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# Zacks Small-Cap Research

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## Document Security Systems (NYSE Amer:DSS)

### Management Sells its Plastics Business and Buys Impact BioMedical For Higher Shareholder Returns

Using multiples from its peers of 2.1 times EV/Sales, we believe DSS stock is worth $14.65 per share if we use the value of the base business and add $50 million for the value of the recently acquired Impact BioMedical.

| | |
|---|---|
| Current Price (08/27/20) | $5.60 |
| **Valuation** | **$14.65** |

### OUTLOOK

Document Security Systems is a small company with extensive patented expertise in authentication, anti-counterfeiting, and document and packaging printing. It has a novel authentication system that allows customers to track and authenticate products using inked or etched marks that can be read by a generic smartphone. The company is implementing this system with two Fortune 100 customers and others, which should ultimately lead to accelerating revenue growth and profits. It divested its plastics business and has recently branched out to other investments such as consumer product marketing firm, a REIT startup, and a biotech business its hopes to spin off.

### SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$12.61** |
| **52-Week Low** | **$4.65** |
| **One-Year Return (%)** | **-54.2** |
| **Beta** | **2.3** |
| **Average Daily Volume (sh)** | **761,892** |
| **Shares Outstanding (mil)** | **5.1** |
| **Market Capitalization ($mil)** | **$26** |
| **Short Interest Ratio (days)** | **0.2** |
| **Institutional Ownership (%)** | **50** |
| **Insider Ownership (%)** | **49** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **1.7** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/M** |
| **P/E using 2020 Estimate** | **N/M** |
| **P/E using 2021 Estimate** | **N/M** |

| | |
|---|---|
| **Risk Level** | **High** |
| **Type of Stock** | **Small-Value** |
| **Industry** | **Business Services** |

### ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2018 | 4.4 A | 4.1 A | 4.1 A | 6.0 A | 18.5 A |
| 2019 | 3.8 R | 3.5 R | 2.6 R | 5.7 R | 15.8 R |
| 2020 | 4.2 R | 3.1 A | 3.0 E | 6.7 E | 17.1 E |
| 2021 | | | | | 24.4 E |

**Earnings Per Share**

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2018 | -$0.30 A | $4.78 A | -$0.60 A | -$0.67 A | $2.62 A |
| 2019 | -$0.74 R | -$1.00 R | -$1.56 A | -$0.27 A | -$3.39 A |
| 2020 | -$0.56 R | -$0.27 A | $3.29 E | $0.04 E | $4.29 E |
| 2021 | | | | | $0.07 E |

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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## WHAT'S NEW

### Restructuring Continues with the Sale of the Plastics Division and the Purchase of Impact BioMedical

Although accounted for on the Q2 financials as a discontinued operation, DSS actually closed the sale of the assets of the plastics division on August 14, 2020. It sold these assets for $683,000 in cash plus a potential additional earn-out payment of up to $517,000 based on future quarterly gross revenue of the business, an amount which the company thinks can be reached. The purchase included a royalty-free license to certain technology that supports the business. Since its offices are now empty, it plans to sub-lease the DSS Plastics property in San Francisco, which has approximately 3.5 years remaining on the lease term at an estimated annual lease cost of $240,000 per year.

### The Purchase of Impact BioMedical Closed

On August 21, 2020 DSS closed on its purchase of Impact BioMedical. DSS bought Impact BioMedical for $50 million comprised of: 483,334 shares of common stock, nominally valued at $6.48 per share, and 46,868 newly issued shares of Series A Convertible Preferred Stock, with a stated value of $46,868,000, or $1,000 per share, for a total consideration valued at $50 million. The convertible preferred will convert, subject to a 19.9% beneficial ownership conversion limitation. Holders of convertible preferred will be entitled to a liquidation preference at a liquidation value of $1,000 per share. Impact has no revenues but spends about $2 million a year primarily on professional services, as it has no employees or physical locations. We have updated our earnings model accordingly. DSS believes that based on valuations from independent parties Impact BioMedical could be worth upwards of $933 million.

The DSS medium-term plan is to take Impact BioMedical public in IPO. We believe this would most likely happen sometime in Q1 2021. Prior to doing so, and in concert with this public offering, DSS anticipates a proposed dividend of Impact BioMedical shares to its shareholders (except to controlling shareholders of DSS and the Chairman's group of companies), whereby for every one DSS share of common stock held, the shareholder would be entitled to a bonus of four Impact shares, the bonus shares. The planned bonus share dividend would be divided into two tranches; pre-IPO shareholders would be eligible for two shares for every share of DSS, plus a second dividend of an additional two shares of Impact BioMedical if they were the shareholders of record on the date of the proposed IPO of Impact BioMedical. The issuance of the bonus shares would occur after the registration and the IPO of Impact BioMedical's shares.

### Ownership in Sharing Services Global Could Generate a Large Unrealized Gain in Q3

In Q2, the company reported an unrealized gain from its ownership in Sharing Services Global of $580,000 as the position was marked to the market price of the stock as of June 30, 2020. At that time it owned less than 20% of SHRG and the company used fair value accounting. Since then, DSS has accumulated 62.4 million shares of the company representing approximately 37.6% of Class A common stock issued and outstanding, based on 166,072,386 total shares as of July 30, 2020, and DSS now owns 35.4% of the company's total common stock (Class A plus Class B). If it were to exercise the 10,000,000 warrants owned, it would own approximately 41.1% of SHRG Class A. Once the company reached the 20% threshold, on approximately July 31, it began to use the equity method of accounting. We calculate that this switch over in the quarter could result in a **one-time unrealized gain in the quarter of approximately $17.9 million** as the position is marked to marked as of July 31, and then accounted for as minority interest thereafter. Using that method, 40% ownership would add approximately a million dollars a quarter to DSS's net income. According to its most recent financial filings, in the year ending April 30, 2020 Sharing Services generated $131 million in sales, and taking out one-time non-cash charges, net income would have been $8.8 million. It had free cash flow of $10.7 million. This stake is worth $34.3 million at $0.55 per share.

## Q2 2020 Earnings Results

When reporting Q2 2020, the company reported the plastics printing business as a discontinued operation and as such restated historical financials, which is reflected in our model. Total revenues for the quarter were $3.1 million versus a restated $3.5 million a year ago, down 10.2%.

Printed product sales were down 24.5% to $2.3 million. In Q1 Walgreens shuttered photo operations in its stores leading to a build up of inventory that still lingers today, although business is improving. We expect this business to be down again sequentially in Q3. Walgreens and Shutterfly are optimistic for the fourth quarter and believe business will be aided by pent up demand.

Technology sales, services, and licensing declined 26% to $358,000, and even AuthentiGuard declined 19.1% year over year to $258,000, from $319,000 in Q2 2019. AuthentiGuard was also down sequentially as its major customer ceased production and DSS only generates revenue as the customer's product is packaged and labeled. However this Fortune 100 customer said it plans to roll out use of AuthentiGuard to its European operations, which could lead to incremental revenues of $100,000 per month to DSS. Management is also optimistic that Nestlé will start to use AuthentiGuard with more of its 200 brands than just Wyeth.

DSS has a huge pipeline of prospects including what they call whales. They expect to start onboarding two new whales shortly. One is a very large company in the wine and spirits industry, which is just as excited about the capability of consumer engagement with its products as with anti-counterfeiting measures afforded by using AuthentiGuard. Other new customer is a non-profit standards certification company that wants to put its seal of approval on products that have met its standards. It will start using AuthentiGuard in Europe on industrial wiring products. Weeding out counterfeits in such a circumstance not only exposes fake products, but protects companies who use inauthentic and low quality product from lawsuits and expensive corrections. With the introduction of AuthentiGuard as a Service DSS now hopes to land smaller companies that do not need customization and can start using AuthentiGuard at lower commitment level. They will be able to use the AuthentiGuard app downloaded from app stores rather than creating their own company-specific solutions.

RBC Life Sciences reported revenues of $506,000 compared to $573,000 in its first quarter with DSS. We had expected it to grow sequentially, but COVID interrupted production and stalled transportation making fulfillment challenging. We expect revenues to be down again in Q3 but production should be much improved in Q4. The company is working to find a marketing partner with an established sales force to significantly increase sales, possibly as soon as Q4.

Gross margins increased significantly to 42.6% from a restated 31.6% in 2019, and gross margin dollars were up 21.1% due to product mix, primarily from RBC Life Sciences as well as a restatement due to discontinued operations.

Operating expenses were $2.6 million compared to a restated $1.8 million in 2019. The biggest increase in spending was from SG&A, which grew $315,000, professional fees, which increased $260,000, sales and marketing, which increased $220,000. In the quarter the company paid no income taxes.

Other expenses contained an unrealized gain on market securities of $580,000. This is a result of the increase in share price of the company's holdings in Share Services Global. We believe the company had 41 million shares at the close of the quarter. On June 30, the stock closed at $0.09 per share, and on July 31, it traded at $0.37 when it reached the 20% ownership threshold so we expect a large unrealized gain in Q3. Since June 30, the company purchased another 21.4 million share and currently has 62.4 million shares now worth $34.3 million.

Minority interest was $114,000 from the 48% of its new Medical REIT venture that started on March 3, 2020. Since this REIT is a start up, it will have a number of quarters before it starts booking any revenue to offset these expenses, which are mostly salaries. We believe it is working on three different deals and expect to the

first to close before the end of the third quarter. We believe DSS will book 100% of a 3% management fee on the properties the REIT acquires as revenue.

The company reported its net loss broken down by continuing operations and discontinued operations. The net loss form continuing operations was $671,000 versus $732,000 and discontinued operations lost $232,000 versus $299,000.

The total net loss to common shareholders was $904,000 versus a loss of $1 million last year.

The GAAP loss per share this year was $0.27 versus a loss of $1.00 a year ago. Non-GAAP it was a loss per share of $0.51 versus $0.96 last year. The shares outstanding increased 188% to 2.1 million versus 973,100 in Q2 2019. Primary shares outstanding as of August 21, 2020, after the acquisition of Impact BioMedical, are now 5,115,179.

**Balance Sheet**

On June 30, 2020 the company had **$7.2 million in cash**, working capital of $9.3 million and debt of $3.8 million. On April 20, 2020 the company received **$963,000** from the federal government under the paycheck protection plan. DSS owns 127,179,311 ordinary shares of Singapore eDevelopment (Ticker: 40V.SI) a publicly listed on the Singapore Exchange Limited. DSS carries its investment in SED at cost. It is on the balance sheet as “investment” at $4.4 million as of June 30, 2020. The 127.2 million shares have a current market value of **$5.1 million**. DSS also owns 62.4 million shares of Sharing Services Global (OTCQB: SHRG) worth **$34.3 million**. It is categorized as “marketable securities” on the balance sheet and on June 30, 2020, the company had fewer shares and those shares were worth $2 million at the time.

**After the Quarter Ended**

On July 10, 2020 the company closed a 1,028,800 share offering of its common stock at $6.25 per share, for gross proceeds of $6.43 million. In addition, the underwriter had a 45-day option to purchase up to an additional 154,320 shares. The net proceeds were approximately $6.7 million.

On July 31, 2020 Document Security Systems sold 453,333 shares of its common stock at a $7.50 per share, for gross proceeds of $3.4 million. In addition, the company has granted the underwriter a 45-day option to purchase up to an additional 38,533 shares. Net proceeds were approximately $3.3 million.

On August 14, 2020, DSS collected $683,000 from the sale of the assets of DSS Plastics.

On August 21, 2020 the acquisition of Impact BioMedical closed.

## KEY POINTS

- Document Security Systems sales are primarily from printing and packaging, which is expected to grow from increased capacity and the growth of its largest customer, Walgreens. Longer term, its anti-counterfeiting and authentication SaaS product AuthentiGuard is expected to be a major growth driver as well as its new ventures.

- DSS’s unique and patented authentication solution, AuthentiGuard, enables corporate customers, as well as end user consumers, to track and authenticate products throughout the supply chain. Its novel approach, which uses double blind labeling, competes with taggants and RFID tracking but is far

cheaper and can be used without specialized equipment. The system **allows anyone with a smartphone to scan a product to determine if it is genuine**.

- The company has its first two Fortune 100 customers for this product and is about to add a third, and has other smaller customers. We believe an increase in marketing effort, combined with a high-visibility reference customer, could be the catalysts to rapid growth for DSS.

- Recently management, with the Chairman being the driving force, has begun to invest opportunistically in a variety of other industries. We expect the company to continue to invest while still focusing on its core businesses.

- DSS trades at an enterprise value of $25.3 million, that is 1.6 times EV to its $15.7 million trailing 12-month sales from continuing operations, and below the market value of its two holdings in public companies of $39.4 million as well as the $50 million purchase price of Impact BioMedical. If we use sum of the parts valuation, **we believe DSS common stock is worth $14.65 per share** not including the public company holdings.

## RISKS

- For the first six months of 2020 two customers, Walgreens and Shutterfly were responsible for 40% of revenues versus 47% last year. Loss of either customer would affect results significantly. The company recently signed a four-year contract with Walgreens making its loss less likely.

- DSS is small and not profitable and potential customers may be hesitant to do business with it particularly when implementing long term solutions due to its financial situation and limited resources.

- The company bases a lot of its potential on the success of its new AuthentiGuard product. While being competitively superior in price and capability compared with alternative solutions, it has not yet gotten traction with customers. Future growth will depend of the success of marketing to convince manufacturers to take a chance an implement its new technology.

- The stock has traded based on the company's progress in its lawsuits against various companies in it IP enforcement efforts. This business is however winding down.

- The company is embarking on a number of new ventures outside its field of expertise and it is uncertain of they will be success and non-dilutive.

- Since it is unprofitable, DSS continues to raise money, often through equity, diluting current shareholders.

- The company may not be successful bringing Impact BioMedical public thus reducing the value to DSS shareholders.

## VALUATION

Valuing DSS has become increasing complex due to the purchase of Impact BioMedical as well as its holdings in Sharing Services Global. As a result we are using sum of the parts to value the company.

First we look at the base business, which no longer contains the plastics segment. Document Security Systems is comprised of two main businesses with public comparables. Companies that are primarily providers of packaging and printing and those involved in higher margin anti-counterfeiting type solutions. Since in 2020 we

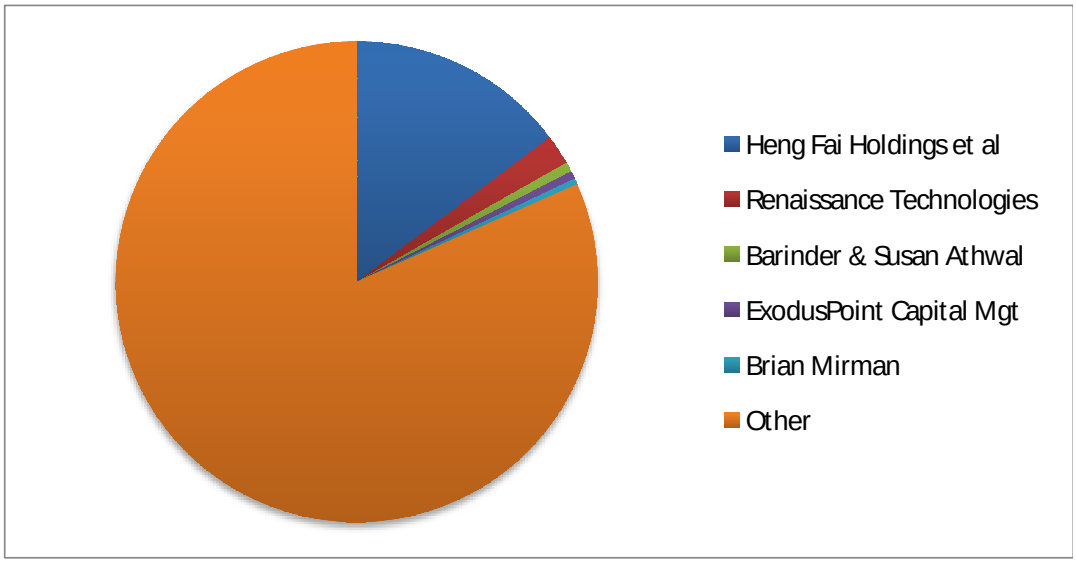
expect revenues at DSS to be roughly 88% packaging and consumer and 12% anti-counterfeiting, we are using a blended multiple of enterprise value to sales to calculate valuation. As that percent shifts, we expect the multiple to increase proportionally.

Using Applied DNA, Digimarc, Nocopi and Zebra as the anti-counterfeiting revenue comps and the rest for packaging and consumer, we get a blended multiple of 2.1 times EV to sales on trailing 12 months. Applying that 2020's $17.1 million to in revenues gets an enterprise value of $36.0 million and market value of $39.4 million, and a price per share of $6.45 using the current 6.1 million fully diluted shares outstanding.

| | | Cal. Revenue | | | | EBIDTA | Enterprise Value / Sales | | EV/EBITDA | Included | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Ticker | 2021E | 2020E | LTM | EBITDA | Margin | 2020E | LTM | | in Average? | Ent. Value |
| Applied DNA | APDN | NA | $7 | $5 | -8.2 | -160% | 6.4x | 8.8x | -5.5x | y | 45 |
| Brady Corp. | BRC | NA | $1,074 | $1,150 | 191.5 | 17% | 2.2x | 2.1x | 12.6x | y | 2,410 |
| Digimarc | DMRC | $32 | $27 | $24 | -32.1 | -136% | 6.5x | 7.3x | -5.4x | y | 172 |
| Graphic Packaging | GPK | $6,420 | $6,320 | $6,250 | 866.8 | 14% | 1.1x | 1.1x | 8.1x | y | 7,043 |
| Huhtamaki | HUH1V.HE | NA | NA | $3,440 | 437.0 | 13% | NA | 1.3x | 10.4x | y | 4,540 |
| Nocopi | NNUP | NA | NA | $3 | 4.7 | 179% | NA | 2.3x | 1.3x | y | 6 |
| WestRock | WRK | $18,000 | $17,300 | $18,210 | 2950.0 | 16% | 1.0x | 0.9x | 5.7x | y | 16,880 |
| Zebra | ZBRA | $4,630 | $4,110 | $4,470 | 878.0 | 20% | 3.4x | 3.2x | 16.1x | y | 14,150 |
| **Average** | | | | | | | **3.0x** | **3.4x** | | | **5,656** |

If we then add on Impact Biotech at a valuation of $50 million we get a market value of $89.4 million or $14.65 per share.

## OWNERSHIP




**Source: Zacks Small-Cap Research and SEC Filings**

# PROJECTED INCOME STATEMENT

## Restated

| | Mar 31, 2019R | Jun. 30, 2019R | Sep. 30, 2019 | Dec. 31, 2019 | Mar 31, 2020R | Jun. 30, 2020 | Sep. 30, 2020E | Dec. 31, 2020E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue:** | | | | | | | | | | |
| Packaging Printing and Fabrication | $ 2,961,000 | $ 2,775,000 | $ 1,883,000 | $ 4,688,000 | $ 2,965,000 | $ 2,098,000 | $ 1,900,000 | $ 5,000,000 | 11,963,000 | $ 15,000,000 |
| Commercial and Security Printing | 352,000 | 225,000 | 251,000 | 331,000 | 203,000 | 168,000 | 170,000 | 200,000 | 741,000 | 1,500,000 |
| Technology Integrated Plastic Cards & Badges | - | - | 306,000 | 956,000 | - | - | - | - | - | - |
| Plastic Cards, Badges and Assessories | - | - | 595,000 | 1,766,000 | - | - | - | - | - | - |
| **Printed products** | 3,313,000 | 3,000,000 | 3,035,219 | 7,741,000 | 3,168,000 | 2,266,000 | 2,070,000 | 5,200,000 | 12,704,000 | 16,500,000 |
| Yr-Yr Growth | -15.6% | -19.5% | -19.8% | 40.5% | -4.4% | -24.5% | -31.8% | -32.8% | -25.7% | 29.9% |
| | | | | | | | | | | |
| Information Technology Sales and Services | 74,000 | 32,000 | 46,000 | 37,000 | 11,000 | 30,000 | 10,000 | 10,000 | 61,000 | 200,000 |
| *Digital Authentication Products and Services* | *230,000* | *319,000* | *307,000* | *558,000* | *331,000* | *258,000* | *335,400* | *650,000* | 1,574,400 | *4,000,000* |
| Yr-Yr Growth | 29.2% | 83.3% | 114.7% | 101.4% | 43.9% | -19.1% | 9.3% | 16.5% | 11.3% | 154.1% |
| Royalities from Licensees | 139,000 | 133,000 | 145,000 | 128,000 | 137,000 | 70,000 | 130,000 | 130,000 | 467,000 | 500,000 |
| **Technology sales, services and licensing** | 442,866 | 483,638 | 497,700 | 723,000 | 479,000 | 358,000 | 475,400 | 790,000 | $ 2,102,400 | $ 4,700,000 |
| Yr-Yr Growth | -2.5% | 33.6% | 60.3% | 61.4% | 8.2% | -26.0% | -4.5% | 9.3% | -2.1% | 123.6% |
| | | | | | | | | | | |
| RBC Life Sciences | 0 | 0 | 0 | 0 | 572,000 | 506,000 | 480,000 | 700,000 | 2,258,000 | 3,200,000 |
| | | | | | | | | | | |
| **Total revenue** | **3,755,866** | **3,483,638** | **3,532,919** | **8,464,000** | **4,219,000** | **3,130,000** | **3,025,400** | **6,690,000** | **17,064,400** | **24,400,000** |
| Yr-Yr Growth | -14.2% | -14.8% | -13.7% | 42.1% | 12.3% | -10.2% | -14.4% | -21.0% | -12.1% | 43.0% |
| **Costs and expenses:** | | | | | | | | | | |
| Cost of revenue | 2,533,000 | 2,384,000 | 2,217,822 | 5,467,672 | 2,641,000 | 1,798,000 | 1,972,020 | 4,519,000 | 10,930,020 | 15,604,000 |
| Gross Margin | 1,222,866 | 1,099,638 | 1,315,097 | 2,996,328 | 1,578,000 | 1,332,000 | 1,053,380 | 2,171,000 | 6,134,380 | 8,796,000 |
| Gross Margin % | 32.6% | 31.6% | 37.2% | 35.4% | 37.4% | 42.6% | 34.8% | 32.5% | 35.9% | 36.0% |
| | | | | | | | | | | |
| Selling, general and administrative | 712,000 | 621,000 | 773,000 | 2,161,000 | 916,000 | 936,000 | 950,000 | 1,000,000 | 3,802,000 | 4,200,000 |
| Depreciation and amortization | 253,000 | 293,000 | 420,063 | 437,773 | 303,000 | 275,000 | 275,000 | 30,000 | 883,000 | 1,800,000 |
| Professional fees | 289,000 | 433,000 | 544,000 | 721,000 | 582,000 | 693,000 | 666,667 | 1,100,000 | 3,041,667 | 2,000,000 |
| Stockbased compensation | 31,000 | 28,000 | 273,000 | 89,673 | 28,000 | 56,000 | 100,000 | 100,000 | 284,000 | 284,000 |
| Sales and marketing | 105,000 | 155,000 | 111,000 | 245,000 | 385,000 | 375,000 | 400,000 | 400,000 | 1,560,000 | 3,120,000 |
| Rent and utilities | 99,000 | 92,000 | 187,000 | 472,000 | 116,000 | 94,000 | 64,875 | 57,750 | 332,625 | 332,625 |
| Other expenses | 144,000 | 181,000 | 239,000 | (410,000) | 167,000 | 139,000 | 139,000 | 139,000 | 584,000 | 584,000 |
| R&D | 0 | 0 | (32,000) | 20,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total costs and expenses | 1,633,000 | 1,803,000 | 2,515,063 | 3,736,446 | 2,497,000 | 2,568,000 | 2,595,542 | 2,826,750 | 10,487,292 | 12,320,625 |
| | | | | | | | | | | |
| Operating (loss) income | (410,134) | (703,362) | (1,199,966) | (740,118) | (920,000) | (1,236,000) | (1,542,162) | (655,750) | (4,353,912) | (3,524,625) |
| Operating Margin | -10.9% | -20.2% | -34.0% | -8.7% | -21.8% | -39.5% | -51.0% | -9.8% | -25.5% | -14.4% |
| **Other expense:** | | | | | | | | | | |
| Interest expense, net | (27,997) | (28,000) | (50,776) | (25,593) | (15,000) | (15,000) | (15,000) | (15,000) | (60,000) | (30,000) |
| Amortized debt discount | (600) | (1,000) | (351) | 50 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairment of investment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gain on extinguishment of liabilities, net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Income from minority holding | | | | | 0 | 0 | 660,000 | 1,000,000 | 1,320,000 | 4,000,000 |
| Unrealized gain on marketable securities | 0 | 0 | 0 | 0 | 4,000 | 580,000 | 17,900,000 | 0 | 18,484,000 | 0 |
| Income before income taxes | (438,731) | (732,362) | (1,251,093) | (765,661) | (924,000) | (671,000) | 17,002,838 | 329,250 | 15,737,088 | 445,375 |
| | | | | | | | | | | |
| Income tax expense | 0 | 0 | 0 | (125,487) | 0 | 0 | 0 | 0 | 0 | 0 |
| Loss from continuing operations | (432,000) | (732,000) | NA | NA | (924,000) | (671,000) | 17,002,838 | 329,250 | 15,737,088 | |
| Loss from discontinued operations | (17,000) | (299,000) | NA | NA | (1,046,000) | (232,000) | 0 | 0 | (1,278,000) | |
| Net income | (449,000) | (1,031,000) | (1,251,093) | (640,174) | (1,970,000) | (903,000) | 17,002,838 | 329,250 | 15,737,088 | 445,375 |
| Net inc. attributable to non-controlling interests | | | | | (67,000) | (114,000) | (114,000) | (114,000) | (409,000) | 0 |
| Net income to common shareholders | (449,000) | (732,000) | (1,251,093) | (640,174) | (856,000) | (558,000) | 16,888,838 | 215,250 | 15,690,088 | 445,375 |
| **Other comprehensive loss:** | | | | | | | | | | |
| Interest rate swap gain (loss) | (778) | (14,653) | 22,483 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Comprehensive income: | $ (449,347) | $ (1,045,653) | $ (1,228,610) | $ (640,174) | $ (1,970,000) | $ (903,000) | $ 17,002,838 | $ 329,250 | $ 15,737,088 | $ 445,375 |
| | | | | | | | | | | |
| Non-GAAP earnings | (418,299) | (704,091) | (919,829) | (550,501) | (828,000) | (1,082,000) | (911,162) | 315,250 | (2,174,421) | 729,375 |
| Non-GAAP EPS | $ (0.72) | $ (0.96) | $ (1.15) | $ (0.46) | $ (0.54) | $ (0.51) | $ (0.19) | $ 0.06 | $ (0.64) | $ 0.14 |
| **Continuing GAAP loss per share** | **$ (0.74)** | **$ (1.00)** | **$ (1.56)** | **$ (0.53)** | **$ (0.56)** | **$ (0.27)** | **$ 3.29** | **$ 0.04** | **$ 4.22** | **$ 0.07** |
| Yr-Yr Growth | 146.9% | -121.0% | 160.4% | -21.4% | -24.9% | -73.5% | -310.9% | -106.6% | -224.1% | -98.3% |
| Basic shares outstanding | 583,158 | 730,244 | 800,881 | 1,206,021 | 1,539,052 | 2,103,199 | 4,792,956 | 5,115,179 | 3,387,597 | 5,115,179 |
| Yr-Yr Growth | 5.4% | 32.0% | 43.3% | 107.7% | 163.9% | 188.0% | 498.5% | 324.1% | 298.5% | 51.0% |
| Diluted shares | 590,039 | 973,121 | 1,068,786 | 1,206,021 | 1,539,052 | 2,103,199 | 5,126,290 | 6,115,179 | 3,720,930 | 6,115,179 |
| EBITDA | (94,000) | (630,000) | (507,000) | (212,672) | (94,000) | (630,000) | (621,162) | 360,250 | (984,912) | 2,559,375 |

Source: Zacks Small-Cap Research and SEC Filings

## INCOME STATEMENT

### Before Restatements

| | Mar 31, 2019 | Jun. 30, 2019 | Sep. 30, 2019 | Dec. 31, 2019 | Mar 31, 2020 |
|---|---|---|---|---|---|
| **Revenue:** | | | | | |
| Packaging Printing and Fabrication | $ 2,961,000 | $ 2,775,000 | $ 1,883,000 | $ 4,688,000 | $ 2,966,000 |
| Commercial and Security Printing | 352,000 | 225,000 | 251,000 | 331,000 | 203,000 |
| Technology Integrated Plastic Cards & Badges | 503,000 | 158,000 | 306,000 | 295,000 | 220,000 |
| Plastic Cards, Badges and Assessories | 550,000 | 465,000 | 595,000 | 751,000 | 560,000 |
| **Printed products** | 4,366,054 | 3,623,191 | 3,035,219 | 6,065,000 | 3,949,000 |
| Yr-Yr Growth | 11.3% | -2.7% | -19.8% | 10.1% | -9.6% |
| | | | | | |
| Information Technology Sales and Services | 74,000 | 32,000 | 46,000 | 37,000 | 11,000 |
| *Digital Authentication Products and Services* | *230,000* | *319,000* | *307,000* | *558,000* | *331,000* |
| Yr-Yr Growth | 29.2% | 83.3% | 114.7% | 101.4% | 43.9% |
| Royalities from Licensees | 139,000 | 133,000 | 145,000 | 128,000 | 137,000 |
| **Technology sales, services and licensing** | 442,866 | 483,638 | 497,700 | 723,000 | 479,000 |
| Yr-Yr Growth | -2.5% | 33.6% | 60.3% | 61.4% | 8.2% |
| | | | | | |
| RBC Life Sciences | 0 | 0 | 0 | 0 | 573,000 |
| | | | | | |
| **Total revenue** | **4,808,920** | **4,106,829** | **3,532,919** | **6,788,000** | **5,001,000** |
| Yr-Yr Growth | 9.9% | 0.5% | -13.7% | 14.0% | 4.0% |
| **Costs and expenses:** | | | | | |
| Cost of revenue | 3,159,551 | 2,897,674 | 2,217,822 | 4,327,447 | 3,271,000 |
| Gross Margin | 1,649,369 | 1,209,155 | 1,315,097 | 2,460,553 | 1,730,000 |
| Gross Margin % | 34.3% | 29.4% | 37.2% | 36.2% | 34.6% |
| | | | | | |
| Selling, general and administrative | 920,000 | 814,000 | 773,000 | 1,760,000 | 1,119,000 |
| Depreciation and amortization | 294,407 | 336,740 | 420,063 | 352,626 | 360,000 |
| Professional fees | 292,000 | 434,000 | 544,000 | 717,000 | 601,000 |
| Stockbased compensation | 31,000 | 28,000 | 273,000 | 89,673 | 90,000 |
| Sales and marketing | 116,000 | 164,000 | 111,000 | 225,000 | 405,000 |
| Rent and utilities | 190,000 | 176,000 | 187,000 | 297,000 | 207,000 |
| Other expenses | 227,000 | 230,000 | 239,000 | (542,000) | 219,000 |
| R&D | 1,000 | 18,000 | (32,000) | 1,000 | 0 |
| Impariment of goodwill | 0 | 0 | 0 | 0 | 685,000 |
| Total costs and expenses | 2,071,407 | 2,200,740 | 2,515,063 | 2,900,299 | 3,686,000 |
| | | | | | |
| Operating (loss) income | (422,038) | (991,585) | (1,199,966) | (439,746) | (1,956,000) |
| Operating Margin | -8.8% | -24.1% | -34.0% | -6.5% | -39.1% |
| **Other expense:** | | | | | |
| Interest expense, net | (27,997) | (37,952) | (50,776) | (15,641) | (15,000) |
| Amortized debt discount | (600) | (600) | (351) | (350) | 0 |
| Impairment of investment | 0 | 0 | 0 | 0 | 0 |
| Gain on extinguishment of liabilities, net | 0 | 0 | 0 | 0 | 0 |
| Gain on marketable securities | | | | | 4,000 |
| Loss before income taxes | (450,635) | (1,030,137) | (1,251,093) | (455,737) | (1,967,000) |
| | | | | | |
| Income tax expense | 0 | 0 | 0 | (125,487) | 0 |
| Net loss | (450,635) | (1,030,137) | (1,251,093) | (330,250) | (1,967,000) |
| Minority interest | 0 | 0 | 0 | 0 | 67,000 |
| Net loss to common shareholders | (450,635) | (1,030,137) | (1,251,093) | (330,250) | (1,900,000) |
| **Other comprehensive loss:** | | | | | |
| Interest rate swap gain (loss) | (778) | (14,653) | 22,483 | 0 | 0 |
| Comprehensive loss: | $ (451,413) | $ (1,044,790) | $ (1,228,610) | $ (330,250) | $ (1,967,000) |
| | | | | | |
| Non-GAAP earnings | (419,934) | (1,002,228) | (919,829) | (240,577) | (1,125,000) |
| Non-GAAP EPS | $ (0.72) | $ (1.37) | $ (1.15) | $ (0.20) | $ (0.73) |
| **GAAP Basic and diluted loss per share** | **$ (0.72)** | **$ (1.07)** | **$ (1.56)** | **$ (0.27)** | **$ (1.23)** |
| Yr-Yr Growth | 140.0% | -122.5% | 160.4% | -59.4% | 71.4% |
| Basic shares outstanding | 583,158 | 730,244 | 800,881 | 1,206,021 | 1,539,052 |
| Yr-Yr Growth | 5.4% | 32.0% | 43.3% | 107.7% | 163.9% |
| Diluted shares | 590,039 | 973,121 | 1,068,786 | 1,206,021 | 1,539,052 |

Source: SEC Filings

## CASH FLOWS

| | 2018 | March 31, 2019 | June 30, 2019 | Sept. 30, 2019 | Dec. 31, 2019 | 2019 | 6 Mo Ending Jun. 30, 2020 |
|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | | | |
| Net income (loss) | $ 1,464,579 | $ (450,450) | $ (1,030,822) | $ (1,250,671) | $ (157,204) | $ (2,889,147) | $ (1,595,000) |
| **Adjustments to reconcile net income (loss) to net cash used by operating activities:** | | | | | | | |
| Depreciation and amortization | 1,281,634 | 294,407 | 336,740 | 420,064 | 352,625 | 1,403,836 | 578,000 |
| Stock based compensation | 131,733 | 30,701 | 27,909 | 272,654 | 90,409 | 421,673 | 84,000 |
| Unrealized gain on investment | | | | | 0 | 0 | (584,000) |
| Paid in-kind interest | 12,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in deferred tax provision | 9,673 | 0 | 0 | 0 | (125,419) | (125,419) | 0 |
| Amortization of deferred financing costs | 46,251 | 600 | 0 | (249) | 1,550 | 1,901 | 0 |
| Gain on extinguishment of liabilities, net | (3,532,659) | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairment of goodwill | 160,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | |
| **Decrease (increase) in assets:** | | | | | | | |
| Accounts receivable | (192,593) | (277,951) | (68,350) | 436,451 | (2,084,179) | (1,994,029) | 1,399,000 |
| Inventory | 87,653 | 217,926 | 73,556 | (379,773) | (55,806) | (144,097) | (266,000) |
| Prepaid expenses and other current assets | (31,198) | 720 | 53,175 | (213,999) | 26,260 | (133,844) | (81,000) |
| Other assets | | | | 0 | 0 | 0 | (94,000) |
| Restricted cash | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | |
| **Increase (decrease) in liabilities:** | | | | | | | |
| Accounts payable | 618,836 | (100,692) | 317,188 | (222,981) | 151,488 | 145,003 | (786,000) |
| Accrued expenses | (113,793) | (213,370) | (36,533) | (68,838) | 39,705 | (279,036) | (169,000) |
| Other liabilities | (1,325,427) | (378,183) | (519,675) | (555,018) | (296,839) | (1,749,715) | 133,000 |
| Net cash used by operating activities | (1,383,311) | (876,292) | (846,812) | (1,562,360) | (2,057,410) | (5,342,874) | (1,381,000) |
| | | | | | | | |
| **Cash flows from investing activities:** | | | | | | | |
| Purchase of property, plant and equipment | (1,003,413) | (210,945) | (50,610) | (561,793) | (165,528) | (988,876) | (84,000) |
| Purchase of investment | 0 | 0 | 0 | 0 | (1,829,245) | (1,829,245) | (1,291,000) |
| Purchase of marketable securities | | | | | | | (1,392,000) |
| Issuance of note receivable | 0 | 0 | 0 | 0 | (793,195) | (793,195) | (566,000) |
| Purchase of intangible assets | (100,138) | (350,000) | 0 | (7,816) | (11,919) | (369,735) | 0 |
| Net cash used by investing activities | (1,103,551) | (560,945) | (50,610) | (569,609) | (2,799,887) | (3,981,051) | (3,333,000) |
| | | | | | | | |
| **Cash flows from financing activities:** | | | | | | | |
| Payments of long-term debt | (1,188,081) | (57,309) | (64,251) | (72,826) | (80,082) | (274,468) | (142,000) |
| Borrowing of LTD | | | | 0 | 0 | 0 | 1,272,000 |
| Borrowing from lines of credit | 502,155 | 500,000 | 0 | 87,750 | 0 | 587,750 | 0 |
| Borrowings from revolver | 0 | 0 | 0 | 0 | 500,000 | 500,000 | (500,000) |
| Borrowings from convertible note | 0 | 0 | 0 | 0 | 0 | 500,000 | 0 |
| Issuance of common stock, net | 887,755 | (6,793) | 0 | 5,048,404 | 1,617,295 | 6,658,906 | 10,220,000 |
| Subscription receivable, net | 288,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash used by financing activities | 489,829 | 435,898 | 4,822,386 | 676,691 | 2,037,213 | 7,972,188 | 10,850,000 |
| | | | | | | | |
| Net cash used by discontinued oper. | | | | | | | (56,000) |
| Net decrease in cash | (1,997,033) | (1,001,339) | 3,924,964 | (1,455,278) | (2,820,084) | (1,351,737) | 6,080,000 |
| Cash and restricted cash at beginning of period | 4,444,628 | 2,447,595 | 1,446,256 | 5,371,220 | 3,915,942 | 2,447,595 | 1,096,000 |
| Cash and restricted cash at end of period | $ 2,447,595 | $ 1,446,256 | $ 5,371,220 | $ 3,915,942 | $ 1,095,858 | $ 1,095,858 | $ 7,176,000 |
| | | | | | | | |
| Operating Cash Flow | $ (586,789) | $ (124,742) | $ (666,173) | $ (558,202) | $ 161,961 | $ (1,187,156) | $ (1,517,000) |
| Free Cash Flow | $ (1,690,340) | $ (685,687) | $ (716,783) | $ (1,127,811) | $ (1,844,731) | $ (4,375,012) | $ (1,601,000) |

Source: SEC Filings

## BALANCE SHEET

| | Jun. 30, 2020 | Pro-Forma Mar. 31, 2020 | Qtr-Qtr % Growth | Jun. 30, 2019 | Yr-Yr % Growth |
|---|---|---|---|---|---|
| **Current assets:** | | | | | |
| Cash | $ 7,176,000 | $ 3,932,000 | 82.5% | $ 5,321,344 | 34.9% |
| Restricted cash | 0 | 0 | 0.0% | 50,266 | -100.0% |
| Accounts receivable, net | 2,445,000 | 3,582,000 | -31.7% | 2,564,178 | -4.6% |
| Inventory | 1,774,000 | 1,743,000 | 1.8% | 1,272,111 | 39.5% |
| Assets held for sale | 236,000 | 0 | NA | 0 | NA |
| Prepaid expenses & other curr assets | 510,000 | 537,000 | -5.0% | 256,048 | 99.2% |
| Total current assets | 12,141,000 | 9,794,000 | 24.0% | 9,463,947 | 28.3% |
| | | | | | |
| Property, plant and equipment, net | 4,257,000 | 4,925,000 | -13.6% | 4,854,786 | -12.3% |
| Investment | 3,445,000 | 2,154,000 | 59.9% | 324,930 | 960.2% |
| Marketable securities | 1,976,000 | 570,000 | 246.7% | 0 | NA |
| Note receivable | 522,000 | 1,255,000 | -58.4% | 0 | NA |
| Non-current assets held for sale | 1,608,000 | NA | NA | 0 | NA |
| Other assets | 311,000 | 54,000 | 475.9% | 90,319 | 244.3% |
| Right-of-use assets | 37,000 | 1,119,000 | -96.7% | 1,313,742 | -97.2% |
| Goodwill | 1,769,000 | 80,209,000 | -97.8% | 2,453,597 | -27.9% |
| Other intangible assets, net | 1,347,000 | 816,000 | 65.1% | 1,166,310 | 15.5% |
| Total assets | 27,413,000 | 100,896,000 | -72.8% | 19,667,631 | 39.4% |
| | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | 690,000 | 1,516,000 | -54.5% | 1,563,986 | -55.9% |
| Accrued expenses & deferred revenue | 883,000 | 706,000 | 25.1% | 818,773 | 7.8% |
| Other current liabilities | 522,000 | 390,000 | 33.8% | 1,473,163 | -64.6% |
| Current liabilities held for sale | 274,000 | 0 | NA | 0 | NA |
| Revolving line of credit | **0** | **800,000** | -100.0% | **0** | 0.0% |
| Current portion of long-term debt, net | **426,000** | **403,000** | 5.7% | **348,574** | 22.2% |
| Current portion of lease liability | 35,000 | 369,000 | -90.5% | 332,883 | -89.5% |
| Total current liabilities | 2,830,000 | 4,184,000 | -32.4% | 4,537,379 | -37.6% |
| | | | | | |
| Long-term debt, net | **3,388,000** | **2,427,000** | 39.6% | **1,965,829** | 72.3% |
| Lease liability | 3,000 | 750,000 | -99.6% | 1,005,222 | -99.7% |
| Non-current liabilities held for sale | 677,000 | 0 | NA | 0 | NA |
| Other long-term liabilities | 507,000 | 507,000 | 0.0% | 329,348 | 53.9% |
| Deferred tax liability, net | 44,000 | 44,000 | 0.0% | 169,986 | -74.1% |
| | | | | | |
| **Stockholders' equity** | | | | | |
| Common stock | 60,000 | 52,000 | 15.4% | 584,054 | -89.7% |
| Convertible preferred stock | 0 | 46,868,000 | -100.0% | 0 | 0.0% |
| Additional paid-in capital | 126,058,000 | 122,746,000 | 2.7% | 112,972,366 | 11.6% |
| Non-controlling interest in subsidiary | (181,000) | 28,500,000 | -100.6% | 0 | NA |
| Accumulated other comp loss | 0 | 0 | 0.0% | (22,483) | -100.0% |
| Accumulated deficit | (105,973,000) | (105,181,000) | 0.8% | (101,873,070) | 4.0% |
| Total stockholders' equity | 19,964,000 | 92,985,000 | -78.5% | 11,660,867 | 71.2% |
| Total liabilities and stockholders' equity | $ 27,413,000 | 100,897,000 | -72.8% | $ 19,667,631 | 39.4% |
| | | | | | |
| Current ratio | 4.3 | 2.3 | 83.3% | 2.1 | 105.7% |
| Quick ratio | 3.7 | 1.9 | 90.4% | 1.8 | 102.9% |
| Working Capital | 9,311,000 | 5,610,000 | 66.0% | 4,926,568 | 89.0% |
| Net cash | 7,176,000 | 3,132,000 | 129.1% | 5,321,344 | 34.9% |
| Debt | 3,814,000 | 3,630,000 | 5.1% | 2,314,403 | 64.8% |
| Debt/TA | 14% | 4% | 286.7% | 12% | 18.2% |

Source: SEC Filings

## HISTORICAL STOCK PRICE




Source: Zacks Investment Research

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