustments made pursuant to Subparagraph (a), (b) or (c) above with respect to Options shall be made only after the Administrator determines whether such adjustments would (i) constitute a "modification" of any ISOs (as that term is defined in Section 424(h) of the Code) or (ii) cause any adverse tax consequences for the holders of Options, including, but not limited to, pursuant to Section 409A of the Code. If the Administrator determines that such adjustments made with respect to Options would constitute a modification or other adverse tax consequence, it may refrain from making such adjustments, unless the holder of an Option specifically agrees in writing that such adjustment be made and such writing indicates that the holder has full knowledge of the consequences of such "modification" on his or her income tax treatment with respect to the Option. This paragraph shall not apply to the acceleration of the vesting of any ISO that would cause any portion of the ISO to violate the annual vesting limitation contained in Section 422(d) of the Code, as described in Paragraph 6(b)(iv).

25. ISSUANCES OF SECURITIES.

Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to Stock Rights. Except as expressly provided herein, no adjustments shall be made for dividends paid in cash or in property (including without limitation, securities) of the Company prior to any issuance of Shares pursuant to a Stock Right.

26. FRACTIONAL SHARES.

No fractional shares shall be issued under the Plan and the person exercising a Stock Right shall receive from the Company cash in lieu of such fractional shares equal to the Fair Market Value thereof.

27. CONVERSION OF ISOs INTO NON-QUALIFIED OPTIONS; TERMINATION OF ISOs.

The Administrator, at the written request of any Participant, may in its discretion take such actions as may be necessary to convert such Participant's ISOs (or any portions thereof) that have not been exercised on the date of conversion into Non-Qualified Options at any time prior to the expiration of such ISOs, regardless of whether the Participant is an Employee of the Company or an Affiliate at the time of such conversion. At the time of such conversion, the Administrator (with the consent of the Participant) may impose such conditions on the exercise of the resulting Non-Qualified Options as the Administrator in its discretion may determine, provided that such conditions shall not be inconsistent with this Plan. Nothing in the Plan shall be deemed to give any Participant the right to have such Participant's ISOs converted into Non-Qualified Options, and no such conversion shall occur until and unless the Administrator takes appropriate action. The Administrator, with the consent of the Participant, may also terminate any portion of any ISO that has not been exercised at the time of such conversion.

28. WITHHOLDING.

In the event that any federal, state, or local income taxes, employment taxes, Federal Insurance Contributions Act ("F.I.C.A.") withholdings or other amounts are required by applicable law or governmental regulation to be withheld from the Participant's salary, wages or other remuneration in connection with the issuance of a Stock Right or Shares under the Plan or for any other reason required by law, the Company may withhold from the Participant's compensation, if any, or may require that the Participant advance in cash to the Company, or to any Affiliate of the Company which employs or employed the Participant, the statutory minimum amount of such withholdings unless a different withholding arrangement, including the use of shares of the Company's Common Stock or a promissory note, is authorized by the Administrator (and permitted by law). For purposes hereof, the fair market value of the shares withheld for purposes of payroll withholding shall be determined in the manner set forth under the definition of Fair Market Value provided in Paragraph 1 above, as of the most recent practicable date prior to the date of exercise. If the Fair Market Value of the shares withheld is less than the amount of payroll withholdings required, the Participant may be required to advance the difference in cash to the Company or the Affiliate employer. The Administrator in its discretion may condition the exercise of an Option for less than the then Fair Market Value on the Participant's payment of such additional withholding.

29. NOTICE TO COMPANY OF DISQUALIFYING DISPOSITION.

Each Employee who receives an ISO must agree to notify the Company in writing immediately after the Employee makes a Disqualifying Disposition of any Shares acquired pursuant to the exercise of an ISO. A Disqualifying Disposition is defined in Section 424(c) of the Code and includes any disposition (including any sale or gift) of such Shares before the later of (a) two years after the date the Employee was granted the ISO, or (b) one year after the date the Employee acquired Shares by exercising the ISO, except as otherwise provided in Section 424(c) of the Code. If the Employee has died before such Shares are sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

30. TERMINATION OF THE PLAN.

The Plan will terminate on January 1, 2030, the date which is ten years from the earlier of the date of its adoption by the Board of Directors and the date of its approval by the shareholders of the Company. The Plan may be terminated at an earlier date by vote of the shareholders or the Board of Directors of the Company; provided, however, that any such earlier termination shall not affect any Agreements executed prior to the effective date of such termination. Termination of the Plan shall not affect any Stock Rights theretofore granted.

31. AMENDMENT OF THE PLAN AND AGREEMENTS.

The Plan may be amended by the shareholders of the Company. The Plan may also be amended by the Administrator, including, without limitation, to the extent necessary to qualify any or all outstanding Stock Rights granted under the Plan or Stock Rights to be granted under the Plan for favorable federal income tax treatment as may be afforded incentive stock options under Section 422 of the Code (including deferral of taxation upon exercise), and to the extent necessary to qualify the Shares issuable under the Plan for listing on any national securities exchange or quotation in any national automated quotation system of securities dealers. In addition, if NYSE Amex amends its corporate governance rules so that such rules no longer require stockholder approval of "material amendments" of equity compensation plans, then, from and after the effective date of such an amendment to such rules, no amendment of the Plan which (i) materially increases the number of shares to be issued under the Plan (other than to reflect a reorganization, stock split, merger, spin-off or similar transaction); (ii) materially increases the benefits to Participants, including any material change to: (a) permit a repricing (or decrease in exercise price) of outstanding Options, (b) reduce the price at which Shares or Options may be offered, or (c) extend the duration of the Plan; (iii) materially expands the class of Participants eligible to participate in the Plan; or (iv) expands the types of awards provided under the Plan shall become effective unless stockholder approval is obtained. Any amendment approved by the Administrator which the Administrator determines is of a scope that requires shareholder approval shall be subject to obtaining such shareholder approval. Any modification or amendment of the Plan shall not, without the consent of a Participant, adversely affect his or her rights under a Stock Right previously granted to him or her. With the consent of the Participant affected, the Administrator may amend outstanding Agreements in a manner which may be adverse to the Participant but which is not inconsistent with the Plan. In the discretion of the Administrator, outstanding Agreements may be amended by the Administrator in a manner which is not adverse to the Participant.

32. EMPLOYMENT OR OTHER RELATIONSHIP.

Nothing in this Plan or any Agreement shall be deemed to prevent the Company or an Affiliate from terminating the employment, consultancy or director status of a Participant, nor to prevent a Participant from terminating his or her own employment, consultancy or director status or to give any Participant a right to be retained in employment or other service by the Company or any Affiliate for any period of time.

33. GOVERNING LAW.

This Plan shall be construed and enforced in accordance with the law of the State of New York.

**LEGALLY BINDING TERM SHEET ON SHARE EXCHANGE TRANSACTION AMONG
DSS SECURITY SYSTEMS INC., DSS BIOHEALTH SECURITY INC., GLOBAL BIOMEDICAL PTE LTD AND IMPACT BIOMEDICAL INC.**

This term sheet sets out the legally binding terms for transactions among the Parties as defined hereunder ("Term Sheet").

<p>PARTIES</p>	<ol style="list-style-type: none"> 1) Document Security Systems, Inc., a New York corporation, having its office at 200 Canal View Blvd, Suite 300, Rochester, NY 14623. (hereinafter referred to as "DSS") 2) DSS BioHealth Security Inc., a Delaware corporation, having its office at 200 Canal View Blvd, Suite 300, Rochester, NY 14623. (hereinafter referred to as "DBHS") 3) Global BioMedical Pte Ltd, a Singapore corporation, company no. 201707501G having its office at 7 Temasek Boulevard #29-01B, Suntec Tower One, Singapore 038987. (hereinafter referred to as "GBM") 4) Impact BioMedical Inc., a Nevada corporation, having its office at 4800 Montgomery Lane Suite 210 Bethesda, MD 20814. (hereinafter referred to as "IMPACT") <p>(DSS, DBHS and GBM, and IMPACT shall each be known as a "Party", and collectively the "Parties".)</p>
<p>TRANSACTION OVERVIEW</p>	<p><u>GBM</u> Owns 100% of Impact Biomedical Inc. ("IMPACT") Purchase Price: USD 50,000,000</p> <p><u>Proposed Share Exchange Transaction ("Share Exchange") Between DSS and IMPACT</u></p> <p>In consideration of 100% of Impact, i.e. USD 50,000,000 (the "Consideration", DSS will issue a combination of shares and perpetual convertible bond (PCB) as follows:</p> <ul style="list-style-type: none"> - <u>USD 3,132,000</u> By way of issuing 14,500,000 shares at a price of USD 0.216 per share to GBM - <u>Balance of USD 46,868,000</u> By way of PCB at 0% coupon rate per annum.

	<p style="text-align: center;"><u>Perpetual Convertible Bond</u></p> <ul style="list-style-type: none"> - 0 % Coupon Rate - Conversion rate is at USD 0.216 per share - GBM has right to convert the balance amount in PCB into DSS shares in full or partially, by giving 3 days written notice (at conversion rate of USD 0.216 in PCB to 1 DSS share) - DSS has right to require GBM to convert the balance amount in PCB into DSS Shares in full or partially with 3 days written notice (at conversion rate of USD 0.216 in PCB to 1 DSS Share) <p>The 100% of IMPACT will be held under DBHS after the Share Exchange.</p>
BLOCKER	<p>It is agreed by Parties that GBM will not convert the PCB into DSS Shares to the extent where at any one point in time, GBM owns more than 19.9% of DSS.</p>
VALUATION	<p>DSS will appoint Destum Partners (an independent third-party professional valuation firm) to conduct an updated valuation report for IMPACT.</p> <p>The Parties agree that should the updated valuation report of IMPACT be higher than the agreed transaction value, GBM agrees to not increase the Consideration amount for IMPACT in the Share Exchange.</p> <p>The Parties further agree that should the updated valuation report of IMPACT be lower than the agreed transaction value, GBM agrees to lower the Consideration amount for IMPACT accordingly and offer the same 87.16% discount given to DSS for the Share Exchange.</p>

INITIAL PUBLIC OFFERING	It is the intention of IMPACT to pursue a public offering either on the New York Stock Exchange (NYSE) or Nasdaq, after the Share Exchange transaction.
DIVIDEND OF IMPACT SHARES	<p>Upon the completion of the transaction, DBHS, which is a 100% owned subsidiary of DSS, will own 100% of IMPACT.</p> <p>It is the intention of DBHS, upon the completion of the Share Exchange, to offer bonus of IMPACT shares to the shareholders of DSS (excluding the controlling shareholders of DSS and the chairman's group of companies). The proposed bonus being, for every one (1) DSS share held, the shareholder will be entitled to a bonus of two (2) shares of IMPACT as determined at the record date of the filing. ("Bonus Shares"). ("Bonus Shares")</p>
RIGHT TO APPOINT THE BOARD OF DIRECTORS OF IMPACT	DSS shall have the right to appoint the board of IMPACT.
REPRESENTATION AND WARRANTIES	<p>The Parties hereby represent and warrant that they have on behalf of their respective companies, the full legal rights and capacities to enter into this Term Sheet and to perform their respective obligations and that they are not in violation of any laws or any courts.</p> <p>The Parties acknowledge that there may be fluctuations in the Share Price of DSS prior to the signing of this Term Sheet.</p>
COUNTERPARTS	This Term Sheet and any amendments, if any, may be executed in counterparts (including by facsimile), each of which shall be an original with the same effect as if the signatures thereto and hereto were part of the same instrument and shall become effective when one or more counterparts have been signed by each of the Parties and delivered (by telecopy or otherwise) to the other Parties.

CONFIDENTIALITY	Save for any disclosure, filing or report made to any government agency, regulatory body or exchange (including but not limited to the NYSE and SGX-ST), or disclosures made to accountants, advisors, legal counsel or consultants, each Party shall keep strictly confidential the negotiations relating to this transaction, the existence of this transaction and the contents of this Term Sheet and shall not disclose the name to any other person with the prior written consent of the other Parties.
BINDING EFFECT	This Term Sheet shall be legally binding and shall also be legally enforceable in accordance with its terms in any court of competent jurisdiction.
DEFINITIVE AGREEMENT	<p>The Parties, if mutually agreeable and as soon as practicable and in any event, no later than three (3) months from date of signing of this Term Sheet, strive to obtain their respective directors and shareholders' approvals; and relevant stock exchanges in which they are listed with, if required.</p> <p>The Parties may elect not to enter into a Definitive Agreement, in which event, the terms and conditions in this Term Sheet shall prevail and have full effects as if a definitive agreement has been entered into.</p>
COMPLETION	Completion shall take place within three (3) months from the date of signing of this Term Sheet and subject to both DSS and GBM having obtained approvals from their respective shareholders and relevant stock exchanges in which they are listed with, if required for the transactions contemplated herein.
COSTS AND EXPENSES	Each Party shall be responsible for its respective costs and expenses in relation to the preparation of this Term Sheet and Definitive Agreement, if any.
GOVERNING LAW AND DISPUTE RESOLUTION	This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to such state's choice of law provisions which would require the application of the law of any other jurisdiction.

Dated:

March 12, 2020

We hereby accept the above terms and conditions.

SIGNED BY:

/s/ Frank Heuszel

Name: FRANK HEUSZEL
Title: Chief Executive Officer
For and on behalf of DSS Securities Inc.

/s/ Frank Heuszel

Name: FRANK HEUSZEL
Title: Chief Executive Officer
For and on behalf of DSS BioHealth Security Inc.

SIGNED BY:

/s/ Chan Heng Fai Ambrose

Name: CHAN HENG FAI AMBROSE
Title: Chief Executive Officer
For and on behalf of Global BioMedical Pte Ltd

/s/ Chan Heng Fai Ambrose

Name: CHAN HENG FAI AMBROSE
Title: Chief Executive Officer
For and on behalf of Impact Biomedical Inc.

SUBSIDIARIES OF REGISTRANT

<u>Name</u>	<u>State of Incorporation</u>
DSS Administrative Group, Inc.	(New York)
Plastic Printing Professionals, Inc.	(New York)
Secuprint Inc.	(New York)
Premier Packaging Corporation	(New York)
DSS Digital Inc.	(New York)
DSS Technology Management, Inc.	(Delaware)
DSS International Inc.	(Nevada)
DSS Asia Limited	(Hong Kong)
DSS Cyber Security Pte Ltd	(Singapore)
DSS BioHealth Security, Inc.	(Nevada)
Decentralized Sharing Systems, Inc.	(Nevada)
DSS Blockchain Security, Inc.	(Nevada)
DSS Securities, Inc.	(Nevada)
HWH World, Inc.	(Texas)
RBC Life International Inc.	(Nevada)
RBC Life World Inc.	(Nevada)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Document Security Systems, Inc.:

- Registration Statement (Form S-8 No. 333-190870)
- Registration Statement (Form S-3 No. 333-230740)
- Registration Statement (Form S-8 No. 333-235745)
- Registration Statement (Form S-1 No. 333-236082)

of our report dated March 30, 2020, relating to the consolidated financial statements of Document Security Systems, Inc. and Subsidiaries, appearing in the Annual Report on Form 10-K of Document Security Systems, Inc. for the year ended December 31, 2019.

/s/ Freed Maxick CPAs, P.C.

Rochester, New York
March 30, 2020

RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Frank D. Heuszel, certify that:

1. I have reviewed this annual report on Form 10-K of Document Security Systems, Inc. for the year ended December 31, 2019.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2020

/s/ Frank D. Heuszel

Frank D. Heuszel
Chief Executive Officer
(Principal Executive Officer)

RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Frank D. Heuszel, certify that:

1. I have reviewed this annual report on Form 10-K of Document Security Systems, Inc. for the year ended December 31, 2019.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2020

/s/ Frank D. Heuszel

Frank D. Heuszel

Interim Chief Financial Officer

(Interim Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Document Security Systems, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank D. Heuszel, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 30, 2020

/s/ Frank D. Heuszel

Frank D. Heuszel
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Document Security Systems, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank D. Heuszel, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 30, 2020

/s/ Frank D. Heuszel

Frank D. Heuszel
Interim Chief Financial Officer
(Interim Principal Financial and Accounting Officer)
