SECURITIES & EXCHANGE COMMISSION EDGAR FILING

DOCUMENT SECURITY SYSTEMS INC

Form: 8-K

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Corporate Issuer CIK: 771999

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 24, 2021

DOCUMENT SECURITY SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

New York	001-32146	16-1229730
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

6 Framark Drive
Victor, New York 14564

(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (585) 325-3610

N/A
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.02 Par Value	DSS	The NYSE American LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Item 8.01. Other Events.

Document Security Systems, Inc. ("we," "us," and "our") is filing this Current Report on Form 8-K (the "Form 8-K") to reflect changes to the presentation of our financial information as set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the "2020 Form 10-K"), as filed with the Securities and Exchange Commission (the "SEC") on March 31, 2021, in order to give effect to a change in our segment reporting.

As previously disclosed in our Quarterly Report on Form 10-Q for the period ended March 31, 2021 (as filed with the SEC on May 14, 2021), effective in the first quarter of our fiscal year 2021, our internal reporting and reportable segments changed. We implemented a segment reorganization in order to more closely align our segment reporting with our current operating structure. The segment reorganization now includes our BioHealth Group and the removal of our IP Technology Management segment as the activities surrounding our IP Technology Management segment have significantly decreased. The IP Technology Management segment have been included in the Corporate reporting segment. Also, the investment in Sharing Service Global Corporation, previously recorded in the Corporate segment is now accounted for in the Direct Marketing segment. Our reportable segments are: Premier Packaging, Digital Group, BioHealth Group, and Direct Marketing.

All prior period information has been recast to reflect this change in reportable segments. This form 8-K will permit us to incorporate the recast financial statements by reference, or otherwise, in future SEC filings. The information in this Form 8-K in not an amendment to the 2020 Form 10-K or a restatement of financial statements included therein.

This Form 8-K updates and supersedes the information in the following sections of our 2020 Form 10-K to reflect retrospective application of our segment changes to conform to the new segment presentation:

- Part I, Item 1, *Business.*
- Part II, Item 8, *Financial Statements and Supplementary Data.*

In our Quarterly Reports on Form 10-Q for the period ended March 31, 2021, we adjusted the unaudited condensed consolidated financial statements for the three months ended March 31, 2020 to reflect the retrospective application of our segment change.

No items in the 2020 Form 10-K other than those identified above are being updated by this Form 8-K. Information in the 2020 Form 10-K is generally stated as of December 31, 2020 and this Form 8-K does not reflect any subsequent information or events other than the changes in segment reporting noted above. Without limiting the foregoing, this Form 8-K does not purport to update *Management's Discussion and Analysis of Financial Condition and Results of Operations* contained in the 2020 Form 10-K for any information, uncertainties, transactions, risks, events, or trends occurring, or known to management, other than the events described above. For a discussion of events and developments subsequent to the filing of the 2020 Form 10-K, please refer to our SEC filings since that date. More current information is contained in the March 31, 2021 Form 10-Q and other filings with the SEC after March 31, 2021.

This Form 8-K should be read in conjunction with the 2020 Form 10-K, the March 31, 2021 Form 10-Q, and any other documents filed with the SEC subsequent to March 31, 2021.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

Number	Description
23.1	Consent of Independent Registered Public Accounting Firm
99.1	Updated portion of the Document Security Systems, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2020

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DOCUMENT SECURITY SYSTEMS, INC.

May 24, 2021

By: */s/ Frank D. Heuszel*
Name: Frank D. Heuszel
Title: Chief Executive Officer

EX-23.1 2 ex23-1.htm

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

- Registration Statement (Form S-8 No. 333-190870)
- Registration Statement (Form S-3 No. 333-230740)
- Registration Statement (Form S-8 No. 333-235745)
- Registration Statement (Form S-1 No. 333-236082)
- Registration Statement (Form S-1 No. 333-238587)
- Registration Statement (Form S-1 No. 333-249857)
- Registration Statement (Form S-1 No. 333-252239)
- Registration Statement (Form S-3 No. 333-252757)

of our report dated March 31, 2021 (except for Notes 7 and 18, as to which the date is May 24, 2021), relating to the consolidated financial statements of Document Security Systems, Inc. and Subsidiaries, included in this Current Report on Form 8-K.

/s/ Freed Maxick CPAs, P.C.

Rochester, New York
May 24, 2021

Exhibit 99.1

EXPLANATORY NOTE

Document Security Systems, Inc. (“DSS,” the “Company,” “we,” “us,” “our”) is filing this exhibit to reflect changes to the presentation of our financial information as set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the “2020 Form 10-K”), as filed with the Securities and Exchange Commission (the “SEC”) on March 31, 2021, in order to give effect to a change in segment reporting.

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This exhibit updates the information in the following items as initially filed in order to reflect the change in segment reporting: Part I. Item 1, Business; and Part II. Item 8, Financial Statements and Supplementary Data. No items in the 2020 Form 10-K other than those identified above are being updated by this filing. Information in the 2020 Form 10-K is generally stated as of December 31, 2020 and this filing does not reflect any subsequent information or events other than the change in segment reporting noted above. Without limiting the foregoing, this filing does not purport to update Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in the 2020 Form 10-K for any information, uncertainties, transactions, risks, events, or trends occurring, or known to management, other than the events described above. More current information is contained in our Quarterly Report on Form 10-Q for the period ended March 31, 2021 and other filings with the SEC. This exhibit should be read in conjunction with the 2020 Form 10-K, the Form 10-Q for the period ended March 31, 2021, and any other documents we have filed with the SEC subsequent to March 1, 2021.

PART I

ITEM 1 - BUSINESS

Overview

Document Security Systems, Inc. (together with its consolidated subsidiaries (unless the context otherwise requires), referred to herein as “Document Security Systems,” “DSS,” “we,” “us,” “our” or the “Company”) currently operates nine distinct business lines which primarily operate and are located in North America and Asia. The nine divisions are:

1. Direct Marketing/Online Sales Group,
2. Premier Packaging,
3. Digital Group,
4. IP Technology,
5. BioHealth Group,
6. Securities and Fintech Group,
7. Energy Group,
8. Secure Living, and
9. Blockchain Technology

Each of these business lines are in different stages of development, growth, and income generation. Because of these varying degrees of business cycle growth, including the size of the revenues and assets acquired, the Company currently financially reports only on four of these operating segments.

1. Direct Marketing/Online Sales Group,
2. Premier Packaging,
3. Digital Group, and
4. BioHealth Group

As the other divisions grow and start generating significant income, those operating segments will be added to our financial segmental reporting.

Our divisions, their business lines, subsidiaries and operating territories:

1. **Direct Marketing/Online Sales Group:** ("Direct" or "DM") Led by the holding corporation, Decentralize Sharing Systems, Inc. ("Decentralized", this group provides services to assist companies in the emerging growth gig business model of peer-to-peer decentralized sharing marketplaces. Direct specializes in marketing and distributing its products and services through its subsidiary and partner network, using the popular gig economic marketing strategy as a form of direct marketing. Direct marketing products include, among other things, nutritional and personal care products sold throughout North America, Asia Pacific and Eastern Europe. Over the past 12 months, Direct has made substantial investments in acquiring marketing software, product opportunities, and operational capabilities in this marketplace. Additionally, it has acquired and developed an independent contractor sales force. It has also made substantial investments into other direct marketing companies, including its investment and partnership with Sharing Services Global Corporation (OTCQB: SHRG) ("Sharing Services" or "SHRG"), which at the end of 2020, Decentralized owned approximately 32% of the outstanding shares of Sharing Services. Currently, Direct and SHRG operate offices in USA, Canada, Hong Kong, Singapore, S. Korea, Australia, New Zealand, Malaysia, and Singapore, with additional offices or presence being added monthly. Decentralized sharing systems' mission is to become the leading direct sales platform, training, developing and empowering leaders on a global scale to achieve maximum human and economic potential.

2. **Premier Packaging:** ("Premier") The Company's packaging and security printing group is coordinated by the wholly owned subsidiary, Premier Packaging Corporation, a New York corporation. Premier operates in the paper board folding carton, smart packaging, and document security printing markets. It markets, manufactures, and sells mailers, photo sleeves, sophisticated custom folding cartons, and complex 3-dimensional direct mail solutions. These products are designed to provide functionality and marketability while also providing counterfeit protection. Premier is currently located in Victor, NY and serves the US market.

3. **Digital Group:** ("Digital") Digital researches, develops, markets, and sells the Company's digital products worldwide. As an industry leader in brand authentication services, our solutions leverage functional anti-counterfeiting features and cutting-edge technologies to satisfy commercial and consumer product needs for branding, intelligent packaging, and marketing. Digital's primary product is AuthentiGuard®, which is a brand authentication application that integrates the Company's counterfeit deterrent technologies with proprietary digital data security-based solutions. Digital Group is headquartered in Rochester, NY, but it also has offices and staff in Hong Kong. Subsequent to March 31, 2021, this division will be discontinued as the Company's subsidiary DSS Digital, which constitutes the majority of the activity in this segment, was disposed of.

4. **IP Technology Management:** ("IP" or "DSS TM") DSS TM manages, licenses, and acquires 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 commercial litigation. DSS TM is currently headquartered in Houston, Texas.

5. **BioHealth Group:** ("BioHealth") The BioHealth Group is our business line created to invest in, or acquire companies in the biohealth and biomedical fields, including businesses focused on the advancement of drug discovery and prevention, inhibition, and treatment of neurological, oncological, and immune related diseases. This division is also developing open-air defense initiatives, which curb transmission of air-borne infectious diseases, such as tuberculosis and influenza. The BioHealth Group is also targeting unmet, urgent medical needs. Assets of this group are organized under the holding company, DSS BioHealth Security, Inc. Its subsidiaries are currently headquartered in Rochester, NY. The group also has a research facility in Winter Haven, Florida.

6. **Securities and Fintech Group:** ("Securities") Securities was established to develop and/or acquire assets and investments in the securities trading and/or funds management arena. Further, Securities, in partnership with recognized global leaders in alternative trading systems, intends to own and operate in the US a single or multiple vertical digital asset exchanges for securities, tokenized assets, utility tokens, stablecoins and cryptocurrency via a digital asset trading platform using blockchain technology. The scope of services within this section is planned to include asset issuance and allocation (securities and cryptocurrency), FPO, IPO, ITO, PPO, STO and UTO listings on a primary market(s), asset digitization/tokenization (securities, currency and cryptocurrency), and the listing and trading of digital assets (securities and cryptocurrency) on a secondary market(s). This group is led by its holding company, DSS Securities, Inc., ("DSS Securities") and the group is currently headquartered in Houston, Texas.

7. **Energy Group:** ("Alset Energy") This group has been established to help lead the Company's clean energy future with a focus on environmental responsibility and sustainability measures. Alset Energy, Inc, the holding company for this group, recently organized, Alset Solar, Inc., a wholly owned subsidiary, to pursue utility-scale solar farms to serve US regional power grids and to provide underutilized properties with small microgrids for independent energy. But in addition to solar farms and large-scale solar battery banks, Alset Energy will also look at other alternative energy opportunities for investment and development. Our goal is to be a powerful force in the mitigation of the negative effects of climate change by reducing air pollution and expanding access to clean energy for all, while contributing to global economic well-being. Alset Energy is currently headquartered in Houston, Texas and seeking market opportunities in the US sunbelt areas, but specifically in Texas, Arizona, New Mexico and Florida.

8. **Secure Living:** ("Secure Living"), Secure Living has developed a plan for fully sustainable, secure, and healthy living communities with homes incorporating advanced technology, energy efficiency, and quality of life living environments both for new construction and renovations for single and multi-family residential housing. Secure Living is currently working with several land development partners to develop entire fully sustainable, healthy living single-family subdivisions. Secure Living is currently headquartered in Houston, Texas.

9. **Blockchain Technology:** ("Blockchain") Blockchain specializes in the development of blockchain security technologies for tracking and tracing solutions for supply chain logistics and cyber securities across global markets. DSS Blockchain leverages DSS's early-to-market anticounterfeiting history in AuthentiChain©, which secures assets across industries to benefit product developers, manufacturers, investors, and consumers. AuthentiChain©, can be applied to decentralize ledgers, help stabilize the token economy, and protect cryptocurrency from counterfeiting, and secure negotiable legal documents and security exchanges.

Following is a summary of several DSS reported transactions and investments since January 2020 that confirm the active advancements and investments in these business lines:

On March 3, 2020, the Company, via its subsidiary DSS Securities Inc., entered into a share subscription agreement and loan arrangement with LiquidValue Asset Management Pte Ltd., AMRE Asset Management, Inc., and American Medical REIT Inc. under which it acquired a 52.5% controlling ownership interest in AMRE Asset Management, Inc. ("AAMI") which currently has a 93% equity interest in

American Medical REIT Inc. (“AMRE”) (see Note 4).

AAMI is a real estate investment trust (“REIT”) management company that sets the strategic vision and formulates investment strategy for AMRE. It manages the REIT’s assets and liabilities and provides recommendations to AMRE on acquisition and divestments in accordance with the investment strategies. American Medical REIT, Inc. is a Maryland corporation, organized for the purposes of acquiring hospitals and other acute or post-acute care centers from leading clinical operators with dominant market share in secondary and tertiary markets, and leasing each property to a single operator under a triple-net lease. AMRE was formed to originate, acquire, and lease a credit-centric portfolio of licensed medical real estate. AMRE is planned to qualify as a Real Estate Investment Trust for federal income tax purposes, which will provide AMRE’s investors the opportunity for direct ownership of Class A licensed medical real estate. As of December 31, 2020, no revenue has been generated.

On August 21, 2020, the Company, completed its acquisition of Impact BioMedical, Inc. (“Impact BioMedical”), pursuant to a Share Exchange Agreement by and among the Company, DSS BioHealth Security, Inc., Alset International Limited (formally Singapore eDevelopment Ltd.), and Global Biomedical Pte Ltd. (“GBM”), which was previously approved by the Company’s shareholders (the “Share Exchange”). Under the terms of the Share Exchange, the Company issued 483,334 shares of the Company’s common stock, par value $0.02 per share, nominally valued at $6.48 per share, and 46,868 newly issued shares of the Company’s Series A Convertible Preferred Stock (“Series A Preferred Stock”). As a result of the Share Exchange, Impact BioMedical is now a wholly owned subsidiary of DSS BioHealth, (see Note 4).

Impact BioMedical strives to leverage its scientific know-how and intellectual property rights to provide solutions to issues that have been plaguing the biomedical field for decades. By tapping into the scientific expertise of its partners, Impact BioMedical has undertaken a concerted effort in the research and development (R&D), drug discovery and development for the prevention, inhibition, and treatment of neurological, oncological and immune related diseases.

In August 2020, DSS Securities entered into a corporate venture to form and operate a real estate title agency, under the name and flagging of Alset Title Company, Inc., a Texas corporation (“ATC”). DSS Securities owns 70% of this venture with the other two shareholders being attorneys necessary to the state application and permitting process.

On October 7, 2020, DSS Securities took part in an initial public offering of Presidio Property Trust, Inc., a Maryland corporation, that invests primarily in commercial properties, such as office, industrial and retail properties, as well as in residential across the United States. As part of this offering, we purchased 200,000 shares of Presidio’s Series A Common Stock at $5.00 per share for a total purchase price of $1,000,000.

Effective December 9, 2020, Impact BioMedical entered into an exclusive distribution agreement with BioMed Technologies Asia Pacific Holdings Limited (“BioMed”), which is focused on manufacturing natural probiotics. Under the terms of this distribution agreement, h Impact BioMedical will directly market, advertise, promote, distribute and sell certain BioMed products to resellers. The products to be distributed by Impact BioMedical include BioMed’s PGut Premium ProbioticsTM, PGut Allergy ProbioticsTM, PGut SupremeSlim ProbioticsTM, PGut Kids ProbioticsTM, and PGut Baby ProbioticsTM. Under the terms of the ten-year distribution agreement, Impact BioMedical will have exclusive rights to distribute the products within the United States, Canada, Singapore, Malaysia, and South Korea and non-exclusive distribution rights in all other countries.

On February 8, 2021, DSS Securities announced that it entered into a joint venture (“JV”) with Coinstreet Partners (“Coinstreet”), a global decentralized digital investment banking group and digital asset financial service firm, and GSX Group (“GSX”), a global digital exchange ecosystem for the issuance, trading, and settlement of tokenized securities, using its proprietary blockchain solution. The JV leverages the operational strengths and assets of three key leaders in their field, combining traditional capital market experience, Fintech innovations, and business networks from three continents, North America, Europe, and Asia, to capitalize on unique digital asset opportunities. The JV reported that it intended to first pursue a digital securities exchange license in the US. Moving forward, this JV will be the key operational company building and operating a digital securities exchange that utilizes the GSX STACS blockchain technology, serving corporate issuers and investors in the sector.

On February 25, 2021, DSS Securities announced its acquisition of an equity interest in WestPark Capital, Inc.(“WestPark”) and an investment in BMI Capital International LLC (“BMICI”). DSS Securities executed two separate transactions that were designed to grow the Securities division by signing a binding note and stock exchange letter of intent to own 7.5% of the issued and outstanding shares of WestPark and acquiring 24.9% of BMICI through a purchase agreement. WestPark is a full-service investment banking and securities brokerage firm which serves the needs of both private and public companies worldwide, as well as individual and institutional investors. BMI is a private investment bank specializing in corporate finance advising, raising equity, and venture services, providing a global “one-stop” corporate consultancy to listed companies. From corporate finance to professional valuation, corporate communications to event management, BMICI services companies in the US, Hong Kong, Singapore, Taiwan, Japan, Canada, and Australia.

On March 1, 2021, Decentralized Sharing Systems, Inc. announced that it increased its investment in Sharing Services Global Corporation, a publicly traded company dedicated to maximizing shareholder value through the acquisition and development of innovative companies, products, and technologies in the direct selling industry, through a $30 million convertible promissory note. Decentralized’s financing was made as an investment that would help accelerate Sharing Services sales and growth, as well as international expansion, with the expectation that such capital reserves would help make Sharing Services a dominant player in the global marketplace over the next two years. It was reported that the new $30 million investment would have the potential to exponentially increase Sharing Services sales channels and substantially expand its product portfolio, and to position Sharing Services to capitalize on consolidation and roll up opportunities of other direct selling companies. In the joint announcement, Sharing Services reported that the additional funding would now allow it to accelerate its global expansion with a direct focus on the Asian markets, and specifically in countries such as South Korea, Japan, Hong Kong, China, Singapore, Taiwan, Thailand, Malaysia, and the Philippines. The announcement also noted that prior to this convertible promissory note investment, DSS owned 37% of the outstanding shares of Sharing Services, and that Sharing Services generated $98.4 million in revenue and $5.6 million net income in the trailing 12-month period ended September 30, 2020.

On March 15, 2021, the Company, through one of its subsidiaries, DSS BioMedical International, Inc. entered into a Stock Purchase Agreement (the “Agreement”) with Vivacitas Oncology Inc. (“Vivacitas”), to purchase 500,000 shares of its common stock at the per share price of $1.00, with an option to purchase 1,500,000 additional shares a the per share price of $1.00. In addition, under the terms of the

Agreement, the Company will be allocated two seats on the board of Vivacitas. On March 18, 2021, the Company entered into an agreement to with Alset EHome International, Inc. ("Seller") indirectly the Seller's wholly owned subsidiary Impact Oncology PTE Ltd. to effectively purchase ownership of 2,480,000 shares of common stock of Vivacitas for a purchase price $2,480,000. This agreement includes an option to purchase an additional 250,000 shares of common stock. As a result of these two transactions, which were closed on March 21, 2021 and March 29, 2021, respectively, the Company owns approximate 10.2% equity position in Vivacitas.

Reporting Operating Segments:

As we have reported above, we financially report business operating results on only four operating segments, which we believe will certainly increase and transition as the newer lines of business develop. However, the four business lines that we are reporting on in 2020 are as follows:

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

Digital Group - This division researches, develops, markets, and sells worldwide the Company's digital products, including and primarily our AuthentiGuard® product, which is a brand authentication application and consumer engagement product that integrates the Company's counterfeit deterrent technologies with proprietary digital data security-based solutions. The AuthentiGuard® product allows our customers to implement a security mark utilizing conventional printing methods that is copy- and counterfeit-resistant and that can be read and recorded utilizing smartphones and other digital image capture devices, which can be utilized by that customer's suppliers, field personnel and customers throughout its global product supply and distribution chains (subsequent to March 31, 2021, this segment will be discontinued as the Company's subsidiary DSS Digital, which constitutes the majority of the activity in this segment, was disposed of).

BioHealth Group - The BioHealth Group is our business line created to invest in, or acquire companies in the biohealth and biomedical fields, including businesses focused on the advancement of drug discovery and prevention, inhibition, and treatment of neurological, oncological, and immune related diseases. This division is also developing open-air defense initiatives, which curb transmission of air-borne infectious diseases, such as tuberculosis and influenza. The BioHealth Group is also targeting unmet, urgent medical needs. Assets of this group are organized under the holding company, DSS BioHealth Security, Inc. Its subsidiaries are currently headquartered in Rochester, NY. The group also has a research facility in Winter Haven, Florida.

Direct Marketing/Online Sales Group - Direct marketing or network marketing is designed to sell products or services directly to the public through independent distributors, rather than selling through the traditional retail channels. We believe this business has significant growth potential in the now popular "gig economy". Consistent with the Company's strategic business plan and vision, we have entered into the direct marketing or network marketing industry and plan to take advantage of the opportunities that exist in the industry. We are engaging in partnerships with existing direct marketing companies to access U.S., Canadian, Asian, and Pacific Rim markets. In addition, we have, and/or are acquiring various domestic and international operating licenses to further the growth of this division. But in addition, we have developed or procured product licenses, formulas, sales networks, patents, web sites, and other resources to help us accelerate our sales and revenue generation initiatives for this line, and we have launched our HWHGIG and HWH Marketplace direct selling platforms.

2019-2020 Strategic Business Plan, and its 2021 Progression:

In November 2019, management announced that the Company's 2019-2020 strategic business plan was to revitalize the company by focusing on strengthening the organization by (i) exiting unprofitable business lines, (ii) investing in and reviving the Company's core businesses, (iii) improving top line revenues and net margins, (iv) controlling costs and (v) creating new long-term scalable, recurring revenue streams. To realize those goals, management announced that it would execute the strategic plan by:

EXITING UNPROFITABLE BUSINESS LINES:

In 2019, the Company had 4 business lines: Premier Packaging, Digital Group, the IP Technology, and DSS Plastics Printing. At that time, only the Premier Packaging division was generating reoccurring revenue and positive cash flow with annual revenues of $13.5 million and a net EBIDA of approximately $742,000. Conversely, the other 3 business units lost approximately $1,348,000, with the IP Technology group accounting for $475,000, and DSS Plastic Printing accounting for an additional $294,000. To preserve capital and stop further cash drain, the decision was made to exit both business lines, whether by sale, wind down, closure, or by no longer pursuing business opportunities in this area.

WIND DOWN IP MONETIZATION PROGRAM:

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

However, the costs of funding a patent pool, including patent maintenance fees, litigation (costs for legal counsel, discovery, consultants, expert witnesses, and travel), and overhead costs associated with the IP business line, had placed a significant financial strain upon the Company. During 2019, our corporate cash burn exceeded approximately $200,000 per month, primarily due to recurring costs related to the IP monetization line of business, which reduced resources for our other lines of business, as well as our own patent research and development projects. Further, because the related IP legal costs are expensed in the year incurred with no corresponding revenue generation, the financial impact to the Company caused us to routinely report negative operating income year over year. Moreover, as a result of the IP monetization line's high capital demand, the Company did not have the capital to initiate and sustain IP litigation against potential major infringers of DSS patents.

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

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

In 2020, management discontinued making any further patent acquisitions in this business line, and, more importantly, was able to renegotiate all of its previous contracts with its lenders, attorneys, and other professionals to eliminate most, if not all, of the historical losses and cash burn from this division. We will continue to manage the existing patent portfolio and work to maximize those assets. After the conclusion of these pending matters, we intend to close this business line.

DIVESTING DSS PLASTICS:

In 2020, we also made the decision to divest the DSS Plastics Group. The DSS Plastics Group manufactured laminated and surface printed cards which included magnetic stripes, bar codes, holograms, signature panels, invisible ink, micro fine printing, biometric, radio frequency identification (RFID), and watermarks for printed plastic documents such as ID cards, event badges, and driver's licenses. As a result of continued historical downward trends of the plastic printing business, mostly due to deteriorating margins due to international competition primarily from China, and increasing operating costs of this San Francisco based company, long term major restructure changes and retooling had been planned to return the company to profitability. But the impact of COVID-19 pandemic and resulting economic shut-down had a major impact on revenues. The impact of Covid, coupled with the negative long-term trend of the plastic card industry being replaced by facial recognition, digital licenses, and identification by individual cell phones, forced us to expedite and ultimately divest the business in 2020

In August 2020, the Company sold the primary assets of DSS Plastics Group to a subsidiary of Bristol Graphics for $683,000 at closing, and a contingency payment (earnout) of $517,000 that may be earned over the following 12-month period, $390,000 of which was recognized in 2020. The remaining asset and liability of this division is its lease space located in Brisbane, California. We are in the process of subleasing that facility and expect to consummate a transaction in the 2nd quarter which we expect will release the Company from that trailing lease liability, and thereafter expected final closure.

REVIVING THE COMPANY'S CORE BUSINESSES:

In 2018, the Premier Packaging and the Digital Group collectively accounted for 78% of the Company's operating revenues. But while, the two business lines accounted for the lion's share of the Company's operating revenue, they were doing so on minimal marketing and operating budgets, and in the case of Premier Packaging, with aged and obsolete equipment with limited remaining life. Management reviewed the business lines of both Premier Packaging and the Digital Group and believed that the core business of each was sound, that DSS held a market niche and/or growth opportunity in each, and that long-term profitability could be achieved with additional investments and changes. In 2020, management made substantial adjustments to revive and improve the productivity and operating revenue of these two divisions.

In 2018, Premier Packaging and Digital collectively reported $14,500,000 in operating revenue, $12,957,000 and $1,543,000 respectively, or approximately 78% of the company's operating revenue that year. In 2019, after initial revitalization efforts, operating revenues grew a combined 5%, and in 2020, after a reduction in sales to each of their two largest customers by 26%, the two divisions reported $15.3 million in revenues, during a harsh pandemic impacted economic period.

SUBSTANTIALLY REDUCING CORPORATE OVERHEAD AND CASH BURN:

Since the spring of 2019, we have reduced the Company's monthly cash burn by eliminating non-essential layers of management and redundant operating expenses, as well as by renegotiating vendor contracts. The goal was, and is, to continue to reduce overhead operating costs, redundancy, improve operating efficiencies, and reduce cash burn through a continuing series of new management initiatives.

IMPLEMENTING BUSINESS DIVERSIFICATION INITIATIVES:

One of the most important initiatives of the 2019 strategic business plan was the goal, and commitment, to diversify the Company's operating revenue. Management believed it imperative to transition the Company's revenue into new business lines which generated scalable and reoccurring revenue, preferably in exponential and emerging growth business opportunities. To achieve this goal, management sought to acquire, to invest in, or to start-up new business lines that met this criterion. We also planned to add additional products to existing business lines so that existing operations could further transition more toward scalable reoccurring revenue streams.

Toward that initiative, in 2019 and continuing through 2020 the Company either acquired, invested in, or started-up new businesses in the biohealth, direct marketing, blockchain, and securities trading fields. In 2020, the Company made substantial investments in the following new business lines:

• **DSS BIOHEALTH SECURITY, INC.** This business line was intended to be principally involved in the bio-medical sector, including investing in companies that hold bio-medical intellectual property and/or have, or are securing, strategic alliances, partnerships, and distribution rights for bio-medical and security products, technologies, or enterprises. This new division was also organized to seek out investment and growth opportunities in on open-air defense initiatives that seek to curb transmission of airborne infectious diseases such as tuberculosis and influenza, among others, in open areas, and to seek investments in the oncological cures for various forms of cancer.

In 2019, the Company made a substantial commitment to this division by acquiring Impact BioMedical, Inc. in an approximate $50 million all stock acquisition. The Impact Bio acquisition, which was rich with assets, has a foundation of products with international market opportunities and demand, and which can be structured into long- term scalable, reoccurring license revenue. By leveraging technology and new science with strategic partnerships, Impact BioMedical drives mission-oriented research, development, and commercialization of solutions for medical advances in human wellness and healthcare.

• **DIRECT MARKETING/ONLINE SALES GROUP,** The Direct Marketing / Online Sales industry was a market that we believed would help us diversify and meet our scalable reoccurring revenue target in an exponential growth industry with high profit margins. The direct marketing, network marketing, or online sales is designed to sell products or services directly to the public through independent distributors, rather than selling through the traditional retail market. We believed that with the transition of a significant sector of retail sales now converting to the now popular “gig economy”, an investment in this business model would meet our strategic business plan objective and vision. We believed that we could profitably serve this market through lending opportunities, acquisition opportunities, and global partnership ventures.

Toward this objective, we made substantial investments in loans and investments into several direct marketing companies in 2019 and 2020. Notable in this area was our $8+ million investment into Sharing Services Global Corporation, located in Dallas, Texas, and the Company’s start-up of HWH World, Inc. and its national and international sales network. Further, on March 1, 2021, Decentralized announced that a binding letter of intent had been executed in which it increased its investment in Sharing Services through a $30 million convertible promissory note. The $30 million is planned to exponentially increase Sharing Services sales channels, substantially expand its product portfolio, and to position Sharing Services to capitalize on consolidation and roll up opportunities.

• **BLOCKCHAIN TECHNOLOGY,** This corporate business line was organized in 2019 to specialize in the development of blockchain security technologies for tracking and tracing solutions for supply chain logistics and cyber security across global markets. While no significant acquisitions were made over the past 18 months, this business line is still deemed to be an important business line for our long-term diversification goals.

• **SECURITIES AND FINTECH GROUP**The Securities business line was be organized as part of the 2019 strategic business plan to establish or acquire investments in long-term growth and sustainable scalable reoccurring management fee income. The businesses that were to be targeted in this business plan included investments in alternative trading systems and related platforms, REITs, brokerage and other trading fund management platforms that would create recurring fee income.

FOR 2021:

Our business goal for 2021 is continue many of the 2019-2020 Strategic Goals, including to continue to grow the company with sound acquisitions, to develop and to grow Premier Packaging with major capital investments, and to place a heavy emphasis improving top line revenue and top line revenue diversification and profitability. But special attention, effort, and resources will be made to further the following 2021 business initiatives:

• Continue to revitalize and grow Premier Packaging.

• Make further investments in the Direct Securities and BioHealth groups in the form of growth and investments.

• Focused effort to double top line revenue and bottom- line profitability.

Our Core Products:

Packaging & Printing

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

Technology, Counterfeit Prevention and Brand Services

The Digital Group specializes in counterfeit prevention, brand protection, consumer engagement technology development. Is products offer platforms for authentication and validation of authentic print media, consumer goods and negotiable instruments, including government-issued documents, retail and consumer packaging, labelling, and identification systems. We are a leader in the research and development of optical deterrent technologies and have commercialized these technologies with a suite of products that offer our customers an array of brand security solutions. In addition, we provide document security technology to security printers, corporations, consumer product companies and governments for protection of vital records, certifications, travel documents, consumer products, pharmaceutical packaging and school transcripts.

Our primary anti-counterfeiting products and technologies have evolved from a traditional analog product to a highly advanced digital system and are marketed under our AuthentiGuard® registered trademark. In October 2012, we introduced AuthentiGuard®, a smartphone application for authentication, targeted to major Fortune 500 companies worldwide. The application is a cloud-enabled solution that permits efficient and cost-effective counterfeit deterrence, authentication and consumer engagement. Our solutions leverage functional anti-counterfeiting features and cutting-edge technology to satisfy commercial and consumer product needs for branding, intelligent packaging, and marketing.

Since 2012, the AuthentiGuard® product has grown to annual sales of approximately $1.5 million, and we project that over the next

three years annual sales of AuthentiGuard® will increase by an annualized growth rate of approximately 17%. Today, our mission is to make world-class authentication, counterfeit prevention and consumer engagement technology that is assessable and scalable to an expanding customer base. We intend to bring our technology-laden packaging, labelling, and document solutions to a broader range of clients including small businesses, develop long-term relationships with those who use them and grow our business organically.

Direct Selling

Decentralized Sharing Systems, Inc. and its subsidiaries and partners, including Sharing Services Global Corporation provide an array of products and services, through an independent contractor network.

For example, Decentralized's wholly owned subsidiary, HWH World, Inc. promotes products and services that fulfill its corporate position of health, wealth, and happiness. The HWH Marketplace through its brands desires to help its customers become the healthiest, happiest versions of themselves. For the *health component*, the company offers herbal alternatives of nutraceutical, consumables and topicals, dietary supplements, beauty and skin care products, personal care, gut health products, aloe vera based supplements, and other wellness products. As to the *wealth component*, the company is developing educational tools to its users to better manage individual finances and savings programs to help its consumers find each consumer's individual financial goal. As to the *happiness component*, the company is working with other partners to either acquire or partner in products and/or services to allow its consumers to enjoy and healthy living, including a global travel membership network.

Further, Sharing Services, through its subsidiary Elevacity, markets and distributes health and wellness products under the "Elevate" brand, primarily in the United States and Canada. Sharing Services markets its products and services through its independent contractor distribution system and using its proprietary website: www.elevacity.com. In February 2021, the Company launched its new business brand, "The Happy Co.," at its Elevacity division. Elevacity has several well-known and signature products, including its top product lines of "Happy Coffees" and "Nootropic Beverages". Elevacity also sells a "healthy shake", a "Keto Coffee Booster", "Energy Caps", "XanthoMax© Happy Caps","Wellness Vitamin Patches", various beauty and skin care products, and other wellness products.

BioHealth

BioHealth, through its subsidiary Impact Bio Medical, Inc. targets unmet, urgent medical needs and expands the borders of medical and pharmaceutical science. Impact drives mission-oriented research, development, and commercialization of solutions for medical advances in human wellness and healthcare. By leveraging technology and new science with strategic partnerships, Impact Bio provides advances in drug discovery for the prevention, inhibition, and treatment of neurological, oncology and immuno-related diseases. Other exciting technologies include a breakthrough alternative sugar aimed to combat diabetes and functional fragrance formulations aimed at the industrial and medical industry.

BioHealth and Impact Medical have several important and valuable products, technology or compounds that are in continuing development and/or licensing stages:

- **LineBacker**: A polyphenol compound that is believed to be successful in neurological and inflammatory disorders. LineBacker is a platform of small molecule X-bonded polyphenols. X-bonding is a molecular tuning technique that modifies a natural compound to induce potency, efficacy, bioavailability, and trans-membrane permeability while maintaining safety, toxicity, and tolerability. Natural polyphenols have demonstrated strong potential in treating and preventing a range of diseases by inhibiting TNF-α and indication specific causes (*e.g.* neurology, anti-inflammatory, oncology). Two novel discrete LineBacker molecules have been synthesized and characterized including in vitro efficacy testing, pharmacokinetics, and maximum tolerated dose in vivo.
- **Equivir**: A polyphenol compound that is believed to be successful in antiviral infection treatments. Equivir/Nemovir technology is a novel blend of FDA Generally Recognized as Safe (GRAS) eligible polyphenols (*e.g.,* Myricetin, Hesperetin, Piperine) which have demonstrated antiviral effects with additional potential application as health supplements or medication. Polyphenols are sourced from fruits, vegetables, and other natural substances. Myricetin is a member of the flavonoid class of polyphenolic compounds with antioxidant properties. Hesperitin is a flavanone and Piperine is an alkaloid, commonly found in black pepper.
- **Laetose**: Laetose technology is derived from a unique combination of sugar and inositol, which demonstrates the ability to inhibit the inflammatory and metabolic response of sugar alone. A sugar alternative which is believed to lower human glycemic indexes and is believed to be a breakthrough alternative sugar aimed to combat diabetes. The use of Laetose in a daily diet, compared to sugar, could result in 30% lower sugar consumption and lower glycemic index/load.
- **3F**: A botanical compound believed to serve as an insect repellent and anti-microbial agent. 3F is a unique formulation of specialized ingredients (*e.g.* terpenes) from botanical sources with demonstrated effect as an insect repellent and an antimicrobial.
    - *3 F Mosquito Repellent*: 3F repellent contains botanical ingredients that mosquitos avoid. These ingredients are scientifically proven1 to affect the mosquito's receptors, essentially making the insect blind to a human's presence. This can be utilized as a stand-alone repellent or as an additive in detergents, lotions, shampoo, and other substances to provide mosquito protection.
    - *3 F Antimicrobial*: 3F antimicrobial contains botanical ingredients known to kill viruses. These ingredients are scientifically proven to inhibit viral replication. This can be utilized as a stand-alone antimicrobial or as an additive in detergents, lotions, shampoo, fabrics, and other substances.
- Therapix (license): BioHealth has a license for cannaniboid technology for neurological pain, sleep apnoea disorders with RX/OTC potential.
- Bio Med (license): A probiotic gut health product that helps to regulate many physiological functions, ranging from energy regulation and cognitive processes to toxin neutralization and immunity against pathogens.

The business model of BioHelath and Impact BioMedical revolves around two methodologies – Licensing and Sales Distribution.

1) Impact develops valuable and unique patented technologies which will be licensed to pharmaceutical, large consumer package goods companies and venture capitalists in exchange for usage licensing and royalties.

2) Impact utilizes the DSS ecosystem to leverage its sister companies that have in place distribution networks on a global

scale. Impact will engage in branded and private labelling of its products for sales generation through these channels. This global distribution model will give direct access to end users of Impact's nutraceutical and health related products.

Securities

Securities was established to develop and/or acquire assets in the securities trading or management arena, and to pursue, among other product and service lines, real estate investment funds, digital asset exchanges, security and utility tokens and other forms of crypto currency. This business sector has already started or made the following business lines and associated products and services:

- *REIT Management Fund*: In March 2020, DSS Securities formed AMRE ("American Medical REIT") and its management company AAMI ("AMRE Asset Management, Inc.) Through AAMI/AMRE, a medical real estate investment trust, fulfills community needs for quality healthcare facilities while enabling care providers to allocate their capital to growth and investment in their contemporary clinical and critical care businesses. Urban and suburban communities are in need of modern healthcare facilities that provide a range of medical outpatient services. The funds ultimate product is an investor opportunity in a managed medical real estate investment trust.
- *Real Estate Title Services*: Alset Title Company, Inc. provides buyers, sellers, and brokers alike confidence during big real estate transactions, not just in a transaction, but in the property itself. Through bundled services, Alset Title Company, Inc. provides it all from title searches and insurance to escrow agent assistance.
- *Alternative Trading Systems*: Currently in development to operate in the US vertical digital asset exchanges for securities, tokenized assets, utility tokens, stablecoins and cryptocurrency via a digital asset trading platform using blockchain technology.

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. Across the DSS ecosystem of companies, we principally rely upon patent, trademark, trade secrets and contract law to establish and protect our proprietary rights.

As it applies to our digital division's product line development, we have expended significant resources on research and development in an effort to become a market leader with the ability to provide our customers effective solutions against an ever-changing array of counterfeit risks. Our position in the security print market is based on our technologies and products. The Company recognized a credit in 2019 of approximately $12,000 primarily due to receipt of a refund on development costs for the development of proprietary blockchain solutions for the Company's AuthentiGuard product line. In comparison, the Company spent approximately $146,000 on research and development during 2018, primarily toward the development of the Company's AuthentiGuard product line.

Related to out Impact BioMedical Division we have key patents that we will use as the foundation for foster product development and licensing. We have 5 patents for some of our key products including Linebacker, Equivir/Nemovir, Laetose and 3F. Our intellectual property will enable us to be protected as we further these technologies and pave the road to commercialization.

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

Trademarks

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

Websites

The primary corporate website we maintain is *www.dsssecure.com*, which describes our Company, our history, our patented document security solutions, our major product offerings, and our targeted vertical markets across all of our business segments. In addition, we operate *www.hwhmarketplace.com* which is an online retail site that is centreed around our health and wellness nutraceutical products, *www.impbio.com* which is the primary site for our product information on that company. In addition to the active websites, the Company owns several other domain names reserved for future use or for strategic competitive reasons. Information on our websites or any other website does not constitute a part of this annual report.

Markets and Competition

As to the security printing business, the security print market is comprised of a few very large companies and an increasing number of small companies with specific technology niches. The expansion of this market is primarily due to the significant expansion of counterfeiting as advancing technologies in digital duplication and scanning combined with increasingly sophisticated design software has enabled easier reproduction of original documents, vital records and IDs, packaging, and labels. Our competitors include Standard Register Company, which specializes in printing security technologies for the check and forms and medical industries; and De La Rue Plc, that specializes in printing secure currency, tickets, labels, lottery tickets and vital records for governments and Fortune 500 companies. Large office equipment manufacturers, called OEMs, such as Sharp, Xerox Canon, Ricoh, Hewlett Packard and Eastman Kodak are developing

“smart copier” technology that recognizes particular graphical images and produces warning words or distorted copies. Some of the OEMs are also developing user assigned and variable pantograph “hidden word” technologies in which users can assign a particular hidden word in copy, such as “void” that is displayed when a copy of such document is made. In addition, other competing hidden word technologies are being marketed by competitors such as NoCopi Technologies which sells and markets secure paper products, and Graphic Security Systems Corporation, which markets Scrambled Indicia.

Our packaging division competes with a significant number of national, regional and local companies, many of which are independent and privately-held. The largest competitors in this market are primarily focused on the long-run print order market. They include large integrated paper companies such as West Rock 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.

As to our Digital Group, 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 and product authentication from companies like Authentix, Opsec, and Alpvision that have similar technology to help protect against fraud and authenticate consumer packaged goods. .

As to the Direct Marketing Group, the network marketing or direct marketing industry is a very competitive marketplace. While not directly competing with HWH and SHRG, the following companies are significant players in the global network marketing business and as a result an indirect competitor of HWH and SHRG: Amay, Avon, Herbalife, Natura, Vorwerk, Mary Kay, Infinitus, Perfect, Forever Living, Nu Skin, Young Living, and New Era, among others.

Customers

During 2020, two customers accounted for 38% of our consolidated revenue. As of December 31, 2020, these two customers accounted for 60% of our consolidated trade accounts receivable balance. As of December 31, 2019, these two customers accounted for 45% of our consolidated revenue and 48% of the Company’s consolidated trade accounts receivable balance. This customer diversification improvement was driven by addition of several new customers to our overall customer base.

Raw Materials

As to the packaging business, the primary raw materials the Company uses in its businesses are paper, paperboard, corrugated board 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 2020, and we believe increases in future years are expected. Except for certain packaging customers where the Company enters into annual contracts, for which changes in paperboard pricing is absorbed by the Company, the Company has historically passed substantially all increases and decreases to its customers, although there can be no assurances that the Company will continue to do so in the future.

Environmental Compliance

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

Government Regulation

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

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

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

Corporate History

The Company was incorporated in 1984 and changed its name to Document Security Systems, Inc. in 2002. See, the "Overview" section above for further details about our acquisitions.

Employees

As of March 26, 2021, all of the Company's 93 employees were full time. It is important that we continue to retain and attract qualified management and technical personnel. Our employees are not covered by any collective bargaining agreement, and we believe that our relations with our employees are generally good.

Available information

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Document Security Systems, Inc and Subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Accounting for Business Combinations – Impact BioMedical, Inc.

As described in Note 7 to the consolidated financial statements, the Company completed its acquisition of Impact BioMedical, Inc. from a related party during the year ended December 31, 2020 for consideration of approximately $38 million. In connection with this transaction, the Company evaluated whether this transaction qualified as a business combination, evaluated the classification of the preferred shares as either a liability or equity, determined the fair value of the consideration paid, determined the fair value of the separately identifiable assets acquired and liabilities assumed and reflected the excess of the consideration paid over net assets acquired as goodwill. In connection with this transaction a deferred tax liability was recorded resulting in the release of a previously recorded valuation allowance. The operations of this acquisition are considered to be a single reporting unit.

The evaluation of the classification of the transaction as a business combination and the preferred shares issued as permanent equity is complex. Further, based on the stage of development of the business and the related party nature of the transaction, the valuation of the consideration paid, assets acquired, liabilities assumed, and related non-controlling interest is complex and judgmental. The valuation models used by management when determining their estimated fair value require subjective assumptions. In particular, the fair value estimates are sensitive to changes in assumptions for revenue growth, gross margin, and operating expenses as well as weighted average cost of capital, illiquidity discounts relating to the consideration paid, and lack of control discounts for the non-controlling interest. Additionally, the accounting for the transaction and income tax accounting related to the opening balance sheet was complex. Due to the complexity of the transactions and subjectivity involved with the assumptions used, we identified the business combination as a critical audit matter, which required a high degree of auditor judgement.

Addressing the matter involved performing subjective procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. The primary procedures we performed included: (i) Obtaining an understanding and evaluating of the design of controls over accounting for and reporting of the transaction, (ii) auditing the appropriateness of management's conclusions surrounding the classification of this transaction as a business combination and the preferred share consideration as permanent equity, (iii) auditing management's assessment of the identification of assets to be acquired and valued, (iv) auditing management's development of the assumptions used in the valuation models applied and the reasonableness of those assumptions, and auditing the disclosures over this transaction, and (v) auditing the calculation of the deferred tax liability recorded related to the transaction. Professionals with specialized skills and knowledge were used to assist in evaluating certain methodologies and assumptions used in determining fair values.

Valuation of Investments in Related Parties – Alset International, Inc. and Sharing Services Global Corp

As described in Note 6 to the consolidated financial statements, the Company has an equity investment in Alset International, Inc. ("Alset"), a related party, of approximately $6.8 million as of December 31, 2020, recorded as a marketable security with a readily determinable fair value. This investment was previously recorded at cost, less impairment. During the year ended December 31, 2020, the Company recorded unrealized gains associated with this investment of approximately $3.4 million. The Company also has an equity investment in Sharing Services Global Corp ("SHRG"), a related party, of approximately $12.2 million as of December 31, 2020, recorded as an equity method investment, as the Company has significant influence of SHRG. Prior to obtaining significant influence, the investment was accounted for as a marketable security with a readily determinable fair value. During the year ended December 31, 2020, the Company recorded unrealized gains associated with this investment of approximately $6.8 million, prior to gaining significant influence, and income of approximately $600,000 associated with the Company's share of equity in SHRG. Further, the Company holds a warrant to purchase additional shares of SHRG amounting to approximately $1.1 million, which is accounted for as an investment in an equity instrument and recorded at fair value, resulting in approximately $350,000 of unrealized gains.

The evaluation of the related party relationships and proper accounting treatment is complex and involves a high degree of subjectivity and effort in performing procedures surrounding the classification and calculations related to the investments. Due to the complexity of the transactions and subjectivity involved with the assumptions used, we identified the accounting for these related party investments as a critical audit matter, which required a high degree of auditor judgement.

Addressing the matter involved performing subjective procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. The primary procedures we performed included: (i) Obtaining an understanding and evaluating of the design of controls over the determination the investments, (ii) evaluating the related party nature of the investment and whether the investment was classified and recorded utilizing the appropriate accounting guidance, (iii) recalculating the respective investment values and gains associated with those investments, and (iv) auditing the reasonableness of the presentation and disclosure of the investments.

/s/ Freed Maxick CPAs, P.C.

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

Rochester, New York
March 31, 2021, except for Notes 7 and 18, as to which The date is May 24, 2021

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

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,226,000	$ 1,096,000
Accounts receivable, net	3,910,000	4,212,000
Inventory	1,955,000	1,366,000
Assets held for sale - discontinued operations	-	342,000
Prepaid expenses and other current assets	1,359,000	460,000
Total current assets	12,450,000	7,476,000
Property, plant and equipment, net	4,146,000	4,328,000
Other investments	1,788,000	2,154,000
Investment, equity method	12,234,000	-
Marketable securities	9,136,000	-
Notes receivable	537,000	793,000
Non-current assets held for sale - discontinued operations	744,000	1,812,000
Other assets	384,000	50,000
Right-of-use assets	182,000	144,000
Goodwill	26,862,000	2,454,000
Other intangible assets, net	23,456,000	935,000
Total assets	$ 91,919,000	$ 20,146,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,482,000	$ 1,492,000
Accrued expenses and deferred revenue	5,270,000	936,000
Other current liabilities	1,435,000	390,000

Current liabilities held for sale - discontinued operations	240,000	274,000
Revolving line of credit	-	500,000
Current portion of lease liability	167,000	123,000
Current portion of long-term debt, net	278,000	441,000
Total current liabilities	8,872,000	4,156,000
Long-term debt, net	1,976,000	2,310,000
Long term lease liability	15,000	19,000
Non-current liabilities held for sale - discontinued operations	505,000	807,000
Other long-term liabilities	507,000	507,000
Deferred tax liability, net	3,499,000	44,000
Commitments and contingencies (Note 15)		
Stockholders' equity		
Preferred stock, $.02 par value; 47,000 shares authorized, 43,000 shares issued and outstanding (0 on December 31, 2019); Liquidation value $1,000 per share, $43,000,000 aggregate.	1,000	-
Common stock, $.02 par value; 200,000,000 shares authorized, 5,836,000 shares issued and outstanding (1,206,000 on December 31, 2019)	116,000	24,000
Additional paid-in capital	174,380,000	115,560,000
Non-controlling interest in subsidiary	3,430,000	-
Accumulated deficit	(101,382,000)	(103,281,000)
Total stockholders' equity	76,545,000	12,303,000
Total liabilities and stockholders' equity	$ 91,919,000	$ 20,146,000

See accompanying notes.

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

	2020	2019
Revenue:		
Printed products	$ 13,000,000	$ 13,230,000
Technology sales, services and licensing	2,085,000	2,148,000
Direct marketing	2,326,000	172,000
Total revenue	17,411,000	15,550,000
Costs and expenses:		
Cost of revenue, exclusive of depreciation and amortization	11,207,000	10,342,000
Selling, general and administrative (including stock based compensation)	15,867,000	6,674,000
Depreciation and amortization	1,084,000	1,151,000
Total costs and expenses	28,158,000	18,167,000
Operating loss	(10,747,000)	(2,617,000)
Other income (expense):		
Interest income	69,000	25,000
Other income	1,000	-
Interest expense	(185,000)	(125,000)
Gain on extinguishment of debt	969,000	-
Income from equity method investment	604,000	-
Unrealized gains	10,609,000	-
Amortization of deferred financing costs and debt discount	(8,000)	(3,000)
Income (loss) from continuing operations before income taxes	1,312,000	(2,720,000)
Income tax benefit	(1,774,000)	(125,000)
Income (loss) from continuing operations	3,086,000	(2,595,000)
Loss from discontinued operations	(1,668,000)	(294,000)
Net income (loss)	1,418,000	(2,889,000)
Loss from continuing operations attributed to noncontrolling interest	481,000	-
Net income (loss) attributable to common stockholders	1,899,000	(2,889,000)
Other comprehensive income (loss):		
Interest rate swap loss	-	(15,000)
Settlement of interest rate swap	-	22,000
Comprehensive income (loss):	1,418,000	(2,882,000)
Earnings (loss) per common share - continuing operations:		

Basic	$ 1.01	$ (3.05)
Diluted	$ 0.59	$ (3.05)
Loss per common share - discontinued operations:		
Basic	$ (0.47)	$ (0.35)
Diluted	$ (0.28)	$ (0.35)
Shares used in computing earnings (loss) per common share:		
Basic	3,548,421	850,180
Diluted	6,019,207	850,180

See accompanying notes.

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

	2020	2019
Cash flows from operating activities:		
Net income (loss) from continuing operations	$ 3,086,000	$ (2,595,000)
Adjustments to reconcile net income (loss) from continuing operations to net cash used by operating activities:		
Depreciation and amortization	1,084,000	1,151,000
Stock based compensation	188,000	422,000
Income from equity investment	(604,000)	-
Unrealized gains	(10,609,000)	-
Gain on extinguishment of debt	(969,000)	-
Deferred tax benefit	(1,774,000)	(125,000)
Amortization of deferred financing cost and debt discounts	-	2,000
Decrease (increase) in assets:		
Accounts receivable	(309,000)	(1,659,000)
Inventory	(705,000)	(848,000)
Prepaid expenses and other current assets	(499,000)	(154,000)
Other assets	355,000	-
Increase (decrease) in liabilities:		
Accounts payable	(201,000)	392,000
Accrued expenses	4,230,000	(307,000)
Deferred revenue and customer deposits	-	21,000
Other liabilities	1,044,000	(1,750,000)
Net cash used by operating activities	(5,683,000)	(5,450,000)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(325,000)	(947,000)
Purchase of investments	(9,791,000)	(1,829,000)
Note receivable investment	(574,000)	(793,000)
Purchase of intangible assets	-	(370,000)
Net cash used by investing activities	(10,690,000)	(3,939,000)
Cash flows from financing activities:		
Payments of long-term debt	(304,000)	(167,000)
Borrowings of long-term debt	1,278,000	
Borrowings from lines of credit, net	-	588,000
Payments of revolving lines of credit, net	(500,000)	500,000
Borrowings from convertible of note	-	500,000
Issuances of common stock, net of issuance costs	20,195,000	6,659,000
Net cash provided by financing activities	20,669,000	8,080,000
Cash flows from discontinued operations:		
Cash (used) provided by operations	(469,000)	106,000
Cash provided (used) by investing activities	880,000	(42,000)
Cash used by financing activities	(577,000)	(107,000)
Net cash used by discontinued operations	(166,000)	(43,000)
Net increase (decrease) in cash and cash equivalents	4,130,000	(1,352,000)
Cash and cash equivalents at beginning of year	1,096,000	2,448,000
Cash and cash equivalents at end of year	$ 5,226,000	$ 1,096,000

See accompanying notes.

DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2020 and 2019

	Common Stock		Preferred Stock		Additional Paid-in	Accumulated Other Comprehensive	Non-controlling Interest in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Loss	Subsidiary	Deficit	Total
Balance, December 31, 2019	**1,206,000**	**$ 24,000**	**-**	**-**	**$115,560,000**	**$ -**	$ -	**$(103,281,000)**	**$12,303,000**
Issuance of common stock, net	3,434,000	68,000	-	-	20,127,000	-	-	-	20,195,000
Conversion of preferred stock	663,000	13,000	(4,000)	-	(13,000)	-	-	-	-
Stock based payments, net of tax effect	50,000	1,000	-	-	397,000	-	-	-	398,000
Acquisition of Impact BioMedical, Inc.	483,000	10,000	47,000	1,000	38,309,000	-	3,911,000		42,231,000
Net income	-	-	-	-	-	-	(481,000)	1,899,000	1,418,000
Balance, December 31, 2020	**5,836,000**	**$116,000**	**43,000**	**$ 1,000**	**$174,380,000**	**$ -**	**$3,430,000**	**$(101,382,000)**	**$76,545,000**
Balance, December 31, 2018	**581,000**	**$ 12,000**	**-**	**-**	**$107,962,000**	**$ (7,000)**	**-**	**$(100,392,000)**	**$ 7,575,000**
Issuance of common stock, net	610,000	12,000	-	-	7,292,000	-	-	-	7,304,000
Stock based payments, net of tax effect	15,000	-	-	-	306,000	-	-	-	306,000
Other comprehensive loss	-	-	-	-	-	7,000	-	-	7,000
Net loss	-	-	-	-	-	-	-	(2,889,000)	(2,889,000)
Balance, December 31, 2019	**1,206,000**	**$ 24,000**			**$115,560,000**	**$ -**	**$ -**	**$(103,281,000)**	**$12,303,000**

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 of DSS") operates eight (8) business lines through eight (8) DSS subsidiaries located around the globe.

Of the eight subsidiaries, three of those have historically been the core subsidiaries of the Company: (1) Premier Packaging Corporation ("Premier Packaging"), (2) DSS Digital Inc., and its subsidiaries ("Digital Group"), and (3) DSS Technology Management, Inc. ("IP Technology"). Premier Packaging operates in the paper board folding carton, smart packaging, and document security printing markets. It markets, manufactures, and sells mailers, photo sleeves, sophisticated custom folding cartons, and complex 3-dimensional direct mail solutions designed to provide functionality, marketability, and sustainability to product packaging while providing counterfeit protection and consumer engagement platform. Digital Group researches, develops, markets, and sells the Company's digital products worldwide. As an industry leader in brand authentication services, our solutions leverage functional anti-counterfeiting features and cutting-edge technologies to satisfy commercial and consumer product needs for branding, intelligent packaging, and marketing. Digital's primary product is AuthentiGuard®, which is a brand authentication application that integrates the Company's counterfeit deterrent technologies with proprietary digital data security-based solutions. IP Technology Management Inc., manages, licenses, and acquires 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 commercial litigation. In 2020, under its (4) Decentralize Sharing Systems, Inc. subsidiary, created a fourth business segment, Direct Marketing/Online Sales Group. This group provides services to assist companies in the emerging growth gig business model of peer-to-peer decentralized sharing marketplaces.

Direct specializes in marketing and distributing its products and services through its subsidiary and partner network, using the popular gig economic marketing strategy as a form of direct marketing.

In addition to the four subsidiaries listed above, in 2019 and early 2020, DSS has created four new, wholly owned subsidiaries. (5) DSS Blockchain Security, Inc., a Nevada corporation, specializes in the development of blockchain security technologies for tracking and tracing solutions for supply chain logistics and cyber securities across global markets. (6) DSS Securities, Inc., a Nevada corporation, has been established to develop or to acquire assets in the securities trading or management arena, and to pursue two parallel streams of digital asset exchanges in multiple jurisdictions: (i) securitized token exchanges, focusing on digitized assets from different vertical industries and (ii) utilities token exchanges, focusing on "blue-chip" utility tokens from solid businesses. (7) DSS BioHealth Security, Inc., a Nevada corporation, is our business line which we will intend to invest in or to acquire companies related to the bio-health and biomedical field, including businesses focused on the research to advance drug discovery and development for the prevention, inhibition, and treatment of neurological, oncology and immuno-related diseases. This new division will place special focus on open-air defense initiatives, which curb transmission of air-borne infectious diseases such as tuberculosis and influenza, among others. (8) DSS Secure Living, Inc., a Nevada Corporation, develops top of the line advanced technology, energy efficiency, quality of life living environments and home security for everyone for new construction and renovations of residential single and multifamily living facilities. Aside from Decentralized Sharing Systems, Inc. the activity in the these newly created subsidiaries have been minimal or in various start-up or organizational phases.

On March 3, 2020, the Company, via its subsidiary DSS Securities, entered into a share subscription agreement and loan arrangement with LiquidValue Asset Management Pte Ltd., AMRE Asset Management, Inc. and American Medical REIT Inc. under which it acquired a 52.5% controlling ownership interest in AMRE Asset Management Inc. ("AAMI") which currently has a 93% equity interest in American Medical REIT Inc. ("AMRE") (see Note 7). AAMI is a real estate investment trust ("REIT") management company that sets the strategic vision and formulate investment strategy for AMRE. It manages the REIT's assets and liabilities and provides recommendations to AMRE on acquisition and divestments in accordance with the investment strategies. AMRE is a Maryland corporation, organized for the purposes of acquiring hospitals and other acute or post-acute care centers from leading clinical operators with dominant market share in secondary and tertiary markets, and leasing each property to a single operator under a triple-net lease. AMRE was formed to originate, acquire, and lease a credit-centric portfolio of licensed medical real estate. AMRE is planned to qualify as a Real Estate Investment Trust for federal income tax purposes, which will provide. AMRE's investors the opportunity for direct ownership of Class A licensed medical real estate. As of December 31, 2020, AAMI has yet to generate any revenue.

On August 21, 2020, the Company, completed its acquisition of Impact BioMedical, Inc. ("Impact BioMedical"), pursuant to a Share Exchange Agreement by and among the Company, DSS BioHealth Security, Inc. ("DSS BioHealth"), Alset International Limited (formally Singapore eDevelopment Ltd.), and Global Biomedical Pte Ltd. ("GBM"), which was previously approved by the Company's shareholders (the "Share Exchange"). Under the terms of the Share Exchange, the Company issued 483,334 shares of the Company's common stock, par value $0.02 per share, nominally valued at $6.48 per share, and 46,868 newly issued shares of the Company's Series A Convertible Preferred Stock ("Series A Preferred Stock"). As a result of the Share Exchange, Impact BioMedical is now a wholly owned subsidiary of DSS BioHealth, the Company's wholly owned subsidiary (see Note 7).

Impact BioMedical strives to leverage its scientific know-how and intellectual property rights to provide solutions that have been plaguing the biomedical field for decades. By tapping into the scientific expertise of its partners, Impact BioMedical has undertook a concerted effort in the research and development (R&D), drug discovery and development for the prevention, inhibition, and treatment of neurological, oncological and immune related diseases.

In August 2020, the Company's wholly owned subsidiary, DSS Securities, Inc. entered into a corporate venture to form and operate a real estate title agency, under the name and flagging of Alset Title Company, Inc, a Texas corporation ("ATC"). DSS Securities, Inc. shall own 70% of this venture with the other two shareholders being attorneys necessary to the state application and permitting process.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reclassifications - Certain amounts on the accompanying consolidated balance sheets for the year ended December 31, 2019 have been reclassified to conform to current year presentation.

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

Accounts Receivable - The Company extends credit to its customers in the normal course of business. The Company performs ongoing credit evaluations and generally do not require collateral. Payment terms are generally 30 days but up to net 105 for certain customers. The Company carries its trade accounts receivable at invoice amount less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based upon management's estimates that include a review of the history of past write-offs and collections and an analysis of current credit conditions. As of December 31, 2020, the Company established a reserve for doubtful accounts of approximately $25,000 ($41,000 – 2019). The Company does not accrue interest on past due accounts receivable.

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

• Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets.

• Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

• Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The carrying amounts reported in the balance sheet of cash and cash equivalents, accounts receivable, prepaids, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. Marketable securities classify as a Level 1 fair value financial instrument. The fair value of notes receivable approximates their carrying value as the stated or discounted rates of the notes do not reflect recent market conditions. The fair value of revolving credit lines notes payable and long-term debt approximates their carrying value as the stated or discounted rates of the debt reflect recent market conditions. The fair value of investments where the fair value is not considered readily determinable, are carried at cost.

Inventory - Inventories consist primarily of paper, pre-printed security paper, paperboard, fully prepared packaging, and health and beauty products which and are stated at the lower of cost or net realizable value on the first-in, first-out ("FIFO") method. Packaging work-in-process and finished goods included the cost of materials, direct labor and overhead. At the closing of each reporting period, the Company evaluates its inventory in order to adjust the inventory balance for obsolete and slow-moving items. No reserve was recorded as of December 31, 2020 or 2019. Write-downs and write-offs are charged to cost of revenue.

Investments – Investments in equity securities with a readily determinable fair value, not accounted for under the equity method, are recorded at fair value with unrealized gains and losses included in earnings. For equity securities without a readily determinable fair value, the investment is recorded at cost, less any impairment, plus or minus adjustments related to observable transactions for the same or similar securities, with unrealized gains and losses included in earnings.

For equity method investments, the Company regularly reviews its investments to determine whether there is a decline in fair value below book value. If there is a decline that is other-than-temporary, the investment is written down to fair value. See Note 6 for further discussion on investments.

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 2020 was approximately $710,000 ($690,000 - 2019).

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 completing the assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company will proceed to a quantitative test. The Company may also elect to perform a quantitative test instead of a qualitative test for any or all of our reporting units. The test compares the fair value of an entity's reporting units to the carrying value of those reporting units. This quantitative test requires various judgments and estimates. The Company estimates the fair value of the reporting unit using a market approach in combination with a discounted operating cash flow approach. Impairment of goodwill is measured as the excess of the carrying amount of goodwill over the fair values of recognized and unrecognized assets and liabilities of the reporting unit. The Company performed its annual goodwill impairment test as of December 31, 2020, and no impairment was deemed necessary for the goodwill associated with Premier Packaging Company of approximately $1,768,600. Consistent with this accounting impairment analysis, the Company determined that due to many factors, including the impact of the COVID-19 outbreak and the related closing of the operations of the Plastic Group, the Company has quantitatively tested the carrying value of its goodwill associated with the DSS Plastics Group and determined that an impairment of the DSS Plastics' goodwill had occurred and the Company recorded a full goodwill impairment of $685,000 during the twelve-months ended December 31, 2020. This impairment has been included in the calculation of the discontinued operations of DSS Plastics group. There was no goodwill impairment recorded during the year ended December 31, 2019.

Intangible Assets - The estimated fair values of acquired intangibles are generally determined based upon future economic benefits such as earnings and cash flows. Acquired identifiable intangible assets are recorded at fair value and are amortized over their estimated useful lives. Acquired intangible assets with an indefinite life are not amortized but are reviewed for impairment at least annually or more frequently whenever events or changes in circumstances indicate that the carrying amounts of those assets are below their estimated fair values. Impairment is tested under ASC 350.

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.

Related Party Liabilities - The Company's HWH World, Inc subsidiary has a service agreement with HWH Korea, a subsidiary of Alset International Limited ("Alset Intl.") (formally Singapore eDevelopment Limited). The Chairman of the Company, Mr. Heng Fai Ambrose Chan, is the Executive Director and Chief Executive Officer of Alset Intl. Mr. Chan is also the majority shareholder of Alset Intl as well as the largest shareholder of the Company. The Company also owns approximately 127,179,000 shares of Alset International, a company publicly listed on the Singapore Exchange Limited. This service agreement will allow HWH Korea to utilize the Company's merchant account in connection with their direct marketing network with periodic remittance of the cash collected to them for a fee of 2.5% of amounts collected. As of December 31, 2020, the Company has collected approximately $1,100,000 on behalf of HWH Korea. This amount was remitted to HWH Korea, net of fees and other expenses, in the first quarter of 2021. The related party liability is included in "Other current liabilities" on the accompanying consolidated balance sheets. There were no amounts outstanding to this related party at December 31, 2019.

Reverse Stock Split - On May 4, 2020, Document Security Systems, Inc. held a Special Meeting of Stockholders at which the Company's stockholders approved amendment to the Company's certificate of incorporation to effect a reverse split of common stock of the Company by a ratio of 1-for-30 with the effectiveness of such amendment to be determined by the Board of Directors of the Company The form of the certificate of amendment to effect the Reverse Split was subsequently approved by the Board on May 4, 2020. On May 7, 2020, the Company filed a Certificate of Amendment of Certificate of Incorporation with the Secretary of State of the State of New York to effect a 1-for-30 reverse stock split of the Company's outstanding common stock. The Amendment was effective at 5:01 p.m. Eastern Time on May 7, 2020. The reverse stock split has been retroactively applied to all financial statements presented.

Revenue - The Company recognizes its products and services revenue based on when the title passes to the customer or when the service is completed and accepted by the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for shipped product or service provided. Sales and other taxes billed and collected from customers are excluded from revenue. The Company also derives revenue from royalties from third parties which are typically based on licensees' net sales of products that utilize the Company's technology, or on a per item usage of the technology on the customers' printed products. The Company recognizes license revenue at the time it is reported by the licensee. From time to time, the Company generates license revenues through litigation settlements. For these, the Company recognizes revenue upon the execution of the agreement, when collectability is reasonably assured, or upon receipt of the minimum upfront fee for term agreement renewals, and when all other revenue recognition criteria have been met. The Company generates revenue from its direct marketing line of business primarily through internet sales and recognizes revenue as items are shipped.

As of December 31, 2020, the Company had no unsatisfied performance obligations for contracts with an original expected duration of greater than one year. Pursuant to Topic 606, the Company has applied the practical expedient with respect to disclosure of the deferral and future expected timing of revenue recognition for transaction price allocated to remaining performance obligations. The Company elected the practical expedient allowing it to not recognize as a contract asset the commission paid to its salesforce on the sale of its products as an incremental cost of obtaining a contract with a customer but rather recognize such commission as expense when incurred as the amortization period of the asset that the Company would have otherwise recognized is one year or less.

Costs of revenue - Costs of revenue includes all direct cost of the Company's packaging, commercial and security printing sales, primarily, paper, inks, dies, and other consumables, and direct labor, transportation and manufacturing facility costs. In addition, this category includes all direct costs associated with the manufacturing and procurement of the products sold in the Company's Direct Marketing line of business as well as 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. 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.

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

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.

Sales Commissions - Sales commissions are expensed as incurred for contracts with an expected duration of one year or less. A significant portion of the Company's sales commissions expense is generated from its direct marketing line of business. These commissions are based on current month shipments and are paid one month in arrears. There were no sales commissions capitalized as of December 31, 2020.

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.

Research and Development - Research and development costs are expensed as incurred. Research and development costs consist primarily of third-party research costs and consulting costs. The Company recognized costs of approximately $210,000 in 2020, and a credit in 2019 of approximately $12,000 primarily due to receipt of the anticipated $33,000 refund on development costs for the development of proprietary blockchain solutions for the Company's AuthentiGuard product line.

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.

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

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 from outstanding warrants, stock options and preferred stock that would have been outstanding if dilutive potential shares had been issued and is calculated utilizing the treasury stock method. In a loss period, the calculation for basic and diluted earnings per share is the same, as the impact of potential common shares is anti-dilutive. Weighted average shares outstanding used for diluted earnings per share includes the assumed conversion of the 47,000 preferred shares, convertible into 7,233,000 common shares, for the period they were outstanding resulting in an additional 2,471,000 shares for the year ended December 31, 2020.

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 2020, two customers accounted for 38% of our consolidated revenue. As of December 31, 2020, these two customers accounted for 60% of our consolidated trade accounts receivable balance. As of December 31, 2019, these two customers accounted for 45% of our consolidated revenue and 48% of our consolidated trade accounts receivable balance.

Business Combinations - Business combinations and non-controlling interests are recorded in accordance with FASB ASC 805 Business Combinations. Although Impact BioMedical historically, and to date has not generated any revenues, the acquisition of Impact BioMedical meets the definition of a business with inputs, processes, and outputs, and therefore, the Company has concluded to account for this transaction in accordance with the acquisition method of accounting under Topic 805. Under the guidance, we determine the fair value of consideration paid and the assets and liabilities of the acquired business are recorded at their fair values at the date of acquisition and all acquisition costs are expensed as incurred. The excess of the purchase price over the estimated fair values is recorded as goodwill. If the fair value of the assets acquired exceeds the purchase price and the liabilities assumed, then a gain on acquisition is recorded. The application of business combination accounting requires the use of significant estimates and assumptions. See Note 7 regarding the acquisitions in 2020.

Discontinued Operations – On April 20, 2020, the Company executed a nonbinding letter of intent with a perspective buyer for the sale of certain assets of its plastic printing business line, which it operated under Plastic Printing Professionals, Inc. ("DSS Plastics"), a wholly-owned subsidiary of the Company. That sale was consummated and closed on August 14, 2020. The remaining assets of DSS Plastics were either sold, separately disposed, or retained by other existing DSS businesses lines. Accordingly, the operations of DSS Plastics have been discontinued. Based on the magnitude of DSS Plastics' historical revenue to the Company and because the Company has exited the production of laminated and surface printed cards, this sale represented a significant strategic shift that has a material effect on the Company's operations and financial results. Accordingly, the Company has applied discontinued operations treatment for this sale as required by Accounting Standards Codification 205—Discontinued Operations. The major classes of assets and liabilities of DSS Plastics are classified as Held for Sale – Discontinued Operations on the Consolidated Balance Sheets and the operating results of the discontinued operations is reflected on the Consolidated Statements of Operations and Comprehensive Income (Loss) as Loss from Discontinued Operations. See Note 16.

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

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment", which eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. The annual assessment of goodwill impairment will be determined by using the difference between the carrying amount and the fair value of the reporting unit. The standards update is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019 and has been adopted by the Company effective January 1, 2020.

In February 2016, the FASB issued ASU No. 2016-02 and its related amendments which introduced Leases (Topic 842, or "ASC 842"), a new comprehensive lease accounting model that supersedes the current lease guidance under Leases (Topic 840). The new accounting standard requires lessees to recognize right-of-use ("ROU") assets and corresponding lease liabilities for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. In July 2018, the FASB added a transition option for implementation that allows companies to continue to use the legacy guidance in ASC 840, Leases, including its disclosure requirements, in the comparative periods presented in the year of adoption. The Company adopted the guidance effective January 1, 2019. The Company elected the transition package of three practical expedients permitted under the

transition guidance and elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption, without a restatement of prior periods. Further, the Company elected a short-term lease exception policy, permitting the Company to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less). As a result of the adoption, the Company adjusted its beginning balance as of January 1, 2019 by recording operating lease ROU asset and liabilities through a cumulative-effect adjustment. The adoption impacted the accompanying consolidated balance sheet but did not have an impact on the consolidated statements of operations and comprehensive income (loss).

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

Impact of COVID-19 Outbreak - The COVID-19 pandemic has created global economic turmoil and has potentially permanently impacted how many businesses operate and how individuals will socialize and shop in the future. We continue to feel the effect of the COVID-19 business shutdowns and consumer stay-at-home protections. But the effect of the economic shutdown has impacted our business lines differently, some more severely than others. In most cases, we believe the negative economic trends and reduced sales will recover over time. However, management determined that one of its business lines, DSS Plastics, had been, and would continue to be, more severely impacted by the pandemic than our other divisions, and we did not believe this was a short-term phenomenon. We expected that this business would be permanently impacted because we believe that both consumer and corporate future travel habits will be negatively impacted and, as a result, use of hotel access cards will be diminished. We believe that conventions and sporting events will be fewer and smaller in attendance, and therefore demand for our card identification products would be reduced. Further, we believe that physical security cards and individual IDs will be replaced by more digital and optical technologies. As a result, management decided to fully impair its goodwill related to DSS Plastics during the first quarter 2020, and to exit this business line. The impact of this decision in our first quarter 2020 earnings and for as of December 31, 2020 was an impairment of approximately $685,000. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including losses on inventory; impairment losses related to goodwill and other long-lived assets and current obligations.

Continuing Operations and Going Concern - The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities, which might be necessary should we be unable to continue as a going concern. While the Company has approximately $5.2 million in cash, and a positive working capital position of approximately $3.6 million as of December 31, 2020, the Company has incurred operating losses as well as negative cash flows from operating and investing activities over the past two years.

To continue as a going concern, during the twelve months ended December 31, 2020, the Company through multiple underwriting agreements with Aegis Capital Corp. (“Aegis”), acting as representative of the several underwriters, provided the issuance and sale by the Company in an underwritten public offering shares of the Company’s common stock. The net offering proceeds to the Company approximated $20.2 million. Also, through two separate public offerings underwritten by Aegis during the first quarter of 2021, the Company received net proceeds of approximately $61.0 million.

The Company’s management intends to take actions necessary to continue as a going concern. Management’s plans concerning these matters includes, among other things, continued growth among our operating segments, and tightly controlling operating costs and reducing spending growth rates wherever possible to return to profitability. In addition, the Company has taken steps, and will continue to take measures, to materially reduce the expenses and cash burn at all corporate and business line levels. During the twelve months ended December 31, 2020, steps were taken to materially reduce or eliminate cash burns in the IP Monetization program, the DSS Digital Group and the DSS Plastics group.

At the Company’s current operating levels and capital usage, we believe that without any further acquisition or investments, our $5.2 million in aggregate cash, and cash equivalents, as of December 31, 2020, along with the $61.0 million raised during the first quarter of 2021, would allow us to fund our nine business lines current and planned operations through March 2022. Based on this, the Company has concluded that substantial doubt of its ability to continue as a going concern has been alleviated

NOTE 3 – INVENTORY

Inventory consisted of the following as of December 31:

	2020	2019
Finished Goods	$ 1,544,000	$ 756,000
Work in Process	280,000	246,000
Raw Materials	131,000	364,000
	$ 1,955,000	$ 1,366,000

NOTE 4 – NOTES RECEIVABLE

On October 10, 2019, the Company entered into a convertible promissory note ("TBD Note") with Century TBD Holdings, LLC ("TBD"), a Florida limited liability company. The Company loaned the principal sum of $500,000, of which up to $500,000 and all accrued interest can be paid by an "Optional Conversion" of such amount up to 19.8% (non-dilutable) of all outstanding membership interest in TBD. This TBD Note accrues interest at 6% and matures on October 9, 2021. As of December 31, 2020, and 2019 this TBD Note had outstanding principal and interest of approximately $537,000 and $507,000, respectively. On December 30, 2020, the Company signed a binding letter of intent with West Park Capital, Inc ("West Park"). and TBD where the parties agreed to prepare a note and stock exchange agreement whereby DSS will assign the TBD Note to West Park and West Park shall issue to DSS a stock certificate reflecting 7.5% of the issued and outstanding shares of West Park. This note and stock exchange agreement is expected to be finalized sometime during the second quarter of 2021.

On October 9, 2019 and November 11, 2019, the Company's subsidiary Decentralized Sharing Systems, Inc. entered into two, separate on demand, secured, convertible notes with RBC Life Sciences, Inc. (RBC), a Nevada corporation. The first Note, dated October 9th , lent the principal sum of $200,000 which accrued at a non-default interest rate of 6% with a scheduled maturity date of November 11, 2019 ("Note #1) This Note #1 also contains an "Optional Conversion" clause that allows the Company at any time, before or after the occurrence of an event of default, at its option, to convert the outstanding principal amount, plus accrued interest into a number of newly issued shares of its common stock equal to 75% of the total shares common stock that will be outstanding upon such conversion at a fully-diluted basis. Note #1 was also secured by and among other things a first lien on all of the assets of RBC and its subsidiaries, and was guaranteed by its subsidiary, RBC Life Sciences USA, Inc. As of December 31, 2019, the Company had advanced under the terms of Note #1 the sum of $200,000.

The second note (Note #2) dated November 11, 2019, established a secured, convertible, revolving line of credit to RBC up to an aggregate principal sum of $800,000, funded at the sole discretion of lender, and accruing at annual non-default interest rate of 10% with a scheduled maturity date of November 11, 2024, payable to Decentralized Sharing Systems' wholly owned subsidiary, HWH World, Inc.. Accrued interest on the outstanding principal balance was scheduled to be paid monthly commencing on December 25, 2019. Further, any amount of principal repaid during the term of the note was allowed to be re-advanced at any time prior to the earlier of the acceleration of note to maturity or its maturity date. This note also contains an "Optional Conversion" feature that allows the Company, at any time, before or after the occurrence of an event of default, at its option, to convert the outstanding principal balance, plus accrued interest into a number of newly issued shares of its common stock equal to 100% of the outstanding shares of common stock of RBC's direct and indirect subsidiaries. This Note #2 was also secured by a second lien on all of the assets of RBC, behind the first lien securing Note #1, and a first lien on all of the assets of RBC's multiple subsidiaries and the full guarantee of these subsidiaries. As of December 31, 2019, this Note #2 had an outstanding principal balance of approximately $82,000, and advances of approximately $518,000 were made during 2020.

On January 24, 2020, as a result of the borrower's default on Note #1, Decentralized Sharing Systems, Inc. made demand for repayment of the outstanding balance of the Note #1. In partial resolution, Decentralized Sharing Systems, Inc and RBC agreed to accept and tender, respectively, pursuant to the Uniform Commercial Code Article 9, collateral in partial satisfaction of debt under the terms of Note#1. The Company chose to not exercise its option convert the outstanding principal and interest into equity, but instead elected to accept this specific collateral. On February 7, 2020, RBC agreed to the deed-in-lieu of specific assets in satisfaction of part of the amount owing under Note #1.

On April 8, 2020, the Company initiated Uniform Commercial Code Article 9 foreclosure proceedings against the remaining assets of RBC and its subsidiaries which culminated with an Article 9 public sale on April 23, 2020. Again, the Company chose to forego the optional conversion of the outstanding principal and interest into 100% ownership, as was allowed in the terms of the note. Instead it elected to pursue through a public foreclosure sale collateral that secured Note #2. At that April Article 9 public sale, HWH World, Inc a wholly-owned subsidiary of the Company was the high bidder, and the company received a Bill of Sale for all of the remaining assets of RBC. As a result of this foreclosure sale and the Note #1, collateral accepted in lieu of partial debt, the Company now owns and controls most of the former assets of RBC and its subsidiaries.

During the second quarter of 2020, the Company completed its evaluation of the assets acquired through foreclosure of Note #1 and #2 above and determined the value received supported the recoverability of the carrying value of the two notes. In accordance with ASC 310 Receivables Goodwill and Other, the assets value will be recorded at the carrying value of the debt, allocated based on the value identified. The carrying values of Note #1 and Note #2 were reclassed as property, plant, and equipment and other intangible assets in the amounts of $201,000 and $637,000 respectively within the accompanying financial statements. These amounts are being depreciated and amortized over their useful lives. The Company is currently a defendant in a lawsuit brought against it for unjust enrichment and fraudulent transfer under Texas Uniform Fraudulent Transfer Act. See Note 15 for further details on related litigation.

NOTE 5 – FINANCIAL INSTRUMENTS

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash and marketable securities by significant investment category as of December 31, 2020 and December 31, 2019:

	2020					
	Adjusted Cost	**Unrealized Gain/(Loss)**	**Fair Value**	**Cash and Cash Equivalents**	**Current Marketable Securities**	**Investments**
Cash and cash equivalents	$ 1,733,000	$ -	$ 1,733,000	$ 1,733,000	$ -	$ -
Level 1						
Money Market Funds	3,493,000	-	3,493,000	3,493,000	-	-
Marketable Securities	5,641,000	3,495,000	9,136,000	-	9,136,000	-
Level 2						
Warrants	700,000	356,000	1,056,000	-	-	1,056,000
Total	$11,567,000	$ 3,851,000	$15,418,000	$ 5,226,000	$ 9,136,000	$ 1,056,000

2019

	Adjusted Cost	Unrealized Gain/(Loss)	Fair Value	Cash and Cash Equivalents	Current Marketable Securities	Investment
Cash and cash equivalents	$1,096,000	$ -	$1,096,000	$ 1,096,000	$ -	$ -
Level 1						
Money Market Funds	-	-	-	-	-	-
Marketable Securities	-	-	-	-	-	-
Level 2						
Warrants	-	-	-	-	-	-
Total	$1,096,000	$ -	$1,096,000	$ 1,096,000	$ -	$ -

The Company typically invests in highly rated securities, with the primary objective of minimizing the potential risk of principal loss. The Company's investment policy generally requires securities to be investment grade and limits the amount of credit exposure to any one issuer. Fair values were determined for each individual security in the investment portfolio.

NOTE 6 - INVESTMENT

Alset International Limited (formally Singapore eDevelopment Limited)

As of December 31, 2018, the Company owned 21,196,552 ordinary shares of Alset International Limited ("Alset Intl"), formerly named Singapore eDevelopment Limited ("SED"), a company incorporated in Singapore and publicly listed on the Singapore Exchange Limited. and an existing three-year warrant to purchase up to 105,982,759 ordinary shares at an exercise price of SGD$0.040 (US$0.0298) per share During the year ended December 31, 2019 the Company exercised 61,977,577 of the warrants for total cost of $1,829,000 and at December 31, 2019 recorded the investment at cost, less impairment under the measurement alternative in ASC 321 for a total value of $2,154,000. As of June 25, 2020, the Company exercised the remaining warrants for total cost of $1,291,000 bringing its total ownership to 127,179,311 shares or approximately 7% of the outstanding shares of Alset Intl as of December 31, 2020. Historically and through June 30, 2020, the Company carried its investment in Alset Intl at cost, less impairments under the measurement alternative in ASC 321 in part due to the restriction on the sale of shares which expired on September 17, 2019 as well as the lack of historical volume associated with the shares of Alset Intl. During the third quarter 2020, the Company determined fair value based on the volume of shares traded on the Singapore Exchange which has a breadth and scope comparable to United States markets, as well as a consistent and observable market price. Accordingly, this investment is now classified as a marketable security and is classified as long-term assets on the consolidated balance sheets as the Company has the intent and ability to hold the investments for a period of at least one year. The Chairman of the Company, Mr. Heng Fai Ambrose Chan, is the Executive Director and Chief Executive Officer of Alset Intl. Mr. Chan is also the majority shareholder of Alset Intl as well as the largest shareholder of the Company. The fair value of the marketable security as of December 31, 2020 was approximately $6,830,000 and during the year ended December 31, 2020 the Company recorded unrealized gains on this investment of approximately $3,384,200.

Sharing Services Global Corp. ("SHRG")

The Company had acquired in a series of open-market transactions, between March 2020 and December 2020 an aggregate of 13,957,378 of additional Class A common shares of Sharing Services Global Corp. ("SHRG"), a publicly traded company at an average purchase price of $0.06 per share. The Company, during this same period, had also purchased 20,250,000 shares of SHRG in private purchases at an average purchase price of $0.09 per share. The aggregate cost of these transactions approximated $2,572,000.

On July 22, 2020, Chan Heng Fai Ambrose, the Chairman of the Company's board of directors, assigned a Stock Purchase and Share Subscription Agreement by and between Mr. Chan and SHRG, pursuant to which the Company purchased 30,000,000 shares of Class A common stock and 10,000,000 warrants to purchase Class A common stock for $3 million. The warrants have an average exercise price of $0.20, immediately vested and may be exercised at any time commencing on the date of issuance and ending three year from such date. As of the date of issuance the warrants the consideration paid allocated to the warrants amounted to approximately $700,000. The warrants are considered an equity investment that is recorded at fair value with gains and losses recorded through net income. These warrants have been recorded at the fair market value of $1,056,000 on the Company's consolidated balance sheet and are included in "other investments" with the increase representing an unrealized gain of $356,000 as of 12/31/2020. These shares and warrants are also subject to a one-year trading restriction pursuant to the terms of a Lock-Up Agreement entered into between Mr. Chan and the Company and assigned to the Company.

As of June 30, 2020, the Company, had acquired and owned approximately 17% of the issued and outstanding shares of SHRG, which was recorded as a marketable security investment. In the 3rd quarter of 2020, the Company, through a series of Class A common shares acquisitions in July 2020, with such acquisition history detailed below, the Company acquired in aggregate, an ownership interest in SHRG of greater than 20%. At that time, it was determined that the Company had the ability to exercise significant influence over SHRG. Accordingly, on July 22nd, the Company began prospectively utilizing the equity method of accounting for its investment into SHRG in accordance with ASC Topic 323 and recognizing our share of SHRG's earnings and losses within our consolidated statement of operations and comprehensive income (loss). Due to the difference in fiscal year ends between the two companies, DSS has elected to recognize its portion of SHRG's earnings and losses on a quarter lag basis and utilized SHRG's three-month ended October 31, 2020 reported results in calculating its portion of SHRG's gain which approximated $604,000. As of July 22, 2020, the Company owned 62,417,593 Class A common shares of SHRG with an adjusted basis of $11.3 million. As of December 31, 2020, the Company held 64,207,378 class A common shares equating to a 32.6% ownership interest in SHRG and had recorded unrealized gains on marketable securities of approximately $6.8 million for the twelve-months then ended related to the period prior to the Company achieving significant influence and recording the investment under the equity method. As of July 22, 2020, the carrying value of the Company's equity method investment exceeded our share of the book value of the investee's underlying net assets by approximately $9.2 million, which represents primarily intangible assets in the form of customer and distributor lists and goodwill arising from acquisitions. The Company is still in the process of valuing the intangible assets as of December 31, 2020 and no amortization has been recorded during the period ended December 31, 2020. The aggregate fair value of the Company's investment in SHRG at December 31, 2020 was approximately $14,774,000. The following table represents SHRG operating results for the six-months ended October 31, 2020:

Net sales	$	41,339,507
Gross profit	$	30,390,874
Operating earnings	$	1,265,192
Earnings before income taxes	$	1,113,971
Income tax provision	$	(355,991)
Net earnings	$	757,980

The Company, via four (4) of the Company's existing board members, currently holds four (4) of the five (5) SHRG board of director seats. Mr. John "JT" Thatch, DSS's Lead Independent Director and as well the CEO of SHRG is on the SHRG Board, along with Mr. Chan, DSS's Executive Chairman of the board of directors (joined the SHRG Board effective May 4, 2020), Mr. Sassuan "Sam" Lee, DSS Independent Director (joined the SHRG Board effective September 29, 2020) and Mr. Frank D. Heuszel, the CEO of the Company (joined the SHRG Board effective September 29, 2020).

BMI Capital International LLC

On September 10, 2020, the Company's wholly owned subsidiary DSS Securities, Inc. entered into membership interest purchase agreement with BMI Financial Group, Inc. a Delaware corporation ("BMIF") and BMI Capital International LLC, a Texas limited liability company ("BMIC") whereas DSS Securities, Inc. purchased 14.9% membership interests in BMIC for $100,000. DSS Securities also had the option to purchase an additional 10% of the outstanding membership interest which it exercised in January of 2021 and increased its ownership to 24.9%. This investment is valued at cost as it does not have a readily determined fair value.

BMIC is a broker-dealer registered with the Securities and Exchange Commission, is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"), and is a member of the Securities Investor Protection Corporation ("SIPC"). The Company's chairman of the board and another independent board member of the Company also have ownership interest in this joint venture.

Alset Title Company

On or about August 28, 2020, the Company's wholly owned subsidiary, DSS Securities, Inc. entered into a corporate venture to form and operate a real estate title agency, under the name and flagging of Alset Title Company, Inc, a Texas corporation ("ATC"). DSS Securities, Inc. shall own 70% of this venture with the other two shareholders being attorneys necessary to the state application and permitting process. ATC have initiated or have pending applications to do business in a number of states, including Texas, Tennessee, Connecticut, Florida, and Illinois. For the purpose of organization and the state application process, the Company's CEO, who is a licensed attorney, has a stated non-compensated 15% ownership interest in the venture. There was no activity for the twelve-months ended December 31, 2020.

BioMed Technologies Asia Pacific Holdings Limited

On December 19, 2020, Impact BioMedical, a wholly-owned subsidiary of the Company, entered into a subscription agreement (the "Subscription Agreement") with BioMed Technologies Asia Pacific Holdings Limited ("BioMed"), a limited liability company incorporated in the British Virgin Islands, pursuant to which the Company agreed to purchase 525 ordinary shares or 4.99% of BioMed at a purchase price of approximately $630,000. The Subscription Agreement provides, among other things, the Company the right to appoint a new director to the board of BioMed. With respect to an issuance of shares to a third party by BioMed, the Company will have the right of first refusal to purchase such shares, as well as customary tag-along rights. In connection with the Subscription Agreement, Impact entered into an exclusive distribution agreement (the "Distribution Agreement") with BioMed, to directly market, advertise, promote, distribute, and sell certain BioMed products, which focus on manufacturing natural probiotics, to resellers. This investment is valued at cost as it does not have a readily determined fair value.

BioMed focuses on manufacturing natural probiotics, pursuant to which the Company will directly market, advertise, promote, distribute and sell certain BioMed products to resellers. The products to be distributed by the Company include BioMed's PGut Premium Probiotics®, PGut Allergy Probiotics®, PGut SupremeSlim Probiotics®, PGut Kids Probiotics®, and PGut Baby Probiotics®.

Under the terms of the Distribution Agreement, the Company will have exclusive rights to distribute the products within the United States, Canada, Singapore, Malaysia, and South Korea and non-exclusive distribution rights in all other countries. In exchange, the Company agreed to certain obligations, including mutual marketing obligations to promote sales of the products. This agreement is for ten years with an one year auto-renewal feature.

NOTE 7 – BUSINESS COMBINATIONS

American Medical REIT Inc.

On March 3, 2020, the Company entered into a binding term sheet (the "Term Sheet") with LiquidValue Asset Management Pte Ltd ("LVAM"), AMRE Asset Management Inc. ("AAMI") and American Medical REIT Inc. ("AMRE"), regarding a share subscription and loan arrangement. The Term Sheet set forth the terms of a proposed transaction to establish a medical real estate investment trust in the United States and AAMI providing certain services related to the financial and capital structure of AMRE. Pursuant to the final signed Stockholders' Agreement, dated March 3, 2020, the Company has subscribed 5,250 ordinary shares of AAMI at a purchase price of $0.01 per share for total consideration of $52.50. Concurrently, AAMI will issue 3,500 shares to LVAM, and 1,250 shares to AMRE Tennessee, LLC, AAMI's executive management's holding company. As a result, the Company now holds 52.5% of the outstanding shares of AAMI, with LVAM and AMRE Tennessee, LLC, holding 35% and 12.5% of the remaining outstanding shares of AAMI, respectively. At the completion of the share subscription, AAMI has a 93% equity interest in AMRE. Also, at the completion of the transaction, AAMI had no assets or liabilities. LVAM is an 82% owned subsidiary of Alset Intl. whose Chief Executive Officer and largest shareholder is Heng Fai Ambrose Chan, the Chairman of the

Board and largest shareholder of the Company.

Further, pursuant to and in connection with the Term Sheet, effective on March 3, 2020, the Company entered into a Promissory Note with AMRE, pursuant to which AMRE has issued the Company a promissory note for the principal amount of $800,000 (the "Note"). The Note matures on March 3, 2022 and accrues interest at the rate of 8.0% per annum and shall be payable in accordance with the terms set forth in the Note. Under the Note, AMRE may prepay or repay all or any portion of the Note at any time, without a premium or penalty. If not sooner prepaid, the entire unpaid principal balance of the Note including accrued interest will be due and payable in full on March 3, 2022. AMRE's failure to pay any amount due on the Note within five days of when payment is due constitutes an event of default under the Note, pursuant to which the Company can declare the Note due and payable. The Note also provides the Company an option to provide AMRE an additional $800,000 on the same terms and conditions as the Note, including the issuance of warrants as described below. As further incentive to enter into the Note, AMRE issued the Company warrants to purchase 160,000 shares of AMRE common stock (the "Warrants"). The Warrants have an exercise price of $5.00 per share, subject to adjustment as set forth in the Warrants, and expire on March 3, 2024. Pursuant to the Warrants, if AMRE files a registration statement with the Securities and Exchange Commission for an initial public offering ("IPO") of AMRE's common stock and the IPO price per share offered to the public is less than $10.00 per share, the exercise price of the Warrants shall be adjusted downward to 50% of the IPO price. The Warrants also grants piggyback registration rights to the Company as set forth in the Warrants. As of December 31, 2020, this Note had outstanding principal and interest of approximately $844,000. Upon consolidation this Note is eliminated. AMRE entered into a $200,000 unsecured promissory note with LVAM. The Note calls for interest to be paid annually on March 2 with interest fixed at 8.0%. See Note 10 for further details.

U.S. GAAP requires that for each business combination, one of the combining entities shall be identified as the acquirer, and the existence of a controlling financial interest shall be used to identify the acquirer in a business combination. The Company has determined that its aforementioned 52.5% equity interest in AAMI provides existence of a controlling financial interest and has concluded to account for this transaction in accordance with the acquisition method of accounting under FASB ASC Topic 805, " *Business Combinations"* ("Topic 805"). As of December 31, 2020, AMRE had incurred $900,000 of cost of which $430,000 is attributable to the non-controlling interest. AAMI does not qualify for a separate reporting segment and is included in Corporate (see Note 18).

Impact BioMedical, Inc.

On August 21, 2020, the Company, completed its acquisition of Impact BioMedical,, pursuant to a Share Exchange Agreement by and among the Company, DSS BioHealth, and related parties Alset Intl (formally Singapore eDevelopment Limited), and Global Biomedical Pte Ltd. ("GBM") which was previously approved by the Company's shareholders (the "Share Exchange").Under the terms of the Share Exchange, the Company issued 483,334 shares of the Company's common stock, par value $0.02 per share, nominally valued at $6.48 per share, and 46,868 newly issued shares of the Company's Series A Convertible Preferred Stock ("Series A Preferred Stock"), with a stated value of $46,868,000, or $1,000 per share, for a total consideration of $50 million (Note 12) to acquire 100% of the outstanding shares of Impact BioMedical. The acquisition was done to add assets and a foundation of products with international market opportunities and demand, and which can be structured into long- term scalable, reoccurring license revenue within the DSS BioHealth line of business. Due to several factors, including a discount for illiquidity, the value of the Series A Preferred Stock was discounted from $46,868,000 to $35,187,000, thus reducing the final consideration given to approximately $38,319,000. The Company incurred approximately $295,000 in cost associated with the acquisition of Impact Biomedical which were recorded as general and administrative expenses. As a result of the Share Exchange, Impact BioMedical is now a wholly owned subsidiary of DSS BioHealth, the Company's wholly owned subsidiary and operating results of the acquisition will be included in the Company's financial statements beginning August 21, 2020. Impact BioMedical has several subsidiaries that are not wholly owned by Impact BioMedical, and have an ownership percentage ranging from 63.6% to 100%. Since acquisition, approximately $440,000 of cost have been incurred, of which $51,000 of cost incurred is attributable to non-controlling interest. Although Impact BioMedical historically, and to date has not generated any revenues, the acquisition of Impact BioMedical meets the definition of a business with inputs, processes and outputs, and therefore, the Company has concluded to account for this transaction in accordance with the acquisition method of accounting under Topic 805.

The following summary, prepared on a proforma basis, combines the consolidated results of operations of the Company with those of Impact Biomedical as if the acquisition took place on January 1, 2019. The pro forma consolidated results include the impact of certain adjustments.

	2020 Unaudited	2019 Unaudited
Sales	$ 17,411,000	$ 15,550,000
Net income (loss) attributed to common stockholders	$ 1,219,000	$ (3,343,000)
Basic earnings per share	$ 0.30	$ (2.51)
Diluted earnings per share	$ 0.11	$ (0.39)

The Company has completed its valuations of certain developed technology and pending patents assets acquired in the transaction as well the fair value of the non-controlling interests. These have been valued at approximately $22,260,000 and $3,910,000 respectively. Other assets acquired and liabilities assumed were not significant. The Company has also completed an initial valuation of goodwill and deferred tax liabilities of Impact BioMedical, which are pending as of December 31, 2020 as several of the 2019 tax returns have yet to be filed. For the purposes of these financial statements, the Company has recorded goodwill of approximately $25,093,000, driven by other intangible assets that do not qualify for separate recognition, and a deferred tax liability of approximately $5,234,000. The goodwill is not deductible for tax purposes, and has been allocated to Impact BioMedical in totality as a single reporting unit. Impact BioMedical is included in the Company's BioHealth segment (see Note 18).

NOTE 8 - PROPERTY PLANT AND EQUIPMENT

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

	Estimated Useful Life	**2020**	**2019**
Machinery and equipment	5-10 years	$ 6,944,000	$ 6,507,000
Building and improvements	39 years	1,976,000	1,962,000
Land		185,000	185,000

Furniture and fixtures	7 years	130,000	102,000
Software and websites	3 years	298,000	251,000
Total Cost		9,533,000	9,007,000
Less accumulated depreciation		5,387,000	4,679,000
Property, plant and equipment, net		$ 4,146,000	$ 4,328,000

NOTE 9 - INTANGIBLE ASSETS

During 2020 and 2019, the Company spent approximately $0 and $10,000, respectively, on capitalized patent application costs.

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

On January 24, 2020 and April 8, 2020, the Company foreclosed on two separate note receivables with RBC Life Sciences, Inc. (see Note 4) during which the Company acquired $637,000 of intangible assets as settlement of the amounts owed. These assets are being amortized over their useful lives.

On August 21, 2020, the Company completed its acquisition of Impact BioMedical, (see Note 7) during which the Company, based on valuations performed, acquired $22,260,000 of developed technology assets. These assets are not yet placed in service and will be amortized over a 20-year useful life when placed in service, which is expected to be during the year ended December 31, 2021.

Intangible assets are comprised of the following:

		2020			2019		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology assets	20 years	$22,260,000	$ -	$ 22,260,000	$ -	$ -	$ -
Acquired intangibles customer lists, licenses and non-compete agreements	2-10 years	1,259,000	330,000	929,000	1,789,000	1,203,000	586,000
Acquired intangibles patents and patent rights		500,000	500,000	-	500,000	500,000	-
Patent application costs	Varied (1)	1,178,000	911,000	267,000	1,178,000	829,000	349,000
		$ 25,197,000	1,741,000	$ 23,456,000	3,467,000	2,532,000	935,000

(1) Patent application costs are amortized over their expected useful life which is generally the remaining legal life of the patent. As of December 31, 2020, the weighted average remaining useful life of these assets in service was approximately 8.2 years.

Amortization expense for the year ended December 31, 2020 amounted to approximately $374,000 ($461,000 –2019).

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

Year	Amount
2021	1,389,000
2022	1,243,000
2023	1,169,000
2024	1,147,000
2025	1,161,000

NOTE 10 – SHORT TERM AND LONG-TERM DEBT

Revolving Credit Lines - The Company's subsidiary Premier Packaging has a revolving credit line with Citizens Bank ("Citizens") of up to $800,000 that bears interest at 1 Month LIBOR plus 2.0% (2.1% as of December 31, 2020). This revolving line of credit was renewed and has a maturity date of May 31, 2021 and is renewable annually. As of December 31, 2020 and December 31, 2019, the revolving line had a balance of $0 and $500,000 respectively.

On July 26, 2017, Premier Packaging entered into a Loan Agreement and accompanying Term Note Non-Revolving Line of Credit Agreement with Citizens pursuant to which Citizens agreed to lend up to $1,200,000 to permit Premier Packaging to purchase equipment from time to time that it may need for use in its business. The aggregate principal balance outstanding under the Equipment Acquisition Line of Credit shall bear interest thereon at a per annum rate of 2% above the LIBOR Advantage Rate until the Conversion Date (as defined in the Term Note Non-Revolving Line of Credit). Effective on the Conversion Date, the interest shall be adjusted to a fixed rate equal to 2% above the bank's Cost of Funds, as determined by Citizens. Current maturities of long-term debt are based on an estimated 48-month amortization

which will be adjusted upon conversion. As of December 31, 2020 and December 31, 2019, the Term Note had a balance of $771,000 and $899,000 respectively. The Company pays a monthly amount of $13,000 in principal and interest.

On December 1, 2017, the Company's subsidiary Plastic Printing Professionals entered into a Loan Agreement and accompanying Term Note Non-Revolving Line of Credit Agreement with Citizens which was converted into two term notes under which the Company will make monthly payments of $14,000 until November 30, 2023. Interest under the term notes is payable monthly at 5.37%. On December 31, 2019 this note had a balance of $577,000. On July 20, 2020 the Company paid off this note.

Equipment Line of Credit- On July 31, 2020, Premier Packaging entered into a Loan Agreement and accompanying Term Note Non-Revolving Line of Credit Agreement with Citizens pursuant to which Citizens agreed to lend up to $900,000 to permit Premier Packaging to purchase equipment from time to time that it may need for use in its business. The aggregate principal balance outstanding under the Equipment Acquisition Line of Credit shall bear interest thereon at a per annum rate of 2% above the LIBOR Advantage Rate until the Conversion Date (as defined in the Term Note Non-Revolving Line of Credit). Effective on the Conversion Date, the interest shall be adjusted to a fixed rate equal to 2% above the bank's Cost of Funds, as determined by Citizens. As of December 31, 2020, the loan had a balance of $0 and Premier Packaging still has available $900,000 for equipment borrowings.

Promissory Notes - On June 27, 2019 Premier Packaging refinanced and consolidated the outstanding principal associated with the two promissory notes for its packaging plant located in Victor, New York, for $1,200,000 with Citizens Bank. The new Promissory Note calls for monthly payments of $7,000, with interest fixed at 4.22%. The new Promissory Note matures on June 27, 2029, at which time a balloon payment of $708,000 is due. As of December 31, 2020 and December 31, 2019, the new Promissory Note had a balance of $1,100,000 and $1,141,000 respectively.

The Citizens credit facilities to the Company's subsidiary Premier Packaging, contain various covenants including fixed charge coverage ratio, tangible net worth and current ratio covenants which are tested annually at December 31. For the year ended December 31, 2020, Premier Packaging was in compliance with the annual covenants.

On October 24, 2018, the Company's subsidiary, DSS Asia Limited entered into a $100,000 unsecured promissory note with HotApps International Pte Ltd in conjunction with the acquisition of Guangzhou HotApps Technology Ltd., a Chinese subsidiary of HotApps International Pte Ltd, by DSS Asia Limited. The promissory note does not accrue interest and had a maturity date of October 24, 2020. This note was paid in full on October 9, 2020.

On March 2, 2020, AMRE entered into a $200,000 unsecured promissory note with LVAM. The Note calls for interest to be paid annually on March 2 with interest fixed at 8.0%. As of December 31, 2020, accrued interest is included in the outstanding balance. If not paid sooner, the entire unpaid principal balance is due in full on March 2, 2022. As further incentive to enter into this Note, AMRE granted LVAM warrants to purchase shares of common stock of AMRE (the "Warrants"). The amount of the warrants granted is the equivalent of the Note Principal divided by the Exercise Price. The Warrants are exercisable for four years and are exercisable at $5.00 per share (the "Exercise" Price). The value of the warrants is not considered to be material. The holder is a related party owned by the Chairman of the Company's board of directors. As of December 31, 2020, the new promissory note, inclusive of unpaid interest, had a balance of $214,000.

During Q2 2020, the Company received loan proceeds for Premier Packaging, DSS Digital, and AAMI in the amount of approximately $1,078,000 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. These funds were used for payroll, benefits, rent, mortgage interest, and utilities. As of August 4, 2020, pursuant to the terms of the SBA PPP program, the Company submitted applications for Premier Packaging and DSS Digital for a requested 100% loan forgiveness. During the fourth quarter 2020, both these notes approximating $969,000 were forgiven in full and recognized as a gain on the extinguishment of debt on the accompanying consolidated financial statements as of December 31, 2020. AAMI, pursuant to the terms of the SBA PPP program, submitted its application for 100% loan forgiveness in October 2020, and received confirmation of forgiveness in January 2021.

A summary of scheduled principal payments of long-term debt, not including revolving lines of credit, subsequent to December 31, 2020 are as follows:

Year	Amount
2021	$ 278,000
2022	439,000
2023	178,000
2024	185,000
2025	193,000
Thereafter	981,000

NOTE 11 – OTHER LIABILITIES

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

In addition, on November 14, 2016, the Company received $4,500,000 of the Financing, which was required to be used by the Company to pay for the defense of Inter Partes Review or other similar proceedings that may be filed from time to time by defendants with the U.S. Patent & Trademark Office relating to the LED Patent Portfolio, with excess amounts available for general working capital needs. Of this amount, the Company allocated $2,500,000 which it subsequently adjusted to $1,500,000 for the payment of estimated future Inter

Partes Review costs. The Company will reduce this liability as it pays legal and other expenses related to the Inter Partes Review matters involving the LED Patent Portfolio as incurred. As of December 31, 2020, an aggregate of $780,988 is recorded as other liabilities by the Company, of which $390,494 is classified as current. For the remaining $3,000,000 the Company reduced the liability with an offset to selling, general and administrative costs by $47,500 per month from January 2017 through July 2017, $80,000 per month for the remainder of 2017 through March 2018, $86,500 per month for the remainder of 2018, and through November of 2019. As of December 31, 2019, the liability has been fully amortized. An aggregate of $955,000 was recorded as a reduction of the liability allocated to working capital in 2019.

NOTE 12 - STOCKHOLDERS' EQUITY

Sales of Equity **–** On February 18, 2020, in accordance with the Chairman of the Company's Board of Directors compensation plan as CEO of one of the Company's subsidiaries,11,664 shares of the Company's common stock were remitted in lieu of cash as settlement of his Q3 and Q4 2019 salary of $114,000 that was accrued as of December 31, 2019.

On February 18, 2019, the Company had entered into a Convertible Promissory Note with LiquidValue Development Pte Ltd ., a company owned and controlled by Mr. Heng Fai Ambrose Chan, DSS's Chairman, in the principal sum of $500,000, of which up to $500,000 of the Principal Amount could be paid by the conversion of such amount into the Company's common stock, par value $0.02 per share, up to a maximum of 14,881 shares of common stock (the "Maximum Conversion Amount"), at a conversion price of $33.60 per share. Effective on March 25, 2019, LiquidValue Development Pte Ltd exercised its conversion option and converted the Maximum Conversion Amount under the Note.

On March 5, 2019, the Company issued 4,348 shares of its common stock at $34.50 per share as partial consideration for a licensing and distribution agreement entered into with Advanced Cyber Security Corp.

On June 5, 2019, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Aegis Capital Corp., acting as representative of the several underwriters, which provided for the issuance and sale by the Company in an underwritten public offering (the "Offering") and the purchase by the Underwriters of 373,333 shares of the Company's common stock, $0.02 par value per share. Subject to the terms and conditions contained in the Underwriting Agreement, the shares were sold to the Underwriters at a public offering price of $15.00 per share, less certain underwriting discounts and commissions. As part of this transaction, 66,667 shares were purchased by Heng Fai Ambrose Chan, Chairman of the Board of directors. The Company also granted the Underwriters a 45-day option to purchase up to 1,680,000 additional shares of the Company's common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the Offering (17,306 shares were exercised on July 18, 2019 at $15.00 per share, less underwriting discounts and expenses). The net offering proceeds to the Company was approximately $5.0 million, inclusive of the July 18, 2019 transaction and after deducting underwriting discounts, commissions and other offering expenses.

On November 1, 2019, pursuant to a Subscription Agreement, LiquidValue Development Pte LTD, a company owned and controlled by Mr. Heng Fai Ambrose Chan, DSS's Chairman, purchased from the Company, in a private placement, and aggregate of 200,000 shares of common stock, for an above market purchase price equal to $9.00 per share (at the time of LiquidValues' commitment, the closing stock price was $7.80 per share) for net proceeds to the Company of approximately $1.6 million after deducting underwriting discounts, commissions and other offering expenses.

On February 20, 2020, the Company entered into an underwriting agreement (the "Underwriting Agreement #1") with Aegis Capital Corp. (the "Underwriter"), which provided for the issuance and sale by the Company and the purchase by the Underwriter, in a firm commitment underwritten public offering (the "Feb. 2020 Offering"), of 740,741 shares of the Company's common stock, $0.02 par value per share. Subject to the terms and conditions contained in the Underwriting Agreement #1, the shares were sold to the Underwriter at a public offering price of $5.40 ($0.18 per shares pre-reverse stock split) per share, less certain underwriting discounts and commissions. The Company also granted the Underwriters a 45-day option to purchase up to 111,111 additional shares of the Company's common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the Feb. 2020 Offering which were exercised. The net offering proceeds to the Company from the Feb. 2020 Offering were approximately $4 million, after deducting estimated underwriting discounts and commissions and other estimated offering expenses. The offering was closed on February 25, 2020. Heng Fai Ambrose Chan, the Chairman of the Company's Board of Directors, purchased $2 million of shares in the Feb. 2020 Offering.

On May 15, 2020, the Company entered into an underwriting agreement (the "Underwriting Agreement #2") with the Underwriter, which provided for the issuance and sale by the Company and the purchase by the Underwriter, in a firm commitment underwritten public offering (the "May 2020 Offering"), of 769,230 shares of the Company's common stock, $0.02 par value per share. Subject to the terms and conditions contained in the Underwriting Agreement #2, the shares were sold to the Underwriter at a public offering price of $7.80 per share, less certain underwriting discounts and commissions. The Company also granted the Underwriters a 45-day option to purchase up to 115,384 additional shares of the Company's common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the May 2020 Offering which was exercised. The net offering proceeds to the Company from the May 2020 Offering were approximately $6.2 million, after deducting estimated underwriting discounts and commissions and other estimated offering expenses. The May 2020 Offering was closed on June 26, 2020.

On July 7, 2020, the Company entered into an underwriting agreement (the "Underwriting Agreement #3") with the Underwriter, which provided for the issuance and sale by the Company and the purchase by the Underwriter, in a firm commitment underwritten public offering (the "July 2020 Offering"), of 1,028,800 shares of the Company's common stock, $0.02 par value per share. Subject to the terms and conditions contained in the Underwriting Agreement #3, the shares were sold to the Underwriter at a public offering price of $6.25 per share, less certain underwriting discounts and commissions. The Company also granted the Underwriters a 45-day option to purchase up to 154,320 additional shares of the Company's common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the July 2020 Offering which was exercised. The net offering proceeds to the Company from the July 2020 Offering were approximately $6.7 million. The July 2020 Offering was closed on July 10, 2020.

On July 28, 2020, the Company entered into an underwriting agreement (the "Underwriting Agreement #4") with the "Underwriter, which provided for the issuance and sale by the Company and the purchase by the Underwriter, in a firm commitment underwritten public offering (the "July 2020 Offering #2"), of 453,333 shares of the Company's common stock, $0.02 par value per share. Subject to the terms and conditions contained in the Underwriting Agreement #4, the shares were sold to the Underwriter at a public offering price of $7.50 per share, less certain underwriting discounts and commissions. The Company also granted the Underwriters a 45-day option to purchase up to

38,533 additional shares of the Company's common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the July 2020 Offering #2. The net offering proceeds to the Company from the July 2020 Offering #2 were approximately $3.3 million, after deducting estimated underwriting discounts and commissions and other estimated offering expenses. The initial July 2020 Offering #2 was closed on July 31, 2020, and the overallotment was exercised on August 7, 2020.

On August 21, 2020, the Company, completed its acquisition of Impact BioMedical, pursuant to a Share Exchange Agreement by and among the Company, DSS BioHealth, and related parties Alset Intl, and GBM which was previously approved by the Company's shareholders (the "Share Exchange"). Under the terms of the Share Exchange, the Company issued 483,334 shares of the Company's common stock, par value $0.02 per share, nominally valued at $6.48 per share, and 46,868 newly issued shares of the Company's Series A Convertible Preferred Stock.

In connection with the Share Exchange for Impact BioMedical described in Note 7, on August 18, 2020, the Company filed a Certificate of Amendment of its Certificate of Incorporation (the "Certificate of Amendment") to increase the number of authorized shares of the Company, including 47,000 shares of Preferred Stock, with a par value of $0.02, of which 47,000 shares were designated Series A Preferred Stock. The Certificate of Amendment, the form of which was previously disclosed in a Schedule 14A Definitive Proxy Statement filed with the Securities and Exchange Commission on July 14, 2020. As described in Note 7, this transaction is a related party transaction.

Holders of the Series A Preferred Stock have no voting rights, except as required by applicable law or regulation, and no dividends accrue or are payable on the Series A Preferred Stock. The holders of Series A Preferred Stock are entitled to a liquidation preference at a liquidation value of $1,000 per share aggregating to $46,868,000, and the Company has the right to redeem all or any portion of the then outstanding shares of Series A Preferred Stock, pro rata among all holders, at a redemption price per share equal to such liquidation value per share. The Series A Preferred Stock ranks senior to Common Stock and any other class of securities that is specifically designated as junior to the Series A Preferred Stock with respect to rights on the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, in respect of a liquidation preference equal to its par value of $1,000. A holder of Series A Preferred Stock has the option to convert each share of Series A Preferred Stock into a number of common shares in the Company equal to the $1,000 liquidation preference divided by a conversion price of $6.48 or 154.32 shares subject to a Beneficial Ownership Limitation of 19.99%, as defined in the Share Exchange Agreement. Additionally, the Company has the option to require conversion of all outstanding Series A Preferred Stock into common stock at any time, subject to the Beneficial Ownership Limitation discussed. In aggregate the Series A Preferred Shares are convertible into 7,232,670 shares of the Company's common stock at the date of issuance. The Company evaluated the classification of the Series A Preferred Shares under the guidance enumerated in ASC 470, 480, and 815 and determined that based on the features noted above the instruments are accounted for as permanent equity. On October 16, 2020, GBM converted 4,293 shares of the Series A Convertible Preferred Stock into 662,500 shares of the Company's common A shares.

Stock Warrants –The following is a summary with respect to warrants outstanding and exercisable as of December 31, 2020 and 2019 and activity during the years then ended:

	2020		2019	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at January 1:	40,677	$ 33.52	47,671	$ 120.00
Granted during the year	-		-	-
Lapsed/terminated	(4,163)	30	(6,994)	623
Outstanding at December 31:	36,514	$ 33.92	40,677	$ 33.52
Exercisable at December 31:	36,514	$ 33.92	40,677	$ 33.52
Weighted average months remaining		9.9		8.7

The Company did not issue any warrants in 2020 or 2019.

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 50,000 shares of common stock authorized to be issued for grants of options, restricted stock and other forms of equity to employees, directors and consultants. Under the terms of the 2013 Plan, options granted thereunder may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Internal Revenue Code, or options which do not qualify ("NQSOs"). As of December 31, 2020, no shares remained available under this plan.

On December 9, 2019, the Company's shareholders adopted the 2020 Employee, Director and Consultant Equity Incentive Plan (the "2020 Plan"). The 2020 Plan provides for the issuance of up to a total of 241,204 shares of common stock authorized to be issued for grants of options, restricted stock and other forms of equity to employees, directors and consultants. Under the terms of the 2020 Plan, options granted thereunder may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Internal Revenue Code, or options which do not qualify ("NQSOs").

The following is a summary with respect to options outstanding as of December 31, 2020 and 2019 and activity during the years then ended:

	2020	2019

	Number of Options	Weighted Average Exercise Price	Weighted Average life Remaining (Years)	Number of Options	Weighted Average Exercise Price	Weighted Average life Remaining (Years)
Outstanding at January 1,	19,264	$ 150.30		26,089	$ 199.80	
Granted	-	-		-	-	
Lapsed/terminated	-	-		(6,825)	231.00	
Outstanding at December 31,	19,264	$ 150.30	2.2	19,264	$ 150.30	3.2
Exercisable at December 31,	19,264	$ 150.30	2.2	13,625	$ 195.00	3.5
Expected to vest at December 31,	-	$ 150.30	2.2	5,639	$ 42.90	3.4
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 fair value of each option award is estimated on the date of grant utilizing the Black-Scholes-Merton Option Pricing Model. The Company estimates the expected volatility of the Company's common stock at the grant date using the historical volatility of the Company's common stock over the most recent period equal to the expected stock option term.

The aggregate grant date fair value of options that vested during 2020 and 2019 was approximately $100,000 and $104,000, respectively. There were no options exercised during 2020 or 2019.

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

On September 6, 2019, the Company issued an aggregate of 7,477 shares of fully vested restricted stock to members of the Company's management team of with a two-year lock-up period and had an aggregated grant date fair value of approximately $94,000 which is included in stock based compensation for the year ended December 31, 2019.

On April 3, 2020, the Company issued an aggregate of 5,833 shares of fully vested restricted stock to members of the Company's management team of with a two-year lock-up period and had an aggregated grant date fair value of approximately $38,000 which is included in stock based compensation for the year ended December 31, 2020.

Stock-Based Compensation – The Company records stock-based payment expense related to options and warrants based on the grant date fair value in accordance with FASB ASC 718. Stock-based compensation includes expense charges for all stock-based awards to employees, directors and consultants. Such awards include option grants, warrant grants, and restricted stock awards. During the twelve-months ended December 31, 2020, the Company had stock compensation expense of approximately $188,000 or approximately $0.05 and $0.03 basic and diluted earnings per shares, respectively ($422,000, or $0.50 basic and diluted earnings per share for the corresponding twelve months ended December 31, 2019).

In July 2019, by unanimous written consent, the Board of Directors authorized the Company to issue individual stock grants of the Company's common stock, pursuant to the Company's 2013 Employee, Director and Consultant Equity Incentive Plan, to certain officers and directors in the amount of 15,291 shares, at $12.60 per share which were immediately vested and issued on September 6, 2019. 7,477 of these shares where were fully vested restricted stock to members of the Company's management team of with a two-year lock-up period.

On April 3, 2020, by unanimous written consent, the Board of Directors authorized the Company to issue individual stock grants of the Company's common stock, pursuant to the Company's 2020 Employee, Director and Consultant Equity Incentive Plan, to certain managers and directors in the amount of 8,900 shares, at $6.60 per share which were immediately vested and issued. 5,800 of these shares where were fully vested restricted stock to members of the Company's management team with a two-year lock-up period.

On June 4, 2020, the Company entered into an agreement with an investor relations firm to provide services over a 14-month period in exchange for 21,000 shares of common stock. The shares were issued on the date of the agreement and were valued by the Company at $210,000. The value assigned to the shares is included in other assets on the accompanying consolidated balance sheets and will be expensed as marketing expense as it is earned.

On September 23, 2020, by written consent of the Chief Executive Officer and the Chairman of the board, the Company to issue individual stock grants of the Company's common stock, pursuant to the Company's 2020 Employee, Director and Consultant Equity Incentive Plan, to a consultant of the Company in the amount of 20,000 shares, at $4.48 per share which were immediately vested.

NOTE 13 - INCOME TAXES

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets are reduced, if deemed necessary, by a valuation allowance for the amount of tax benefits which are not expected to be realized.

The 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:

	2020	2019
Currently payable:		
Federal	$ -	$ -
State	5,000	-
Total currently payable	5,000	-
Deferred:		
Federal	582,000	(367,000)
State	(22,000)	(125,000)
Foreign	(125,000)	(117,000)
Total deferred	435,000	(609,000)
Less: (decrease) increase in allowance	(2,214,000)	484,000
Net deferred	(1,779,000)	(125,000)
Total income tax benefit	$ (1,774,000)	$ (125,000)

Individual components of deferred tax assets and liabilities are as follows:

	2020	2019
Deferred tax assets:		
Net operating loss carry forwards	$ 13,852,000	$ 11,189,000
Equity issued for services	192,000	169,000
Goodwill and other intangibles	0	676,000
Investment in pass-through entity	12,000	12,000
Deferred revenue	183,000	182,000
Operating Lease Liability	47,000	284,000
Other	605,000	376,000
Gross deferred tax assets	14,891,000	12,888,000
Deferred tax liabilities:		
Goodwill and other intangibles	4,668,000	29,000
Unrealized gains	2,599,000	-
Right -of-use asset	47,000	284,000
Gross deferred tax liabilities	7,314,000	313,000
Less: valuation allowance	(11,076,000)	(12,619,000)
Net deferred tax liabilities	$ (3,499,000)	$ (44,000)

The 2017 Tax Cuts and Jobs Act repeals the corporate alternative minimum tax (AMT) and permits existing minimum tax credits carryovers to offset the regular tax liability for any tax year. Further, the credit is refundable for any tax year beginning after December 31, 2017 and before December 31, 2020 in an amount equal to 50 percent of the excess of the minimum tax credit over regular liability. Any remaining credit will be fully refundable for the year ended December 31, 2021. As of December 31, 2020 and 2019, the Company had $0 and $46,000 respectively of minimum tax credit included in prepaids and other current assets in the accompanying consolidated balance sheet.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the “Act”). The legislation significantly changed U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. The Act permanently reduced the U.S. corporate income tax rate from a maximum of 35% to a 21% rate, effective January 1, 2018

Pretax losses from the Company’s foreign subsidiaries amounted to $.4 million and $1.5 million for 2020 and 2019, respectively. The balance of pretax earnings or loss for each of those years were domestic.

While the Tax Cuts and Jobs Act provides for a territorial tax system, beginning in 2018, it includes the foreign-derived intangible income (“FDII”) and global intangible low-taxed income (“GILTI”) provisions. The Company elected to account for GILTI tax in the period in which it is incurred. The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings from its Controlled Foreign Corporations (“CFCs”) in excess of an allowable return on the foreign subsidiary’s tangible assets. The FDII provisions allow for a deduction equal to a percentage of the foreign-derived intangible income of a domestic corporation. As a result of these provisions, the Company did not have any additional tax expense or benefit from either GILTI or FDII.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted in response to the economic uncertainty resulting from the COVID-19 pandemic. The CARES Act includes many measures to assist companies, including temporary changes to income and non-income based laws, some of which were enacted as part of the Tax Cuts and Jobs Act of 2017 (“TCJA”). Some of the key changes include eliminating the 80% of taxable income limitation by allowing corporate entities to fully utilize NOLs to offset taxable income in 2018, 2019 and 2020, allowing NOLs originating in 2018, 2019 and 2020 to be carried back five years, enhanced interest deductibility, and retroactively clarifying the immediate recovery of qualified improvement property costs rather than over a 39-year recovery period. During the year ended December 31, 2020, the Company was not able to benefit from these provisions. The Company will

continue to monitor additional guidance issued and assess the impact that various provisions will have on its business.

At December 31, 2020 and 2019, the Company has approximately $56.7 million and $50.0 million in federal net operating loss carryforwards ("NOLs"), respectively, available to reduce future taxable income. Under the provisions of the Internal Revenue Code, the net operating losses are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. Certain tax attributes are subject to an annual limitation as a result of certain cumulative changes in ownership interest of significant shareholders which could constitute a change of ownership as defined under Internal Revenue Code Section 382. The Company has completed a full analysis of historical ownership changes and determined that a portion of the net operating losses have a limitation on future deductibility. Approximately $43.8 million of net operating losses incurred prior to 2020 will be unable to offset future taxable income and have been reserved via a valuation allowance to reduce the deferred tax asset to the expected realizable amount, leaving $2.9M available for use which expire at various dates through 2038 and the residual which never expire. Additionally, at December 31, 2020 and 2019, the Company had approximately $6.9 million and $5.5 million, and $2.2 million and $1.4 million, of California and Illinois NOL carry-forwards, respectively, which expire through 2039. The NOL carry-forwards may be limited in certain circumstances, including ownership change and have been fully reserved via a valuation allowance.

The valuation allowance for deferred tax assets decreased approximately $1,543,000 (net of $671,000 acquired with Impact BioMedical) in the year ended December 31, 2020 and increased by approximately $484,000 in the year ended December 31, 2019. The decrease in the current year valuation allowance and subsequent increase in the deferred tax liability is driven by several factors and is represented in the below table:

Balance at December 31, 2019		$ 44,000
Add:	Acquisition of Impact BioMedical	5,234,000
	Current year activity	435,000
Less:		
	Release of valuation allowance	2,214,000
Balance at December 31, 2020		$ 3,499,000

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:

	2020	2019
Statutory United States federal rate	21.0%	21.00%
State income taxes net of federal benefit	(9.3)%	3.3%
Permanent differences	2.0%	(1.6)%
Other	(8.3)%	(1.3)%
Non-controlling interest	(70.5)%	-%
Foreign taxes	7.3%	(1.1)%
PPP loan forgiveness	(142.2)%	-%
Stock based compensation	22.4%	-%
Executive compensation	485.2%	
Change in valuation allowance	(1547.5)%	(16.3)%
Effective rate	(1,239.9)%	4.00%

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2020 and 2019, 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 2017-2020 generally remain open to examination by major taxing jurisdictions to which the Company is subject.

NOTE 14 - DEFINED CONTRIBUTION PENSION PLAN

The Company maintains a qualified employee savings plans (the "401(k) Plan") that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code and which covers all eligible employees. Employees generally become eligible to participate in the 401(k) Plan two months following the employee's hire date. Employees may contribute a percentage of their earnings, subject to the limitations of the Internal Revenue Code. Commencing on January 1, 2018, the Company matched 100% of the first 1% of employee contributions, then 50% of additional contributions up to an aggregate maximum match of 3.5%. The total matching contributions for 2020 and 2019 were approximately $117,000 and $123,000, respectively.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Company has operating leases predominantly for operating facilities. As of December 31, 2020, the remaining lease terms on our operating leases range from seven to sixteen months. DSS Plastics Group which finalized the sale of its assets on August 14, 2020 is not included in the lease liability calculation (see Note 16). Renewal options to extend our leases have not been exercised due to uncertainty. Termination options are not reasonably certain of exercise by the Company. There is no transfer of title or option to purchase the leased assets upon expiration. There are no residual value guarantees or material restrictive covenants. There are no significant finance leases as of December 31, 2020. Rent expense for the year ended December 31, 2020 and December 31, 2019 was approximately $217,000 and $255,000 respectively.

Future minimum lease payments as of December 31,2020 are as follows:

	Totals
2021	176,000
2022	13,000
2023	-
2024	-
Total lease payments	189,000
Less: Imputed Interest	(7,000)
Present value of remaining lease payments	$ 182,000
Current	$ 167,000
Noncurrent	$ 15,000
Weighted-average remaining lease term (years)	1.05
Weighted-average discount rate	4.0%

Employment Agreements- The Company has employment or severance agreements with members of its management team. The employment or severance agreements provide for severance payments in the event of termination for certain causes. As of December 31, 2020, the Company accrued approximately $4,300,000 for Mr. Heng Fai Ambrose Chan, an executive of the Company's DSS Cyber Security Pte. Ltd subsidiary in accordance with the terms of his employment contract. Also, as of December 31, 2020, the minimum severance payments under these employment agreements are, in aggregate, approximately $182,000.

Legal Proceedings–

The Apple Litigation

On November 26, 2013, DSSTM filed suit against Apple, Inc. ("Apple") in the United States District Court for the Eastern District of Texas, for patent infringement (the "Apple Litigation"). The complaint alleges infringement by Apple of DSSTM's patents that relate to systems and methods of using low power wireless peripheral devices. DSSTM is seeking a judgment for infringement, injunctive relief, and compensatory damages from Apple. On October 28, 2014, the case was stayed by the District Court pending a determination of Apple's motion to transfer the case to the Northern District of California. On November 7, 2014, Apple's motion to transfer the case to the Northern District of California was granted. On December 30, 2014, Apple filed two Inter Partes Review ("IPR") petitions with the Patent Trial and Appeal Board ("PTAB") for review of the patents at issue in the case. The PTAB instituted the IPRs on June 25, 2015. The California District Court then stayed the case pending the outcome of those IPR proceedings. Oral arguments of the IPRs took place on March 15, 2016, and on June 17, 2016, PTAB ruled in favor of Apple on both IPR petitions. DSSTM then filed an appeal with the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit") seeking reversal of the PTAB decisions. Oral arguments for the appeal were held on August 9, 2017. On March 23, 2018, the Federal Circuit reversed the PTAB, finding that the PTAB erred when it found the claims of U.S. Patent No. 6,128,290 to be unpatentable. The Federal Circuit affirmed its decision on July 12, 2018, when it denied Apple's petition for panel rehearing of the Federal Circuit's Opinion and Judgment issued on March 23, 2018. On July 27, 2018, the District Court judge lifted the Stay resuming the litigation, which had a trial date set for the week of February 24, 2020. On January 14, 2020, the Court in the case DSS Technology Management, Inc. v. Apple, Inc., 4:14-cv-05330-HSG pending in the Northern District of California issued an order that denied DSS' motion to amend its infringement contentions. In the same Order, the Court granted Apple's motion to strike DSS' infringement expert report. DSS filed a motion for leave to file a motion for reconsideration of the Court's order denying DSS the right to amend its infringement contentions and motion to strike DSS infringement expert report. On February 18, 2020, the Court denied DSS's motion for leave to file a motion for reconsideration. On February 24, 2020, the Court signed a Final Judgment stipulating that Apple was "entitled to a judgment of non-infringement of U.S. Patent No. 6,128,290 as a matter of law." On March 10, 2020 DSS filed an appeal of this Final Judgment to the United States Court of Appeals for the Federal Circuit under DSS Technology Management v. Apple, Federal Circuit Docket no. 2020-1570. Briefing on the appeal has been completed. The parties are currently waiting for the Court of Appeals to schedule a date for oral argument.

The LED Litigation

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

On April 13, 2017, the Company filed a patent infringement lawsuit against Cree, Inc. ("Cree") in the United States District Court for the Eastern District of Texas, alleging infringement of certain of the Company's LED patents. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On June 8, 2017,

the Company refiled its patent infringement complaint against Cree in the United States District Court for the Central District of California, and thereafter filed a first amended complaint for patent infringement against Cree in that same court on July 14, 2017. The case is currently pending as of the date of this Report. On June 6, 2018, Cree filed an IPR petition challenging the validity of claims under U.S. Patent No. 7,256,486. This IPR was instituted and joined with the Seoul Semiconductor IPR. On June 7, 2018, Cree filed IPR petitions challenging the validity of certain claims U.S. Patent Nos. 7,524,087 and 6,949,771. Both IPRs were denied by the PTAB on November 14, 2018 as time barred. The challenged patent is the patent that is the subject matter of the infringement lawsuit, which is pending but stayed pending the outcome of the IPR.

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

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

On September 18, 2019, DSS filed a patent infringement lawsuit against Seoul Semiconductor Co., Ltd. and Seoul Semiconductor Inc. in the United States District Court for the Central District of California alleging infringement of U.S. Patent No. 7,315,119. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The Court has conducted an initial scheduling conference and has set a procedural schedule for the case. On May 18, 2020, Seoul Semiconductor filed an IPR petition challenging the validity of claims 1-7 of the patent. The District Court has entered a stay of the District Court proceedings pending the outcome of the IPR petition. The IPR petition was instituted on November 20, 2020 and remains pending.

On September 19, 2019, DSS filed a patent infringement lawsuit against Cree, Inc. in the United States District Court for the Central District of California alleging infringement of U.S. Patent No. 6,784,460. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. On February 11, 2020, Cree filed an IPR petition challenging the validity of the patent claims. On September 1, 2020, the PTAB instituted the IPR proceeding. The District Court has conducted an initial scheduling conference and has set a procedural schedule for the case. The District Court has entered a stay of the District Court proceedings pending the outcome of the IPR petition, which remains pending.

On September 20, 2019, DSS filed a patent infringement lawsuit against Nichia Corp. and Nichia America Corp. in the United States District Court for the Central District of California alleging infringement of U.S. Patent No. 6,879,040. The Company is seeking a judgment for infringement of the patents along with other relief including, but not limited to, money damages, costs and disbursements. The Court has conducted an initial scheduling conference and has set a procedural schedule for the case. On May 18, 2020, Nichia filed an IPR petition challenging the validity of claims 1-4, 8, and 11 of the patent. The District Court has entered a stay of the District Court proceedings pending the outcome of the IPR petition. On November 17, 2020, the PTAB instituted the IPR proceeding, which remains pending.

The Intel, Apple Litigation

On November 20, 2019, DSS Technology Management was sued in the United States District Court, Northern District of California, by Intel Corporation ("Intel") and Apple Inc. ("Apple"). The other defendants in the litigation are Fortress Investment Group LLC, Fortress Credit Co. LLC, Uniloc 2017 LLC, Uniloc USA, INC., Uniloc Luxembourg S.A.R.L., VLSI Technology LLC, INVT SPE LLC, Inventergy Global, INC., IXI IP, LLC, and Seven Networks, LLC. The complaint includes allegations regarding a February 13, 2014 Investment Agreement between DSS Technology Management and Fortress Credit Co. LLC as well as two subsequent agreements. The complaint also contains allegations regarding DSS Technology Management's lawsuit against Intel that was filed in February 2015 in the United States District Court, Eastern District of Texas (referred to below). In the complaint, Intel and Apple allege violations of Section 1 of the Sherman Act and unfair competition under Cal. Bus. & Prof. Code § 17200 against DSS Technology Management. Additional claims are alleged against other defendants. Intel and Apple seek relief from the court including that defendants' conduct be declared a violation of Section 1 of the Sherman Act, Section 7 of the Clayton Act, and Cal. Bus. & Prof. Code § 17200, et seq.; that Intel and Apple recover damages against defendants in an amount to be determined and multiplied to the extent provided by law, including under Section 4 of the Clayton Act; that all contracts or agreements defendants entered into in violation of the Sherman Act, Clayton Act, or Cal. Bus. & Prof. Code § 17200, et seq. be declared void and the patents covered by those transfer agreements be transferred back to the transferors; that all patents transferred to defendants in violation of the Sherman Act, Clayton Act, or Cal. Bus. & Prof. Code § 17200, et seq. be declared unenforceable; and that Intel and Apple recover their costs and expenses associated with this case, together with interest. DSS Technology Management responded to the complaint on February 4, 2020 by filing a motion to dismiss and strike the complaint as well as a motion to stay discovery. The court granted the motion to stay discovery on March 25, 2020. A hearing on the motion to dismiss and to strike the complaint was reset for July 8, 2020. On July 8, 2020 the court granted DSS's motion to dismiss, and while the order allowed the Plaintiffs leave to amend their complaint, it did dismiss with prejudice claims against DSS based on the patents asserted by DSS that were part of the complaint. On August 4, 2020, Apple and Intel filed a first amended complaint, in which DSS is no longer named as a defendant and upon which we believe the case is closed as to DSS.

The Ronaldi Litigation

In April 2019 DSS commenced an action in New York State Supreme Court, Monroe County, Index No. E2019003542, against Jeffrey Ronaldi, our former Chief Executive Officer. This New York action seeks a declaratory judgment that, contrary to informal claims made by him, Mr. Ronaldi's employment agreement with us expired by its terms and that he is not entitled to any cash bonuses or other unpaid amounts. The lawsuit also seeks an injunction against Mr. Ronaldi from interfering with any of DSS' IP litigation. Mr. Ronaldi subsequently commenced an action against DSS in the Superior Court of California, County of San Diego, on November 8, 2019, under case number 37-2019-00059664-CU-CO-CTL, in which he alleged that DSS terminated his employment in April 2019 in order to avoid paying him certain employment-related amounts. DSS was successful in dismissing the California case and consolidating it with the action pending in Monroe County, New York. Mr. Ronaldi asserted counterclaims in the Monroe County, New York action similar to those he originally brought in California. Mr. Ronaldi claims that his termination violated an alleged employment agreement or implied-in-fact employment agreement and that he should have remained employed through 2019. Mr. Ronaldi seeks to recover: (i) $144,657.53 in wages from April 11, 2019 through December 31, 2019; (ii) $769.23 in alleged unpaid based salary for time worked before April 11, 2019; (iii) $15,384.62 in alleged paid time off compensation; (iv) $3,076.93 in alleged unpaid sick time compensation; (v) $26,076.93 in waiting-time penalties; (vi) -$91,000 in unspecified expense reimbursement; (vii) $300,000 in alleged cash bonuses ($100,000 per year) based on DSS's performance in 2017, 2018 and 2019; and (viii) a $450,000 performance bonus based on the result of certain alleged net proceeds from patent infringement litigation. He further claims an interest in any recovery in DSS Technology Management v. Apple, Inc., Case No. 4:14-cf05330-HSG. The parties are now engaged in discovery.

Additionally, on March 2, 2020 DSS and DSSTM filed a second litigation action against Jeffrey Ronaldi in the State of New York, Supreme Court, County of Monroe, Document Security Systems, Inc. and DSS Technology Management, Inc. vs. Jeffrey Ronaldi, Index No.: 2020002300, alleging acts of self-dealing and conflicts of interest while he served as CEO of both DSS and DSS TM. Mr. Ronaldi filed a Notice of Removal of this civil litigation to the United States District Court for the Western District of New York where it was assigned Case No. 6:20-cv-06265-EAW. Mr. Ronaldi filed a motion seeking to compel DSS to advance his legal fees to defend the action, which motion was fully briefed as of June 30, 2020 and remains pending and undecided. On March 16, 2021 the Western District of New York granted Mr. Ronaldi's motion to have his defense costs advanced to him during the pendency of the action as they are incurred. On March 26, 2021 Mr. Ronaldi applied to the court for reimbursement of $160,896.25 in legal fees. The Company intends to object to the size of that bill as it was based on out-of-town billing rates and the result of an excessive number of hours spent on litigation. The parties are awaiting the court's scheduling of the status conference for the management of all pretrial activities and set a tentative date for trial, however, due to discovery disputes the Court has signaled its intent to extend those deadlines.

Maiden Biosciences Litigation

On February 15, 2021, Maiden Biosciences, Inc. ("Maiden") commenced an action against Document Security Stems, Inc. ("DSS"), Decentralized Sharing Systems, Inc. ("Decentralized"), HWH World, Inc. ("HWH"), RBC Life International, Inc., RBC Life Sciences, Inc ("RBC")., Frank D. Heuszel ("Heuszel"), Steven E. Brown, Clinton Howard, and Andrew Howard (collectively, "Defendants"). The lawsuit is currently pending in the United States District Court Northern District of Texas, Dallas Division, and is styled and numbered Maiden Biosciences, Inc. v. Document Security Stems, Inc., et al., Case No. 3:21-cv-00327.

This lawsuit relates to two promissory notes executed by RBC in the 4th quarter of 2019 in favor of Decentralized and HWH, totaling approximately $800,000. Maiden, a 2020 default judgment creditor of RBC, in the principal amount of $4,329,000, now complains about those notes, the funding of those notes, the subsequent default of those notes by RBC, and HWH and Decentralize's subsequent Article 9 foreclosure or deed-in-lieu debt conveyances. In the instant lawsuit, Maiden asserts claims against Defendants for unjust enrichment, fraudulent transfer under the Texas Uniform Fraudulent Transfer Act, and violation of the Racketeer Influenced and Corrupt Organizations Act. Maiden also seeks a judgment from the court declaring: "(1) Defendants lacked a valid security interest in RBC and RBC Subsidiaries' assets and therefore lacked the authority to sell the assets during the public foreclosure sale; (2) Defendant Heuszel's low bid at the public foreclosure sale was invalid and void; (3) the public foreclosure sale was conducted in a commercially unreasonable manner; and (4) Defendants do not have the legal authority to transfer RBC and RBC's Subsidiaries assets to Heuszel and HWH." Maiden seeks to recover from Defendants: (1) treble damages or, alternatively, damages in the amount of their underlying judgment plus the other creditors' claims or the value of the assets transferred, whichever is less, plus punitive or exemplary damages; (2) pre and post-judgment interest; and (3) attorneys' fees and cost.

Pursuant to an agreement with Maiden, the deadline for Defendants DSS, Decentralized, HWH, RBC Life International, Inc., and Heuszel to answer or otherwise respond is March 30, 2021. The pretrial deadlines and tentative trial date will be set by the Court following a customary status conference.

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

Contingent Litigation Payments – The Company retains the services of professional service providers, including law firms that specialize in intellectual property licensing, enforcement and patent law. These service providers are often retained on an hourly, monthly, project, contingent or a blended fee basis. In contingency fee arrangements, a portion of the legal fee is based on predetermined milestones or the Company's actual collection of funds. The Company accrues contingent fees when it is probable that the milestones will be achieved, and the fees can be reasonably estimated. As of December 31, 2020, the Company had not accrued any contingent legal fees pursuant to these arrangements.

Contingent Payments – The Company is party to certain agreements with funding partners who have rights to portions of intellectual property monetization proceeds that the Company receives. As of December 31, 2020, there are no contingent payments due.

NOTE 16 – DISCONTINUED OPERATIONS

As a result of the insufficient cash flows from the operations of Plastic Printing Professionals, Inc. as well as the disruption of our business from the COVID-19 pandemic, on April 20, 2020, the Company executed a nonbinding letter of intent with a buyer for substantially all the assets of this business line. with an intent to exit this business line. As a result, management has decided to fully impair its goodwill related to DSS Plastics. The impact to DSS's first quarter earnings of this impairment was approximately $685,000. On August 14, 2020, the Company entered into a final Asset Purchase Agreement and the Company terminated its production and office personnel and maintained only a few employees to assist in and facilitate the sale of its assets. The financial results for these subsidiaries have been presented as discontinued operations in the accompanying consolidated financial statements.

The consideration paid to the Company under the Asset Purchase Agreement for the sale of the assets included a one-time cash payment of $683,000 and an additional contingent earn-out payment of an aggregate amount of up to $517,000 based on future quarterly gross revenue of the business to be conducted by the buyer with the sold assets. Consistent with the Company's policy for accounting for gain contingencies, the earn out will be recorded when determined realizable which did not occur during the twelve-months ended December 31, 2020. As of December 31, 2020, the Company has recognized $390,000 of this earn out in Loss from Discontinued Operations. The net effect of all assets disposed of is a net loss of $111,000 These amounts are included in Loss from Discontinued Operations. Included in its Right-of-use assets is the lease of the Company's facility in Brisbane, Ca. The intent is to sublease this property for a value equal to or in excess of the current payments and therefore, not impairment of this asset is deemed necessary at December 31, 2020.

The following tables show the major classes of assets and liabilities held for sale and results of operations of the discontinued operation.

DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets– Assets and Liabilities Held for Sale

	December 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Inventory	$ -	$ 342,000
Total current assets	-	342,000
Property, plant and equipment, net	-	732,000
Right-of-use assets	744,000	1,081,000
LIABILITIES		
Current liabilities:		
Current portion of lease liability	240,000	274,000
Total current liabilities	240,000	274,000
Long term lease liability	505,000	807,000

DOCUMENT SECURITY SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations - Discontinued Operations

	For the Year Ended December 31,	
	2020	2019
Revenue:		
Printed products	$ 1,602,000	$ 3,860,000
Total revenue	1,602,000	3,860,000
Costs and expenses:		
Cost of revenue, exclusive of depreciation and amortization	1,636,000	2,260,000
Selling, general and administrative (including stock based compensation)	1,054,000	1,609,000
Depreciation and amortization	152,000	254,000
Impairment of goodwill	685,000	-
Total costs and expenses	3,527,000	4,123,000
Operating loss	(1,925,000)	(263,000)
Other income (expense):		
Interest expense	(22,000)	(32,000)
Gain on disposition of business	279,000	-
Income (loss) before income taxes	(1,668,000)	(295,000)
Income tax expense (benefit)	-	-
Income (loss) from discontinued operations	(1,668,000)	(295,000)

NOTE 17 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the years ended December 31:

	2020	2019
Cash paid for interest	$ 185,000	$ 128,000
Non-cash investing and financing activities:		
Impact of adoption of lease accounting standards	$ -	$ 1,616,000
Gain from change in fair value of interest rate swap derivatives	$ -	$ 7,000
Common stock issued upon conversion of convertible note	$ -	$ 500,000
Equity issued to purchase intangible assets	$ -	$ 145,000
Common A Shares issued for prepaid marketing services	$ 210,000	$ -
Common A Shares issued for Impact BioMedical	$ 3,132,000	$ -
Non-controlling interest related to Impact BioMedical	$ 3,910,000	$ -
Series A Preferred Shares issued for Impact BioMedical	$ 35,187,000	$ -
Notes receivable settled for assets in lieu of cash	$ 838,000	$ -

NOTE 18 - SEGMENT INFORMATION

The Company's eight businesses lines are organized, managed and internally reported as four operating segments. One of these operating segments, Premier Packaging, is the Company's packaging and security printing group. Premier Packaging operates in the paper board folding carton, smart packaging, and document security printing markets. It markets, manufactures, and sells mailers, photo sleeves, sophisticated custom folding cartons, and complex 3-dimensional direct mail solutions. These products are designed to provide functionality and marketability while also providing counterfeit protection. A second, BioHealth Group, invests in, or acquires companies in the biohealth and biomedical fields, including businesses focused on the advancement of drug discovery and prevention, inhibition, and treatment of neurological, oncological, and immune related diseases. This division is also developing open-air defense initiatives, which curb transmission of air-borne infectious diseases, such as tuberculosis and influenza. The BioHealth Group is also targeting unmet, urgent medical needs. A third operating segment, Digital Group, researches, develops, markets, and sells the Company's digital products worldwide. As an industry leader in brand authentication services, our solutions leverage functional anti-counterfeiting features and cutting-edge technologies to satisfy commercial and consumer product needs for branding, intelligent packaging, and marketing. Digital's primary product is AuthentiGuard®, which is a brand authentication application that integrates the Company's counterfeit deterrent technologies with proprietary digital data security-based solutions (subsequent to March 31, 2021, this segment will be discontinued as the Company's subsidiary DSS Digital, which constitutes the majority of the activity in this segment, was disposed of in May 2021). The fourth segment, Direct Marketing/Online Sales Group, provides services to assist companies in the emerging growth gig business model of peer-to-peer decentralized sharing marketplaces. It specializes in marketing and distributing its products and services through its subsidiary and partner network, using the popular gig economic marketing strategy as a form of direct marketing. Direct marketing products include, among other things, nutritional and personal care products sold throughout North America, Asia Pacific and Eastern Europe.

Our segment structure presented below represents a change from the prior year for the inclusion of our BioHealth Group and the removal of our Plastics segment and IP Technology Management segment as the Plastics segment was discontinued in 2020 and activities surrounding our IP Technology Management segment have significantly decreased. The amounts for these segments have been included in the Corporate reporting segment for the years ended December 31, 2020 and 2019 below. Each of our segments employs consistent accounting policies.

Approximate information concerning the Company's operations by reportable segment for years ended December 31, 2020 and 2019 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, 2020	Premier Packaging	Digital	Direct Marketing	BioHealth Group	Corporate	Total
Revenue	$13,000,000	$2,085,000	$ 2,326,000	$ -	$ -	$17,411,000
Depreciation and amortization	736,000	38,000	28,000		282,000	1,084,000
Interest expense	102,000	15,000	-	-	68,000	185,000
Stock based compensation	12,000	45,000	-	-	131,000	188,000
Income tax benefit	-	-	-	-	1,774,000	1,774,000
Net income (loss) from continuing operations	1,329,000	838,000	5,223,000	(440,000)	(3,864,000)	3,086,000
Capital expenditures	260,000	11,000	49,000		5,000	325,000
Identifiable assets	10,715,000	817,000	15,009,000	48,118,000	17,260,000	91,919,000

Year Ended December 31, 2019	Premier Packaging	Digital	Direct Marketing	BioHealth Group	Corporate	Total
Revenue	$13,230,000	$2,148,000	$ -	$ -	$ 172,000	$15,550,000
Depreciation and amortization	904,000	33,000	-	-	214,000	1,151,000
Interest expense	96,000	7,000	-	-	22,000	125,000
Stock based compensation	17,000	81,000	-	-	324,000	422,000
Income tax benefit	-	-	-	-	125,000	125,000
Net income (loss) from continuing operations	311,000	(579,000)	-	-	(2,327,000)	(2,595,000)
Capital expenditures	819,000	24,000	-	-	104,000	947,000

Identifiable assets	10,425,000	924,000	-	-	8,797,000	20,146,000

International revenue, which consists of sales to customers with operations in Canada, Western Europe, Latin America, Africa, the Middle East and Asia comprised 9.0% of total revenue for 2020 (2.0% - 2019). Revenue is allocated to individual countries by customer based on where the product is shipped. The Company had no long-lived assets in any country other than the United States for any period presented.

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

Printed Products Revenue Information:		
Twelve months ended December 31, 2020		
Packaging Printing and Fabrication	$	11,782,000
Commercial and Security Printing		1,218,000
Total Printed Products	$	13,000,000
Twelve months ended December 31, 2019		
Packaging Printing and Fabrication	$	12,071,000
Commercial and Security Printing		1,159,000
Total Printed Products	$	13,230,000
Technology Sales, Services and Licensing Revenue Information:		
Twelve months ended December 31, 2020		
Information Technology Sales and Services	$	152,000
Digital Authentication Products and Services		1,503,000
Royalties from Licensees		430,000
Total Printed Products	$	2,085,000
Twelve months ended December 31, 2019		
Information Technology Sales and Services	$	189,000
Digital Authentication Products and Services		1,414,000
Royalties from Licensees		545,000
Total Printed Products	$	2,148,000
Direct Marketing		
Twelve months ended December 31, 2020		
Direct Marketing Internet Sales	$	2,326,000
Total Direct Marketing	$	2,326,000
Twelve months ended December 31, 2019		
Direct Marketing Internet Sales	$	172,000
Total Direct Marketing	$	172,000

NOTE 19 – SUBSEQUENT EVENTS

On March 22, 2021 Premier Packaging was awarded an incentive package from New York State and Empire State Development and its Excelsior Jobs Program valued at up to $700,000 in connection with Premier's proposed expansion plans within the state. This incentive will take the form of tax credits to be utilized beginning in 2022 through 2031.

On March 16, 2021, American Medical REIT, Inc. received loan proceeds in the amount of approximately $110,000 under the Paycheck Protection Program ("PPP") with a fixed rate of 1% and a 60-month maturity term. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. These funds were used for payroll, benefits, rent, mortgage interest, and utilities.

On March 15, 2021, the Company, through one of its subsidiaries, entered into a Stock Purchase Agreement (the "Agreement") with Vivacitas Oncology Inc. ("Vivacitas"), to purchase 500,000 shares of its common stock at the per share price of $1.00, with an option to purchase 1,500,000 additional shares a the per share price of $1.00. This option will terminate upon one of the following events: (i) The Seller's board of directors cancels this option because it is no longer in the best interest of the Company; (ii) December 31, 2021; or (iii) the date on which the Seller receives more than $1.00 per share of the Company's common stock in a private placement with gross proceeds of $500,000. Under the terms of the Agreement, the Company will be allocated two seats on the board of Vivacitas. On March 18, 2021, the Company entered into an agreement to with Alset EHome International, Inc. ("Seller") indirectly the Seller's wholly owned subsidiary Impact Oncology PTE Ltd. to purchase 2,480,000 shares of common stock of Vivacitas for a purchase price $2,480,000. This agreement includes an option to purchase an additional 250,000 shares of common stock. As a result of these two transactions, the Company will have an approximate 10.2% equity position in Vivacitas. The Sellers largest shareholder is Mr. Chan Heng Fai Ambrose, the Chairman of the Company's board of directors and its largest shareholder.

On March 12, 2021, the Company entered into a binder letter of intent with Sharing Services Global Corporation ("SHRG") whereas the Company will sell specific assets to SHRG. The purchase price is to be established by a third-party appraiser mutually agreed up. Under the terms of this agreement, SHRG at its option, may pay the purchase price via (i) shares of SHRG Common A stock at a conversion rate calculated at a 30-day VWAP, (if shares are available), (ii) a 1 yr. convertible note which at the Seller's option may be converted into

Common A shares at a conversion rate calculated at a 30-day VWAP (if shares are available), or paid in US$ or (iii) in US dollars at closing.

On February 25, 2021, the Company entered into a binding letter of intent with Sharing Service Global Corporation (“SHRG), where the Company is to loan $30 million to SHRG in the form of a Convertible Promissory Note (the “SHRG Note”). This three-year SHRG Note accrues interest annual at 8% and contains a 10% origination fee. Both the first year’s interest and the origination fee are payable at closing in the form of SHRG shares at a conversion rate of $0.20 per share. All or a part of the outstanding SHRG Note balance can be converted at the sole discretion of DSS at a conversion rate of $0.20 per share. This Note also contains detachable warrants, exercisable at DSS’s option, of 150,000,000 shares of SHRG’s Class A common stock with an exercise price of $0.22.

On February 4, 2021, the Company entered into an underwriting agreement (the “Feb. 2021 Underwriting Agreement”) with Aegis Capital Corp., as representative of the underwriters named therein, which provided for the issuance and sale by the Company and the purchase by the underwriters, in a firm commitment underwritten public offering (the “Feb. 2021 Offering”), of 12,319,346 shares of the Company’s common stock, $0.02 par value per share. Subject to the terms and conditions contained in the Feb. 2021 Underwriting Agreement, the shares were sold at a public offering price of $2.80 per share, less certain underwriting discounts and commissions. The Company also granted the underwriters a 45-day option to purchase up to 1,847,901 additional shares of the Company’s common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the Feb. 2021 Offering, which over-allotment option was exercised in full on February 9, 2021. The net offering proceeds to the Company from the Feb. 2021 Offering are approximately $36.14 million, including the exercise of the underwriter’s over-allotment option, and after deducting estimated underwriting discounts and commissions and other estimated offering expenses.

On February 3, 2021, DSS Blockchain Security, Inc (“DSSB”). a wholly-owned subsidiary of the Company entered into a binding joint venture term sheet with GSX Group Limited (“GSX”) and Coinstreet Holdings Limited (“Coinstreet”) whereas the parties intend to own and operate a single or multiple vertical digital asset exchanges for securities, tokenized assets, utility tokens, stable coins and cryptocurrency that will operate a primary and secondary market via a digital asset trading platform using blockchain technology. With its initial contribution of $20,000, DSSB will receive a 40% equity position in the joint venture. Upon the execution of related loan documents, in which DSSB will loan $800,000 to GSX, DSSB will obtain a 70% share in the joint venture.

On January 19, 2021, the Company entered into an underwriting agreement, as amended by Amendment No. 1 effective as of January 19, 2021 (the “Jan. 2021 Underwriting Agreement”), with Aegis Capital Corp., as representative of the underwriters, which provided for the issuance and sale by the Company and the purchase by the underwriters, in a firm commitment underwritten public offering (the “Jan. 2021 Offering”), of 6,666,666 shares of the Company’s common stock, $0.02 par value per share. Subject to the terms and conditions contained in the Jan. 2021 Underwriting Agreement, the shares were offered in a public offering at a price of $3.60 per share, less certain underwriting discounts and commissions. The Company also granted the underwriters a 45-day option to purchase up to 1,000,000 additional shares of the Company’s common stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the Jan. 2021 Offering. This overallotment was exercised in full. The net offering proceeds to the Company from the Jan. 2021 Offering are approximately $24.9 million, after deducting estimated underwriting discounts and commissions and other estimated offering expenses.

On January 6, 2021, the Company Alset International Limited (“Alset Singapore”), a company formed under the laws of Singapore, Health Wealth Happiness Pte. Ltd. (“HWH”), a Singaporean company and wholly-owned subsidiary of Alset Singapore, and HWH World Inc. (“HWH World”), a company registered and formed under the laws of South Korea and wholly-owned subsidiary of HWH, entered into a binding term sheet (the “HWH Term Sheet”), pursuant to which, subject to the due diligence on HWH World, necessary approvals and consents, and the terms and conditions to be set forth in the Definitive Agreement (as defined below), the Company will acquire and purchase all of the outstanding equity interest in HWH World (the “HWH Transaction”) for a consideration of the lesser of $14.8 million or the value of HWH World assessed by a third-party valuation company (the “Purchase Price”). The HWH Term Sheet provided that the Company shall have the option to pay the Purchase Price in i) cash, or ii) shares of the Company’s common stock at the per share price equivalent to the average closing price of the common stock for a period of five (5) trading days prior to January 6, 2021. In accordance with the HWH Term Sheet, the parties thereto (the “Parties”) shall enter into a definitive share exchange agreement (the “Definitive Agreement”) for the Transaction within three (3) months from the date of the HWH Term Sheet or at a later date as mutually agreed by the Parties in writing and complete the Transaction within six (6) months therefrom or at a later date as mutually agreed by the Parties in writing. The HWH Term Sheet is legally binding and shall terminate upon the earlier of 1) six months from January 6, 2021, 2) mutual agreement by all the Parties on the termination, or 3) the execution of the Definitive Agreement for the Transaction.