



# *DSS (NYSE MKT: DSS)*

September, 2013

[www.DSSsecure.com](http://www.DSSsecure.com)



# *Cautionary Note Regarding Forward-Looking Statements*

Effective on July 1, 2013, Lexington Technology Group, Inc. (“LTG”) became a wholly-owned subsidiary of Document Security Systems, Inc. (“DSS” or “Company”). On August 2, 2013, LTG changed its name to DSS Technology Management, Inc. Forward-looking statements that may be contained in this presentation, including, without limitation, statements related to the Company’s plans, strategies, objectives, expectations, potential value, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act and contain words such as “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 disclosed in the “Risk Factors” section of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, filed with the Securities and Exchange Commission on August 13, 2013. Forward-looking statements that may be contained in this presentation are being made as of the date of its release, and the Company assumes 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.

# DSS Merger Overview

On July 1, 2013, DSS approved a merger with Lexington Technology Group



- NYSE MKT: DSS
- Based in Rochester, NY, >100 employees
- R&D leader anti-counterfeit and authentication technology
- Historical difficulty in licensing and enforcing its intellectual property



- Highly experienced technology licensing and enforcement specialist
- Two prior investments in Internet/social media and enterprise software firms



- Market Cap ~\$60MM<sup>1</sup>
- Commercializes and enforces patented technology within owned operating businesses and investments
- Current Technology Verticals:
  - Counterfeit and fraud detection
  - Digital authentication
  - RFID/access control
  - Cloud computing
  - Enterprise software
  - Internet/social media

# DSS's Historical and New Lines of Business Both Focus on IP Protection

## DSS Tech Management:

### IP Licensing & Enforcement

- Bascom Research & VirtualAgility investments
- Legacy DSS technology licensing & disputes
- Pipeline investments



## DSS Brand Management:

### Digital

- AuthentiGuard digital
- Cloud computing, hosting and security
- Integration of Bascom & VirtualAgility



### Packaging

- Custom and security- enhanced packaging



### Plastics

- Custom and security-enhanced plastic IDs



### Printing

- Security Printing



# DSS 2Q13 Highlights

## DSS Legacy Business:

- 2Q13 revenue of \$4.3 million; Y/Y increase 17%
- Gross profit of \$1.6 million; Y/Y increase 22%
- Gross margin: 38%, Y/Y increase of 400 bps
- Licensing & Digital gross margin: 84%, Y/Y decrease of 200 bps
- Adjusted EBITDA: -\$0.17 million; Y/Y improvement of 65%
- Initial financial restructuring -- equipment lease buyout

## LTG Legacy Business:

- Two settlements announced in Bascom investment at 4 & 5% effective royalty rates

## Balance Sheet:

- Healthy cash balance post merger: ~\$6.5M (8/1/13)

# 2013 Strategic Goals & Milestones

## DSS Technology Management

### Goal:

**Build portfolio to 7-10 investments and achieve specific milestones**

### Milestones:

- Bascom Research
  - Markman hearing February 2014
  - Potential additional settlements further establishing royalty rate (4-5%)
- VirtualAgility:
  - Markman hearing April 2014
  - Jury selection November 2014
- Coupons.com:
  - Depositions Q3-Q413
- Pipeline:
  - 2-4 new investments by end of Q413

## DSS Brand Management

**Shift business to higher margin activity to achieve CY2014 positive EBITDA**

- Q3-2013 Agreement signed with MedTech to employ AuthentiGuard technology in Event Management
- Additional sales of DSS AuthentiGuard/AuthentiSite anticipated Q4-2013
- Continued revenue growth and transition to higher margin products
- Improved financial results and profitability

# DSS Management Profiles

## Jeff Ronaldi - Chief Executive Officer



- Over 25 years of experience in company formation and management at UUNET, Concentric Networks, SPX, etc.
- Leader in IP enforcement with significant verdicts against Microsoft, Genzyme and Citrix

## Robert Bzdick - President



- Leads DSS Brand Management
- 25 years of successful entrepreneurial experience; founder and CEO of Premier Packaging Corp. prior to DSS acquisition
- Appointed CEO of DSS November 2012

## Peter Hardigan - Chief Operating Officer










- Previously COO Lexington Technology Group, CFO & Head of Investment Management at IP Navigation; Principal & leader of IP transactions at Charles River Associates in NYC and Frankfurt

## Phillip Jones - Chief Financial Officer



- DSS CFO since 2009, Controller and Principal Accounting Officer since 2005
- Held financial management positions at American Fiber Systems and at Zapata Corporation where he was involved in the successful spin-off and IPO of Zapata's internet subsidiary

# DSS Technology Management: Current IP Licensing & Enforcement

Portfolio	# Patents/ Applications	Technology	Milestones	Current Defendants
	6 / 4	<ul style="list-style-type: none"> <li>Data structure used to build social networks and use thereof</li> </ul>	<ul style="list-style-type: none"> <li>Cases filed: 10/4/2012</li> <li>2 Settlements to date at 4 &amp; 5% effective royalty rate</li> <li>Markman Hearing: 2/26/2014</li> <li>Trial: 2014-2015*</li> </ul>	 
	5 / 5	<ul style="list-style-type: none"> <li>User-configurable platforms used to create sophisticated, integrated applications</li> </ul>	<ul style="list-style-type: none"> <li>Cases filed: January 4th 2013</li> <li>Markman: April 2014</li> <li>Trial: December 2014</li> </ul>	
	12/9	<ul style="list-style-type: none"> <li>Digital and physical Anti-Counterfeit and Anti-duplication technology</li> </ul>	<ul style="list-style-type: none"> <li>5 digital applications filed in 2012-2013</li> <li>Patents should issue 2015-16</li> </ul>	N/A – Numerous Commercial Licensees
	Breach of Contract	<ul style="list-style-type: none"> <li>Unauthorized use of proprietary design for protecting printed coupons provided under NDA</li> </ul>	<ul style="list-style-type: none"> <li>Filed 10/24/2011</li> <li>Deposition stage Q3-Q4 13</li> <li>Trial TBD</li> </ul>	

\*Estimate based on estimates from PriceWaterhouseCoopers 2012 Litigation report for the Northern District of California (Bascom Research) and the Eastern District of Texas (VirtualAgility).

Note: LTG has made a minority investment in VirtualAgility. VirtualAgility owns the patents in suit and is engaged in the litigation filed in the Eastern District of Texas.



# Technology Management: Industry Landscape –Public IP Firms



Commercialization



“Carrot” Licensing



“Stick” Licensing



Enforcement



Buying Group



**Generalist**  
(No Tech R&D)



**Specialist**  
(Active Tech R&D)

# DSS Technology Management: Bascom Research Investment Overview

## Bascom Research Investment

- Bascom Research is a wholly-owned subsidiary of LTG, based in Virginia, led by Tom Bascom, President & CTO
- The patented technology covers the ability to link, search, and provide selective access to information
- Bascom Research filed patent infringement lawsuits against six defendants, has announced two settlements, and currently has two cases pending (against Facebook and LinkedIn) in the US District for the Northern District of California.
- **A Markman Hearing in the California case is scheduled for February, 2014**

## Current Defendants



## Previous Defendants



## The Inventor



- Tom Bascom is the founder of Linkspace, a pioneering software company established in 2001 in McLean, VA
- Linkspace's products include Found Engine® and suite of products, Semantic Correlation Server™ and Tag and Connect™, which work together to organize information and close the gaps on and across networks and portals
- Prior to Linkspace, Tom was Program Manager for Raytheon and Northrup Grumman's ballistic missile defense program and Manager for NASA's Mission to Planet Earth at Goddard Space Flight Center

## Commercialization at DSS

- Current product development at DSS Digital

# DSS Technology Management VirtualAgility, Inc. Investment Overview

## VirtualAgility Investment

- DSS has a minority equity interest in VirtualAgility (“VA”) and has options to acquire additional equity interests
- VA owns five US patents and a number of pending applications that cover a user-configurable platform that allows persons who are not specialists in information technology (IT) to create sophisticated, integrated applications
- VA filed a patent infringement lawsuit against nine defendants, currently pending in the US District for the Eastern District of Texas. (TXED-2-13-cv-00011)
- A Markman Hearing in the Texas case is scheduled for April, 2014 and jury selection November 2014

## Current Defendants



## The Inventor



- Stuart Rudolph is the founder, President and CEO of VirtualAgility, a pioneering enterprise software company established in 1998 and based in Winchester, MA
- VA’s Clients include US Homeland Security, Customs and Border Patrol, and Air Force, and international government agencies on issues involving public safety, crisis management and business resiliency and continuity
- Stuart has received many awards and distinctions for practical innovation, product excellence and entrepreneurship. Prior to VirtualAgility he was Director at Scitex America, where he helped launch the first Commercial Digital Cameras and CCD technology for desktop color imaging

## Commercialization at DSS

- DSS Digital and Virtual Agility reseller relationship
- DSS Digital will incorporate VirtualAgility into the AutheniGuard portal and will host the VirtualAgility application.



# *DSS Technology Management: DSS Historical Security Portfolio*

## **DSS IP Portfolios**

- Core document security portfolio: 9 patent families; 12 pending applications
- Digital and cloud portfolio: 5 patent applications; additional concepts in development
- Commercial licensing relationships with many national and international brands (e.g. RR Donnelly)

## **Current IP Enforcement**

- Coupons.com:
  - Claim for breach of contract based on unauthorized use of DSS technology for secure coupons by Coupons.com
  - Case is in the discovery stage in Western District of NY
  - Depositions anticipated to commence in Q42013
- Additional enforcement actions under assessment



# *DSS Technology Management Investment Pipeline*

## **Acquisition Strategy:**

- Acquire ownership of new IP assets that build value in existing DSS businesses or expand DSS product lines
- Acquire or invest in new companies that meet our investment criteria
- Technology agnostic, with priority focus on verticals with substantial commercial growth potential

## **Pipeline sources:**

- Personal relationships / word of mouth
- Investors: VC's, hedge funds, private equity managers, and other IP investors
- Universities and research institutions
- Service providers: bankers, lawyers, brokers & other intermediaries

# *DSS Brand Management: Digital Overview*

## **Counterfeiting Marketplace**

- \$1 trillion global losses<sup>1</sup> (\$250 billion in US<sup>2</sup>)
- Security expected to grow to \$79 billion in 2014<sup>1</sup>
- Large portion of counterfeit occurs by color copying or scanning packaging/QR codes
- Key Markets:
  - Pharmaceuticals & Cosmetics
  - Apparel & other high value consumer goods

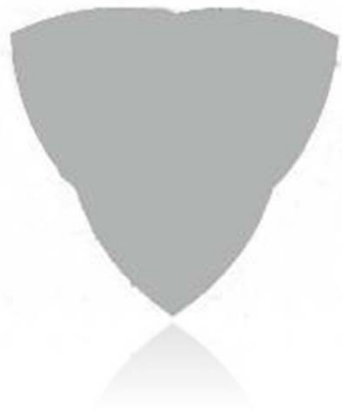
## **DSS Digital Solutions**

- Technology leadership (>20 years) in protecting against copy & scan duplication
- DSS Authentiguard products protects packaging, tags, and websites
  - AuthentiGuard - investigator brand security solution
  - Authentimark – consumer solution
  - Authentisite – website security

# DSS Digital: AuthentiGuard®

**Three Key Components Work Together to Provide Authentication, Investigative Data Capture, Reporting and Marketing Data Capture**

The Prism Mark



Authentication marker, using covert Prism technology, that once read unlocks encrypted information to the app user and resists copying and scanning

The Application



The app authenticates marking in real-time with full reporting, GPS tracking, data storage and more

The Portal



Manage marks, users, access to the system with complete reporting and fully customizable and capable of integrating into existing systems

# *DSS Digital: AuthentiMark*

**Open one-to-one communication with consumers. AuthentiMark printed on product tags and packaging are read by the consumer's smart phone app**

## **Consumer Benefits**

- On-the-go product information
- Product usage tips
- Accessory advice and recommendations
- Instant 'buy now' coupons
- Fraudulent product alert

## **Brand Owner Benefits**

- Fraud detection built into the app
- Integrate with POS systems
- Consumers geo-targeting reports
- Consumer data capturing
- Customizable with hundreds of options





# *DSS Digital: AuthentiSite*



- The AuthentiSite team creates a customized Prism mark for placement on a Brand-owner's authorized or licensed reseller's website.
- Consumers use the app on their smart phone to read the mark to verify a website they are on is an authorized reseller of a product.
- The application captures evidentiary data on unauthorized websites.
- Real-time reporting captures data for brand owner's use.
- Marketing capabilities and enhancements

# *DSS Printing, Packaging & Plastics: Growth and Profitability Improvement*

## **Commercial Focus: Transition to Higher Margin Sales**

- Sales of AuthentiGuard Suite
- Transition of Print, Packaging and Plastics to higher margin opportunities

## **Finance: use of capital to improve financing cost and efficiency**

- Improved borrowing costs (Operating Lease Buyout)
- Selective investment in manufacturing technology

## **Operations & HR**

- Apply operations principles from Packaging Group
- Pay for profitability

# DSS Historical Financials

(\$ in thousands)

Income Statement					Pro Forma Balance Sheet <sup>1</sup>	
	2011	2012	1H12	1H13		2Q13
Revenue						
Printed Products	\$11,940	\$15,289	\$6,671	\$7,103	Current Assets	\$10,879
Technology sales and services	1,443	1,826	831	947	Long-term Assets	55,300
Total Revenue	13,383	17,115	7,502	8,050	Total Assets	66,179
Operating Expense	7,616	9,502	4,281	5,980	Current Liabilities	4,353
Net Loss	(3,222)	(4,281)	(2,069)	(3,057)	Long-term Liabilities	2,202
Adjusted EBITDA <sup>2</sup>	(2,309)	(1,314)	(973)	(570)	Total Liabilities	6,555
					Stockholders Equity	59,624
					Total Liabilities and Equity	66,179

<sup>1</sup> Preliminary pro forma consolidated balance sheet as reported in 8-K/A on September 13, 2013

<sup>2</sup> Adjusted EBITDA is a non-GAAP financial performance measurement. Adjusted EBITDA is calculated by adding back to net income (loss) interest expense, income taxes, depreciation and amortization expense as further adjusted to add back stock-based compensation expense and non-recurring items, such as gain on the change in fair value of derivative liability in 2011 and costs related to the Company's potential merger with Lexington Technology Group, which were incurred in 2012. and 2013.

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