

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## DOCUMENT SECURITY SYSTEMS INC

**Form: 10-K**

**Date Filed: 2017-03-28**

Corporate Issuer CIK: 771999

**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, 2016

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**

**Common Stock, par value \$0.02 per share**

**Name of each exchange on which registered**

**NYSE MKT 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 and posted on its corporate Web site, if any, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See

definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer (Do not check if a smaller reporting company)  Smaller Reporting Company

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant computed by reference to the closing price of such common stock as reported on the NYSE MKT LLC exchange on June 30, 2016, was \$9,693,036.

The number of shares of the registrant's common stock outstanding as of March 24, 2017, was 13,652,653.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement relating to the registrant's 2017 Annual Meeting of Stockholders, which is expected to be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## PART I

### ITEM 1 - BUSINESS

#### Overview

Document Security Systems, Inc. (referred to in this report as “Document Security Systems”, “DSS”, “we”, “us”, “our” or “Company”) was formed in New York in 1984 and, in 2002, chose to strategically focus on becoming a developer and marketer of secure technologies. We specialize in fraud and counterfeit protection for all forms of printed documents and digital information. The Company holds numerous patents for optical deterrent technologies that provide protection of printed information from unauthorized 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 documents for our customers. We license our anti-counterfeiting technologies to printers and brand-owners. In addition, we have a digital division which provides cloud computing services for its customers, including disaster recovery, back-up and data security services. In 2013, the Company expanded its business focus by merging with DSS Technology Management, Inc., formerly known as Lexington Technology Group, Inc. (as described in greater detail below), which acquires intellectual property assets and interests in companies owning 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.

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. (“P3”), a privately held plastic cards manufacturer located in the San Francisco, California area. P3 is also 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, referred to herein as “Secuprint” or “DSS Printing Group”. In 2010, we acquired Premier Packaging Corporation, a privately held packaging company located in Victor, New York. Premier Packaging Corporation is also referred to herein as “Premier Packaging” or the “DSS Packaging 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”.

On July 1, 2013, we merged with DSS Technology Management, Inc. (formerly known as Lexington Technology Group, Inc.), a private intellectual property monetization company. DSS Technology Management, Inc. is also referred to herein as “DSS Technology Management” or “DSSTM”. DSS Technology Management is focused 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.

We do business in four operating segments as follows:

**DSS Packaging and Printing Group** - Produces custom paperboard packaging serving clients in the pharmaceutical, beverage, photo packaging, toy, specialty foods and direct marketing industries, among others. The group also provides secure and commercial 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 security paper, vital records, prescription paper, birth certificates, receipts, manuals, identification materials, entertainment tickets, secure coupons, parts tracking forms, brochures, direct mailing pieces, catalogs, business cards, etc. The division also provides resources and production equipment resources 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, biometric, radio frequency identification (RFID) and watermarks for printed plastic documents such as ID cards, event badges, and driver’s licenses.

**DSS Digital Group** - Provides data center centric solutions to businesses and governments delivered via the “cloud”. This division developed an iPhone based application that integrates some of the our traditional optical deterrent technologies into proprietary digital data security based solutions for brand protection and product diversion prevention.

**DSS Technology Management** - Acquires or internally develops patented technology or intellectual property assets (or interests therein), with 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.

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

DSS Technology Management has partnered with various third party funding groups in connection with its patent monetization programs and may continue to do so in the future.

In February 2014, DSS Technology Management entered into an agreement with certain investors to receive a series of advances up to \$4,500,000 in exchange for promissory notes, fixed return interests and contingent interests collateralized by certain of DSS Technology Management's intellectual property. On February 13, 2014, we received \$2,000,000 under the agreement and on March 27, 2014, we received an additional \$1,000,000 under the agreement. On September 5, 2014, we received the remaining \$1,500,000 under the agreement. As of February 13, 2016, DSS Technology Management had failed to repay a portion of the \$4,500,000 of advances as called for in the agreement, and therefore was in default for non-payment under the agreement. On December 2, 2016, the parties amended the February 2014 agreement for the purposes of vacating DSS Technology Management's ongoing default and amending certain provisions of the original agreement (the "Amendment"). Under the Amendment, DSS Technology Management has until February 13, 2018 to satisfy the required payment terms under the February 2014 agreement. As additional consideration for this extension, DSS Technology Management agreed to (i) pay the investors an amount equal to 25% of any amounts it receives for monetization activities related to certain patents covering systems and methods of using low power peripheral devices (collectively, the "BlueTooth Patents") until the investors have received payments totaling \$4,500,000 plus additional capitalized expenses of \$150,000, (ii) provide the investors with additional security interests in certain of its semiconductor patents, and (iii) deposit the sum of \$600,000 over a two-year period into a separate cash collateral account to be utilized for pursuing related patent monetization activities and for payment of certain qualifying business expenses of DSS Technology Management.

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"), and \$6,000,000 of the Financing was directed by BKI to attorneys to cover those attorneys' fees and out-of-pocket expenses for legal proceedings that may transpire relating to enforcement of the LED Patent Portfolio. In addition, the Company received \$4,500,000 of the Financing which are 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.

In consideration of the its portion of the Financing, the Company assigned to BKI its rights to the Patent Asset Proceeds, defined as any and all monetary recoveries (whether through damages, recoveries, royalties, monies, lump-sum payments, up-front payments, settlement amounts, distribution of property, cash value of equities, license fees or other revenues or other assets or amounts) paid by a defendant or defendants or a third-party to the Company as a result of or in connection with the LED Patent Portfolio, in an amount equal to the Minimum Return and the Additional Return as hereinafter defined (the "Assigned Rights"). Under the Assigned Rights, in addition to repayment in full of the Financing, the Company will pay BKI, solely from realized Patent Asset Proceeds, a return equal to the sum of (A) a certain multiple of the Financing or a designated annualized IRR Return on the Financing, whichever is greater (the "Minimum Return"), plus (B) and additional designated percentage of the Patent Asset Proceeds net of the Minimum Return (the "Additional Return"). Once the Minimum Return and Additional return to BKI are satisfied, Intellectual Discovery Co., Ltd. will be entitled to a payment of a certain percentage of the Patent Asset Proceeds with the remaining balance of Patent Asset Proceeds to be retained by the Company. In addition to the above consideration, the Company also issued to BKI a five-year warrant to purchase up to 750,000 shares of the Company's common stock at an exercise price of \$1.00 per share.

## Our Core Products, Technology and Services

Our core business is counterfeit prevention, brand protection 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 document security solutions. We provide document security technology to security printers, corporations, consumer product companies, and governments for protection of vital records and documents, certifications, travel documents, consumer products, pharmaceutical packaging and school transcripts.

Optical deterrent features such as ours are utilized mainly by large security printers for the protection of important printed documents, such as vital records, and identification documents. Many of these features such as micro-printing were developed pre-1980 as they 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 and easy to use imaging software such as Adobe Photoshop many of the pre-1980 optical deterrents such as micro-printing are no longer used or are much less effective in the prevention of counterfeiting.

Unlike some of our competitors, our technologies are developed to defeat today's modern imaging systems. Almost all of our products and processes are built to thwart scanners and digital copiers and we believe that our products are the most effective in doing so in the market today. In addition, our technologies do not require expensive hardware or software add-ons to authenticate a document, but instead require simple, inexpensive hand-held readers which can be calibrated to particular hidden design features. Our technologies are literally ink on paper that is printed with a particular method to hide selected things from a scanner's "eye" or distort what a scanner "sees." These attributes make our anti-scanning technologies very cost effective versus other current offerings on the market since our technologies are imbedded during the normal printing process, thereby significantly reducing the costs to implement the technologies.

The Company's primary anti-counterfeiting products and technologies are marketed under its AuthentiGuard® registered trademark.

In October 2012, the Company introduced AuthentiGuard®, an iPhone application for authentication, targeted to major Fortune 500 companies worldwide. The application is a cloud-enabled solution that permits efficient and cost effective authentication for packaging, documents and credentials. The solution embeds customizable, covert AuthentiGuard® Prism technology that resists duplication on copiers and scanners in a product's packaging. Product verification using a smartphone application creates real-time, accurate authentication results for brand owners that can be integrated into existing information systems.

## **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 a significant percentage of our 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. In 2016 and 2015, we spent approximately \$435,000 and \$470,000 respectively, on research and development which is comprised mainly of compensation costs, materials and consultants, including stock-based payments to consultants.

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 our AuthentiGuard® On-Demand and ADX, AuthentiGuard® Prism™, AuthentiGuard® Phantom™, AuthentiGuard® Survivor 21™, AuthentiGuard® VeriGlow™ products, and several other anti-counterfeiting and authentication technologies in development. Our issued patents have remaining durations ranging from 1 to 17 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™, AuthentiShare™, and AuthentiSuite™ in the U.S.

## Websites

The primary website we maintain is [www.dsssecure.com](http://www.dsssecure.com), which describes our company, our company history, our patented document security solutions, our major product offerings, and our targeted vertical markets. The website provides detailed product offerings of each of our divisions – Printing/ Packaging, Plastics and Digital. In addition, we maintain the website [www.protectedpaper.com](http://www.protectedpaper.com), an e-commerce site that markets and sells our patented security paper, hand-held security verifiers and custom security documents to end users worldwide. In addition to the active websites, the Company owns several other domain names reserved for future use or for strategic competitive reasons.

## 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 fact that counterfeiting has expanded significantly 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 2016, two customers accounted for 38% of the Company’s consolidated revenue. As of December 31, 2016, these two customers accounted for 31% of the Company’s trade accounts receivable balance. During 2015, these same two customers accounted for 35% of the Company’s consolidated revenue. As of December 31, 2015, these two customers accounted for 27% of the Company’s 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 2016, 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

In light of the events of September 11, 2001 and the subsequent war on terrorism, governments, private entities and individuals have become more aware of, and concerned with, the problems related to counterfeit documents. Homeland security remains a high priority in the United States. For example, in 2007, federal legislation was enacted that required hospitals, physicians and pharmacies to use tamperproof paper to fill all Medicaid prescriptions. The requirement, which was part 7002(b) of the "U.S. Troop Readiness, Veterans' Care, Katrina Recovery and Iraq Accountability Appropriations Act of 2007", was effective April 1, 2008.

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 a number of 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.

On July 1, 2013, DSSIP, Inc., a Delaware corporation ("Merger Sub") and a wholly-owned subsidiary of DSS merged with and into Lexington Technology Group, Inc. (the "Merger"). As a result of the Merger, Lexington Technology Group, Inc., which later changed its name to DSS Technology Management, Inc., became a wholly-owned subsidiary of the Company.

## Employees

As of March 25, 2017, we had a total of 104 full-time employees. 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](http://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

*Investing in our common stock involves risk. Before deciding whether to invest in our common stock, you should consider carefully the risks and uncertainties described below. There may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results. If any of these risks actually occurs, our business, business prospects, financial condition or results of operations could be seriously harmed. This could cause the trading price of our common stock to decline, resulting in a loss of all or part of your investment. Please also read carefully the section contained in Part II, Item 7, below, entitled "Cautionary Statement Regarding Forward-Looking Statements."*

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations in the future. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. If any of these risks occur, our business, results of operations or financial condition could suffer, the market price of our common stock could decline and you could lose all or part of your investment in our common stock.

***Due to our low cash balance and negative cash flow, unless we raise additional capital we may have to further reduce our costs by curtailing future operations to continue as a business, and substantial doubt may be raised about our ability to continue as a going concern.***

Our ability to fund our capital requirements out of our available cash and cash generated from our operations in the future will depend on many factors, but largely on our ability to (i) increase sales of the Company's digital products and technologies; (ii) raise capital on favorable terms; and (iii) continue to generate operating profits from the Company's packaging and plastic printing operations. It is possible that we may not be able to find financing in the capital markets or from lenders on acceptable terms or at all in the future. If we are not successful in generating needed funds from operations or in equity or debt capital raising transactions, we may need to reduce our costs which measures could include selling or consolidating certain operations or assets, and delaying, canceling or scaling back product development and marketing programs. These measures could materially and adversely affect our ability to operate profitably. In addition, if we are not successful in generating needed funds from operations or from capital raising transactions, substantial doubt may be raised about our status as a going concern.

***We have a history of losses.***

We have a history of losses, including net losses for the fiscal years 2016, 2015 and 2014 of approximately \$1.0 million, \$14.3 million and \$41.2 million, respectively. Our results of operations in the future will depend on many factors, but largely on our ability to successfully market our anti-counterfeiting products, technologies and services and successfully monetize our IP assets. Failure to achieve profitability in the future could adversely affect the trading price of our common stock and our ability to raise additional capital and, accordingly, our ability to continue to grow our business. There can be no assurance that we will succeed in addressing any or all of these risks, and the failure to do so could have a material adverse effect on our business, financial condition and operating results.

***We have a significant amount of indebtedness, some of which is secured by our assets, and we may be unable to satisfy our obligations to pay interest and principal thereon when due or negotiate acceptable extensions or settlements.***

We have outstanding indebtedness (described below), some of which is secured by our assets. Given our history of operating losses and our cash position, we may not be able to repay indebtedness when due. If we were to default on any of our other indebtedness that require payments of cash to settle such default and not receive an extension or a waiver from the creditor and the creditor were to foreclose on secured assets, it could have a material adverse effect on our business, financial condition and operating results.

As of December 31, 2016, we had the following significant amounts of outstanding indebtedness:

- (i) \$230,000 promissory note secured by certain equipment and the assets of our wholly-owned subsidiary, Secuprint. The note, as amended on April 12, 2016, requires monthly principal payments of \$15,000, plus interest at 10% per annum, with a balloon payment of \$155,000 due on May 31, 2017.
- (ii) Up to \$800,000 in a revolving line of credit with Citizens Bank available for use by Premier Packaging, subject to certain limitations, payable in monthly installments of interest only. Interest accrues at 1 Month LIBOR plus 3.75%. As of December 31, 2016, there was no indebtedness outstanding on the line.

- (iii) \$967,000 due under a promissory note with Citizens Bank used to purchase our packaging division facility. We are required to pay monthly installments of \$7,658 plus interest until August 2021 at which time a balloon payment of the remaining principal balance will be due. We entered into an interest rate swap agreement to lock into a 5.87% effective interest rate over the life of the term loan. The promissory note is secured by a first mortgage on our packaging division facility.
- (iv) \$505,000 due under a promissory note secured by certain equipment and the assets of our wholly-owned subsidiary, Secuprint. The note, as amended on April 12, 2016, requires monthly principal payments of \$15,000, plus interest at 9% per annum, with a balloon payment of \$430,000 due on May 31, 2017.
- (v) \$560,000 under an equipment note entered into by our subsidiary, Premier Packaging, with Peoples Capital. The note is secured by the equipment, bears interest at 4.84%, and is repayable over a 60-month period in monthly payments of interest and principal of \$24,511 which commenced in January 2014.
- (vi) \$375,000 under a promissory note entered into by our subsidiary, Premier Packaging, with Citizens' pursuant to which Premier Packaging made improvements and additions to its production facility. The promissory note is payable in monthly installments over a five-year period of \$2,500 plus interest calculated at a variable rate of 1 Month Libor plus 3.15% (3.39% at December 31, 2016), which payments commenced on July 1, 2014. The note matures in July 2019 at which time a balloon payment of the remaining principal balance of \$300,000 is due. The promissory note is secured by the assets of our packaging facility.
- (vii) \$361,000, under a promissory note entered into by our subsidiary, Premier Packaging, with Citizens' pursuant to which Premier Packaging purchased a HP Indigo 7800 Digital press. The term note bears interest at 3.61% and is payable in 60 equal monthly installments of principal and interest of \$9,591 until April 28, 2020.
- (viii) An aggregate of \$3,630,000 which includes accrued interest, outstanding under promissory notes and \$459,000 outstanding under fixed return equity interests and contingent equity interests pursuant to an agreement with Fortress Credit Corp collateralized by certain of our semiconductor patents, bearing interest at 1.95% payable in cash or in kind in our discretion. The notes are subject to various covenants and will also be subject to a Make Whole Amount calculation (as defined in the loan agreement), which will result in an effective annual interest rate of approximately 4.23% for the term thereof, assuming no prepayments. The notes mature on February 13, 2018.

The Citizens Bank obligations are secured by all of the assets of Premier Packaging and are also secured through cross guarantees by us and our other wholly-owned subsidiaries, P3 and Secuprint. Under the Citizens Bank credit facilities, our subsidiary, Premier Packaging Corporation is subject to various covenants including fixed charge coverage ratio, tangible net worth and current ratio covenants. For the quarters ended December 31, 2016, September 30, 2016, June 30, 2016 and March 31, 2016, Premier Packaging was in compliance with the covenants.

The Fortress agreement defines certain events of default, one of which is the failure by DSS Technology Management, on or before the second anniversary of the effective date, to make payments to the investors equal to the outstanding advances. On February 13, 2016, the Company had failed to make these payments. Under the Agreement, upon an event of default, the collateral agent and the investors have a number of remedies, including rights related to foreclosure or direct monetization of the patents that secure the loan. On December 2, 2016, the Company, the Collateral Agent and the Investors entered into a First Amendment to Investment Agreement which, among other amendments, vacated the Company's ongoing non-payment default under that agreement.

***We cannot predict our future capital needs and we may not be able to secure additional financing.***

We may need to raise additional funds in the future to fund our working capital needs and to continue our business. We also may need additional funds to complete development, testing and marketing of our products and technologies, or to make strategic acquisitions or investments. We expect to seek equity or debt financings, collaborative arrangements with corporate partners or funds from other sources for these purposes. No assurance can be given that necessary funds will be available for us to finance our development on acceptable terms, if at all. Furthermore, such additional financings may involve substantial dilution of our stockholders or may require that we relinquish rights to certain of our technologies or products. In addition, we may experience operational difficulties and delays due to working capital restrictions. If adequate funds are not available from operations or additional sources of financing, we may have to delay or scale back our growth plans.

***The value of our intangible assets and investments may not be equal to their carrying values.***

As of December 31, 2016, we had approximately \$4.3 million of net intangible assets, including goodwill. Approximately \$1.6 million of this amount are intangible assets which derive their value from patents or patent rights, many of which are involved in litigation in order to derive licensing revenues, damages awards or settlements from infringers of the patents. If licensing efforts and litigation are not successful, the values of these assets could be reduced. We are required to evaluate the carrying value of such intangibles and goodwill and the fair value of investments whenever events or changes in circumstances indicate that the carrying value of an intangible asset, including goodwill, and investment may not be recoverable. If any of our intangible assets, goodwill or investments are deemed to be impaired then it will result in a significant reduction of the operating results in such period. In 2015 we recorded goodwill impairments of approximately \$9,600,000, and there can be no guarantee that we will not have to record impairments in the future.

***We have pending legal proceedings against numerous companies, including Intel Corporation, Qualcomm Incorporated, Apple, Inc., and Samsung, and we expect such litigation to continue to be time-consuming and costly, which may adversely affect our financial condition and our ability to operate our business.***

To monetize and protect our patent assets, we have commenced legal proceedings against numerous companies, including Intel Corporation, Qualcomm Incorporated, Apple, Inc., and Samsung, among others, alleging infringement of our patents. Our viability as an operating company is partially dependent on the outcome of this litigation, and there is a risk that we may be unable to achieve the results we desire from such litigation, which failure could significantly harm our business. In addition, the defendants in this litigation are much larger than us and have substantially more resources than us, which could make our litigation efforts more difficult.

These legal proceedings may continue for several years and may require significant expenditures for legal fees and other expenses. Disputes regarding the assertion of patents and other intellectual property rights are highly complex and technical. Once initiated, we may be forced to litigate against others to enforce or defend our intellectual property rights or to determine the validity and scope of other parties' proprietary rights. The defendants or other third parties involved in the lawsuits in which we are involved may allege defenses and/or file counterclaims in an effort to avoid or limit liability and damages for patent infringement. If such defenses or counterclaims are successful, they may have a great impact on the value of the patents and preclude our ability to derive licensing revenue from the patents. Therefore, a negative outcome of any such litigation, or one or more claims contained within any such litigation, could materially and adversely impact our business. The defendants may also seek reimbursement of court costs, legal fees and other expenses, which, if awarded, could be substantial and materially and adversely impact our cash positions. As an example, in our litigation against Facebook, Inc. alleging patent infringement the court granted summary judgment for the defendants, resulting in our recording an impairment charge for the underlying patent assets of the net book value of the patents as of December 31, 2014 of approximately \$22,285,000. Similarly, in our litigation against Salesforce.Com, Inc., the PTAB held that claims 1-21 are unpatentable. As a result, we recorded a net impairment charge during the third quarter of 2014 of approximately \$7,050,000. In addition, during our annual assessment of goodwill for the years ended December 31, 2015 and 2014, we assessed that negative trends in patent litigation that have recently reduced the success of patent owners in protecting their patents in the federal court system impaired the goodwill assigned to our DSS Technology Management division, and accordingly, for the years ended December 31, 2015 and 2014, we recorded goodwill impairment charges of approximately \$9,600,000 and \$3,000,000, respectively, to the goodwill assigned to our DSS Technology Management division.

In addition, certain of our patents are subject to security agreements with third parties that could cause the ownership of the patents to be transferred to such third-party in the event of default, which could result in the loss of value to the Company. As an example, our loan agreement with Fortress and our proceeds investment agreement with BKI are secured by certain of our patents.

***While we believe that certain of our patents are being infringed by the defendants named in our various litigation matters, there is a risk that a court will find the patents invalid, not infringed or unenforceable and/or that the U.S. Patent and Trademark Office, or USPTO, will either invalidate the patents or materially narrow the scope of their claims during the course of a re-examination or Inter Partes Review. In addition, even with a positive trial court verdict, the patents may be invalidated, found not infringed or rendered unenforceable on appeal. This risk may occur either presently in our current litigation or from time to time in connection with future litigation we may bring. If this were to occur, it would have a material adverse effect on our viability and operations.***

Patent litigation is inherently risky and the outcome is uncertain. Some of the parties we believe are infringing on our patents are large and well-financed companies with substantially greater resources than ours. We believe that parties will devote a substantial amount of resources in an attempt to avoid or limit a finding that they are liable for infringing our patents or, in the event liability is found, to avoid or limit the amount of associated damages. In addition, there is a risk that these parties may file re-examinations or other proceedings with the USPTO or other government agencies in an attempt to invalidate, narrow the scope or render unenforceable our patents. It is also possible that a court may rule that we have violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against us or award attorneys' fees and/or expenses to one or more defendants, which could be material, and if we are required to pay such monetary sanctions, attorneys' fees and/or expenses, such payment could materially harm our operating results and our financial position.

In addition, it is difficult in general to predict the outcome of patent enforcement litigation at the trial level. There is a higher rate of appeals in patent enforcement litigation than more standard business litigation. Such appeals are expensive and time-consuming, and the outcomes of such appeals are sometimes unpredictable, resulting in increased costs and reduced or delayed revenue. We would expect any defendant in our patent enforcement litigation to appeal a trial court ruling against them, which would add to the expense and duration of the litigation and could result in a reversal of the trial court ruling.

***New legislation, regulations or rules related to obtaining patents or enforcing patents could significantly increase our operating costs and decrease our revenue.***

We expect to spend a significant amount of resources to enforce our patent assets. If new legislation, regulations or rules are implemented either by Congress, the USPTO, any state 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 expenses and revenue and any reductions in the funding of the USPTO could negatively impact the value of our assets. United States patent laws have been amended by the Leahy-Smith America Invents Act. The America Invents Act includes a number of 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. The America Invents Act and its implementation could increase the uncertainties and costs surrounding the enforcement of our patented technologies, which could have a material adverse effect on our business and financial condition.

A number of states have adopted or are considering legislation to make the patent enforcement process more difficult for non-practicing entities, such as allowing such entities to be sued in state court and setting higher standards of proof for infringement claims. We cannot predict what, if any, impact these state initiatives will have on the operation of our enforcement business. However, such legislation could increase the uncertainties and costs surrounding the enforcement of our patented technologies, which could have a material adverse effect on our business and financial condition.

In addition, the U.S. Department of Justice, or DOJ, has conducted reviews of the patent system to evaluate the impact of patent assertion entities on industries in which those patents relate. It is possible that the findings and recommendations of the DOJ could impact the ability to effectively license and enforce standards-essential patents and could increase the uncertainties and costs surrounding the enforcement of any such patented technologies.

Finally, 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 any revenue we might derive from such enforcement actions.

***If we are unable to adequately protect our intellectual property, our competitive advantage may disappear.***

Our success will be determined in part by our ability to obtain United States and foreign patent protection for our technology and to preserve our trade secrets. Because of the substantial length of time and expense associated with developing new document security technology, we place considerable importance on patent and trade secret protection. We intend to continue to rely primarily on a combination of patent protection, trade secrets, technical measures, copyright protection and nondisclosure agreements with our employees and customers to establish and protect the ideas, concepts and documentation of software and trade secrets developed by us. Our ability to compete and the ability of our business to grow could suffer if these intellectual property rights are not adequately protected. There can be no assurance that our patent applications will result in patents being issued or that current or additional patents will afford protection against competitors. Failure of our patents, copyrights, trademarks and trade secret protection, non-disclosure agreements and other measures to provide protection of our technology and our intellectual property rights could enable our competitors to more effectively compete with us and have an adverse effect on our business, financial condition and results of operations. In addition, our trade secrets and proprietary know-how may otherwise become known or be independently discovered by others. No guarantee can be given that others will not independently develop substantially equivalent proprietary information or techniques, or otherwise gain access to our proprietary technology.

In addition, we may be required to litigate in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition or results of operations, and there can be no assurances of the success of any such litigation.

***We may face intellectual property infringement or other claims against us, our customers or our intellectual property that could be costly to defend and result in our loss of significant rights.***

Although we have received patents with respect to certain of our core business technologies, there can be no assurance that these patents will afford us any meaningful protection. Although we believe that our use of the technology and products we have developed and other trade secrets used in our operations do not infringe upon the rights of others, our use of the technology and trade secrets we developed may infringe upon the patents or intellectual property rights of others. In the event of infringement, we could, under certain circumstances, be required to obtain a license or modify aspects of the technology and trade secrets we developed or refrain from using the same. We may not have the necessary financial resources to defend an infringement claim made against us or be able to successfully terminate any infringement in a timely manner, upon acceptable terms and conditions or at all. Failure to do any of the foregoing could have a material adverse effect on our operations and our financial condition. Moreover, if the patents, technology or trade secrets we developed or use in our business are deemed to infringe upon the rights of others, we could, under certain circumstances, become liable for damages, which could have a material adverse effect on our operations and our financial condition. As we continue to market our products, we could encounter patent barriers that are not known today. A patent search may not disclose all related applications that are currently pending in the United States Patent Office, and there may be one or more such pending applications that would take precedence over any or all of our applications.

Furthermore, third parties may assert that our intellectual property rights are invalid, which could result in significant expenditures by us to refute such assertions. If we become involved in litigation, we could lose our proprietary rights, be subject to damages and incur substantial unexpected operating expenses. Intellectual property litigation is expensive and time-consuming, even if the claims are subsequently proven unfounded, and could divert management's attention from our business. If there is a successful claim of infringement, we may not be able to develop non-infringing technology or enter into royalty or license agreements on acceptable terms, if at all. If we are unsuccessful in defending claims that our intellectual property rights are invalid, we may not be able to enter into royalty or license agreements on acceptable terms, if at all. Moreover, if we are unsuccessful in our pending patent infringement litigation, we could lose certain patents that have been collateralized by third party funding partners. This could prohibit us from providing our products and services to customers, which could have a material adverse effect on our operations and our financial condition.

***Certain of our recently developed products are not yet commercially accepted and there can be no assurance that those products will be accepted, which would adversely affect our financial results.***

Over the past several years, we have spent significant funds and time to create new products by applying its technologies onto media other than paper, including plastic and cardboard packaging, and delivery of our technologies digitally. We have had limited success to date in selling our products that are on cardboard packaging and those that are delivered digitally. Our business plan includes plans to incur significant marketing, intellectual property development and sales costs for these newer products, particularly the digitally delivered products. If we are not able to sell these new products, our financial results will be adversely affected.

***The results of our research and development efforts are uncertain and there can be no assurance of the commercial success of our products.***

We believe that we will need to continue to incur research and development expenditures to remain competitive. The products we are currently developing or may develop in the future may not be technologically successful. In addition, the length of our product development cycle may be greater than we originally expected and we may experience delays in future product development. If our resulting products are not technologically successful, they may not achieve market acceptance or compete effectively with our competitors' products.

***Changes in document security technology and standards could render our applications and services obsolete.***

The market for document security products, applications, and services is fast moving and evolving. Identification and authentication technology is constantly changing as we and our competitors introduce new products, applications, and services, and retire old ones as customer requirements quickly develop and change. In addition, the standards for document security are continuing to evolve. If any segments of our market adopt technologies or standards that are inconsistent with our applications and technology, sales to that market segments could decline, which could have a material adverse effect on our operations and our financial condition.

***The market in which we operate is highly competitive, and we may not be able to compete effectively, especially against established industry competitors with greater market presence and financial resources.***

Our market is highly competitive and characterized by rapid technological change and product innovations. Our competitors may have advantages over us because of their longer operating histories, more established products, greater name recognition, larger customer bases, and greater financial, technical and marketing resources. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, and devote greater resources to the promotion and sale of their products. Competition may also force us to decrease the price of our products and services. We cannot assure you that we will be successful in developing and introducing new technology on a timely basis, new products with enhanced features, or that these products, if introduced, will enable us to establish selling prices and gross margins at profitable levels.

***If we are unable to respond to regulatory or industry standards effectively, our growth and development could be delayed or limited.***

Our future success will depend in part on our ability to enhance and improve the functionality and features of our products and services in accordance with regulatory or industry standards. Our ability to compete effectively will depend in part on our ability to influence and respond to emerging industry governmental standards in a timely and cost-effective manner. If we are unable to influence these or other standards or respond to these or other standards effectively, our growth and development of various products and services could be delayed or limited.

***If we do not successfully expand our sales force, we may be unable to increase our revenues.***

We must expand the size of our marketing activities and sales force to increase revenues. We continue to evaluate various methods of expanding our marketing activities, including the use of outside marketing consultants and representatives and expanding our in-house marketing capabilities. If we are unable to hire or retain qualified sales personnel or if newly hired personnel fail to develop the necessary skills to be productive, or if they reach productivity more slowly than anticipated, our ability to increase our revenues and grow could be compromised. The challenge of attracting, training and retaining qualified candidates may make it difficult to meet our sales growth targets. Further, we may not generate sufficient sales to offset the increased expense resulting from expanding our sales force or we may be unable to manage a larger sales force.

***If we fail to retain certain of our key personnel and attract and retain additional qualified personnel, we might not be able to remain competitive, continue to expand our technology or pursue growth.***

Our future success depends upon the continued service of certain of our executive officers and other key sales and research personnel who possess longstanding industry relationships and technical knowledge of our products and operations. Although we believe that our relationship with these individuals is positive, there can be no assurance that the services of these individuals will continue to be available to us in the future. There can be no assurance that these persons will agree to continue to be employed by us after the expiration dates of their current contracts.

***We may be unable to retain experts and legal counsel on a favorable basis to represent us in our patent infringement litigation.***

The success of our pending legal proceedings and future legal proceedings depends in part upon our ability to retain experts and legal counsel on a favorable basis to represent us in such litigation. The retention of such experts and legal counsel is expensive and we may not be able to retain such experts and legal counsel on favorable economic terms. Therefore, an inability to retain experts and legal counsel to represent us in our litigation could have a material adverse effect on our business.

***Future growth in our business could make it difficult to manage our resources.***

Future business expansion could place a significant strain on our management, administrative and financial resources. Significant growth in our business may require us to implement additional operating, product development and financial controls, improve coordination among marketing, product development and finance functions, increase capital expenditures and hire additional personnel. There can be no assurance that we will be able to successfully manage any substantial expansion of our business, including attracting and retaining qualified personnel. Any failure to properly manage our future growth could negatively impact our business and operating results.

***We have identified weaknesses in our internal control over financial reporting structure; any material weaknesses may cause errors in our financial statements that could require restatements of our financial statements and investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.***

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate the effectiveness of our internal control over financial reporting as of the end of each year, and to include a management report assessing the effectiveness of our internal control over financial reporting in each Annual Report on Form 10-K. We have and had previously identified weaknesses in our internal control over financial reporting following management's annual assessment of internal controls over financial reporting and, as a result of that assessment, management has concluded our controls associated with identifying and accounting for complex and non-routine transactions in accordance with GAAP were ineffective and that we did not maintain a sufficient complement of qualified accounting personnel and controls associated with segregation of duties, and that the foregoing represented material weakness in our internal control over financial reporting. If our internal control over financial reporting or disclosure controls and procedures are not effective in the future, there may be errors in our financial statements and in our disclosure that could require restatements. Investors may lose confidence in our reported financial information and in our disclosure, which could lead to a decline in our stock price.

***We have a large number of authorized but unissued shares of common stock, which our management may issue without further stockholder approval, thereby causing dilution of your holdings of our common stock.***

As of December 31, 2016, we had approximately 187 million authorized but unissued shares of our common stock. Our management continues to have broad discretion to issue shares of our common stock in a range of transactions, including capital-raising transactions, mergers, acquisitions, for anti-takeover purposes, and in other transactions, without obtaining stockholder approval, unless stockholder approval is required for a particular transaction under the rules of the NYSE MKT, state and federal law, or other applicable laws. If our board of directors determines to issue additional shares of our common stock from the large pool of authorized but unissued shares for any purpose in the future with or without obtaining stockholder approval, your ownership position would be diluted without your ability to vote on such transaction.

***The exercise of our outstanding options and warrants, vesting of restricted stock awards and conversion of debt securities may depress our stock price.***

As of December 31, 2016, there were 3,672,878 of common stock share equivalents potentially issuable under convertible debt agreements, employment agreements, options, warrants, and restricted stock agreements that could potentially dilute basic earnings per share in the future. The prospect of the issuance of shares of common stock upon the conversion, exercise or vesting of these securities in the public market, or the perception that future sales of the common stock underlying these securities could occur, could have the effect of lowering the market price of our common stock below current levels and make it more difficult for us and our stockholders to sell our equity securities in the future. Sales or the availability for sale of shares of common stock by stockholders, including upon conversion, exercise or vesting of any outstanding derivative or restricted securities, could cause the market price of our common stock to decline and could impair our ability to raise capital through an offering of additional equity securities.

***We do not intend to pay cash dividends.***

We do not intend to declare or pay cash dividends on our common stock in the foreseeable future. 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.



***We may seek to internally develop additional new inventions and intellectual property, which would take time and would be costly. Moreover, the failure to obtain or maintain intellectual property rights for such inventions would lead to the loss of our investments in such activities.***

Members of our management team have significant experience as inventors. As such, part of our business may include the internal development of new inventions and intellectual property that we would seek to monetize. However, this aspect of our business would likely require significant capital and would take time to achieve. Such activities could also distract our management team from our present business initiatives, which could have a material and adverse effect on our business. There is also the risk that these initiatives would not yield any viable new inventions or technology, which would lead to a loss our investments in time and resources in such activities.

In addition, even if we are able to internally develop new inventions, in order for those inventions to be viable and to compete effectively, we would need to develop and maintain, and we would heavily rely on, a proprietary position with respect to such inventions and intellectual property. However, there are significant risks associated with any such intellectual property we may develop principally including the following:

- patent applications we may file may not result in issued patents or may take longer than we expect to result in issued patents;
- we may be subject to interference proceedings;
- we may be subject to opposition proceedings in the U.S. or foreign countries;
- any patents that are issued to us may not provide meaningful protection;
- we may not be able to develop additional proprietary technologies that are patentable;
- other companies may challenge patents issued to us;
- other companies may design around technologies we have developed; and
- enforcement of our patents may be complex, uncertain and very expensive.

We cannot be certain that patents will be issued as a result of any future applications, or that any of our patents, once issued, will provide us with adequate protection from competing products. For example, issued patents may be circumvented or challenged, declared invalid or unenforceable, or narrowed in scope. In addition, since publication of discoveries in scientific or patent literature often lags behind actual discoveries, we cannot be certain that it will be the first to make our additional new inventions or to file patent applications covering those inventions. It is also possible that others may have or may obtain issued patents that could prevent us from commercializing our products or require us to obtain licenses requiring the payment of significant fees or royalties in order to enable us to conduct our business. As to those patents that we may license or otherwise monetize, our rights will depend on maintaining our obligations to the licensor under the applicable license agreement, and we may be unable to do so. Our failure to obtain or maintain intellectual property rights for our inventions would lead to the loss of our investments in such activities, which would have a material and adverse effect on our business.

Moreover, patent application delays could cause delays in recognizing revenue from our internally generated patents and could cause us to miss opportunities to license patents before other competing technologies are developed or introduced into the market.

***Changes in the laws and regulations to which we are subject may increase our costs.***

We are subject to numerous laws and regulations, including, but not limited to, environmental and health and welfare benefit regulations, as well as those associated with being a public company. These rules and regulations may be changed by local, state, provincial, national or foreign governments or agencies. Such changes may result in significant increases in our compliance costs. Compliance with changes in rules and regulations could require increases to our workforce, and could result in increased costs for services, compensation and benefits, and investment in new or upgraded equipment.

***Declines in general economic conditions or acts of war and terrorism may adversely impact our business.***

Demand for printing services is typically correlated with general economic conditions. The prolonged decline in United States economic conditions associated with the great recession adversely impacted our business and results of operations, and may do so again. The overall business climate of our industry may also be impacted by domestic and foreign wars or acts of terrorism, which events may have sudden and unpredictable adverse impacts on demand for our products and services.

***Our acquisitions of patent assets may be time consuming, complex and costly, which could adversely affect our operating results.***

Acquisitions of patent or other intellectual property assets, which may continue to be part of our business plan, are often time consuming, complex and costly to consummate. We may utilize many different transaction structures in our acquisitions and the terms of such acquisition agreements tend to be heavily negotiated. As a result, we would expect to incur significant operating expenses and would likely be required to raise capital during the negotiations even if the acquisition were ultimately not consummated. Even if we were able to acquire particular patent assets, there is no guarantee that we would generate sufficient revenue related to those patent assets to offset the acquisition costs. While we would seek to conduct confirmatory due diligence on any patent assets we consider for acquisition, we may acquire patent assets from a seller who does not have proper title to those assets. In those cases, we could be required to spend significant resources to defend our interest in the patent assets and, if we were not successful, our acquisition may be invalid, in which case we could lose part or all of our investment in the assets.

In addition, we may acquire patents and technologies that are in the early stages of adoption in the commercial, industrial and consumer markets. Demand for some of these technologies will likely be untested and may be subject to fluctuation based upon the rate at which licensees will adopt these patents and technologies in their products and services. As a result, there can be no assurance as to whether technologies we acquire or develop will have value that we can monetize.

***In certain acquisitions of patent assets, we may seek to defer payment or finance a portion of the acquisition price. This approach may put us at a competitive disadvantage and could result in harm to our business.***

We have limited capital and may seek to negotiate acquisitions of patent or other intellectual property assets where we can defer payments or finance a portion of the acquisition price. These types of debt financing or deferred payment arrangements may not be as attractive to sellers of patent assets as receiving the full purchase price for those assets in cash at the closing of the acquisition. Moreover, funding by third parties for patent acquisitions may not be available to us in the future. As a result, we might not compete effectively against other companies in the market for acquiring patent assets, many of whom have greater cash resources than we have.

***We may not be able to capitalize on potential market opportunities related to our licensing strategy or patent portfolio for our core business.***

In order to capitalize on our core business patent portfolio, we intend to enter into licensing relationships. However, there can be no assurance that we will be able to capitalize on our patent portfolio or any potential market opportunity in the foreseeable future. Our inability to generate licensing revenues associated with potential market opportunities could result from a number of factors, including, but not limited to:

- failure to enter into licensing relationships on commercially acceptable terms, or at all; and
- challenges from third parties as to the validity of our patents underlying licensing opportunities.

***Weak global economic conditions may cause infringing parties to delay entering into licensing agreements, which could prolong our litigation and adversely affect our financial condition and operating results.***

Our business plan may be affected by worldwide economic conditions, and the United States and world economies have recently experienced and in some areas continue to experience prolonged weak economic conditions. Uncertainty about global economic conditions poses a risk as businesses may postpone spending in response to tighter credit, negative financial news and declines in income or asset values. This response could have a material negative effect on the willingness of parties infringing on our assets to enter into licensing or other revenue generating agreements voluntarily. Entering into such agreements is critical to our business plan, and failure to do so could cause material harm to our business.

***We rely on two significant customers, the loss of which could materially and adversely affect our results of operations.***

During 2016, two customers accounted for 38% of our consolidated revenue. As of December 31, 2016, these two customers accounted for 31% of our trade accounts receivable balance. During 2015, these same two customers accounted for 35% of our consolidated revenue. As of December 31, 2015, these two customers accounted for 27% of our trade accounts receivable balance. The loss of either of these customers could have a material adverse effect on our results of operations.

***If we fail to comply with the continued listing standards of the NYSE MKT, it may result in a delisting of our common stock from the exchange.***

Our common stock is currently listed for trading on the NYSE MKT, and the continued listing of our common stock on the NYSE MKT is subject to our compliance with a number of listing standards. On March 15, 2016, we were notified by the NYSE MKT that we are not in compliance with the continued listing standards set forth in Section 1003(f)(v) of the NYSE MKT Company Guide (the "Company Guide"), which addresses *Low Selling Price Issues*. The NYSE MKT stated in its notice that the most recent 30-day average selling price per share of \$0.16 fell below the acceptable minimum required average share price for continued listing under Section 1003(f)(v) of the Company Guide, and that our stock had been closing at or below \$0.20 per share since December 11, 2015. The NYSE MKT does not provide a specific minimum average price per share in its rules for purposes of compliance with Section 1003(f)(v) of the Company Guide, but instead makes those determinations in its discretion, on a case by case basis. Under NYSE MKT rules, we had six months following receipt of notification to regain compliance with the minimum share price requirement. At the suggestion of NYSE Regulation, we effected a 1-for-4 reverse stock split on August 26, 2016. Thereafter, on September 15, 2016, we received a letter from NYSE Regulation notifying us that we were back in compliance with respect to Section 1003(f)(v) of the Company Guide. On April 1, 2016, we were notified by the NYSE MKT that we were not in compliance with the stockholders' equity continued listing standards set forth in Section 1003(a)(ii) of the Company Guide. In order to maintain our NYSE MKT listing, we were required to submit a plan of compliance by May 2, 2016 addressing how we intend to regain compliance with Section 1003(a)(ii) of the Company Guide by October 2, 2017. We complied with this request, and on May 19, 2016, we received notification from the NYSE MKT that NYSE Regulation had accepted our plan to regain compliance with the exchange's continued listing standards set forth in Section 1003(a)(ii) of the Company Guide by October 2, 2017, subject to periodic review by NYSE MKT for compliance with the initiatives set forth in the plan. However, there can be no assurance that we will successfully carry out our plan or, if we do, that we will continue to meet the continued listing standards of the NYSE MKT. If we are not in compliance with the continued listing standards by October 2, 2017, or if we do not make progress consistent with the plan during the plan period, the NYSE Regulation staff may initiate delisting proceedings. The listing of our common stock on the NYSE MKT is currently being continued pursuant to an extension during the plan period.

If our common stock were no longer listed on the NYSE MKT, investors might only be able to trade our shares on the OTC Bulletin Board ® or in the Pink Sheets ® (a quotation medium operated by Pink Sheets LLC). This would impair the liquidity of our common stock not only in the number of shares that could be bought and sold at a given price, which might be depressed by the relative illiquidity, but also through delays in the timing of transactions and reduction in media coverage.

***If we are delisted from the NYSE MKT, your ability to sell your shares of our common stock may be limited by the penny stock restrictions, which could further limit the marketability of your shares.***

If our common stock is delisted from the NYSE MKT, it could come within the definition of "penny stock" as defined in the Exchange Act and could be covered by Rule 15g-9 of the Exchange Act. That rule imposes additional sales practice requirements on broker dealers who sell securities to persons other than established customers and accredited investors. For transactions covered by Rule 15g-9, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, Rule 15g-9, if it were to become applicable, would affect the ability or willingness of broker-dealers to sell our securities, and accordingly would affect the ability of stockholders to sell their securities in the public market. These additional procedures could also limit our ability to raise additional capital in the future.

***If our common stock is not listed on a national securities exchange, compliance with applicable state securities laws may be required for certain offers, transfers and sales of the shares of our common stock.***

Because our common stock is listed on the NYSE MKT, we are not required to register or qualify in any state the offer, transfer or sale of the common stock. If our common stock is delisted from the NYSE MKT and is not eligible to be listed on another national securities exchange, sales of stock pursuant to the exercise of warrants and transfers of the shares of our common stock sold by us in private placements to U.S. holders may not be exempt from state securities laws. In such event, it will be the responsibility of us in the case of warrant exercises or the holder of privately placed shares to register or qualify the shares for any offer, transfer or sale in the United States or to determine that any such offer, transfer or sale is exempt under applicable state securities laws.

***There is no public market for the warrants we issued in the Fall of 2015.***

There is no established public trading market for the warrants we issued in the Fall of 2015, and we do not expect a market to develop. In addition, we do not intend to apply for listing of those warrants on any national securities exchange or other nationally recognized trading system. Without an active market, the liquidity of those warrants will be limited.

**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 December 2020, at a rental rate of approximately \$6,100 per month. Our Plastics division leases approximately 15,000 square feet under a lease that expires December 31, 2018 for approximately \$13,000 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. The Company's Technology Management division leases executive office space in Reston, Virginia under a 12 month lease that expires in December 2017 for approximately \$600 per month, and also leases a sales and research and development facility in Plano, Texas under a 12 month lease that expires in December 2017 for approximately \$1,200 per month. The Company believes that it can negotiate renewals or similar lease arrangements on acceptable terms when our current leases expire. We believe that our facilities are adequate for our current operations.

**ITEM 3 - LEGAL PROCEEDINGS**

On November 26, 2013, DSS Technology Management 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 DSS Technology Management's patents that relate to systems and methods of using low power wireless peripheral devices DSS Technology Management 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. DSS Technology Management has filed an appeal with the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit") seeking reversal of the PTAB decisions. The appeal is still pending as of the date of this Report. The patent assets underlying this matter had no carrying value as of the date of the PTAB decision and therefore, there were no impairment considerations as a result of the decision.

On March 10, 2014, DSS Technology Management filed suit in the United States District Court for the Eastern District of Texas against Taiwan Semiconductor Manufacturing Company, TSMC North America, TSMC Development, Inc. (referred to collectively as "TSMC"), Samsung Electronics Co., Ltd., Samsung Electronics America, Inc., Samsung Telecommunications America L.L.C., Samsung Semiconductor, Inc., Samsung Austin Semiconductor LLC (referred to collectively as "Samsung"), and NEC Corporation of America (referred to as "NEC"), for patent infringement involving certain of its semiconductor patents. DSS Technology Management sought a judgment for infringement, injunctive relief, and money damages from each of the named defendants. On March 3, 2015, a Markman hearing was held in the Eastern District of Texas. Based on the District Court's claim construction order issued on April 9, 2015, DSS Technology Management and TSMC entered in to a Joint Stipulation and Proposed Final Judgment of Non-Infringement dated May 4, 2015, subject to DSS Technology Management's right to appeal the court's claim construction order to the Federal Circuit. On March 22, 2016, the Federal Circuit ruled in favor of TSMC in the appeal, effectively ending the litigation with TSMC and Samsung. On April 28, 2015, DSS Technology Management reached a confidential settlement with NEC, ending the litigation with NEC.

On February 16, 2015, DSS Technology Management 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 alleges patent infringement and seeks 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. The Intel litigation has been stayed by the District Court pending final determination of the IPR proceedings.

On July 16, 2015, DSS Technology Management 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 are 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, DSS Technology Management 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. On September 23, 2016, Samsung's IPR was instituted by PTAB. Qualcomm then filed its IPR proceeding on July 1, 2016, which was then later joined with Intel's IPRs in August 2016 by PTAB. As of the date of this Report, PTAB has not yet issued a decision on any of the pending IPR proceedings.

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

On August 26, 2016, the Company affected a one-for-four reverse stock split of the Company's common stock. No fractional shares of the Company's common stock were issued as a result of the reverse stock split. Instead, stockholders of record who otherwise would have been entitled to receive fractional shares were entitled to a rounding up of their fractional share to the nearest whole share, except in the case of any stockholder that owned less than four shares of the Company's common stock immediately preceding the reverse stock split. In such case, such stockholder received cash for such fractional share in an amount equal to the product obtained by multiplying: (x) the closing sale price of the common stock on August 25, 2016 as reported on the NYSE MKT, by (y) the amount of the fractional share. As a result, the Company issued 1,166 common shares for shares due as a result of the rounding up feature and paid an aggregate of \$92 to buy-out the fractional shares of holders with less than four shares immediately preceding the reverse stock split. All references in this report to the number of shares of our common stock and to related per-share prices (including references to periods prior to the effective date of the reverse stock split) reflect this reverse stock split.

Our common stock is listed on the NYSE MKT, where it trades under the symbol "DSS."

The following table sets forth the high and low closing prices for the shares of our Common Stock, for the periods indicated.

<u>QUARTER ENDED</u>	<u>HIGH</u>	<u>LOW</u>
March 31, 2016	\$ 1.00	\$ 0.68
June 30, 2016	\$ 0.96	\$ 0.65
September 30, 2016	\$ 0.78	\$ 0.43
December 31, 2016	\$ 0.90	\$ 0.43

<u>QUARTER ENDED</u>	<u>HIGH</u>	<u>LOW</u>
March 31, 2015	\$ 1.84	\$ 1.28
June 30, 2015	\$ 1.68	\$ 0.88
September 30, 2015	\$ 1.16	\$ 0.64
December 31, 2015	\$ 1.04	\$ 0.68

The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

The last reported sales price of our common stock on the NYSE MKT on March 27, 2017 was \$1.12.

#### **Issued and Outstanding**

Our certificate of incorporation authorizes 200,000,000 shares of common stock, par value \$0.02. As of March 24, 2017, we had 13,652,653 shares of common stock issued and outstanding.

As of December 31, 2016, securities issued and securities available for future issuance under our 2013 Employee, Director and Consultant Equity Incentive Plan (the "2013 Plan") is as follows:

<b>Plan Category</b>	<b>Restricted stock to be issued upon vesting (a)</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (b)</b>	<b>Weighted average exercise price of outstanding options, warrants and rights (c)</b>	<b>Number of securities remaining available for future issuance (under equity compensation Plans (excluding securities reflected in column (a &amp; b)) (d)</b>
Equity compensation plans approved by security holders 2013 Employee, Director and Consultant Equity Incentive Plan	224,750	635,611	\$ 10.47	559,805
Equity compensation plans not approved by security holders Contractual warrant grants for services	-	839,517	2.79	-
<b>Total</b>	<b>224,750</b>	<b>1,475,128</b>	<b>\$ 6.10</b>	<b>559,805</b>

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**

There were no issuances of unregistered securities sold by the Company that have not been previously reported in the Company's Current Reports on Form 8-K.

#### **Stockholders**

As of March 21, 2017, we had 201 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 2016 or 2015. 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.

#### **Shares Repurchased by the Registrant**

We did not purchase or repurchase any of our securities in the fiscal year ended December 31, 2016, 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. In addition to the factors specifically noted in the forward-looking statements, other important factors, risks and uncertainties that could result in those differences include, but are not limited to, those discussed under Part I, Item 1A "Risk Factors" in this Annual Report. 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. (referred to in this report as "Document Security Systems", "DSS", "we", "us", "our" or "Company") was formed in New York in 1984. We specialize in fraud and counterfeit protection for all forms of printed documents and digital information. The Company holds numerous patents for optical deterrent technologies that provide protection of printed information from unauthorized scanning and copying. We operate two production facilities, consisting of a combined packaging and security printing facility, and a plastic card facility where we produce secure and non-secure documents for our customers. We license our anti-counterfeiting technologies to printers and brand-owners. In addition, we have a digital division which provides 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. ("P3"), a privately held plastic cards manufacturer located in the San Francisco, California area. P3 is also 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, referred to herein as "Secuprint" or "DSS Printing Group". In 2010, we acquired Premier Packaging Corporation, a privately held packaging company located in Victor, New York. Premier Packaging Corporation is also referred to herein as "Premier Packaging" or the "DSS Packaging 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., and is also referred to herein as the "DSS Digital Group".

On July 1, 2013, we merged with DSS Technology Management, Inc. (formerly known as Lexington Technology Group, Inc.), a private intellectual property monetization company. DSS Technology Management, Inc. is also referred to in this report as "DSS Technology Management" or "DSSTM". DSS Technology Management is focused 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. In July 2013, we completed the merger with Lexington Technology Group which was accounted for as a business combination in accordance with FASB ASC 805 Business Combinations.

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



**RESULTS OF OPERATIONS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016 AND 2015**
**Revenue**

	Year Ended December 31, 2016	Year Ended December 31, 2015	% change
<b>Revenue</b>			
Printed products	\$ 17,277,000	\$ 15,701,000	10%
Technology sales, services and licensing	1,900,000	1,804,000	5%
<i>Total revenue</i>	<i>\$ 19,177,000</i>	<i>\$ 17,505,000</i>	<i>10%</i>

**Revenue** - For the year ended December 31, 2016, revenue was approximately \$19.2 million, an increase of 10% from the year ended December 31, 2015. Printed products sales, which include sales of packaging, printing and plastic products, increased 10% in 2016 as compared to 2015, driven by an increase in sales of printing and packaging products of 10% and an increase in sales of plastic card products of 11%. The Company's technology sales, services and licensing revenues increased 5% in 2016, as compared to 2015, as a result of a strengthening in sales of the Company's digital authentication solution, partially offset by a decrease in the Company's IT hardware reselling business that resulted from the Company's decreased focus on this component of its digital business.

**Costs and Expenses**

	Year Ended December 31, 2016	Year Ended December 31, 2015	% change
<b>Costs and expenses</b>			
Cost of goods sold, exclusive of depreciation and amortization	\$ 11,120,000	\$ 10,665,000	4%
Sales, general and administrative compensation	3,764,000	3,983,000	-5%
Depreciation and amortization	1,392,000	1,559,000	-11%
Professional fees	813,000	1,918,000	-58%
Stock based compensation	329,000	974,000	-66%
Sales and marketing	420,000	329,000	28%
Rent and utilities	602,000	675,000	-11%
Other operating expenses	963,000	922,000	4%
Research and development	435,000	470,000	-7%
Impairment of goodwill	-	9,593,000	0%
Impairment of investments	-	500,000	0%
<i>Total costs and expenses</i>	<i>\$ 19,838,000</i>	<i>\$ 31,588,000</i>	<i>-37%</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 4% in 2016 as compared to 2015 which was less than the 10% increase in the Company's revenue over the same period, which generally reflected the increase in sales of products that have a higher margin, such as security sales and technology card sales such that material costs, outside service costs and delivery costs decreased as a percentage of revenue during the 2016 period.

Sales, general and administrative compensation costs, excluding stock based compensation, decreased 5% in 2016 as compared to 2015, primarily due to a reduction of employee headcount.

Depreciation and amortization includes 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 decreases during 2016, as compared to 2015, were due to a decrease in the carrying value of the Company's patent assets as certain patents became fully amortized during the first quarter of 2016.

Professional fees decreased 58% in 2016 as compared to 2015, primarily due to a decrease in legal and professional fees associated with the Company's intellectual property litigation matters, and a decrease in consulting costs in 2016.

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 decreased 66% in 2016 as compared to 2015 due to a general decrease in the number and value of equity compensation awards granted by the Company since 2014.

Sales and marketing costs, which includes internet and trade publication advertising, travel and entertainment costs, sales-broker commissions, and trade show participation expenses, increased 28% during 2016 as compared to 2015, primarily due to an increase in marketing costs and travel costs.

Rent and utilities decreased 11% during 2016 as compared to 2015 due to decreases in rental costs as a result of the Company's move to new location for its corporate and digital operations.

Other operating expenses consist primarily of equipment maintenance and repairs, office supplies, IT support, bad debt expense and insurance costs. Other operating expenses increased 4% in 2016 compared to 2015 which primarily reflected an increase in insurance costs in 2016.

Research and development costs consist primarily of compensation costs for research personnel, third-party research costs, and consulting costs. Research and development costs decreased during 2016 as compared to 2015 as the Company moved some personnel from research and development to program support to meet the requirements of current and prospective customers of the Company's AuthentiGuard product line.

Impairment of goodwill During the Company's annual assessment of goodwill in 2015, the Company assessed that, based on the negative trends in patent litigation that have reduced the success of patent owners in protecting their patents in the federal court system, the Company's goodwill assigned to its DSS Technology Management division had been impaired and accordingly, the Company recorded an impairment loss of approximately \$9,600,000 to the goodwill assigned to its DSS Technology Management division. There was no goodwill impairment in 2016.

Impairment of investments In January and February 2014, DSS Technology Management made investments of \$100,000 and \$400,000, respectively, to purchase an aggregate of 594,530 shares of common stock of Express Mobile which represented approximately 6% of the outstanding common stock of Express Mobile at the time of investment. Express Mobile is a developer of custom mobile applications and websites. The investments were recorded using the cost method. In accordance with paragraphs 16 through 19 of FASB ASC 825-10-50 the Company determined that it was not practicable to estimate the fair value of these investments since Express Mobile is a privately-held company that is not subject to the same disclosure regulations as U.S. public companies, and as such, the basis for an estimated fair value is subject to the completeness, quality, timing and accuracy of data received from Express Mobile. In December 2015, the Company determined that the investment had been impaired and recognized an impairment loss of \$500,000.

## Other Income and Expenses

	Year Ended December 31, 2016	Year Ended December 31, 2015	% change
<b>Other expenses</b>			
Interest expense	\$ (279,000)	\$ (335,000)	-17%
Gain on sales of investment and equipment	-	120,000	-100%
Net loss on debt modification and extinguishment	-	(19,000)	-100%
Foreign currency transaction gain	-	29,000	-100%
Other expense	\$ (279,000)	\$ (205,000)	36%

Interest expense decreased 17% in 2016 compared to 2015 reflecting the reduction in debt due to approximately \$1.4 million in debt principal payments made by the Company during 2016. During 2015, approximately \$46,000 was received by the Company's subsidiary Premier Packaging for the sale of a printing press that had a zero book value, and \$100,000 was received by the Company's subsidiary DSS Technology Management as a distribution from its investment in VirtualAgility Technology Investment LLC that the Company had previously written down to zero.

## Net Loss and Loss Per Share

	Year Ended December 31, 2016	Year Ended December 31, 2015	% change
<b>Net income (loss)</b>	\$ (950,000)	\$ (14,309,000)	-93%
Loss per common share:			
Basic and diluted	\$ (0.07)	\$ (1.20)	-94%
Shares used in computing loss per common share:			
Basic and diluted	13,068,329	11,939,969	9%

During 2016, the Company had a net loss of \$950,000 as compared to a net loss of \$14.3 million in 2015, representing a 93% decrease. The primary decrease in net loss was the goodwill impairment recorded by the Company in 2015 that did not occur in 2016. The remaining decrease in net loss is primarily due to the combined impact of increases in sales of the Company's packaging and plastic products and significant reductions in professional fees and stock based compensation costs incurred during 2016.

During 2015, the Company had a net loss of \$14.3 million. The net loss in 2015 included a \$9.6 million goodwill impairment charge as described above. The remaining \$4.7 million loss primarily reflects the impact of significant professional fees, intangible asset amortization, and stock based compensation costs that are not offset by profits generated by the Company's operating divisions. In particular, losses at the Company's technology division are due to a lack of meaningful revenue from the Company's IP monetization efforts, and the lack of significant sales of the Company's AuthentiGuard product line. Losses in these areas, along with general corporate costs were greater than the profits generated by the Company's printed products divisions.

## 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, 2016, the Company had cash of approximately \$5.9 million. In addition, the Company had \$800,000 available to its packaging division under a revolving credit line. As of December 31, 2016, 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 2016, the Company generated cash of approximately \$5.5 million from operations \$4.5 million of which consisted of funds received from a third party funder during the fourth quarter of 2016 for a patent acquisition and monetization program. Absent these funds, the Company would have generated approximately \$1.0 million from its operating activities in 2016.

Investing Cash Flow - During 2016, the Company expended approximately \$270,000 on equipment for its packaging and plastic card operations and approximately \$74,000 on patent prosecution costs. The Company also received \$495,000 for the sale of certain of its patent assets. In addition, on November 14, 2016, the Company entered into a Proceeds Investment Agreement with BKI in which BKI financed an aggregate of \$13,500,000 in a patent purchase and monetization program to be implemented and managed by the Company. 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.

Financing Cash Flows - During 2016, the Company made aggregate principal payments on long-term debt of approximately \$1,386,000, which included a one-time payment of \$495,000 to one of its third-party funding providers. In addition, the Company raised approximately \$200,000 from the private placement of its common stock during the fourth quarter of 2016. During 2015, the Company paid an aggregate of approximately \$939,000 in long-term and short-term debt payments. In addition, during 2015, the Company sold approximately 5.5 million shares of its common stock for net proceeds of approximately \$1.1 million.

## 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 2016 or 2015 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, 2016 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.

## *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. FASB ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist.

## *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.

## *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.

## *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.

## Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-9 "Revenue from Contracts with Customers". The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations" ("ASU 2016-08"); ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"); and ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the "new revenue standards"). The revenue standards will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a retrospective or cumulative effect transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company has not yet selected a transition method and is currently evaluating the effect that the revenue standards will have on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the debt. This ASU is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted. The Company adopted the provisions of this ASU in the first quarter of 2016, and reclassified approximately \$57,000 from "Other assets" as December 31, 2015, as a reduction to the carrying value of the respective debt instrument.

In February 2016, the FASB issued ASU 2016-02, "Leases", which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company has not yet evaluated nor has it determined the effect of the standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, "Compensation — Stock Compensation: Improvements to Employee Share-Based Payment Accounting." The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for the Company on January 1, 2017 and the Company is currently evaluating the impact that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments", which clarifies the treatment of several types of cash receipts and payments for which there was diversity in practice. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted, including adoption in an interim period. We anticipate that the adoption of this guidance will not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows", regarding the presentation of restricted cash on the statement of cash flows. The standards update requires that the reconciliation of the beginning and end of period cash amounts shown in the statement of cash flows include restricted cash. When restricted cash is presented separately from cash and cash equivalents on the balance sheet, a reconciliation is required between the amounts presented on the statement of cash flows and the balance sheet. Also, the new guidance requires the disclosure of information about the nature of the restrictions. The standards update is effective retrospectively for fiscal years and interim periods beginning after December 15, 2017, with early adoption permitted.

**Newly Adopted Accounting Pronouncements** – During 2016, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-15, "Presentation of Financial Statements – Going Concern". The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued and to provide related footnote disclosures in certain circumstances. Substantial doubt exists when conditions and events indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date of financial statement issuance. The adoption of this ASU did not have a material impact on the Company's financial statements as management concluded that these conditions do not exist as of December 31, 2016. In coming to this conclusion, management considered the fact that the Company has incurred recurring losses, as well as resources available and expected future results.

Also during 2016, the Company adopted FASB ASU 2015-03 – "Interest – Imputation of Interest". The adoption of this ASU resulted in debt issuance costs being presented as a reduction to the related debt instrument, as opposed to being presented as a separate asset on the Company's balance sheet. Management reclassified approximately \$57,000 from "Other assets" as December 31, 2015, as a reduction to the carrying value of the respective debt instrument.

## 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

We have audited the accompanying consolidated balance sheets of Document Security Systems, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor have we been engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Document Security Systems, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

*/s/ FREED MAXICK CPAs, P.C.*

Rochester, New York  
March 28, 2017



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

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 5,871,738	\$ 1,440,256
Restricted cash	177,609	293,043
Accounts receivable, net	1,890,981	2,097,433
Inventory	1,206,377	937,830
Prepaid expenses and other current assets	350,289	313,528
Total current assets	9,496,994	5,082,090
Property, plant and equipment, net	4,573,841	5,003,818
Other assets	45,821	44,050
Goodwill	2,453,349	2,453,349
Other intangible assets, net	1,896,018	3,017,544
Total assets	\$ 18,466,023	\$ 15,600,851
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 2,212,653	\$ 1,945,073
Accrued expenses and deferred revenue	1,290,593	955,066
Other current liabilities	2,996,310	1,009,660
Short-term debt	-	3,984,316
Current portion of long-term debt, net	1,202,335	1,553,061
Total current liabilities	7,701,891	9,447,176
Long-term debt, net	5,249,569	2,240,596
Other long-term liabilities	2,184,843	63,697
Deferred tax liability, net	45,619	162,107
<b>Commitments and contingencies (Note 11)</b>		
<b>Stockholders' equity</b>		
Common stock, \$.02 par value; 200,000,000 shares authorized, 13,502,653 shares issued and outstanding (12,970,487 on December 31, 2015)	270,053	259,410
Additional paid-in capital	104,338,002	103,820,170
Accumulated other comprehensive loss	(45,343)	(63,697)
Accumulated deficit	(101,278,611)	(100,328,608)
Total stockholders' equity	3,284,101	3,687,275
Total liabilities and stockholders' equity	\$ 18,466,023	\$ 15,600,851

See accompanying notes.

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

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Printed products	\$ 17,277,172	\$ 15,700,676
Technology sales, services and licensing	1,900,427	1,804,433
Total revenue	19,177,599	17,505,109
<b>Costs and expenses</b>		
Cost of revenue, exclusive of depreciation and amortization	11,119,780	10,665,122
Selling, general and administrative (including stock based compensation)	7,326,063	9,271,533
Depreciation and amortization	1,391,815	1,558,899
Impairment of goodwill	-	9,592,848
Impairment of assets	-	500,000
Total costs and expenses	19,837,658	31,588,402
<b>Operating loss</b>	(660,059)	(14,083,293)
<b>Other expense:</b>		
Interest expense	(279,214)	(334,738)
Gains on sales of investment and equipment	-	120,431
Net loss on debt modification and extinguishment	-	(19,096)
Foreign currency translation gain	-	29,400
<b>Loss before income taxes</b>	(939,273)	(14,287,296)
Income tax expense	10,730	22,184
<b>Net loss</b>	\$ (950,003)	\$ (14,309,480)
<b>Other comprehensive loss:</b>		
Interest rate swap gain (loss)	18,354	(2,517)
<b>Comprehensive loss:</b>	\$ (931,649)	\$ (14,311,997)
<b>Loss per common share:</b>		
<b>Basic and diluted</b>	\$ (0.07)	\$ (1.20)
<b>Shares used in computing loss per common share:</b>		
<b>Basic and diluted</b>	13,068,329	11,939,969

See accompanying notes.

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

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (950,003)	\$ (14,309,480)
Adjustments to reconcile net loss to net cash from (used by) operating activities:		
Depreciation and amortization	1,391,815	1,558,899
Stock based compensation	328,567	974,137
Paid in-kind interest	39,000	84,379
Gain on disposals of equipment, net	-	(20,431)
Impairment of goodwill	-	9,592,848
Impairment of investment	-	500,000
Net loss on debt modification and extinguishment	-	19,096
Change in deferred tax provision	(116,488)	22,184
Foreign currency transaction gain	-	(29,400)
Amortization of deferred financing costs	21,351	-
Decrease (increase) in assets:		
Accounts receivable	206,452	238
Inventory	(268,547)	(68,568)
Prepaid expenses and other current assets	(38,532)	198,423
Restricted cash	115,434	62,750
Increase (decrease) in liabilities:		
Accounts payable	267,581	907,714
Accrued expenses and other liabilities	4,469,895	(469,419)
Net cash from (used by) operating activities	<u>5,466,525</u>	<u>(976,630)</u>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(269,870)	(157,098)
Third-party funding received for acquisition of patent assets	3,043,000	-
Acquisition of patent assets with third-party funding	(3,043,000)	-
Proceeds from sale of equipment	-	46,283
Proceeds from sale of intangible assets	495,000	-
Purchase of intangible assets	(73,661)	(5,159)
Net cash from (used by) investing activities	<u>151,469</u>	<u>(115,974)</u>
<b>Cash flows from financing activities:</b>		
Payments of long-term debt	(1,386,420)	(939,151)
Issuances of common stock, net of issuance costs	199,908	1,128,336
Net cash from (used by) financing activities	<u>(1,186,512)</u>	<u>189,185</u>
<b>Net increase (decrease) in cash</b>	<b>4,431,482</b>	<b>(903,419)</b>
<b>Cash at beginning of year</b>	<b>1,440,256</b>	<b>2,343,675</b>
<b>Cash at end of year</b>	<b><u>\$ 5,871,738</u></b>	<b><u>\$ 1,440,256</u></b>

See accompanying notes.

**DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the Years Ended December 31, 2016 and 2015**

	Common Stock		Additional Paid- in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
<b>Balance, December 31, 2014</b>	<b>11,543,101</b>	<b>\$ 230,862</b>	<b>\$ 101,705,245</b>	<b>\$ (61,180)</b>	<b>\$ (86,019,128)</b>	<b>\$ 15,855,799</b>
Issuance of common stock, net	1,363,636	27,273	1,101,063	-	-	1,128,336
Stock based payments, net of tax effect	38,750	775	973,362	-	-	974,137
Shares issued in debt modification	25,000	500	40,500	-	-	41,000
Other comprehensive loss	-	-	-	(2,517)	-	(2,517)
Net Loss	-	-	-	-	(14,309,480)	(14,309,480)
<b>Balance, December 31, 2015</b>	<b>12,970,487</b>	<b>\$ 259,410</b>	<b>\$ 103,820,170</b>	<b>\$ (63,697)</b>	<b>\$ (100,328,608)</b>	<b>\$ 3,687,275</b>
Issuance of common stock, net	300,000	6,000	193,908	-	-	199,908
Stock based payments, net of tax effect	231,000	4,620	323,947	-	-	328,567
Shares issued upon reverse stock split as a result of rounding up of fractional shares	1,166	23	(23)	-	-	-
Other comprehensive loss	-	-	-	18,354	-	18,354
Net Loss	-	-	-	-	(950,003)	(950,003)
<b>Balance, December 31, 2016</b>	<b>13,502,653</b>	<b>\$ 270,053</b>	<b>\$ 104,338,002</b>	<b>\$ (45,343)</b>	<b>\$ (101,278,611)</b>	<b>\$ 3,284,101</b>

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, develops, markets and sells digital information services, including data hosting, disaster recovery and data back-up and security services. The Company's subsidiary, DSS Technology Management, 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.

**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 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.

**Reclassifications** - Certain prior year amounts have been reclassified to conform to the current year presentation.

**Restricted Cash** - As of December 31, 2016, cash of \$177,609 (\$293,043- December 31, 2015) is restricted for payments of costs and expenses associated with one of the Company's IP monetization programs.

**Accounts Receivable** - 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, 2016, the Company established a reserve for doubtful accounts of approximately \$50,000 (\$59,000 - 2015). 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 market on the first-in, first-out ("FIFO") method. Packaging work-in-process and finished goods included the cost of materials, direct labor and overhead.

**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 2016 was approximately \$635,000 (\$663,000 - 2015).

**Investments** - In January and February 2014, DSS Technology Management made investments of \$100,000 and \$400,000, respectively, to purchase an aggregate of 594,530 shares of common stock of Express Mobile, Inc. ("Express Mobile"), which represented approximately 6% of the outstanding common stock of Express Mobile at the time of investment. Express Mobile is a developer of custom mobile applications and websites. The investments were recorded using the cost method. In December 2015, the Company determined that the investment had been impaired and recognized an impairment loss of \$500,000.

**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. An adjustment to goodwill will be recorded for any goodwill that is determined to be impaired. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist.

**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 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 (See Note 5).

**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, 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 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.

**Derivative Instruments** - The Company maintains an overall interest rate risk management strategy that incorporates the use of interest rate swap contracts to minimize significant fluctuations in earnings that are caused by interest rate volatility. The Company has two interest rate swaps that change variable rates into fixed rates on two term loans. These swaps qualify as Level 2 fair value financial instruments. These swap agreements are not held for trading purposes and the Company does not intend to sell the derivative swap financial instruments. The Company records the interest swap agreements on the balance sheet at fair value because the agreements qualify as a cash flow hedges 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 is realized, gains or losses are reclassified from accumulated other comprehensive loss ("AOCI") to the consolidated statement of operations on the same line item as the underlying transaction. The valuations of the interest rate swaps have been derived from proprietary models of Citizens Bank 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 swaps decrease over the life of the agreements. The Company is exposed to a credit loss in the event of nonperformance by the counter parties to the interest rate swap agreements. However, the Company does not anticipate non-performance by the counter parties. The cumulative net loss attributable to this cash flow hedge recorded in accumulated other comprehensive loss and other liabilities as of December 31, 2016 was approximately \$45,000 (\$64,000 - December 31, 2015).

The Company has an interest rate swap with Citizens that changes the variable rate on a term loan to a fixed rate as follows:

<b>Notional Amount</b>	<b>Variable Rate</b>	<b>Fixed Cost</b>	<b>Maturity Date</b>
\$ 966,786	3.77%	5.87%	August 30, 2021

**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** - Sales of printed products including commercial and security printing, packaging, and plastic cards are recognized when a product or service is delivered, shipped or provided to the customer and all material conditions relating to the sale have been substantially performed.

For technology sales and services, revenue is recognized in accordance with FASB ASC 985-605. Accordingly, revenue is recognized when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service or product has been provided to the customer; (3) the amount of fees to be paid by the customer is fixed or determinable; and (4) the collection of our fees is reasonably assured. We recognize cloud computing revenue, including data backup, recovery and security services, on a monthly basis, beginning on the date the customer commences use of our services. Professional services are recognized in the period services are provided.

For printing technology licenses, revenue is recognized once all the following criteria for revenue recognition have been met: (1) persuasive evidence of an agreement exists; (2) the right and ability to use the product or technology has been rendered; (3) the fee is fixed and determinable and not subject to refund or adjustment; and (4) collection of the amounts due is reasonably assured.

For other technology licenses, revenue arrangements generally provide for the payment of contractually determined fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company. These rights typically include some combination of the following: (i) the grant of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by patented technologies owned or controlled the Company, (ii) a covenant-not-to-sue, (iii) the release of the licensee from certain claims, and (iv) the dismissal of any pending litigation. The intellectual property rights granted may be perpetual in nature, extending until the expiration of the related patents, or can be granted for a defined, relatively short period of time, with the licensee possessing the right to renew the agreement at the end of each contractual term for an additional payment. Pursuant to the terms of these agreements, the Company has no further obligation with respect to the grant of the non-exclusive retroactive and future licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on the Company's part to maintain or upgrade the technology, or provide future support or services. Generally, the agreements provide for the grant of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the agreement, or upon receipt of the minimum upfront payment for term agreement renewals. As such, the earnings process is complete and revenue is recognized 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.

Certain of the Company's revenue arrangements provide for future royalties or additional required payments based on future licensee activities. Additional royalties are recognized in revenue upon resolution of the related contingency provided that all revenue recognition criteria, as described above, have been met. Amounts of additional royalties due under these license agreements, if any, cannot be reasonably estimated by management.

**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 \$27,000 in 2016 (\$25,000– 2015).

**Research and Development** - Research and development costs are expensed as incurred. Research and development costs consist primarily of compensation costs for research personnel, third-party research costs, and consulting costs. The Company spent approximately \$435,000 and \$470,000 on research and development during 2016 and 2015, respectively.

**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. In a loss year, the calculation for basic and diluted earnings per share is considered to be the same, as the impact of potential common shares is anti-dilutive.



As of December 31, 2016 and 2015, there were 3,672,878 and 2,968,655, respectively, of common stock share equivalents potentially issuable under convertible debt agreements, employment agreements, options, warrants, and restricted stock agreements that could potentially dilute basic earnings per share in the future. Common stock equivalents were excluded from the calculation of diluted earnings per share for 2016 and 2015 in which the Company had a net loss, since their inclusion would have been anti-dilutive.

**Comprehensive Loss** - Comprehensive 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, 2016 and 2015.

**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 2016, two customers accounted for 38% of our consolidated revenue. As of December 31, 2016, these two customers accounted for 31% of our trade accounts receivable balance. During 2015, these two customers accounted for 35% of our consolidated revenue. As of December 31, 2015, these two customers accounted for 27% of our trade accounts receivable balance.

**Recent Accounting Pronouncements** – In May 2014, the FASB issued ASU 2014-9 “Revenue from Contracts with Customers”. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations” (“ASU 2016-08”); ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”); and ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the “new revenue standards”). The revenue standards will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a retrospective or cumulative effect transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company has not yet selected a transition method and is currently evaluating the effect that the revenue standards will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company has not yet evaluated nor has it determined the effect of the standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, “Compensation — Stock Compensation: Improvements to Employee Share-Based Payment Accounting.” The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for the Company on January 1, 2017 and the Company is currently evaluating the impact that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments”, which clarifies the treatment of several types of cash receipts and payments for which there was diversity in practice. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted, including adoption in an interim period. We anticipate that the adoption of this guidance will not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows", regarding the presentation of restricted cash on the statement of cash flows. The standards update requires that the reconciliation of the beginning and end of period cash amounts shown in the statement of cash flows include restricted cash. When restricted cash is presented separately from cash and cash equivalents on the balance sheet, a reconciliation is required between the amounts presented on the statement of cash flows and the balance sheet. Also, the new guidance requires the disclosure of information about the nature of the restrictions. The standards update is effective retrospectively for fiscal years and interim periods beginning after December 15, 2017, with early adoption permitted.

**Newly Adopted Accounting Pronouncements** – During 2016, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-15, "Presentation of Financial Statements – Going Concern". The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued and to provide related footnote disclosures in certain circumstances. Substantial doubt exists when conditions and events indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date of financial statement issuance. The adoption of this ASU did not have a material impact on the Company's financial statements as management concluded that these conditions do not exist as of December 31, 2016. In coming to this conclusion, management considered the fact that the Company has incurred recurring losses, as well as resources available and expected future results.

Also during 2016, the Company adopted FASB ASU 2015-03 – "Interest – Imputation of Interest". The adoption of this ASU resulted in debt issuance costs being presented as a reduction to the related debt instrument, as opposed to being presented as a separate asset on the Company's balance sheet. Management reclassified approximately \$57,000 from "Other assets" as December 31, 2015, as a reduction to the carrying value of the respective debt instrument.

### NOTE 3 – INVENTORY

Inventory consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Finished Goods	\$ 736,987	\$ 718,601
Work in process	314,353	167,779
Raw Materials	<u>155,037</u>	<u>51,450</u>
	<u>\$ 1,206,377</u>	<u>\$ 937,830</u>

### NOTE 4 - PROPERTY PLANT AND EQUIPMENT

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

	<u>Estimated Useful Life</u>	<u>2016</u>	<u>2015</u>
Machinery and equipment	5-10 years	\$ 5,879,958	\$ 5,615,562
Building and improvements	39 years	1,923,027	1,923,027
Land		185,000	185,000
Leasehold improvements	See (1)	722,984	722,984
Furniture and fixtures	7 years	68,272	68,272
Software and websites	3 years	<u>412,113</u>	<u>402,225</u>
Total cost		9,191,354	8,917,070
Less accumulated depreciation		<u>4,617,513</u>	<u>3,913,252</u>
Property, plant, and equipment, net		<u>\$ 4,573,841</u>	<u>\$ 5,003,818</u>

(1) Expected lease term between 3 and 10 years.

### NOTE 5 - INTANGIBLE ASSETS AND GOODWILL

During 2016 and 2015, the Company spent approximately \$74,000 and \$5,000, respectively, on patent prosecution costs.

On November 10, 2016, the Company purchased a portfolio of 122 LED patents and a corresponding license from Intellectual Discovery Co. Ltd. for \$3,000,000 with funds it had received from a third party, resulting in a net book value of \$0 when purchased.

In May, 2016, the Company received proceeds of \$495,000 for the sale of certain patents that were included in a pool of acquired patents. The Company evaluates acquired patents as related pools of assets for purposes of amortization and impairment, as well as operational evaluation and use. Accordingly, the proceeds received from the sale of the patents will reduce the cost of the pool of assets until the carrying value of the pool is reduced to zero. Any excess proceeds from future sales will result in a gain. The Company also considers the impact that the sale of a portion of the pool has on expected future recoverability on the pool. No impairment was considered necessary as a result of this evaluation.

Intangible assets are comprised of the following:

Useful Life	December 31, 2016			December 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Acquired intangibles- customer lists and non-compete agreements	5 -10 years	1,997,300	1,721,357	275,943	1,997,300	1,635,257	362,043
Acquired intangibles- patents and patent rights	Varied(1)	3,155,000	2,092,767	1,062,233	3,650,000	1,562,526	2,087,474
Patent application costs	Varied(2)	1,136,465	578,623	557,842	1,062,958	494,931	568,027
		<u>\$ 6,288,765</u>	<u>\$ 4,392,747</u>	<u>\$ 1,896,018</u>	<u>\$ 6,710,258</u>	<u>\$ 3,692,714</u>	<u>\$ 3,017,544</u>

(1) Acquired patents and patent rights are amortized over their expected useful life which is generally the remaining legal life of the patent. As of December 31, 2016, the weighted average remaining useful life of these assets in service was approximately 2.4 years.

(2) Patent application costs are amortized over their expected useful life which is generally the remaining legal life of the patent. As of December 31, 2016, the weighted average remaining useful life of these assets in service was approximately 8.6 years.

Amortization expense for the year ended December 31, 2016 amounted to approximately \$700,000 (\$896,000 –2015).

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

Year	Amount
2017	\$ 681,000
2018	\$ 537,000
2019	\$ 272,000
2020	\$ 182,000
2021	\$ 77,000

#### Goodwill

The Company performed its annual goodwill impairment test as of December 31, 2016. The Company has goodwill attributed to two of its reporting units which are its Packaging and Plastics reporting units respectively. The Company performed the first step of the goodwill impairment test by comparing the fair value of each of its reporting units with their carrying amounts including goodwill. In performing this step, the Company determined estimates of fair value using a discounted cash flow model for each of these reporting units. The Company determined that its Packaging and Plastic reporting units each had fair values in excess of their carrying value and therefore, did not have an indication of goodwill impairment. During the Company's annual assessment of goodwill in 2015, the Company considered the negative trends in patent litigation which have reduced the success of patent owners in protecting their patents in the federal court system, among other factors. In performing Step 2, the Company determined the carrying amount of the goodwill exceeded the implied fair value of the goodwill by \$9,600,000 and accordingly recorded approximately \$9,600,000 of a goodwill impairment charge to the goodwill assigned to its DSS Technology Management division.

There are inherent assumptions and estimates used in developing future cash flows requiring management's judgment in applying these assumptions and estimates to the analysis of identifiable intangibles and asset impairment including projecting revenues, timing and amount of claim or settlements related to patent infringement cases, royalty rates, interest rates, and the cost of capital. Many of the factors used in assessing fair value are outside the Company's control and it is reasonably likely that assumptions and estimates will change in future periods. These changes can result in future impairments.

The changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2015 are as follows:

	<u>Packaging</u>	<u>Plastics</u>	<u>Technology Management</u>	<u>Total</u>
<b>Balance as of January 1, 2015</b>				
Goodwill	\$ 1,768,400	\$ 684,949	\$ 12,831,774	\$ 15,285,123
Accumulated impairment losses	-	-	(3,238,926)	(3,238,926)
	<u>1,768,400</u>	<u>684,949</u>	<u>9,592,848</u>	<u>12,046,197</u>
<b>Goodwill acquired during the year</b>				
Impairment losses	-	-	(9,592,848)	(9,592,848)
<b>Balance as of December 31, 2015</b>				
Goodwill	1,768,400	684,949	12,831,774	15,285,123
Accumulated impairment losses	-	-	(12,831,774)	(12,831,774)
	<u>1,768,400</u>	<u>684,949</u>	<u>-</u>	<u>2,453,349</u>
<b>Goodwill acquired during the year</b>				
Impairment losses	-	-	-	-
<b>Balance as of December 31, 2016</b>				
Goodwill	1,768,400	684,949	12,831,774	15,285,123
Accumulated impairment losses	-	-	(12,831,774)	(12,831,774)
	<u>\$ 1,768,400</u>	<u>\$ 684,949</u>	<u>\$ -</u>	<u>\$ 2,453,349</u>

#### NOTE 6 – 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 of up to \$800,000 that bears interest at 1 Month LIBOR plus 3.75% (4.37% as of December 31, 2016) and matures on May 31, 2017. As of December 31, 2016 and 2015, the revolving line had a balance of \$0.

**Long-Term Debt** - On December 30, 2011, the Company issued a \$575,000 convertible note that was initially due on December 29, 2013, and carries an interest rate of 10% per annum. The note is secured by the assets of Company's wholly-owned subsidiary, Secuprint Inc. Interest is payable quarterly, in arrears. In conjunction with the issuance of the convertible note, the Company determined a beneficial conversion feature existed amounting to approximately \$88,000, which was recorded as a debt discount to be amortized over the term of the note. On May 24, 2013, the Company amended the convertible note to extend the maturity date of the note from December 29, 2013 to December 29, 2015. The change in the fair value of the embedded conversion option exceeded 10% of the carrying value of the original debt and, therefore, the Company accounted for this restructuring as an extinguishment in accordance with FASB ASC 470-50 "Debt Modifications and Extinguishments". The note was written up to its fair value on the date of modification of approximately \$650,000 and the premium recorded in excess of its face value was amortized over the remaining life of the note. On February 23, 2015, the Company entered into Convertible Promissory Note Amendment No. 2 to extend the maturity date to December 30, 2016, eliminate the conversion feature, and to institute principal payments in the amount of \$15,000 per month plus interest through the extended maturity date, and a balloon payment of \$230,000 due on the extended maturity date. On April 12, 2016, the Company entered into Convertible Promissory Note Amendment No. 3 to extend the maturity date to May 31, 2017 and change the balloon payment to \$155,000 due on the extended maturity date. As of December 31, 2016, the balance of the term loan was \$230,000 (\$410,000 at December 31, 2015).

On May 24, 2013, the Company entered into a promissory note in the principal sum of \$850,000 to purchase three printing presses that were previously leased by the Company's wholly-owned subsidiary, Secuprint Inc., and carries an interest rate of 9% per annum. The note is secured by the assets of Company's wholly-owned subsidiary, Secuprint Inc. Interest is payable quarterly, in arrears. The Company also issued the lender as additional consideration a five-year warrant to purchase up to 60,000 shares of the Company's common stock at an exercise price of \$3.00 per share. The warrant was valued at approximately \$69,000 using the Black-Scholes-Merton option pricing model with a volatility of 60.0%, a risk free rate of return of 0.89% and zero dividend and forfeiture estimates. In conjunction with the issuance of the warrants, the Company recorded a discount on debt of approximately \$69,000 that was amortized over the original term of the note. The note was set to mature on May 24, 2014, but its maturity date was extended on May 2, 2014 to May 24, 2015 by the lender. In exchange for the extension, the Company also issued the lender as additional consideration a five-year warrant to purchase up to 40,000 shares of the Company's common stock at an exercise price of \$1.50 per share. The warrant was valued at approximately \$29,000 using the Black-Scholes-Merton option pricing model with a volatility of 70.0%, a risk free rate of return of 1.53% and zero dividend and forfeiture estimates. In conjunction with the issuance of the warrants, the Company recorded expense for modification of debt of approximately \$29,000. On February 23, 2015, the Company entered into Promissory Note Amendment No. 2 to extend the maturity date to May 31, 2016 and to institute principal payments in the amount of \$15,000 per month plus interest through the extended maturity date, and a balloon payment of \$610,000 due on the extended maturity date. On April 12, 2016, the Company entered into Promissory Note Amendment No. 3 to extend the maturity date to May 31, 2017 and change the balloon payment to \$430,000 due on the extended maturity date. As of December 31, 2016, the balance of the term loan was \$505,000 (\$685,000 at December 31, 2015).

**Term Loan Debt** - On July 19, 2013, Premier Packaging entered into an equipment loan with People's Capital and Leasing Corp. ("Peoples Capital") for a printing press. The loan is secured by the printing press. The loan was for \$1,303,900, repayable over a 60-month period which commenced when the equipment was placed in service in January 2014. The loan bears interest at 4.84% and is payable in equal monthly installments of \$24,511. As of December 31, 2016, the loan had a balance of \$559,609 (\$819,681 at December 31, 2015).

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 3.61% 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, 2016, the loan had a balance of \$360,611 (\$460,448 at December 31, 2015).

**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 calls for monthly payments of principal and interest in the amount of \$7,658, with interest calculated as 1 Month LIBOR plus 3.15% (3.77% at December 31, 2016). Concurrently with the transaction, the Company entered into an interest rate swap agreement to lock into a 5.87% effective interest rate for the life of the loan. The Promissory Note matures in August 2021 at which time a balloon payment of the remaining principal balance will be due. As of December 31, 2016, the Promissory Note had a balance of \$966,786 (\$1,021,926 at December 31, 2015).

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% (3.77% at December 31, 2016), which payments commenced on July 1, 2014. The note matures in July 2019 at which time a balloon payment of the remaining principal balance of \$300,000 is due. As of December 31, 2016, the note had a balance of \$375,000 (\$405,247 –December 31, 2015).

Under the Citizens Bank credit facilities, the Company's subsidiary, Premier Packaging, is subject to various covenants including fixed charge coverage ratio, tangible net worth and current ratio covenants. For the quarters ended March 31, 2016, June 30, 2016, September 30, 2016, and December 31, 2016, Premier Packaging was in compliance with the covenants. The Citizens Bank obligations are secured by all of the assets of Premier Packaging and are also secured through cross guarantees by the Company and its other wholly-owned subsidiaries, Plastic Printing Professionals and Secuprint.

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, 2016 are as follows:

Year	Amount
2017	\$ 1,202,335
2018	486,699
2019	206,200
2020	136,163
2021	740,610
Thereafter	225,000
<b>Total</b>	<b>\$ 2,997,007</b>

**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"). Under the terms of the Agreement, on the Effective Date, DSSTM issued and sold a promissory note in the amount of \$1,791,000, fixed return equity interests in the amount of \$199,000, and contingent equity interests in the amount of \$10,000, to each of the Investors, and in return received \$2,000,000 in proceeds. To secure the Advances, DSSTM placed a lien in favor of the Investors on ten semi-conductor patents (the "Patents") and assigned to the Investors certain funds recoverable from successful patent litigation involving these Patents, including settlement payments, license fees and royalties on the Patents. DSSTM is a plaintiff in various ongoing patent infringement lawsuits involving certain of the Patents.

On March 27, 2014, DSSTM received an additional \$1,000,000 under the Agreement comprised of a promissory note for \$900,000 and fixed and contingent equity interests of \$100,000. On September 5, 2014, DSSTM received the remaining \$1,500,000 under the Agreement comprised of a promissory note for \$1,350,000 and fixed and contingent return interests of \$150,000. On May 23, 2016, DSSTM remitted \$495,000 in proceeds received from the sale of patent assets (Note 5) to Fortress under the terms of the Agreement. On September 20, 2016, DSSTM remitted \$125,250 in proceeds received from a settlement to Fortress as repayment of the note principal balance under the terms of the Agreement.

The Agreement defines certain events as Events of Default, one of which is the failure by DSSTM, on or before the second anniversary of the Effective Date, to make payments to the Investors equal to the outstanding Advances. On February 13, 2016, being the second anniversary date of the Effective Date, DSSTM had failed to make these payments and was therefore in default of the Agreement. On December 2, 2016, the parties entered into a First Amendment to Investment Agreement and Certain Other Documents (the "Amendment"). The purpose of the Amendment was to vacate DSSTM's ongoing non-payment default under the Agreement, and to amend certain provisions of the Agreement.

The Agreement was amended to add expenses in the amount of \$150,000 to DSSTM's payment obligation, payable on the Maturity Date. This amount was recorded as debt issuance costs and is being amortized on a straight line basis through the amended maturity date of February 13, 2018. The Amendment added a provision whereby DSSTM is required to deposit \$300,000 on or before March 2, 2017 and (ii) a further sum of \$300,000 on or before March 2, 2018, into a deposit account (collectively, the "Deposit"). The March 2, 2017 deposit was made in a timely manner. The Deposit funds will be restricted to pay certain expenses, consisting of out-of-pocket expenses incurred in connection with certain existing patent litigation matters and other patent litigation matters which may occur after the Amendment Effective Date (the "Qualified Expenses"). In the Event of Default, the Investors may apply the then remaining Deposit to the then outstanding Obligations, if any.

Additionally per the Amendment, DSSTM agrees to pay to the Investors an amount equal to 25% of any amounts received by DSSTM for any and all types of monetization activities related to certain of its patents covering systems and methods of using low power wireless peripheral devices (collectively, "BlueTooth Patents"), but only until the Investors have received payments under the Agreement totaling the sum of (i) the Capitalized Expenses plus (ii) payments of principal and interest on the Notes totaling the sum of (x) \$4,500,000 (consisting of the previously made Advances) plus (y) additional amounts, if any, advanced by the Investors pursuant to the Agreement. In addition to the monetization interest granted the Investors in the BlueTooth Patents, DSSTM also granted the Collateral Agent and the Investors a security interest in certain of DSSTM's unencumbered semiconductor patents to further collateralize the amounts owed under the Agreement.

As of December 31, 2016, DSSTM has made aggregate principal payments of \$770,250 on the notes. As of December 31, 2016, total net advances equaled \$3,729,750, which consisted of \$4,041,000 in notes and an aggregate of \$459,000 of fixed and contingent equity interests, less aggregate principal payments of \$770,250. Aggregate accrued interest totaled \$209,500 as of December 31, 2016 (\$132,000 as of December 31, 2015). Unamortized debt issuance costs totaled \$175,231 as of December 31, 2016 (\$56,582 as of December 31, 2015). As a result of the event of default, the Company had classified the remainder of the amounts due on the notes of approximately \$4,023,000 as short-term debt as of December 31, 2015. As a result of the Amendment on December 2, 2016, the Company has classified the remainder of the amount due as long-term debt. The \$495,000 of fixed and contingent equity interests are recorded in other liabilities. The Company will reduce the liability upon payment to the Investor from available proceeds from litigation, or if none by the maturity date of February 13, 2018, then such amounts will be reversed from other liabilities and recorded as other income as of the maturity date.

## NOTE 7 – 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 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. \$6,000,000 of the Financing was directed by BKI to attorneys to cover those 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.

In addition, the Company received \$4,500,000 of the Financing which is 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, 2016, an aggregate of \$4,209,000 was recorded as other liabilities by the Company, of which \$2,070,000 is classified as short-term. Of this amount, the Company has allocated \$2,500,000 for the payment of estimated future *Inter Partes Review* costs as described above. The Company will reduce the liability as it pays legal and other expenses related to the the *Inter Partes Review* matters involving the LED patents as incurred. For the remaining \$1,709,000 in other liabilities allocated to working capital, the Company will amortize this amount on a pro-rata basis over the expected life of the monetization period of the LED Patent Portfolio which the Company estimates at 36 months. For this amount, the Company will reduce the liability with an offset to selling, general and administrative costs each reporting period.

In consideration for its portion of the Financing, the Company assigned to BKI its rights to the Patent Asset Proceeds, defined as any and all monetary recoveries (whether through damages, recoveries, royalties, monies, lump-sum payments, up-front payments, settlement amounts, distribution of property, cash value of equities, license fees or other revenues or other assets or amounts) paid by a defendant or defendants or a third-party to the Company as a result of or in connection with the LED Patent Portfolio, in an amount equal to the Minimum Return and the Additional Return as hereinafter defined (the “Assigned Rights”). Under the Assigned Rights, in addition to repayment in full of the Financing, the Company will pay BKI, solely from realized Patent Asset Proceeds, a return equal to the sum of (A) a certain multiple of the Financing or a designated annualized IRR Return on the Financing, whichever is greater (the “Minimum Return”), plus (B) an additional designated percentage of the Patent Asset Proceeds net of the Minimum Return (the “Additional Return”). Once the Minimum Return and Additional Return to BKI are satisfied, Intellectual Discovery Co., Ltd. will be entitled to a payment of a certain percentage of the Patent Asset Proceeds with the remaining balance of Patent Asset Proceeds to be retained by the Company.

In consideration of the Financing, the Company also issued to BKI a five-year warrant to purchase up to 750,000 shares of the Company’s common stock at an exercise price of \$1.00 per share (the “Warrant”).

On July 8, 2013, the Company’s subsidiary, DSS Technology Management, purchased two patents for \$500,000 covering certain methods and processes related to Bluetooth devices. In conjunction with the patent purchases, DSS Technology Management entered into a Proceed Right Agreement with certain investors pursuant to which DSS Technology Management 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, 2016, the Company had received an aggregate of \$650,000 (\$650,000 in 2015) from the investors pursuant to the agreement of which approximately \$467,000 was in other liabilities in the consolidated balance sheets (\$551,000 as December 31, 2015). The Company will reduce the liability as it pays 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.

As described in Note 6, On February 13, 2014, the Company’s subsidiary, DSSTM entered into an Investment Agreement with Fortress pursuant to which DSSTM contracted to receive a series of advances up to \$4,500,000. Under the terms of the Agreement, on the Effective Date, DSSTM issued and sold a promissory note in the amount of \$1,791,000, fixed return equity interests in the amount of \$199,000, and contingent equity interests in the amount of \$10,000. On March 27, 2014, DSSTM received an additional \$1,000,000 under the Agreement comprised of a promissory note for \$900,000 and fixed and contingent equity interests of \$100,000. On September 5, 2014, DSSTM received the remaining \$1,500,000 under the Agreement comprised of a promissory note for \$1,350,000 and fixed and contingent return interests of \$150,000. The \$495,000 of aggregate fixed and contingent equity interests received are recorded in other liabilities. The Company will reduce the liability upon payment to the Investor from available proceeds from litigation, or if none by the maturity date of February 13, 2018, then such amounts will be reversed from other liabilities and recorded as other income as of the maturity date.

## NOTE 8 - STOCKHOLDERS' EQUITY

On August 26, 2016, the Company effected a one-for-four reverse stock split of the Company's common stock. No fractional shares of the Company's common stock were issued as a result of the reverse stock split. Instead, stockholders of record who otherwise would have been entitled to receive fractional shares were entitled to a rounding up of their fractional share to the nearest whole share, except in the case of any stockholder that owned less than four shares of the Company's common stock immediately preceding the reverse stock split. In such case, such stockholder received cash for such fractional share in an amount equal to the product obtained by multiplying: (x) the closing sale price of the common stock on August 25, 2016 as reported on the NYSE MKT, by (y) the amount of the fractional share. As a result, the Company issued 1,166 common shares for shares due as a result of the rounding up feature and paid an aggregate of \$92 to buy-out the fractional shares of holders with less than four shares immediately preceding the reverse stock split. All references in these financial statements to the number of shares of our common stock and to related per-share prices (including references to periods prior to the effective date of the reverse stock split) reflect this reverse stock split.

**Sales of Equity** – On December 29, 2016, the Company completed the sale of 300,000 shares of its common stock and a warrant to purchase up to 200,000 shares of the Company's common stock at an exercise price of \$1.00 per share for an aggregate purchase price of \$225,000 pursuant to a securities purchase agreement. The warrants had an estimated aggregate fair value of approximately \$87,000 which was determined by utilizing the Black-Scholes-Merton option pricing model with a volatility of 86.4%, a risk free rate of return of 1.96% and zero dividend and forfeiture estimates. The Company was assessed \$25,000 in listing fees by the NYSE MKT for equity issuances during 2016.

Between September 15, 2015 and September 24, 2015, the Company entered into securities purchase agreements with certain accredited investors for the sale of an aggregate of 1,079,545 shares of common stock at a purchase price of \$0.88 per share, for a total purchase price of \$950,000. In addition to the common stock, the purchasers received four-year warrants to purchase up to an aggregate of 215,910 additional shares of common stock at an exercise price of \$1.60 per share and for a term of four years after the first six months from the warrant's issuance date. The warrants had an estimated aggregate fair value of approximately \$105,000 which was determined by utilizing the Black-Scholes-Merton option pricing model with a volatility of 81.4%, a risk free rate of return between of 1.45% and 1.60%, and zero dividend and forfeiture estimates. Between October 5, 2015 and October 21, 2015, the Company entered into securities purchase agreements with certain accredited investors for the sale of an aggregate of 284,091 shares of common stock at a purchase price of \$0.88 per share, for a total purchase price of \$250,000. In addition to the common stock, the purchasers received four-year warrants to purchase up to an aggregate of 56,818 additional shares of common stock at an exercise price of \$1.60 per share and for a term of four years after the first six months from the warrant's issuance date. The warrants had an estimated aggregate fair value of approximately \$28,000 which was determined by utilizing the Black-Scholes-Merton option pricing model with a volatility of 81.4%, a risk free rate of return between of 1.35% and 1.36%, and zero dividend and forfeiture estimates.

On February 23, 2015, the Company amended two of its debt obligations that, among other things, extended the maturity dates of the notes, instituted principal payments for the notes, and eliminated a conversion feature on one of the notes. In conjunction with these agreements, the Company issued an aggregate of 25,000 shares of its common stock with a grant date fair value of \$41,000.

**Stock Warrants** – On November 29, 2016, in consideration of the financing described in Note 8 the Company issued a five-year warrant to purchase up to 750,000 shares of the Company's common stock at an exercise price of \$1.00 per share. The warrants had an estimated aggregate fair value of approximately \$199,000 which was determined by utilizing the Black-Scholes-Merton option pricing model with a volatility of 86.4%, a risk free rate of return between of 1.78% and zero dividend and forfeiture estimates. The Company recorded \$198,000 of stock based compensation in the fourth quarter of 2016 in conjunction with these warrants.

The Company issued five-year warrants to purchase up to 200,000 shares of the Company's common stock as part of the December 29, 2016 equity sale at an exercise price of \$1.00 per share.

The Company issued warrants to purchase 272,728 shares of the Company's common stock as part of its offering to accredited investors from September 15, 2015 through October 21, 2015, at an exercise price of \$1.60 per share.



The following is a summary with respect to warrants outstanding and exercisable at December 31, 2016 and 2015 and activity during the years then ended:

	2016		2015	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at January 1:	1,862,515	\$ 16.40	1,641,596	\$ 18.80
Granted during the year	950,000	1.00	272,728	1.60
Lapsed/terminated	-	-	(51,809)	14.08
Outstanding at December 31:	<u>2,812,515</u>	<u>\$ 11.20</u>	<u>1,862,515</u>	<u>\$ 16.40</u>
Exercisable at December 31:	<u>2,812,515</u>	<u>\$ 11.20</u>	<u>1,589,788</u>	<u>\$ 16.40</u>
Weighted average months remaining		<u>34.6</u>		<u>34.3</u>

**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 6,000,000 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").

The following is a summary with respect to options outstanding at December 31, 2016 and 2015 and activity during the years then ended:

	2016			2015		
	Number of Options	Weighted Average Exercise Price	Weighted Average Life Remaining (in years)	Number of Options	Weighted Average Exercise Price	Weighted Average Life Remaining (in years)
Outstanding at January 1:	1,106,140	11.56		1,232,073	11.68	
Granted	37,500	1.00		13,388	2.40	
Lapsed/terminated	(508,043)	13.56		(139,321)	11.80	
Outstanding at December 31:	<u>635,597</u>	<u>9.33</u>	<u>3.7</u>	<u>1,106,140</u>	<u>11.56</u>	<u>4.0</u>
Exercisable at December 31:	<u>610,611</u>	<u>10.85</u>	<u>3.7</u>	<u>907,124</u>	<u>11.08</u>	<u>4.6</u>
Expected to vest at December 31:	<u>25,000</u>	<u>1.00</u>	<u>4.3</u>	<u>86,516</u>	<u>8.00</u>	<u>3.2</u>
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:	\$ -			\$ -		

The weighted-average grant date fair value of options granted during the year ended December 31, 2016 was \$0.10 (\$0.12 -2015). The aggregate grant date fair value of options that vested during the year was approximately \$71,000 (\$988,000 -2015). There were no options exercised during 2016 or 2015.

The fair value of each option award is estimated on the date of grant utilizing the Black-Scholes-Merton Option Pricing Model. The Company estimated 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. In March 2016, three of the Company's senior management voluntarily cancelled an aggregate of 75,000 options to purchase shares of the Company's common stock with exercise prices of \$12.00 per share, of which 41,667 of the options were unvested on the date of cancellation resulting in a reversal of previously recognized stock based compensation expense of approximately \$36,000.

The following table shows our weighted average assumptions used to compute the share-based compensation expense for stock options and warrants granted during the years ended December 31, 2016 and 2015:

	Years Ended December 31,	
	2016	2015
Volatility	85.6%	72.6%
Expected option term	3.5 years	2.9 years
Risk-free interest rate	1.3%	1.7%
Expected forfeiture rate	0.0%	0.0%
Expected dividend yield	0.0%	0.0%

**Restricted Stock** - Restricted common stock may be issued under the Company's 2013 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, in the event that 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.

During 2016, the Company issued 6,250 shares of restricted common stock to a consultant providing marketing services to the Company. The restricted shares vested on May 2, 2016 and had an aggregate grant date fair value of approximately \$6,250. In addition, during 2016 the Company issued an aggregate of 224,750 shares of restricted stock to members of the Company's management which will vest on May 17, 2017 and had an aggregated grant date fair value of approximately \$124,000. In January 2015, the Company issued an aggregate of 7,500 shares of restricted common stock to certain members of the Company's board in exchange for agreements by the board members to reduce their cash compensation for the fiscal year of 2015. The restricted shares vested on August 15, 2015 and had an aggregate grant date fair value of approximately \$11,000. In November 2015, the Company issued 31,250 restricted shares to a consultant in exchange for media advertising services agreement. The restricted shares vested over a 90-day period and had a grant date fair value of \$27,500. On January 12, 2017, the Company issued an aggregate of 150,000 shares of restricted stock to members of the Company's management which will vest on May 17, 2017 and had an aggregated grant date fair value of approximately \$126,000.

The following is a summary of activity of restricted stock during the years ended at December 31, 2016 and 2015:

	<u>Shares</u>	<u>Weighted- average Grant Date Fair Value</u>
Restricted shares outstanding, December 31, 2014	66,085	\$ 2.80
Restricted shares granted	38,750	1.00
Restricted shares vested	<u>(89,835)</u>	<u>2.36</u>
Restricted shares outstanding, December 31, 2015	15,000	\$ 0.88
Restricted shares granted	231,000	0.56
Restricted shares vested	<u>(15,000)</u>	<u>0.88</u>
Restricted shares outstanding, December 31, 2016	<u>231,000</u>	<u>\$ 0.56</u>

**Stock-Based Compensation** - The Company records stock-based payment expense related to these options 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 2016, the Company had stock compensation expense of approximately \$329,000 or \$0.03 basic earnings per share (\$974,000; \$0.12 basic earnings per share - 2015). As of December 31, 2016, there was approximately \$89,000 of total unrecognized compensation costs related to options and restricted stock granted under the Company's stock option plans, which the Company expects to recognize over the weighted average period of six months.

**NOTE 9 - 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:

	2016	2015
Currently payable:		
Federal	\$ 132,835	\$ -
State	(5,617)	5,836
Total currently payable	<u>127,218</u>	<u>5,836</u>
Deferred:		
Federal	(379,710)	(990,745)
State	(111,642)	(147,674)
Total deferred	<u>(491,352)</u>	<u>(1,138,419)</u>
Less: increase in allowance	374,864	1,154,767
Net deferred	<u>(116,488)</u>	<u>16,348</u>
Total income tax provision	<u>\$ 10,730</u>	<u>\$ 22,184</u>

Individual components of deferred taxes are as follows:

	2016	2015
<b>Deferred tax assets:</b>		
Net operating loss carry forwards	\$ 15,302,177	\$ 17,383,770
Equity issued for services	280,975	855,139
Goodwill and other intangibles	1,684,346	692,470
Investment in pass-through entity	17,898	268,476
Deferred revenue	1,522,258	-
Other	849,325	681,889
Gross deferred tax assets	<u>19,656,979</u>	<u>19,881,744</u>
<b>Deferred tax liabilities:</b>		
Goodwill and other intangibles	277,231	291,706
Depreciation and amortization	272,406	289,534
Gross deferred tax liabilities	<u>549,637</u>	<u>581,240</u>
Less: valuation allowance	<u>(19,152,961)</u>	<u>(19,462,611)</u>
Net deferred tax liabilities	<u>\$ (45,619)</u>	<u>\$ (162,107)</u>

The Company has approximately \$46,038,000 in federal net operating loss carryforwards ("NOLs") available to reduce future taxable income, which will expire at various dates from 2022 through 2036. 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, 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 excess tax benefits associated with stock option exercises are recorded directly to stockholders' equity only when realized. As a result, the excess pre-tax benefits available in net operating loss carryforwards but not reflected in deferred tax assets was approximately \$1,019,000. These carryforwards expire at various dates from 2022 through 2030.

Stock options granted by the Company in prior years as compensation for services were forfeited. This resulted in the reversal of approximately \$678,000 of deferred tax assets and a corresponding reduction of the valuation allowance.

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:

	<u>2016</u>	<u>2015</u>
Statutory United States federal rate	34.0%	34.0%
State income taxes net of federal benefit	5.0	0.7
Permanent differences	(3.9)	(23.3)
Other	(0.4)	(3.5)
Change in valuation reserves	<u>(35.8)</u>	<u>(8.1)</u>
Effective tax rate	<u>(1.1)%</u>	<u>(0.2)%</u>

At December 31, 2016 and 2015, the total unrecognized tax benefits of \$446,000 have been netted against the related deferred tax assets.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2016 and 2015, 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 2013-2016 generally remain open to examination by major taxing jurisdictions to which the Company is subject.

#### **NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN**

The Company maintains qualified employee savings plans (the "401(k) Plans") which qualify as deferred salary arrangements under Section 401(k) of the Internal Revenue Code which covers all employees. Employees generally become eligible to participate in the 401(k) Plan immediately following the employee's hire date. Employees may contribute a percentage of their earnings, subject to the limitations of the Internal Revenue Code. The Company matches up to 50% of the employee's contribution up to a maximum match of 3%. The total matching contributions for 2016 were approximately \$101,000 (\$109,000 - 2015).

#### **NOTE 11 – COMMITMENTS AND CONTINGENCIES**

**Facilities** - 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 December 2020, at a rental rate of approximately \$6,100 per month. Our Plastics division leases approximately 15,000 square feet under a lease that expires December 31, 2018 for approximately \$13,000 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. The Company's Technology Management division leases executive office space in Reston, Virginia under a 12 month lease that expires in December 2017 for approximately \$600 per month, and also leases a sales and research and development facility in Plano, Texas under a 12 month lease that expires in December 2017 for approximately \$1,200 per month. The Company believes that it can negotiate renewals or similar lease arrangements on acceptable terms when our current leases expire. We believe that our facilities are adequate for our current operations.

**Equipment Leases** – From time to time, the Company leases certain production and office equipment, digital and offset presses, laminating and finishing equipment for its various printing operations. The leases may be capital leases or operating leases and are generally for a term of 36 to 60 months. As of December 31, 2016 and 2015, the Company did not have any capitalized leases.

The following table summarizes the Company's lease commitments.

	Operating Leases		
	Equipment	Facilities	Total
Payments made in 2016	\$ 48,499	\$ 247,937	\$ 296,436
Future minimum lease commitments:			
2017	\$ 44,131	\$ 259,385	\$ 303,516
2018	43,258	243,002	286,260
2019	14,419	68,820	83,239
2020	14,419	68,820	83,239
2021	-	-	-
Total future minimum lease commitments	\$ 116,227	\$ 640,027	\$ 756,254

**Employment Agreements** - The Company has employment or severance agreements with five members of its management team with terms ranging from one to five years through December 2019. The employment or severance agreements provide for severance payments in the event of termination for certain causes. As of December 31, 2016, the minimum annual severance payments under these employment agreements are, in aggregate, approximately \$840,000.

**Related Party Payments** - During 2015, the Company paid consulting fees of approximately \$35,000 to Patrick White, its former CEO, under a consulting agreement that expired on February 28, 2015. The Company did not have any payments to Mr. White in 2016.

**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, 2016 and 2015, the Company has not accrued any contingent legal fees pursuant to these arrangements.

**Legal Proceedings** - On November 26, 2013, DSS Technology Management 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 DSS Technology Management's patents that relate to systems and methods of using low power wireless peripheral devices. DSS Technology Management is seeking a judgement 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, the case was transferred to the Northern District of California. In December 2014, Apple filed two IPR petitions with 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. DSS Technology Management has filed an appeal with the Federal Circuit seeking reversal of the PTAB decisions. The appeal is still pending as of the date of this Report. The patent assets underlying this matter had no carrying value as of the date of the PTAB decision and therefore, there were no impairment considerations as a result of the decision.

On March 10, 2014, DSS Technology Management filed suit in the United States District Court for the Eastern District of Texas against Taiwan Semiconductor Manufacturing Company, TSMC North America, TSMC Development, Inc. (referred to collectively as TSMC), Samsung Electronics Co., Ltd, Samsung Electronics America, Inc., Samsung Telecommunications America L.L.C., Samsung Semiconductor, Inc., Samsung Austin Semiconductor LLC (referred to collectively as Samsung), and NEC Corporation of America (referred to as NEC), for patent infringement involving certain of its semiconductor patents. DSS Technology Management sought a judgment for infringement, injunctive relief, and money damages from each of the named defendants. On March 3, 2015, a Markman hearing was held in the Eastern District of Texas. Based on the District Court's claim construction order issued on April 9, 2015, DSS Technology Management and TSMC entered in to a Joint Stipulation and Proposed Final Judgment of Non-Infringement dated May 4, 2015, subject to DSS Technology Management's right to appeal the court's claim construction order to the Federal Circuit. On March 22, 2016, the Federal Circuit ruled in favor of TSMC in the appeal, effectively ending the litigation with TSMC and Samsung. On April 28, 2015, DSS Technology Management reached a confidential settlement with NEC, ending the litigation with NEC.

On February 16, 2015, DSS Technology Management 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 alleges patent infringement and seeks 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. The Intel litigation has been stayed by the District Court pending final determination of the IPR proceedings.

On July 16, 2015, DSS Technology Management 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 are 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, DSS Technology Management 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. On September 23, 2016, Samsung's IPR was instituted by PTAB. Qualcomm then filed its IPR proceeding on July 1, 2016, which was later joined with Intel's IPRs in August 2016 by PTAB. As of the date of this Report, PTAB has not yet issued a decision on any of the pending IPR proceedings.

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

**NOTE 12 - SUPPLEMENTAL CASH FLOW INFORMATION**

Supplemental cash flow information for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Cash paid for interest	\$ 210,000	\$ 251,000
Non-cash investing and financing activities:		
Financing of equipment purchases	\$ -	\$ 525,000
Gain (Loss) from change in fair value of interest rate swap derivative	\$ 18,000	\$ (2,500)
Capitalized debt modification costs that increase debt balance	\$ 150,000	\$ -

**NOTE 13 - 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. The two other operating segments, DSS Digital Group, and DSS Technology Management, Inc., are engaged in various aspects of developing, acquiring, selling and licensing technology assets and are grouped into one reportable segment called Technology.

Approximate information concerning the Company's operations by reportable segment for the years ended December 31, 2016 and 2015 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, 2016	Packaging and Printing	Plastics	Technology	Corporate	Total
Revenues from external customers	\$ 12,934,000	4,344,000	1,900,000	-	\$ 19,178,000
Depreciation and amortization	617,000	122,000	649,000	4,000	1,392,000
Interest expense	123,000	-	70,000	86,000	279,000
Stock based compensation	17,000	10,000	26,000	276,000	329,000
Income tax expense	-	-	-	11,000	11,000
Net income (loss) to common shareholders	1,533,000	447,000	(1,271,000)	(1,659,000)	(950,000)
Capital expenditures	251,000	18,000	3,117,000	-	3,386,000
Identifiable assets	9,484,000	2,335,000	1,942,000	4,705,000	18,466,000

  

Year Ended December 31, 2015	Packaging and Printing	Plastics	Technology	Corporate	Total
Revenues from external customers	\$ 11,797,000	3,904,000	1,804,000	-	\$ 17,505,000
Depreciation and amortization	584,000	120,000	847,000	8,000	1,559,000
Interest expense	137,000	-	84,000	114,000	335,000
Stock based compensation	69,000	39,000	112,000	754,000	974,000
Impairment of goodwill	-	-	9,593,000	-	9,593,000
Impairment of intangible assets and investments	-	-	500,000	-	500,000
Income tax expense	-	-	-	22,000	22,000
Net income (loss) to common shareholders	1,070,000	166,000	(12,944,000)	(2,601,000)	(14,309,000)
Capital expenditures	621,000	52,000	9,000	-	682,000
Identifiable assets	9,571,000	2,131,000	3,299,000	600,000	15,601,000

International revenue, which consists of sales to customers with operations in Canada, Western Europe, Latin America, Africa, the Middle East and Asia comprised 2% of total revenue for 2016 (2%- 2015). Revenue is allocated to individual countries by customer based on where the product is shipped to, location of services performed or the location of equipment that is under an annual maintenance agreement. The Company had no long-lived assets in any country other than the United States for any period presented.

#### 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 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 the end of the year covered by this Report. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as a result of a lack of resources which has precluded the Company from adding needed additional accounting personnel, the Company's disclosure controls and procedures were not effective to ensure that information required to be disclosed by our Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

##### *Management's Annual Report on Internal Control over Financial Reporting*

Our management, including our Chief Executive Officer and Principal Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, our 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. Under COSO criteria, a material weakness exists if there is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.



In connection with management's assessment of our internal control over financial reporting described above, management has identified the following material weaknesses in the Company's internal control over financial reporting as of December 31, 2016:

The Company's controls associated with identifying and accounting for complex and non-routine transactions in accordance with U.S. GAAP were ineffective. In addition, the Company determined that it did not maintain a sufficient complement of qualified accounting personnel and controls associated with segregation of duties.

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***

In the ordinary course of business, we may routinely modify, upgrade or enhance our internal controls and procedures for financial reporting. There have not been any changes in our internal controls over financial reporting as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting,

**ITEM 9B - OTHER INFORMATION**

We intend to hold our 2017 Annual Meeting of Stockholders on or about Tuesday, June 20, 2017.

## PART III

### ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be contained in our Proxy Statement for our 2017 Annual Stockholders Meeting (the "Proxy Statement"), which we intend to file with the Securities and Exchange Commission within 120 days after December 31, 2016, and which will be incorporated by reference herein.

We have adopted codes of business conduct and ethics for all of our employees, including our principal executive officer, principal financial officer, principal accounting officer, and directors. Our codes of business conduct and ethics are available on our Web site at [www.dsssecure.com](http://www.dsssecure.com).

Our Web site and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K or our other filings with the SEC.

### ITEM 11 - EXECUTIVE COMPENSATION

The information required by this Item will be contained in our Proxy Statement and incorporated by reference herein.

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

The information required by this Item will be contained in our Proxy Statement and incorporated by reference herein.

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

The information required by this Item will be contained in our Proxy Statement and incorporated by reference herein.

### ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item will be contained in our Proxy Statement and incorporated by reference herein.

## PART IV

### ITEM 15 – EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### (b) Exhibits

<u>Exhibit</u>	<u>Description</u>
3.1	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).
3.2	Third Amended and Restated Bylaws of Document Security Systems, Inc. (incorporated by reference to exhibit 3.1 to Form 8-K dated July 1, 2013).

- 10.1 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).
- 10.2 Warrant issued to Century Media Group Inc., dated January 21, 2013 (incorporated by reference to exhibit 4.1 to Form 8-K dated January 22, 2013).
- 10.3 Promissory Note between Document Security Systems, Inc. and Congregation Noam Elimelech dated May 24, 2013 (incorporated by reference to exhibit 10.1 to Form 8-K dated May 28, 2013).
- 10.4 Convertible Promissory Note Amendment No. 1 between Document Security Systems, Inc. and Mayer Laufer dated May 24, 2013 (incorporated by reference to exhibit 10.2 to Form 8-K dated May 28, 2013).
- 10.5 Warrant issued to Mayer Laufer dated May 24, 2013 (incorporated by reference to exhibit 4.1 to Form 8-K dated May 28, 2013).
- 10.6 Form of Warrant (incorporated by reference to Annex D to Proxy Statement/Prospectus contained in the Registration Statement on Form S-4 originally filed with the SEC on November 26, 2012).
- 10.7 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).
- 10.8 Security Agreement dated as of February 13, 2014 by and among DSS Technology Management, Inc., Document Security Systems, Inc., and Fortress Credit Co LLC as Collateral Agent for the Secured Parties under the Investment Agreement (incorporated by reference to exhibit 10.2 to Form 8-K dated February 18, 2014).
- 10.9 Form of Assignment and Assumption Agreement by and among DSS Technology Management, Inc. and Fortress Credit Co LLC as Collateral Agent for the Secured Parties under the Investment Agreement (incorporated by reference to exhibit 10.3 to Form 8-K dated February 18, 2014).
- 10.10 Patent Security Agreement dated February 13, 2014 by and among DSS Technology Management, Inc. in favor of Fortress Credit Co LLC, in its capacity as Collateral Agent for the Secured Parties under the Investment Agreement (incorporated by reference to exhibit 10.4 to Form 8-K dated February 18, 2014).
- 10.11 Initial Advance Note from DSS Technology Management, Inc. to Fortress Credit Co LLC, dated February 13, 2014 (incorporated by reference to exhibit 10.5 to Form 8-K dated February 18, 2014).
- 10.12 Form of First Milestone Note from DSS Technology Management, Inc. to Fortress Credit Co LLC (incorporated by reference to exhibit 10.6 to Form 8-K dated February 18, 2014).
- 10.13 Form of Second Milestone Note from DSS Technology Management, Inc. to Fortress Credit Co LLC (incorporated by reference to exhibit 10.7 to Form 8-K dated February 18, 2014).
- 10.14 Patent License dated February 13, 2014 by and among DSS Technology Management, Inc. and Fortress Credit Co. LLC (incorporated by reference to exhibit 10.8 to Form 8-K dated February 18, 2014).
- 10.15 Promissory Note Amendment No. 1 between Document Security Systems, Inc. and Congregation Noam Elimelech dated May 2, 2014 (incorporated by reference to exhibit 10.1 to Form 8-K dated May 7, 2014).
- 10.16 Form of Securities Purchase Agreement dated as of June 12, 2014 (incorporated by reference to exhibit 10.1 to Form 8-K dated June 13, 2014).
- 10.17 Underwriting Agreement dated as of December 23, 2014 by and between Document Security Systems, Inc. and National Securities Corporation as representative of the several underwriters named therein (incorporated by reference to exhibit 1.1 to Form 8-K dated December 23, 2014).
- 10.18 Convertible Promissory Note Amendment No. 2 dated as of February 23, 2015 by and among Document Security Systems, Inc. and Mayer Laufer (incorporated by reference to exhibit 10.1 to Form 8-K dated February 26, 2015).

10.19	Promissory Note Amendment No. 2 dated as of February 26, 2015 by and among Document Security Systems, Inc. and Congregation Noam Elimelech (incorporated by reference to exhibit 10.2 to Form 8-K dated February 23, 2015).
10.20	Modification/Extension to the Amended and Restated Revolving Line Note and the Seconded Amended and Restated Credit Facility Agreement dated April 28, 2015 (incorporated by reference to exhibit 10.1 to Form 8-K dated April 29, 2015).
10.21	Form of Securities Purchase Agreement for September 2015 Financing (incorporated by reference to exhibit 10.1 to Form 8-K dated September 17, 2015).
10.22	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).
10.23	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).
10.24	Amended Employment Agreement between Jeffrey Ronaldi and Document Security Systems, Inc. dated November 9, 2015 (incorporated by reference to exhibit 10.1 to Form 8-K dated November 13, 2015)
10.25	Form of amended Securities Purchase Agreement (incorporated by reference to exhibit 10.1 to Form 8-K dated November 30, 2015).
10.26	Promissory Note Amendment No. 3 between Document Security Systems, Inc. and Congregation Noam Elimelech dated April 12, 2016 (incorporated by reference to exhibit 10.1 to Form 8-K dated April 12, 2016).
10.27	Convertible Promissory Note Amendment No. 3 between Document Security Systems, Inc. and Mayer Laufer dated April 12, 2016 (incorporated by reference to exhibit 10.2 to Form 8-K dated April 12, 2016).
10.28	Patent Purchase Agreement between Document Security Systems, Inc. and Intellectual Discovery Co., Ltd. dated November 10, 2016.*
10.29	Patent License Agreement between Document Security Systems, Inc. and Intellectual Discovery Co., Ltd. dated November 10, 2016.*
10.30	Proceeds Investment Agreement between Document Security Systems, Inc. and Brickell Key Investments LP dated November 14, 2016.*
10.31	Common Stock Purchase Warrant between Document Security Systems, Inc. and Brickell Key Investments LP dated November 14, 2016.*
10.32	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.*
10.33	Employment Agreement between Jeffrey Ronaldi and Document Security Systems, Inc. dated December 30, 2016 (incorporated by reference to exhibit 10.1 to Form 8-K dated December 30, 2016).
10.34	Form of Common Stock Purchase Warrant between Document Security Systems, Inc. and BMI Capital Partners International Ltd. (incorporated by reference to exhibit 4.1 to Form 8-K dated December 29, 2016).
10.35	Form of Securities Purchase Agreement between Document Security Systems, Inc. and BMI Capital Partners International Ltd. (incorporated by reference to exhibit 10.1 to Form 8-K dated December 29, 2016).
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

**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 28, 2017

By: /s/ Jeffrey Ronaldi  
Jeffrey Ronaldi  
Chief Executive Officer  
(Principal Executive 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 28, 2017

By: /s/ Robert Fagenson  
Robert Fagenson  
Director and Chairman of the Board

March 28, 2017

By: /s/ Jeffrey Ronaldi  
Jeffrey Ronaldi  
Chief Executive Officer and Director  
(Principal Executive Officer)

March 28, 2017

By: /s/ Robert Bzdick  
Robert Bzdick  
President and Director

March 28, 2017

By: /s/ Joseph Sanders  
Joseph Sanders  
Director

March 28, 2017

By: /s/ Ira A. Greenstein  
Ira A. Greenstein  
Director

March 28, 2017

By: /s/ Warren Hurwitz  
Warren Hurwitz  
Director

March 28, 2017

By: /s/ Heng Fai Ambrose Chan  
Heng Fai Ambrose Chan  
Director

March 28, 2017

By: /s/ Philip Jones  
Philip Jones  
Chief Financial Officer (Principal Financial Officer)



\*Portions of this exhibit marked [\*] are requested to be treated confidentially.

## PATENT PURCHASE AGREEMENT

This PATENT PURCHASE AGREEMENT ("**Agreement**") is entered into, as of the Effective Date (defined below), by and between Document Security Systems, Inc., having a place of business at 200 Canal View Blvd., Suite 300, Rochester, NY 14623 (hereinafter "**DSS**"), and, Intellectual Discovery Co. Ltd., a Korean corporation, having an address of 10 Golden Tower Bldg. #511 Samseong-ro, Gangnam-gu, Seoul, 06158 Korea, (hereinafter "**ID**"). DSS and ID (each individually, a "**Party**", and collectively, the "**Parties**") hereby agree as follows:

### RECITALS

DSS wishes to purchase from ID, and ID wishes to sell to DSS, all worldwide right, title and interest in the PATENTS (defined below), in accordance with the terms and conditions set forth herein.

In consideration of the premises and mutual covenants contained herein, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

### AGREEMENT

#### 1. Definitions

**1.1 "Affiliate"** of a Person means any other Person or entity that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

**1.2 "PATENTS"** means the U.S. and foreign patents, patent applications and invention disclosures listed in Exhibit A, and, any reissues, reexaminations, extensions, continuations, continuations-in-part, continuing patent applications, and divisions thereof and foreign counterparts of the foregoing as well as all rights therein provided by multinational treaties or conventions, if any, including any and all family members (U.S. and foreign) and any and all patents and pending applications containing a terminal disclaimer to any of the PATENTS.

**1.3 "Confidential Information"** means (a) the contents, nature, conditions, results, form, existence of, parties to and terms of this Agreement, (b) all correspondence of a confidential nature relating to this Agreement that is received by one Party the ("**Receiving Party**") from the other Party the ("**Disclosing Party**"), and (c) any trade secret, privileged or work product information of Disclosing Party contained in the Prosecution History and Patent Evaluation Files.

1.4 “**Effective Date**” means the later of the dates on which DSS and ID execute this Agreement, as indicated on the signature page below.

1.5 “**Executed Assignment**” means an executed Assignment of PATENTS substantially in the form attached hereto as Exhibit D, signed by a duly authorized representative of ID.

1.6 “**Lien**” means any lien, license, covenant, pledge, hypothecation, charge, mortgage, security interest, encumbrance, equitable interest, right of possession, lease, option, right of first refusal, preemptive right, imperfection of title, or transfer restriction or condition or any claim for any of the foregoing.

1.7 “**Person**” means an individual, corporation, partnership, joint venture, limited liability company, governmental authority, unincorporated organization, trust, association or other entity.

1.8 “**List of Prosecution Counsel**” means a list setting forth, for each PATENTS, the name, address, e-mail address, telephone number and other contact information of the prosecution counsel who evaluated, prepared, or prosecuted the PATENTS on behalf of ID, and/or who is currently involved in maintaining registrations of the PATENTS on behalf of ID.

1.9 “**Prosecution History and Patent Evaluation Files**” means all tangible and electronic files, documents and tangible materials, as those terms have been interpreted pursuant to rules and laws governing the production of documents and materials, constituting, comprising or relating to the investigation, evaluation, preparation, prosecution, maintenance, defense, filing, issuance, registration, assertion or enforcement of the PATENTS, including but not limited to, invention disclosures, claim charts or evidence of use charts or equivalent documents, drafts of complaints, copies of assertion or demand letters, lists identifying potential infringers or potential licensees, correspondence inviting third parties to take a license, agreements with third parties regarding licensing or enforcement programs, communications from third parties who have been targets of licensing or enforcement efforts, financial models or damages models or calculations, lists of prospective witnesses and consultants (including technical or economic experts) who are or could be involved in enforcement or licensing efforts.

1.10 “**Transmitted Copy**” means a copy of this Agreement bearing a signature of a Party that is reproduced or transmitted via email of a .pdf file, photocopy, facsimile, or other process of complete and accurate reproduction and transmission.

## 2. Assignment, Transmittal and Payment

2.1 **Assignment.** As of the Effective Date, ID hereby sells, assigns and transfers to DSS, its permitted successors or designate and assigns the entire right, title and interest in and to the PATENTS as well as the right, if any, to register, prosecute, maintain and defend the PATENTS before any public or private agency, office or registrar.



## 2.2 Delivery.

(a) No later than the Effective Date, ID shall (i) execute and deliver to DSS an Executed Assignment assigning to DSS all PATENTS, together with a List of Prosecution Counsel for the PATENTS and (ii) send to DSS, via Federal Express or other reliable overnight delivery service, by hand delivery or electronic mail, complete copies of the Prosecution History and Patent Evaluation Files in the possession of ID (or in its counsel's possession) for the PATENTS, including, without limitation, any original hard copies of the certificates of patent (to the extent in ID's or its counsel's possession) or an attestation that the original PATENTS are lost. For the avoidance of doubt, ID has no obligation to deliver or generate documents or information that are not in ID's or its legal counsel's possession or control.

(b) The Parties agree that: (i) this Agreement provides the Parties with a common interest in potential enforcement of the PATENTS through litigation and other activities, (ii) ID's transfer of documents regarding the prosecution of the PATENTS (including, without limitation, any Prosecution History and Patent Evaluation Files) to DSS furthers that common interest, and (iii) the Parties do not intend such transfer to waive any privilege that applies to such documents.

## 2.3 Purchase Price and Payment.

(a) Purchase Price. As consideration for the sale, assignment and transfer to DSS of the Patent Assets as set forth in Section 2.1, DSS shall pay to ID One Million and Five Hundred Thousand Dollars (\$1,500,000 U.S.) payable by wire transfer to ID's designated account below within five (5) days of the Effective Date (the "Purchase Price").

( b ) Additional Contingent Payments. In addition to the Purchase Price, Seller shall receive an ongoing ten percent (10%) share of Net Income received by DSS as a direct result of monetization programs carried out with respect to the PATENTS ("Proceeds Interest"). For the purposes of this Agreement, Net Income shall be defined as gross revenues (such gross revenues being expressly subject to the prior payment of Preferred Revenue as provided by Section 2.3(c)) received by DSS from such monetization programs less expenses associated with the monetization programs including, without limitation, payments made to experts and consultants as well as other expenses associated with litigation and trial, but only to the extent such expenses are not covered by the initial investor's investment. Payment of the Proceeds Interest is expressly subject to the preference in favor of DSS's investors pursuant to Section 2.3(c). Payment of any Proceeds Interest shall be made to ID within thirty (30) days after receipt of income from the monetization programs, and such payments shall be made by wire transfer to ID's bank account listed below.

Bank Name: Woori Bank Sernreung Banking Center  
Bank Address: 701-2, Yeoksam-dong, Gangnam-gu, Seoul, 135-080 Korea  
Account name: Intellectual Discovery Co., Ltd  
Account number: 1005-101-837280  
SWIFT Code: HVBKRRSEXXX

(b) RESERVED.

(c) It is expressly acknowledged that DSS's investor(s) have a preference of a minimum return on its/their initial investment referred to herein as "**Preferred Revenue**" generated through the monetization programs of the PATENTS. Preferred Revenue will be recouped to the investor(s) with first priority before any compensation (including the Ongoing Interest) is paid to ID. ID acknowledges and agrees that ID is not entitled to a share of the Preferred Revenue. ID shall be entitled to payment of the Ongoing Interest only after DSS's investor(s) have been paid all Preferred Revenue to which it/they are entitled under the applicable agreements between DSS and such investor(s).

(d) DSS shall provide ID with a quarterly written statement setting out details of any Net Income that has been generated during the preceding three months. The written statement shall provide sufficient information and detail to enable ID to properly calculate the Net Income, Taxes and Payment & Expense, and to determine whether any amounts identified as Taxes or Payment & Expense have been properly identified as Taxes or Payment & Expense. The quarterly statement shall also include monetization program progress and update report. The progress and update report may be provided to ID more frequently than quarterly at the discretion of the DSS. Notwithstanding anything to the contrary in this Agreement, DSS is not obligated to disclose any information to ID that is covered by a litigation protective order or otherwise protected by the attorney-client privilege, or that would result in a breach of any legally binding confidentiality agreements entered into prior to the execution of this Agreement. Where an agreement is entered into by DSS with a third party as a result of litigation including settlements or a licensing program after the execution of this Agreement, DSS shall provide sufficient details of the agreement to ID or its professional representative(s) so long as DSS is not legally precluded from doing so by the terms of any such settlement or licensing program. The details of the agreement shall not include confidential information. Statements shall be due on the last day of January, April, July and October of every year. Statements shall reflect the source of the Net Income, the gross receipts, and any withholdings or deductions. DSS shall maintain accurate records and accounts to be kept and held available for inspection by ID on reasonable notice but not more than once during any calendar year for a period of not less than five years from the end of the year in which the relevant patent transaction was executed or Net Incomes became due, as the case may be.

#### **2.4 Taxes and Fees.**

(a) ID shall be responsible for all invoices, expenses, and fees pending to outside prosecution counsel or agents existing on the Effective Date.

(b) DSS shall be responsible for all taxes and fees relating to purchase of the PATENTS, if any, other than income taxes imposed on ID, and no part of taxes and fees relating to such purchase shall be deducted from the amount payable to ID under Section 2.3 (a), which such said amounts are to be net to ID.

(c) DSS shall pay withholding tax only as required under applicable law on payments made to ID hereunder and shall be required to remit to ID only the net proceeds thereof. DSS agrees to remit in a timely manner the taxes withheld to the appropriate government authority. Furthermore; (i) DSS shall furnish ID with documentation evidencing such withholding taxes within sixty (60) days after such tax has been withheld from a payment; and (ii) to the extent that there is an applicable treaty that provides for a reduction of such taxes, DSS shall fully cooperate in seeking such waiver or reduction and promptly complete and/or file any and all pertinent documents. ID and DSS shall cooperate with one another to the extent reasonably requested and legally permitted to minimize any such Taxes.

**2.5 Assignment of Additional Rights.** The rights, title and interest assigned pursuant to Section 2.1 shall include, without limitation, and ID hereby also sells, assigns, transfers, and conveys to DSS, effective as of the Effective Date, all of ID's right, title and interest in and to:

(a) any causes of action (whether currently pending, filed or otherwise) and all other enforcement rights and rights to remedies under, on account of, or related to, any Patents, including, without limitation, all causes of action and other enforcement rights for (i) damages, (ii) injunctive relief, and (iii) other remedies of any kind for past, current and future infringement, misappropriation of violation of rights and all rights to sue for any of the foregoing;

(b) DSS has the sole desecration to determine the monetization program of the Patents, including but not limited to litigation targets, settlement of litigation, and sale of the Patents to a third party;

(c) all rights to collect past and future royalties and other payments under, on account of, or related to any of the PATENTS and/or the foregoing clause (a); and

(d) all other rights and interests worldwide, arising out of, in connection with or in relation to the PATENTS.

**2.6 ID's PATENTS Buyback Rights.** In the event that DSS does not file a lawsuit, enter into any legal action, or initiate license activities, such as but not limited to, license discussions, under the monetization programs prior to the third (3<sup>rd</sup>) anniversary of the Effective Date ("the Start Date"), ID shall, for a limited period of sixty (60) days commencing on the Start Date (the "Option Availability Period"), have the option to buyback the purchased PATENTS for the sum of Three Million United States Dollars (U.S. \$3,000,000.00) plus reasonable expenses incurred by DSS but less any withholdings under provisions of this Agreement (the "Buy Back Option"). The Option Availability Period may be extended by the Parties by mutual written agreement. ID's right under this section is automatically terminated if any activity related to the monetization programs is initiated by DSS prior to the third anniversary of the Effective Date. Upon exercise of the Buy Back Option, ID shall assume all responsibilities for all Taxes and Fees set forth in Section 2.4 hereof.

### 3. Additional Obligations

**3.1 Further Cooperation.** At the request of DSS, ID will promptly (i) execute or assign (as the case may be) and (ii) deliver such documents and instruments, and do and perform such other acts and things, as may be reasonably necessary or desirable for effecting completely the consummation of the transactions contemplated hereby, including, without limitation, providing access to documentation relating to the PATENTS in possession of ID or its Affiliates and causing the inventors of the PATENTS to execute such documents and instruments, in each case, as reasonably necessary or desirable for fully perfecting and conveying unto DSS the benefit of the transactions contemplated hereby. ID hereby appoints DSS as its limited attorney in fact, and hereby authorizes DSS to execute a Power of Attorney form on its behalf for use in any jurisdiction in which DSS may wish to have the PATENTS registered, sufficient in scope for DSS to have such assignment registered with the applicable government authorities.

**3.2 Mutual Cooperation.** ID agrees to cooperate with DSS, at DSS's expense, as reasonably requested by DSS regarding any issue arising during the maintenance and/or enforcement of any PATENTS, including, without limitation, execution of any and all necessary documents, answers to technical questions, and other matters that arise in connection therewith.

**3.3 No Challenge.** ID shall not (a) challenge or knowingly assist any person or entity in challenging the validity of the PATENTS, (b) request or knowingly assist any person or entity in requesting any interference, reexamination, opposition, or other similar judicial or court action or proceeding or challenge against the PATENTS, or (c) take any actions or knowingly assist any person or entity in taking any other actions inconsistent with DSS's ownership of or exercise of DSS's rights under the PATENTS. Nothing herein is intended to preclude ID from complying with any applicable subpoena or court order, provided that ID (to the extent it is legally permitted to do so) shall promptly notify DSS of any such subpoena or court order and provide reasonable cooperation to DSS in order to permit DSS to object to such subpoena or court order as desired by DSS.

**3.4 Payment of Fees.** Notwithstanding the assignment to DSS of the PATENTS pursuant to this Agreement, ID agrees to pay in a timely manner all maintenance fees, annuities and other similar payments that are due or payable as of the Effective Date to the USPTO or any foreign patent office in the case of the PATENTS, and that come due within ninety (90) days after the Effective Date. DSS, within thirty (30) days of receiving notice from ID of any maintenance fees, annuities and other similar payments made by ID after the Effective Date, shall reimburse ID for any such fees or expenses paid by ID during the ninety (90) day period following the Effective Date.

**3.5 No Additional Grants.** From and after the Effective Date, ID shall not, and shall cause its Affiliates to not, grant any license, sublicense, covenant not to sue, release, waiver, immunity, authorization, option, right of negotiation or refusal or other rights under or with respect to any of the PATENTS. From and after the Effective Date, neither ID nor any of their Affiliates shall attempt to assert any of the PATENTS against any other person or entity.

#### **4. Representations, Warranties, and Limitations of Liability**

**4.1 ID's Representations and Warranties.** ID hereby represents and warrants to DSS that as of the Effective Date, with respect to PATENTS:

(a) **Authority.** ID and its signatories have the full power and authority to enter into this Agreement and ID has the full power and authority to carry out its obligations hereunder, including, without limitation, the assignment of the PATENTS to DSS.

(b) **Title and Contest.** ID is the exclusive legal and beneficial owner of and has good and marketable title to the PATENTS, including, without limitation, all right, title, and interest to sue for past, present and future infringement thereof. ID have obtained and properly recorded previously executed assignments for the PATENTS as necessary to fully perfect its rights and title therein in accordance with governing law and regulations in each respective jurisdiction.

(c) **Liens.** Except for any rights, licenses or covenants granted under the Existing License Agreements, the PATENTS are, and as of the effectiveness of the assignment of each PATENTS to DSS will be, free and clear of all Liens. There are no existing contracts, agreements, options, commitments, or rights with, to, or in any person to acquire any of the PATENTS. ID is not aware of any actions, suits, investigations, claims, or proceedings threatened, pending, or in progress relating in any way to the PATENTS.

(d) **Existing Licenses.** Exhibit C sets forth a complete and accurate list of the agreements under which any rights, licenses or covenants not to sue have been granted to any third party under any of the PATENTS ("**Existing License Agreements**"). None of the PATENTS is subject to any express or implied licensing obligations owed to any standards body or any similar organization.

(e) **Restrictions on Rights.** ID is not aware of any restrictions on DSS' enforcement or enjoyment of the PATENTS as a result of any prior transaction related to PATENTS.

(f) **Validity and Enforceability.** To ID's knowledge, the PATENTS are not invalid or unenforceable under applicable law. For the avoidance of doubt, in no event shall this provision be interpreted as ID's warranty of validity or enforceability of any of the PATENTS. None of the PATENTS has ever been found invalid or unenforceable, in whole or in part, for any reason in any administrative, arbitration, judicial or other proceeding, and ID has not received notice from any third party threatening the filing of any such proceeding.

(g) **Conduct.** ID, their Affiliates and its officers, directors, employees, agents, or other representatives (“ **Representatives**”) have not engaged in any conduct, or, to ID’s knowledge, omitted to perform any necessary act, the result of which could render any PATENTS, invalid, unenforceable, abandoned or cancelled, including, without limitation, any misrepresentation of ID’s patent rights to a standard-setting organization.

( h ) **Enforcement.** None of the PATENTS has been asserted by ID against any third party in a manner in which the third party has been accused of infringing one or more of the PATENTS.

(i) **Patent Office Proceedings.** None of the PATENTS is a subject of any reexamination, reissue, interference proceeding, inter parties review, or any similar proceeding, and no such proceedings are known by ID to be pending or threatened.

(j) **Fees.** All maintenance fees, annuities and other similar payments that have been due or payable with respect to the PATENTS have been timely paid. Exhibit B sets forth a complete and accurate list of all maintenance fees, annuities and other similar payments with respect to the PATENTS that will become due or payable within ninety (90) days after the Effective Date.

( k ) **No Conflicts or Licenses.** To ID’s knowledge, other than the Existing License Agreements set forth in Exhibit C, there are no existing agreements, options, commitments, understandings, rights, authorizations, licenses, covenants immunities, releases, standstills or waivers (whether implied or express, written or oral) that exist in favor of any person or entity, or that have been granted, conveyed, or promised to any person or entity, to acquire, license or otherwise obtain any right, title, or interest with respect to any of the PATENTS (whether by ID, any prior owner or any other person or entity), whether implied or express, written or oral. The Existing License Agreements set forth in Exhibit C do not conflict and will not frustrate any rights of DSS set forth in this Agreement.

**4.2 Disclaimer.** EXCEPT AS EXPRESSLY SET FORTH ABOVE, NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND REGARDING THE SUBJECT MATTER OF THIS AGREEMENT. WITHOUT LIMITING THE EXPRESS WARRANTIES SET FORTH IN THIS AGREEMENT, ID EXPRESSLY DISCLAIMS THE IMPLIED WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, VALIDITY, MERCHANTABILITY AND NON-INFRINGEMENT WITH RESPECT TO THE PATENTS.

**4.3 LIMITATION OF LIABILITY.** EXCEPT (A) IN THE EVENT OF ID'S FRAUD OR (B) WITH RESPECT TO ANY BREACH BY ID OF (I) ITS CONFIDENTIALITY OBLIGATIONS UNDER SECTION 5.2 OR (II) ANY REPRESENTATION OR WARRANTY SET FORTH IN SECTION 4.1, ID'S TOTAL LIABILITY UNDER THIS AGREEMENT WILL NOT EXCEED THREE MILLION U.S. DOLLARS (U.S. \$3,000,000.00). EXCEPT (A) IN THE EVENT OF DSS'S FRAUD OR (B) WITH RESPECT TO ANY BREACH BY DSS OF ITS CONFIDENTIALITY OBLIGATIONS UNDER SECTION 5.2, DSS'S TOTAL LIABILITY UNDER THIS AGREEMENT WILL NOT EXCEED THREE MILLION U.S. DOLLARS (U.S. \$3,000,000.00). THE PARTIES ACKNOWLEDGE THAT THE LIMITATIONS ON POTENTIAL LIABILITIES SET FORTH IN THIS SECTION WERE AN ESSENTIAL ELEMENT IN ENTERING INTO THIS AGREEMENT.

**4.4 LIMITATION ON NON-DIRECT DAMAGES.** EXCEPT IN THE EVENT OF ID'S OR DSS'S FRAUD OR OF ANY BREACH BY A PARTY OF ITS CONFIDENTIALITY OBLIGATIONS UNDER SECTION 5.2 OR A BREACH BY ID OF ANY REPRESENTATION OR WARRANTY UNDER SECTION 4.1, NEITHER PARTY WILL HAVE ANY OBLIGATION OR LIABILITY (WHETHER IN CONTRACT, WARRANTY, TORT (INCLUDING, WITHOUT LIMITATION, NEGLIGENCE) OR OTHERWISE, AND NOTWITHSTANDING ANY FAULT, NEGLIGENCE (WHETHER ACTIVE, PASSIVE OR IMPUTED), REPRESENTATION, STRICT LIABILITY OR PRODUCT LIABILITY), FOR ANY INCIDENTAL, INDIRECT OR CONSEQUENTIAL, MULTIPLIED, PUNITIVE, SPECIAL, OR EXEMPLARY DAMAGES OR LOSS OF REVENUE, PROFIT, SAVINGS OR BUSINESS ARISING FROM OR OTHERWISE RELATED TO THIS AGREEMENT, EVEN IF A PARTY OR ITS EMPLOYEES HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. THE PARTIES ACKNOWLEDGE THAT THE LIMITATIONS ON POTENTIAL LIABILITIES SET FORTH IN THIS SECTION WERE AN ESSENTIAL ELEMENT IN ENTERING INTO THIS AGREEMENT.

## **5. Miscellaneous**

**5.1 Compliance With Laws.** Notwithstanding anything contained in this Agreement to the contrary, the obligations of the Parties with respect to the consummation of the transactions contemplated by this Agreement shall be subject to all laws, present and future, of any government having jurisdiction over the Parties and this transaction, and to orders, regulations, directions or requests of any such government.

**5.2 Confidentiality.** Each Party, as Receiving Party, shall keep confidential the Confidential Information of Disclosing Party and neither Party, as Receiving Party, shall now or hereafter have the right to disclose such Confidential Information to any third party except: (a) with the prior written consent of the Disclosing Party, (b) as may be required by applicable law, regulation or order of a governmental authority or court of competent jurisdiction, (c) in confidence to the professional legal and financial counsel representing Receiving Party, or (d) in confidence to any party covered by the releases, licenses or covenants granted herein. Confidential Information shall not include any information that (i) has become publicly available through no fault of Receiving Party, (ii) was rightfully in Receiving Party's possession before receipt from Disclosing Party; (iii) becomes rightfully known to Receiving Party without obligations of confidentiality from a source other than Disclosing Party that is not subject to a duty of confidentiality with respect to such information; or (iv) is independently developed by Receiving Party without any use of, access to or reference to any Confidential Information of Disclosing Party. With respect to the foregoing clause (b), Receiving Party shall, to the extent legally permissible, provide Disclosing Party with prior written notice of such applicable law, regulation or order and, at the request of Disclosing Party, use reasonable efforts to limit the disclosure of the Confidential Information and to obtain a protective order.

**5.3 Publicity.** Notwithstanding the foregoing, neither Party shall, without the prior written approval of the other Party, advertise or otherwise publicize, in a press release or otherwise, the terms of this Agreement or any other aspect of the relationship between the Parties under this Agreement. For the avoidance of doubt, each of the Parties acknowledges and agrees that (a) the recording of the Executed Assignment by or on behalf of DSS or (b) disclosure of this Agreement in order to comply with applicable securities laws shall not constitute a breach of this Agreement by DSS.

**5.4 Governing Law and Jurisdiction.** This Agreement will be interpreted, construed, and enforced in all respects in accordance with the laws of the State of New York, without reference to its choice of law principles to the contrary. ALL DISPUTES AND LITIGATION ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING MATTERS CONNECTED WITH ITS PERFORMANCE, ARE SUBJECT TO THE EXCLUSIVE JURISDICTION OF THE FEDERAL AND STATE COURTS OF THE STATE OF NEW YORK LOCATED IN MANHATTAN, NEW YORK. EACH PARTY HEREBY IRREVOCABLY SUBMITS TO THE PERSONAL JURISDICTION OF SUCH COURTS AND IRREVOCABLY WAIVES ALL OBJECTIONS TO SUCH VENUE.

**5.5 Notices.** All notices given hereunder will be given in writing (in English or with an English translation), will refer to DSS and to ID and to this Agreement and will be: (a) personally delivered, (b) delivered postage prepaid by an internationally recognized express courier service, or (c) sent postage prepaid registered or certified U.S. mail (return receipt requested) to the address set forth below:

If to DSS:  
Attn: General Counsel  
200 Canal View Blvd., Suite 300  
Rochester, New York 14623

If to ID:  
Attn: General Counsel  
Intellectual Discovery Co. Ltd.  
10 Golden Tower Bldg. #511 Samseong-ro,  
Gangnam-gu, Seoul, 06158 Korea



Notices are deemed given on the date of receipt by the receiving Party. Either Party may from time to time change its address for notices under this Agreement by giving the other Party written notice of such change in accordance with this Section 5.5.

**5.6 Relationship of Parties.** The Parties hereto are independent contractors. Nothing in this Agreement will be construed to create a partnership, joint venture, franchise, fiduciary, employment or agency relationship between the Parties. Neither Party has any express or implied authority to assume or create any obligations on behalf of the other or to bind the other to any contract, agreement or undertaking with any third party. Each Party expressly disclaims any reliance on any act, word, or deed of the other Party in entering into this Agreement.

**5.7 Equitable Relief.** Each Party acknowledges and agrees that damages alone would be insufficient to compensate the other Party for a breach of this Agreement and that irreparable harm would result from a breach of this Agreement. Each Party hereby consents to the entering of an order for injunctive relief to prevent a breach or further breach, and the entering of an order for specific performance to compel performance of any obligations under this Agreement.

**5.8 Severability.** If any provision of this Agreement is found to be invalid or unenforceable, then the remainder of this Agreement will have full force and effect, and the invalid provision will be modified, or partially enforced, to the maximum extent permitted to effectuate the intent of the Parties.

**5.9 No Waiver.** Failure by either Party to enforce any term of this Agreement will not be deemed a waiver of future enforcement of that or any other term in this Agreement or any other agreement that may be in place between the Parties.

**5.10 Effect of Due Diligence.** DSS's rights with respect to any breach of any representation or warranty or the failure of any representation or warranty to be true, correct and complete as of the Effective Date or the failure to perform any covenant shall not be diminished or otherwise affected in any way as a result of the existence of DSS's or any of its Affiliates' or Representatives' knowledge of such breach, untruth or nonperformance as of the Effective Date, regardless of whether such knowledge exists as a result of investigation by DSS or any of its Affiliates or Representatives or as a result of disclosure by ID or any other person or entity, unless such disclosure is set forth in this Agreement or in an Exhibit to this Agreement.

**5.11 No License.** Except as set forth specifically in this Agreement with respect to the PATENTS, nothing contained in this Agreement shall be construed as conferring any right to a license or to otherwise use any patent, patent application, trademark, service name, service mark, trade dress, trade secret or other intellectual property belonging to DSS or ID.

**5.12 Complete Agreement.** This Agreement, , including, without limitation, any and all exhibits attached hereto and thereto, along with a related Patent License Agreement between the Parties executed contemporaneously with this Agreement, constitute the entire agreement between the Parties with respect to the subject matter hereof and merges and supersedes all prior and contemporaneous agreements, understandings, negotiations, and discussions. Neither of the Parties will be bound by any conditions, definitions, warranties, understandings, or representations with respect to the subject matter hereof other than as expressly provided herein. The section headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement. Each Party and counsel have reviewed and approved this Agreement, and accordingly any presumption or rule of construction permitting ambiguities to be resolved against the drafting Party shall not be employed in the interpretation or application of this Agreement. No oral explanation or oral information by either Party hereto will alter the meaning or interpretation of this Agreement. No amendments or modifications to this Agreement, or any rights or obligations hereunder, will be effective unless in writing signed by authorized representatives of both Parties.

**5.13 Assignment.** Both Parties may assign, sell, transfer, delegate and otherwise dispose of, whether voluntarily or involuntarily, and by operation of law and otherwise, this Agreement and any of its rights and obligations hereunder without the prior written consent of the other Party. However, within thirty (30) days of such assignment the assigning Party shall notify the other Party of the assignment.

**5.14 Waiver.** No waiver of any provision shall be binding in any event unless executed in writing by the Party waiving its rights under this Agreement.

**5.15 Counterparts; Electronic Signature; Delivery Mechanics.** This Agreement may be executed in separate counterparts, each of which will be deemed an original, and all of which together constitute one and the same instrument. Each Party will execute and promptly deliver to the other Party a copy of this Agreement bearing an original signature. Prior to such delivery, in order to expedite the process of entering into this Agreement, the Parties acknowledge that a Transmitted Copy of this Agreement signed via facsimile or E-mail PDF will be deemed an original document.

**5.16 Expenses.** Except as expressly provided in this Agreement, each Party shall bear its own costs and expenses in connection with this Agreement and the transactions contemplated hereby, including, without limitation, all legal, accounting, financial advisory, consulting and all other fees and expenses of third parties, whether or not the transactions contemplated hereby are consummated.

**5.17 Term.** This Agreement shall become effective as of the Effective Date and shall continue in effect perpetually.

In witness whereof, intending to be legally bound, the Parties have executed this Agreement as of the Effective Date.

ID: \_\_\_\_\_  
By: /s/ Donghyun Shim  
Name: Donghyun Shim  
Title: Executive Director  
Date: November 8, 2016

DSS: \_\_\_\_\_  
By: /s/ Jeffrey Ronaldi  
Name: Jeffrey Ronaldi  
Title: Chief Executive Officer  
Date: November 10, 2016

EXHIBIT A - Listed PATENTS

<u>No.</u>	<u>Patent No.</u>	<u>Country</u>	<u>Status</u>	<u>Title</u>	<u>Application No.</u>	<u>Filing Date</u>	<u>Issued Date</u>
[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

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**EXHIBIT B — Maintenance Fees**

<b>No.</b>	<b>Patent No.</b>	<b>Country</b>	<b>Status</b>	<b>Title</b>	<b>Due Date of Fee</b>	<b>Currency</b>	<b>Maintenance Fee</b>
1	[*]	[*]	[*]	[*]	[*]	USD	663.58
2	[*]	[*]	[*]	[*]	[*]	USD	312.58
3	[*]	[*]	[*]	[*]	[*]	USD	994.01
4	[*]	[*]	[*]	[*]	[*]	USD	3,600.00
5	[*]	[*]	[*]	[*]	[*]	USD	219.81
6	[*]	[*]	[*]	[*]	[*]	USD	3,600.00
7	[*]	[*]	[*]	[*]	[*]	USD	987.59
8	[*]	[*]	[*]	[*]	[*]	USD	323.91
9	[*]	[*]	[*]	[*]	[*]	USD	461.65
10	[*]	[*]	[*]	[*]	[*]	USD	161.40
11	[*]	[*]	[*]	[*]	[*]	USD	1,296.71
12	[*]	[*]	[*]	[*]	[*]	USD	591.33
13	[*]	[*]	[*]	[*]	[*]	USD	7,400.00

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

**EXHIBIT C**  
**Existing License Agreements**

Existing Licenses

[\*]

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

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## EXHIBIT D

### ASSIGNMENT OF PATENT RIGHTS

This patent assignment ("**Assignment**") is entered into as of November 10, 2016 (the "Assignment Date") between Intellectual Discovery Co. Ltd., with a principal place of business at 10 Golden Tower Bldg. 144-17, Samsung-dong, Gangnam-gu, Seoul, Korea ("ID") (the "**Assignor**"), and Document Security Systems, Inc., having a principal place of business at 200 Canal View Blvd., Suite 300, Rochester, New York 14623 ("**Assignee**").

Whereas, the Assignor and Assignee have entered into a certain [Patent Purchase Agreement] dated November 10, 2016 (the "Agreement") under which, among other things, Assignor assigns to Assignee all worldwide right, title and interest in and to (i) all patents and patent applications in the name of or owned by Assignor identified and set forth on Appendix A attached hereto, (ii) the invention disclosures identified and set forth on Appendix A attached hereto, and (iii) with respect to (i) and (ii), all national (of any country of origin) and multinational patents, patent applications and provisional patent applications, and reissues, divisions, continuations, continuations-in-part, continuing patent applications, extensions and reexaminations thereof, and all rights therein provided by multinational treaties or conventions (such patents and patent applications, the "PATENTS"); and

Whereas, pursuant to the Agreement, Assignor wishes to assign to Assignee, and Assignee wishes to acquire from Assignor, all worldwide right, title and interest in and to the PATENTS.

For good and valuable consideration, the receipt of which is hereby acknowledged, the Parties hereby agree as follows:

1. Pursuant to and subject to the terms and conditions of this Agreement, Assignor, does hereby irrevocably sell, assign, transfer, and convey unto Assignee, or Assignee's designees, all of Assignor's right title and interest in and to the PATENTS, together with:

(a) the right, if any, to register, prosecute, maintain and defend the PATENTS before any public or private agency, office or registrar;

(b) all rights of cooperation that have been pledged or assigned to Assignor with respect to the PATENTS; (c) the right to sue and bring any causes of action (whether currently pending, filed or otherwise) and all other enforcement rights and rights to remedies under, on account of, or related to any of the PATENTS and/or any item in any of the foregoing categories including, without limitation, all causes of action and other enforcement rights for (i) damages, (ii) injunctive relief, and (iii) other remedies of any kind for past, current and future infringement, misappropriation or violation of rights and all rights to sue for any of the foregoing; and

(c) all rights to collect royalties and other payments under or on account of any of the PATENTS, as well as all rights to assign or sell an interest in such royalties or other payments to third parties.

2. Assignor hereby authorizes the respective patent office or governmental agency in each jurisdiction to issue any and all PATENTS, certificates of invention, utility models or other governmental grants or issuances that may be granted upon any of the PATENTS in the name of Assignee, as the assignee to the entire interest therein, to record Assignee as the assignee and owner of the PATENTS and to deliver to Assignee, and to Assignee's attorneys, agents, successors or assigns, all official documents and communications as may be warranted by this Assignment.

3. Assignor shall use best efforts to take actions and execute and deliver documents that Assignee may reasonably request to effect the terms of this Assignment and to perfect Assignee's title in and to those PATENTS assigned to it hereunder. In the event that Assignee is unable for any reason whatsoever to secure Assignor's signature to any document it is entitled to under this Assignment, Assignor hereby irrevocably designates and appoints Assignee, and its duly authorized officers and agents, as Assignor's agent and attorney-in-fact to act for and on its behalf and instead of it, to execute and file any such document and to do all other lawfully permitted acts to further the purposes of this Assignment with the same legal force and effect as if executed by Assignor.

4. This Assignment is intended to effect the assignment of the PATENTS to Assignee as described in the Agreement. To the extent of any conflict or inconsistency between the terms and conditions of this Assignment and the Agreement, the Agreement shall prevail and govern the rights and obligations of the Parties hereto and the scope of assignment of the PATENTS.

The terms and conditions of this Assignment will inure to the benefit of Assignee, its successors, assigns, and other legal representatives consistent with the Agreement between the Parties executed on the same date as this Assignment and will be binding upon Assignor, its successors, assigns, and other legal representatives.

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In witness whereof, intending to be legally bound, the Parties have executed this Assignment as of the Assignment Date.

\_\_\_\_\_: Intellectual Discovery Co., Ltd.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Document Security Systems, Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

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Appendix to Assignment of Patent Rights – PATENTS

<u>No.</u>	<u>Patent No.</u>	<u>Country</u>	<u>Status</u>	<u>Title</u>	<u>Application No.</u>	<u>Filing Date</u>	<u>Issued Date</u>
[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

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\*Portions of this exhibit marked [\*] are requested to be treated confidentially.

## PATENT LICENSE AGREEMENT

As of the **EFFECTIVE DATE**, Document Security Systems, Inc. (hereinafter "**DSS**") having a place of business at 200 Canal View Blvd., Suite 300, Rochester, NY 14623, and Intellectual Discovery Co. Ltd. (hereinafter "**ID**"), a Korean corporation, having an address at 10 Golden Tower Bldg. #511 Samseong-ro, Gangnam-gu, Seoul, 06158 Korea. DSS and ID (each individually, a "**Party**", and collectively, the "**Parties**") hereby agree as follows:

### DEFINITIONS

"**Affiliate**" of a Person means any other Person or entity that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"**Confidential Information**" means (a) the contents, nature, conditions, results, form, existence of, parties to and terms of this Agreement, (b) all correspondence of a confidential nature relating to this Agreement that is received by one Party the ("**Receiving Party**") from the other Party the ("**Disclosing Party**"), and (c) any trade secret, privileged or work product information of Disclosing Party contained in the Prosecution History and Patent Evaluation Files.

"**EFFECTIVE DATE**" means the later of the dates on which DSS and ID execute this Agreement, as indicated on the signature page below.

"**LICENSED PATENTS**" means the U.S. and foreign patents, patent applications and invention disclosures listed in Exhibit A, and, any reissues, reexaminations, extensions, continuations, continuations-in-part, continuing patent applications, and divisions thereof and foreign counterparts of the foregoing as well as all rights therein provided by multinational treaties or conventions, if any, including any and all family members (U.S. and foreign) and any and all patents and pending applications containing a terminal disclaimer to any of the PATENTS.

"**LICENSED PRODUCTS**" means products that are made or sold in any country in which LICENSED PATENTS cover a feature that is contained within that product.

"**LIMITED PERIOD**" means the period commencing on the EFFECTIVE DATE and continuing until February 15, 2019.

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**"Person"** means an individual, corporation, partnership, joint venture, limited liability company, governmental authority, unincorporated organization, trust, association or other entity.

**"Transmitted Copy"** means a copy of this Agreement bearing a signature of a Party that is reproduced or transmitted via email of a .pdf file, photocopy, facsimile, or other process of complete and accurate reproduction and transmission.

## **AGREEMENT**

### **1.01 Grant**

ID grants to DSS under the LICENSED PATENTS, a worldwide, personal, non-exclusive, and a non-transferable fully paid-up license to make, have made, use, lease, offer to sell, sell, export, import or otherwise dispose of LICENSED PRODUCTS.

### **1.02 Duration**

All licenses granted herein under any LICENSED PATENTS shall be in effect from the EFFECTIVE DATE until the earlier of (i) the end of the LIMITED PERIOD, or (ii) the expiration of all LICENSED PATENTS during the LIMITED PERIOD.

### **1.03 Scope**

Except for the express patent licenses, releases, covenants and rights granted under this Agreement, no other licenses, releases, covenants, or any other rights or immunities, whether express or implied, are granted hereunder under any of the LICENSED PATENTS.

## **PAYMENT**

### **2.01 Fixed Payment for Release and License**

In consideration of the release and license granted hereunder by ID to DSS, DSS shall pay a one time fully paid-up license fee to ID of one million five hundred thousand United States Dollars (US \$1,500,000.00). DSS shall pay the license fee by wire transfer to the ID's bank account listed below no later than five (5) days following the EFFECTIVE DATE. If DSS fails to pay the license fee within such timeframe, ID shall have the option to take back the granted licensing right under the LICENSED PATENTS.

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Bank Name: Woori Bank Sernreung Banking Center  
Bank Address: 701-2, Yeoksam-dong, Gangnam-gu, Seoul, 135-080 Korea  
Account name: Intellectual Discovery Co., Ltd  
Account number: 1005-101-837280  
SWIFT Code: HVBKRXSEXXX

## RELEASES

### 3.01 Releases

In consideration of the payment set forth in section 2.01 and other good and valuable consideration payable by DSS to ID, and subject to full receipt of such payments, ID hereby releases DSS from any and all claims under the LICENSED PATENTS that could be made by ID prior to the EFFECTIVE DATE for which the rights and licenses expressly granted under this Agreement to DSS would be a complete defense had this Agreement been in effect at the time such patent infringement arose.

## LIMITED ASSIGNABILITY

### 4.01 Limited Assignability

Notwithstanding the foregoing, this Agreement shall be assignable by DSS in connection with a sale to, transfer to, merger, or acquisition of the business or assets, or any portion thereof another entity. This Agreement is also assignable by DSS to its designate subject to the written approval of ID. DSS shall give a written notice to ID within thirty (30) days prior to such assignment or transfer of this Agreement.

## MISCELLANEOUS PROVISIONS

### 5.01 Confidentiality

Each Party, as Receiving Party, shall keep confidential the Confidential Information of Disclosing Party and neither Party, as Receiving Party, shall now or hereafter have the right to disclose such Confidential Information to any third party except: (a) with the prior written consent of the Disclosing Party, (b) as may be required by applicable law, regulation or order of a governmental authority or court of competent jurisdiction, (c) in confidence to the professional legal and financial counsel representing Receiving Party, or (d) in confidence to any party covered by the releases, licenses or covenants granted herein. Confidential Information shall not include any information that (i) has become publicly available through no fault of Receiving Party, (ii) was rightfully in Receiving Party's possession before receipt from Disclosing Party; (iii) becomes rightfully known to Receiving Party without obligations of confidentiality from a source other than Disclosing Party that is not subject to a duty of confidentiality with respect to such information; or (iv) is independently developed by Receiving Party without any use of, access to or reference to any Confidential Information of Disclosing Party. With respect to the foregoing clause (b), Receiving Party shall, to the extent legally permissible, provide Disclosing Party with prior written notice of such applicable law, regulation or order and, at the request of Disclosing Party, use reasonable efforts to limit the disclosure of the Confidential Information and to obtain a protective order.

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## 5.02 Addresses and Payments

- (a) Any notice or other communication hereunder is sufficiently given to DSS when sent by overnight or certified mail addressed to:

Document Security Systems, Inc.  
200 Canal View Blvd., Suite 300,  
Rochester, NY 14623  
Attn: General Counsel

- (b) Any notice or other communication hereunder will be sufficiently given to ID when sent by overnight or certified mail addressed to:

Intellectual Discovery Co. Ltd.  
10 Golden Tower Bldg. #511 Samseong-ro,  
Gangnam-gu, Seoul, 06158 Korea  
Attn : General Counsel

Changes in such addresses may be specified by written notice.

## 5.03 Taxes

ID shall bear all taxes, duties, levies and similar charges, however designated, imposed as a result of the existence or operation of this Agreement, including any net income tax imposed upon ID by any governmental entity. In the event that such government entity imposes taxes on payments made by DSS hereunder and requires DSS to withhold such net income tax from the payment, DSS may deduct such tax from such payments. In such event, DSS shall promptly provide ID with tax receipts or certifications issued by the relevant tax authorities so as to enable ID to support a claim for credit against income taxes which may be payable by ID in the Republic of Korea.

## 5.04 Governing Law and Jurisdiction

This Agreement will be interpreted, construed, and enforced in all respects in accordance with the laws of the State of New York, without reference to its choice of law principles to the contrary. ALL DISPUTES AND LITIGATION ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING MATTERS CONNECTED WITH ITS PERFORMANCE, ARE SUBJECT TO THE EXCLUSIVE JURISDICTION OF THE FEDERAL AND STATE COURTS OF THE STATE OF NEW YORK LOCATED IN MANHATTAN, NEW YORK. EACH PARTY HEREBY IRREVOCABLY SUBMITS TO THE PERSONAL JURISDICTION OF SUCH COURTS AND IRREVOCABLY WAIVES ALL OBJECTIONS TO SUCH VENUE.

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#### **5.05 Waiver**

The waiver by either Party of a breach or default of any provision of this Agreement by the other Party will not be construed as a waiver of any succeeding breach of the same or any other provision, nor will any delay or omission on the part of either Party to exercise or avail itself of any right, power or privilege that it has or may have hereunder operate as a waiver of any right, power or privilege of such Party.

#### **5.06 Severability**

If any provision of this Agreement is found to be invalid or unenforceable for any reason, then such provision will be modified to reflect the Parties' intention. All remaining provisions of this Agreement will remain in full force and effect.

#### **5.07 Publicity**

Notwithstanding the foregoing, neither Party shall, without the prior written approval of the other Party, (a) advertise or otherwise publicize, in a press release or otherwise, the terms of this Agreement or any other aspect of the relationship between the Parties under this Agreement. For the avoidance of doubt, each of the Parties acknowledges and agrees that (a) the recording of the Executed Assignment by or on behalf of DSS or (b) disclosure of this Agreement in order to comply with applicable securities laws shall not constitute a breach of this Agreement by DSS.

#### **5.08 Construction**

The section headings in this Agreement are for convenience of reference only, will not be deemed to be a part of this Agreement, and will not be referred to in connection with the construction or interpretation of this Agreement. Any rule of construction to the effect that ambiguities are to be resolved against the drafting Party will not be applied in the construction or interpretation of this Agreement.

#### **5.09 Integration**

This Agreement sets forth the entire agreement and understanding between the Parties as to the subject matter hereof and merges all prior discussions and agreements between them. Neither of the Parties shall be bound by any modifications, warranties, understandings or representations with respect to such subject matter other than as expressly provided herein, for example, section 4.01 or in a writing signed with or subsequent to the EFFECTIVE DATE hereof by an authorized representative of the Party to be bound thereby.

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**5.10 Counterparts and Facsimile or Electronic Copies**

This Agreement may be executed on facsimile or electronically scanned copies in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

**5.11 No Admission**

The Parties agree that this Agreement is not an admission by DSS (i) that it does now infringe or has ever infringed any of the LICENSED PATENTS; and (ii) that it has committed any act that would entitle ID, under the law of any jurisdiction anywhere in the world, to any relief.

**5.12 Disclaimer**

ID DOES NOT MAKE ANY REPRESENTATIONS, EXTENDS ANY WARRANTIES OF ANY KIND, ASSUMES ANY RESPONSIBILITY OR OBLIGATIONS WHATEVER, OR CONFERS ANY RIGHT BY IMPLICATION, ESTOPPEL OR OTHERWISE, OTHER THAN THE LICENSES AND RIGHTS HEREIN EXPRESSLY GRANTED.

**IN WITNESS WHEREOF**, each of the Parties has caused this Agreement to be executed in duplicate originals by its duly authorized representatives on the respective dates entered below.

**INTELLECTUAL DISCOVERY CO. LTD.**

By: /s/ Donghyun Shim  
Name: Donghyun Shim  
Title: Executive Director  
Date: November 8, 2016

**DOCUMENT SECURITY SYSTEMS, INC.**

By: /s/ Jeffrey Ronaldi  
Name: Jeffrey Ronaldi  
Title: Chief Executive Officer  
Date: November 10, 2016

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EXHIBIT A - Listed PATENTS

No.	Patent No.	Country	Status	Title	Application No.	Filing Date	Issued Date
[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

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Portions of this exhibit marked [\*] are requested to be treated confidentially.

**PROCEEDS INVESTMENT AGREEMENT**

**Dated as of November 14, 2016**

**by and between**

**DOCUMENT SECURITY SYSTEMS, INC.**

**and**

**BRICKELL KEY INVESTMENTS LP**

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This PROCEEDS INVESTMENT AGREEMENT, dated as of November 14, 2016 (this "**Agreement**"), between:

- **DOCUMENT SECURITY SYSTEMS, Inc.**, a New York corporation with its principal place of business at 200 Canal View Blvd., Suite 300, Rochester, New York 14623 ("**DSS**"); and
- **BRICKELL KEY INVESTMENTS LP**, a Delaware limited partnership, with its principal place of business at 11 New Street, St. Peter Port, Guernsey GY1 2PF ("**INVESTOR**")

(each of DSS and INVESTOR is referred to herein individually, as a "**Party**" and, collectively, as the "**Parties**"). References made herein to "DSS" shall be limited to and interpreted to mean the parent company only, unless specifically stated otherwise.

#### **Preamble**

A. DSS is seeking \$13,500,000.00 (the "**Commitment**") to acquire the patent assets defined hereunder and set forth in Schedule A (the "Patent Assets"), to fund predetermined assertion programs originating from certain of those Patent Assets, and for Working Capital;

B. INVESTOR invests directly and indirectly in claims, disputes, and litigation and arbitration claims;

C. INVESTOR is prepared to make the Investment (as hereinafter defined) and, in consideration therefore, DSS is prepared to assign to INVESTOR the Patent Assets Proceeds (as hereinafter defined) subject to the terms and conditions set forth herein.

D. The Parties do not intend to waive any attorney-client privilege or any immunities from discoverability of attorney work product or other privileged materials or communications. The Parties believe they have common interests in the pursuit of the Claims.

NOW THEREFORE, for good and valuable consideration, it is agreed as follows:

#### **1. DEFINITIONS AND INTERPRETATION**

1.1 Definitions. In this Agreement the following terms shall have the meanings given below:

"**Additional Return**" has the meaning set forth in Section 3.3(a)(ii).

"**Affiliate**" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person.

"**Applicable Period**" means the period starting on the date hereof and ending on November 30, 2031.

"**Assigned Rights**" has the meaning set forth in Section 3.1.

"**Attorney Engagement Agreement**" means the Engagement Agreement between an Attorney and DSS related to the Claims.

**"Attorneys"** means Russ August & Kabat, located in Los Angeles, CA.

**"Authorization"** means an authorization, consent, approval, resolution, license, exemption, filing, notarization or registration.

**"Authorized"** means authorized by any and all action or Authorization required to make the action contemplated thereby legally binding on a Party.

**"Business Day"** means any day, excluding Saturday, Sunday, any day which is a legal holiday in New York, New York or a day on which banking institutions in such jurisdiction is authorized or required by law or other governmental action to close.

**"Claims Costs and Expenses"** as used in this Agreement means costs, expenses and disbursements directly related to the Claims, including (without limitation) costs or expenses incurred in the negotiation and drafting of this Agreement, that are (i) validly incurred by DSS or paid or due and payable to third parties including Attorneys; (ii) documented by receipts and invoices paid by DSS or submitted to DSS in connection with the Claims; or (iii) incurred by an Attorney on behalf of DSS pursuant to an Attorney Engagement Agreement. Claims Costs and Expenses shall not include any internal costs or expenses of DSS, including but not limited to overhead or operating costs or expenses of it or its employees, but shall include only costs and expenses incurred by DSS and/or third parties (including travel and lodging expenses of DSS employees) in connection with prosecuting, enforcing or defending the Claims, such as (A) the fees and expenses of consultants, damages experts, other experts or technical advisors, and fact witnesses, or such fees and expenses paid directly by DSS, (B) travel and lodging expenses of third parties involved in the Claims, such as witnesses and experts, for purposes of holding Claims meetings, the preparation of witness statements and expert reports, attending legal proceedings relating to the Claims, and the like, and (C) duplicating, secretarial, stenographer, courier, translation, outsourced legal research, and similar services provided by Persons other than DSS.

**"Claims"** means the cases and claims originating from predetermined assertion programs involving certain of the Patent Assets referenced in Schedule A to be asserted by DSS, or any of its Affiliates or by special purpose vehicle(s) against alleged infringers including, but not limited to, any and all related, remanded, appellate or future claims, cases, arbitrations or proceedings arising from or seeking similar recoveries or remedies.

**"Claims Proceeds Account"** means the attorney escrow account in the name of DSS under the control of Russ August & Kabat designated for the purposes of receiving and holding the Patent Assets Proceeds pursuant to Section 3.2 and to be operated in accordance with such section.

**"Closing"** means the closing of the transactions contemplated hereby pursuant to Section 5.2.

**"Closing Date"** means the date on which each of the conditions set forth in Sections 5.1 and 5.2 of this Agreement is satisfied or waived by the applicable Party.

**"Commitment"** has the meaning set forth in Preamble A.

**"Corrupt Practices Policies and Procedures"** has the meaning set forth in Section 6.1(i).

**"Default"** means any event or circumstance specified in Section 8 (Events of Default) that would (with the expiration of a grace period or the giving of notice) become an Event of Default. A Default is "continuing" if it has not been remedied or waived.

**"Defendant"** means any of the defendants that is the subject of the Claims.

**"Disputes"** has the meaning set forth in Section 9.3.

**"Dollar"** or **"\$"** means United States Dollars.

**"Funding Documents"** means, collectively, this Agreement, the Perfection Documents, and any other document contemplated by this Agreement.

**"INVESTOR"** mean Brickell Key Investments LP, as set forth in the Preamble.

**"INVESTOR's Return"** has the meaning set forth in Section 3.3.

**"Investment"** has the meaning set forth in Section 2.1.

**"IRR Return"** means an amount that provides INVESTOR with a [\*] percent ([\*]%) internal rate of return on the Commitment.

**"Material Adverse Effect"** means (a) a material adverse change in, or a material adverse effect upon, the financial condition, operations, assets, business or properties of the Party in question or any of its Affiliates, taken as a whole, (b) a material impairment of the ability of the Party in question to perform any of its obligations under any material provision of any Funding Document, or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Party in question of any material provision of any Funding Document.

**"Minimum Return"** has the meaning set forth in Section 3.3(a)(i).

**"Multiple"** means [\*] times ([\*]x) the Commitment.

**"Party"** and **"Parties"** have the respective meanings set forth in the third introductory paragraph of this Agreement.

**"Patent Assets"** means those patents and Pending Patent Applications set forth in Schedule A.

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

**"Patent Assets Proceeds"** means any and all monetary recoveries (whether through damages, recoveries, royalties, monies, lump-sum payments, upfront payments, settlement amounts, distribution of property, cash value of equities, license fees or other revenues or other assets or amounts) paid by a defendant or defendants or a third-party to DSS or any of its Affiliates, or to an Attorney on behalf of DSS, or recovered, received or receivable by DSS or any of its Affiliates, or to an Attorney on behalf of DSS, as a results of or in connection with the Patent Assets, whether by settlement, judgement, order, or any resolutions relating to or arising from such Patent Assets, plus any interest in connection therewith agreed to in a settlement or awarded in a judgment.

**"Pending Patent Applications"** means any patent application, U.S. or foreign, that has been filed but not yet issued as a patent, including but not limited to, any provisional or nonprovisional (utility) application, including any continuations, continuations-in-part, divisionals, reissues, refilings, PCTs, or equivalent applications.

**"Perfection Documents"** means those documents required to perfect the security interests provided for in Section 4 of this Agreement under the laws of New York and all other jurisdictions in which DSS has property or assets including, but not limited, those Perfection Documents listed in Annex E.

**"Person"** means any individual, firm, company, corporation, partnership, limited liability company, government, state or agency of a state or any association, trust, joint venture or consortium (whether or not having separate legal personality).

**"Realization Date"** means a date on which Patent Assets Proceeds are received by DSS in whole or in part.

**"Rights"** means, with respect to any Person, such Person's rights, titles, claims, options, powers, privileges and interests.

**"Security"** means a mortgage, charge, pledge, lien or other security interest securing any obligation of any Person or any other agreement or arrangement having a similar effect.

**"Security Interest"** has the meaning set forth in Section 4.1.

**"Taxes"** means any foreign, federal, state, local, municipal or other governmental taxes, duties, levies, fees, excises or tariffs, arising as a result of or in connection with any amounts or property received or paid under this Agreement, including, without limitation: (i) any state or local sales or use taxes; (ii) any import, value-added or consumption tax; (iii) any business transfer tax; (iv) any taxes imposed or based on or with respect to or measured by any net or gross income or receipts of any of the Parties; (v) any withholding or franchise taxes, taxes on doing business, gross receipts taxes or capital stock or property taxes; or (vi) any other tax now or hereafter imposed by any governmental or taxing authority on any aspect of this Agreement, the Patent Assets Proceeds, the Investment or the Assigned Rights, and "pre-Tax" shall mean before the deduction of any of the foregoing. Taxes shall also include any interest or penalties imposed on or with respect to the foregoing.

**"Term"** shall mean that period of time from the date of this Agreement through the date that all of DSS' obligations hereunder have been satisfied, not to exceed fifteen (15) years; provided however, that notwithstanding the expiration of the Term, DSS' obligation to pay INVESTOR its share of the Patent Assets Proceeds from Claims instituted during the Term shall survive the Term until such payment obligation is fully satisfied.

**"Warrants"** mean those warrants to be issued in conjunction with the Investment substantially in the form attached hereto as Annex F.

**"Working Capital"** as used herein shall mean moneys received by DSS under this Agreement which may be used by DSS in its discretion for any and all usual and customary business purposes relating to the parent company (DSS) or any of its Affiliates; provided that no amounts of the Investment shall be used to pay dividends, extraordinary compensation of DSS' and / or DSS' Affiliates' management, or other profit-sharing arrangements.

1.2 Construction. Unless a contrary indication appears, the following shall apply in this Agreement:

(a) A reference to this "Agreement" or to any other agreement or document refers to this Agreement or such other agreement or document, together with all annexes, exhibits and schedules hereto or thereto and all documents expressly incorporated herein or therein by reference, and such shall be a reference to this Agreement or such other agreement or document as amended, extended, modified, novated, restated or supplemented from time to time;

(b) A term used in any other agreement or document referred to herein or in any notice given under or in connection with this Agreement or any other agreement or document has the same meaning in such other agreement, document or notice as defined in this Agreement;

(c) Article, Section and Exhibit headings are for ease of reference only;

(d) A provision of law is a reference to that provision as amended or re-enacted

(e) A "regulation" includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organization;

(f) A document expressed to be "on the approved terms" means a document, the terms, conditions and form of which have been agreed by the Parties and a copy of which has been identified as such and initialled by or on behalf of each of the Parties; and

(g) A reference to Patent Assets Proceeds being "received" by DSS or any of its Affiliates or special purpose vehicles or the "receipt" by DSS or any of its Affiliates or special purpose vehicles of Patent Asset Proceeds, includes in each case the relevant amount being paid to or to the order of DSS or any of its Affiliates or special purpose vehicles, or being set off against or otherwise reducing any obligation of DSS or any of its Affiliates or special purpose vehicles.



## 2. THE INVESTMENT

2.1 Investment. INVESTOR agrees, subject to the terms and conditions of this Agreement, to provide at the Closing the Commitment, which shall be considered an investment in the Patent Assets Proceeds of the Claims for the Applicable Period (the "**Investment**"), in its funding percentage set forth in Annex B. The Investment shall be funded in the amounts and on the dates to the accounts set forth in Annex C hereto. Any or all of the Investment shall be used solely for the uses set forth in Annex D.

2.2 Acknowledgements Regarding the Scope and Nature of the Investment. The Parties recognize and acknowledge that (i) INVESTOR is, through the Investment, purchasing the Assigned Rights from DSS and (ii) DSS is selling, assigning and transferring to INVESTOR an ownership interest in the Patent Assets Proceeds equal to the Assigned Rights. INVESTOR is not acquiring, and does not wish to acquire, ownership of the Claims or Patents. Nothing in this Agreement or in the course or manner of dealings between the Parties shall be construed to cause any of them to be considered to be a partnership, have formed a partnership, or be partners, members, agents or co-venturers of any kind pursuant to any applicable tax or non-tax laws or doctrines. Subject to the "INVESTOR's Return" and "Payment Priority of Proceeds" provisions of Sections 3.3 and 3.4 of this Agreement, if any provision of this Agreement is held unenforceable under applicable commercial law, the Investment shall be deemed to be a limited recourse debt obligation of DSS (secured only by the Claims, Patent Assets and Patents Assets Proceeds) under Article 9 of the Uniform Commercial Code and for such commercial law purposes and shall accrue interest at a [\*] percent ([\*]%) interest rate (or the maximum rate permitted by applicable law, if lower) compounded annually until paid in full solely from realized Patent Assets Proceeds in accordance with the mandates of Sections 3.3 and 3.4.

### 2.3 Matter Monitoring / Privileges and Immunities Preserved.

(a) DSS agrees to provide to INVESTOR, and DSS agrees to direct Attorneys to provide to INVESTOR, information and documentation sufficient to monitor developments in the Claims, including without limitation, regular quarterly updates and information about material matters in the Claims, as outlined in Annex A attached hereto. INVESTOR may, but is not bound to, monitor or verify the application of any amount disbursed by or on behalf of DSS in respect of Claims Costs and Expenses pursuant to this Agreement, and any such monitoring shall at all times be in INVESTOR's discretion. In connection with such monitoring, DSS understands that INVESTOR may wish to review certain non-privileged information in connection with the Claims, and DSS consents to the providing of such information by the Attorneys; *provided, however*, that notwithstanding anything to the contrary contained herein, or in any other related agreement or document, in no event shall DSS be obligated to disclose any privileged information or information subject to a judicially determined protective order at any time or for any purpose.

(b) The parties agree that they have a common interest in the subject matter and the outcome of the Claims. All information provided to INVESTOR hereunder is and shall at all times remain to the fullest extent under applicable law subject to all applicable privileges and immunities, including the attorney-client privilege, the common interest exception to privilege waiver doctrines, and the work-product immunity doctrine. No waiver of any such privilege or immunity shall be implied by the INVESTOR, its Affiliates or their respective representatives receiving, reviewing or examining information provided INVESTOR hereunder, it being the express intent of the parties to preserve intact to the fullest extent applicable, and not to waive in whole or in part, any and all privileges and immunities to which such information is, may be or may become subject to in the future.

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

2.4 Future Needs. DSS shall not seek alternative or additional funding for the Claims until the entire amount of the Investment has been used. DSS agrees that INVESTOR shall have the first option, but no obligation, to provide further funding for the Claims on terms substantially similar to those set forth herein. If INVESTOR does not indicate its intent to make a further investment in the Claims within thirty (30) days following notice of such request by DSS, then DSS may seek additional funding from other third parties, *provided, however*, that any third party providing funding to DSS or any of its Affiliates and Subsidiaries shall not have any payment priority, interest or security interest or lien on the Patent Assets Proceeds that is prior in rights to those of INVESTOR hereunder. In addition, DSS hereby grants INVESTOR a thirty (30) day first refusal right to provide additional financing for the acquisition and / or assertion of additional claims and / or patent assets relating to LED technology including, but not limited to, foreign assertion programs on terms no less favorable for INVESTOR than those set forth herein.

### 3. PROCEEDS

3.1 Assignment of an Interest in the Patent Assets Proceeds. In consideration for the Investment and subject to the terms of this Agreement, DSS irrevocably assigns to INVESTOR on each Realization Date its Rights in and to the Patent Assets Proceeds realized by DSS or any of its Affiliates with respect to Claims completed or initiated during the Applicable Period, in an amount equal to the Minimum Return and the Additional Return as hereinafter defined (the “**Assigned Rights**”).

#### 3.2 Proceeds Payments to Claims Proceeds Accounts.

(a) Each of DSS, its Affiliates, special purpose vehicles, Attorneys and agents shall deposit directly into a Claims Proceeds Account all Patent Assets Proceeds until INVESTOR has received its Minimum Return. Thereafter, DSS shall make payments of Patent Assets Proceeds in accordance with the allocations set forth in Section 3.4. Payments by DSS shall be made via wire transfer to the bank account(s) designated by the recipients.

(b) DSS, for itself and on behalf of its Attorneys, shall promptly notify INVESTOR of the receipt of Patent Assets Proceeds, and shall immediately thereafter make prompt payment of all amounts payable to INVESTOR under the terms of this Agreement, which in any case shall be paid no later than five (5) Business Days after deposit of same into the Claims Proceeds Account. The Parties hereto and their respective assignees and successors in interest agree that no payments of such Patent Assets Proceeds may be made except in conformance with this Agreement. DSS hereby (i) irrevocably instructs and will instruct Attorneys to pay Patent Assets Proceeds in accordance with the terms of this Agreement and (ii) covenants that it will not direct Attorneys to taken any action which conflicts with such irrevocable instructions.

3.3 **INVESTOR'S Return.** (a) Subject to Section 3.4 below, DSS shall pay INVESTOR, solely from realized Patent Assets Proceeds, a return (the " **INVESTOR'S Return**") equal to sum of:

- i. either (A) the Multiple or (B) the IRR Return, whichever is greater (the " **Minimum Return**"); and
- ii. [\*] percent ([\*]%) of Patent Assets Proceeds net of the Minimum Return (the " **Additional Return**");

(b) In addition, and as additional consideration for the Investment, DSS shall issue INVESTOR a warrant to purchase up to 750,000 shares of DSS common stock in accordance with the terms of a Warrant agreement to be executed by DSS on the date hereof.

3.4 **Payment Priority of Proceeds.** INVESTOR shall have priority of payment regarding Patent Assets Proceeds as follows:

	From Patent Assets Proceeds
Until payment in full of the Commitment amount	[*]%
Thereafter, until payment in full of the Minimum Return	[*]%
Thereafter, as Additional Return	[*]%

#### 4. SECURITY INTEREST

4.1 **Security Interest.** DSS grants and assigns to INVESTOR a senior security interest in the Claims, the Patent Assets and the Patent Assets Proceeds (whether now existing or hereafter from time to time arising or acquired pursuant to Section 2.4) in order to secure payment to INVESTOR of INVESTOR's Return, and DSS shall execute and deliver to INVESTOR at the Closing, and INVESTOR may file with necessary filing offices, the Perfection Documents for the purpose of perfecting INVESTOR's Rights in and to the Claims, Patent Assets and Patent Assets Proceeds as set forth above, and as notice to third parties that DSS has conveyed any interest it may have in or to such Claims, Patent Assets and Patent Assets Proceeds (the " **Security Interest**").

#### 5. CLOSING

5.1 **Conditions Precedent to the Investment.** INVESTOR shall only be obligated to make the Investment if on the Closing Date:

- (a) The representations and warranties of DSS contained in Section 6.1 of this Agreement shall be true and accurate in all material respects; and
- (b) No Default shall have occurred and be continuing or would result from the transactions to be consummated at such time.

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

5.2 Closing. The obligations of the Parties hereunder shall become effective when and only when each of the following conditions is satisfied (or waived in writing by the appropriate Party):

(a) DSS shall have authorized in writing the contents and filing of the Perfection Documents; and

(b) DSS shall have demonstrated to INVESTOR that it has contingent arrangements and a budget in place, acceptable to INVESTOR, to assure that Claims Costs and Expenses for asserting the Claims can be met by DSS either through the Investment, arrangements with Attorneys or otherwise.

5.3 Delivery of Investment. Subject to the satisfaction of the conditions to Closing set forth in Sections 5.1 and 5.2, INVESTOR shall deliver the Investment to DSS as set forth in Annex C.

## 6. REPRESENTATIONS, WARRANTIES AND INVESTMENT-RELATED DISCLOSURES

6.1 DSS's Representations, Warranties and Investment-Related Disclosures. DSS makes the representations and warranties set out in this Section 6.1 to INVESTOR as of (i) the date of this Agreement and (ii) the Closing Date:

(a) Organization and Good Standing. DSS is a corporation organized, validly existing and in good standing under the laws of New York, and is Authorized to conduct business in New York and all other jurisdictions in which it conducts business or operations.

(b) Authorization and Enforceability. DSS has the requisite power and authority to execute and deliver this Agreement and the other Funding Documents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by DSS of this Agreement and the other Funding Documents and the consummation of the transactions contemplated hereby and thereby have been duly Authorized by all required action on the part of DSS.

(c) Due Execution. This Agreement and the other Funding Documents have been duly executed and delivered by DSS, and, assuming the due authorization, execution and delivery hereof and thereof by INVESTOR, they constitute the valid and legally binding obligations of DSS enforceable in accordance with their terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights generally and by general principles of equity.

(d) Litigation. There is no claim, action, suit, proceeding, arbitration, investigation or inquiry pending before any governmental entity, or to the knowledge of DSS, threatened against DSS or any of its assets, that would have a Material Adverse Effect on DSS, except as set forth in Schedule 6.1(d) hereto. There is not in existence at present and, except in connection with the Claims, DSS is not aware of the potential for any order, judgment or decree of any court or other tribunal or any agency enjoining or requiring DSS to take any action of any kind or to which DSS or its assets are subject or bound, other than as set forth in Schedule 6.1(d) hereto.

(e) Title to Property; Absence of Liens and Encumbrances. As of the date of this Agreement and the Closing Date, DSS is solvent, and owns or will own and has or will have good and marketable title to the Patent Assets Proceeds, Claims, and Patent Assets free and clear of all liens and encumbrances or Security in favor of any Person, except for the preexisting third-party licenses to certain of the Patent Assets set forth in Schedule 6(e) and liens of the INVESTOR or Attorneys pursuant to Attorney Engagement Agreements.

(f) No Conflicts. The execution, delivery and performance by DSS of this Agreement and the other Funding Documents in accordance with their respective terms do not and will not, after the giving of notice, or the lapse of time or both, or otherwise (i) conflict with, result in a breach of, or constitute a default under the charter or corporate documents of DSS or any law, statute, ordinance, rule or regulation, or any court or administrative order or process or any contract, agreement, arrangement, commitment or plan to which DSS is a party or by which DSS or its assets are bound, (ii) require the consent, waiver, approval, permit, license, clearance or authorization of, or any declaration or filing with, any court or public agency or other public authority, or (iii) require the consent of any Person under any material agreement, arrangement, or commitment of any nature.

(g) Investment-related disclosures. DSS acknowledges that it has and will have superior knowledge regarding the Patent Assets and Claims, due at least in part to its involvement and familiarity with the facts underlying the Patent Assets and its eventual assertion of Claims relating thereto. Moreover, DSS acknowledges that it has and will have access to information regarding the Patent Assets and Claims that will not be available to INVESTOR. In connection with entering into this Agreement, DSS has provided (or has caused its Attorneys to provide) certain information to INVESTOR, including material factual information pertaining to the Patent Assets and potential Claims; *provided, however*, that DSS declares that DSS could not and has not provided any disclosure of information or documents protected by the attorney-client or work product privileges, and that the materials and disclosures that have been provided in the course of INVESTOR's due diligence (or that will be provided in the future in accordance with the terms of this Agreement) shall be bound by and in compliance with any applicable confidentiality agreements or protective orders relating to the enforcement of future Claims. All such information has been provided by DSS in consultation with its Attorneys and other counsel, and DSS hereby warrants that all such information was / is true, complete and accurate in all material respects as of the date it was provided and as of the Closing Date. DSS acknowledges that INVESTOR has relied on the accuracy and completeness of this information in agreeing to make the Investment. DSS confirms that it has disclosed all facts in its own possession that DSS reasonably believes could affect INVESTOR's decision to make the Investment. If DSS is or becomes aware of information that it reasonably believes could affect INVESTOR's decision to make the Investment and DSS is prohibited from disclosing such information because it is privileged or subject to a judicially determined protective order, then DSS shall disclose to INVESTOR the fact that such information exists along with DSS's assessment (after consultation with counsel) of such information and its effect, if any, on the claims and defenses, even if it cannot disclose the exact substance of that information.

(h) Attorney Engagement Agreements. As of the date of this Agreement and the Closing Date, each Attorney Engagement Agreement to which DSS is a party (a) is enforceable against the parties thereto in accordance with its terms, (b) has not been challenged, repudiated, terminated, cancelled or annulled by an person or party thereto and (c) as to INVESTOR, does not prohibit, inhibit or give a priority in payment of Patent Assets Proceeds to any person.

(i) Corrupt Practices Policies and Procedures. As of the date of this Agreement and the Closing Date, DSS (i) has in full force and effect policies and procedures to detect and to deter, for itself and its directors, officers, employees, consultants, agents and representatives, any and all actions that would, or would be reasonably likely to, result in a violation of the United States Foreign Corrupt Practices Act (15 U.S.C. Section 78dd-1, et. seq.) as amended (the "FCPA"), the United Kingdom's Bribery Act 2010 (c. 23), as amended (the "Bribery Act") or any other applicable law with similar intent (the "Corrupt Practices Policies and Procedures") and (ii) that, as part of such Corrupt Practices Policies and Procedures, DSS shall provide in any and all agreements with third parties who may benefit from the Investment or receive Patent Assets Proceeds that no part of the Investment or Patent Assets Proceeds or any other payment, compensation, reimbursement or fee will be used directly or indirectly as a corrupt payment, gratuity, emolument, bribe, kickback or other improper benefit. DSS shall provide to the INVESTOR and / or its representatives all supporting documents requested by the INVESTOR to ensure compliance with the Corrupt Practices Policies and Procedures, the FCPA, the Bribery Act and all other applicable laws with similar intent.

6.2 INVESTOR's Representations and Warranties. INVESTOR makes the representations and warranties set out in this Section 6.2 to DSS as of the date of this Agreement and the Closing Date:

(a) Organization and Good Standing. INVESTOR is duly organized in its jurisdiction as set forth in the Preamble.

(b) Authorization and Enforceability. INVESTOR has the requisite power and authority to execute and deliver this Agreement and the other Funding Documents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by INVESTOR of this Agreement and the other Funding Documents and the consummation of the transactions contemplated hereby and thereby have been duly Authorized by all required action on the part of INVESTOR.

(c) Due Execution. This Agreement and the other Funding Documents have been duly executed and delivered by INVESTOR, as appropriate, and, assuming the due authorization, execution and delivery hereof and thereof by DSS or any other third party thereto, they constitute the valid and legally binding obligations of INVESTOR enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights generally and by general principles of equity.

(d) No Conflicts. The execution, delivery and performance by INVESTOR of this Agreement and the other Funding Documents in accordance with their respective terms do not and will not, after the giving of notice, or the lapse of time or both, or otherwise (i) conflict with, result in a breach of, or constitute a default under INVESTOR's constitutive documents or any law, statute, ordinance, rule or regulation, or any court or administrative order or process or, any contract, agreement, arrangement, commitment or plan to which INVESTOR is a party or by which INVESTOR or its assets is bound, (ii) require the consent, waiver, approval, permit, license, clearance or authorization of, or any declaration or filing with, any court or public agency or other public authority, or (iii) require the consent of any Person under any material agreement, arrangement, or commitment of any nature.

(e) Litigation. There is no claim, action, suit, proceeding, arbitration, investigation or inquiry pending before any governmental entity, or to the knowledge of INVESTOR, threatened against INVESTOR, or one of its related entities, that would impact or restrict INVESTOR's ability to comply with the terms of this Agreement. INVESTOR is not aware of the potential for an order, judgment or decree of any court or other tribunal or any agency enjoining or requiring INVESTOR to take any action of any kind or to which INVESTOR or its assets are subject or bound.

## 7. COVENANTS AND TAXES

7.1 Covenants. For the Term of this Agreement, DSS shall (unless it has obtained prior written consent from INVESTOR to the contrary), at its sole cost and expense:

(a) obtain, comply with and use commercially reasonable efforts to do all that is necessary to remain solvent and to maintain DSS as a legal entity with all requisite Authorizations under all applicable law or jurisdictions to carry on its respective businesses in connection with the Patent Assets and Claims;

(b) prosecute, and take all necessary actions to ensure that it prosecutes (and where reasonable settlement offers are received, settles), the Patent Assets and Claims with all due skill and care including, without limitation, maintaining the appointment of appropriate Attorneys to act on the behalf of DSS with respect to the Claims; in this regard, DSS acknowledges and agrees that INVESTOR will not (i) direct the activities of any Attorneys or the Claims, (ii) provide any legal professional services to DSS, (iii) appear on pleadings or participate in decisions or settlement negotiations for the Claims, (iv) have an attorney-client relationship with DSS or (v) charge for any consultancy services either during the course of prosecution of the Claims or upon settlement or other Claims resolution;

(c) without the prior written consent of INVESTOR, except as set forth in Sections 2.4, not accept or agree to deploy the capital of any third party lender or capital source in connection with the Claims;

(d) not allow any other Person to hold any Security or payment priority over the Claims, Patent Assets Proceeds and Patent Assets or any rights thereto, without the prior written consent of INVESTOR, which consent may be withheld in the sole and absolute discretion of INVESTOR;

(e) not transfer, sell, assign or otherwise dispose of any of its Rights in or under any of the contracts or agreements relating to the Claims, Patent Assets, or the Patent Assets Proceeds, including by entering into non-litigation covenants or unconditional licenses as to the Patent Assets that would create exhaustion as to other actual or potential Defendants (but not to be interpreted to preclude entry into patent licenses);

(f) directly or through Attorneys, keep INVESTOR timely informed of material developments in the Patent Assets and Claims and all facts and circumstances that may affect the value of Claims, the Patent Assets and / or Patent Assets Proceeds related thereto;

(g) provide INVESTOR with copies of all settlement agreements regarding the Claims and other agreements between DSS and third parties resulting in or from the monetization of the Patent Assets, except when legally precluded from doing so pursuant to the terms of any such settlement agreement. DSS will use best efforts to ensure that such agreements permit INVESTOR to receive copies thereof.

(h) DSS shall not, and shall ensure that all of its Affiliates shall not, be in violation of the Foreign Corrupt Practices Act (15 U.S.C. Section 78dd-1, et. seq.) as amended (the "FCPA") or any other applicable law with similar intent. With respect to this Agreement, DSS and its directors, officers, employees, consultants, agents and representatives will not, directly or indirectly through third parties, pay, promise or offer to pay, or authorize the payment of, any money or give any promise or offer to give, or authorize the giving of anything of value to any individual, entity, or government for purposes of corruptly obtaining or retaining business for or with, or directing business to, any person, including, without limitation, DSS, marvelLED Technologies, LLC, or any of their respective Affiliates, owners, directors, employees, advisors or consultants. DSS shall, and DSS shall ensure that all of its Affiliates, directors, employees, consultants and agents, provide to INVESTOR and / or its representatives and advisors all supporting documents requested by INVESTOR to ensure compliance with the FCPA or applicable law with similar intent. During the Term hereof, DSS shall maintain in full force and effect its Corrupt Practice Policies and Procedures and shall ensure that its directors, officers, employees, consultants, agents and representatives shall be, at all times, in full compliance therewith.

## 7.2 Taxes.

(a) Tax Certification and Withholding. All Taxes shall be the financial responsibility of the Party obligated to pay such Taxes as determined by the applicable law, and no Party is or shall be liable at any time for any of another Party's Taxes incurred in connection with or related to amounts paid under this Agreement. DSS shall make each and all payments hereunder to INVESTOR without any deduction or withholding on account of any Taxes, *provided that* INVESTOR shall furnish to DSS a completed and properly executed U.S. Internal Revenue Service Form W-9. Each Party shall indemnify, defend and hold the other Parties harmless from and against any Taxes owed by or assessed against the other Parties that are the obligation of such Party and from any Purchased Assets, causes of action, costs, expenses, reasonable attorneys' fees, penalties, assessments and any other liabilities of any nature whatsoever related to such Taxes.

(b) Consistent Tax Treatment. The Parties shall, for United States federal, state and local income and franchise tax purposes, treat this Agreement as effecting an "assignment of income" with respect to the interest in the Patent Assets Proceeds transferred and assigned by DSS to INVESTOR . No Party shall take any position in any tax filing, submission to any tax authority, or otherwise that is inconsistent with this intended tax treatment. Each Party shall promptly notify the other of any challenge by any tax authority to the tax treatment of any payment pursuant to this Agreement.



7.3 Successor or Replacement Attorneys. In the event that an Attorney withdraws from prosecuting the Claims or otherwise ceases to act as an Attorney, then DSS shall appoint successor Attorneys to act as its counsel for the Claims, *provided, however*, that DSS shall give INVESTOR ten (10) Business Days' prior written notice of the Attorneys it proposes to appoint as successors. DSS shall retain exclusive control to select counsel and to direct the activities of counsel. Should such successor or replacement Attorneys be so appointed, all references to the original Attorney(s) for the Claim(s) shall, where appropriate and effective as of the date of their appointment, be deemed to be a reference to such successor or replacement Attorneys.

## 8. EVENTS OF DEFAULT

8.1 Events of Default. Each of the events or circumstances set out below is an Event of Default:

(a) Non-payment. DSS fails to pay when due any amount payable under this Agreement at the place and in the currency in which it is expressed to be payable and such failure to pay is not remedied within five (5) Business Days of INVESTOR giving written notice to DSS.

(b) Other Obligations. DSS fails to comply with any provision of the Funding Documents (other than those referred to in subsection (a) above, (including, but not limited to, the Covenants set forth in Article 7), and such failure to comply, if capable of being remedied, is not remedied within ten (10) Business Days of INVESTOR giving written notice to DSS.

(c) Misrepresentation. Any representation, warranty or statement made by DSS in this Agreement, in the other Funding Documents or any other document delivered by or on behalf of DSS under or in connection herewith or therewith is or proves to have been incorrect, incomplete or misleading in any material respect, and such representation, warranty or statement is not remedied by DSS within ten (10) Business Days of DSS becoming aware that it is incorrect, incomplete or misleading.

(d) Insolvency.

(i) DSS is unable or admits inability to pay its debts as they fall due; suspends making payments on any of its material financial obligations; or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors to renegotiate any of its indebtedness. For purposes of this subsection, an extension of the maturity date only of any debt instrument (with a corresponding reduction in maturity date balloon payment) shall not be deemed an Event of Default;

(ii) The value of the assets of DSS (after taking into account the Investment) is less than its liabilities; and

(iii) A judicially imposed moratorium is declared in respect of any indebtedness of DSS. If such a moratorium occurs, the ending of the moratorium will not remedy any Event of Default caused by that moratorium.

(e) Insolvency Proceedings. Any legal proceedings are taken in relation to:

(i) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, liquidation, administration or reorganization (by way of voluntary arrangement, scheme of arrangement, or otherwise) of DSS;

(ii) the filing of a voluntary petition for relief under the bankruptcy provisions of any jurisdiction by DSS or the filing of an involuntary petition for relief against DSS which is not dismissed within 45 days of such filing;

(iii) a composition, compromise, assignment or arrangement with any creditor of DSS, other than in the ordinary course of business;

(iv) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of DSS or substantially all of the assets of DSS; or

(v) enforcement of any Security having a value of at least \$[\*] over any assets of DSS;

or any analogous procedure or step is taken in any jurisdiction.

(f) Creditors process. Any expropriation, attachment, sequestration, distress or execution or any analogous process with respect to DSS in any jurisdiction affects any material asset of DSS and is not discharged within five (5) Business Days.

(g) Incurrence of Indebtedness. DSS shall not, directly or indirectly, incur or guarantee any additional indebtedness in the aggregate in excess of \$1,000,000, except as may be consented to in writing by INVESTOR, such consent not to be unreasonably withheld. This provision shall not be interpreted to preclude the incurrence of indebtedness by DSS's Affiliates related to capital asset purchases made by such Affiliates in the ordinary course of their respective businesses.

8.2 Rights and Remedies. During the continuance of an Event of Default, INVESTOR may, in its sole and absolute discretion, upon at least fifteen (15) Business Days' written notice to DSS, do any one or more of the following:

(a) require DSS to remit to INVESTOR any balance of the Investment remaining, whether held in DSS bank accounts or in an attorney client escrow account.

(b) except as otherwise provided herein, without notice to or demand upon DSS, make such payments and do such acts, on behalf of DSS, as INVESTOR reasonably considers necessary or reasonable to protect its rights under this Agreement;

(c) except as otherwise provided herein, in addition to the foregoing, INVESTOR shall have all rights and remedies provided by law and any rights and remedies contained in any Funding Document (including without limitation enforcing its security interest in the Patent Assets Proceeds, the Claims, and Patent Assets).

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

8.3 Special Power of Attorney. DSS hereby appoints INVESTOR (or its respective representatives), effective only upon the occurrence and during the continuance of any Event of Default referred to in Section 8.1(d) or 8.1(e), as its attorney-in-fact, with full power of substitution, to do all things and take all actions, in its own name and as attorney-in-fact for DSS, to pursue any of DSS's Rights with respect to and/or in the Claims and to engage such legal counsel for the account of DSS, but at the cost of INVESTOR that INVESTOR shall, in its good faith judgment, deem to be in the best interests of INVESTOR and DSS. This Special Power of Attorney shall at all times be coupled with an interest and shall survive the dissolution, insolvency or bankruptcy (as the Claims may be under the laws of any jurisdiction) of DSS. Notwithstanding any provision in this Agreement or the other Funding Documents to the contrary, any and all Patent Assets Proceeds received by or on behalf of DSS on or after INVESTOR's exercise of its rights in accordance with this Section 8.3 shall be distributed to INVESTOR up to the amount of the INVESTOR's Return. Any costs incurred by INVESTOR pursuant to the exercise of its rights under this Section 8.3 shall be treated as part of the Investment and subject to recovery as part of the INVESTOR's Return. INVESTOR shall have the right to delegate the powers provided for in this Section 8.3 to a third party.

## 9. GOVERNING LAW; WAIVER OF SPECIFIC DEFENSES; DISPUTES

9.1 **GOVERNING LAW**. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH NEW YORK STATE LAW, WITHOUT REGARD TO ITS CONFLICT OF LAWS RULES, OR IN ACCORDANCE WITH APPLICABLE U.S. FEDERAL LAW.

9.2 Specific Waivers. DSS irrevocably waives and forever and unconditionally releases, discharges and quitclaims, any claims, counterclaims, defenses, causes of action, remedies and/or rights it or its successors in interest has or may in the future have arising from any doctrine, rule or principle of law or equity that this Agreement, or the relationships or transactions contemplated by this Agreement, (i) are against the public policy of any jurisdiction with which DSS has a connection, or (ii) are unconscionable, or (iii) constitute champerty, maintenance or any impermissible transfers or assignments of property, fees or choses in action, or (iv) violate the rules of professional ethics applicable to DSS, INVESTOR or any of their lawyers or professional advisers.

9.3 Arbitrable Claims. All actions, disputes, claims and controversies under common law, statutory law, rules of professional ethics, or in equity of any type or nature whatsoever, whether arising before or after the date of this Agreement, and directly relating to: (a) this Agreement and/or any amendments and addenda hereto, or the breach, invalidity or termination hereof; (b) any previous or subsequent agreement between INVESTOR and DSS related to the subject matter hereof; (c) any act or omission committed by INVESTOR or by any Person affiliated with INVESTOR, or by any member, employee, agent, or lawyer of INVESTOR, whether or not arising within the scope and course of employment or other contractual representation of INVESTOR (provided that such act arises under a relationship, transaction or dealing between INVESTOR and DSS); and/or (d) any act or omission committed by DSS, or by any employee, agent, partner or lawyer of DSS whether or not arising within the scope and course of employment or other contractual representation of DSS (provided that such act arises under a relationship, transaction or dealing between INVESTOR and DSS) (collectively, the "**Disputes**"), will be subject to and resolved by binding arbitration under these Sections 9.3 – 9.8. The Parties agree that the arbitrators have exclusive jurisdiction, to the exclusion of any court (except as specifically provided with regard to pre-judgment, provisional, or enforcement proceedings in Section 9.5), to decide all Disputes.

9.4 Administrative Body. Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the Arbitration Rules of The London Court of International Arbitration (LCIA) ([www.lcia-arbitration.com](http://www.lcia-arbitration.com)) which rules are deemed to be incorporated herein by reference. All arbitrator(s) selected will be lawyers with at least ten (10) years' experience and be licensed to practice law in the United States. A panel of three arbitrators shall hear all claims exceeding One Million Dollars (\$1,000,000), exclusive of interest, costs and lawyers' fees. The arbitrator(s) will decide if any inconsistency exists between the rules of the applicable arbitral forum and the arbitration provisions contained herein. If such inconsistency exists, the arbitration provisions contained herein will control and supersede such rules. The arbitrator shall follow the terms of this Agreement and the applicable state and U.S. federal law set forth herein, including without limitation, the attorney-client privilege and the attorney work-product doctrine. The seat, or legal place, of arbitration shall be London, England, and hearings before the arbitral tribunal shall be held in London, England unless the Parties agree to a different arbitral seat and/or locale. The language to be used in the arbitral proceedings shall be English.

9.5 Prejudgment and Provisional Remedies. Prior to appointment of the arbitrator, either Party may commence judicial proceedings only for the purpose(s) of: (i) enforcement of the arbitration provisions; (ii) obtaining appointment of arbitrator(s); (iii) preserving the status quo of the Parties pending arbitration as contemplated herein; (iv) preventing the disbursement by any Person of disputed funds; and/or (v) preserving and protecting the rights of either Party pending the outcome of the arbitration. Any such action or remedy will not waive a Party's right to compel arbitration of any Dispute, and any Party may also file court proceedings to have judgment entered on the arbitration award. In any action for prejudgment or provisional relief, any court in which such relief is sought shall determine the availability of such relief without regard to any defenses that may be asserted by the other Party, and any such defenses shall be referred to the exclusive jurisdiction of the arbitrators under Section 9.3. The Parties further agree that a court shall not defer or delay granting prejudgment or provisional relief while any such arbitration takes place.

9.6 Attorneys' Fees. If either DSS or INVESTOR brings any other action for judicial relief with respect to any Dispute (other than those precisely described in Section 9.5), the Party bringing such action will be liable for and immediately pay all of the other Party's costs and expenses (including attorneys' fees) incurred to stay or dismiss such action and remove or refer such Dispute to arbitration. If either DSS or INVESTOR brings or appeals an action to vacate or modify an arbitration award and such Party does not prevail, such Party will pay all costs and expenses, including attorneys' fees, incurred by the other Party in defending such action.

9.7 Enforcement. Any award rendered under this Section shall not be subject to appeal and may be enforced under any and all applicable treaties and internal laws of the jurisdiction where the award-debtor is located, including without limitation under the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention).

9.8 Confidentiality of Awards. All arbitration proceedings, including testimony or evidence at hearings, will be kept confidential, although any award or order rendered by the arbitrator(s) pursuant to the terms of this Agreement may be confirmed as a judgment or order in any state or federal or other national court of competent jurisdiction where proceedings are necessary or appropriate to enforce any award or order. This Agreement concerns transactions involving commerce among the several states and foreign countries.

9.9 Survival After Termination. The provisions of this Section 9 will survive the termination of this Agreement.

## 10. MISCELLANEOUS

10.1 Entire Agreement and Amendments. This Agreement and the other Funding Documents constitute the entire agreement between the Parties with respect to the matters covered herein and supersede all prior agreements, promises, representations, warranties, statements, and understandings with respect to the subject matter hereof as between DSS and INVESTOR. Each of this Agreement and the Funding Documents are fully enforceable in accordance with their terms. This Agreement may not be amended, altered, or modified except by an amendment or supplement to this Agreement executed by all Parties hereto.

10.2 Partial Invalidity; Severability. If, at any time, any provision of this Agreement or of the other Funding Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provisions under the law of any other jurisdiction will in any way be affected or impaired.

10.3 Remedies and Waivers. No failure to exercise, nor any delay in exercising, on the part of INVESTOR or DSS, of any right or remedy under this Agreement or the other Funding Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law. No provision of this Agreement may be waived except in a writing signed by the party granting such waiver.

10.4 Assignment. This Agreement shall inure to the benefit of, and be binding upon the respective successors and assigns of the Parties. Neither DSS nor INVESTOR shall assign or delegate its rights or obligations under this Agreement or the other Funding Documents without the prior written consent of the other Party; *provided, however*, that, in connection with an eventual syndication by INVESTOR of its rights to potential proceeds from its portfolio of claims, including the Patent Assets Proceeds hereunder, INVESTOR may assign or transfer to a third party all or part of its interest in (i) the Patent Assets Proceeds under this Agreement, (ii) its share of any and all recoveries associated with the Patent Assets and / or Claims and / or Patent Assets Proceeds and (iii) any other rights, licenses or obligations hereunder; *provided, further however*, that the third party assignee or transferee shall not be deemed a client of the Attorneys, shall not have any control over the Claims, shall not become a party to the Claims and shall not have any access to information in respect of the Claims that is privileged or otherwise judicially protected. Notwithstanding the above, INVESTOR may assign, in whole or in part and without the consent of DSS or any other Person, the rights, benefits and obligations of this Agreement to another pooled investment vehicle managed by Juridica Asset Management Limited, a Guernsey company, or its Affiliates or their respective successors and assigns.

## 10.5 Confidentiality.

(a) INVESTOR hereby agrees that, without the prior written consent of DSS, INVESTOR will not disclose, and will direct INVESTOR's representatives (including, without limitation, INVESTOR's outside counsel) not to disclose, to any person (other than to persons and parties with a common commercial, legal interest or enterprise regarding DSS, the Claims, the Patent Assets or Patent Assets Proceeds) either the fact that this Agreement has been made, or any of the parties, terms, conditions or other facts with respect to this Agreement, or any of the information provided by DSS or any Attorney to INVESTOR pursuant to this Agreement (collectively, the "Confidential Information").

(b) INVESTOR further agrees that none of the Confidential Information shall be disclosed to any person or entity; *provided, however*, that any of such information may be disclosed by INVESTOR and / or DSS (A) to INVESTOR's representatives so long as such representatives are informed of the nature of this Agreement and agree to abide by the terms of the same; (B) to the extent INVESTOR and / or DSS is legally required to do so, to government agencies, regulatory bodies or representatives thereof, courts, arbitral tribunals or pursuant to legal process, *provided that* (I) the non-disclosing Party is provided prior notice as soon as reasonably practical upon disclosing Party's learning of any request and opportunity to contest such request, (II) DSS or INVESTORS, as the case may be, is provided an opportunity to seek a protective order or other remedy with respect to the disclosure, including without limitation, to ensure that such Confidential Information as is required to be disclosed is afforded confidential treatment, (III) the disclosing Party shall use commercially reasonable efforts to cooperate with the non-disclosing Party in obtaining a protective order or other remedy with respect to such disclosure, and (IV) in the event a protective order or other remedy is not obtained, INVESTOR or DSS, as the case may be, shall use commercially reasonable efforts to assure the non-disclosing Party that the disclosing Party or its representatives will only furnish that portion of the Confidential Information that is legally required to be disclosed, or (C) if the non-disclosing Party consents in writing to such disclosure before any such disclosure has taken place.

(c) Notwithstanding anything in this Agreement to the contrary, including the provisions of Sections 10.5(a) and 10.5(b), the Parties agree that DSS may make such filings and disclosures of Confidential Information as it determines, upon advice of counsel, are required by federal and state securities laws and stock exchange rules applicable to DSS, including without limitation, the United States Securities Exchange Act of 1934, as amended (collectively, "Securities Laws"), provided that DSS will use reasonable efforts to seek confidential treatment for Confidential Information that DSS determines, upon advice of counsel, is permitted to be obtained under the Securities Laws. The Parties agree that promptly following the execution of this Agreement DSS will issue a press release and within four (4) business days following the execution of this Agreement, DSS will file with the United States Securities and Exchange Commission a Current Report on Form 8-K ("Form 8-K") disclosing the execution of this Agreement and other disclosures required by the Securities Laws. DSS will provide copies of the press release and the Form 8-K to INVESTOR for INVESTOR's review in advance of DSS's issuance of the press release and filing of the Form 8-K.

10.6 Notices.

(a) All notices, reports and other communications required or permitted under this Agreement shall be in writing. They shall be delivered by hand or sent by regular mail, courier, fax, email or other reliable means of electronic communication to the Parties at their addresses indicated below or at such other address as may be specified hereafter in writing by any of the Parties to the other Party in accordance with this Section 10.6.

If to DSS:

Document Security Systems, Inc.  
200 Canal View Blvd.  
Suite 300  
Rochester, New York 14623  
Attention: Jeff Ronaldi, Chief Executive Officer  
Email: [ronaldi@dsssecure.com](mailto:ronaldi@dsssecure.com)

With a copy to: Document Security Systems, Inc.  
200 Canal View Blvd., Suite 300  
Rochester, New York 14623  
Attention: Jeffrey D'Angelo, General Counsel  
Email: [jdangelo@dsssecure.com](mailto:jdangelo@dsssecure.com)

If to BKI: Brickell Key Investments LP  
11 New Street  
St. Peter Port  
Guernsey GY1 2PF  
Attention: Corporate Secretary  
Fax: [\*]  
Email: [\*]

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

With a copy to:

Juridica Asset Management Limited  
11 New Street  
St. Peter Port  
Guernsey GY1 2PF  
Attention: Corporate Secretary  
Fax: [\*]  
Email: [\*]

and

Juridica Asset Management (US) Inc.  
18 Broad Street  
Suite 201D  
Charleston, SC 29401  
U.S.A.  
Attention: [\*]  
Fax: [\*]  
Email: [\*]

(b) Any notice, report or other communication hereunder shall be deemed to have been delivered and received (i) on the date delivered, if delivered personally by hand or sent by courier, (ii) on the date sent, if sent by fax, email or other form of electronic communication, and (iii) five (5) Business Days after mailing, if placed in the US mail or Guernsey mail, as the Claims may be, by registered or certified mail, first class postage prepaid, with a request for a confirmation of delivery.

(c) Any notice, report or other communication sent under Sections 8 or 9 that is sent by fax, email or other electronic communication must be confirmed by sending a hard paper copy thereof to the recipient in accordance with subsection (a) above, provided, the effective date of such notice, report or other communication shall be as specified in subsection (b) above. If the recipient actually received the fax, email or other electronic form of a notice, report or other communication, then the notice, report or other communication shall be deemed to have been given and delivered even if sender fails to send a hard copy as called for in this subsection.

#### 10.7 Indemnification.

(a) DSS shall indemnify and hold harmless INVESTOR and its partners, shareholders, officers, directors, employees, representatives, managers, advisers and each of their respective Affiliates (collectively, "Indemnitees") from and against any and all actions, losses, costs, charges, damages, claims, sanctions, penalties, expenses and reasonable defense costs (collectively, "Costs") arising from (i) any breach of this Agreement by DSS (other than a breach of Section 3.3(a) resulting solely from insufficient receipt of Patent Assets Proceeds by DSS, in which case INVESTOR's recourse shall be limited to such Patent Assets Proceeds), (ii) from DSS' willful misconduct, bad faith or gross negligence in connection with performing its obligations under this Agreement and (iii) from any Costs imposed or awarded by any court, regulatory body or arbitration panel arising from or relating to the Claims, the Patent Assets, the Patent Assets Proceeds, the Security Interest and / or this Agreement including, but not limited to, INVESTOR's and Juridica Asset Management Limited's costs, fees and expenses incurred for responding to discovery requests relating to Claims. DSS shall not be required to indemnify any Indemnitee for Costs associated with such Indemnitee's gross negligence, bad faith or willful misconduct. DSS' obligations to provide indemnification under this clause shall be full-recourse obligations with respect to DSS, and is not limited to the value of the Patent Asset Proceeds.

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.



(b) Any Indemnitee who receives notice of a claim for which it will seek indemnification hereunder shall promptly notify DSS of such claim in writing. DSS shall have the right to assume the defense of such action at its own cost and expense with counsel reasonably satisfactory to the Indemnitee, but shall not have the right to settle or compromise any claim or action without the consent of Indemnitee, which shall not be unreasonably conditioned, withheld or delayed, and shall not be required if such settlement contains a release of INVESTOR and no admission of liability. If DSS assumes the defense of such action, Indemnitee shall have the right to participate in such defense with its own counsel at its own cost and expense.

(c) Subject to the limitation set forth in Section 10.7(a)(i), DSS' obligations pursuant to this Section 10.7 shall not be limited to realized Patent Assets Proceeds, but shall be payable from all DSS assets.

10.8 Counterparts. This Agreement may be executed in counterparts which, when read together, shall constitute a single instrument, and this has the same effect as if the signatures on the counterparts were on a single copy hereof. Delivery of signature pages via e-mail PDF shall constitute original signatures for purposes of this Agreement. A composite copy of this Agreement may be compiled comprising a single copy of the text of this Agreement and one or more copies of the signature pages containing collectively the signatures of all Parties.

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**SCHEDULE A  
PATENT ASSETS  
(US Patent Nos.)**

<b>No.</b>	<b>Patent No.</b>	<b>Country</b>	<b>Status</b>	<b>Title</b>	<b>Application No.</b>	<b>Filing Date</b>
[*						]

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

**SCHEDULE 6.1(d)**

**LITIGATION**

DSS Technology Management, Inc. v. Taiwan Semiconductor Manufacturing Company, Limited; TSMC North America; TSMC Development, Inc.; Samsung Electronics Co., Ltd.; Samsung Electronics America, Inc.; Samsung Telecommunications America L.L.C.; Samsung Semiconductor, Inc; Samsung Austin Semiconductor LLC; NEC Corporation of America, Civil Action No. 2:14-cv-199-RSP (E.D. Texas)

**SCHEDULE 6.1(e)**

**EXISTING LICENSES**

LED POOL Membership Agreement (Intellectual Discovery-Kumbo Electric, Inc.)

LED POOL Membership Agreement (Intellectual Discovery-Iijin LED Co. Ltd.)

Patent Licensing Agreement (Intellectual Discovery-Samsung Group/Samsung Electronics Co.)

Patent Licensing Agreement (Avago-Agilent Technologies, Inc.)

Patent Licensing Agreement (Avago-Chartered Silicon Partners Pte. Ltd.)

Patent Licensing Agreement (Avago-LumiLeds Lighting B.V.)

Patent Licensing Agreement (Avago-U.S. based semi-conductor design/manufacturing co.)

Patent Licensing Agreement (Avago-Avago Technologies Limited)

Patent Licensing Agreement (Avago-IBM Corporation)

Patent Licensing Agreement (Avago-Logitech International S.A.)

Patent Licensing Agreement (Avago-Alcatel-Lucent S.A.)

Patent Licensing Agreement (Avago-Agere Systems Guardian Corporation)

Patent Licensing Agreement (Avago-Ericsson-HP Telecom-France)

Patent Licensing Agreement (Avago-Ericsson-HP Telecom-Sweden)

Patent Licensing Agreement (Avago-Hewlett-Packard Company)

Patent Licensing Agreement (Avago-Hua-Pua)

Patent Licensing Agreement (Avago-Hugin Expert)

Patent Licensing Agreement (Avago-Idea, LLC)

Patent Licensing Agreement (Avago-ImagineCard)

Patent Licensing Agreement (Avago-HP Corporation)

Patent Licensing Agreement (Avago-Intria-HP Potomac)

Patent Licensing Agreement (Avago-Liquidity Management Group)

Patent Licensing Agreement (Avago-PT Berka Services)

Patent Licensing Agreement (Avago-Putial Ome)

Patent Licensing Agreement (Avago-Sopura Systems)

Patent Licensing Agreement (Avago-Syc)

## ANNEX A

### General Principles for Disclosure of Material Events or Changes

DSS or your Attorneys (“you”, “your”) should timely inform INVESTOR (“us”) of any new or unexpected Patent Assets and Claims developments concerning a material change in, among other things:

- strategy;
- public profile or any public reporting about the Patent Assets and Claims;
- facts or law, including factual or legal assumptions about the Patent Assets and Claims;
- developments that may affect the outcome of the Patent Assets and Claims; and
- your expectations about the posture and timing of the Patent Assets and Claims.

Please report any material change in the status of the Patent Assets and Claims. Please be sure to select the appropriate persons to receive email notification. If in doubt, you may also notify us by email or telephone in addition to your posted message.

### Regular and Timely Filing of Important Documents

Please note that, while we anticipate you will provide us certain important documents, we do not expect you to (and request that you do not) send to us all documents related to the Claims. For example, please *do not* send to us:

- copies of every document filed with any court in the Claims;
- deposition transcripts unless specifically requested; and
- routine correspondence.

However, please *do* send us the following important documents:

- key substantive pleadings such as the complaint and responsive pleadings, motions to dismiss, summary judgment or other dispositive motions, and key rulings and orders by the court;
- key documents related to any material event or change in the Patent Assets and Claims;
- any documents related to possible settlement or other resolution of the Claims, including copies of settlement agreements regarding the Claims and other agreements with third parties resulting in or from the monetization of the Patent Assets; and
- any scheduling order or other documents that relate to timing of potential resolution of the Claims.

### Quarterly Matter Monitoring Report

In addition to the general principles of disclosure outlined herein, you will be required to provide us with a quarterly Matter Monitoring Reports (the “*Monitoring Report*”) within 21 days after the end of each calendar quarter-end (“*Quarter Reporting Date*”).

We understand that material developments may arise in the Patent Assets and Claims between Quarter Reporting Dates. Accordingly and as more particularly described in the Proceeds Investment Agreement, please update us if there are material developments in the Patent Assets and Claims, as and when they occur.

### Financial Statements

DSS shall provide INVESTOR copies of its annual audited and quarterly unaudited financial statements. Such financial statements shall reflect DSS’ adequate capitalization for the duration of the length of the litigation process. Such annual audited financial statements shall be provided to INVESTOR within one hundred twenty (120) days following the end of the prior fiscal year and unaudited quarterly financial statements shall be provided to INVESTOR within sixty (60) days following the end of the relevant quarter.

ANNEX B

Funding Percentages of Investment

Investor	Funding Percentage (%)
Brickell Key Investments LP	100

28

ANNEX C

Investment Amount Allocation

Amount	Disbursement Date	Account Information
\$ [*]	On the Closing Date	[*]
\$ [*]	On the Closing Date	[*]

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.



## ANNEX D

### Uses of Investment

1. \$[\*] to acquire the Patent Assets (to be purchased at no more than a [\*]% subordinated interest in the relevant Patent Asset Proceeds to be granted to seller);
2. \$[\*] for Attorneys' Fees (Attorneys to agree to be compensated at [\*]% of standard hourly rates capped at \$[\*], plus a success fee;
3. \$[\*] for out of pocket expenses (capped by Attorneys) to be held in escrow for payment of Claims Costs and Expenses (other than Attorneys' fees); and
4. \$4,500,000.00 for Working Capital and *Inter Partes Review* costs.

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

**ANNEX E**

**List of Perfection Documents**

UCC-1 Financing Statements covering the following:

DSS grants and assigns to INVESTOR a senior security interest in the Claims, the Patent Assets and the Patent Assets Proceeds (whether now existing or hereafter from time to time arising or acquired pursuant to Section 2.4) in order to secure payment to INVESTOR of INVESTOR's Minimum Return and Additional Return.

**ANNEX F**

**Form of Warrant**



THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR UNDER THE SECURITIES LAWS OF ANY STATE OR JURISDICTION AND MAY NOT BE SOLD, OFFERED FOR SALE OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS OR UNLESS THE COMPANY RECEIVES AN OPINION, IN REASONABLY ACCEPTABLE FORM AND SCOPE, OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY, THAT REGISTRATION, QUALIFICATION OR OTHER SUCH ACTIONS ARE NOT REQUIRED UNDER ANY SUCH LAWS.

**DOCUMENT SECURITY SYSTEMS, INC.**

**WARRANT TO PURCHASE COMMON STOCK  
(Expires November 14, 2021)**

Issue Date: November 14, 2016

Warrant Shares: 750,000

FOR VALUE RECEIVED, subject to the provisions set forth below, the undersigned, DOCUMENT SECURITY SYSTEMS, INC., a New York corporation (the "**Company**"), hereby certifies that BRICKELL KEY INVESTMENTS LP, a Delaware limited partnership, or its registered assigns (the "**Holder**") is entitled to subscribe for and purchase from the Company up to 750,000 shares of Common Stock (the "Warrant Shares") at an exercise price of \$1.00 per share (the "**Exercise Price**") for an aggregate cash purchase price of \$750,000 (the "Aggregate Exercise Price") at any time from and after the date hereof and until 5:00 p.m. (Eastern time) on November 14, 2021 (the "**Expiration Date**") upon surrender to the Company at its principal office (or at such other location as the Company may advise the Holder in writing) of this Warrant properly endorsed with the Notice of Exercise attached hereto duly filled in and signed and, if applicable, upon payment in cash or by check of the aggregate Exercise Price for the number of shares for which this Warrant is then exercisable in accordance with the provisions hereof. The number of Warrant Shares is subject to adjustment as provided in Section 3 of this Warrant.

In the event that at any time there is more than one (1) holder of this Warrant (A) the term "**Holder**" shall be deemed to refer to all such holders and each such holder shall be referred to herein as a "**Holder**" and collectively as the "**Holders**", and (B) to any action, approval, or consent of the Holders required or otherwise permitted pursuant to the provisions of this Warrant to be obtained from the Holder, shall be deemed to have been taken, received or otherwise obtained if such action, approval or consent is taken or received or otherwise obtained by or from Holders of Warrants that are collectively exercisable into more than fifty percent (50%) of the Warrant Shares into which this Warrant (taken as a whole) is then exercisable (the "**Requisite Holders**").

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## 1. Exercise of Warrant.

1.1. **Exercise.** This Warrant shall be exercisable in whole or in part from time to time at any time from the date hereof until the Expiration Date, and this Warrant shall expire on the Expiration Date. Upon exercise of this Warrant, the Exercise Price shall be payable in cash or by check.

1.2. **Exercise Procedures; Delivery of Certificate.** Upon surrender of this Warrant with a duly executed Notice of Exercise in the form of Annex A attached hereto, together with payment of the Exercise Price for the Warrant Shares purchased, at the Company's principal executive offices (the "**Designated Office**"), the Holder shall be entitled to receive a certificate or certificates for the Warrant Shares so purchased to the extent certificated, and if not certificated, the Company's records shall be updated to reflect the Warrant Shares so purchased. The Company agrees that the Warrant Shares shall be deemed to have been issued to the Holder as of the close of business on the date on which this Warrant shall have been surrendered together with the Notice of Exercise and payment for such Warrant Shares.

1.3. **Cashless Exercise.** Anything elsewhere contained herein to the contrary notwithstanding, in lieu of payment of the Exercise Price, a Holder may exercise this Warrant by presentation and surrender of this Warrant to the Company, together with a Cashless Exercise Form in the form attached hereto as Annex B (or a reasonable facsimile thereof) duly executed (a "**Cashless Exercise**"). Such presentation and surrender shall be deemed a waiver of the Holder's obligation to pay all or any portion of the Exercise Price, as the case may be. In the event of a Cashless Exercise, the Holder shall exchange this Warrant for that number of Shares determined by multiplying the number of Shares for which this Warrant is being exercised by a fraction, (a) the numerator of which shall be the difference between (i) the then current market price per Share, and (ii) the Exercise Price, and (b) the denominator of which shall be the then current market price per Share. For purposes of any computation under this Section 1.3, the then current market price per Share for the Company's common stock (the "Shares") at any date shall be deemed to be the average of the daily trading price for the ten (10) consecutive trading days immediately prior to the Cashless Exercise. If, during such measuring period, there shall occur any event which gives rise to any adjustment of the number of Warrant Shares, then a corresponding adjustment shall be made with respect to the closing prices of the Shares for the days prior to the Effective Date of such adjustment event. As used herein, the term "trading price" on any relevant date means (A) if the Shares are listed for trading on the New York Stock Exchange, the NYSE MKT Exchange, the NASDAQ Global Market, or the NASDAQ Global Select Market, the closing sale price (or, if no closing sale price is reported, the last reported sale price) of the Shares (regular way), (B) if the Shares were not so listed but quotations for the Shares are reported on the OTC Bulletin Board, the most recent closing price as reported on the OTC Bulletin Board, or (C) otherwise, the fair market value of a Share as determined in good faith by the Board of Directors of the Company, without discount for illiquidity or minority interest.

1.4. **Dividends and Distributions.** If the Company at any time or from time to time after the date hereof declares, orders, pays or makes a dividend or other distribution (including, without limitation, any distribution of cash, other security or other property, by way of dividend or spin-off, reclassification, recapitalization or similar corporate rearrangement or otherwise) on or with respect to its Shares (other than a dividend that is payable in securities and that is subject to Section 3.3) then, and in each such case, the Holder shall be entitled to receive its pro-rata share of cash, stock or other property as and when the same is distributed to the beneficial owners of the Shares, for all Warrant Shares the Holder owns on the record date of such distribution or dividend as a result of a previous exercise of all or a portion of this Warrant.

## 1.5. Redemption of Warrants

(a) Subject to and in accordance with the provisions of this Section 1.5, the Holders shall have the right and option (the "**Redemption Option**") exercisable commencing upon the earliest to occur of the following (each a "**Triggering Event**") (a) a Sale (as hereinafter defined), and (b) the occurrence of an Event of Default under the Proceeds Investment Agreement, to require the Company to redeem and purchase, all or any portion of the Warrant and Warrant Shares from the Holders for a price equal to the then Fair Market Value of the Warrants and Warrant Shares the Company is required to redeem (the "**Redemption Price**"), payable in cash in full. Such Redemption Option shall be exercised by giving written notice (the "**Redemption Option Notice**") to the Company at least ten (10) days prior to (A) the proposed closing date of a proposed Sale, or (B) the date on which an Event of Default occurs, provided, that if the Triggering Event is an acceleration of the Obligations (as defined in the Proceeds Investment Agreement), then the Holder's notice hereunder may be given simultaneously with or as part of the notice accelerating the Obligations. Provided that the Redemption Option is duly exercised, the Redemption Price shall be payable simultaneously with the consummation of the Triggering Event. Upon the Company becoming obligated hereunder to pay the Redemption Price, the Redemption Price is an Obligation (as defined in the Proceeds Investment Agreement) which shall be secured by the Collateral (as defined in the Proceeds Investment Agreement) pursuant to the terms of the Proceeds Investment Agreement.

(b) In the event that and at such time as the Company or its equity holders (x) enters into a binding agreement with respect to any Sale (and in any event, no later than that date which is twenty (20) days prior to the closing of any such proposed Sale), or (y) Company has received notice of the occurrence of an Event of Default, the Company shall, in addition to any notice required under the Proceeds Investment Agreement, give written notice to the Holder (or, if applicable, the holders of the Warrant Shares) setting forth in reasonable detail the circumstances and material terms of the subject Sale agreement or an Event of Default, as the case may be. In conjunction with the giving of any such notice, the Company shall provide or cause to be provided to the Holders any past due consolidated financial statements (whether required pursuant to the Proceeds Investment Agreement or pursuant to this Warrant).

(c) For purposes hereof, "**Sale**" shall mean either (i) the sale, lease, license, transfer, conveyance or other disposition, in one transaction or a series of related transactions, of all or substantially all of the assets of the Company and its Subsidiaries, taken as a whole, or (ii) a transaction or series of transactions (including by way of merger, consolidation, recapitalization, reorganization or sale of securities by the holders of securities of the Company) the result of which is that the stockholders of the Company immediately prior to such transaction are (after giving effect to such transaction) no longer, in the aggregate, the "**beneficial owners**" (as such term is defined in Rule 13d-3 and Rule 13d-5 promulgated under the Securities Exchange Act), directly or indirectly through one or more intermediaries, of more than 50% of the voting power of the outstanding voting securities of the Company and its Subsidiaries.

(d) For purposes hereof, "**Fair Market Value**" shall mean the fair market value of the entire Company and its Subsidiaries on a consolidated basis (after giving effect to the repayment of any funded debt) as determined by an independent nationally recognized investment banking firm or other third party experienced in valuing similar companies, chosen by the Holder, subject to the Company's consent, which will not be unreasonably withheld (and paid for by the Company), without discount for illiquidity minority Shares or restrictions on transfer. In no event shall the Fair Market Value of a Warrant or the Warrant Shares be less than the per share consideration received or receivable with respect to the shares of such class in connection with any pending Sale.

(e) The Redemption Option shall be exercisable at any time and from time to time after the occurrence of a Triggering Event by the Holder providing a Redemption Option Notice duly executed, to the Company's principal executive office, in the form attached hereto as Annex C (or a reasonable facsimile thereof). Upon payment of the Redemption Price by the Company to the Holders, the Holders shall surrender the applicable Warrant (or the certificate(s) if certificated, representing the applicable Warrant Shares, as applicable) to the Company, against delivery to the Holders of a replacement Warrant (or certificate(s) representing Warrant Shares, as applicable) representing the portion of this Warrant or the Warrant Shares (as applicable) not purchased by the Company hereunder.

## **2. Transfer; Issuance of Stock Certificates; Restrictive Legends.**

2.1. **Transfer.** This Warrant may be transferred in whole, or in part, by the Holder at any time. Each transfer of this Warrant and all rights hereunder shall be registered on the books of the Company to be maintained for such purpose, upon surrender of this Warrant at the Designated Office, together with a written assignment of this Warrant in the form of Annex D attached hereto duly executed by the Holder or its agent or attorney. Upon such surrender and delivery, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denominations specified in such instrument of assignment. A Warrant may be exercised by the new Holder for the purchase of Warrant Shares without having a new Warrant issued. Prior to due presentment for registration of transfer thereof, the Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof (notwithstanding any notations of ownership or writing thereon made by anyone other than a duly authorized officer of the Company) for all purposes and shall not be affected by any notice to the contrary. All Warrants issued upon any assignment of Warrants shall be the valid obligations of the Company, evidencing the same rights, and entitled to the same benefits as the Warrants surrendered upon such registration of transfer or exchange.

2.2. **Certificates.** To the extent Shares are or hereinafter become certificated, certificates for the Warrant Shares shall be delivered to the Holder within five (5) business days after the rights represented by this Warrant shall have been exercised pursuant to Section 1. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof including, without limitation, any documentary, stamp or similar tax that may be payable in respect thereof; provided, however, that the Company shall not be required to pay any income tax to which the Holder hereof may be subject in connection with the issuance of this Warrant or the Warrant Shares.



2.3. **Restrictive Legend.** Except as otherwise provided in this Section 2, each certificate for Warrant Shares, if any, initially issued upon the exercise of this Warrant and each certificate for Warrant Shares, if any, issued to any subsequent transferee of any such certificate, shall be stamped or otherwise imprinted with legends in substantially the following form:

“THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ **ACT**”) OR UNDER THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.”

Notwithstanding the foregoing, the legend requirements of this Section 2.3 shall terminate as to any particular Warrant Shares when (i) in the case of the first paragraph of such legends, the Warrant Shares are transferred pursuant to an effective resale registration statement, or the Company shall have received from the Holder thereof an opinion of counsel in form and substance reasonably acceptable to the Company that such legend is not required in order to ensure compliance with the Securities Act. Whenever the restrictions imposed by this Section 2.3 shall terminate, the Holder or subsequent transferee, as the case may be, shall be entitled to receive from the Company without cost to such Holder or transferee a certificate for the Warrant Shares without the subject restrictive legends.

### 3. Adjustment of Number of Shares; Nature of Securities Issuable Upon Exercise of this Warrant .

3.1. **Adjustment Upon Non-Shares Distributions .** If the Company, at any time or from time to time after the issuance of this Warrant, makes a distribution to the holders of the Shares payable in securities of the Company other than shares of Shares, then, in each such event, provision shall be made so that the Holder shall receive upon exercise of this Warrant, in addition to the number of Warrant Shares, the amount of such securities of the Company which would have been received if this Warrant had been exercised for Warrant Shares on the date of such event, subject to adjustments subsequent to the date of such event with respect to such distributed securities (i) on an appropriate and equitable arithmetic basis in the event of any stock split, stock dividend, combination of shares, recapitalization or other such event with respect to such securities from time to time, and (ii) which shall otherwise be on terms as nearly equivalent as practicable to the adjustments provided in this Section 3.

### 3.2. Adjustment Upon Merger, Consolidation or Exchange .

(a) If at any time or from time to time after the issuance and before the exercise of this Warrant there is any merger, consolidation, arrangement or statutory share exchange of the Company with or into any other person or entity, then, in each such event, provision shall be made so that the Holder shall receive upon exercise of the Warrant the kind and amount of Shares, shares and other securities and property (including cash) which would have been received upon such merger, consolidation, arrangement or statutory share exchange by the Holder if this Warrant had been exercised for Warrant Shares immediately prior to such merger, consolidation, arrangement or statutory share exchange, subject to adjustments for events subsequent to the effective date of such merger, consolidation, arrangement or statutory share exchange with respect to such shares and other securities which shall be on terms as nearly equivalent as practicable to the adjustments provided in this Section 3 and all other adjustments under this Section 3.

(b) If the holders of a majority of the outstanding Shares with the power to vote thereon, wishes to form a holding company which will own all of the outstanding Shares, the Holder will exchange this Warrant and any Warrant Shares for identical warrants and common stock of the holding company, and the holding company will become a party to this Warrant and in substitution for the Company; provided, however, that as a condition to such exchange, i) the Holder shall have the same percentage holdings (in common stock and/or this Warrant, as applicable) in the holding company as the Holder had in the Company immediately prior to such exchange, ii) all holders of Shares and options, warrants, convertible securities and other rights to acquire Shares shall make similar exchanges, such that the Holder and the holders of such other securities shall be treated on an equivalent proportionate basis, and iii) the holding company shall be a corporation which, to the greatest extent possible, shall have a similar capital structure and other corporate and tax attributes as the Company.

**3.3. Adjustments for Recapitalization or Reclassification.** If, at any time or from time to time after the issuance of this Warrant, the Warrant Shares issuable upon exercise of this Warrant are changed into the same or a different number of securities of any class of the Company, whether by recapitalization, reclassification or otherwise (other than a merger, consolidation, arrangement or statutory share exchange provided for elsewhere in this Section 3), then, in each such event, provision shall be made so that the Holder shall receive upon exercise of this Warrant the kind and amount of securities or other property which would have been received in connection with such recapitalization, reclassification or other change by the Holder if this Warrant had been exercised immediately prior to such recapitalization, reclassification or change, subject to adjustments for events subsequent to the effective date of such recapitalization, reclassification or other change with respect to such securities (i) on an appropriate and equitable arithmetic basis in the event of any equity split, equity dividend, combination of Shares, recapitalization or other such event with respect to such securities from time to time, and (ii) which shall otherwise be on terms as nearly equivalent as practicable to the adjustments provided in this Section 3.

**3.4. Post-Issuance Adjustments.** In addition to any adjustments which may thereafter be required pursuant to Sections 3.1, 3.2, and 3.3 above, if the Company, at any time or from time to time after the date hereof, shall (a) make a dividend or distribution on its Shares or Common Stock payable in Shares or Common Stock, (b) subdivide or reclassify the outstanding Shares or Common Stock into a greater number of shares, or (c) combine or reclassify the outstanding Shares or Common Stock into a smaller number of Shares or shares, the number of Warrant Shares into which this Warrant is exercisable, and the Exercise Price at that time shall be proportionately adjusted effective as of the record date for the dividend or distribution or the effective date of the subdivision, combination or reclassification, but without any adjustment of the Aggregate Exercise Price.

**3.5. Notice of Adjustment.** Whenever the number or type of securities issuable hereunder is adjusted, the Company shall promptly deliver to the Holder a certificate of adjustment, setting forth the number and type of securities after adjustment, a brief statement of the facts requiring the adjustment and the computation by which the adjustment was made. The certificate of adjustment shall be conclusive evidence of the correctness of the adjustment.

3.6. **Successive Adjustments.** The provisions of this Section 3 shall be applicable successively to each event described herein which may occur subsequent to the issuance of this Warrant and prior to the exercise of this Warrant.

3.7. **No Impairment.** The Company will not, by amendment of its incorporation documents or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder.

3.8. **Authorization and Reservation of Shares.** As a condition granting this Warrant, the Company shall take all required actions to amend its charter documents to authorize a sufficient number of additional Shares for issuance upon exercise of this Warrant and shall reserve for issuance upon exercise of this Warrant a sufficient number of Shares.

4. **Register; Exchange and Replacement of Warrant; Reservation of Shares.** The Company shall keep at the Designated Office a register in which the Company documents and accounts for this Warrant. The Company shall not at any time, except upon the dissolution, liquidation or winding-up of the Company, close such register so as to result in preventing or delaying the exercise or transfer of this Warrant.

The Company may deem and treat the person in whose name this Warrant is registered as the Holder and owner hereof for all purposes and shall not be affected by any notice to the contrary, until presentation of this Warrant for registration or transfer as provided in this Section 4.

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant and (in case of loss, theft or destruction) of the Holder's agreement of indemnity reasonably satisfactory to the Company, and (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will (in the absence of notice to the Company that the Warrant has been acquired by a bona fide purchaser) make and deliver a new Warrant of like tenor, in lieu of this Warrant without requiring the posting of any bond or the giving of any security.

The Company shall at all times reserve and keep available out of its authorized Shares, solely for the purpose of issuance upon the exercise of this Warrant, such number of Shares and/or other securities as shall be issuable upon the exercise hereof. The Company covenants and agrees that, upon exercise of this Warrant and payment of the Exercise Price therefor, if applicable, all Warrant Shares issuable upon such exercise shall be duly and validly authorized and issued, fully paid and non-assessable.

## 5. No Registration Rights.

**General.** The Shares issuable upon exercise hereunder shall be issued to Holder pursuant to Rule 144 holding period limitations, and Holder agrees to accept the Shares pursuant to Rule 144 limitations. The Company shall have no obligation to file a registration statement with respect to the Shares underlying this Warrant for its next public or private offering of common stock, regardless of when such offering may occur; *provided, however*, that if at any time thereafter during the term of this Warrant, the Company proposes to register any of its Shares under the Securities Act in connection with an underwritten public offering, then Company will promptly give notice to the Holder of its intention to do so. Upon the written request of Holder received by Company within ten (10) days after receipt by Holder of any such notice, Company will cause the Holder's Warrant Shares to be registered under the Securities Act at Company's expense (the "Piggyback Registration Rights"); *provided, however* that the obligation to give such notice and to cause such registration shall not apply to any registration (a) on Form S-8 (or any successor form), (b) of solely a dividend reinvestment plan or (c) for the sole purpose of offering registered securities to another Person in connection with the acquisition of assets or capital stock of such Person or in connection with a merger, consolidation, combination or similar transaction with such Person.

**6. Investment Representations.** The Holder, by accepting this Warrant, covenants and agrees that, at the time of exercise of this Warrant, the securities acquired by the Holder upon exercise hereof are for the account of the Holder or are being acquired for its own account for investment and are not acquired with a view to, or for sale in connection with, any distribution thereof (or any portion thereof) and with no present intention (at any such time) of offering and distributing such securities (or any portion thereof), except in compliance with applicable federal and state securities laws.

**7. Warrant Holders Not Deemed Shareholders.** No Holder of this Warrant shall, as such, be entitled to vote or be deemed the holder of Warrant Shares that may at any time be issuable upon exercise of this Warrant, nor shall anything contained herein be construed to confer upon the Holder of this Warrant, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any company action (whether upon any recapitalization, issue or reclassification of equity, consolidation, merger or conveyance or otherwise), or to receive notice of meetings, or subscription rights, until such Holder shall have exercised this Warrant and been issued Warrant Shares or deemed to have been issued Warrant Shares in accordance with the provisions hereof. No provision hereof, in the absence of affirmative action by the Holder to purchase Shares or other securities hereunder, and no mere enumeration herein of the rights of the rights or privileges of the Holder hereunder shall give rise to any liability of such Holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by any creditors of the Company.

**Notices.** Any notice which is required to be given by this Warrant must be in writing, and shall be given or served, unless otherwise expressly provided herein, by depositing the same in the United States mail, postpaid and certified and addressed to the party to be notified, with return receipt requested, or by delivering the same by courier or in person to such party (or, if the party or parties to be notified be incorporated, to an officer of such party). Notice deposited in the mail, postpaid and certified with return receipt requested, shall be deemed received and effective upon the deposit in a proper United States depository. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties for the receipt of notice hereunder are:

If to Company: Document Security Systems, Inc.  
200 Canal View Blvd.  
Suite 300  
Rochester, New York 14623  
Attention: Jeff Ronaldi, CEO  
Email: ronaldi@dsssecure.com

If to Holder: Brickell Key Investments LP  
11 New Street  
St. Peter Port  
Guernsey GY1 2PF  
Attention:  
Fax:  
Email:

With a copy to: Juridica Asset Management Limited  
11 New Street  
St. Peter Port  
Guernsey GY1 2PF  
Attention:  
Fax:  
Email:

and

Juridica Asset Management (US) Inc.  
18 Broad Street  
Suite 201D  
Charleston, SC 29401  
U.S.A.  
Attention:  
Fax:  
Email:

and

Akerman LLP  
750 9<sup>th</sup> Street, N.W.  
Suite 750  
Washington, D.C. 20001  
U.S.A.  
Attention:  
Fax:  
Email:

Any party shall have the right from time to time, and at any time, to change its address for the receipt of notice by giving at least five (5) days' prior written notice of the change of its address to the other parties in the manner specified herein.

8. **Successors.** All the covenants, agreements, representations and warranties contained in this Warrant shall bind the parties hereto and their respective heirs, executors, administrators, distributees, successors, assigns and transferees.

9. **Law Governing.** THIS WARRANT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

10. **Entire Agreement; Amendments and Waivers.** This Warrant sets forth the entire understanding of the parties with respect to the transactions contemplated hereby. The failure of any party to seek redress for the violation or to insist upon the strict performance of any term of this Warrant shall not constitute a waiver of such term and such party shall be entitled to enforce such term without regard to such forbearance. This Warrant may be amended, and any breach of or compliance with any covenant, agreement, warranty or representation may be waived, only if the Company has obtained the written consent or written waiver of the Holder, and then such consent or waiver shall be effective only in the specific instance and for the specific purpose for which given.

11. **Severability; Headings.** If any term of this Warrant as applied to any person or to any circumstance is prohibited, void, invalid or unenforceable in any jurisdiction, such term shall, as to such jurisdiction, be ineffective to the extent of such prohibition or invalidity without in any way affecting any other term of this Warrant or affecting the validity or enforceability of this Warrant or of such provision in any other jurisdiction. The Section headings in this Warrant have been inserted for purposes of convenience only and shall have no substantive effect.

*[The remainder of this page is intentionally blank]*

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the 14<sup>th</sup> day of November, 2016.

**DOCUMENT SECURITY SYSTEMS, INC.**

By: /s/ Jeffrey Ronaldi

Name: Jeffrey Ronaldi

Title: Chief Executive Officer

{38961835;1}Signature Page to Warrant to Purchase Shares

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**ANNEX A**

**NOTICE OF EXERCISE**

**(To be executed upon exercise of the within Warrant)**

The undersigned hereby irrevocably elects to exercise the right to purchase Shares of DOCUMENT SECURITY SYSTEMS, INC. (the "**Company**") covered by the within Warrant according to the conditions hereof. Based on the most recent financial statements provided by the Company to the undersigned (provided that such information shall be updated and/or supplemented by the Company by written notice given to the undersigned by the Company promptly after the date hereof and the following calculations appropriately adjusted as needed), the aggregate Shares purchasable upon this exercise is \_\_\_\_\_ and the aggregate purchase price for such Shares is \$\_\_\_\_\_.

By: \_\_\_\_\_  
(Signature of Registered Holder)

Dated: \_\_\_\_\_

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**ANNEX B**

**CASHLESS EXERCISE FORM**

**(To be executed upon exercise of Warrants pursuant to Section 1.3 of the Warrant)**

The undersigned hereby irrevocably elects to surrender \_\_\_\_\_ Shares in DOCUMENT SECURITY SYSTEMS, INC. purchasable under the Warrant for \_\_\_\_\_ Shares issuable in exchange therefor pursuant to the Cashless Exercise provisions of the within Warrant, as provided for in Section 1.3 of such Warrant.

Please issue a certificate or certificates for such Shares, if any, in the name of, and pay cash for fractional shares in the name of:

(Please print name, address, and social security number/tax identification number:)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

and, if said number of Shares shall not be all the Shares purchasable thereunder, that a new Warrant for the balance remaining of the Shares purchasable under the within Warrant be registered in the name of the undersigned Holder or its transferee as below indicated and delivered to the address stated below.

Dated: \_\_\_\_\_

Name of Warrant Holder  
or  
transferee:

\_\_\_\_\_ (Please print)

Address:

\_\_\_\_\_

Signature:

\_\_\_\_\_

NOTICE:

The signature on this form must correspond with the name as written upon the face of this Warrant in every particular, without alteration or enlargement or any change whatsoever.

\_\_\_\_\_

**ANNEX C**

**REDEMPTION EXERCISE FORM**

**(To be executed upon exercise of a Redemption Option  
pursuant to Section 1.5 of the Warrant)**

The undersigned hereby irrevocably elects to require DOCUMENT SECURITY SYSTEMS, INC. to purchase \_\_\_\_\_% of Warrant No. \_\_\_\_\_ pursuant to the Redemption Option provisions of the within Warrant, as provided for in Section 1.5 of such Warrant.

Please send cash in the amount of the \$\_\_\_\_\_ (the "**Redemption Price**") by wire transfer of immediately available funds to:

(Please print name, address, and social security number/tax identification number:)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Wire transfer instructions:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Dated: \_\_\_\_\_

Name of Warrant Holder  
or  
transferee: \_\_\_\_\_

(Please print)

Address: \_\_\_\_\_

Signature: \_\_\_\_\_

**NOTICE:** The signature on this form must correspond with the name as written upon the face of this Warrant in every particular, without alteration or enlargement or any change whatsoever.

\_\_\_\_\_

**ANNEX D**

**ASSIGNMENT FORM**

FOR VALUE RECEIVED the undersigned registered owner of this Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under this Warrant:

Name and Address of Assignee:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

and does hereby irrevocably constitute and appoint \_\_\_\_\_ attorney-in-fact to register such transfer onto the books of DOCUMENT SECURITY SYSTEMS, INC. maintained for the purpose, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Print Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Witness: \_\_\_\_\_

NOTICE: The signature on this assignment must correspond with the name as written upon the face of this Warrant in every particular, without alteration or enlargement or any change whatsoever.

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Portions of this exhibit marked [\*] are requested to be treated confidentially.

*Execution*

**FIRST AMENDMENT TO INVESTMENT AGREEMENT  
AND CERTAIN OTHER DOCUMENTS**

This FIRST AMENDMENT TO INVESTMENT AGREEMENT AND CERTAIN OTHER DOCUMENTS (this "Amendment") is dated as of December 2, 2016 (the "Effective Date"), is entered into by and among DSS Technology Management, Inc. (the "Company"), Document Security Systems, Inc. ("DSS"), Fortress Credit Co LLC ("FCC"), as Collateral Agent, and the undersigned Investors (the "Investors"), and amends that certain Investment Agreement (as amended and in effect from time to time, the "Agreement") dated as of February 13, 2014 by and among the Company, DSS, FCC and the Investors (collectively, the "Parties").

WHEREAS, the Company had requested, and the Investors had previously advanced, an aggregate of (Four and a Half Million Dollars) \$4,500,000 pursuant to the Agreement for the purchase of the Contingent Interest, Fixed Return Interests and Notes, as set forth on Schedules 2.1, 2.2 and 2.3 to the Agreement.

WHEREAS, the Parties wish to amend the Agreement, and have agreed to the modifications of their respective rights and obligations under the Agreement set forth in, and subject to the terms and conditions of, this Amendment.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties hereby agree as follows:

**Section 1. Amendments.**

Capitalized terms used and not otherwise defined in this Amendment shall have the meanings specified in the Agreement.

A. Agreement. The Agreement shall be amended as follows:

(a) Section 4.1.3(i) shall be amended and restated as follows: "(i) to the Notes Purchasers until they have received payment in full of the Notes and the Capitalized Expenses (including accrued interest and any Make Whole Amount), then"

(b) A new Section 4.3 is hereby added to the Agreement as follows:

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"Section 4.3. Additional Amounts. An amount equal to 25% (twenty-five percent) of any amounts received by the Company for any and all types of Monetization Activities related to United States Patent Nos. [\*] and [\*], which constitute all of the letters patent acquired by the Company from Stragent LLC, as reflected on Schedule 4.3 to the Agreement (the "BlueTooth Patents"), including, without limitation, on account of the Company's pending lawsuit against [\*], whether on account of a settlement, licensing or other commercialization, arrangement, judgment or otherwise, calculated after taking into account any portion of such amounts that are reserved for third parties on account of any retained interest or monetization proceeds right in such patents and after taking into account any contingency fee arrangements; provided, that the Company's liability to pay the amounts set forth in this Section 4.3 shall terminate once the Investors have received payments totaling the sum of (i) the Capitalized Expenses plus (ii) payments of principal and interest on the Notes totaling the sum of (x) \$4,500,000 plus (y) additional amounts, if any, advanced by the Investors pursuant to the Agreement following the Effective Date."

(c) Section 7.8.2 is hereby modified to add the following sentence to the end of such subsection: "Notwithstanding the foregoing, the Company shall not make any Disposition of the Dongbu Patents without the prior written consent of the Majority Investors."

(d) Section 7.8.3 is hereby modified to add the following sentence to the end of Section 7.8.3: "Notwithstanding the foregoing, from and after December 2, 2016, the Company shall have no obligation to make further payments with respect to the maintenance of the Dongbu Patents (as defined in the First Amendment to the Investment Agreement dated as of December 2, 2016) other than to make payments with respect to the 11 such patents that remain active as of December 2, 2016, and those solely from the Deposit and solely to the extent that such amounts constitute "Qualified Expenses"; provided, that the Company shall be required to provide the Investors with periodic updates on, and requests for approval of, any such maintenance fees associated with the Dongbu Patents a reasonable period prior to the due date for payment, and if and only if the Majority Investors approve the payment of such maintenance fees, they shall constitute Approved Dongbu Maintenance Fees."

(e) The following additional covenants hereby are added to Article VII of the Agreement:

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

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"7.12. Additional Deposit. The Company and DSS shall cause to be deposited in the Cash Collateral Account (i) on or before March 2, 2017, an additional Three Hundred Thousand Dollars (\$300,000) (the "Initial Deposit") and (ii) on or before March 2, 2018, a further Three Hundred Thousand Dollars (\$300,000) (the "Additional Deposit") and, together with the Initial Deposit, the "Deposit", which amounts may be deposited from funds of the Company or DSS, but in no event shall the source of such funds be amounts to which the Investors are otherwise entitled (e.g., Monetization Payments that are required to be applied to the Obligations). The Deposit shall be used to pay, or to reimburse the Company for, Qualified Expenses; provided that in the event of an Event of Default, at the option of the Investors, any remaining portion of the Deposit may be applied to the Obligations. "Qualified Expenses" shall consist of out of pocket expenses incurred in connection with existing patent litigation matters and other patent litigation matters approved by the Investors, in each case, following the Effective Date which are payable to third parties and which are approved in writing by the Investors (with such approval not to be unreasonably withheld), for so long as the continued pursuit of such Monetization Activities are, in the sole determination of the Investors, likely to increase the return to the Investors from the Patents and any Approved Dongbu Maintenance Fees; provided, for the avoidance of doubt, Qualified Expenses shall not include working capital of the Company, general corporate purposes, payment of overhead (except that up to \$6,250 per month may be used over the next two years to pay employee salaries, rent and overhead costs associated with the Company's Texas office, for a total amount of not more than \$150,000, for so long as the aforesaid patent litigation matters are continuing provided that prior to the beginning of each calendar quarter in which such expenses are incurred the Investors have confirmed to the Company in writing that they continue to believe that the pursuit of such litigation matters are likely to increase the return to the Investors from the Patents), or payment of any other amount that is not directly related to the pursuit of Monetization Activities related to the Patents and shall not include expenses of pursuing Monetization Activities related to the BlueTooth Patents."

7.13. Additional Litigation. In the event that pending Inter Partes Review ("IPR") proceedings pertaining to US Patent Nos. [\*] and [\*] result in substantially all of the asserted patent claims being held to be invalid, the Company agrees that it will consult with the Investors in good faith concerning whether to pursue additional Monetization Activities with respect to US Patent No. [\*] (the "Unasserted Patent"), and, to the extent such Monetization Activities appear reasonable to pursue, shall undertake commercially reasonable efforts to pursue such Monetization Activities. In the event that the Investors request that the Company pursue Monetization Activities with respect to the Unasserted Patent, and the Company does not promptly following the Investors' such request and commence, and thereafter diligently continue to pursue, Monetization Activities with respect to the Unasserted Patent, as determined by the Investors in their reasonable discretion, then, without limiting the Investors' other rights and remedies, the Company shall transfer the Unasserted Patent to the Investors for no additional consideration."

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

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(f) Section 8.1.2 is amended and restated in its entirety as follows:

“8.1.2. Fixed Returns. On or prior to the Maturity Date, the Investors shall fail to have received payments from the Company in an amount equal to (x) two times the aggregate amount of all Advances made by the Investors as of such date plus (y) the Capitalized Expenses.”

(g) Section 8.1.3 (x) is amended by replacing “7.10” with “7.10 and Section 7.12.”

(h) A new Section 8.2.1.7 is added as follows:

“8.2.1.7 Application of Deposit. The Collateral Agent may apply the then remaining Deposit to the Obligations and in the event of a Default under Section 7.12, may pursue any and all remedies under this Agreement and applicable law against the Company and DSS to enforce the agreements of the Company and DSS provided in Section 7.12.”

(i) The final paragraph of Section 8.2.1 is amended and restated as follows:

“Notwithstanding anything to the contrary in this Agreement or any other Document, except as set forth otherwise in Section 8.2.1.7 or 8.2.2, the sole and exclusive recourse of the Investors and the Collateral Agent arising out of or in connection with an uncured Event of Default or any other breach of this Agreement or any other Document by the Company shall be the recourse set forth in Sections 8.2.1.1 through 8.2.1.7, and, except as provided under Section 8.2.2 or in the event of a breach of Section 4.3 or Section 7.12 the Investors and Collateral Agent each agree that they will not, individually or collectively, seek to enforce any monetary judgment with respect to or against any assets of the Company other than the Patents and any Monetization Payments and the remaining Deposit, and any enforcement of any monetary judgment with respect to or against the Patents or Monetization Payments shall be pursuant to and in accordance with the terms and conditions of the Collateral Documents; provided, that in the event of a breach of Section 4.3 or Section 7.12, the Investors and the Collateral Agent may pursue any assets of the Company (and, in the case of a breach of Section 7.12, DSS) to recover amounts that have not been applied or deposited in compliance with such provisions of this Agreement including damages, including expenses, related to any such breach and any related enforcement of rights of the Collateral Agent and the Investors.”

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(j) Section 8.2.2 hereby is modified by adding an additional paragraph to the end of such Section, as set forth below:

“The Investors agree and acknowledge that, subject to the Company and DSS complying with the terms of Section 7.12, the Company’s distributions to DSS of approximately (Two Million Six Hundred Thousand Dollars) \$2,600,000 following the Initial Closing Date and prior to June 30, 2016 shall not constitute an Event of Default or a Full Recourse Event; provided, that in the event of a breach of such Section 7.12, this sentence shall automatically be void and of no force and effect. Notwithstanding the possible voiding of this section as provided herein, nothing herein shall be deemed an admission by the Company or DSS that the Company’s distributions to DSS constituted an Event of Default or a Full Recourse Event, and Investors agree that the addition of this paragraph shall not be admissible in any subsequent dispute between the Investors and Company and/or DSS as evidence as to whether such distributions to DSS constituted an Event of Default or Full Recourse Event.”

B. Amendments to Schedules. Schedule I(b) to the Agreement, Schedule 4.2 to the Security Agreement, Schedule I to the Patent Security Agreement and Schedule A to the Patent License shall each be supplemented with the attached Schedule B. A new Schedule 4.3 shall be attached to the Agreement in the form attached.

**Section 2. Effectiveness.** The effectiveness of this Amendment is subject to:

2.01 Fully Executed Amendment. The Investors, the Company and DSS having received a fully executed copy of this Amendment.

2.02 Schedules to Security Agreement. An updated Schedule 4.3 to the Security Agreement shall have been provided to the Investors, accompanied by a certificate signed by an Authorized Officer of the Company certifying to such schedules’ accuracy and completeness.

2.03 Representations and Warranties: No Default. The representations and warranties of the Company contained in the Agreement as modified by this Amendment being true and correct in all material respects, and there existing no Default or Event of Default, each on and as of the date hereof after giving effect to this Amendment. The Investors shall have received a certificate signed by an Authorized Officer of the Company certifying to the foregoing, and to the accuracy and completeness of the Schedules to the Agreement, as updated pursuant to this Amendment, including that Schedule 4.3 hereto is an accurate and complete list of the BlueTooth Patents, and that Schedule B sets forth a true and complete list of the letters patent acquired from Dongbu HiTekCo, Ltd. (the “Dongbu Patents”), excluding 8 letters patent that have been previously disposed of pursuant to a confidential settlement agreement.

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2.04 Due Authorization. The execution, delivery, and performance by the Company and DSS of this Amendment having been duly authorized by all necessary corporate or other organizational action on the part of the Company and not (i) violating any material provision of federal, state, or local law or regulation applicable to the Company, DSS or the Governing Documents of any such entity, or any order, judgment, or decree of any court or other Governmental Authority binding on any such entity, (ii) conflicting with, resulting in a breach of, or constituting (with due notice or lapse of time or both) a default under any material agreement of DSS or the Company where any such conflict, breach or default could individually or in the aggregate reasonably be expected to have a Material Adverse Effect, (iii) resulting in or require the creation or imposition of any Lien of any nature whatsoever upon any assets of the Company, other than Permitted Liens, or (iv) requiring any approval of any holder of Capital Stock of DSS or the Company or any approval or consent of any Person under any material agreement of either such entity, other than consents or approvals that have been obtained and that are still in force and effect.

2.05 Expenses. A fee in the amount of \$150,000 in connection with the preparation, negotiation, execution and delivery of this Amendment will be added to the Obligations (the "Capitalized Expenses").

**Section 3. Miscellaneous**. Except as specifically amended or waived above, the Agreement and the other Documents shall remain unchanged and in full force and effect and are hereby ratified and confirmed. In the event of any express or implied conflict or inconsistency between this Amendment and the Agreement (or any of the other Documents), this Amendment shall prevail in all respects. The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Collateral Agent or any Investor under the Agreement or any Document, nor constitute a waiver of any provision of the Agreement or any Document. This Amendment is a Document for all purposes of the Agreement. This Amendment may be executed in any number of counterparts, and by different parties hereto on separate counterpart signature pages, and all such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of a counterpart signature page by facsimile transmission or by e-mail transmission of an Adobe portable document format file (also known as a "*PDF*" file) shall be effective as delivery of a manually executed counterpart signature page. Section headings used in this Amendment are for reference only and shall not affect the construction of this Amendment.

**Section 4. Governing Law**. This Amendment, and any issue, claim or proceeding arising out of or relating to this Amendment or the conduct of the parties hereto, whether now existing or hereafter arising and whether in contract, tort or otherwise, shall be governed by and construed solely and exclusively in accordance with the laws of the State of New York, without giving effect to any law which would result in the application of a different body of law.

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IN WITNESS WHEREOF, the Parties have caused this Amendment to be duly executed and delivered as of the Effective Date.

**Investors:**

Fortress Credit Co LLC, as  
Note Purchaser

/s/ Jason Meyer

By: Jason Meyer  
Title: Chief Administrative Officer

CF DB EZ LLC, as Fixed Return Interest  
Purchaser and Contingent Interest  
Purchaser

/s/ Jason Meyer

By: Jason Meyer  
Title: Chief Administrative Officer

**Collateral Agent:**

Fortress Credit Co LLC

/s/ Jason Meyer

By: Jason Meyer  
Title: Chief Administrative Officer

**Company:**

DSS TECHNOLOGY MANAGEMENT, INC

/s/ Jeffrey Ronaldi

By: Jeffrey Ronaldi  
Title: CEO

**DSS:**

DOCUMENT SECURITY SYSTEMS, INC.  
(solely for purposes of Sections 7.12 and  
8.2.2 of the Agreement, as modified hereby)

/s/ Jeffrey Ronaldi

By: Jeffrey Ronaldi  
Title: CEO

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**SCHEDULE B**

Dongbu Patents

Patent No.	Title	Foreign Counterparts
[*		]

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

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**SCHEDULE 4.3**

**United States Patent No.**

[\*]

[\*]

[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

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**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 Asia Limited	(Hong Kong)

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

With respect to our report dated March 28, 2017 on the consolidated financial statements of Document Security Systems, Inc. and Subsidiaries as of and for the years ended December 31, 2016 and 2015, appearing in this Annual Report on Form 10-K of Document Security Systems, Inc. and Subsidiaries for the year ended December 31, 2016. We consent to the incorporation by reference in the following:

- Registration Statement No. 333-171940 (Form S-3)
- Registration Statement No. 333-191704 (Form S-3)
- Registration Statement No. 333-128437 (Form S-8)
- Registration Statement No. 333-134034 (Form S-8)
- Registration Statement No. 333-182455 (Form S-8)
- Registration Statement No. 333-190870 (From S-8)

*/s/ FREED MAXICK CPAs, P.C.*

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Rochester, New York

March 28, 2017

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

I, Jeffrey Ronaldi, certify that:

1. I have reviewed this annual report on Form 10-K of Document Security Systems, Inc. for the year ended December 31, 2016.

2. Based on my knowledge, this annual 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 annual 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 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 28, 2017

*/s/ Jeffrey Ronaldi*

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Jeffrey Ronaldi  
Chief Executive Officer

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

I, Philip Jones, certify that:

1. I have reviewed this annual report on Form 10-K of Document Security Systems, Inc. for the year ended December 31, 2016.

2. Based on my knowledge, this annual 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 annual 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 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 28, 2017

*/s/ Philip Jones*

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Philip Jones  
Chief Financial Officer

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**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, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey Ronaldi, 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 28, 2017

*/s/ Jeffrey Ronaldi*

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Jeffrey Ronaldi  
Chief Executive Officer

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**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, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Philip Jones, 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 28, 2017

*/s/ Philip Jones*

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Philip Jones  
Chief Financial Officer

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