Evercel

Evercel, Inc. and Subsidiaries

Consolidated Financial Statements

March 29, 2019 and March 30, 2018

Forward-Looking Information

This report may contain forward-looking statements. Such statements can be identified by the use of terminology such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “possible,” “project,” “should,” “will” and similar words or expressions. These forward-looking statements include, but are not limited to, statements regarding our anticipated revenue, expenses, profits and capital needs, and the impact of our planned initiatives. Forward-looking statements are based on management’s current expectations, estimates and forecasts of future events and results and involve a number of risks and uncertainties that could cause actual results to differ materially including, among other things, the following: failure of facts to conform to management estimates and assumptions; economic conditions and uncertainties; competitive pressures; our ability to maintain an effective system of internal controls over financial reporting; potential losses from trading in securities or other financial instruments or investments; our ability to retain key personnel and relationships with suppliers; the willingness of lenders to extend financing commitments and the availability of capital resources. It is not possible to foresee or identify all factors that could cause actual results to differ materially from those anticipated. As such, readers should not consider any of such factors to be an exhaustive statement of all risks or uncertainties. No forward-looking statements can be guaranteed, and actual results may vary materially. We undertake no obligation to update any forward-looking statement except as required by law.

Management’s Discussion and Analysis of Evercel Inc.’s Financial Condition and Results of Operations

Overview of Evercel

As a holding Company, Evercel Inc.’s (“Evercel”) mission is to manage its portfolio companies and to find new opportunities to invest capital for long-term returns. Evercel’s current key investment holdings are:

Printronix:

Evercel invested $18.0 million for 80.1% ownership of Printronix Holding Corporation (“Printronix”) in 2013. Since the original investment, Evercel has received $27.3 million of distributions from its investment and continues to own the same 80.1% of Printronix it acquired in 2013. Further detail about Printronix’s fiscal year 2019 performance is outlined in the next section of this report.

SharpSpring:

Evercel made investments in Sharpspring, Inc. (“SharpSpring”), a NASDAQ listed company (Ticker: SHSP), using approximately $10.1 million in cash. At the end of Fiscal 2019, Evercel held both 519.304 shares of common stock purchased for $2.1 million and a convertible note purchased for $8.0 million. Subsequent to the end of Fiscal 2019 on June 17, 2019, Evercel sold its entire position in SharpSpring in a secondary private offering which resulted in net proceeds to Evercel of $19.3 million. The sale included all the original common shares plus the 1,241,635 common shares received on May 9, 2019 from the conversion of the note. Evercel received a net IRR of 65.4% from the investment.

For accounting purposes at the end of the 2019 fiscal year, Evercel was required by GAAP to record a fair market value for its investment in SharpSpring as calculated by an outside valuation firm based on the per share price at the time with a discount for market illiquidity. In 2017 Evercel invested $2.1 million in public shares of SHSP, at prices ranging from $3.90 to $4.32 per share at an average basis of $3.97 per share through an entity Evercel Holdings, LLC. In 2018 Evercel invested $8.0 million in a convertible note in SharpSpring through a new entity SHSP Holdings, LLC. The five year note entitled the holding company to an annual 5% payment-in-kind (“PIK”) interest payment, and was convertible into shares of common stock of SharpSpring at a price of $7.50 per share. SharpSpring was able to force conversion at 175% of the conversion price after 120 consecutive days of trading, which was approximately $13.13 per share, and could extend the maturity of the note for up to 18 months, but at an annual PIK interest rate of 10%. SharpSpring was able to redeem the note at maturity for cash or for common stock, issued at a 20% discount to the then-market price. Unpaid PIK interest would fully accelerate in a forced conversion or a change of control. The note was subordinated to a limited amount of SharpSpring's senior debt obligations. SHSP Holdings was managed by Corona Park Investment Partners, LLC ("Corona Park" or "CPIP"). SHSP Holding's members include Corona Park and other professionals who helped source the investment. Corona Park's incentive structure for the Sharpspring investment and each investment undertaken by Evercel is in the form of a 20% carry on the investment, effected through equity interests in SHSP Holdings and Evercel Holdings held by CPIP and its associates, meaning that after Evercel received back the $10.1 million dollars it invested plus deal related expenses, profits would be split 80% to Evercel, Inc. and 20% to CPIP and its associates, collectively. The net proceeds and IRR calculations are net of the incentive structure and net of fees to the investment banks which conducted the offering. The net proceeds are prior to Evercel's corporate tax obligations on the gain.

SharpSpring is a rapidly growing, highly-rated global provider of affordable marketing automation delivered via a cloud based Software-as-a-Service ("SaaS") platform. Thousands of businesses around the world rely on SharpSpring to generate leads, improve conversions to sales, and drive higher returns on marketing investments. The company is based in Gainesville, Florida and is managed by its founder. The rationale for the investment was we believed the company had a compelling product in a growing market with strong unit economics and strong revenue momentum. We had an opportunity to invest at an attractive price in part because the company had been hampered by some legacy issues just prior to the time of our investment. We believed the investment would improve SharpSpring's balance sheet and would enable it to accelerate its growth. The investment thesis proved to be correct, although it played out faster than anticipated and we were able to achieve the return we targeted in much faster timeframe than expected.

Cash and Liquidity:

At the end of fiscal 2019, Evercel had approximately $17.3 million of cash and cash equivalents, excluding cash held by Printronix.

As of September 27, 2019, Evercel has approximately $33.8 million of cash, which includes the proceeds from the sale of the investment in Sharpspring. In addition, as of September 27, 2019, Printronix has mutual fund securities invested in money market securities of which $17.2 million is considered attributable to Evercel's 80.1% interest.

Evercel's audited consolidated financial statements are attached as an exhibit to this annual report. To help provide a better understanding of the financial condition of Printronix on a stand-alone basis, the below section represents management's discussion and analysis for Printronix. The financial information in the section below does not reflect consolidation with Evercel's balance sheet or earnings. Figures in the consolidated financial statements (other than the line for minority interest) do not adjust proportionally for less than 100% ownership, per GAAP requirements.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Management prepared the consolidated financial statements of the Company under accounting principles generally accepted in the United States of America. These principles require the use of estimates, judgements, and assumptions. We believe that the estimates, judgements, and assumptions we used are reasonable based upon the information available at that time. Our estimates and assumptions affect the reported amounts in our consolidated financial statements. See Note 2, *Summary of Significant Accounting Policies* in the audited financial statements.

Recently Issued Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies,* in the audited financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Printronix Operations

Printronix Overview

Printronix Holding Corporation and subsidiaries ("Printronix" or the "Company") is a worldwide leader in multi-technology supply-chain printing solutions for the industrial marketplace, financial, and logistics & transportation industries. Our products are used globally, generally in industrial settings such as manufacturing plants and distribution centers. In China, India, and other parts of Asia, and our printers are also prevalent in the banking and government sectors. Printronix has manufacturing, configuration, and/or distribution sites located in the United States, Malaysia, Singapore, China, and the Netherlands, along with sales and support locations around the world to support its global network of users, channel partners, and strategic alliances.

Printronix designs and manufactures printers and related consumable products for various industrial printing applications. Printers consist of hardware and embedded software and may be sold with maintenance service agreements, which are serviced by outside contractors. Consumable products include inked ribbons which are used within the Company's printers. The Company also sells other consumable products. The Company's products are primarily sold through channel partners, such as dealers and distributors, to end-users.

Printronix Plan of Operation

Printronix's FY2019 results reflect another successful year. The continued success was largely the result of significant efforts over the past three years, following the sale of the thermal product line in January 2016. These efforts centered on optimizing the core line matrix printer (LMP) business and revamping many aspects of the strategy and operations to reduce the Company's cost structure and enhance pricing and go-to-market tactics. In FY2019, Printronix recorded revenue of $57.6 million, income from continuing operations of $11.5 million, and Adjusted EBITDA of $14.4 million. We believe Printronix has successfully stabilized its core business and has established a scalable platform from which it can grow going forward.

Highlights from FY2019 include:

- The Company's LMP printers and options (P&O) product line reflected a fourth consecutive year of stable revenue, posting sales of $28.7 million in FY2019. This stability reflects the increased focus on this business following the sale of the thermal product line in FY2016. FY2019 sales of line matrix printers and options reflected stable demand within mature markets and growth within developing and emerging markets, particularly within industrial market verticals. These favorable trends provide affirmation of the continued compelling value proposition offered by Printronix's LMP technology, particularly for customers that require high volume printing in challenging industrial environments.

  Line matrix printers continue to be highly relevant for many industrial applications (automotive manufacturing & parts distribution, distribution applications in food & beverage, transportation & logistics, Pharma, Retail and Materials), offering a compelling solution for high speed, reliable printing at the lowest total cost of ownership against competing print technologies, especially in harsh environments.

  We experienced stable demand within mature markets. P&O sales within North America and Western Europe increased 3% year-over-year, excluding the favorable impact of two very large customer wins during FY2018. Demand within mature markets continues to be largely driven by the refresh of aging printers and operations expansions within our sizeable installed base among end-users. Implementation of improved go-to-market strategies, centered on direct end-user engagement, has enabled the Company to improve refresh rates and enhance product margins.

Within developing and emerging markets (India, China, and Rest of Asia), sales of branded P&O products (excluding OEM kits in India) increased 20% year-over-year. The Company continues to migrate its end-markets from banking, financial services, and insurance (BFSI) verticals to industrial verticals, such as automotive, manufacturing, transportation and logistics, retail & pharma distribution, government, and utilities. The Company believes it has a sustainable competitive advantage in many industrial verticals, particularly those characterized by harsh environments and requiring high volume and/or high-speed printing. This shift from BFSI to industrial verticals is a notable trend since the applications within these industrial verticals typically require higher speed and/or higher volume printing, which drives demand for our premium, high performance product lines which carry higher prices and higher margins. Furthermore, these industrial verticals within developing and emerging markets are typically growing consistent with positive macro-economic factors such as growth in gross domestic product (GDP), population, and industrial output. Demand for line matrix printers is driven by refresh and operations expansion opportunities within our sizable installed base and by capturing opportunities where end-users want to upgrade from lower performing serial impact dot matrix (SIDM) printers to line matrix printers due to their growing print demand. Finally, within Asia-Pacific, the Company had success winning new customers in China, Korea, and Taiwan as its sole remaining line matrix competitor is exiting those markets.

- Consumables continue to generate high margin, recurring revenue for the Company. Demand for consumables products is driven by Printronix's installed base of line matrix printers, which consisted of more than 170,000 fielded printers at the end of FY2019. There are several notable trends within the composition of our installed base of line matrix printers that create favorable dynamics for our consumables business - a growing mix (and critical mass) of cartridge printers and increased exposure to high-usage verticals.

  First, every new printer sale replaces previous generation spool-based printers with current technology printers, which consume security-enabled cartridges. Unlike our older spool technology, these cartridge printers include security technology that requires printers to only use cartridges that are authenticated. FY2019 marks an inflection point where cartridge printers now constitute more than half of Printronix's installed base. This trend translates to a steady increase in consumables market share as well as additional revenue associated with higher pricing, since cartridges carry higher prices compared to spools.

  Second, as discussed previously, the end-users of our installed base are transitioning from traditionally low-usage verticals, such as banking, to high-usage industrial verticals such as automotive, manufacturing, transportation and logistics, and retail distribution. Higher usage means that customers purchase more consumables for each printer. This is a particularly meaningful trend, since high-usage industrial verticals can use as many as four times the consumables as low-usage verticals. The Company has already experienced this shift within mature markets and are beginning to observe this favorable trend within developing and emerging markets.

  These favorable installed base trends are driving the Company's line matrix consumables business toward a positive inflection point. Consumables revenue for FY19 declined 4% year-over-year to $22.8 million as retirements of legacy spool printers outpaced sales of new cartridge-based printers. However, the Company has largely offset the impact of revenue declines on profitability through cost reductions. FY2019 contribution margin from line matrix consumables declined 2% year-over-year.

  Looking ahead, the Company expects the critical mass of cartridge printers within the installed base will drive growth for consumables revenue, through higher market share, higher usage, and higher pricing. Furthermore, the company expects to grow product margins through cost reduction on key materials and components.

- E-commerce sales increased during FY2019 due primarily to the ramp-up of an end user focused store in the United States. Global E-commerce sales approached $1 million, with United States end user sales more than doubling year-over-year to $285 thousand. The Company expects to accelerate growth within the U.S. as it shifts more volume, particularly for consumables, to the online store. The Company's enhanced online presence is strategically important as shifting sales to this platform yields higher margins, promotes sales operations efficiencies, and generates valuable customer intelligence which assists with future printer refresh opportunities.

- The Company introduced a high-performance Printronix-branded Serial Impact Dot Matrix (SIDM) printer and consumable products in late FY2018 through a partnership with an OEM supplier and began to ramp sales during FY2019. SIDM printers are a lower performing category of impact printers, as compared to Line Matrix. The Company's sales of SIDM printers during FY2019 equaled $0.6 million. This is a strategically important initiative as the Company attempts to increase market share within the overall industrial printing market and position itself as the leader of industrial impact printing solutions. Many end-users maintain fleets of both LMP and SIDM printers and value having a single supplier. Additionally, in developing and emerging markets, an SIDM offering provides Printronix with an opportunity to subsequently upgrade customers to LMP printers as their requirements increase.

- Maintenance and Service revenue increased 13.2% year-over-year to $4.2 million, as the Company increased sales of service contracts and extended warranties. The Company views maintenance and service as a growth driver going forward and is developing strategies and investing in resources to increase the attach rate of service contracts to new printer sales, maximize renewal rates on existing contracts, and successfully gain share of service contracts in its large installed base.

- The Company's manufacturing operations demonstrated stability during FY2019, after substantial efforts in the previous three years to consolidate all manufacturing operations in Malaysia. The Company's gross margin remained stable and healthy at 53.7%, despite transitioning engineering resources from the United States (booked as operating expenses) to Malaysia (booked as cost of goods sold). The Company completed a number of cost reduction projects during FY2019, primarily related to reducing materials costs for its consumables products. Since these were completed late in the year, the financial impact was not material for the year, but positions us favorably to save approximately $0.5 million in FY2020.

- The Company made investments in revenue-generating resources to support sales & marketing, product development, and e-commerce. The Company adjusted its sales and marketing infrastructure to align it with strategic initiatives and growth opportunities, optimizing resources within mature markets and investing in developing and emerging markets. Furthermore, the Company added key personnel within product management to drive product development efforts.

- The Company decreased global engineering and general and administrative expenses by 10.1% year-over-year, following a 27% decrease in the prior year, as it took additional steps to drive operating efficiency, particularly within non-customer facing activities. Furthermore, the Company took steps to align support resources with its growth strategy, shifting engineering and finance resources and activities to the Asia Pacific region. The Company views this cost structure as sustainable and scalable to support future growth initiatives.

The Company believes that it is positioned for sustainable earnings and cash flow generation going forward, driven by an enhanced go-to-market strategy and proven pricing power, favorable consumables dynamics, multiple growth opportunities, and a sustainable optimized cost structure.

The Company's near-term operating strategy focuses on the operational execution of our objectives to maximize revenue and margins for printers and consumables. The Company plans is investing in several growth initiatives, including more aggressively penetrating markets in high-potential growth regions growing printer sales in developing and emerging markets, introducing additional impact printing products, ramping internet commerce sales, and expanding its global service platform. Finally, the Company is actively exploring acquisition opportunities for related businesses that could leverage its global infrastructure (sales & marketing, manufacturing, finance, supply chain, distributor partnerships) and highly respected and recognized brand name.

Printronix Results of Operations *(dollars in thousands)*

Comparison of the Fiscal Years Ended March 29, 2019 and March 30, 2018

The Company's FY2018 financials depicted in this report separate continuing and discontinued operations. Revenue, cost of sales, gross profit, and operating expenses exclude discontinued operations. In FY2018, discontinued operations included a loss associated with sale of the thermal business, and the closure of regional manufacturing operations. These discontinued operations are disclosed in detail in Note 4 of the audited financial statements.

Revenues
Revenues consist primarily of sales of printers, related consumable products such as inked ribbons, and printer-maintenance service agreements. Revenue for fiscal 2019 was $57,609, a 5.5% decrease from revenue of $60,971 in the prior year. Refer to Note 12 of the audited consolidated financial statements for disaggregation of the revenue by product line. The decrease in revenue in fiscal 2019 was due to decreased printer sales volume primarily driven by two very large deals in the Americas region during fiscal 2018 totaling approximately $3,200. Excluding these two deals, total revenue was down 0.2% year-over-year. Revenue in Asia Pacific, which consists largely of developing and emerging markets, increased 7.5% year-over-year to $21,661, reflecting strong performance within China and Southeast Asia, which increased 16.9% and 18.0%, respectively.

Gross Margin and Gross Profit
Gross profit for fiscal 2019 was $30,938, a 5.4% decrease from gross profit of $32,704 in the prior year. Gross margin in fiscal 2019 increased to 53.7%, a 10 basis point increase from 53.6% in fiscal 2018. The slight increase in gross margin was driven by cost reductions associated with a full year of consolidated manufacturing operations in Malaysia, partially offset by lower fixed cost absorption due to lower printer production volume. In late fiscal 2019, the Company completed several projects to reduce materials cost for its consumables products. The Company expects that up to $500 of cost reduction will be realized in fiscal 2020 from these material cost reductions.

Engineering and Development Expense

Engineering and development expense consists primarily of activities associated with sustaining our existing product offerings as well as hardware and/or software improvements to our printers and consumable products. Our current engineering efforts are focused on firmware modifications to ensure ongoing integration to modern enterprise resource planning (ERP) systems, proprietary consumables security solutions, product performance enhancements, and product cost reductions. Engineering and development expense for fiscal 2019 was $960, a 33.0% decrease from $1,432 in fiscal 2018. Engineering and development expense as a percentage of revenue was 1.7% for fiscal 2019, compared to 2.3% in the prior year. The decrease in engineering and development expense in fiscal 2019 was primarily attributable to decreased labor-related expenses driven by aligning our engineering workforce with the Company's streamlined operations and consolidating global engineering resources in Malaysia. Engineering expense was moved to cost of sales from operating expense, as factory-based engineering resources replaced headquarters-based resources. Fiscal 2019 cost of sales includes approximately $437 of engineering expense, compared to $166 in Fiscal 2018.

Sales and Marketing Expense

Sales and marketing expense consists primarily of salaries, benefits, and commissions for sales personnel, travel costs, and marketing expenses. Sales and marketing expense for fiscal 2019 was $9,837, a 5.6% decrease from $10,416 in fiscal 2018. Sales and marketing expense as a percentage of revenue was 17.1% in fiscal 2019, same as the prior year. The decrease in sales and marketing expense in fiscal 2018 was primarily due to lower commissions paid in the Americas compared to the high commissions paid in the prior year due to the two very large deals in the region. The year-over-year decrease also reflects the re-alignment of sales headcount to developing and emerging regions. The Company also continued to invest in its internet commerce strategy, which we anticipate will increasingly enable us to capture greater margin by selling directly to product end-users.

General and Administrative Expense

General and administrative expense consists primarily of salaries and benefits for our administrative and management personnel, consulting and professional service fees, non-production facilities and information technology expenses, and travel and related costs for our administrative and management personnel. General and administrative expense for fiscal 2019 was $8,265, a 6.3% decrease from $8,824 in fiscal 2018. General and administrative expense as a percentage of revenue was 14.3%, compared to 14.5% in the prior year. The decrease in general and administrative expense in fiscal 2019 was primarily attributable to reduced expenses associated with business optimization and a reduction in labor-related expenses associated with permanent headcount reductions, particularly in the United States, and lower bonus and variable compensation expenses. The decrease also reflects lower facilities expenses and professional fees. General and administrative expense during fiscal 2019 include $953 in fees and expenses to related parties for management services, compared to $942 in fiscal 2018. General and administrative expenses also include $371 associated with a reserve for uncollectible refunds from a related party, compared to nil in fiscal 2018 (as described in Note 10 of the audited financial statements). General and administrative expenses include $86 in consulting and legal costs associated with environmental clean-up (as described in Note 9 of the audited financial statements), compared to $256 in fiscal 2018. The Company views its fiscal 2019 general and administrative cost structure as sustainable to support ongoing operations and growth initiatives going forward.

Restructuring Expense

The Company incurred restructuring expenses in fiscal 2019 and fiscal 2018 associated with the Company's formal strategic restructuring plans to improve operational efficiency. Restructuring expenses consist primarily of severance costs associated with permanent headcount reduction and/or relocation. Restructuring expense in fiscal 2019 was $233, compared to $66 in fiscal 2018. The increase in restructuring costs is primarily due to increased severance expense in fiscal 2019.

Amortization of Intangible Assets

In fiscal 2019, the company incurred expenses associated with amortization of intangible assets. Amortization expense for fiscal 2019 and fiscal 2018 was $142.

Operating Income from Continuing Operations

Operating income from continuing operations for fiscal 2019 was $11,501, a 2.7% decrease from $11,824 in fiscal 2018. The decrease in operating income from continuing operations is primarily attributable to lower revenue and gross margin, partially offset by lower operating expenses. Excluding the $371 impact of the reserve for uncollectible refunds from a related party in fiscal 2019, operating income for continuing operations would have increased 0.4% year-over-year.

Other Income (Expense), Net

The Company incurred foreign currency losses in fiscal 2019 of $292, compared to gains in fiscal 2018 of $119; primarily due to the relative weakness of the US dollar in fiscal 2019 related to foreign denominated invoices received in a greater amount of US dollars by the time of invoice payments during the year. Interest income, net of interest expense, for fiscal 2019 was $222, compared to $2 for fiscal 2018; primarily due to the purchase of short-term interest bearing investments during fiscal 2019. Other income for fiscal 2019 was $44, compared to fiscal 2018 was $179; primarily due to the sale of miscellaneous assets during fiscal 2018.

Income from Continuing Operations before Income Taxes

Income from continuing operations before income taxes for fiscal 2019 was $11,468, a 7.6% decrease from $12,412 in fiscal 2018. The decrease in income from continuing operations is primarily attributable to lower revenue, gross margin, and other income, partially offset by lower operating expenses. Excluding the $371 impact of the reserve for uncollectible refunds from a related party in fiscal 2019, operating income for continuing operations would have decreased 4.6% year-over-year.

Income Tax Provision

We recorded an income tax provision of $1,930 for fiscal 2019, compared to $3,969 for fiscal 2018. Our effective tax rate was 16.8% for fiscal 2019, compared to 32.3% for fiscal 2018, benefitting from a significantly reduced tax rate in the United States, which applied to earnings from our America and EMEA activities, and the absence of further one-time tax expenses previously incurred. During fiscal 2018, the Company incurred one-time tax expense of $1,080 associated with the impact of U.S. tax reform. These one-time expenses were comprised of $553 tax reform transition taxes on unrepatriated foreign earnings and $527 associated with adjusting our deferred tax balance to reflect the tax reform rate change for corporate income tax. Excluding the impact of tax reform, the Company’s effective tax rate for fiscal 2018 would have been 23.3%. See Note 11 for further information. In addition, our fiscal 2018 tax provision reflected a U.S. statutory tax rate that includes only one quarter of the reduced tax rate associated with U.S. tax reform.

Income from Continuing Operations

Income from continuing operations for fiscal 2019 was $9,538, a 13.0% increase from $8,443 in fiscal 2018. The increase in income from continuing operations is attributable to lower operating expenses and a lower income tax provision, partially offset by lower revenue and gross margin and lower other income, as discussed previously.

Income from Discontinued Operations, net of tax

Income from discontinued operations in fiscal 2019 was nil, compared to a loss of $763 (including a $356 tax benefit) for fiscal 2018. In fiscal 2018, discontinued operations included a $59 loss on the sale of the thermal business and a $704 loss on the closure of regional manufacturing operations.

Net Income
Net Income for fiscal 2019 was $9,538, a 24.2% increase from $7,680 in fiscal 2018. The increase in income from continuing operations is attributable to lower operating expenses, lower income tax provision, and lower loss from discontinued operations, partially offset by lower revenue and gross margin and lower other income, as discussed previously.

Printronix Liquidity and Capital Resources *(dollars in thousands)*

The Company ended fiscal 2019 with $7,736 in cash and cash equivalents, compared to $17,781 at the end of fiscal 2018. The Company also held $17,717 in short-term investments at the end of fiscal 2019 versus 106 in fiscal 2018. Total cash and cash equivalents and short-term investments equaled $25,453 at the end of fiscal 2019, compared to $17,887 at the end of fiscal 2018. The Company expects that it will be able to meet its day-to-day demands and material short- and long-term financial commitments with its on-going cash generated from operations, as described below.

Cash Flows from Operating Activities
Cash flows from operating activities consist primarily of net income adjusted for certain non-cash items including depreciation and amortization and other gains (losses). Cash flows from operating activities also include the effect of changes in working capital and certain other activities.

During fiscal 2019, cash flows from operating activities were $7,867, a 34.3% decrease from $11,968 in fiscal 2018. Cash flows from operating activities consisted primarily of $9,538 in net income, $1,733 of net positive adjustments for non-cash operating activities, and $3,404 in cash used by changes in operating assets and liabilities. The non-cash adjustments consisted primarily of $1,210 in depreciation and amortization expense and $462 deferred income tax provision. Changes in operating assets and liabilities consisted primarily of a $2,057 increase in accounts receivable, a $1,158 decrease in accounts payable, and a $593 decrease in accrued payroll and employee benefits. The cash used by these working capital activities were partially offset by cash generated by a $1,099 decrease in inventories. The fluctuation in our accounts receivable, inventory, accounts payable and our accrued and other liabilities is a function of the timing of customer remittances, payments to our vendors, and our inventory levels, respectively. These working capital accounts can and do fluctuate significantly from period to period, based on the timing of transactions such as customer and vendor orders and shipments.

During fiscal 2018, cash flows from operating activities were $11,968, a 137.4% increase from $5,041 in fiscal 2017. Cash flows from operating activities consisted primarily of $7,680 in net income, $1,936 of net positive adjustments for non-cash operating activities, and $2,352 in cash generated by changes in operating assets and liabilities. The non-cash adjustments consisted primarily of $1,199 in depreciation and amortization expense and $1,055 deferred income tax provision. Changes in operating assets and liabilities consisted primarily of a $1,478 decrease in accounts receivable, a $1,540 increase in accounts payable, a $1,312 increase in accrued income taxes, and a $572 increase in accrued payroll and employee benefits. The cash generated by these working capital activities were partially offset by cash used by a $2,210 increase in inventories and $876 decrease in accrued restructuring liabilities. The fluctuation in our accounts receivable, inventory, accounts payable and our accrued and other liabilities is a function of the timing of customer remittances, payments to our vendors, and our inventory levels, respectively. These working capital accounts can and do fluctuate significantly from period to period, based on the timing of transactions such as customer and vendor orders and shipments.

Cash Flows from Investing Activities
During fiscal 2019, the Company used $17,912 in net cash from investing activities. This was primarily due to purchases of short-term investments of $17,717. Purchases of capital equipment were $1,000, primarily related to investments in machinery and tooling for the Malaysia facility.

During fiscal 2018, the Company generated $974 in net cash from investing activities. This was primarily due to net proceeds of $2,467 from the sale of 287,000 shares of previously restricted common stock in TSC (A Taiwanese publicly traded corporation) received in connection with the sale of the thermal business. Purchases of capital equipment were $1,138, primarily related to investments in machinery and tooling for the Malaysia facility.

In fiscal 2020, the Company plans to invest approximately $600 in additional capital expenditures associated with machinery and equipment purchases for the Malaysia factory as well as investment in IT enhancements. Management believes future sustaining capital expenditures after fiscal 2020 will be in the $400 to $600 range, predominantly focused on maintaining existing machinery and equipment. The Company plans to use cash on-hand and/or internally-generated cash to fund these investments.

Cash Flows from Financing Activities
In fiscal 2018 and 2019, cash used in financing activities was nil.

Printronix Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Printronix Non-GAAP Financial Measures *(dollars in thousands)*

The Company uses Adjusted EBITDA as a supplementary non-GAAP financial measure to assist management in evaluating the liquidity and financial performance of our ongoing operations, excluding nonrecurring and nonoperating items.

Adjusted EBITDA should not be considered in isolation or as a substitute for income (loss) from operations or cash flows (as determined in accordance with GAAP).

"Adjusted EBITDA" means, with respect to any period, the total of (A) the consolidated net income for such period, plus (B) without duplication, to the extent that any of the following were deducted in computing such consolidated net income for such period: (i) income on discontinued operations, (ii) provision for taxes based on income or profits, including, without limitation, federal, state, provincial, franchise and similar taxes, including any penalties and interest relating to any tax examinations, (iii) other income, (iv) consolidated interest expense, (v) consolidated depreciation and amortization expense, (vi) reserves for inventory in connection with plant closures, (vii) consolidated operational restructuring costs, (viii) noncash charges resulting from the application of purchase accounting, including push-down accounting, (ix) non-cash items relating to a change in or adoption of accounting policies, (x) foreign currency losses, (xi) other non-cash losses or charges (excluding, however, any non-cash loss or charge which represents an accrual of, or a reserve for, a cash disbursement in a future period), (xii) non-recurring costs associated with facility consolidation and start-up, (xiii) costs unrelated to core business operations, and (ix) private equity management fees and expenses, minus (C) without duplication, to the extent any of the following were included in computing consolidated net income for such period, (i) foreign currency gains, (ii) other income, (iii) interest income, (iv) gains from sales of assets, (v) non-cash items relating to a change in or adoption of accounting policies, (vi) other non-cash gains, and (v) provisions for tax benefits based on income or profits. Notwithstanding the foregoing, Adjusted EBITDA, as defined and calculated below, may not be comparable to similarly titled measurements used by other companies.

The table and chart below provide a reconciliation from net income, which is the most directly comparable GAAP financial measure, to Adjusted EBITDA:

	Fiscal Year Ended March 29, 2019	Fiscal Year Ended March 30, 2018
Net Income	**$ 9,538**	**$ 7,680**
Adjustments:		
(Income) loss on discontinued operations	–	763
GAAP Income from Continuing Operations	**9,538**	**8,443**
Tax Adjustments:		
Fiscal 2018 One-Time Impact of Tax Reform	–	1,080
Estimated Impact of New Tax Rates to Full Year of Fiscal 2018	–	1,227
Other Adjustments:		
Management Fees & Expenses to Related Party	953	942
Non-GAAP Income from Continuing Operations	**10,491**	**11,692**
EBITDA Adjustments:		
Provision for Income Taxes (estimated recurring tax expense at post-reform rate)	1,930	1,662
Foreign Currency Losses (Gains)	292	(119)
Realized Losses (Gains) on Short-term Investments	7	(288)
Interest Income	(222)	(2)
Other Income	(44)	(179)
Amortization of Intangible Assets	142	142
Depreciation Expense	1,071	1,057
Restructuring Expenses	233	66
Environmental Expenses	86	256
Reserve for Uncollectible Refund	371	–
Facility Consolidation and One-Time Start-up Costs	–	1,069
Adjusted EBITDA	**$ 14,357**	**$ 15,356**

For fiscal 2019, adjusted EBITDA was $14,357, consisting of $10,491 in Non-GAAP income from continuing operations adjusted for the items mentioned below. Non-GAAP income from continuing operations of $10,491 consists of $9,538 in GAAP income from continuing operations, adjusted to add back $953 in management fees and related party expenses. Adjusted EBITDA of $14,357 consists of $10,491 in Non-GAAP income from continuing operations adjusted for $292 foreign currency losses, $7 realized loss on short-term investments, $222 interest income, $44 other income, $142 amortization of intangible assets (non-cash charge), $1,071 depreciation expense (non-cash), $233 restructuring expense (primarily consisting of severance and separation expenses related to permanently eliminated or permanently relocated positions), $86 in expenses related to environmental clean-up, and $371 reserve for uncollectible refund.

For fiscal 2018, adjusted EBITDA was $15,356, consisting of $11,692 in Non-GAAP income from continuing operations adjusted for the items mentioned below. Non-GAAP income from continuing operations of $11,692 consists of $8,443 in GAAP income from continuing operations, adjusted to add back $1,080 in one-time tax expense associated with the change in U.S. tax law, an estimated $1,227 in tax expense reflecting the lower tax rate for the fourth quarter of fiscal 2018 applied to the full year, and $942 in management fees and related party expenses. Adjusted EBITDA of $15,356 consists of $11,692 in Non-GAAP income from continuing operations adjusted for $1,662 in income tax expense (excluding the adjustments made above), $142 amortization of intangible assets (non-cash charge), $1,057 depreciation expense (non-cash), $66 restructuring expense, $256 in expenses related to environmental clean-up, and $1,069 in other one-time costs which were included in GAAP operating expenses, including $594 in excess freight expense associated with expediting shipments via air freight to customers due to production delays during the ramp-up and stabilization of consumables production in Asia in fiscal 2018, $148 in consulting and labor to support the manufacturing consolidation and operational restructuring, $130 in travel expenses associated with manufacturing consolidation, $109 in freight costs to relocate equipment from

Mexico to Malaysia, and $30 in repairs and maintenance to set-up consumables manufacturing in Malaysia. These positive adjustments were partially offset by $119 in foreign currency gains, $288 in realized gains from short-term investments, $2 in interest income, and $179 in other income. Details of these items are provided in the preceding paragraphs and within the notes accompanying the audited financial statements.

Printronix Critical Accounting Policies and Estimates

Management prepared the consolidated financial statements of the Company under accounting principles generally accepted in the United States of America. These principles require the use of estimates, judgements, and assumptions. We believe that the estimates, judgements, and assumptions we used are reasonable based upon the information available at that time. Our estimates and assumptions affect the reported amounts in our consolidated financial statements. See Note 2, *Summary of Significant Accounting Policies* in the audited financial statements.

Printronix Recently Issued Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies,* in the audited financial statements.

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Certified Public Accountants
and Financial Advisors

Evercel, Inc. and Subsidiaries
Consolidated Financial Statements
March 29, 2019 and March 30, 2018

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Certified Public Accountants
and Financial Advisors

Squar Milner LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Evercel, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Evercel, Inc. and subsidiaries (collectively, the Company) as of March 29, 2019 and March 30, 2018, the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 29, 2019 and March 30, 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit.

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

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

We have served as the Company's auditor since 2017.

Squar Milner LLP

Irvine, CA
October 24, 2019

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EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 29, 2019 and March 30, 2018
(in thousands, except share and per share data)

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 25,220	$ 36,452
Short-term investments	24,790	3,413
Accounts receivable, net	11,687	9,861
Inventories, net	7,593	8,692
Prepaid expenses and other current assets	2,653	2,291
Total current assets	71,943	60,709
Property, plant and equipment, net	3,110	3,188
Other intangible assets, net	995	1,138
Convertible note receivable (Note 3)	16,087	8,069
Deferred income tax assets, net (Note 14)	–	1,387
Other assets	718	720
Total assets	$ 92,853	$ 75,211
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 3,699	$ 4,804
Accrued liabilities	5,536	6,438
Total current liabilities	9,235	11,242
Deferred revenue, net of current portion	1,192	1,342
Long-term transition tax payable, net of current portion (Note 14)	408	467
Deferred income tax liabilities, net (Note 14)	1,721	–
Other long-term liabilities	123	113
Total liabilities	12,679	13,164
Commitments and Contingencies (Note 10)		
Stockholders' Equity		
Preferred stock, Series A convertible 8% cumulative, $0.01 par value (total liquidation value of $23 and $22, respectively)	–	–
Preferred stock, Series B convertible 8% cumulative, $0.01 par value (total liquidation value of $631 and $658, respectively)	–	–
Common stock, $0.01 par value; authorized 75,000,000 shares; issued and outstanding 32,536,234 shares	325	325
Additional paid-in capital (Note 12)	6,310	6,248
Retained earnings	55,865	49,069
Accumulated other comprehensive income	8,230	733
Total controlling interest	70,730	56,375
Noncontrolling interest	9,444	5,672
Total stockholders' equity	80,174	62,047
Total liabilities and stockholders' equity	$ 92,853	$ 75,211

 The accompanying notes are an integral part of these consolidated financial statements.

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the Fiscal Years Ended March 29, 2019 and March 30, 2018

(in thousands, except share and per share data)

	2019	2018
REVENUE	$ 57,609	$ 60,971
COST OF SALES	26,671	28,267
GROSS MARGIN	30,938	32,704
OPERATING EXPENSES		
Engineering and development	960	1,432
Sales and marketing	9,836	10,416
General and administrative	9,530	9,770
Restructuring	233	66
Amortization of intangible assets	142	142
Total operating expenses	20,701	21,826
OPERATING INCOME FROM CONTINUING OPERATIONS	10,237	10,878
Foreign currency gains (losses), net	(292)	119
Realized (losses) gains, net	(7)	–
Interest income, net	500	74
Other income, net	45	850
Income from continuing operations before income taxes	10,483	11,921
Provision for income taxes	1,740	3,878
Income from continuing operations	8,743	8,043
DISCONTINUED OPERATIONS, NET OF TAX (NOTE 4)		
Printer manufacturing facility closure, sale of real estate	–	–
Loss on sale of thermal business	–	(59)
Loss on closure of regional consumables manufacturing facility	–	(704)
Loss from discontinued operations	–	(763)
Net income, including noncontrolling interest	8,743	7,280
Less: net income attributable to noncontrolling interest	1,898	1,501
Net income attributable to Evercel, Inc. and Subsidiaries	6,845	5,779
Comprehensive income:		
Net income	8,743	7,280
Unrealized gain on investments, net of tax	9,371	1,034
Comprehensive income	18,114	8,314
Less: net income and comprehensive income attributable to noncontrolling interest	3,772	1,708
Comprehensive income attributable to Evercel, Inc. and Subsidiaries	$ 14,342	$ 6,606
Basic and Diluted Net Earnings per common share attributable to Evercel, Inc. and subsidiaries:		
Earnings from continuing operations per share - basic and diluted	$ .21	$ .20
Earnings from discontinued operations per share - basic and diluted	–	(.02)
NET INCOME PER SHARE – BASIC AND DILUTED	$ .21	$ .18
Weighted-average Common Shares Outstanding:		
Basic	32,536,234	32,530,636
Diluted	33,002,424	32,977,824

 The accompanying notes are an integral part of these consolidated financial statements.

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Fiscal Years Ended March 29, 2019 and March 30, 2018
(in thousands, except share and per share data)

	Preferred Stock											
	Series A		Series B		Common Stock		Additional		Accumulated Other	Total Evercel,	Non-	Total
	Shares	$0.01 Par Value	Shares	$0.01 Par Value	Shares	$0.01 Par Value	Paid-in Capital	Retained Earnings	Comprehensive (Loss) Income	Inc. and Subsidiaries	Controlling Interest	Stockholders' Equity
Balance, March 31, 2017 (Restated)	806	$ –	24,369	$ –	32,530,636	$ 325	$ 6,185	$ 43,340	$ (94)	$ 49,756	$ 4,064	$ 53,820
Preferred stock dividends	64	–	1,949	–	–	–	50	(50)	–	–	–	–
Share-based compensation	–	–	–	–	–	–	13	–	–	13	–	13
Dividends paid to noncontrolling interest	–	–	–	–	–	–	–	–	–	–	(100)	(100)
Other comprehensive income	–	–	–	–	–	–	–	–	827	827	207	1,034
Net income including noncontrolling interest	–	–	–	–	–	–	–	5,779	–	5,779	1,501	7,280
Balance, March 30, 2018	870	–	26,318	–	32,530,636	325	6,248	49,069	733	56,375	5,672	62,047
Preferred stock dividends	71	–	1,906	–	–	–	49	(49)	–	–	–	–
Preferred stock conversion to common	–	–	(2,976)	–	5,598	–	–	–	–	–	–	–
Share-based compensation	–	–	–	–	–	–	13	–	–	13	–	13
Other comprehensive income	–	–	–	–	–	–	–	–	7,497	7,497	1,874	9,371
Net income including noncontrolling interest	–	–	–	–	–	–	–	6,845	–	6,845	1,898	8,743
Balance, March 29, 2019	941	$ –	25,248	$ –	32,536,234	$ 325	$ 6,310	$ 55,865	$ 8,230	$ 70,730	$ 9,444	$ 80,174

The accompanying notes are an integral part of these consolidated financial statements.

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended March 29, 2019 and March 30, 2018
(in thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,743	$ 7,280
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of investments	8	(149)
Depreciation and amortization	1,210	1,199
Stock based compensation	13	13
Deferred income tax provision	695	1,403
Loss on disposal of property and equipment	(5)	(53)
Provision for bad debt	59	23
Changes in operating assets and liabilities		
Accounts receivable	(1,885)	1,306
Inventories	1,099	(2,210)
Prepaid expenses and other assets	(361)	(126)
Accounts payable	(1,105)	1,412
Accrued liabilities	(1,215)	680
Deferred revenue	300	197
Other liabilities	(184)	711
Net cash provided by operating activities	7,372	11,686
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,000)	(1,139)
Investment in convertible note	–	(8,069)
Purchase of investment securities available for sale	(17,717)	(3,506)
Net proceeds from disposition of property and equipment	16	135
Net proceeds from sale of investment securities	97	4,412
Net cash used in investing activities	(18,604)	(8,167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	–	(100)
Net cash used in financing activities	–	(100)
Net (decrease) increase in cash and cash equivalents	(11,232)	3,419
CASH AND CASH EQUIVALENTS – beginning of fiscal year	36,452	33,033
CASH AND CASH EQUIVALENTS – end of fiscal year	$ 25,220	$ 36,452
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	$ 1,297	$ 1,115
Interest paid	$ 2	$ 2
NONCASH INVESTING AND FINANCING ACTIVITIES		
Conversion of preferred shares for common shares	$ 1	$ –

 The accompanying notes are an integral part of these consolidated financial statements.

1. THE COMPANY

Evercel, Inc. ("Evercel") is a holding company that oversees and manages subsidiary companies and portfolio investments. Companies owned and managed during the fiscal years ended March 29, 2019 and March 30, 2018, include Evercel Pioneer Holding Corporation ("Evercel Pioneer Holding"), Evercel Holdings, LLC ("Evercel Holdings"), and SHSP Holdings, LLC ("SHSP Holdings"). Evercel, Evercel Pioneer Holding, SHSP Holdings and Evercel Holdings are collectively referred to as 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 with the Securities and Exchange Commission and public platforms. Evercel stock is currently traded on the over the counter ("OTC") market, also referred to as the Pink Sheets. Evercel is not registered with the Securities and Exchange Commission and is not required to publicly report financial information.

Evercel Pioneer Holding Corporation

Evercel Pioneer Holding, a wholly owned subsidiary of Evercel, was created in 2012 for the purpose of holding an 80.1 percent investment in Pioneer Holding Corp. ("Pioneer Holding"). The purchase of Pioneer Holding stock occurred on December 31, 2012. Pioneer Holding wholly owns Printronix Holding Corporation and its various global wholly owned subsidiaries ("Printronix"), formerly known as Printronix, Inc., a worldwide leader in supply-chain printing solutions for the industrial marketplace. As a holding company, Pioneer Holding has no operating assets or liabilities, except for its investment in Printronix. As the operating company, Printronix holds all operating assets and liabilities as of March 29, 2019 and March 30, 2018.

Printronix

Printronix provides multi-technology supply-chain printing solutions for the industrial, financial and transportation industries. The products are generally used in industrial settings such as manufacturing plants and distribution centers. Printronix has a manufacturing site located in Malaysia and configuration sites located in the United States, Singapore and Holland, along with sales and support locations around the world to support its global network of users, channel partners and strategic alliances.

Evercel Holdings LLC

Evercel Holdings LLC is a legal entity, established on March 15, 2017, to hold investments which Evercel makes in publicly traded securities. Evercel holds the right to designate the manager of the LLC and owns all 800 Class A units of the 1,000 total units outstanding, with Corona Park Investment Partners ("CPIP"), a related party, and other entities involved in the sourcing and managing of the investments and owning the remaining 200 Class B units. Pursuant to the LLC operating agreement, Evercel receives a preferred return of its capital prior to all shareholders sharing pro rata in capital account allocations.

1. THE COMPANY (continued)

SHSP Holdings LLC

SHSP Holdings LLC is a legal entity, established on March 28, 2018, to hold the investment Evercel has made of a convertible note with SharpSpring Inc., a NASDAQ listed public company. Corona Park Investment Partners, a related party, is the manager of SHSP Holdings. Evercel owns all 800 of the Class A units of the 1,000 total units outstanding, with Corona Park Investment Partners, a related party, and other parties involved in the sourcing and managing of the investments owning 200 Class B units. No other interests in SHSP Holdings are outstanding. Evercel receives a preferred return of its capital and expenses prior to all shareholders sharing pro rata in capital account allocations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as contained within the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) and include the accounts of Evercel, Evercel Holdings, SHSP Holdings, and Printronix along with its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements present the consolidated financial position, results of consolidated operations and comprehensive income, consolidated cash flows and stockholders’ equity for the fiscal years ended March 29, 2019 (“fiscal 2019”) and March 30, 2018 (“fiscal 2018”).

Evercel consolidates the accounts of a variable interest entity ("VIE") if it is deemed to have a controlling financial interest in the VIE. For these accounting purposes, “controlling financial interest” means Evercel or its consolidated subsidiary has both the power and economic interest to direct the activities that most significantly affect the VIE’s economic performance and the obligation to absorb the losses of, or right to receive benefits from, the VIE that could be potentially significant to the VIE. Management evaluated investments in the entities described above, and concluded that Evercel’s investees, which were not wholly owned, were considered to be VIEs, and that Evercel was considered to be the primary beneficiary of Evercel Pioneer Holding, SHSP Holdings and Evercel Holdings. Therefore, Evercel consolidated such investees regardless that SHSP Holdings is permanently managed by CPIP, a related party. Evercel had no other VIE interests during fiscal 2019 and fiscal 2018.

Accounting Period

The Company uses a fifty-two or fifty-three week fiscal year ending on the last Friday of March. For the fiscal years presented, the year-end dates were March 29, 2019 and March 30, 2018. Fiscal 2019 and 2018 used a fifty-two week fiscal period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements that conform with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenue and expenses during the reporting periods, and 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, determination of the fair value and impairment of financial instruments, excess and obsolete inventories, bad debt allowance, product warranties liability, recoverability of the carrying value and estimated useful lives of long-lived assets and sales returns provision. Actual results could differ materially from those estimates.

Fair Value of Financial Instruments

The carrying values of certain financial instruments of the Company, including cash equivalents, short-term investments in money market mutual funds, accounts receivable and accounts payable, approximate their fair values because of the relatively short period of time between origination and their expected realization. The carrying value of common stocks and short-term investments in publicly traded common stock approximate their fair values based on the readily determinable exchange price that would be received for an asset in the related market in an orderly transaction between market participants, net of any marketability adjustments. The estimated fair value of the convertible note receivable approximates is based on a valuation performed by management which considered relevant market conditions.

Realized gains and losses on investment transactions are recognized at the time of sale in the consolidated statements of operations and comprehensive income. Net unrealized gains and losses are reported in the consolidated statements of operations and comprehensive income and represented the change in the market value of investment holdings during the period. See Note 5.

Cash and Cash Equivalents

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

Investments

The Company classifies exchange-traded common stocks and shares of mutual fund investments, which are invested in money market securities, as short-term investments. As of March 29, 2019, the Company held $17.7 million in money market mutual funds and $7.1 million in publicly traded common stock. As of March 29, 2019, the Company has held a convertible note receivable with a face value of $8 million and a fair value of $16.1 million. As of March 30, 2018, the Company held $106 thousand of publicly traded common stock. All investments held by the Company are considered to be available-for-sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Changes in the fair value of available-for-sale securities are reported as a component of accumulated other comprehensive income (loss) in the accompanying consolidated statements of changes in shareholders' equity until realized. Realized gains and losses on the sale of available-for-sale securities are determined using the specific-identification method and are recorded as other income (expense) on the accompanying consolidated statements of income and comprehensive income. Declines in the fair value of available-for-sale securities below their cost, which are determined to be other than temporary, are charged to earnings as realized losses.

Accounts Receivable and Allowance for Doubtful Accounts and Sales Returns

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company performs initial and periodic 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 customers, and from historical experience of write-offs. Receivable losses are charged against the allowance when management believes the account may be uncollectible. Subsequent recoveries, if any, are credited to the allowance. The reserve for returns and sales allowances is determined by an analysis of the historical rate of returns and sales allowances over recent years. As of March 29, 2019 and March 30, 2018, the Company's allowances for doubtful accounts and sales returns was $169 thousand and $128 thousand, respectively.

Inventories

Inventories, which include material, labor and overhead costs, are valued at the lower of cost or net realizable value. Cost is determined at standard cost adjusted on a first-in, first-out basis for variances. Cost includes shipping and handling fees and other costs, including freight insurance and customs duties for international shipments, which are subsequently expensed to cost of sales. The Company evaluates and records a provision to reduce the carrying value of inventory for estimated excess and obsolete stocks based upon forecasted demand, planned obsolescence and market conditions. As of March 29, 2019 and March 30, 2018, Printonix had approximately $371 and $475 thousand of reserves for excess and obsolete inventories, respectively.

Property, Plant and Equipment

Depreciation of property, plant and equipment and amortization of leasehold improvements are provided using the straight-line method over the following estimated useful lives:

Machinery and equipment	2 to 10 years
Furniture and fixtures	3 to 7 years
Leasehold improvements	Lesser of useful life or term of lease

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

Maintenance, repairs and minor renewals are charged directly to expense as incurred. Additions and betterments to property, plant and equipment and leasehold improvements are capitalized at cost. Upon disposition, the applicable costs and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is included in income from operations. Depreciation and amortization expense on property, plant and equipment was approximately $1.2 million in both fiscal 2019 and 2018, respectively. Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable.

Intangible Assets

In connection with a prior acquisition, the Company acquired intangible assets.

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

During fiscal 2019 and 2018, definite-lived intangible assets were amortized over 10 years, and $142 thousand of amortization expense was recognized each year.

Intangible assets at the end of fiscal 2019 and 2018 consisted of the following (in thousands):

March 29, 2019	**Weighted Average Amortization Period**	**Gross Carrying Value**	**Accumulated Amortization**	**Net Book Value**
Trade name and trademarks	10 years	$ 652	$ (196)	$ 456
Patents	10 years	770	(231)	539
		$ 1,422	$ (427)	$ 995

March 30, 2018	**Weighted Average Amortization Period**	**Gross Carrying Value**	**Accumulated Amortization**	**Net Book Value**
Trade name and trademarks	10 years	$ 652	$ (130)	$ 522
Patents	10 years	770	(154)	616
		$ 1,422	$ (284)	$ 1,138

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets (continued)

Future fiscal years amortization of intangible assets are as follows (in thousands):

2020	$	142
2021		142
2022		142
2023		142
2024		142
Thereafter		285
	$	995

As of March 29, 2019, the Company tested for intangible assets impairment under ASC 360 (Property, Plant, and Equipment). ASC 360 indicates that impairment testing should be performed whenever events or changes in circumstances indicate the asset's carrying value may not be recoverable. The Company's assessment did not identify any events or conditions that would indicate the existence of further impairment.

Revenue Recognition

Revenue from product sales is recognized when it is realized or realizable and earned. The Company considers revenue to be realized or realizable and earned, 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 sales price is fixed or determinable and collection is reasonably assured. The Company has no further obligations after shipment of the product other than established warranty obligations. Sales are based upon written contractual agreements with the Company's resellers that include established pricing and payment terms.

The printers contain embedded software, which the Company considers to be incidental to the sale of the printer, and no revenue is attributed to the software. The Company also sells standard "pre-packaged" software to support bar code label printing applications and other software options. This software does not require customization, nor does the Company have any post-sale obligations. Revenue is recognized as this standard "pre-packaged" embedded software is shipped.

Arrangements with customers may include multiple deliverables, including any combination of products and services. For multiple-element arrangements that include products containing undelivered non-software services, deliverables are separated into more than one unit of accounting when (1) the delivered element(s) have value to the customer on a stand-alone basis and (2) delivery of the undelivered element(s) is probable and substantially in the control of the Company. In these arrangements, the Company allocates revenue to all deliverables based on their relative selling prices. The Company uses vendor-specific objective evidence of fair value ("VSOE") to determine the selling price to be used for allocating revenue to deliverables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

The Company 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. The Company provides the point-of-customer-contact, dispatches the call, and sells the parts used for printer repairs to service providers. The Company contracts third parties to perform the on-site repair services. The maintenance service agreements are separately priced at fair value. For those transactions in which maintenance service agreements are purchased concurrently with the purchase of printers, the revenue is deferred based on selling price, which approximates fair value for the maintenance services 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.

Related to VSOE, in many instances, products are sold separately in stand-alone arrangements, as customers may support the products themselves or purchase support on a time-and-materials basis. Technical support services are also often sold separately through renewals of annual contracts. The Company determines the VSOE based on its normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices for a product or service falls within a reasonably narrow pricing range, generally evidenced by the pricing rates of approximately 85 percent of such historical stand-alone transactions falling within plus or minus 15 percent of the median rate. In addition, the Company considers the geographies in which the products or services are sold, major product and service groups, customer classification, and other environmental or marketing variables in determining VSOE.

Once elements of an arrangement are separated into more than one unit of accounting, revenue is recognized for each separate unit of accounting based on the nature of the revenue as described above.

The Company reduces revenue at the time of sale for estimated customer returns, price protection, rebates and other sales incentives that occur under established sales programs. Estimation is required to record these revenue reductions. The Company 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.

The Company presents revenue net of shipping costs and sales taxes. Shipping costs charged to the customers are recorded in cost of sales.

Warranty Costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Warranty Costs (continued)

The following is a summary of the accrued warranty obligation for fiscal 2019 and 2018 (in thousands):

	2019	2018
Beginning balance	$ 203	$ 261
Add: estimated future warranty expense	127	346
Deduct: warranty claims settled	(193)	(405)
Ending balance	$ 137	$ 202

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.

Advertising

The Company expenses advertising costs, including promotional literature, brochures and trade shows, as incurred. Advertising expense was approximately $392 thousand and $481 thousand in fiscal 2019 and 2018, respectively, which are included in sales and marketing expense in the accompanying consolidated statements of operations and comprehensive income.

Restructuring Charges

Restructuring charges are mainly comprised of termination benefits associated with the Printronix's formal strategic restructuring plans to improve operational efficiency. The plans are generally expected to be completed within one year. The Company recognizes the liability for post-employment or termination benefits when payment is probable and estimable based on the Company's predefined post-employment benefits plan or local statutory regulations in foreign jurisdictions. One-time termination benefits that are outside of the Company's predefined severance plans or local statutory regulations are expensed at the time when the Company 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.

The Company's restructuring charges and restructuring liabilities are summarized as follows (in thousands):

	2019	2018
Beginning balance	$ 81	$ 957
Add: restructuring charges	233	66
Deduct: cash payments	(314)	(942)
Ending Balance	$ –	$ 81

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 reporting period and when trade payments occur.

For these subsidiaries, the assets and liabilities have been remeasured at the end of the period for changes in exchange rates, except inventories and property, plant and equipment, which have been remeasured at historical average rates. The consolidated statements of operations have been reevaluated at average rates of exchange for the reporting period, except cost of sales and depreciation, which have been reevaluated at historical rates.

Net foreign currency transaction and re-measurement resulted in a $292 thousand loss and $119 thousand gain in fiscal 2019 and 2018, respectively, which are included in other income in the consolidated statements of operations and comprehensive income.

Earnings Per Share ("EPS")

EPS is computed in accordance with ASC Topic 260, *Earnings per Share*, and is calculated using the weighted average number of common shares outstanding during each period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents unless the effect is to reduce a loss or increase the income per share.

Income Taxes

The Company uses the asset-and-liability method for financial accounting and reporting for income taxes. Current and deferred tax balances are determined based upon the difference between the financial statement and tax basis of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse.

In assessing the realizability of deferred tax assets, the appropriate authoritative guidance establishes a "more likely than not" standard. If it is determined that it is more likely than not that deferred tax assets will not be realized, a valuation allowance must be established against the deferred tax assets. The ultimate realization of assets is dependent on the generation of future taxable income during the periods in which the associated temporary differences become deductible. The Company reviews the deferred tax assets for realization based upon historical taxable income, prudent and feasible tax planning strategies, the expected timing of the reversals of existing temporary differences and expected future taxable income.

Contingencies

The Company accounts for contingencies in accordance with GAAP. 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 current period earnings, if appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk

No single customer accounted for more than 10% of consolidated revenue for both fiscal 2019 and 2018. Accounts receivable from one customer represented 17% and 11% of the consolidated accounts receivable as of March 29, 2019 and March 30, 2018, respectively. Exposure to credit risk is limited by the large number of customers comprising the remainder of the Company's customer base and by periodic customer credit evaluations performed by the Company.

Three vendors accounted for more than 29% of consolidated purchases for fiscal 2019. One vendor accounted for more than 5% of consolidated purchases for fiscal 2018.

Recent Significant Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 – *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the ASC. The transition options include full retrospective or modified retrospective approaches which becomes effective for private companies for annual reporting periods beginning after December 15, 2018 (adoption deferred by ASU 2015-14), and interim reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2014-09 on its consolidated financial statements. The Company expects to adopt this new standard using the modified retrospective method that will result in a cumulative effect adjustment as of March 29, 2019. The Company expects to record an immaterial increase to retained earnings resulting from the initial capitalization of previously expensed service sales commissions. The Company expects additional impacts may be identified after we complete the implementation in mid fiscal 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases* (*Topic 842).* ASU 2016-02 requires lessees to recognize (with the exception of short-term leases at the commencement date) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. The new guidance is effective for private companies for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-02 on its consolidated financial statements, the effect on future financial statement disclosure is not known at this time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Significant Accounting Pronouncements (continued)

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments- Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. The ASU is effective for private companies for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The Company expects to reclassify all unrealized investment earnings within accumulated other comprehensive income to retained earnings upon adoption of the standard on April 1, 2020.

3. CONVERTIBLE NOTE RECEIVABLE

Evercel invested $8 million in a convertible note receivable from SharpSpring, Inc. (“SharpSpring”), a NASDAQ publicly traded company, through SHSP Holdings. The five-year note will entitle SHSP Holdings to an annual 5% payment-in-kind (“PIK”) interest return, and is convertible into shares of common stock of SharpSpring at a price of $7.50 per share. SharpSpring can force conversion at 175% of the conversion price after 120 consecutive days of trading from the date of the Note agreement, which is approximately $13.13 per share, and at their election can extend the maturity for up to 18 months through September 28, 2023, but at an annual PIK interest rate of 10%. SharpSpring may redeem the note at maturity for cash or for common stock, subject to a 20% discount to the then-market price. Unpaid PIK interest will fully accelerate in a forced conversion or in the event of a change of control in SharpSpring. The convertible note is subordinated to a limited amount of SharpSpring’s senior debt obligations. Evercel holds rights to a preferential distribution of cash flows equivalent to receiving a return of its investment before sharing pro-rata with all members, pursuant to the limited liability company agreement.

As more fully explained in Note 2, the Company accounts for the convertible note receivable as a financial instrument measured at fair value. Based on a Monte Carlo conversion simulation valuation performed by management as of March 29, 2019, the fair value was approximately $16.1 million. As of March 30, 2018, the fair value approximated the carrying value to due to the acquisition of the investment on March 28, 2018.

4. DISCONTINUED OPERATIONS

Gain on Sale of Thermal Business

On January 22, 2016, the Company completed the sale of various thermal product line assets and the sale of Printronix, Inc., the entity that held the thermal product line assets and operations. In fiscal 2018, the discontinued operations expenses related to the sale of thermal business amounted to $87 thousand including rent and materials and supplies.

4. DISCONTINUED OPERATIONS (continued)

Gain on Sale of Thermal Business (continued)

The following is a reconciliation of the gain on the sale of thermal business recognized in fiscal 2018 (in thousands):

Other expenses		87
Total expenses		87
Taxes		28
Net loss on sale of thermal business, net of tax	$	59

Regional Consumables Manufacturing Facility Closure

In February 2017, the Company made the decision to close the facility in Mexico that manufactured consumable products and acted as the North American distribution center. As of March 30, 2018, $704 thousand in expenses after tax were incurred in connection with the closure and is reported as a component of discontinued operations in the accompanying consolidated statements of operations and comprehensive income.

The following is a reconciliation of the regional consumables manufacturing facility closure expenses in fiscal 2018 (in thousands):

Salaries and wages	$	304
Severance		333
Other expenses		394
Total consumable manufacturing closure expenses		1,031
Taxes		327
Loss on closure of consumables manufacturing facility, net of taxes	$	704

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

These inputs have created the following fair value hierarchy:

Level 1: Quoted prices in active markets of identical assets or liabilities.

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

Level 3: Unobservable inputs reflected management's own assumptions about the inputs used.

The Company utilizes a Level 3 valuation technique for investments in convertible notes receivable based on a Monte Carlo conversion simulation model which forecasts the market conditions and assumes a conversion of the note based on (i) required conditions for conversion under the agreement and (ii) favorable pricing for the securities within the note term. The final model calculation is based on an average of the result of over 50,000 simulations. If a conversion has not occurred within the model at the end of the term, the value is equal to the maximum of the conversion value as of such date or the actual note principal plus accrued interest. The estimated cash flows are then present valued at the risk free rate and reduced by an estimated blockage discount for lack of immediate liquidity.

The Company utilizes a Level 1 valuation technique for short-term investments, which are quoted prices in active markets, net of any marketability adjustments.

If it is determined that a decline of any investment is other than temporary, then the investment basis would be written down to fair value and the write-down would be included in earnings as a loss.

The fair values of the Company's financial instruments as of March 29, 2019 and March 30, 2018, are presented in the following table (in thousands):

	2019	2018
Level 1:		
Investments in common stock	$ 7,073	$ 3,413
Investments in mutual funds	17,717	–
	$ 24,790	$ 3,413
Level 2: None	$ –	$ –
Level 3: Investment in convertible note receivable	$ 16,087	$ 8,069

6. INVENTORIES

The Company's inventory consisted of the following as of March 29, 2019 and March 30, 2018 (in thousands):

	2019	2018
Inventories:		
Raw materials	2,700	3,824
Subassemblies and work in process	2,928	3,522
Finished goods	1,965	1,346
Total inventories	7,593	8,692

7. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consisted of the following as of March 29, 2019 and March 30, 2018 (in thousands):

	2019	2018
Machinery and equipment	$ 4,071	$ 3,476
Furniture and fixtures	2,725	1,923
Leasehold improvements	1,820	2,780
	8,616	8,179
Less: Accumulated depreciation and amortization	(5,506)	(4,991)
Total property, plant and equipment, net	$ 3,110	$ 3,188

8. ACCRUED LIABILITIES

The Company's accrued liabilities consisted of the following as of March 29, 2019 and March 30, 2018 (in thousands):

	2019	2018
Payroll and employee benefits	$ 1,635	$ 2,228
Warranty	137	202
Deferred revenue	1,934	1,484
Restructuring	–	81
Income taxes	633	1,052
Due to Affiliate	–	131
Other	1,197	1,260
	$ 5,536	$ 6,438

9. EMPLOYEE BENEFIT PLAN

Savings and Investment Plan

Printronix has a 401(k) Savings and Investment Plan, for all of its eligible employees, which is designed to be tax deferred in accordance with the provisions of Section 401(k) of the Internal Revenue Code. Printronix matches employee contributions dollar-for-dollar up to the first 1 percent of compensation, and then an additional $0.50 to-the-dollar on the next 1 percent of employee compensation. Employer contributions are vested annually, and become fully vested to the employee after four full years of employment. The total contribution made by Printronix was approximately $37 thousand and $99 thousand in fiscal 2019 and 2018, respectively.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

With the exception of Malaysia, the Company conducts its foreign and domestic operations using leased facilities under noncancelable operating leases that expire at various dates through fiscal year 2022. The Malaysia factory lease has two renewal options for additional four years then for an additional two years. Annual rental expense was approximately $1.4 million and $1.8 million for fiscal 2019 and 2018, respectively.

Minimum lease payments for future fiscal years under existing noncancelable operating leases are as follows (in thousands):

2020	$ 993
2021	788
2022	303
2023	134
2024	102
Thereafter	399
	$ 2,719

Guarantees

The Company 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, the Company would be obligated to indemnify and reimburse the Surety for all costs incurred. As of March 29, 2019 and March 30, 2018, the Company had approximately $100 thousand of these bonds outstanding.

10. COMMITMENTS AND CONTINGENCIES (continued)

Long-Term Incentive Plan

In the event of a sale of Printronix, certain executives are entitled to bonuses that are calculated as a percentage (“Bonus Percentage”) of the proceeds exceeding the Company’s target sale price (“Strike Price”). The Bonus Percentage and Strike Price vary by executive depending on various factors including their title and date of hire. The executives must be employed by the Company at the time of the sale to qualify for this bonus. As of March 29, 2019, management concluded a sale of Printronix was not probable. Accordingly, no amounts were accrued in connection with this plan.

Environmental Cleanup

Printronix maintained a manufacturing operation in a leased facility in Irvine, California from 1980 to 1994. The facility was used for similar manufacturing operations by another tenant from 1968 to 1977. The manufacturing operations employed by the previous tenant are believed to have resulted in the contamination of soil and groundwater under the facility which included chlorinated volatile organic compounds (“VOCs”). Evidence indicates that the VOCs requiring cleanup were used by the prior tenant and not by Printronix. The Company has been working with the prior tenant, which has agreed to share the costs of the activities in an equal percentage with the Company, and the state regulatory agencies, including the California Department of Toxic Substances Control, to investigate and cleanup the subsurface contamination. The investigation is ongoing and a significant soil cleanup project was completed in 2017. Additional cleanup costs were incurred by Printronix of $86 thousand and $256 thousand in fiscal 2019 and 2018, respectively. Further activities are planned going forward, but the scope of those activities has not yet been determined or approved. The Company has $19 thousand and $40 thousand in accrued liabilities to cover the current groundwater monitoring and investigation activities as of March 29, 2019 and March 30, 2018, respectively. Subsequent to March 29, 2019, the Company executed an agreement with the prior tenant whereby the prior tenant will take 100% responsibility for the costs and process of the cleanup going forward. Accordingly, the Company would no longer take part in monitoring or paying for any future investigation or cleanup activity and expects to have no such further costs associated with this facility.

Litigation

From time to time, the Company is subject to legal and other claims that arise out of the ordinary course of business. Management believes there are currently no claims or proceedings expected to have a material impact upon the Company’s consolidated financial position, or results of consolidated operations and cash flows.

11. 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.

11. STOCKHOLDERS' EQUITY (continued)

Series A Preferred Stock

There are 400,000 shares of Series A preferred stock authorized, with 941 shares issued and outstanding as of March 29, 2019.

In fiscal 2019, eight percent dividends were declared and paid to Series A stockholders, in the form of 71 additional shares of Series A stock, for the fiscal year ended March 29, 2019, totaling $2 thousand.

In fiscal 2018, eight percent dividends were declared and paid to Series A stockholders, in the form of 64 additional shares of Series A stock, for the fiscal year ended March 30, 2018, totaling $2 thousand.

Series B Preferred Stock

There are 600,000 shares of Series B preferred stock authorized, with 25,248 shares issued and outstanding as of March 29, 2019.

In fiscal 2019 eight percent dividends were declared and paid to Series B stockholders, in the form of 1,906 additional shares of Series B stock, for the fiscal year ended March 29, 2019, totaling $47 thousand.

In fiscal 2018 eight percent dividends were declared and paid to Series B stockholders, in the form of 1,949 additional shares of Series B stock, for the fiscal year ended March 31, 2018, totaling $48 thousand.

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 eight percent of the liquidation value, payable quarterly in cash or shares of preferred stock, at the option of the Company.

Redemption

The Company has the right to redeem the stock at any time for the liquidation amount, plus 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. The Company's redemption right has no expiration date.

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 of $25.00 plus any accrued but unpaid dividends.

11. STOCKHOLDERS' EQUITY (continued)

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 eight percent cumulative dividends on the Series A and Series B preferred stock, which have been paid to stockholders in the form of a stock dividend (additional shares of preferred stock), as of March 29, 2019 totaled $625 thousand.

Evercel's Board of Directors authorized on March 10, 2017 the repurchase of all outstanding Preferred A and B shares. As of March 29, 2019, no shares had been repurchased.

Basic and Dilutive Net Income per Share

The following is the methodology for determining dilutive shares for the calculation of earnings per share:

Fiscal Year Ended March 29, 2019

Numerator:	
Earnings attributable to Evercel, Inc. and Subsidiaries	$ 6,845,000
Preferred stock dividends - Series A	(2,000)
Preferred stock dividends - Series B	(48,000)
Numerator for common EPS - income available to common stockholders	6,795,000
Effect of dilutive securities:	
Preferred stock dividends - Series A	2,000
Preferred stock dividends - Series B	48,000
Numerator for diluted EPS - income available to common stockholders after assumed conversions	$ 6,845,000
Denominator:	
Denominator for basic EPS - weighted average shares	32,536,234
Effect of dilutive shares:	
Common stock options	440,000
Preferred stock outstanding - Series A	941
Preferred stock outstanding - Series B	25,248
Dilutive potential common shares	466,189
Denominator for diluted EPS - adjusted weighted average shares and assumed conversions	33,002,423
Basic EPS	$ 0.21
Diluted EPS	$ 0.21

11. STOCKHOLDERS' EQUITY (continued)

Basic and Dilutive Net Income per Share (continued)

Fiscal Year Ended March 30, 2018 **Numerator:**	**Continuing Operations**	**Discontinued Operations**	**Total**
Earnings attributable to Evercel, Inc. and Subsidiaries	$ 6,390,000	$ (611,000)	$ 5,779,000
Preferred stock dividends - Series A	(2,000)	–	(2,000)
Preferred stock dividends - Series B	(48,000)	–	(48,000)
Numerator for common EPS - income available to common stockholders	6,340,000	(611,000)	5,729,000
Effect of dilutive securities:			
Preferred stock dividends - Series A	2,000	–	2,000
Preferred stock dividends - Series B	48,000	–	48,000
Numerator for diluted EPS - income available to common stockholders after assumed conversions	$ 6,390,000	$ (611,000)	$ 5,779,000

Denominator:	**Continuing Operations**	**Discontinued Operations**	**Total**
Denominator for basic EPS - weighted average shares	32,530,636	32,530,636	32,530,636
Effect of dilutive shares:			
Common stock options	420,000	420,000	420,000
Preferred stock outstanding - Series A	870	870	870
Preferred stock outstanding - Series B	26,318	26,318	26,318
Dilutive potential common shares	447,188	447,188	447,188
Denominator for diluted EPS - adjusted weighted average shares and assumed conversions	32,977,824	32,977,824	32,977,824
Basic EPS	$ 0.20	$ (0.02)	$ 0.18
Diluted EPS	$ 0.20	$ (0.02)	$ 0.18

Controlling Interest

The following summarizes the effects of change in the Company's equity attributable to noncontrolling interest as of March 29, 2019 (in thousands):

	2019	**2018**
Beginning Balance	$ 5,672	$ 4,064
Dividends paid to noncontrolling interest	–	(100)
Net income attributable to noncontrolling interest of Printronix	1,898	1,501
Other comprehensive income attributable to noncontrolling interest of Evercel Holdings and SHSP Holdings	1,874	207
Ending Balance	$ 9,444	$ 5,672

12. EQUITY INCENTIVE PLAN

Evercel maintains a stock option plan, which allows for the granting of common stock options at the discretion of the Board of Directors. Evercel 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 20 percent of such shares in each succeeding year.

As of March 29, 2019, 440,000 common stock options granted were fully vested.

The following table summarizes the common stock option plan activity at the end of the fiscal period:

	Number of Options	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at March 31, 2017	480,000	$0.72 to $1.16	$ 0.84
Granted	–	–	–
Outstanding at March 31, 2018	480,000	$0.72 to $1.16	$ 0.84
Granted	–	–	–
Outstanding at March 29, 2019	480,000	$0.72 to $1.16	$ 0.84

Options outstanding and exercisable are as follows for the years ended March 29, 2019:

	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
2019	$0.72 to $1.16	480,000	3.6	$0.81	440,000	$0.83
2018	$0.72 to $1.16	480,000	4.7	$0.81	420,000	$0.83

12. EQUITY INCENTIVE PLAN (continued)

Compensation expense related to the options outstanding recognized in the accompanying consolidated statements of operations totaled $13 thousand for the fiscal years ended March 29, 2019 and March 30, 2018. There is $37 thousand of unrecognized compensation expense related to the outstanding options as of March 29, 2019 to be recognized over the next two fiscal years.

13. RELATED PARTY TRANSACTIONS

Management and advisory services

On June 27, 2013, Evercel sold to Corona Park Investment Partners, LLC ("CPIP"), 5,639,545 shares of common stock in exchange for a $4.23 million promissory note. The interest rate on the note receivable is 0.95 percent 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 CPIP. As of March 29, 2019 and March 31, 2018, $4.43 and $4.34 million, respectively, of the note receivable was outstanding and reclassified, as required by GAAP, against additional paid-in capital, which is included in stockholders' equity on the accompanying balance sheet. Additionally, $42 thousand of interest income earned in fiscal 2019 and $41 thousand in fiscal 2018 is included in additional paid-in capital of stockholders' equity on the accompanying consolidated balance sheet.

Printronix incurred expenses of approximately $953 thousand and $942 thousand for management advisory services provided by Corona Park Investment Partners LLC, Pioneer Holding Corporation and MMXIV (collectively the "Consultant Group") and reimbursable expenses in fiscal 2019 and 2018, respectively. Pioneer Holding, which is collectively 100 percent owned by Evercel Inc. and MMXIV, are affiliates and shareholders of Printronix. Corona Park Investment Partners LLC is an affiliate of Evercel Inc. and MMXIV. The Company had none and $15 thousand due to the Consultant Group as of March 29, 2019 and March 30, 2018, respectively.

CPIP also holds a minority interest in Evercel Holdings and SHSP Holdings, and a majority interest in MMXIV.

Involvement with SharpSpring, Inc.

The Chief Executive Officer of both Evercel and CPIP is also a board member of SharpSpring, Inc., the borrower of the convertible note receivable more fully discussed in Note 3. As a board member, he was granted a one-time stock option and quarterly receives issuances of stocks for services rendered. Aggregate compensation for this service through his date of resignation totaled approximately $31 thousand. Subsequent to March 30, 2018, the one-time grant was issued to this individual and the value of his share compensation for the one quarter of service rendered through the date of this report approximated $31,000.

13. RELATED PARTY TRANSACTIONS (continued)

Purchases Made Through a Related Party

In Fiscal 2018, Printronix sourced raw materials from a supplier through a company 50% owned by its then Chief Operating Officer as part of a strategic initiative to diversify its supply chain and obtain lower cost components. Subsequently, the Company determined that the initial supply of the materials did not meet quality standards. No further materials were received and no further purchases were made in fiscal 2019. Furthermore, the Company decided to abandon the strategic initiative. As a result, the Company was owed a net refund of $371 thousand. Efforts by the Company, through its related party, to collect this refund have been unsuccessful. As such, in fiscal year 2019, the Company established an allowance for uncollectible balances for the full amount of the deposit. This reserve is included in general and administrative expense in the consolidated statement of operations and comprehensive income.

Income taxes

The Company files a consolidated tax return with Printronix and other subsidiaries, accordingly, the tax benefits or obligations may be settled through intercompany balances or cash settlements between these entities, as determined by management at the time of the finalized tax filings. During the fiscal years ended March 29, 2019 and March 30, 2018, because only material income taxes were generated by Printronix, Printronix paid all the income taxes on behalf of the consolidated group.

14. INCOME TAXES

Provision for Income Taxes

For fiscal 2019 and 2018, the provision for income taxes consisted of the following (in thousands):

	2019	2018
Current provision:		
Federal	$ (1,180)	$ 927
State	(104)	35
Foreign	(83)	872
Deferred tax expense (benefit):		
Federal	2,499	2,119
State	469	(45)
Foreign	139	(386)
Income tax provision	1,740	3,522
Income tax benefit from discontinued operations	–	356
Income tax provision from continuing operations	$ 1,740	$ 3,878

14. INCOME TAXES (continued)

Deferred Income Tax Assets and Liabilities

The deferred income tax assets and liabilities as of March 29, 2019 and March 30, 2018 are as follows (in thousands):

	2019	2018
U.S. deferred income tax assets and liabilities:		
Inventory costs capitalized for tax, expensed for financial reporting purposes	$ 66	$ 75
Accruals	185	163
Credit carryforwards	63	179
Liabilities/reserves	46	44
Others	(2,737)	(111)
Property, plant and equipment	19	132
Intangibles	357	485
Capital losses	295	357
Valuation allowance	(295)	(357)
Deferred income tax (liabilities) assets, noncurrent	(2,001)	967
Foreign deferred income tax assets and liabilities:		
Accruals	223	369
Property, plant and equipment	57	51
Deferred foreign income tax asset, noncurrent	280	420
Total noncurrent deferred tax (liabilities) assets, net	$ (1,721)	$ 1,387

The following table reflects the changes in the valuation allowance (in thousands):

	2019	2018
Beginning balance	$ 357	$ 208
Provision for valuation allowance	(62)	149
Utilization of valuation allowance	–	–
Ending balance	$ 295	$ 357

The tax-effected federal and state net operating losses and credit carryforwards expire as follows (in thousands):

	2019	Future Fiscal Years
Credit carryforwards		
California research and development (R&D) credit	$ 120	Indefinite
	$ 120	

14. INCOME TAXES (continued)

Deferred Income Tax Assets and Liabilities (continued)

The Company has historically reflected interest and penalties associated with uncertain tax positions in the tax provision (expense). There were no amounts of interest and penalties recognized in the consolidated statement of operations and comprehensive income for both fiscal 2019 and 2018.

The total amount of unrecognized tax benefits that will increase or decrease within 12 months of the reporting date will not have a significant impact on the consolidated statements of operations and consolidated balance sheets.

As of March 29, 2019, due to the sale of the Thermal business, the Company has no unrecognized tax benefits through the date of the Thermal Business sale. The following table summarizes the activity related to our gross unrecognized tax benefits:

	2019	2018
Beginning balance	$ 188	$ 38
Adjustment related to prior year position	(65)	62
Adjustment related to current year position	22	87
Ending balance	$ 145	$ 187

The Company recorded an income tax provision of $1.7 million for fiscal 2019 on pre-tax income of $10.5 million in continuing operations. The effective tax rate is 16% for fiscal 2019. The worldwide tax rate differs from the US federal statutory tax rate primarily due to the impact of a one-time tax on un-repatriated foreign earnings, change in corporate tax rates, valuation allowance, foreign tax credits, uncertain tax positions, foreign rate differential and state taxes.

The tax years that remain subject to examination are all fiscal years after March 2016 for federal and March 2015 for most states. In addition, research and development credit carryforwards that may be used in future years are still subject to adjustment.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain un-repatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (6) creating the base erosion anti-abuse tax (BEAT), a new minimum tax; (7) creating a new limitation on deductible interest expense; and (8) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

14. INCOME TAXES (continued)

Deferred Income Tax Assets and Liabilities (continued)

The Company is also subject to the one-time transition tax on un-repatriated earnings of foreign earnings for tax year ended 2018. A payable has been recorded in the prior period to reflect the expected impact of the new tax law. The Company elected to pay the transition tax over an eight-year period with any amounts not expected to be paid out in the next 12 months recorded as a long-term payable on the consolidated balance sheet.

The Tax Act also enacted new Section 951A, which requires U.S. shareholders of controlled foreign corporations to include in income the shareholder's Global Intangible Low-Taxed Income ("GILTI") for tax years beginning after December 31, 2017. In addition, the new section 250 allows a domestic corporation a deductible for the eligible percentage of Foreign-derived intangible income ("FDII") and GILTI. The Company computed its GILTI inclusion and deduction pursuant to the new Section 250. The Company's net tax liability for GILTI inclusion is zero due to availability of deemed paid foreign tax credit in the current year. In addition, the Company recorded a current tax benefit of FDII deduction for the amount of $501 thousand in fiscal 2019.

The following table presents a reconciliation from the statutory federal income tax rate to the effective rate for fiscal 2019 and 2018:

	2019	2018
Income taxes at statutory rates	21.00%	30.75%
State tax, net of federal benefit	2.29%	1.76%
Permanent differences	0.07%	(0.65)%
GILTI, net of deduction	2.07%	–
FDII	(4.76)%	–
Return-to-provision and other true ups	(.11)%	(6.96)%
Tax credits	(2.65)%	(1.29)%
Foreign rate differential	(.78)%	(1.91)%
Tax reform rate change	–	4.82%
Tax reform transition tax	–	4.63%
Change in valuation allowance	(.60)%	1.24%
Effective tax rate	16.53%	32.39%

15. SEGMENT REPORTING

Printronix operates in a single segment: printing solutions. The Company designs and manufactures printers and consumable products for various industrial printing applications. Printers consist of hardware and embedded software and may be sold with maintenance service agreements. Consumable products include inked ribbons which are used in the Company's printers. The Company also sells other legacy consumable products which are considered non-core to its business. The Company's products are primarily sold through channel partners, such as dealers and distributors, to end-users.

15. SEGMENT REPORTING (continued)

Net revenue by product line for fiscal 2019 and 2018 are as follows (in thousands):

	2019	2018
Printers, service, and spares	$ 34,032	$ 36,176
Consumable products	22,756	23,746
All other	821	1,049
Net revenue	$ 57,609	$ 60,971

Printronix has also identified three global regions for marketing its products and services: Americas, Europe, Middle East/Africa, and Asia-Pacific. Each region provides similar products and services related to printing solutions.

The breakdown of net revenue by geographic area for fiscal 2019 and 2018 are as follows (in thousands):

	2019	2018
United States	$ 17,526	$ 21,299
Canada and Latin America	2,674	3,600
Total Americas	20,200	24,899
Europe, Middle East, and Africa	15,748	15,895
China	7,397	6,351
India	5,383	5,637
Asia, excluding China and India	8,881	8,189
Total Asia	21,661	20,177
Net revenue	$ 57,609	$ 60,971

Net sales to external customers are attributed to geographic areas based upon the final destination of products shipped.

Long-lived tangible assets, net by geographic area as of March 29, 2019 and March 30, 2018 are (in thousands):

	2019	2018
United States	$ 369	$ 409
Malaysia	2,579	2,696
Other foreign countries	162	83
Total long-lived assets	$ 3,110	$ 3,188

15. SEGMENT REPORTING (continued)

Evercel operates in two segments: (i) printing solutions and (ii) investing opportunities. All inter-segment transactions have been eliminated. Summarized financial information concerning Evercel's reportable segments and corporate income and expenses is shown in the following table as of and for the year ended March 29, 2019 (in thousands):

	Reportable Segments			
	Printing	Investing	Corporate	Total
Revenues	$ 57,609	$ –	$ –	$ 57,609
Gross Margin	30,938	–	–	30,938
Operating Expenses	19,437	–	1,264	20,701
Net income attributable to Evercel, Inc.	7,640	–	(795)	6,845
Comprehensive income attributable to Evercel, Inc.	7,640	7,497	(795)	14,342
Total assets	53,222 (1)	23,160	16,471	92,853
Total liabilities	11,427	–	1,252	12,679
Total equity attributable to Evercel, Inc.	34,432	21,079	15,219	70,730

(1) The Printing Solutions segment includes approximately $17,717 of mutual funds invested in money market securities

16. SUBSEQUENT EVENTS

The Company has performed an evaluation of subsequent events through the date of issuance of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued. As part of that evaluation, the following subsequent events have been identified.

On May 9, 2019 Evercel Holdings LLC converted its convertible note in SharpSpring (NASDAQ:SHSP). For 1,241,634 shares of SharpSpring common stock, which reflects an agreement Evercel reached with SharpSpring to accelerate part of the interest not yet earned on the note but forgo interest that would have been earned had the note been held through maturity or been forcefully converted by the borrower.

On June 17, 2019, Evercel Holdings LLC and SHSP Holdings LLC sold their collective shares in SharpSpring shares in a secondary private offering. Additionally, net proceeds of approximately $21.6 million was distributed to the limited liability company members pursuant to the terms of their respective formation agreements. The Company received $19.3 million of such distributable proceeds. The offering was made pursuant to a registration statement (File No. 333-231758) filed by SharpSpring with the Securities and Exchange Commission and declared effective on June 3, 2019.

16. SUBSEQUENT EVENTS (continued)

On April 30, 2019, Evercel invested $2.0 million in Paper Ventures, LLC to acquire the assets of and team to form Current Technologies, LLC. Evercel paid $1.0 million initial consideration plus funded a $1.0 million cash reserve to fund a potential earn-out, and after the acquisition funded and additional $1.0 million of cash into the business for working capital needs and has an obligation upon achieving certain milestones to fund an additional $1.0 million for further working capital over the coming year to accommodate for growth. Paper Ventures, LLC is managed by CPIP, and has the same incentive structure as SHSP Holdings.

On September 30, 2019, Printronix entered into a definitive agreement with the prior tenant of the building Printronix previously occupied from 1980 to 1994 whereby the prior tenant will take 100% responsibility for the costs and process of the environmental cleanup going forward. Pursuant to the agreement, Printronix will no longer take part in monitoring or paying for any future investigation or cleanup activity and expects to have no further costs associated with this facility.