

Evercel, Inc. and Subsidiaries

Consolidated Financial Statements
March 25, 2016 and March 27, 2015

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RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Evercel, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of March 25, 2016 and March 27, 2015, 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).

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Evercel, Inc. and its subsidiaries as of March 25, 2016 and March 27, 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Company has elected to change its method of accounting for goodwill. In fiscal 2016, the Company adopted the private company alternative to account for the subsequent measurement of goodwill. Our opinion is not modified with respect to this matter.

RSM US LLP

Irvine, California
November 18, 2016

Evercel, Inc. and Subsidiaries

Consolidated Balance Sheets

March 25, 2016 and March 27, 2015

(In Thousands of Dollars, Except Share and Per Share Data)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,891	\$ 11,993
Restricted cash	-	156
Accounts receivable, net of allowances for doubtful accounts and sales returns of \$295 and \$872 as of March 25, 2016 and March 27, 2015, respectively	12,505	21,161
Inventories	9,899	10,214
Other current assets	2,814	3,302
Deferred income taxes, net	1,601	1,866
Total current assets	54,710	48,692
Property and equipment:		
Buildings and improvements	9,013	9,045
Machinery and equipment	4,993	3,849
Furniture and fixtures	2,545	3,455
Leasehold improvements	1,823	1,209
	18,374	17,558
Less accumulated depreciation and amortization	(8,429)	(6,600)
Property and equipment, net	9,945	10,958
Other assets:		
Goodwill	-	12,902
Other intangible assets, net	16,843	23,103
Restricted investments	2,580	-
Long-term deferred income tax, net	-	5,274
Other assets	1,151	1,242
Total other assets	20,574	42,521
Total assets	\$ 85,229	\$ 102,171

See notes to consolidated financial statements.

	2016	2015
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 6,936	\$ 8,683
Current portion of long-term debt, net of debt discount of \$0 and \$85 as of March 25, 2016 and March 27, 2015, respectively	628	6,822
Accrued liabilities:		
Payroll and employee benefits	2,541	3,332
Warranty	208	316
Deferred revenue	1,941	2,420
Restructuring	1,819	250
Income tax	155	798
Other	2,185	1,859
Other current liabilities	337	102
Total current liabilities	16,750	24,582
Long-term liabilities:		
Deferred revenue, net of current portion	913	1,286
Long-term deferred income tax liabilities, net	3,127	-
Other long-term liabilities	3,654	288
Long-term senior term debt, net of current portion of debt discount of \$0 and \$145 as of March 25, 2016 and March 27, 2015, respectively	4,351	31,907
Total liabilities	28,795	58,063
Stockholders' equity:		
Preferred stock, Series A convertible, 8% cumulative, \$.01 par value (liquidation value of \$497 and \$461 at March 25, 2016 and March 27, 2015, respectively)	-	-
Preferred stock, Series B convertible, 8% cumulative, \$.01 par value (liquidation value of \$491 and \$454 at March 25, 2016 and March 27, 2015, respectively)	-	-
Common stock, \$.01 par value, authorized 75,000,000 shares; issued and outstanding 32,530,636 shares as of March 25, 2016 and March 27, 2015	325	325
Additional paid-in capital	6,098	5,973
Accumulated other comprehensive income	157	-
Retained earnings	47,899	36,489
Total controlling interest	54,479	42,787
Noncontrolling interest	1,955	1,321
Total stockholders' equity	56,434	44,108
Total liabilities and stockholders' equity	\$ 85,229	\$ 102,171

Evercel, Inc. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income
Years Ended March 25, 2016 and March 27, 2015
(In Thousands of Dollars, Except Share and Per Share Data)

	2016	2015
Continuing operations:		
Revenues	\$ 66,491	\$ 84,119
Cost of revenues	35,647	43,070
Gross profit	30,844	41,049
Operating expenses:		
Engineering and development expense	4,834	5,882
Sales and marketing expense	13,354	17,434
General and administrative	8,929	10,361
G&A—special project costs	5,383	843
Restructuring	2,710	492
Amortization of intangible assets and goodwill	2,938	3,063
Goodwill impairment loss	4,520	-
Operating expenses	42,668	38,075
(Loss) income from continuing operations	(11,824)	2,974
Other income (expense):		
Interest expense	(266)	(337)
Gain on sale of investments, net	-	907
Gain on reversal of earn-out liability	-	617
Other income (expense), net	(103)	67
Total other income (expense) from continuing operations	(369)	1,254
(Loss) income from continuing operations before income tax expense	(12,193)	4,228
Income tax expense	(2,440)	(1,927)
Net (loss) income from continuing operations	(14,633)	2,301

(Continued)

Evercel, Inc. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income (Continued)
Years Ended March 25, 2016 and March 27, 2015
(In Thousands of Dollars, Except Share and Per Share Data)

	2016	2015
Discontinued operations (Note 3):		
Revenues	\$ 23,710	\$ 29,285
Cost of revenues	14,613	17,883
Gross profit	9,097	11,402
Operating expenses:		
Engineering and development expense	1,018	1,227
Sales and marketing expense	1,623	1,023
Amortization expense	1,189	705
Depreciation expense	123	139
Operating expenses	3,953	3,094
Income from discontinued operations	5,144	8,308
Other income (expense):		
Gain on sale of Thermal business	24,683	-
Interest expense	(1,567)	(1,875)
Total other income (expense) from discontinued operations	23,116	(1,875)
Income from discontinued operations before income tax expense	28,260	6,433
Income tax expense	(1,510)	(1,194)
Net income on discontinued operations	26,750	5,239
Net income, including noncontrolling interest	12,117	7,540
Less, net income (loss) attributable to noncontrolling interest	634	(25)
Net income attributable to Evercel, Inc. and subsidiaries	\$ 11,483	\$ 7,565
Comprehensive income:		
Net income	\$ 11,483	\$ 7,565
Unrealized holding gain during period attributable to Evercel, Inc. and subsidiaries	126	-
Unrealized holding gain during period attributable to noncontrolling interest	31	-
Total comprehensive income	\$ 11,640	\$ 7,565
Net income per share:		
Basic	\$ 0.35	\$ 0.23
Diluted	0.35	0.23
Weighted-average common shares outstanding:		
Basic	32,530,636	32,530,636
Diluted	32,631,241	32,562,676

See notes to consolidated financial statements.

Evercel, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity Years Ended March 25, 2016 and March 27, 2015 (In Thousands of Dollars, Except Share and Per Share Data)

	Preferred Stock				Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Evercel, Inc. and Subsidiaries	Noncontrolling Interest	Total Stockholders' Equity
	Series A		Series B		Number of Shares	\$0.01 Par Value						
	Number of Shares	\$0.01 Par Value	Number of Shares	\$0.01 Par Value	Number of Shares	\$0.01 Par Value						
Balance, March 28, 2014	17,070	\$ -	16,831	\$ -	32,530,636	\$ 325	\$ 6,450	\$ 28,992	\$ -	\$ 35,767	\$ 5,227	\$ 40,994
Dividends	1,366	-	1,346	-	-	-	68	(68)	-	-	-	-
Share-based compensation	-	-	-	-	-	-	52	-	-	52	-	52
Purchase of subsidiary shares of noncontrolling interest	-	-	-	-	-	-	(597)	-	-	(597)	(3,881)	(4,478)
Net income (loss) including noncontrolling interest	-	-	-	-	-	-	-	7,565	-	7,565	(25)	7,540
Balance, March 27, 2015	18,436	-	18,177	-	32,530,636	325	5,973	36,489	-	42,787	1,321	44,108
Dividends	1,475	-	1,454	-	-	-	73	(73)	-	-	-	-
Share-based compensation	-	-	-	-	-	-	52	-	-	52	-	52
Other comprehensive income	-	-	-	-	-	-	-	-	157	157	-	157
Net income including noncontrolling interest	-	-	-	-	-	-	-	11,483	-	11,483	634	12,117
Balance, March 25, 2016	19,911	\$ -	19,631	\$ -	32,530,636	\$ 325	\$ 6,098	\$ 47,899	\$ 157	\$ 54,479	\$ 1,955	\$ 56,434

See notes to consolidated financial statements.

Evercel, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 25, 2016 and March 27, 2015
(In Thousands of Dollars)

	2016	2015
Cash flows from operating activities:		
Net income including noncontrolling interest	\$ 12,117	\$ 7,540
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities:		
Gain on sale of Thermal business	(27,293)	-
Impairment charge	4,520	-
Depreciation and amortization	6,929	6,247
Amortization of debt issuance and deferred financing costs	193	264
Write off debt issuance and deferred financing costs	454	-
Gain on reversal of earn-out liability	-	(617)
Gain on write-off of deferred rent liability	(220)	-
Loss on write-down of inventories	135	974
Deferred income tax provision	3,424	1,320
(Gain) loss on disposal of property and equipment	(54)	121
Decrease in allowance for doubtful accounts	(319)	(15)
Stock-based compensation	52	52
Gain on sale of investments	-	(907)
Changes in operating assets and liabilities:		
Accounts receivable	8,817	(658)
Inventories	(2,307)	(861)
Prepaid expenses and other assets	218	(15)
Accounts payable	(1,846)	201
Accrued expenses	836	(2,948)
Other current liabilities	(844)	(890)
Deferred revenue	(244)	(128)
Income taxes payable	(638)	990
Net cash provided by operating activities	3,930	10,670
Cash flows from investing activities:		
Purchase of property and equipment	(2,211)	(877)
Proceeds from disposition of property and equipment	79	47
Net proceeds from sale of Thermal business	16,665	-
Restricted cash	156	-
Net proceeds from sale of investments	-	1,500
Purchase of investments	-	(4,478)
Net cash provided by (used in) investing activities	14,689	(3,808)

(Continued)

Evercel, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended March 25, 2016 and March 27, 2015
(In Thousands of Dollars)

	2016	2015
Cash flows from financing activities:		
Payments made on note payable to shareholder	\$ -	\$ (100)
Effect of exchange rate changes on mortgage	14	(437)
Payments of debt financing costs	(25)	-
Payments made on revolving credit facility	-	(6,000)
Payments on long-term debt	(5,320)	(8,123)
Net cash used in financing activities	(5,331)	(14,660)
Net increase (decrease) in cash and cash equivalents	13,288	(7,798)
Cash and cash equivalents, beginning of year	11,993	19,791
Cash and cash equivalents, end of year	\$ 25,281	\$ 11,993
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	\$ 1,533	\$ 845
Cash paid during the year for interest	\$ 1,204	\$ 1,980
Noncash financing activities:		
Settlement of long-term debt by purchaser of Thermal business	\$ 28,674	\$ -
Receipt of restricted stock from purchaser of Thermal business	\$ 2,423	\$ -

See notes to consolidated financial statements.

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Business

Evercel, Inc. (Evercel) is a holding company that oversees and manages subsidiary companies and portfolio investments. Companies owned and managed in 2016 and 2015 include New England Crab Company, Inc. (NECC), Evercel Pioneer Holding Corp. (Holding) and MMXIV LLC (MMXIV). The consolidated financial statements include the accounts of Evercel and its wholly owned subsidiaries (collectively, the Company).

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

Evercel Pioneer Holding Corp.: Holding, a wholly owned subsidiary of Evercel, was created in 2012 for the purpose of holding an 80.1 percent investment in Pioneer Holding Corp. (Pioneer Holding). The purchase of Pioneer Holding stock occurred on December 31, 2012. Pioneer Holding owns Printronix, LLC (Printronix), formerly 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 equity investment in Printronix and its commitment as the guarantor for certain Printronix debt. As the operating company, Printronix holds all operating assets and liabilities.

Printronix (formerly Printronix, Inc.): Printronix is a worldwide leader in supply-chain printing solutions for the industrial marketplace. The products are used in industrial settings such as manufacturing plants and distribution centers. Printronix has manufacturing and configuration sales located in the United States, Singapore, Malaysia, Holland and Mexico, along with sales and support locations around the world, to support its global network of users, channel partners and strategic alliances. On January 22, 2016, Printronix completed a major restructuring including the sale of the Thermal printer product line (Thermal business). See Note 3 for specific details.

New England Crab Company, Inc.: NECC, a wholly owned subsidiary of Evercel, sells processed crab products throughout the United States and overseas from its facility in Boston, Massachusetts. On February 26, 2014, Evercel sold substantially all assets of NECC. Any remaining assets were fully reserved at March 27, 2015 and written off in their entirety as of March 25, 2016.

MMXIV LLC: On August 13, 2014, Evercel purchased all Class A stock from MMXIV. MMXIV has a 19.9 percent ownership interest in Pioneer Holding, which owns 100 percent interest in Printronix.

Note 2. Summary of Significant Accounting Policies

Principles of consolidation: For the fiscal years ended March 25, 2016 and March 27, 2015, the consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany balances and transactions have been eliminated in consolidation. The Company uses a 52- or 53-week fiscal year ending on the last Friday of March. For the fiscal years presented, the year-end dates were March 25, 2016 and March 27, 2015. Both fiscal years 2016 and 2015 were 52-week fiscal periods.

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

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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

Restricted cash: During fiscal year 2015 and through January 2016, Printronix was required to maintain cash at specified levels in accordance with its credit facility agreement to collateralize an outstanding letter of credit. The requirement was lifted in January 2016, and the restricted cash was released. The balance of both the restricted cash and the letter of credit was \$0 and \$0.156 million as of March 25, 2016 and March 27, 2015, respectively.

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

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

Property and equipment: Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Improvements are amortized over the remaining life of the lease. Maintenance and repairs are charged to expense as incurred. Upon disposition, the applicable costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income from operations. Depreciation and amortization expense was \$2.8 million and \$3.2 million in fiscal years 2016 and 2015, respectively.

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

Deferred financing charges: Printronix capitalizes debt issuance costs, including loan discounts, and amortizes these costs over the term of the debt instruments. In fiscal year 2014, \$0.052 million of additional debt issuance costs were capitalized related to the December 2012 debt. In January 2016, the debt was settled with the proceeds from the sale of the Thermal business. All the remaining deferred financing charges related to the U.S. debt unamortized at that time were written off as interest expense, totaling \$0.454 million. Printronix amortized \$0.193 million and \$0.264 million of debt issuance costs in fiscal years 2016 and 2015, respectively.

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The debt issuance cost balance as of March 25, 2016 and March 27, 2015 is recorded as follows on the consolidated balance sheets (dollars in thousands):

	2016	2015
Other assets	\$ -	\$ 417
Current portion long-term debt	-	85
Long-term senior term debt	-	145
	<u>\$ -</u>	<u>\$ 647</u>

Goodwill and other intangible assets: Printronix adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-02, *Intangibles—Goodwill and Other (Topic 350: Accounting for Goodwill)* at the beginning of fiscal 2016 and started to amortize goodwill over the life of 10 years. The amortization of goodwill expense was \$1.159 million. Printronix tests for goodwill impairment only when a triggering event occurs that indicates the fair value of Printronix may be below its carrying value. No impairment existed as of fiscal year ended March 27, 2015. As of March 25, 2016, Printronix wrote off all of its goodwill balance of \$11.743 million, of which \$4.52 million was related to the impairment charge and \$7.223 million was related to the sale of the Thermal business to TSC Auto ID Technology Co., Ltd. (TSC or the buyer).

Other 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. Printronix currently amortizes the definite-lived intangible assets on a straight-line basis over their estimated useful lives.

During fiscal years 2016 and 2015, definite-lived intangible assets, including goodwill, were amortized over periods ranging from seven to 10 years, and \$4.127 million and \$3.06 million of amortization expense was recognized in fiscal years 2016 and 2015, respectively.

Intangible assets at the end of each period consisted of the following (dollars in thousands):

	2016					
	Weighted-Average Amortization Period (In Years)	Gross Carrying Value	Accumulated Amortization	Thermal Disposed	Line Matrix Impairment	Net Book Value
Amortized intangible assets:						
Goodwill	10	\$ 12,902	\$ (1,159)	\$ (7,223)	\$ (4,520)	\$ -
Trade name and trademarks	10	\$ 4,581	\$ (1,489)	\$ -	\$ -	\$ 3,092
Patents	7-10	9,017	(3,102)	(828)	-	5,087
Customer and distributor relationships	10	16,397	(5,270)	(2,463)	-	8,664
		<u>\$ 29,995</u>	<u>\$ (9,861)</u>	<u>\$ (3,291)</u>	<u>\$ -</u>	<u>\$ 16,843</u>

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

2015						
Amortized intangible assets:	Weighted-Average Amortization Period (In Years)	Gross Carrying Value	Accumulated Amortization	Thermal Disposed	Line Matrix Impairment	Net Book Value
Trade name and trademarks	10	\$ 4,581	\$ (1,030)	\$ -	\$ -	\$ 3,551
Patents	7-10	9,017	(2,172)	-	-	6,845
Customer and distributor relationships	10	16,397	(3,690)	-	-	12,707
		<u>\$ 29,995</u>	<u>\$ (6,892)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,103</u>

Future amortizations of intangible assets are as follows (dollars in thousands):

Years ending:	
2017	\$ 2,495
2018	2,495
2019	2,495
2020	2,495
2021	2,495
Thereafter	4,368
	<u>\$ 16,843</u>

Fair value measurements: The carrying values of certain of the Company's financial instruments, including cash, cash equivalents, short-term investments, 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 values of the long-term debt and the current portion of long-term debt approximate fair value as they bear interest at current market rates.

Revenue recognition: Revenue for Printronix is recognized when it is realized or realizable and earned. The Company considers revenue to be realized or realizable and earned generally at the time of shipment and passage of title, when persuasive evidence of a sales arrangement exists in the form of a contract or purchase order, the product has been shipped, the sales price is fixed or determinable, and collection is reasonably assured. The Company has no further obligations after shipment of the product other than warranty obligations. Printronix sales are based upon written contractual agreements with the Company's resellers that include established pricing and payment terms.

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

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 Printronix. In these arrangements, Printronix allocates revenue to all deliverables based on their relative selling prices. Printronix uses vendor-specific objective evidence (VSOE) of fair value to determine the selling price to be used for allocating revenue to deliverables.

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. Printronix determines the VSOE based on its normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, Printronix 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.

Printronix offers printer maintenance services through service agreements that customers may purchase separately from the printer. These agreements commence upon expiration of the standard warranty period. Printronix provides the point of customer contact, dispatches the call and sells the parts used for printer repairs to service providers. Printronix 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.

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

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

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

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The following is a summary of the accrued warranty obligation for the fiscal years ended March 25, 2016 and March 27, 2015 (dollars in thousands):

	2016	2015
Beginning balance, warranty reserve	\$ 316	\$ 463
Add warranty expense	228	191
Deduct warranty claims settled	(336)	(338)
Ending balance, warranty reserve	<u>\$ 208</u>	<u>\$ 316</u>

Engineering and development: Engineering and development costs are expensed as incurred and consist of labor, supplies, consulting and other costs related to developing and improving the Company's products. Total engineering and development costs in operating expenses in the consolidated statements of operations were \$5.974 million and \$7.109 million in fiscal years 2016 and 2015, respectively.

Advertising costs: The Company expenses advertising costs, including promotional literature, brochures and trade shows, as incurred. Advertising expense was \$0.5 million in both fiscal years 2016 and 2015.

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

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

Printronix's restructuring charges and restructuring liabilities are summarized as follows (dollars in thousands):

	Workforce Reduction
Restructuring liabilities as of March 27, 2015	\$ 250
Add restructuring charges	2,710
Deduct cash payments	(1,141)
Restructuring liabilities as of March 25, 2016	<u>\$ 1,819</u>

Foreign currency gains and losses: The United States dollar is the functional currency for all of the foreign subsidiaries. Transactions that are recorded in currencies other than the United States dollar may result in transaction gains or losses at the end of the period and when the related receivable or payable is paid.

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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

Net foreign currency transaction and re-measurement loss was \$0.3 million and \$0.2 million in fiscal years 2016 and 2015, respectively, which is included in other income (expense) in the consolidated statements of operations.

Basic and diluted net income per share: The basic net income per common share is computed by dividing the net income attributable to Evercel by the weighted-average number of common shares outstanding. Diluted net income per common share attributable to Evercel is computed by dividing the net income by the weighted-average number of common shares outstanding plus potential dilutive securities, which include common stock options not yet exercised. In fiscal years 2016 and 2015, there were 475,000 and 375,000 options outstanding, respectively, that were not included in the denominator used in the diluted net income per share calculation because to do so would be antidilutive.

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

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

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

Forward contracts: Printronix enters into foreign exchange forward contracts to reduce the short-term effects of foreign currency fluctuations on certain foreign currency receivables or payables. These forward contracts generally mature within one year. Gains and losses in fair value on forward contracts that offset losses or gains on foreign currency receivables or payables are included in foreign currency (gains) losses, net. The balance of the foreign currency receivable was \$0.007 million and \$0.087 million at March 25, 2016 and March 27, 2015, respectively, and is classified as a Level 2 investment in the fair value hierarchy.

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Interest rate swap: Printronix entered into a five-year interest rate swap agreement (Swap Agreement) with JP Morgan, effective November 30, 2013, with an original notional principal amount of \$37.5 million to minimize interest rate change impacts on a portion of its floating rate long-term debt. At March 27, 2015, the notional principal amount was \$26.9 million. Under the Swap Agreement, Printronix paid interest at a fixed rate of 0.805 percent and received interest at a variable rate equal to the one-month LIBOR (0.1780 percent at March 27, 2015). Printronix had elected to not use hedge accounting, but recognized a liability and corresponding expense equal to the fair value of the hedge instrument. The balance of the interest rate swap liability was \$0 and \$0.009 million at March 25, 2016 and March 27, 2015, respectively, and is classified as a Level 2 investment in the fair value hierarchy.

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

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11). ASU 2013-11 requires that unrecognized tax benefits be presented as a reduction to deferred tax assets for all same jurisdiction loss or other tax carryforwards that are available and would be used by the entity to settle additional income taxes resulting from disallowance of the uncertain tax position. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements.

The FASB issued other guidance during 2015 and 2016, not discussed herein, that related to technical changes of existing guidance or new guidance that is not applicable to the Company's current financial statements and disclosures.

Note 3. Discontinued Operations

On January 22, 2016, Printronix completed the sale of the Thermal business. The sale represents a strategic shift to focus on its line matrix product line and will have a major effect on the Company's operations and financial results. Printronix sold the Thermal business for net cash proceeds of \$16.7 million plus \$2.4 million of common stock of the buyer. Printronix recognized a gain on disposal of \$24.6 million. As part of the sale, the buyer paid off Printronix's \$28.7 million of outstanding debt. Per the Stock and Asset Purchase Agreement, if the Thermal business generates a certain amount of purchase orders within one year after the purchase date, Printronix will receive an additional \$3.0 million of cash proceeds. No receivable or gain has been recorded during fiscal 2016 for this contingency. The remaining net assets on the books at fiscal year ended 2016 will be sold to the buyer at the end of the transition period, which is expected to be less than one year from the fiscal year ended March 25, 2016. Capital expenditures were \$0.156 million and \$0.131 million for the fiscal years ended March 25, 2016 and March 27, 2015, respectively.

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Discontinued Operations (Continued)

Per the Stock and Asset Purchase Agreement, all of Printronix's tax credits were transferred to the buyer. No credits remain for the Company to utilize and all of the related valuation allowance was written off in the current year. A liability of \$3.6 million is included in other long-term liabilities in the consolidated balance sheet due to certain indemnity clauses in the Stock and Asset Purchase Agreement.

The following is a summary of the net assets and liabilities considered discontinued operations for the years ended March 25, 2016 and March 27, 2015 (dollars in thousands):

	2016	2015
Carrying amounts of major classes of assets included as part of discontinued operations:		
Inventories	\$ 1,746	\$ 3,072
Property and equipment, net	288	227
Other intangibles, net	-	3,800
Current deferred tax assets	3	159
Other current assets	-	1,029
Total major classes of assets of discontinued operations	<u>2,037</u>	<u>8,287</u>
Carrying amounts of major classes of liabilities as part of discontinued operations:		
Accrued liabilities	-	1,021
Long-term senior term debt	-	33,388
Long-term deferred tax liabilities	-	1,738
Total liabilities	<u>-</u>	<u>36,147</u>
Net assets (liabilities) of discontinued operations	<u>\$ 2,037</u>	<u>\$ (27,860)</u>

The income from discontinued operations presented in the consolidated statements of operations and comprehensive income consists of the following for the years ended March 25, 2016 and March 27, 2015 (dollars in thousands):

	2016	2015
Major classes of line items constituting income before income taxes of discontinued operations:		
Revenues	\$ 23,710	\$ 29,285
Less:		
Cost of goods sold	14,613	17,883
Engineering and development expense	1,018	1,227
Sales and marketing expense	1,623	1,023
Interest expense	1,567	1,875
Amortization expense	1,189	705
Depreciation expense	123	139
Income from discontinued operations before income taxes	<u>3,577</u>	<u>6,433</u>
Gain on sale of Thermal business	24,683	-
Provision for income taxes	<u>(1,510)</u>	<u>(1,194)</u>
Total income from discontinued operations	<u>\$ 26,750</u>	<u>\$ 5,239</u>

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Discontinued Operations (Continued)

The following is a reconciliation of the sale price of the Thermal business and the gain on the sale (dollars in thousands):

Contractual sale price	\$	52,423
Less:		
Payoff of debt		(28,674)
Contingent amount to be earned after one year		(3,000)
Reimbursements to buyer for deferred revenue		(508)
Proceeds from sale of Thermal business		<u>20,241</u>
Less:		
Transaction costs		<u>(1,232)</u>
Net proceeds from sale of Thermal business		19,009
Book value of Thermal business, deficit		8,283
Write-off of Evercel-related tax assets		<u>(2,609)</u>
Gain on sale	\$	<u><u>24,683</u></u>

Note 4. Inventories

Inventories consisted of the following for the years ended March 25, 2016 and March 27, 2015 (dollars in thousands):

	2016	2015
Raw materials	\$ 5,500	\$ 6,985
Subassemblies	2,633	1,923
Work in process	1	2
Finished goods	2,965	2,760
Total inventories before allowance	<u>11,099</u>	<u>11,670</u>
Less allowance	<u>(1,200)</u>	<u>(1,456)</u>
Total inventories after allowance	<u><u>\$ 9,899</u></u>	<u><u>\$ 10,214</u></u>

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Bank Borrowings and Debt Arrangements

Outstanding debt obligations for the years ended March 25, 2016 and March 27, 2015 consisted of the following (dollars in thousands):

	2016	2015
LIBOR plus 3.5% term loan, due September 13, 2018	\$ -	\$ 33,389
Three-month SIBOR plus 1.38%, due July 23, 2023	4,979	5,570
Total debt	4,979	38,959
Less unamortized debt discount	-	(230)
Total debt, net	4,979	38,729
Less current portion, including current portion of amortized debt discount	(628)	(6,822)
Long-term debt, net of current portion, including long-term portion of unamortized debt discount	\$ 4,351	\$ 31,907

Revolving commitment facility and senior secured term loan: As of January 22, 2016, the \$28.7 million owed by Printronix on the senior secured term loan was paid off in full by the buyer of the Thermal business. All liens and covenants have been fully released as of that date. As of March 25, 2015, Printronix had a senior secured credit agreement, which provided for a \$44.0 million term loan and a \$10.0 million revolving commitment facility. Borrowings under the agreement bore interest at LIBOR plus applicable margin of 2.25 percent to 3.5 percent, depending on the consolidated leverage ratio of Printronix. The interest rate on the credit facility was 3.67 percent as of March 27, 2015. The agreement contained certain financial covenants, which were all complied with as of March 27, 2015. Payment of cash dividends were restricted except in certain permitted situations.

As of March 27, 2015, the \$6.0 million borrowed on the revolving line of credit was paid off.

Foreign credit facilities: In July 2013, Printronix's subsidiary in Singapore entered into a 10-year mortgage agreement to borrow SGD 9 million (equivalent to US\$7.4 million). The mortgage facilities are collateralized by the subsidiary's real estate property. Borrowings under the agreement bear interest at three-month Singapore Interbank Offered Rate (SIBOR) plus 1.38 percent to 3 percent. The outstanding mortgage balance of \$5.0 million was paid off subsequently in June 2016, in conjunction with the sale of the real estate property.

Note 6. Fair Value of Financial Instruments

Fair value is defined under U.S. 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.

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. 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 1. 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.

Printronic owns a restricted stock investment related to the sale of the Thermal business and classifies its restricted stock investment as available-for-sale securities with net unrealized gains or losses recorded as a component of accumulated other comprehensive income. Printronic utilizes the Level 1 valuation technique and values the restricted stock investment at market value, based on the Taiwan Stock Exchange as of March 25, 2016. 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 financial instruments held by Printronic as of March 25, 2016 and March 27, 2015, are presented in the following table (dollars in thousands):

	2016	2015
Level 1:		
Restricted stock	\$ 2,580	\$ -
Level 2:		
FX Forward contracts	\$ 7	\$ 87
Interest rate swap	-	(9)
	\$ 7	\$ 78
Level 3	\$ -	\$ -

Note 7. Stockholders' Equity

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

Series A preferred stock: There are 400,000 shares of Series A preferred stock authorized, with 19,911 and 18,436 shares issued and outstanding as of March 25, 2016 and March 27, 2015, respectively.

8 percent dividends declared and paid to Series A stockholders, in the form of 1,475 additional shares of Series A stock, for the year ended March 25, 2016, totaling \$36,872.

8 percent dividends declared and paid to Series A stockholders, in the form of 1,366 additional shares of Series A stock, for the year ended March 27, 2015, totaling \$34,140.

Series B preferred stock: There are 600,000 shares of Series B preferred stock authorized, with 19,631 and 18,177 shares issued and outstanding as of March 25, 2016 and March 27, 2015, respectively.

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Stockholders' Equity (Continued)

8 percent dividends declared and paid to Series B stockholders, in the form of 1,454 additional shares of Series B stock, for the period ended March 25, 2016, totaling \$36,354.

8 percent dividends declared and paid to Series B stockholders, in the form of 1,346 additional shares of Series B stock, for the period ended March 27, 2015, totaling \$33,661.

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

Conversion feature: Each share of preferred stock has a conversion feature at \$13.75 per share, which is subject to certain adjustments. Cumulative dividends are calculated at a rate of 8 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 for the liquidation amount, which includes any accrued and unpaid dividends. Preferred shareholders may only redeem their shares if the Company breaches or fails to comply with its obligations under the Certificate of Designations and such breach has a material adverse effect on the business or prospects of the Company.

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

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

The 8 percent cumulative dividends on the Series A and Series B preferred stock, which have been paid to shareholders in the form of a stock dividend (additional shares of preferred stock), as of March 25, 2016 and March 27, 2015 total \$0.566 million and \$0.493 million, respectively.

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Stockholders' Equity (Continued)

Basic and dilutive net income per share: The following is the methodology for determining dilutive shares for the calculation of earnings per share (dollars in thousands):

	2016	2015
Numerator:		
Net income attributable to Evercel, Inc. and Subsidiaries	\$ 11,483	\$ 7,565
Preferred stock dividends—Series A	(37)	(34)
Preferred stock dividends—Series B	(36)	(34)
Numerator for basic EPS—income available to common stockholders	11,410	7,497
Effect of dilutive securities:		
Preferred stock dividends—Series A	37	34
Preferred stock dividends—Series B	36	34
Numerator for diluted EPS—income available to common stockholders after assumed conversions	\$ 11,483	\$ 7,565
Denominator:		
Denominator for basic EPS—weighted-average shares	32,531	32,531
Effect of dilutive shares:		
Common stock options	79	12
Preferred stock dividends—Series A	11	10
Preferred stock dividends—Series B	11	10
Dilutive potential common shares	101	32
Denominator for diluted EPS—adjusted weighted-average shares and assumed conversions	32,631	32,563
Basic EPS	0.35	0.23
Diluted EPS	0.35	0.23

Controlling interest: The following summarizes the effects of change in the Company's ownership in Printronix and its equity as of March 25, 2016 and March 27, 2015:

	2016	2015
Net income attributable to Evercel	\$ 11,483	\$ 7,565
Transfers (to) from noncontrolling interest:		
Decrease in paid-in capital for purchase of additional ownership interest in Printronix related to the acquisition of MMXIV	-	(597)
Net transfers (to) from noncontrolling interest	-	(597)
Change from net income attributable to Evercel and transfers (to) from noncontrolling interest	\$ 11,483	\$ 6,968

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Equity Incentive Plan

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

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The fair value is amortized as compensation cost on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. The Company uses historical data on employee turnover and terminations to estimate the percentage of options that will ultimately be exercised. Expected volatility is based on average volatility for a representative sample of publicly traded companies in the same industry sector. The expected term represents the period of time that the options are expected to be outstanding. The risk-free interest rate is estimated using the rate of return on the U.S. Treasury Notes with a life that approximates the expected life of the option. Stock options that have been granted are exercisable commencing one year after grant at the rate of 20 percent of such shares in each succeeding year.

As of March 25, 2016, 695,000 of 875,000 common stock options granted were fully vested. As of March 27, 2015, 615,000 of 775,000 options granted were fully vested.

The following table summarizes the common stock option plan activity at the end of each fiscal period (dollars in thousands):

	Number of Options	Range of Exercise Prices	Weighted- Average Exercise Price
Outstanding at March 28, 2014	775,000	\$0.72-\$1.40	\$ 1.05
Issued	-		
Exercised	-		
Expired	-		
Forfeited	-		
Outstanding at March 27, 2015	775,000	0.72-1.40	1.05
Issued, November 3, 2015	100,000	1.16	1.16
Exercised	-		
Expired	-		
Forfeited	-		
Outstanding at March 25, 2016	<u>875,000</u>	0.72-1.40	1.13

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Equity Incentive Plan (Continued)

Options outstanding and exercisable are as follows for the years ended March 25, 2016 and March 27, 2015:

	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
2016	\$0.86-\$1.52	875,000	2.9	\$ 1.13	695,000	\$ 1.09
2015	0.72-1.40	775,000	4.3	1.05	615,000	1.13

Compensation expense related to the options outstanding recognized in the accompanying consolidated statements of operations totaled \$52,000 for the fiscal years ended March 25, 2016 and March 27, 2015, respectively. There is \$109,750 of unrecognized compensation expense related to the outstanding options as of March 25, 2016 to be recognized over the weighted-average period of two years.

Note 9. Employee Benefit Plan

Savings and investment plan: Printronix has a 401(k) Savings and Investment Plan for all eligible employees, which is designed to be tax deferred in accordance with the provisions of Section 401(k) of the Internal Revenue Code. Printronix matches employee contributions dollar-for-dollar up to the first 1 percent of contribution, and then an additional \$0.50 on the next 1 percent of employee contribution. Printronix's contributions become fully vested after four full years of employment. Employee contributions are always 100 percent vested. Printronix's total contribution was \$0.18 million and \$0.15 million in fiscal years 2016 and 2015, respectively.

Note 10. Income Taxes

Provision for income taxes: The provision for income taxes consists of the following for the years ended March 25, 2016 and March 27, 2015 (dollars in thousands):

	2016	2015
Current provision (benefit):		
Federal	\$ -	\$ -
State	(137)	152
Foreign	499	1,649
Deferred provision (benefit):		
U.S.	4,306	1,617
Foreign	(718)	(297)
Income tax provision	3,950	3,121
Income tax provision from discontinued operations	(1,510)	(1,194)
Income tax provision from continuing operations	\$ 2,440	\$ 1,927

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Income Taxes (Continued)

Deferred income tax assets and liabilities: The deferred income tax assets and liabilities as of March 25, 2016 and March 27, 2015 consisted of the following (dollars in thousands):

	2016	2015
U.S. deferred income tax assets and liabilities:		
Current:		
Inventory costs capitalized for tax, expensed for financial reporting purposes	\$ 397	\$ 828
Accruals	963	950
Valuation allowance	-	(46)
Deferred income tax assets, current	<u>1,360</u>	<u>1,732</u>
Noncurrent:		
Net operating loss carryforwards	-	3,217
Credit carryforwards	301	9,272
Liabilities/reserves	55	168
Others	-	95
Property, plant and equipment	-	255
Intangibles	(3,642)	(4,278)
Valuation allowance	-	(2,477)
Deferred income tax (liabilities) assets, noncurrent	<u>(3,286)</u>	<u>6,252</u>
Foreign deferred income tax assets and liabilities:		
Current:		
Accruals	241	134
Deferred income tax assets, current	<u>241</u>	<u>134</u>
Noncurrent:		
Property, plant and equipment	(208)	(978)
Others	367	-
Deferred income tax (liabilities), noncurrent	<u>159</u>	<u>(978)</u>
Total current deferred tax assets	<u>\$ 1,601</u>	<u>\$ 1,866</u>
Total noncurrent deferred tax (liabilities) assets	<u>\$ (3,127)</u>	<u>\$ 5,274</u>

Deferred income taxes are not provided for the undistributed earnings of the foreign subsidiaries, which totaled approximately \$6.3 million as of March 25, 2016, as the Company intends to reinvest these earnings indefinitely outside of the United States. Should the Company be required to repatriate these funds, the deferred tax liability would be approximately \$2.1 million before the consideration of foreign tax credits.

The Company has determined that, based on all available evidence, it appears that it is more likely than not that a portion of the state deferred tax assets will not be realized. As such, a partial valuation allowance is recorded for the U.S. state deferred tax assets. In fiscal year 2015, the total change in the valuation allowance was an increase of \$0.204 million. In fiscal year 2016, the total change in the valuation allowance was a decrease of \$2.5 million.

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Income Taxes (Continued)

The following table reflects the changes in the valuation allowance as of March 25, 2016 and March 27, 2015 (dollars in thousands):

	2016	2015
Beginning balance, valuation allowance	\$ 2,523	\$ 2,319
Provision for valuation allowance	-	204
Utilization of valuation allowance	(2,523)	-
Ending balance, valuation allowance	<u>\$ -</u>	<u>\$ 2,523</u>

The Company has historically reflected interest and penalty associated with uncertain tax positions in the tax provision expense. The total amounts of interest and penalties recognized in the consolidated statements of operations are zero for fiscal years 2016 and 2015, respectively.

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 our consolidated statements of operations and consolidated balance sheets.

As of March 27, 2015, the long-term deferred tax assets were reduced by unrecognized tax benefits \$3.5 million. As of March 25, 2016, due to the sale of the Thermal business, the Company has no unrecognized tax benefits. See Note 3 for additional detail.

Balance as of March 28, 2014	\$ 3,784
Decrease related to prior year position	(264)
Balance as of March 27, 2015	<u>3,520</u>
Decrease related to prior year position	(3,650)
Increase related to prior year position	130
	<u>\$ -</u>

For the periods ended March 25, 2016 and March 27, 2015, the worldwide tax expense of \$3.95 million and \$3.12 million, respectively, differs from the U.S. statutory rate principally due to changes in valuation allowance, research credits, various permanent book and tax differences, and differences in foreign tax rates.

The fiscal tax years that remain subject to examination are all of the fiscal years ended after December 31, 2012 for federal and March 2011 for most states. In addition, all of the net operating losses and research and development credit carryforwards that may be used in future years are still subject to adjustment.

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Related-Party Transactions

On June 27, 2013, Evercel sold to Corona Investment Partners, LLC (CPIP) 5,639,545 shares of common stock in exchange for a \$4.230 million promissory note. The interest rate on the note receivable is 0.95 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 25, 2016 and March 27, 2015, \$4.270 million of the note receivable was outstanding and reclassified against additional paid-in capital, which is included in stockholders' equity on the accompanying consolidated balance sheets. Additionally, \$0.029 million and \$0.040 million of interest income in 2016 and 2015, respectively, which is included in additional paid-in capital of stockholders' equity on the accompanying consolidated balance sheets. The net change when considering paid-in-kind interest to additional paid-in capital for fiscal 2016 and 2015 was \$0 million.

Evercel had an investment in LocalVox Media, Inc. representing 403,245 shares of Series A preferred stock, which was recorded at zero as of March 28, 2014. On September 29, 2014, LocalVox Media, Inc. completed a merger in which Series A preferred stock was converted into the right to receive \$1.328 per share. Evercel received \$0.317 million of the total consideration of \$0.536 million on September 29, 2014. The remaining \$0.219 million was deferred and paid on September 30, 2015.

Printronix had \$0.15 million and \$0.03 million due to CPIP for reimbursable expenses as of March 25, 2016 and March 27, 2015, respectively, which is included in accounts payable on the accompanying consolidated balance sheets.

Note 12. Commitments and Contingencies

Operating leases: With the exception of Singapore, Printronix conducts its foreign operations and United States operations using leased facilities under noncancelable operating leases that expire at various dates through fiscal year 2020. The Malaysia factory lease has two renewal options for additional four years plus two years. Annual rental expense was \$2.3 million and \$2.8 million for fiscal years 2016 and 2015, respectively.

Future minimum lease payments under existing noncancelable operating leases are as follows (dollars in thousands):

Years ending:	
2017	\$ 1,797
2018	1,114
2019	576
2020	134
	<u>\$ 3,621</u>

Guarantees: Printronix posted collateral in the form of a surety bond or other similar instruments, which are issued by independent insurance carriers (the Surety), to cover the risk of loss related to certain customs and employment activities. If any of the entities that hold such bonds should require payment from the Surety, Printronix would be obligated to indemnify and reimburse the Surety for all costs incurred. As of both March 25, 2016 and March 27, 2015, Printronix had \$0.73 million of these bonds outstanding.

Note 12. Commitments and Contingencies (Continued)

Long-term incentive plan: Printronix has seven employment contracts with various executive officers requiring cash payments if certain financial targets are achieved. These agreements expire in fiscal year 2019. Amounts are accrued when earned; imminent payment is expected under the agreement with the condition of continued employment of the executive officers under the agreement. Printronix has \$0.04 million and \$0.06 million accrued related to the long-term incentive plan at March 25, 2016 and March 27, 2015, respectively.

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

In August 2002, Printronix responded to an inquiry from the California Department of Toxic Substance Control (the Department) regarding the operations at the site of the former production plant. In February 2004, the Department submitted a proposed Corrective Action Consent Agreement to the Company, which would require it to perform an investigation of the site that would be used as a basis to determine what, if any, remediation activities would be required.

During fiscal year 2006, the Department agreed to include the prior tenant of the site in the ongoing inquiry. During fiscal year 2007, the Company and the prior tenant were jointly issued a draft Enforcement Order with respect to 1700 Barranca Parkway, Irvine, California.

The Enforcement Order was negotiated. By August 7, 2006, a Corrective Action Consent Agreement to conduct a Preliminary Endangerment Assessment (PEA) had been agreed upon and executed by both Printronix and the prior tenant, and requires that both parties: (a) evaluate if interim measures are required and take action if necessary and (b) perform an investigation of the site. The testing result from the PEA indicates a continuing presence of the contaminants. The testing for the adjacent property has yet to commence.

In January 2010, a pilot study of the proposed soil remediation method under an approved Revised Interim Measures Work Plan was completed. In February 2011, a Dual Phase Extraction (DPE) pilot study report was submitted to the Department for review and approval, with the expectation that the Company would move forward with a full-scale DPE system installation and implementation (Work Plan) to address soil contamination.

Since February 2011, several revised proposals were submitted to the Department, and comment letters were received. In February 2014, the Department approved the contractor's proposal dated November 19, 2013. As of March 27, 2015, the 2014 approved contractor's work had been substantially completed. Soil, gas and indoor air investigation services at the adjacent site are completed. The results of the soil, gas and indoor air investigation indicated that the contamination is contained, and remediation action could begin in mid-2016, when the adjacent site could be accessed to begin to remove the soil and start the bio-remediation plan.

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

Evercel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Commitments and Contingencies (Continued)

As of March 25, 2016, Printronix accrued \$0.34 million, its best estimated of future costs, to cover the accepted bio-remediation plan, soil excavation work and future groundwater monitoring. As of March 27, 2015, the Company accrued \$0.1 million to cover expenses for the proposed Work Plan, Corrective Study and environmental tests. The accrual is included in accrued liabilities, other, on the consolidated balance sheets.

The future costs, if any, related to these environmental activities will be determined by rulings from environmental regulatory authorities. The effect of which on the financial statements and results of operations is unknown at this time and will not be quantifiable until those regulatory authorities have issued final rulings.

Litigation: From time to time, the Company is subject to legal and other claims that arise out of the ordinary course of business. There are currently no claims or proceedings that will have a material impact upon the Company's financial position, or results of operations and cash flows.

Contingent consideration: On December 31, 2012, Evercel and Oringer Capital LLC (now MMXIV LLC) acquired all of the outstanding equity shares and options of Pioneer Holding. Evercel purchased 80.1 percent and MMXIV 19.9 percent. At the time of purchase, Evercel was not an owner of MMXIV. The aggregate purchase price was \$88.011 million. The purchase price included contingent consideration related to an earn-out provision based on a calendar year EBITDA calculation, which was fair valued at \$0 and \$0 million at March 25, 2016 and March 27, 2015, respectively. In fiscal year 2015, Printronix realized a gain on the reversal of the earn-out liability in the amount of \$0.617 million.

Note 13. Subsequent Events

On May 16, 2016, the Board of Directors of Printronix declared an \$18.3 million dividend to the stockholders and was subsequently paid on May 19, 2016. On July 8, Printronix declared and paid an additional dividend related to the sale of the Singapore building in the amount of \$4.0 million.

The Company has performed an evaluation of subsequent events through November 18, 2016, which is the date the consolidated financial statements were available to be issued. As part of that evaluation, other than the sale of the Singapore building, no other subsequent events were identified.