

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

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Independent Auditor's Report

To the Board of Directors
Evercel, Inc. and Subsidiaries
New York, NY

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Evercel, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of March 28, 2014 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Evercel, Inc. and Subsidiaries as of March 28, 2014 and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Irvine, CA
November 6, 2014

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(in thousands of dollars, except share & per share data)

	<u>March 28, 2014</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 19,791
Restricted cash	156
Accounts receivable, net of allowances for doubtful accounts and sales returns of \$1,157	20,329
Inventories	10,287
Investments, Held for Sale	800
Other current assets	3,401
Deferred income taxes, net	1,496
TOTAL CURRENT ASSETS	<u>56,260</u>
PROPERTY AND EQUIPMENT	
Buildings and improvements	9,045
Machinery and equipment	3,535
Furniture and fixtures	3,327
Leasehold improvements	1,258
	<u>17,165</u>
Less: Accumulated depreciation and amortization	(3,691)
PROPERTY AND EQUIPMENT, NET	<u>13,474</u>
OTHER ASSETS	
Goodwill	12,902
Other intangible assets, net	26,166
Long-term deferred income tax, net	6,964
Other assets	1,409
TOTAL OTHER ASSETS	<u>47,441</u>
TOTAL ASSETS	<u><u>\$ 117,175</u></u>

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(in thousands of dollars, except share & per share data)

	<u>March 28, 2014</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 8,682
Current portion of long-term debt, net of debt discount of \$100	6,848
Accrued liabilities	
Payroll and employee benefits	6,065
Warranty	463
Deferred revenue	2,844
Restructuring	317
Other	2,439
Other current liabilities	100
TOTAL CURRENT LIABILITIES	<u>27,758</u>
LONG-TERM LIABILITIES	
Deferred revenue, net of current portion	991
Long-term deferred, other	475
Contingent consideration	617
Long-term senior term debt, net of current portion and of debt discount of \$231	46,340
TOTAL LIABILITIES	<u>76,181</u>
STOCKHOLDERS' EQUITY	
Preferred stock, Series A convertible	
8% cumulative, \$.01 par value (liquidation value of \$427 at March 28, 2014)	-
Preferred stock, Series B convertible	
8% cumulative, \$.01 par value (liquidation value of \$421 at March 28, 2014)	-
Common stock, \$.01 par value	
Authorized 75,000,000 shares: Issued and outstanding 32,530,636 shares	325
Additional paid-in capital	6,450
Retained earnings	28,992
TOTAL CONTROLLING INTEREST	<u>35,767</u>
Noncontrolling interest	5,227
TOTAL STOCKHOLDERS' EQUITY	<u>40,994</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 117,175</u>

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands of dollars, except share & per share data)

	Fiscal year ended March 28, 2014
REVENUES	\$ 133,940
COST OF REVENUES	<u>78,975</u>
GROSS PROFIT	54,965
OPERATING EXPENSES	<u>45,062</u>
INCOME FROM OPERATIONS	9,903
OTHER INCOME (EXPENSE)	
Gain on fair value adjustment of debt	2,908
Interest expense	(4,731)
Gain on sale of investments, net	58
Other expense, net	(64)
TOTAL OTHER INCOME (EXPENSE)	<u>(1,829)</u>
INCOME BEFORE INCOME TAX BENEFIT	8,074
Income tax benefit	<u>9,570</u>
NET INCOME INCLUDING NONCONTROLLING INTEREST	17,644
Net income attributable to noncontrolling interest	<u>1,293</u>
NET INCOME ATTRIBUTABLE TO EVERCEL, INC. AND SUBSIDIARIES	<u><u>\$ 16,351</u></u>
NET INCOME PER SHARE	
Basic	\$ 0.53
Diluted	\$ 0.53
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	
Basic	31,069,862
Diluted	31,124,262

EVERCEL, INC. AND SUBSIDIARIES
STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands of dollars, except share & per share data)

	Preferred Stock				Common Stock		Additional Paid-in Capital	Retained Earnings	Total Evercel, Inc. and Subsidiaries	Noncontrolling Interest	Total Stockholders' Equity
	Series A		Series B		Number of Shares	\$.01 Par Value					
	Number of Shares	\$.01 Par Value	Number of Shares	\$.01 Par Value							
Balance, March 29, 2013	15,806	\$ -	15,584	\$ -	26,683,280	\$ 267	\$ 6,365	\$ 12,704	\$ 19,336	\$ 3,934	\$ 23,270
Common stock issued	-	-	-	-	207,811	58	4,169	-	4,227	-	4,227
Related-Party Notes Receivable for common stock issued	-	-	-	-	5,639,545	-	(4,199)	-	(4,199)	-	(4,199)
Dividends	1,264	-	1,247	-	-	-	63	(63)	-	-	-
Share-based compensation	-	-	-	-	-	-	52	-	52	-	52
Net income including noncontrolling interest	-	-	-	-	-	-	-	16,351	16,351	1,293	17,644
Balance, March 28, 2014	17,070	\$ -	16,831	\$ -	32,530,636	\$ 325	\$ 6,450	\$ 28,992	\$ 35,767	\$ 5,227	\$ 40,994

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of dollars)

	Fiscal year ended
	March 28, 2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income including noncontrolling interest	\$ 17,644
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities:	
Loss on write-down of inventories	617
Gain on fair value adjustment of debt	(2,908)
Capitalized interest to long-term note payable	1,181
Loss on disposal of property and equipment	194
Deferred income tax provision	(10,065)
Increase in allowance for doubtful accounts	221
Stock-based compensation	52
Depreciation and amortization	6,218
Amortization of debt issuance and deferred financing costs	483
Changes in operating assets and liabilities:	
Accounts receivable	2,659
Inventories	4,646
Other current assets	(107)
Accounts payable	(2,388)
Accrued expenses	1,202
Other current liabilities	(90)
Deferred revenue	514
Income taxes payable	(618)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19,455
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(1,110)
Proceeds from disposition of property and equipment	6
Net proceeds from sale of investments	478
Restricted cash	(156)
NET CASH USED IN INVESTING ACTIVITIES	(782)
CASH FLOWS FROM FINANCING ACTIVITIES	
Investment from shareholders	30
Proceeds from short-term revolving credit facility	6,000
Proceeds from issuances of long-term debt	44,000
Proceeds from inception of mortgage	7,122
Effect of exchange rate changes on mortgage	(21)
Payments of debt financing costs	(809)
Payments on long-term debt	(67,327)
NET CASH USED IN FINANCING ACTIVITIES	(11,005)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,668
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	12,123
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 19,791
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION	
Cash paid during the period for income taxes	\$ 1,051
Cash paid during the period for interest	3,722

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 1 – NATURE OF BUSINESS

Evercel, Inc.

Evercel, Inc. (“Evercel”) is a holding company that oversees and manages subsidiary companies and portfolio investments. Companies owned and managed in 2014 include New England Crab Company, Inc. (“NECC”), Sontek Medical, Inc. (“SMI”), and Evercel Pioneer Holding Corp. (“Holding”). The consolidated financial statements include the accounts of Evercel and its wholly owned subsidiaries (collectively, the “Company”).

Evercel was formerly a publicly listed company; however, management determined that the costs associated with maintaining its public listing could not be justified. Accordingly, in 2004, Evercel delisted its stock and ceased making public filings. Evercel stock is currently traded on the OTC “Pink Sheets.” Evercel is not registered with the SEC and is not required to publicly report financial information.

Evercel Pioneer Holding Corp.

Holding, a wholly owned subsidiary of Evercel, was created in 2012 for the purpose of holding an 80.1% investment in Pioneer Holding Corp. (“Pioneer Holding”). The purchase of Pioneer Holding stock occurred on December 31, 2012. Pioneer Holding owns Printronix, Inc. (“Printronix”), a worldwide leader in multi-technology supply-chain printing solutions for the industrial marketplace. As a holding company, Pioneer Holding has no operating assets or liabilities, except for its equity investment in Printronix and its commitment as the guarantor for certain Printronix debt. As the operating company, Printronix holds all operating assets and liabilities.

Printronix, Inc.

Printronix is a worldwide leader in multi-technology supply-chain printing solutions for the industrial marketplace. The products are used in industrial settings such as manufacturing plants and distribution centers. Printronix has manufacturing and configuration sales located in the United States, Singapore, Holland and Mexico, along with sales and support locations around the world, to support its global network of users, channel partners and strategic alliances.

New England Crab Company, Inc.

NECC, a wholly owned subsidiary of Evercel, sells processed crab products throughout the United States and overseas from its facility in Boston, Massachusetts. On February 26, 2014, Evercel sold substantially all assets of NECC (see Note 11: *Deconsolidation*). The Company has elected early adoption of the Accounting Standards Update (“ASU”) 2014-08, *Presentation of Financial Statements (Topic 205) Reporting Discontinued Operations*.

Sontek Medical, Inc.

SMI, a wholly owned subsidiary of Evercel, develops, manufactures and markets respiratory and related health products. SMI sells its products worldwide from its office in Hingham, Massachusetts. On March 31, 2013, Evercel sold the assets of SMI (see Note 11: *Deconsolidation*). The Company has elected early adoption of ASU 2014-08.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

For the period ended March 28, 2014, the consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All significant intercompany balances and transactions have been eliminated in consolidation. The Company uses a 52- or 53-week fiscal year ending on the last Friday of March. The fiscal year presented is from March 30, 2013 to March 28, 2014, consisting of a 52-week fiscal period.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates and assumptions made by management include, but are not limited to, excess and obsolete reserve for inventories, bad debt allowance, product warranties, long-lived assets, contingent consideration and sales returns reserves. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Restricted Cash

During the fiscal year 2014 and through January 2015, Printronix is required to maintain cash at specified levels in accordance with its credit facility agreement to collateralize an outstanding letter of credit. The balance of both the restricted cash and the letter of credit was \$0.156 million as of March 28, 2014.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Printronix performs credit evaluations on customers and adjusts credit limits based upon payment history and the customer’s current creditworthiness. The allowance for doubtful accounts is determined by evaluating individual customer receivables, based on contractual terms, reviewing the financial condition of the customer, and historical experience. Receivable losses are charged against the allowance when management believes the account is uncollectible. Subsequent recoveries, if any, are credited to the allowance. The reserves for returns and sales allowances are determined by an analysis of the historical rate of returns and sales allowances.

NECC extends credit to its customers in the ordinary course of business. After reviewing aged outstanding balances and giving consideration for NECC’s overall collection history, an allowance for doubtful accounts is established.

Inventories

Inventories, which include material, labor and overhead costs, are valued at the lower of cost or market value. Cost is determined on the first-in, first-out (FIFO) method for Printronix, and the average cost method for NECC. The Company evaluates and records a provision to reduce the carrying value of inventory for estimated excess and obsolete items based upon forecasted demand and market conditions.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Improvements are amortized over the remaining life of the lease. Maintenance and repairs are charged to expense as incurred. Upon disposition, the applicable costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income from operations. Depreciation and amortization expense was \$3.1 million in fiscal year 2014.

	<u>Estimated Useful Lives / Lease Terms</u>
Machinery and equipment	2 to 7 years
Furniture and fixtures	3 to 7 years
Building and improvements	8 to 39.5 years
Leasehold improvements	Lesser of useful life or term of lease

Deferred Financing Charges

Printronic capitalizes debt issuance costs and amortizes these costs over the term of the debt instruments. In fiscal year 2014, \$0.808 million of additional debt issuance costs were capitalized related to the December 2012 debt, the refinance of that debt, and the foreign credit facility. In fiscal year 2014, Printronic amortized \$0.260 million of debt issuance costs. Printronic also immediately expensed \$0.224 million of the previously capitalized debt issuance costs and \$0.102 million of the additional debt issuance costs related to the refinance. The debt issuance cost balance of \$0.911 million as of March 28, 2014 is recorded as a component of other assets in the amount of \$0.580 million and \$0.331 million as a component of current and long-term debt, respectively, in the accompanying consolidated balance sheet.

Goodwill and Other Intangible Assets

Goodwill has an indefinite useful life and is not amortized. Printronic evaluates for impairment of goodwill and indefinite-lived intangible assets on an annual basis or whenever events or changes in circumstances indicate that the assets might be impaired.

Other intangible assets consist of trade names and trademarks, patents, and customer and distributor relationships. These definite-lived intangible assets are recorded at fair value and are stated net of accumulated amortization. Printronic currently amortizes the definite-lived intangible assets on a straight-line basis over their estimated useful lives.

During fiscal year 2014, definite-lived intangible assets were amortized over periods ranging from seven to 10 years. Amortization expense of \$3.06 million was recognized.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets at March 28, 2014 consisted of:

(in thousands)

	Weighted- Average Amortization Period	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
Amortized intangible assets:				
Trade names and trademarks	10 years	\$ 4,581	\$ (573)	\$ 4,008
Patents	7-10 years	9,017	(1,206)	7,811
Customer and distributor relationships	10 years	16,397	(2,050)	14,347
		<u>\$ 29,995</u>	<u>\$ (3,829)</u>	<u>\$ 26,166</u>

Future amortizations of intangible assets are as follows:

(in thousands)

2015	\$ 3,063
2016	3,063
2017	3,063
2018	3,063
2019	3,063
Thereafter	10,851
	<u>\$ 26,166</u>

Fair Value Measurements

Fair value is defined under GAAP as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company is required to maximize the use of observable inputs, minimize the use of unobservable inputs, and disclose in the form of an outlined hierarchy the details of such fair value measurements. The hierarchy of valuation techniques is based on whether the inputs to fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The hierarchy requires the use of observable market data when available.

These inputs have created the following fair value hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.

Level 3 - Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the assets.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenue for Printronix and NECC is recognized when it is realized or realizable and earned. The Company considers revenue to be realized or realizable and earned generally at the time of shipment and passage of title, when persuasive evidence of a sales arrangement exists in the form of a contract or purchase order, the product has been shipped, the sales price is fixed or determinable, and collection is reasonably assured. The Company has no further obligations after shipment of the product other than the warranty obligations.

Printronix sales are based upon written contractual agreements with resellers that include established pricing and payment terms. Printronix sells printers that contain embedded software, which are considered to be incidental to the sale of the printer, and no revenue is attributed to the software. Printronix also sells standard “pre-packed” software to support bar code label printing applications and other software options. This software does not require customization, nor does Printronix have any post-sale obligations. Revenue is recognized as this standard “pre-packed” software is shipped.

Revenue arrangements with multiple deliverables, such as the delivery of multiple products or performance of multiple services, are identified into separate units of accounting based on their fair value and are recognized as each unit of accounting is earned as determined by the appropriate authoritative guidance.

Printronix offers printer maintenance services through service agreements that customers may purchase separately from the printer. These agreements commence upon expiration of the standard warranty period, which is generally a one-year period. Printronix provides the point-of-customer-contact and initial diagnostic services, and sells the parts used for printer repairs. Printronix contracts third parties to perform the on-site repair services. The maintenance service agreements are separately priced at fair value. Accordingly, for those transactions in which maintenance service agreements are purchased concurrently with the purchase of printers, the revenue is deferred based on the fair value for the maintenance service agreements. Revenue from maintenance service contracts is recognized on a straight-line basis over the period of each individual contract, which approximates the manner in which costs are incurred.

Printronix reduces revenue at the time of sale for estimated customer returns, price protection, rebates and other sales incentives that occur under established sales programs. Judgment is required to record these estimated revenue reductions. Printronix evaluates the adequacy of the recorded allowance for sales returns and records a provision as a revenue reduction for the estimated amount of future returns, based upon historical experience, significant authorized pending returns and any other known factors.

Printronix presents revenue, net of shipping costs and sales taxes. Shipping costs charged to the customers are recorded in cost of sales. Sales taxes collected from customers are remitted to the appropriate governmental tax authority on behalf of the customers.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Warranty Costs

Printronix offers product warranties with varying terms depending on the product, region and customer contracts. Warranty periods range from three months up to five years. The provision for warranty expense was determined by applying the historical claims experience and estimated repair costs to the outstanding units under warranty.

The following is a summary of the accrued warranty obligation for the period ended March 28, 2014:

(in thousands)

Beginning balance, warranty reserve	\$ 694
Add warranty expense	246
Deduct warranty claims settled	(477)
Ending balance, warranty reserve	<u>\$ 463</u>

Engineering and Development

Engineering and development costs are expensed as incurred and consist of labor, supplies, consulting and other costs related to developing and improving the Company's products. Total engineering and development costs for fiscal year 2014 totaled \$7.057 million.

Advertising Costs

The Company expenses advertising costs, including promotional literature, brochures and trade shows, as incurred. For the period ended March 28, 2014, advertising expense was \$0.3 million.

Shipping and Handling

NECC's policy is to classify shipping and handling costs billed to customers as revenues and the related expense as a component of cost of revenues. Shipping and handling costs include charges associated with the delivery of goods from the operating facilities to each customer's designated location.

Printronix's policy is to present revenue net of shipping costs and sales tax. Shipping costs charged to customers are recorded in cost of sales.

Restructuring Charges

Restructuring charges are mainly comprised of termination benefits associated with Printronix's formal strategic restructuring plans to improve operational efficiency. The plans are generally expected to be completed within one year. Printronix recognizes the liability for post-employment or termination benefits when payment is probable and estimable based on Printronix's predefined post-employment benefits plan or local statutory regulations in foreign jurisdictions. One-time termination benefits that are outside of Printronix's predefined severance plans or local statutory regulations are expensed at the time when Printronix communicates the one-time termination benefits to the employee. However, if the employee is required to provide future service for the one-time termination benefits, the costs are expensed ratably over the future service period. Any exit or disposal costs other than termination benefits are recognized as incurred.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Printronix's restructuring charges and restructuring liabilities are summarized as follows:

(in thousands)

	Workforce Reduction
Restructuring liabilities at March 29, 2013	\$ 773
Add: restructuring charges	598
Deduct: cash payments	<u>(1,054)</u>
Restructuring liabilities at March 28, 2014	<u>\$ 317</u>

Foreign Currency Gains and Losses

The United States dollar is the functional currency for all of the foreign subsidiaries. Transactions that are recorded in currencies other than the United States dollar may result in transaction gains or losses at the end of the period and when the related receivable or payable is paid. For these subsidiaries, the assets and liabilities have been remeasured at the end of the period exchange rates, except inventories and property, plant and equipment, which have been remeasured at historical rates. The statement of operations has been remeasured at average rates of exchange for the period, except for cost of sales and depreciation, which have been remeasured at historical rates.

Basic and Diluted Net Income Per Share

The basic net income per common share is computed by dividing the net income by the weighted-average number of common shares outstanding. Diluted net income per common share is computed by dividing the net income by the weighted-average number of common shares outstanding plus potential dilutive securities, which include stock options not yet exercised. There were 375,000 options outstanding that were not included in the denominator used in the diluted net income per share calculation because to do so would be antidilutive.

Contingencies

The Company accounts for contingencies in accordance with accounting guidance. The Company evaluates the degree of probability of an unfavorable outcome and the ability to reasonably estimate the loss related to legal claims, environmental issues, guarantees, including indirect guarantees of the indebtedness of others, and other known issues, and records a charge to earnings if appropriate.

Taxes on Income

The Company files a federal consolidated tax return and is subject to multiple state tax jurisdictions. The Company's provision for income taxes is based upon pre-tax financial accounting income or loss. Income taxes are accounted for in accordance with the liability method, under which deferred tax assets or liabilities are computed based on temporary differences between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. These differences are classified as current or noncurrent based upon the classification of the related asset or liability. Deferred income tax provisions or benefits are based on the change in the deferred tax assets and liabilities from period to period. If needed, a valuation allowance is recorded for deferred taxes where it appears more likely than not that the Company will not be able to recover the deferred tax asset.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company is required to recognize the financial statement impact of a tax position when it is “more likely than not” that the position will not be sustained upon examination. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The Company accrues interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

Forward Contracts

Printronic enters into foreign exchange forward contracts to reduce the short-term effects of foreign currency fluctuations on certain foreign currency receivables or payables. These forward contracts generally mature within one year. Gains and losses in fair value on forward contracts that offset losses or gains on foreign currency receivables or payables are included in foreign currency (gains) losses, net. The balance of the foreign currency receivable was \$0.023 million at March 28, 2014, which is classified as a Level 2 investment in the fair value hierarchy.

Interest Rate Swap

Printronic entered into a five-year interest rate swap agreement (“Swap Agreement”) with JP Morgan, effective November 30, 2013, with an original notional principal amount of \$37.5 million to minimize interest rate change impacts on a portion of its floating rate long-term debt. Under the Swap Agreement, Printronic pays interest at a fixed rate of 0.805 percent and receives interest at a variable rate equal to the one-month LIBOR (0.1545 percent at March 28, 2014). Printronic has elected to not use hedge accounting, but recognizes a liability and corresponding expense equal to the fair value of the hedge instrument. The balance of the interest rate swap liability was \$0.005 million at March 28, 2014, which is classified as a Level 2 investment in the fair value hierarchy.

Concentration of Credit Risk

No single customer accounted for more than 10% of consolidated revenue for the period ended March 28, 2014. No single customer represented more than 10% of total consolidated accounts receivable as of March 28, 2014. Exposure to credit risk is limited by the large number of customers comprising the remainder of the Company’s customer base and by ongoing customer credit evaluations performed by the Company.

Effects of Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. As a result of these wholesale changes, when the new guidance is implemented, there should be improved comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. For all private companies, ASU 2014-09 is effective in annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is still evaluating the impact of ASU 2014-09 to its consolidated balance sheet.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 requires that unrecognized tax benefits be presented as a reduction to deferred tax assets for all same jurisdiction loss or other tax carryforwards that are available and would be used by the entity to settle additional income taxes resulting from disallowance of the uncertain tax position. The amendments in ASU 2013-11 are effective for fiscal years beginning after December 15, 2014. Early adoption is permitted. Although the Company is still evaluating the impact of ASU 2013-11, it does not expect this guidance to have a significant impact to its consolidated balance sheet at this time.

The FASB issued other guidance during 2014, not discussed herein, that related to technical changes of existing guidance or new guidance that is not applicable to the Company's current financial statements and disclosures.

NOTE 3 – INVENTORIES

Inventories consisted of the following at March 28, 2014:

(in thousands)

Raw materials	\$ 4,697
Subassemblies	1,917
Work in process	6
Finished goods	3,667
Total inventories	<u>\$ 10,287</u>

NOTE 4 – BANK BORROWINGS AND DEBT ARRANGEMENTS

Outstanding debt obligations consisted of the following as of March 28, 2014:

(in thousands)

LIBOR plus 3.50% term loan, due September 13, 2018	\$ 40,857
LIBOR plus 3.50% revolver loan, due September 13, 2018	6,000
3-month SIBOR plus 1.38%, due July 23, 2023	6,662
Total debt	<u>53,519</u>
Less: Unamortized debt discount	(331)
Total debt, net	<u>53,188</u>
Less: Current portion (including current portion of amortized debt discount of \$100)	(6,848)
Long-term debt, net of current portion (including long-term portion of unamortized debt discount of \$231)	<u>\$ 46,340</u>

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 4 – BANK BORROWINGS AND DEBT ARRANGEMENTS (continued)

Revolving Commitment Facility and Senior Secured Term Loan

On September 13, 2013, Printronix refinanced its debts (“Refinancing”) by entering into a senior secured credit agreement, which provides for a \$44.0 million term loan and a \$10.0 million revolving commitment facility. The credit facilities are guaranteed by Pioneer Holding and collateralized by substantially all assets of Printronix. Borrowings under the agreement shall bear interest at LIBOR plus applicable margin of 2.25% to 3.5%, depending on the consolidated leverage ratio of the Company. The term loan has a five-year term, and is amortized like a seven-year loan, with a balloon payment of \$12.571 million at maturity. The interest rate is reset for one-, two-, three-, six- or 12-month periods, at the borrower’s discretion. The applicable margin is reset on a quarterly basis based on the effective consolidated leverage ratio at the end of each quarter. The interest rate on the credit facility is 3.65% as of March 28, 2014. The agreement contains certain financial covenants and restricts the payment of cash dividends except in certain permitted situations.

As of March 28, 2014, \$6.0 million of the \$10.0 million available revolving commitment facility had been borrowed for general working capital and other general corporate needs.

Foreign Credit Facilities

In July 2013, Printronix’s subsidiary in Singapore entered into a 10-year mortgage agreement to borrow SGD 9 million (equivalent to USD \$7.4 million). The mortgage facilities are collateralized by the subsidiary’s real estate property. Borrowings under the agreement bear interest at the three-month Singapore Interbank Offered Rate (“SIBOR”) plus 1.38% to 3%.

Future Debt Payment Obligations

<u>Fiscal Years Ending</u> <i>(in thousands)</i>	<u>Principal Due</u>	<u>Unamortized Debt Discount</u>	<u>Total</u>
2015	\$ 6,949	\$ (101)	\$ 6,848
2016	6,961	(84)	6,877
2017	6,920	(68)	6,852
2018	6,913	(51)	6,862
2019	22,362	(27)	22,335
Thereafter	3,414	-	3,414
	\$ 53,519	\$ (331)	\$ 53,188

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 – BANK BORROWINGS AND DEBT ARRANGEMENTS (continued)

Senior Subordinated Secured Term Loan

On December 31, 2012, Printronix entered into a senior second lien secured credit agreement, which provides for a \$35.5 million term loan. The credit facility is guaranteed by Pioneer Holding and collateralized by substantially all assets of Printronix. The loan has an interest rate of 17% per annum, with a cash rate equal to 9% per annum, and with 8% per annum to be capitalized every quarter to the loan principal, until the loan is to be repaid. In fiscal year 2014, interest capitalized in the long-term debt balance is \$1.181 million. Printronix adopted the fair value option with respect to the Senior Subordinated Secured Term Loan. The debt was valued based on the market rates available to Printronix for similar debt of the same remaining maturities and consideration of Printronix's default and credit risk, resulting in a fair value addition of \$2.908 million to the face value of the loan. On September 13, 2013, in conjunction with the Refinancing, Printronix repaid the outstanding balance and accrued interest related to the loan. Therefore, the loan was adjusted to its settlement value immediately prior to the payoff, and accordingly, a gain of \$2.908 million was recognized.

NOTE 5 – STOCKHOLDERS' EQUITY

Common Stock

Stockholders shall have one vote for each share of common stock owned by them of record according to the books of the Company.

Series A Preferred Stock

There are 400,000 shares of Series A preferred stock authorized, with 17,070 shares issued and outstanding as of March 28, 2014.

8% dividends declared and paid to Series A stockholders, in the form of 1,264 additional shares of Series A stock, for the period ended March 28, 2014 totaled \$31,611.

Series B Preferred Stock

There are 600,000 shares of Series B preferred stock authorized, with 16,831 shares issued and outstanding as of March 28, 2014.

8% dividends declared and paid to Series B stockholders, in the form of 1,274 additional shares of Series B stock, for the period ended March 28, 2014 totaled \$31,168.

Both Series A and Series B preferred stock include the following general rights, privileges, restrictions and conditions:

Conversion feature – Each share of preferred stock has a conversion feature at \$13.75 per share, which is subject to certain adjustments.

Cumulative dividends are calculated at a rate of 8% of the liquidation value, payable quarterly in cash or shares of preferred stock, at the option of the Company.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 – STOCKHOLDERS' EQUITY (continued)

Redemption – The Company has the right to redeem the stock for the liquidation amount which includes any accrued and unpaid dividends. Preferred shareholders may only redeem their shares if the Company breaches or fails to comply with its obligations under the Certificate of Designations and such breach has a material adverse effect on the business or prospects of the Company.

Liquidation Preference – In the event of liquidation, the holders of each share of preferred stock shall be entitled to receive, prior to and in preference to any distributions of any assets to holders of common stock, an amount equal to the liquidation amount applicable to each share (\$25) plus any accrued but unpaid dividends.

Voting Rights – Holders of preferred stock are entitled to the number of votes equal to the number of shares of common stock into which such holder's shares would then be convertible.

The 8% cumulative dividends on the Series A and Series B preferred stock, which have been paid to shareholders in the form of a stock dividend (additional shares of preferred stock), as of March 28, 2014 total \$0.425 million.

NOTE 6 – EQUITY INCENTIVE PLAN

The Company maintains a stock option plan, which allows for the granting of stock options at the discretion of the Board of Directors. The Company has reserved a maximum of 1,300,000 shares for stock options under this plan. These stock options have restrictions as to their transferability and expire 10 years from the date of grant.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The fair value is amortized as compensation cost on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. The Company uses historical data on employee turnover and terminations to estimate the percentage of options that will ultimately be exercised. Expected volatility is based on average volatility for a representative sample of publicly traded companies in the same industry sector. The expected term represents the period of time that the options are expected to be outstanding. The risk-free interest rate is estimated using the rate of return on the U.S. Treasury Notes with a life that approximates the expected life of the option. Stock options that have been granted are exercisable commencing one year after grant at the rate of 25% of such shares in each succeeding year. As of March 28, 2014, 468,333 of 775,000 options granted were fully vested.

In connection with the merger transaction in 2006, two former SMI stockholders were allowed to exchange their SMI options for options to purchase Evercel common stock. The conversion was at a rate similar to the conversion rate of SMI stock for Evercel stock. As a result, each of the two stockholders has the option to purchase 257,720 shares of common stock and 150,000 shares of Series B preferred stock. These options are fully vested and expire 10 years from the date of issuance. The exercise price is \$0.29 per common share and \$0.51 per preferred share. In fiscal year 2014, 383,160 of these common stock options were exercised and 132,280 were forfeited. No Series B preferred stock options were exercised or forfeited in fiscal year 2014.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 6 – EQUITY INCENTIVE PLAN (continued)

The following table summarizes the common stock option plan activity as of March 28, 2014:

(in thousands)

	Number of Options	Range of Exercise Prices	Weighted- Average Exercise Price
Outstanding at March 29, 2013	1,290,440	\$0.29 to \$1.40	\$0.75
Issued	-		-
Exercise	(383,160)		
Expired	-		-
Forfeited	(132,280)		
Outstanding at March 28, 2014	<u>775,000</u>	\$0.72 to \$1.40	\$1.05

Options outstanding and exercisable at March 28, 2014 are as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
\$0.72 to \$1.40	775,000	5.30	\$1.05	468,333	\$1.26

Compensation expense related to the options outstanding recognized in the accompanying statement of operations totaled \$52,000 for the period ended March 28, 2014. There is \$140,400 of unrecognized compensation expense related to the outstanding options as of March 28, 2014 to be recognized over the weighted-average period of three years.

NOTE 7 – EMPLOYEE BENEFIT PLAN

Savings and Investment Plan

Printronic has a 401(k) Savings and Investment Plan (the “401(k) Plan”) for all eligible employees, which is designed to be tax deferred in accordance with the provisions of Section 401(k) of the Internal Revenue Code. Printronic matches employee contributions dollar for dollar up to the first 1% of contributions, and then an additional \$0.50 on the next 1% of employee contributions. Printronic’s contributions become fully vested after four full years of employment. Employee contributions are always 100% vested. Printronic’s total contribution to the 401(k) Plan was \$0.21 million for period ended March 28, 2014.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 8 – INCOME TAXES

Provision for Income Taxes

The provision for income taxes consists of the following for the period ended March 28, 2014:

(in thousands)

Current provision (benefit):		
Federal	\$	(113)
State		71
Foreign		536
Deferred provision (benefit):		
U.S.		(9,611)
Foreign		(453)
Income tax benefit	\$	<u>(9,570)</u>

The Company's federal and state income tax returns for 2011 through 2014 are subject to examination by the Internal Revenue Service and state tax authorities.

Deferred Income Tax Assets and Liabilities

The deferred income tax assets and liabilities as of March 28, 2014 consisted of the following:

(in thousands)

U.S. Deferred Income Tax Assets and Liabilities

Current		
Inventories	\$	590
Accruals		1,070
Valuation allowance		(176)
Deferred income tax assets - current	\$	<u>1,484</u>
Noncurrent		
Net operating loss carryforwards	\$	6,624
Credit carryforwards		8,054
Liabilities/reserves		415
Others		5
Intangibles		(4,837)
Valuation allowance		(2,143)
Deferred income tax assets (liabilities) - noncurrent	\$	<u>8,118</u>

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 8 – INCOME TAXES (continued)

Foreign Deferred Income Tax Assets and Liabilities

Current

Accruals	\$	12
Deferred income tax assets - current	<u>\$</u>	<u>12</u>

Noncurrent

Property, plant, and equipment	\$	(1,154)
Deferred income tax assets (liabilities) - noncurrent	<u>\$</u>	<u>(1,154)</u>

Total Current Deferred Tax Assets	<u>\$</u>	<u>1,496</u>
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Total Noncurrent Deferred Tax Assets	<u>\$</u>	<u>6,964</u>
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Deferred income taxes are not provided for the undistributed earnings of the foreign subsidiaries, which totaled approximately \$20.2 million as of March 28, 2014, as the Company intends to reinvest these earnings indefinitely outside of the United States. Should the Company be required to repatriate these funds, the deferred tax liability would be approximately \$6.9 million before the consideration of foreign tax credits.

The Company has determined that, based on all available evidence, it appears that it is more likely than not that a portion of the state deferred tax assets will not be realized. As such, a partial valuation allowance is recorded for the U.S. state deferred tax assets. In fiscal year 2014, the total change in the valuation allowance was a decrease of \$13.1 million. Based on historical and expected future profits, it was determined that the valuation allowance relating primarily to federal net operating loss carryforwards should be released.

The federal and state net operating losses and credit carryforwards are as follows:

<i>(in thousands)</i>	<u>March 28, 2014</u>	<u>Fiscal Year Expiration</u>
Federal net operating loss	\$ 18,413	2021 to 2030
State net operating loss	2,596	2022 to 2035
Foreign tax credit	1,070	2022
Federal research and development credit	2,574	2018 to 2034
California research and development credit	4,478	Indefinite
	<u>\$ 29,131</u>	

Net operating losses and credits relating to Printronix are subject to limitations under Sections 382 and 383 of the Internal Revenue Code. The Company does not expect these limitations to result in a reduction in the total amount of operating losses and credits ultimately realized.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 8 – INCOME TAXES (continued)

For the period ended March 28, 2014, the worldwide tax benefit of \$(9.570) million differs from the U.S. statutory rate principally due to changes in valuation allowance, research credits, various permanent book and tax differences, and differences in foreign tax rates.

NOTE 9 – RELATED-PARTY TRANSACTIONS

On June 27, 2013, Evercel sold to Corona Investment Partners, LLC (“CIP”) 5,639,545 shares of common stock in exchange for a \$4.230 million promissory note. The interest rate on the note receivable is 0.95% compounded annually. Interest payments on the note are due annually and may be paid in cash or by issuing additional notes (PIK notes). The promissory note and PIK notes are collateralized by the stock in a separate pledge agreement dated June 27, 2013 between Evercel and CIP. As of March 28, 2014, \$4.230 million of the note receivable was outstanding and reclassified against additional paid-in capital, which is included in stockholders’ equity on the accompanying consolidated balance sheet. Additionally, \$0.030 million of accrued interest was due from CIP, which is included in additional paid-in capital of stockholders’ equity on the accompanying consolidated balance sheet.

Printronic had \$0.150 million due to CIP for reimbursable expenses as of March 28, 2014, which is included in accounts payable on the accompanying consolidated balance sheet.

In fiscal year 2014, NECC entered into a financing agreement totaling \$100,000 with a board member. The note accrues interest at 5% annually.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Operating Leases

In February 2005, NECC purchased capital stock of a cooperative corporation, which represents the entire interest in the property it leases. The proprietary lease expires May 31, 2015. Under this agreement, NECC is required to pay monthly payments equal to the expenses incurred by the lessor for maintaining the property. NECC paid \$0.162 million for the period ended March 28, 2014.

With the exception of Singapore, Printronix conducts its foreign operations and United States operations using leased facilities under noncancelable operating leases that expire at various dates through fiscal year 2019. Printronix has a land lease in Singapore that expires in fiscal year 2027 and has a renewal option for an additional 30 years. Annual rental expense was \$2.923 million for the period ended March 28, 2014.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Future minimum lease payments under existing noncancelable operating leases are as follows:

(in thousands)

2015	\$	2,664
2016		2,185
2017		2,032
2018		1,020
2019		358
Thereafter		1,454
	\$	<u>9,713</u>

Guarantees

Printronix posted collateral in the form of a surety bond or other similar instruments, which are issued by independent insurance carriers (the "Surety"), to cover the risk of loss related to certain customs and employment activities. If any of the entities that hold such bonds should require payment from the Surety, Printronix would be obligated to indemnify and reimburse the Surety for all costs incurred. As of March 28, 2014, Printronix had \$0.875 million of these bonds outstanding.

Environmental Assessment

In January 1994 and March 1996, Printronix was notified by the California Regional Water Quality Control Board — Santa Ana Region (the "Board") that the surface conditions for one of the former production plants and ground adjacent to property previously occupied by Printronix were thought to be contaminated with various chlorinated volatile organic compounds ("VOCs"). Evidence adduced from site studies undertaken indicates that compounds containing the VOCs were not used by Printronix during its tenancy, but were used by the prior tenant during its long-term occupancy of the site.

In August 2002, Printronix responded to an inquiry from the California Department of Toxic Substance Control (the "Department") regarding the operations at the site of the former production plant. In February 2004, the Department submitted a proposed Corrective Action Consent Agreement to the Company, which would require it to perform an investigation of the site that would be used as a basis to determine what, if any, remediation activities would be required. During fiscal year 2006, the Department agreed to include the prior tenant of the site in the ongoing inquiry. During fiscal year 2007, Printronix and the prior tenant were jointly issued a draft Enforcement Order with respect to 1700 Barranca Parkway, Irvine, CA. The Enforcement Order was negotiated. By August 7, 2006, a Corrective Action Consent Agreement to conduct a Preliminary Endangerment Assessment ("PEA") had been agreed upon and executed by both Printronix and the prior tenant, and requires that both parties: (a) evaluate if interim measures are required and take action if necessary and (b) perform an investigation of the site. The testing result from the PEA indicates a continuing presence of the contaminants. The testing for the adjacent property has yet to commence. In January 2010, a pilot study of the proposed soil remediation method under an approved Revised Interim Measures Work Plan was completed. In February 2011, a Dual Phase Extraction ("DPE") pilot study report was submitted to the Department for review and approval, with the expectation that the Company would move forward with a full-scale DPE system installation and implementation ("Work Plan") to address soil contamination. Since February 2011, several revised proposals were submitted to the Department, and comment letters were received. In February 2014, the Department approved the contractor's proposal dated November 19, 2013.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

A new proposal was submitted dated October 19, 2012 for a Facility Investigation and Corrective Measure Study (“Corrective Study”), in response to the Department’s response letter dated September 6, 2012. The work under this proposal was completed during fiscal 2014. Even though this study is completed, Printronix is obligated to continue to monitor and report periodic findings to the Department.

As of March 28, 2014, Printronix had accrued \$0.17 million to cover expenses for the proposed Work Plan, Corrective Study and environmental tests. The accrual is included in accrued expenses on the consolidated balance sheet.

Contingent Consideration

On December 31, 2012, Evercel and Oringer Capital LLC acquired all of the outstanding equity shares and options of Pioneer Holding. The aggregate purchase price was \$88.011 million. The purchase price included contingent consideration related to an earn-out provision, which was fair valued at \$0.617 million and is based on a calendar year EBITDA calculation. The earn-out has a contractual payable period over 36 months and has a maximum payout of \$9.0 million. The contingent consideration was valued using Level 2 of the fair value hierarchy.

NOTE 11 – DECONSOLIDATION

On March 31, 2013, Evercel sold its ownership interest in SMI for \$0.490 million. The Company recognized a gain of \$0.149 million on the transaction. The Company did not retain any investment and it does not have a continuing involvement in SMI.

On February 26, 2014, Evercel sold substantially all of NECC’s assets to an unrelated party for \$0.149 million. The Company recognized a loss of \$0.091 million on the transaction. The Company does not have continuing operations involvement in NECC. The Company did not sell the inventory and accounts receivable as part of the sales transaction and continues to sell the remaining inventory and collect on its accounts receivable as of the date of the transaction. As of March 28, 2014, NECC had an inventory balance of \$0.616 million and an accounts receivable balance of \$0.267 million.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 – SUMMARIZED FINANCIAL INFORMATION

Summarized financial information for Evercel and its subsidiaries is as follows for the period ended March 28, 2014:

(in thousands)

	<u>Evercel</u>	<u>NECC</u>	<u>SMI</u>	<u>Printronic</u>	<u>Total</u>
<u>Statement of Operations information:</u>					
Revenue	\$ -	\$ 6,276	\$ -	\$ 127,664	\$ 133,940
Operating income (loss)	(546)	(1,595)	25	12,019	9,903
Income (loss) before income taxes	(546)	(1,687)	174	10,133	8,074
<u>Balance Sheet information:</u>					
Total assets	\$ 7,593	\$ 2,030	\$ 1	\$ 107,551	\$ 117,175
Total liabilities	167	350	-	75,664	76,181

NOTE 13 – SUBSEQUENT EVENTS

NECC owns 60 shares of Class B capital stock of New Boston Food Development Corp. (“New Boston”), which were acquired for \$0.800 million. New Boston is a cooperative corporation that developed certain commercial real estate operated as commercial food markets. The purchase of the capital stock provides NECC the right to lease certain space through a proprietary lease agreement. The shares have been pledged as security to New Boston to guarantee NECC’s performance under the lease and are classified within Level 3 of the valuation hierarchy. The shares are classified as held for sale as of March 28, 2014. On May 9, 2014, NECC sold its 60 shares of Class B stock in New Boston and all of its rights, title and interest in the building’s lease for a purchase price of \$1.2 million.

In fiscal year 2014, the Company entered into a financing agreement totaling \$100,000 from a board member. The interest rate was 5% and was payable upon demand. The notes payable balance as of March 28, 2014 is \$100,000 and is included in other current liabilities on the accompanying consolidated balance sheet. The note payable plus accrued interest was paid in full in May 2014.

On August 13, 2014, Evercel entered into an agreement to purchase 800 shares of Class A stock from MMXIV LLC, formerly Oringer Capital LLC, for \$4.447 million. Evercel has 80% ownership in MMXIV LLC. MMXIV LLC has a 19.9% ownership interest in Pioneer Holding, which owns 100% interest in Printronix. Evercel now beneficially owns approximately 96% of Printronix, less options and shares that may be issued in the future to management. The MMXIV LLC shares purchased are subject to a carried interest held by certain members of management and others who originally brought the investment opportunity to Evercel. After Evercel recovers 100% of its investment in Printronix, that carried interest will entitle the holders to 20% of further distributions with respect to Printronix.

Evercel has an investment in LocalVox Media, Inc. representing 403,245 shares of Series A preferred stock, which was recorded at zero as of March 28, 2014. On September 29, 2014, LocalVox Media, Inc. completed a merger in which Series A preferred stock was converted into the right to receive \$1.328 per share. Evercel received \$0.317 million of the total consideration of \$0.536 million on September 29, 2014. The remaining \$0.218 million is deferred and payable on September 30, 2015 and accrues interest at 6%.

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 28, 2014

NOTE 13 – SUBSEQUENT EVENTS (continued)

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through November 6, 2014, the date the consolidated financial statements were available to be issued.