bakertilly

Evercel

Evercel, Inc. and Subsidiaries

Consolidated Financial Statements

March 27, 2020 and March 29, 2019

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. Current key investment holdings are:

Evercel invested $18.0 million for 80.1% ownership of Printronix Holding Corporation ("Printronix") in 2013. Since the original investment, Evercel has received $26.4 million of distributions from its investment and continues to own the same 80.1% of Printronix it acquired in 2013. Further details about Printronix's performance for the fiscal year ended ("FYE") 2020 are outlined in the next section of this report.

Evercel invested $10 million in SharpSpring in FYE 2019, Inc. through the purchase of stock in the amount of $2 million and the issuance of a convertible note with a face value of $8 million. During FYE 2020, Evercel converted the note to shares and sold all shares realizing a net gain, after costs, of $11.2 million. Beginning in fiscal 2020, the Company adopted FASB Accounting Standards Update ("ASU") 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. In connection with the adoption of this standard The Company recorded a net loss from changes in fair value of investments of $1,410 in the accompanying consolidated statement of income for the fiscal year ended March 27, 2020. This reflects the net change in fair value of investments included in FYE2019 Other Comprehensive Income offset by the gain on investments that occurred during FYE2020.

Cash and Liquidity:
At FYE 2020, Evercel had $32.5 million of cash and cash equivalents, excluding cash held by Printronix. In addition, Printronix, which is 80.1% Evercel owned, had cash and cash equivalents and short term investments of $29.1 million.

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 accompanying consolidated audited 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 a variety of industries, including manufacturing, transportation and logistics, retail distribution, food and beverage distribution, and pharmaceutical distribution. Printronix's line matrix printers are used for mission critical applications within these industries, including labeling and inventory management, build sheets, invoicing, manifests and bills of lading, and reporting. In China, India, and other developing countries in Asia and Africa, our printers are also prevalent in the banking and government sectors. Printronix has manufacturing, configuration, and/or distribution sites located in Malaysia, the United States, 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's products are primarily sold through Printronix's global network of channel partners, such as dealers and distributors, to end-users.

Printronix Plan of Operation

Printronix's FYE 2020 results reflect printer refresh project delays, the impact of which was exacerbated by the global COVID-19 pandemic. The pandemic negatively affected our business across all geographic segments and all products lines, with the most significant impact on our line matrix printer (LMP) sales. During the first nine months of FYE 2020, the Company experienced delays in several large printer refresh projects and various headwinds within certain regions and end-markets. As a result of these dynamics, the Company had a sizeable backlog of business heading into the fourth quarter. As the COVID-19 pandemic spread and intensified during the fourth quarter, it unfavorably impacted the conversion of this pipeline during the fourth quarter. As a result, we ended the year with a total backlog (orders received, but unshipped) of $2.4 million. In FYE 2020, Printronix recorded total revenue of $43.3 million, income from continuing operations of $3.3 million, and net income of $2.9 million.

Highlights from FYE 2020 include:

- The Company's LMP printers and options (P&O) product line generated sales of $17.5 million in FYE 2020, down 38.9% year-over-year. These results reflect printer refresh project delays during the first nine months of the year, the impact of which was amplified by the global COVID-19 pandemic during the fourth quarter.

  During the first nine months of FYE 2020, the Company experienced delays in several large printer refresh projects due to headwinds within certain regions, such as China due to the trade war, and end-markets, such as automotive, particularly within the U.S. where the major automotive companies were impacted by labor strikes. As a result of these dynamics, the Company had a sizeable backlog of business heading into the fourth quarter. As the COVID-19 pandemic spread geographically, our projects were impacted due to a variety of factors, including unavailability of end-user personnel to close deals, facility shut-downs preventing installation, inability to ship due to port closures, and general deferrals in end-user capital expenditures. We ended the year with a P&O backlog (purchase orders received but product not shipped) of approximately $1.2 million, compared to typical year-levels which are immaterial. This backlog shipped during the first half of FYE 2021.

- The Company believes LMP solutions 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. Product margin for our P&O business was 50.4%, demonstrating its competitive strength and pricing power within the market.

  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. Within emerging markets, 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. 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.

  For FYE2021, the Company's P&O business continues to be negatively impacted by the global COVID-19 pandemic which introduces economic uncertainty for our end-users, creating curtailed or delayed investment in information technology (IT) capital expenditures.

- Sales of line matrix consumable products generated sales of $19.8 million in FY2020, down 13.1% year-over-year. Demand for consumables products is driven by Printronix's installed base of line matrix printers. In the fourth quarter of FY2020, sales of line matrix consumables products were negatively impacted as end-users shut-down operating facilities and our outbound supply chain was impacted by port closures. We ended the year with a P&O backlog (purchase orders received but product not shipped) of $1.2 million. This backlog has shipped during the first half of FY2021.

  We continue to view 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 installation 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.

  This trend translates to a steady increase in consumables market share as well as additional revenue associated with higher pricing and margin dollars, since cartridges carry meaningfully higher prices compared to spools. Furthermore, the Company continued to offset the impact of revenue declines on profitability through cost reductions. Product margins for line matrix consumables were 75.2%, up from 72.2% in FYE 2020.

  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.

  For FYE 2021, the Company anticipates its consumables business will continue to be negatively impacted by subdued global economic activity due to the global COVID-19 pandemic.

- E-commerce sales increased during FYE 2020 due primarily to the ramp-up of an end user focused store in the United States. Global E-commerce sales were $1 million, with United States end user sales more than doubled year-over-year to $0.6 million. The Company expects to accelerate growth within the U.S. as it shifts more volume, particularly for consumables, to the online store. The Company launched a new e-commerce store in Europe in FYE 2020 and is launching an e-commerce presence in China in FYE 2021. 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.

- Revenue from service programs and spares parts sales decreased 5.6% year-over-year to $5.3 million. The Company views maintenance and service as a growth opportunity 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. Furthermore, the Company is revamping its spares strategy to increase its market share.

- The Company's manufacturing operations demonstrated continued stability during FYE 2020, where the Company's gross margin was 50.7% compared to 53.7% in the previous year despite decreased revenue. The Company completed cost reduction projects during FY2020, further reducing the materials costs for its consumables products. Furthermore, the Company focused on improving end-to-end quality.

- The Company's operating expenses were $18.6 million in FYE 2020, compared to $19.4 million in the previous year. Operating expenses in FYE 2020 included a $0.6 million provision for bad debt. Shortly after the COVID-19 outbreak, the Company took immediate actions to strengthen its balance sheet and preserve cash. Moreover, management determined that it was prudent to take broader, permanent restructuring actions to reduce our cost structure in FYE 2021 and beyond. These actions primarily entailed organizational restructuring and headcount reduction as well as a reduction in our facility footprint. Some of these actions have been executed during the first half of FYE 2021, while others are planned for later in the fiscal year.

The Company's near-term operating strategy focuses on accelerating the refresh of printers within our install base, maximizing our market share for after-market products (consumables and spares) and services, and maximizing cash flow through reduced spending and working capital management. The Company continues to actively explore 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 27, 2020 and March 29, 2019

Revenues

Revenues consist primarily of sales of printers, related consumable products such as inked ribbons and spares, and printer-maintenance service agreements. Revenue for FYE2020 was $43,285, a 24.9% decrease from revenue of $57,609 in the prior year. Refer to Note 14 of the audited consolidated financial statements for disaggregation of the revenue by product line. The decrease in revenue in FYE2020 was due to decreased printer sales volume primarily driven by the impact of delayed LMP P&O deals within the year and the global COVID-19 pandemic, which impacted both printer and consumables sales in the fourth quarter. We ended the year with a total backlog of $2,441. Normalizing for the impact of this year's backlog, total revenue would have been $45,726, down 20.6% year-over-year.

Gross Margin and Gross Profit
Gross profit for FYE 2020 was $21,966, a 29.0% decrease from gross profit of $30,938 in the prior year. Gross margin in FYE 2020 decreased to 50.7%, a 300 basis point decrease from 53.7% in FYE 2019. The decrease in gross margin was driven by lower fixed cost absorption associated with lower production volume partially offset by reduced material costs for consumables.

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 FYE 2020 was $857, a 10.7% decrease from $960 in FYE 2019. Engineering and development expense as a percentage of revenue was 2.0% for FYE 2020, compared to 1.7% in the prior year. The decrease in engineering and development expense in FYE 2020 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.

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 FYE 2020 was $9,604, a 2.4%% decrease from $9,837 in FYE 2019. Sales and marketing expense as a percentage of revenue was 22.2% in FYE 2020, compared to 17.1% in prior year. The decrease in sales and marketing expense in FYE 2020 was primarily due to lower commissions paid due to lower printer sales volume. For FYE 2021, the Company has restructured its sales and marketing organization, consolidating from a three-region structure to a two-region structure and streamlined sales resources within each region.

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 FYE 2020 was $8,026, a 2.9% decrease from $8,265 in FYE 2019. General and administrative expense as a percentage of revenue was 18.5%, compared to 14.3% in the prior year. General and administrative expense in FYE 2020 included $635 in a provision for uncollectible accounts receivable, compared to $58 in the prior year. General and administrative expenses in FYE 2020 include $365 in proceeds from an insurance settlement associated with purchases made through a related party; FYE 2019 included $371 associated with a reserve for uncollectible refunds from a related party (as described in Note 12 of the audited financial statements). General and administrative expense during FYE 2020 include $987 in fees and expenses to related parties for management services, compared to $953 in FYE 2019. General and administrative expenses include $20 in consulting and legal costs associated with environmental clean-up (as described in Note 9 of the audited financial statements), compared to $86 in FYE 2019. The Company has restructured its general and administrate cost structure during FYE 2021.

Restructuring Expense
The Company incurred restructuring expenses in FYE 2019 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 FYE 2020 was nil, compared to $233 in FYE 2019. The Company expects to incur restructuring expenses in FYE 2021 associated with a material reduction in operating expenses.

Amortization of Intangible Assets
In FYE 2020, the company incurred expenses associated with amortization of intangible assets. Amortization expense for FYE 2020 and FYE 2019 was $142.

Income from Operations
Income from operations for FYE 2020 was $3,337, a 71.0% decrease from $11,501 in FYE 2019. The decrease in operating income from is primarily attributable to lower revenue.

Other Income (Expense), Net
The Company incurred foreign currency losses in FYE 2020 of $215, compared to losses in FYE 2019 of $292. Income from investments in FYE 2020 was $420, compared to $217 for FYE 2019. Interest income, net of interest expense, for FYE 2020 was $19, compared to $5 for FYE 2019. Other income for FYE 2020 was $161, compared to $44 in FYE 2019.

Income before Taxes
Income before taxes for FYE 2020 was $3,722, a 67.5% decrease from $11,468 in FYE 2019. The decrease in income before taxes is primarily attributable to lower revenue.

Income Tax Provision
We recorded an income tax provision of $831 for FYE 2020, compared to $1,930 for FYE 2019.

Net Income
Net Income for FYE 2020 was $2,891, a 69.7% decrease from $9,538 in FYE 2019. The decrease in net income is primarily attributable to lower revenue.

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

The Company had $25,673 in cash and cash equivalents in FYE 2020, compared to $7,736 at the FYE 2019. The Company also held $3,464 in short-term investments at FYE 2020 versus $17,717 at FYE 2019. Total cash and cash equivalents and short-term investments equaled $29,137 at FYE 2020, compared to $25,453 at FYE 2019. 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 FYE 2020, cash flows provided by operating activities were $3,197, a 59.4% decrease from $7,867 in FYE 2019. During FYE 2020, cash flows from operating activities consisted primarily of $2,891 in net income, $1,392 of net positive adjustments for non-cash operating activities, and $1,086 in cash used in changes in operating assets and liabilities. The non-cash adjustments consisted primarily of $1,189 in depreciation and amortization expense, $611 provision for bad debt, and $420 income from investments. Changes in operating assets and liabilities consisted primarily of a $2,100 decrease in accounts receivable, a $2,058 increase in inventories, $904 decrease in accrued liabilities, $478 decrease in accounts payable, a $309 decrease in other liabilities, and a $563 decrease in prepaid expenses and other assets. The cash used by these working capital activities were partially offset by cash generated by a $2,100 decrease in accounts receivable. 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 FYE 2019, 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.

Cash Flows from Investing Activities
During FYE 2020, the Company generated $14,740 in cash from investing activities. This was primarily due to the sale of investment securities of $18,800, partially offset by the purchase of short term investments of $4,128. Purchases of capital equipment were $387.

During FYE 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.

In FYE 2021, the Company plans to invest approximately $400 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 FYE 2020 will be in the $400 to $500 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 FYE 2020 and FYE 2019, cash used in financing activities was nil.

Printronix Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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.

Evercel, Inc. and Subsidiaries

Consolidated Financial Statements

March 27, 2020 and March 29, 2019

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Baker Tilly US, LLP
18500 Von Karman Avenue, 10th Flr.
Irvine, CA 92612
United States of America

T: +1 (949) 222-2999
F: +1 (949) 222-2289

bakertilly.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Evercel, Inc. and subsidiaries (collectively, the Company) as of March 27, 2020 and March 29, 2019, the related consolidated statements of operations, 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 27, 2020 and March 29, 2019, 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.

Baker Tilly US, LLP

We have served as the Company's auditor since 2018.

Irvine, California
February 3, 2021

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 27, 2020 and March 29, 2019
(in thousands, except share and per share data)

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	$ 58,181	$ 25,220
Short-term investments	3,464	24,790
Accounts receivable, net	9,115	11,687
Inventories, net	9,651	7,593
Prepaid expenses and other current assets	2,341	2,653
Total current assets	82,752	71,943
Property, plant and equipment, net	2,519	3,110
Other intangible assets, net	1,591	995
Convertible note receivable (Note 3)	–	16,087
Deferred income tax assets, net (Note 13)	1,156	–
Other assets	583	718
Total assets	$ 88,601	$ 92,853
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 3,209	$ 3,699
Accrued liabilities	4,811	5,536
Total current liabilities	8,020	9,235
Deferred revenue, net of current portion	751	1,192
Long-term transition tax payable, net of current portion (Note 13)	365	408
Deferred income tax liabilities, net (Note 13)	–	1,721
Other long-term liabilities	137	123
Total liabilities	9,273	12,679
Commitments and Contingencies (Note 9)		
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 11)	6,365	6,310
Retained earnings	65,166	55,865
Accumulated other comprehensive income	–	8,230
Total controlling interest	71,856	70,730
Noncontrolling interest	7,472	9,444
Total stockholders' equity	79,328	80,174
Total liabilities and stockholders' equity	$ 88,601	$ 92,853

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 27, 2020 and March 29, 2019
(in thousands, except share and per share data)

	2020	2019
REVENUE	$ 45,085	$ 57,609
COST OF SALES	22,266	26,671
GROSS MARGIN	22,819	30,938
OPERATING EXPENSES		
Engineering and development	1,383	960
Sales and marketing	9,677	9,836
General and administrative	9,711	9,530
Restructuring	–	233
Amortization of intangible assets	142	142
Total operating expenses	20,913	20,701
OPERATING INCOME FROM CONTINUING OPERATIONS	1,906	10,237
Foreign currency losses, net	(215)	(292)
Change in fair value of investments, net (Note 2)	(1,410)	(7)
Interest income, net	524	500
Other income, net	569	45
Income from continuing operations before income taxes	1,374	10,483
Provision for income taxes	41	1,740
Income from continuing operations	1,333	8,743
Net income, including noncontrolling interest	1,333	8,743
Less: net income attributable to noncontrolling interest	209	1,898
Net income attributable to Evercel, Inc. and Subsidiaries	1,124	6,845
Comprehensive income:		
Net income	1,333	8,743
Unrealized gain on investments, net of tax (Note 2)	–	9,371
Comprehensive income	1,333	18,114
Less: net income and comprehensive income attributable to noncontrolling interest	209	3,772
Comprehensive income attributable to Evercel, Inc. and Subsidiaries	$ 1,124	$ 14,342
Basic and Diluted Net Earnings per common share attributable to Evercel, Inc. and subsidiaries:		
Earnings from continuing operations per share - basic and diluted	$ .03	$ .21
NET INCOME PER SHARE – BASIC AND DILUTED	$ .03	$ .21
Weighted-average Common Shares Outstanding:		
Basic	32,530,717	32,536,234
Diluted	33,019,001	33,002,424

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 27, 2020 and March 29, 2019
(in thousands, except share and per share data)

	Preferred Stock				Common Stock							
	Series A		Series B									
	Shares	$0.01 Par Value	Shares	$0.01 Par Value	Shares	$0.01 Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Evercel, Inc. and Subsidiaries	Non-Controlling Interest	Total Stockholders' Equity
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
Dividends paid to noncontrolling interest	–	–	–	–	–	–	–	–	–	–	–	–
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
Impact of adoption of ASU 2016-01 (Note 2)	–	–	–	–	–	–	–	8,230	(8,230)	–	–	–
Preferred stock dividends	75	–	2,020	–	–	–	53	(53)	–	–	–	–
Stock re-purchase	–	–	–	–	(5,517)	–	(11)	–	–	(11)	–	(11)
Share-based compensation	–	–	–	–	–	–	13	–	–	13	–	13
Accretion of Unit Grant compensation	–	–	–	–	–	–	–	–	–	–	69	69
Non-Controlling Distributions	–	–	–	–	–	–	–	–	–	–	(2,250)	(2,250)
Net income including noncontrolling interest	–	–	–	–	–	–	–	1,124	–	1,124	209	1,333
Balance, March 27, 2020	1,016	$ –	27,268	$ –	32,530,717	$ 325	$ 6,365	$ 65,166	$ –	$ 71,856	$ 7,472	$ 79,328

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 27, 2020 and March 29, 2019
(in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,333	$ 8,743
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in fair value of investments	1,410	8
Depreciation and amortization	1,224	1,210
Stock based compensation	82	13
Deferred income tax provision	–	695
Loss on disposal of property and equipment	(8)	(5)
Provision for bad debt	611	59
Changes in operating assets and liabilities		
Accounts receivable	1,961	(1,885)
Inventories	(2,058)	1,099
Prepaid expenses and other assets	(709)	(361)
Accounts payable	(489)	(1,105)
Accrued liabilities	(1,956)	(1,215)
Deferred revenue	(524)	300
Other liabilities	(435)	(184)
Net cash provided by operating activities	442	7,372
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(521)	(1,000)
Purchase of short-term investments	(4,128)	–
Acquisition of goodwill	(738)	–
Purchase of investment securities available for sale	–	(17,717)
Net proceeds from disposition of property and equipment	38	16
Net proceeds from sale of investment securities	40,129	97
Net cash used in investing activities	34,780	(18,604)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common stock buy-back	(11)	–
Distribution to non-controlling interest	(2,250)	–
Net cash used in financing activities	(2,261)	
Net increase (decrease) in cash and cash equivalents	32,961	(11,232)
CASH AND CASH EQUIVALENTS – beginning of fiscal year	25,220	36,452
CASH AND CASH EQUIVALENTS – end of fiscal year	$ 58,181	$ 25,220
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	$ 3,524	$ 1,297
Interest paid	$ 1	$ 2
NONCASH INVESTING AND FINANCING ACTIVITIES		
Conversion of preferred shares for common shares	$ –	$ 1

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 27, 2020 and March 29, 2019, include Evercel Pioneer Holding Corporation ("Evercel Pioneer Holding"), Evercel Holdings, LLC ("Evercel Holdings"), SHSP Holdings, LLC ("SHSP Holdings"), Paper Ventures LLC and Current Technologies LLC. Evercel, Evercel Pioneer Holding, SHSP Holdings and Evercel Holdings, Paper Ventures and Current Technologies 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 27, 2020 and March 29, 2019.

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, with Corona Park Investment Partners ("CPIP"), a related party, and other entities, as needed, involved in the sourcing and managing of the investments owning all 200 of the 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 LLC, a related party, is the manager of SHSP Holdings. Evercel owns all 800 of the Class A units, with CPIP and other parties, as needed, involved in the sourcing and managing of the investments owning all 200 of the 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.

Paper Ventures LLC

Paper Ventures LLC is a legal entity, established in April 2019, to hold an investment in Current Technologies LLC. CPIP is the manager of Paper Ventures LLC. Evercel owns all 800 of the Class A units, with CPIP owning 200 Class B units.

Current Technologies LLC

Current Technologies LLC is a legal entity, established in April 2019, engaged in the business of providing digital and social media influencer marketing services and campaigns to its customers. Current Technologies LLC completed an acquisition for cash consideration of $872 thousand on April 30, 2019 and obtained substantially all assets, liabilities, and business arrangements of the current business from another Company, which previously operated these activities as a separate division. The purchase price was allocated $134 thousand primarily to fixed assets and $738 thousand to goodwill.

Paper Ventures, LLC owns 6,500,000 units Class A units, with 3,500,000 of Class B units designated for Current Technologies LLC's management. The Class B units vest over time annually with the first vesting occurring in April 2020. Paper Ventures LLC receives a preferred return of its capital 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, Printronix, Paper Ventures LLC and Current Technologies LLC. 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 27, 2020 ("fiscal 2020") and March 29, 2019 ("fiscal 2019").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Evercel consolidates the accounts of a variable interest entity ("VIE") if it is deemed to have a controlling financial interest in the VIE. For 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 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, Pioneer Holding, SHSP Holdings, Evercel Holdings, Paper Ventures LLC and Current Technologies LLC. Therefore, Evercel has consolidated such investees in the accompanying consolidated financial statements and notes thereto.

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 27, 2020 and March 29, 2019. Fiscal 2020 and 2019 used a fifty-two week fiscal period.

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 money market mutual funds 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 as of March 29, 2019 was based on a valuation performed by management which considered relevant market conditions at such time.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

For years prior to fiscal 2020, changes in the fair value of available-for-sale securities were 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 were determined using the specific-identification method and were recorded as other income (expense) in the accompanying consolidated statements of income and comprehensive income. Declines in the fair value of available-for-sale securities below their cost, which were determined to be other than temporary, would be charged to earnings as realized losses.

Beginning in fiscal 2020, the Company adopted FASB Accounting Standards Update ("ASU") 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments contained in ASU 2016-01, among other things, require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net earnings or loss; require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables); and eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The Company adopted this standard effective March 30, 2019 and upon adoption reclassified cumulative unrealized gains on investments totaling $10,311 from accumulated other comprehensive income to retained earnings. The Company also recorded a net loss from changes in fair value of investments of $1,410 in the accompanying consolidated statement of income for the fiscal year ended March 27, 2020. Accordingly, based upon the impact of the adoption of this standard, for investments there is no longer comparability between the years ended March 27, 2020 and March 29, 2019. As such, during the year ended March 29, 2019, prior to the adoption of ASU 2016-01, unrealized gains on changes in fair value of investments related to Evercel of $8,230 were reclassified in the accompanying consolidated statement of comprehensive income and statement of stockholders' equity.

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 27, 2020, Printronix held $3.5 million in money market mutual funds and $3 thousand of common stocks. As of March 29, 2019, Printronix held $17.7 million in money market mutual funds and Evercel, Inc. held $7.1 million in publicly traded common stock. As of March 29, 2019, Evercel, Inc. held a convertible note receivable with a face value of $8 million and a fair value of $16.1 million.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable and Allowance for Doubtful Accounts and Sales Returns (continued)

As of March 27, 2020 and March 29, 2019, the Company's allowances for doubtful accounts and sales returns was $780 thousand and $169 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 27, 2020 and March 29, 2019, Printronix had recorded approximately $620 and $371 thousand of provisions to reduce inventory for excess inventories and obsolescence, 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, fixtures and other	3 to 7 years
Leasehold improvements	Lesser of useful life or term of lease

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 $1.3 million in both fiscal 2020 and 2019, 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 the acquisition of Pioneer Holding, the Company acquired intangible assets. Intangible assets consist of trade names and trademarks, patents and customer and distributor relationships and goodwill.

Additionally, in connection with the current year acquisition of Current Technologies, the Company acquired goodwill.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

During fiscal 2020 and 2019, definite-lived intangible assets were amortized over 10 years, and $142 and $142 thousand of amortization expense respectfully was recognized each year.

Intangible assets at the end of fiscal 2020 and 2019 consisted of the following (in thousands):

March 27, 2020	**Weighted Average Amortization Period**	**Gross Carrying Value**	**Accumulated Amortization**	**Net Book Value**
Trade name and trademarks	10 years	$ 652	$ (261)	$ 391
Patents	10 years	770	(308)	462
		1,422	(569)	853
Goodwill	N/A	738	–	738
		$ 2,160	$ (569)	$ 1,591

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

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

2021	$ 142
2022	142
2023	142
2024	142
2025	142
Thereafter	143
	$ 853

As of March 27, 2020, the Company evaluated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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

Current Technologies LLC derives revenue primarily from marketing campaigns. Campaign revenue represents services rendered to customers less sales adjustments and allowances. Revenues earned are recognized based on proportional performance as specific agreed upon criteria are met for each engagement. The Company periodically evaluates the need to provide for any losses on campaigns, and losses are recognized when it is probable that a loss will be incurred.

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.

The following is a summary of the accrued warranty obligation for fiscal 2020 and 2019 (in thousands):

	2020	2019
Beginning balance	$ 137	$ 203
Add: estimated future warranty expense	128	127
Deduct: warranty claims settled	(165)	(193)
Ending balance	$ 100	$ 137

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 $341 thousand and $392 thousand in fiscal 2020 and 2019, respectively, which are included in sales and marketing expense in the accompanying consolidated statements of operations and comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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
Beginning balance	$ 81
Add: restructuring charges	233
Deduct: cash payments	(314)
Ending Balance	$ –

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 losses of $215 thousand and $292 thousand in fiscal 2020 and 2019, respectively, which are included in other income (loss) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

Evercel has a tax sharing arrangement with Printronix that provides that Printronix will, to the extent permitted by applicable law, file consolidated federal, state (and possibly other jurisdictions where revenue is generated, at the Company's election) income tax returns with Evercel, as its parent company, and its subsidiaries. Printronix will pay Evercel the amount that its tax liability would have been had it filed a separate return or may pay the full amount and be reimbursed by Evercel. As such, the Company accounts for income taxes as if it filed separately from Evercel. In instances where the Company utilizes the tax attributes of its Parent and the amount is not intended to be repaid to the Parent, it is accounted for as a deemed equity contribution from the Parent**.**

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.

Concentration of Credit Risk

No single customer accounted for more than 10% of consolidated revenue for both fiscal 2020 and 2019. Accounts receivable from one customer represented 23% of total consolidated accounts receivable as of March 27, 2020. Accounts receivable from one customer represented 17% of the consolidated accounts receivable as of March 29, 2019. 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.

No vendor accounted for 10% of above of consolidated purchases for either fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, also referred to as Topic ASC 606, 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.

Due to the current COVID-19 pandemic, FASB extended the requirement for nonpublic companies to adopt ASU 2014-09 to annual periods beginning after December 15, 2020. The Company is currently evaluating the impact of ASU 2014-09 on its consolidated financial statements.

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 ASC 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. Due to the current COVID-19 pandemic, FASB extended the requirement for companies to adopt ASU 2016-02 to annual periods beginning after December 15, 2020. 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.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses", which will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. In November 2019, FASB deferred the effective dates of the new credit losses standard for all entities except SEC filers that are not smaller reporting companies to fiscal year beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

3. CONVERTIBLE NOTE RECEIVABLE

Evercel invested $8 million in a convertible note receivable from SharpSpring, Inc. ("SharpSpring"), a NASDAQ publicly traded company (Ticker: SHSP), through SHSP Holdings. The five-year note entitled 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 could 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 fully accelerates 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. Based on a Monte Carlo conversion simulation valuation performed by management as of March 29, 2019, the fair value was approximately $16.1 million.

On May 9, 2019, SHSP Holdings LLC converted its convertible note in SharpSpring 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, SHSP Holdings, along with more common stock separately held by Evercel Holdings, sold the Company's total shares in SharpSpring common stock in a secondary private offering. 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. Net proceeds of approximately $21.6 million were distributed to the limited liability company members pursuant to the terms of their respective formation agreements, of which Evercel, Inc. received $19.3 million, which does not include carry payments to other partners, of such distributable proceeds.

4. 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.

4. 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.

The fair values of the Company's financial instruments as of March 27, 2020 and March 29, 2019, are presented in the following table (in thousands):

	2020	2019
Level 1:		
Investments in common stock	$ 3	$ 7,073
Investments in mutual funds	3,461	17,717
	$ 3,464	$ 24,790
Level 2: None	$ –	$ –
Level 3: Investment in convertible note receivable	$ –	$ 16,087

5. INVENTORIES

The Company's inventory consisted of the following as of March 27, 2020 and March 29, 2019 (in thousands):

	2020	2019
Raw materials	$ 2,932	$ 2,700
Subassemblies and work in process	2,072	2,928
Finished goods	4,647	1,965
Total inventories	$ 9,651	$ 7,593

6. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consisted of the following as of March 27, 2020 and March 29, 2019 (in thousands):

	2020	2019
Machinery and equipment	$ 4,322	$ 4,071
Furniture and fixtures	2,212	2,725
Leasehold improvements	1,840	1,820
	8,374	8,616
Less: Accumulated depreciation and amortization	(5,855)	(5,506)
Total property, plant and equipment, net	$ 2,519	$ 3,110

7. ACCRUED LIABILITIES

The Company's accrued liabilities consisted of the following as of March 27, 2020 and March 29, 2019 (in thousands):

	2020	2019
Payroll and employee benefits	$ 1,966	$ 1,635
Warranty	100	137
Deferred revenue	1,851	1,934
Income taxes	146	633
Other	748	1,197
	$ 4,811	$ 5,536

8. EMPLOYEE BENEFIT PLANS

Savings and Investment Plans

In the United States of America, the Company has a 401(k) Savings and Investment Plan, for all eligible U.S. employees of the Company, which is designed to be tax deferred in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The Company 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. The Company's contributions are vested annually, and become fully vested to the employee after four full years of employment. The Company's total contribution was approximately $60 thousand and $37 thousand in fiscal 2020 and 2019, respectively.

The Company has statutory obligations to contribute to overseas employee retirement funds or the local social security pension funds in China, Malaysia, Singapore, France, Netherlands, and the United Kingdom. The Company's total contribution overseas was approximately $826 thousand and $854 thousand in fiscal 2020 and 2019, respectively.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company conducts its foreign and domestic operations using leased facilities under non-cancelable operating leases that expire at various dates through fiscal year 2028. The Malaysia factory lease has two renewal options for additional four years then for an additional two years. Annual rental expense was approximately $1.5 million and $1.4 million for fiscal 2020 and 2019, respectively.

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

2021	$ 1,254
2022	583
2023	393
2024	300
2025	101
Thereafter	291
	$ 2,922

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 27, 2020 and March 29, 2019, the Company had approximately $100 thousand of these bonds outstanding.

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 27, 2020, management concluded a sale of Printronix was not probable. Accordingly, no amounts were accrued in connection with this plan.

Environmental Cleanup

The Company 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").

9. COMMITMENTS AND CONTINGENCIES (continued)

Environmental Cleanup (continued)

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 the Company of $86 thousand and $256 thousand in fiscal 2019 and 2018, respectively. The Company had $19 thousand in accrued liabilities to cover the current groundwater monitoring and investigation activities as of March 29, 2019.

In fiscal 2020, the Company executed an agreement with the prior tenant whereby the prior tenant would take 100% responsibility for the costs and process of the cleanup going forward, however, the Company is in process for filing for release of such responsibility from a governmental agency and so may currently be found to be secondarily liable if the prior tenant cannot fulfil their responsibilities under the agreement. Accordingly, the Company no longer takes part in monitoring or paying for any future investigation or cleanup activity. The Company expects to have no such further costs associated with this facility. During fiscal 2020, the Company was able to recover $24 thousand from the prior tenant, and incurred advisory legal fees of $44 thousand.

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.

10. 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 1,016 shares issued and outstanding as of March 27, 2020.

In fiscal 2020, eight percent dividends were declared and paid to Series A stockholders, in the form of 75 additional shares of Series A stock, for the fiscal year ended March 27, 2020, totaling $2 thousand.

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.

10. STOCKHOLDERS' EQUITY (continued)

Series B Preferred Stock (continued)

There are 600,000 shares of Series B preferred stock authorized, with 27,268 shares issued and outstanding as of March 27, 2020.

In fiscal 2020 eight percent dividends were declared and paid to Series B stockholders, in the form of 2,020 additional shares of Series B stock, for the fiscal year ended March 27, 2020, totaling $51 thousand.

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.

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.

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 27, 2020 totaled $678 thousand.

Evercel's Board of Directors authorized on March 10, 2017 the repurchase of all outstanding Preferred A and B shares. During fiscal 2019, 2,976 preferred shares were converted to 5,598 shares of common stock. During fiscal 2020 Evercel repurchased 5,517 shares of common stock for $11 thousand.

10. 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:

Fiscal Year Ended March 27, 2020
Numerator:

Earnings attributable to Evercel, Inc. and Subsidiaries	$ 1,124,000
Preferred stock dividends - Series A	(2,000)
Preferred stock dividends - Series B	(51,000)
Numerator for common EPS - income available to common stockholders	1,071,000
Effect of dilutive securities:	
Preferred stock dividends - Series A	2,000
Preferred stock dividends - Series B	51,000
Numerator for diluted EPS - income available to common stockholders after assumed conversions	$ 1,124,000

Denominator:

Denominator for basic EPS - weighted average shares	32,530,717
Effect of dilutive shares:	
Common stock options	460,000
Preferred stock outstanding - Series A	1,016
Preferred stock outstanding - Series B	27,268
Dilutive potential common shares	488,284
Denominator for diluted EPS - adjusted weighted average shares and assumed conversions	33,019,001
Basic EPS	$ 0.03
Diluted EPS	$ 0.03

10. STOCKHOLDERS' EQUITY (continued)

Basic and Dilutive Net Income per Share (continued)

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	$ 8,845,000
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

10. STOCKHOLDERS' EQUITY (continued)

Controlling Interest

The following summarizes the effects of change in the Company's equity attributable to noncontrolling interest as of March 27, 2020 (in thousands):

	2020	2019
Beginning balance	$ 9,444	$ 5,672
Distributions paid to noncontrolling interest	(2,250)	–
Net income attributable to noncontrolling interest of Printronix	209	1,898
Accretion of Unit Grant compensation	69	–
Other comprehensive income attributable to noncontrolling interest of Evercel Holdings and SHSP Holdings	–	1,874
Ending balance	$ 7,472	$ 9,444

11. EQUITY INCENTIVE PLANS

Stock Options

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 27, 2020, 460,000 common stock options granted were fully vested.

11. EQUITY INCENTIVE PLAN (continued)

Stock Options

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, 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
Granted	–	–	–
Outstanding at March 27, 2020	480,000	$0.72 to $1.16	$0.84

Options outstanding and exercisable are as follows for the years ended March 27, 2020:

	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
2020	$0.72 to $1.16	480,000	1.6	$0.81	460,000	$0.83
2019	$0.72 to $1.16	480,000	2.7	$0.81	440,000	$0.83

Compensation expense related to the options outstanding recognized in the accompanying consolidated statements of operations totaled $13 thousand for the fiscal years ended March 27, 2020 and March 29, 2019. There is $13 thousand of unrecognized compensation expense related to the outstanding options as of March 27, 2020 to be recognized over the next fiscal year.

12. UNIT GRANT AWARD

Current Technologies LLC executed a unit grant agreement with a key employee, concurrent with acquiring the company, which allows for the grant of 3.5 million Class B units. The unit award was granted to an executive and is service-based with vesting over time. The first vesting occurs one year after the grant date April 2020 with full vesting by April 2023. The grant date fair value is $.0872 per unit. Compensation expense related to the awards outstanding recognized in the accompanying consolidated statements of operations totaled $69 thousand for the fiscal year ended March 27, 2020. There is $236 thousand of unrecognized compensation expense related to the outstanding grant as of March 27, 2020 to be recognized through fiscal year 2024.

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 27, 2020 and March 29, 2019, $4.47 and $4.43 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 consolidated balance sheets. Additionally, $43 thousand of interest income earned in fiscal 2020 and $42 thousand in fiscal 2019 is included in additional paid-in capital of stockholders' equity on the accompanying consolidated balance sheets.

Printronix incurred expenses of approximately $987 thousand and $953 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 2020 and 2019, 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 no balance due to the Consultant Group as of March 27, 2020 and March 29, 2019.

CPIP LLC also holds a minority interest in Evercel Holdings and SHSP Holdings, Paper Ventures, Current Technologies LLC and a majority interest in MMXIV.

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, as determined by management at the time of the finalized tax filings. During the fiscal years ended March 27, 2020 and March 29, 2019, material income taxes were generated by Evercel and Printronix. Printronix paid all the income taxes on behalf of the consolidated group with reimbursement from Evercel

14. INCOME TAXES

Provision for Income Taxes

For fiscal 2020 and 2019, the provision for income taxes consisted of the following (in thousands):

	2020	2019
Current provision:		
Federal	$ 2,299	$ (1,180)
State	388	(104)
Foreign	230	(83)
Deferred tax expense (benefit):		
Federal	(2,742)	2,499
State	(261)	469
Foreign	127	139
Income tax provision	41	1,740
Income tax benefit from discontinued operations	–	–
Income tax provision from continuing operations	$ 41	$ 1,740

Deferred Income Tax Assets and Liabilities

The deferred income tax assets and liabilities as of March 27, 2020 and March 29, 2019 are as follows (in thousands):

	2020	2019
U.S. deferred income tax assets and liabilities:		
Inventory costs capitalized for tax, expensed for financial reporting purposes	$ 119	$ 66
Accruals	341	185
Credit carryforwards	–	63
Liabilities/reserves	48	46
Others	234	(2,737)
Property, plant and equipment	(15)	19
Intangibles	275	357
Capital losses	327	295
Valuation allowance	(327)	(295)
Deferred income tax (liabilities) assets, noncurrent	1,002	(2,001)
Foreign deferred income tax assets and liabilities:		
Accruals	223	223
Property, plant and equipment	65	57
Others	(134)	–
Deferred foreign income tax asset, noncurrent	154	280
Total noncurrent deferred tax (liabilities) assets, net	$ 1,156	$ (1,721)

14. INCOME TAXES (continued)

Deferred Income Tax Assets and Liabilities (continued)

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

	2020	2019
Beginning balance	$ 295	$ 357
Provision for valuation allowance	166	(62)
Utilization of valuation allowance	–	–
Ending balance	$ 461	$ 295

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

	2020	Future Fiscal Years
Credit carryforwards		
California research and development (R&D) credit	–	Indefinite

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 for both fiscal 2020 and 2019.

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.

The Company recorded an income tax provision of $41 thousand for fiscal 2020 on pre-tax income of $1.2 million in continuing operations. The effective tax rate is 21% for fiscal 2020. The worldwide tax rate differs from the US federal statutory tax rate primarily due to the impact of 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 the losses in the controlled foreign subsidiaries. In addition, the Company recorded a current tax benefit of FDII deduction for the amount of $360 thousand in the current year.

The following table presents a reconciliation from the statutory federal income tax rate to the effective rate for fiscal 2020 and 2019:

	2020	**2019**
Income taxes at statutory rates	21.00%	21.00%
State tax, net of federal benefit	2.33%	2.29%
Permanent differences	(3.25)%	0.07%
GILTI, net of deduction	0.00%	2.07%
FDII	(2.51)%	(4.76)%
Return-to-provision and other true ups	1.93%	(.11)%
Tax credits	(.13)%	(2.65)%
Foreign rate differential	.57%	(.78)%
Change in valuation allowance	1.16%	(.60)%
Effective tax rate	21.10%	16.53%

15. SEGMENT REPORTING

Evercel operates in two primary segments: (i) printing solutions and (ii) investing opportunities. Current Technologies is a digital company engaged in the business of providing digital and social media influencer marketing services and marketing campaigns and is included in other segments in the following table. 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 27, 2020 (in thousands):

	Reportable Segments			
	Printing	Investing	Corporate and Other	Total
Revenues	$ 43,285	$ –	$ 1,800	$ 45,085
Gross Margin	21,966	–	853	22,819
Change in Fair Value of Investments	420	(1,830)	–	(1,410)
Operating Expenses	18,629	8	2,276	20,913
Net income attributable to Evercel, Inc.	2,315	(247)	(944)	1,124
Total assets	54,838	31,561	2,202	88,601
Total liabilities	9,118	–	155	9,273
Total equity attributable to Evercel, Inc.	38,248	31,561	2,047	71,856

Printronix operates in a single segment: printing solutions. The Printronix 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.

Net revenue by product line for fiscal 2020 and 2019 are as follows (in thousands):

	2020	2019
Printers, service, and spares	$ 22,610	$ 34,032
Consumable products	19,765	22,756
All other	2,710	821
Net revenue	$ 45,085	$ 57,609

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. All activity from the Company's investing and other segments occur domestically.

15. SEGMENT REPORTING (continued)

The breakdown of the Company's net revenue by geographic area for fiscal 2020 and 2019 are as follows (in thousands):

	2020	2019
United States	$ 17,139	$ 17,526
Canada and Latin America	2,194	2,674
Total Americas	19,333	20,200
Europe, Middle East, and Africa	11,160	15,748
China	5,588	7,397
India	3,477	5,383
Asia, excluding China and India	5,527	8,881
Total Asia	14,592	21,661
Net revenue	$ 45,085	$ 57,609

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

Long-lived tangible assets, net for the Company by geographic area as of March 27, 2020 and March 29, 2019 are (in thousands):

	2020	2019
United States	$ 467	$ 369
Malaysia	2,002	2,579
Other foreign countries	50	162
Total long-lived assets	$ 2,519	$ 3,110

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.

COVID-19

With respect to the ongoing and evolving coronavirus (COVID-19) outbreak, which was designated as a pandemic by the World Health Organization on March 11, 2020, the outbreak has caused substantial disruption in international and U.S. economies and markets. The outbreak has had and may continue to have an adverse impact on the Company's industries. If repercussions of the outbreak are prolonged, it could have a significant adverse impact on the Company's operations, which could be material. Management cannot, at this point, estimate ultimate losses to the Company, and accordingly no adjustments were reflected in the accompanying consolidated financial statements related to this matter.

16. SUBSEQUENT EVENTS (continued)

Paycheck Protection Program (PPP) Loan

In April, 2020, the Company, received approval to enter into a U.S. Small Business Administration ("SBA") Promissory Note ("the PPP Loan") with a financial institution for approximately $1.2 million, pursuant to the Paycheck Protection Program ("PPP") of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") as administered by the SBA (the "Loan Agreement"). The PPP Loan is made under the PPP enacted by Congress under the CARES Act. The CARES Act (including the guidance issued by SBA and U.S. Department of the Treasury) provides that all or a portion of the PPP Loans may be forgiven upon request from the Company, as the case may be, subject to requirements in the PPP Loans and under the CARES Act. Printronix has applied for full forgiveness of its PPP loan and is awaiting approval from the U.S. Small Business Administration.

Zagg, Inc. Acquisition

Evercel, Inc. has entered into a definitive agreement pursuant to which Evercel and its co-investors will acquire ZAGG Inc (Nasdaq, a leading global mobile lifestyle company). Evercel will be the majority owner of the holding company formed to acquire ZAGG. The transaction is expected to close in the first calendar quarter of 2021. Closing of the transaction is conditioned upon stockholder approval, clearance under the Hart-Scott-Rodino Antitrust Improvements and other customary closing requirements.