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DSSI moves to win clash in Europe

By MARY STONE

Document Security Systems Inc. is filing patent infringement paperwork against the European Central Bank in Germany, where damages are estimated at \$24 million to \$53 million.

Company officials long have maintained they prefer to reach a settlement, but CEO Patrick White said that since all attempts at reasonable discussion have failed, he no longer can wait to proceed.

The firm will file its patent infringement paperwork within the next two months in Germany, where the court will decide damages.

On its side, the ECB remains impervious—unwilling to sit down and discuss a settlement, DSSI officials say—as it continues its standoff with the local anti-counterfeit technology firm in national courts across Europe.

White said the company is frustrated and dismayed with the ECB's attitude.

The ECB, DSSI has long claimed, used the local firm's anti-counterfeiting technology in the 2002 cash changeover to the euro. On this basis, DSSI contends that all euro notes in circulation are affected, and, as such, the company is seeking royalties for those patent infringements.

DSSI filed a suit against the ECB in the European Court of First Instance, and the bank filed a lawsuit against DSSI—but to invalidate the patent the bank had to win its suit in all nine euro-using countries; to validate the patent DSSI needed to win in one.

The company won in Germany; the German Federal Patent Court deemed the patent valid.

It was September when the European Court of First Instance ruled it was not the correct venue for infringement proceedings, which was what opened the door for country-by-country litigation. But of the 40 billion euros with DSSI's patented technology, approximately 23 percent are manufactured or otherwise pass through Germany, which makes the ECB vulnerable there.

In 2007, France and the Netherlands held additional trials. After several postponements, a decision in France is scheduled for Jan. 8; a decision in the Netherlands is expected Feb. 20.

In the interest of security, DSSI says the technology used for the euro is inferior to technologies the company since has developed and should be updated.

"I'm frankly stunned that they would not consider listening to a going forward approach that would allow the ECB to utilize

significant improvements of our rich portfolio of technologies to protect the euro—one of the most widely counterfeited currencies in the world," White said in a statement.

DSSI president Peter Ettinger said in an interview that the company's court win in Germany gives it a place to battle the ECB. Meanwhile, the bureaucratic behemoth continues to wage unnecessary war against DSSI, country-by-country.

"None of us really quite understands other than politics as usual and a fairly arrogant attitude directed at a small U.S. company who's out there battling for shareholders' rights," Ettinger said. "(I don't know) why the Europeans wouldn't consider that."

ECB officials have not returned calls for comment on the litigation.

Ettinger said that may be a tactic to bleed the company dry while both parties slug it out in Germany. If it is, Ettinger said, the ECB grossly underestimates the company's commitment.

Legal fees have chipped away at the company's coffers, but officials have maintained that shareholders have pledged to fund the company's near-term cash requirements. In Securities Exchange Commission filings dated Dec. 21, board member Robert Fagenson agreed to extend a \$3 million line of credit to the company, and CEO Patrick White extended a line of \$600,000 in credit.

Terms of those agreements have not yet been finalized.

While DSSI doggedly fights the ECB, it is not the focus of the company, Ettinger said. The focus is expanding the sales pipeline as opportunities for anti-counterfeit technology multiply.

As security becomes more crucial to business and government, so do the technologies that enable it.

The company's business attacks the problem from three directions: licensing technology and producing customized security paper, manufacturing secure plastic identification cards and using the Internet to print secure documents.

On-demand Internet technology holds the most promise for DSSI as governments and organizations look for alternatives to centralized document processing.

"So for example, for the Panamanian Maritime Commission we enabled, via the Internet, them to secure a visa in 300 different locations," Ettinger said. Each location was able to print secure documents with ordinary paper and an ordinary desktop printer.

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DSSI performance

Revenues



Net loss



DSSI

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Making the move to diversified distribution represents a necessary shift for users, Ettinger said. With an expanded sales channel, research and development division and an intense marketing campaign, DSSI appears poised for opportunity—even if the stock price does not reflect it.

DSSI's share price has fallen since the summer when it peaked at \$14.83 a share, coinciding with a story in a July edition of *Business Week*, highlighting the company. The rise in counterfeiting globally, the article noted, was making DSSI's optical deterrent technology especially pertinent.

In the last several months the share price has slid to as low as \$4.90. Early this week, shares were selling at \$6.49.

Ettinger said he does not know the reason for the decline.

"If you look at small-cap stocks, there's been a great deal of confusion in the marketplace. We're not the only ones to have been affected by a changing market," he said. "Our fundamentals are strong; we're growing daily and we feel tremendously optimistic over 2008."

The company is doing better than ever, Ettinger said. Revenues rose to \$4.3 million in 2006, up from \$1.2 million in 2005. Revenues are expected to reach roughly \$6 million in 2007.

But with legal fees mounting, the company logged a net loss of \$4.4 million in 2006, compared with \$2.8 million in 2005 and \$1.7 million in 2004. For the first three quarters of 2007, the company reported a loss of \$4.8 million.

To achieve positive operating cash flow, the company needs to reach a level of annual revenue of \$9 million to \$12.5 million, officials have estimated.

The company's growth is imminent, Ettinger said.

"The challenge for any company is to be able to take that technology and build it into something that people need. Our growth and our abilities to expand have only shown us that we're doing things at the right time," he said. "We now have products that people are using in government and the aerospace world, the automobile world, pharmaceutical."

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