

**Evercel, Inc. and Subsidiaries**  
**Consolidated Financial Statements**  
**December 31, 2012 and 2011**

# **Evercel, Inc. and Subsidiaries**

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## Independent Auditor's Report

The Board of Directors and Stockholders  
Evercel, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Evercel, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

### **Basis for Qualified Opinion**

As more fully described in Notes 2 and 5 to the consolidated financial statements, the Company reports its investment in Evercel Pioneer Holding Corporation, a wholly owned subsidiary, on the equity method of accounting. Evercel Pioneer Holding Corp. owns 80.1% of Pioneer Holding Corp. which owns 100% of Printronix, Inc. Pioneer Holding Corp.'s fiscal year ends in March and was audited by other auditors.

In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. The Company elected not to have the audits performed under United States generally accepted auditing standards applicable to audits of group financial statements. If the financial statements of Evercel Pioneer Holding Corporation (as of and for its fiscal year ended March 29, 2013) had been consolidated with those of Evercel, Inc. and subsidiaries, total assets and total liabilities would have been increased by \$104,331,775 and \$102,585,360, respectively, and revenues would have been increased by \$135,918,945 in the accompanying 2012 financial statements.

### **Qualified Opinion**

In our opinion, except for the effects of not consolidating all majority-owned subsidiaries, as discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Evercel, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Friedman Avella + Solomon, PC.*

December 12, 2013  
Newton, Massachusetts

# Evercel, Inc. and Subsidiaries

## Consolidated Balance Sheets As of December 31,

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 276,508	\$ 15,155,195
Accounts receivable, net of allowance of \$114,000 and \$12,943 for 2012 and 2011, respectively	1,298,157	1,349,901
Inventories	1,053,183	481,402
Other current assets	65,741	40,804
Investments, available-for-sale	-	6,844,200
Deferred taxes, current portion	-	2,131,000
	<u>2,693,589</u>	<u>26,002,502</u>
<b>Total current assets</b>		
<b>Property and equipment</b>		
Equipment	680,499	660,122
Leasehold improvements	198,281	198,281
Motor vehicles	110,288	110,288
Office equipment	13,256	28,268
Furniture and fixtures	3,453	-
	<u>1,005,777</u>	<u>996,959</u>
Less accumulated depreciation	<u>(846,076)</u>	<u>(802,686)</u>
	<u>159,701</u>	<u>194,273</u>
<b>Property and equipment, net</b>		
<b>Other assets</b>		
Deposits	2,359	2,277
Deferred taxes, net of current portion	-	1,569,000
Investments, long-term	800,000	800,000
Investment in affiliate	18,022,500	-
	<u>18,824,859</u>	<u>2,371,277</u>
<b>Total other assets</b>		
<b>Total assets</b>	<u><u>\$ 21,678,149</u></u>	<u><u>\$ 28,568,052</u></u>

See notes to consolidated financial statements.

# Evercel, Inc. and Subsidiaries

## Consolidated Balance Sheets As of December 31,

	<u>2012</u>	<u>2011</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ -	\$ 3,318
Current portion of capital lease obligation	-	1,298
Accounts payable	137,415	103,347
Accrued expenses	193,859	57,067
Income taxes payable	<u>14,333</u>	<u>404,214</u>
Total current liabilities	345,607	569,244
<b>Stockholders' equity</b>		
Preferred stock, Series A convertible 8% cumulative, \$.01 par value (liquidation value of \$387,400 and \$360,925 in 2012 and 2011, respectively)	156	146
Preferred stock, Series B convertible 8% cumulative, \$.01 par value (liquidation value of \$381,950 and \$448,025 in 2012 and 2011, respectively)	153	179
Common stock, \$.01 par value. Authorized 75,000,000 and 30,000,000 shares: issued and outstanding 26,683,280 and 26,675,361 shares in 2012 and 2011, respectively	266,833	266,754
Additional paid-in capital	6,128,451	6,028,228
Other comprehensive income	-	5,782,124
Retained earnings	<u>14,936,949</u>	<u>15,921,377</u>
<b>Total stockholders' equity</b>	<u>21,332,542</u>	<u>27,998,808</u>
<b>Total liabilities and stockholders' equity</b>	<u><u>\$ 21,678,149</u></u>	<u><u>\$ 28,568,052</u></u>

See notes to consolidated financial statements.

# Evercel, Inc. and Subsidiaries

## Consolidated Statements of Operations For The Years Ended December 31,

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>	\$ 8,435,360	\$ 7,197,951
<b>Cost of revenues</b>	<u>6,764,584</u>	<u>5,618,531</u>
<b>Gross profit</b>	1,670,776	1,579,420
<b>Operating expenses</b>	<u>2,074,468</u>	<u>1,391,702</u>
<b>Loss from operations</b>	<u>(403,692)</u>	<u>187,718</u>
<b>Other income (expense):</b>		
Interest income	5,901	827
Interest expense	(220)	(7,893)
Loss on investment	(400,000)	-
Other income	1,918	-
Gain on sale of investments available for sale	<u>4,010,185</u>	<u>14,466,343</u>
Total other income	<u>3,617,784</u>	<u>14,459,277</u>
<b>Income from continuing operations before income tax provision</b>	3,214,092	14,646,995
<b>Income tax provision</b>	<u>4,008,500</u>	<u>(2,194,000)</u>
<b>Income (loss) from continuing operations</b>	(794,408)	16,840,995
<b>Discontinued operations</b>		
Loss from operations of sold subsidiary (including loss on disposal of \$24,517 in 2012)	<u>(128,734)</u>	<u>(450,775)</u>
<b>Loss from discontinued operations</b>	<u>(128,734)</u>	<u>(450,775)</u>
<b>Net income (loss)</b>	<u><u>\$ (923,142)</u></u>	<u><u>\$ 16,390,220</u></u>
<b>Net income (loss) per share</b>		
Basic	\$ (0.03)	\$ 0.61
Diluted	\$ (0.03)	\$ 0.59
<b>Weighted-average common shares outstanding</b>		
Basic	26,683,280	26,675,361
Diluted	28,278,720	27,870,802

See notes to consolidated financial statements.

## Evercel, Inc. and Subsidiaries

### Consolidated Statements of Comprehensive Income For The Years Ended December 31,

	<u>2012</u>	<u>2011</u>
<b>Net income (loss)</b>	\$ (923,142)	\$ 16,390,220
<b>Other comprehensive income</b>		
Unrealized income on investments available for sale	<u>-</u>	<u>5,782,124</u>
<b>Total comprehensive income</b>	<u><u>\$ (923,142)</u></u>	<u><u>\$ 22,172,344</u></u>

*See notes to consolidated financial statements.*

**Evercel, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity**  
**For The Years Ended December 31,**

	Preferred Stock				Common Stock		Additional Paid-In Capital	Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	Series A		Series B		Number of Shares	\$.01 Par Value				
	Number of Shares	\$.01 Par Value	Number of Shares	\$.01 Par Value						
Balance, December 31, 2010	13,368	\$ 135	20,217	\$ 202	26,643,191	\$ 266,432	\$ 6,035,007	\$ -	\$ (405,312)	\$ 5,896,464
Dividends	1,069	11	1,472	15	-	-	63,505	-	(63,531)	-
Preferred stock converted to common stock	-	-	(1,010)	(10)	32,170	322	(312)	-	-	-
Repurchase and retirement of preferred stock	-	-	(2,758)	(28)	-	-	(69,972)	-	-	(70,000)
Change in comprehensive income	-	-	-	-	-	-	-	5,782,124	-	5,782,124
Net income	-	-	-	-	-	-	-	-	16,390,220	16,390,220
Balance, December 31, 2011	14,437	146	17,921	179	26,675,361	266,754	6,028,228	5,782,124	15,921,377	27,998,808
Dividends	1,150	11	1,302	13	-	-	61,262	-	(61,286)	-
Preferred stock converted to common stock	(91)	(1)	(3,945)	(39)	7,477	75	(35)	-	-	-
Common stock issued	-	-	-	-	442	4	(4)	-	-	-
Share based compensation	-	-	-	-	-	-	39,000	-	-	39,000
Change in comprehensive income	-	-	-	-	-	-	-	(5,782,124)	-	(5,782,124)
Net Income	-	-	-	-	-	-	-	-	(923,142)	(923,142)
Balance, December 31, 2012	15,496	\$ 156	15,278	\$ 153	26,683,280	\$ 266,833	\$ 6,128,451	\$ -	\$ 14,936,949	\$ 21,332,542

*See notes to consolidated financial statements.*

# Evercel, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows For The Years Ended December 31,

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (923,142)	\$ 16,390,220
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Gain on sale of investments for sale	(4,010,185)	(14,466,343)
Loss on sale of subsidiary	24,517	-
Increase of allowance on investments	400,000	-
Deferred tax provision	3,700,000	(2,620,000)
Impairment of goodwill	-	151,500
Obsolete inventory	-	64,945
Recovery of bad debt	-	(1,000)
Increase in allowance for doubtful accounts	101,057	-
Share based compensation	39,000	-
Depreciation and amortization	46,148	34,066
Changes in operating assets and liabilities:		
Accounts receivable	(49,313)	(523,136)
Inventories	(571,781)	277,967
Other current assets	(4,142)	(9,081)
Deposits	(82)	(66)
Accounts payable	34,068	(54,480)
Accrued expenses	136,792	(61,775)
Income taxes payable	(389,881)	404,214
Net cash used in operating activities	<u>(1,466,944)</u>	<u>(412,969)</u>

See notes to consolidated financial statements.

# Evercel, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows (Continued) For The Years Ended December 31,

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>	\$ (1,466,944)	\$ (412,969)
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments-for-sale	5,072,260	16,379,267
Purchase of investments, available-for-sale	(400,000)	-
Investment in affiliates	(18,022,500)	-
Cash received from sale of subsidiary	11,000	-
Net book value of assets deconsolidated with sale of subsidiary	(52,967)	
Purchase of property and equipment	(14,920)	(73,505)
	<u>(13,407,127)</u>	<u>16,305,762</u>
<b>Cash flows from financing activities</b>		
Payments on notes payable to related parties	-	(200,000)
Payments on line of credit	-	(799,814)
Payments on long-term debt	(3,318)	(217,682)
Purchase of preferred stock	-	(70,000)
Payments on capital lease	(1,298)	(1,819)
	<u>(4,616)</u>	<u>(1,289,315)</u>
Net increase (decrease) in cash and cash equivalents	(14,878,687)	14,603,478
Cash and cash equivalents, beginning of year	<u>15,155,195</u>	<u>551,717</u>
Cash and cash equivalents, end of year	<u>\$ 276,508</u>	<u>\$ 15,155,195</u>

See notes to consolidated financial statements

# **Evercel, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements December 31, 2012 and 2011**

### **Note 1 – Nature of Business**

#### **Nature of Operations**

##### **Evercel, Inc.**

Evercel, Inc. ("Evercel") is a holding company that oversees and manages subsidiary companies and portfolio investments. Companies owned and managed in 2012 include New England Crab Company, Sontek Medical, Inc., Stretch and Cover, Inc. and Evercel Pioneer Holding Corp. Evercel formerly owned Xiamen Evercel Battery Co. but ceased all marketing and manufacturing in 2004.

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

##### **New England Crab Company**

New England Crab Company ("NECC"), a wholly owned subsidiary of Evercel, sells processed crab products throughout the United States and overseas from its facility in Boston, Massachusetts.

##### **Sontek Medical, Inc.**

Sontek Medical, Inc. ("SMI"), a wholly owned subsidiary of Evercel, develops, manufactures and markets respiratory and related health products. SMI sells its products worldwide from its office in Hingham, Massachusetts.

##### **Stretch and Cover, Inc.**

Stretch and Cover, Inc. ("SCI"), a former wholly owned subsidiary of Evercel, engaged in the distribution of slipcovers for sofas and chairs and various musical instrument products. SCI was headquartered in Hingham, Massachusetts. On August 31, 2012, the Company sold 100% of its ownership in the company (see note 16).

##### **Evercel Pioneer Holding Corp.**

Evercel Pioneer Holding Corp. ("Holding"), a wholly owned subsidiary of Evercel, was created in 2012 for the purpose of holding an 80.1% investment in Pioneer Holding Corp which owns Printronix, Inc., a worldwide leader in multi-technology supply-chain printing solutions for the industrial marketplace.

### **Note 2 – Summary of Significant Accounting Policies**

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of Evercel and its wholly-owned subsidiaries (collectively, the "Company") except for Holding which is carried as an investment on the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

# Evercel, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2012 and 2011

### Note 2 – Summary of Significant Accounting Policies (continued)

#### Principles of Consolidation (continued)

The Company elected not to have its audits performed under United States generally accepted auditing standards applicable to audits of group financial statements. Accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. Accordingly, the Company is reporting its investment in Holding using the equity method which is a departure from accounting principles generally accepted in the United States of America.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### Cash and Cash Equivalents

Consists of cash and temporary investments with maturities of three months or less when purchased.

#### Accounts Receivable

The Company extends credit to its customers in the ordinary course of business. After reviewing aged outstanding balances and giving consideration for the Company's overall collection history, an allowance for doubtful accounts is established. The allowance for doubtful accounts also includes a reserve for accounts which are considered uncollectible based on management's estimates and historical experience. After all reasonable attempts to collect the outstanding balances are exhausted, the accounts are written off. Finance charges are not assessed on past due accounts.

#### Inventories

Inventories are stated at the lower of cost or market value. Cost is determined on the first-in-first out (FIFO) method for SMI and SCI, and the average cost method for NECC.

#### Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Improvements are amortized over the remaining life of the lease. Maintenance and repairs are charged to expense as incurred. Depreciation expense for the years ended December 31, 2012 and 2011 was \$46,148 and \$34,066 respectively.

	<u>Estimated Useful Lives / Lease Terms</u>
Equipment	5
Leasehold improvements	10
Motor vehicles	5
Office equipment	5 to 7

During 2012, fixed assets with a net book value of \$3,344 were removed from the consolidated balance sheet due to the deconsolidation of a subsidiary.

# **Evercel, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements December 31, 2012 and 2011**

### **Note 2 – Summary of Significant Accounting Policies (continued)**

#### **Investments – Available-For-Sale and Long-term**

Evercel has investments in both marketable and nonmarketable securities in which the Company holds less than 20% voting interest. These investments are reported at their fair value. These investments are tested annually for impairment.

#### **Investment in Affiliate**

The Company accounts for this investment using the equity method. When the equity method is used, the investment is recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the investee's net income or losses after the date of investment. The investment is written down only when there is clear evidence that a decline in value that is other than temporary has occurred.

#### **Fair Value Measurements**

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

These inputs have created the following fair value hierarchy:

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

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

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

#### **Revenue Recognition**

Revenue is recorded at the time of shipment, or if applicable, acceptance by the customer, provided title passed, there exists persuasive evidence of an arrangement, the sales price is fixed or determinable and collection of the related receivables is probable.

#### **Shipping and Handling**

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

# Evercel, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2012 and 2011

### Note 2 – Summary of Significant Accounting Policies (continued)

#### Basic and Diluted Net Income Per Share

The basic net income per common share is computed by dividing the net income by the weighted average number of common shares outstanding. Diluted net income per common share is computed by dividing the net income by the weighted average number of common shares outstanding plus potential dilutive securities which include stock options and warrants not yet exercised.

#### Taxes on Income

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

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

#### Reclassification

Certain amounts on the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. The re-classifications have no net effect on net income for 2011.

### Note 3 – Inventories

Inventories consisted of the following at December, 31:

	<u>2012</u>	<u>2011</u>
SMI:		
Finished goods	\$ 104,882	\$ 111,696
Raw materials	104,499	69,968
	<u>209,381</u>	<u>181,664</u>
NECC:		
Finished goods	843,802	269,043
Raw materials	-	7,340
	<u>843,802</u>	<u>276,383</u>
SCI:		
Finished goods	-	23,355
Total inventory	<u>\$ 1,053,183</u>	<u>\$ 481,402</u>

# **Evercel, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements December 31, 2012 and 2011**

### **Note 4 – Investments Available-For-Sale and Long-Term**

#### **Available-for-sale**

As of December 31, 2011, Evercel owned 510,000 shares of the common stock of Zipcar, Inc. (“Zipcar”) which had a fair market value of \$6,844,200. During 2012, the Company sold 510,000 shares of Zipcar and realized a total gain of \$4,010,185. The shares were valued at the net asset value (NAV) and were classified within level 1 of the valuation hierarchy. As of December 31, 2011, recording this investment at fair market value resulted in an unrealized gain of \$5,782,124 recorded in other comprehensive income.

#### **Long-term**

NECC owns 60 shares of Class B capital stock of New Boston Food Development Corp. (“New Boston”) which were acquired for \$800,000. New Boston is a cooperative corporation which developed certain commercial real estate operated as commercial food markets. This investment was not evaluated for impairment because (a) it is not practicable to estimate the fair value due to insufficient information being available and (b) management did not identify any events or changes in circumstances that might have a significant adverse effect on the fair value of the investment. The purchase of the capital stock provides NECC the right to lease certain space through a proprietary lease agreement. The shares have been pledged as security to New Boston to guarantee NECC’s performance under the lease and are classified within level 3 of the valuation hierarchy.

The Company has approximately a 17% interest in Julia Therapeutics, LLC (“Julia”) for which it originally paid \$400,000. An additional investment of \$100,000 was made in 2009. No new investments were made in 2012 or 2011. Julia is a development stage company developing a patented technology to effect the reduction of skin wrinkles through the use of ultrasound. Due to Julia’s operating losses and the uncertainty of the commercialization of Julia’s technology, the Company has recorded a valuation allowance for its full investment. They are classified within level 3 of the valuation hierarchy.

In May and June of 2012, the Company advanced \$600,000 to LocalVox Media, Inc. (“Media”) under 2 convertible promissory notes. On August 14, 2012, the notes were amended so that \$200,000, plus accrued interest, was paid to the Company and the remaining \$400,000 was converted into 403,245 shares of Media series A preferred stock. Due to the uncertainty of the fair market value of these preferred shares, the Company has recorded a valuation allowance for its full investment. They are classified within level 3 of the valuation hierarchy.

# Evercel, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2012 and 2011

### Note 4 – Investments Available-For-Sale and Long-Term (continued)

The following tables set forth by level, within the fair value hierarchy, the Company's investments at fair value as of December 31, 2012 and 2011:

<u>December 31, 2012</u>	Total	Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
LocalVox Media, Inc.	\$ -	\$ -	\$ -	\$ -
Zipcar, Inc.	-	-	-	-
New Boston Food Market	800,000	-	-	800,000
Julia Therapeutics LLC	-	-	-	-
	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 800,000</u>

  

<u>December 31, 2011</u>	Total	Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
Zipcar, Inc.	\$ 6,844,200	\$ 6,844,200	\$ -	\$ -
New Boston Food Market	800,000	-	-	800,000
Julia Therapeutics LLC	-	-	-	-
	<u>\$ 7,644,200</u>	<u>\$ 6,844,200</u>	<u>\$ -</u>	<u>\$ 800,000</u>

The table below set forth a summary of changes in fair value of the Plan's level 3 assets for the year ended December 31, 2012 and 2011.

### Level 3 Assets Year ended December 31, 2012

	Investments
Balance, beginning of year	\$ 800,000
Realized gains (losses)	-
Purchases, sales, issuance and settlements (net)	-
Balance, end of year	<u>\$ 800,000</u>

## Evercel, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements December 31, 2012 and 2011

#### Note 4 – Investments Available-For-Sale and Long-Term (continued)

Level 3 Assets  
Year ended December 31, 2011

	<u>Investments</u>
Balance, beginning of year	\$ 3,775,000
Realized gains in Zipcar, Inc.	14,466,343
Unrealized gains in Zipcar, Inc.	5,782,124
Sale of Zipcar, Inc.	(16,379,267)
Transfers to Level 1	<u>(6,844,200)</u>
Balance, end of year	<u>\$ 800,000</u>

#### Note 5 – Investment in Unconsolidated Affiliate

The table below sets forth the carrying value of the Company's equity investment in an unconsolidated affiliate and its equity share of their earnings or losses, as of and for the year ended December 31, 2012. The Company accounts for this investment by the equity method. The Company records its share of earnings (loss) in the consolidated statements of operations as "Equity in earnings of affiliate" and the carrying value of the Company's investment in affiliate in the consolidated balance sheets as "Investment in affiliate".

	<u>December 31, 2012</u>
Evercel Pioneer Holding Corp	<u>\$ 18,022,500</u>
Equity in earnings of affiliate	<u>\$ -</u>

On December 31, 2012, Evercel Pioneer Holding Corp., a 100% owned subsidiary of Evercel, Inc., purchased an 80.1% interest in Pioneer Holding Corp. for \$18,022,500. Pioneer Holding Corp. owns 100% of Printronix, Inc.

#### Note 6 – Long-term Debt

NECC had a note payable to another company requiring quarterly principal payments of \$13,000, plus interest at 7.0% through March 2015. The note was secured by 60 shares of New Boston Food Market Development Corp. The note was paid in full during 2012.

# **Evercel, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements December 31, 2012 and 2011**

### **Note 7 – Stockholders' Equity**

#### **Common Stock:**

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

In May of 2012, the Company authorized an additional 45,000,000 shares.

#### **Series A Preferred Stock:**

There are 400,000 shares of preferred stock series A authorized with 15,496 and 14,437 shares issued and outstanding as of December 31, 2012 and 2011, respectively.

8% dividends declared and paid to series A stockholders, in the form of 1,150 additional shares of series A stock, for the year ended December 31, 2012 totaled \$28,736.

8% dividends declared and paid to series A stockholders, in the form of 1,069 additional shares of series A stock, for the year ended December 31, 2011 totaled \$26,725.

#### **Series B Preferred Stock:**

There are 600,000 share of preferred stock series B authorized with 15,278 and 17,921 shares issued and outstanding as of December 31, 2012 and 2011, respectively. A total of 3,945 and 3,768 shares of series B preferred stock were converted to common stock in 2012 and 2011, respectively. In addition, 2,758 shares of series B preferred were repurchased by the Company and retired during 2011.

8% dividends declared and paid to series B stockholders, in the form of 1,302 additional shares of series B stock, for the year ended December 31, 2012 totaled \$32,550.

8% dividends declared and paid to series B stockholders, in the form of 1,472 additional shares of series B stock, for the year ended December 31, 2011 totaled \$36,806.

Both series A and 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 calculated at a rate of 8% of the liquidation value, payable quarterly in cash or shares of preferred stock, at the option of the Company.

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

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

# **Evercel, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements December 31, 2012 and 2011**

### **Note 7 – Stockholders' Equity (continued)**

#### **Series B Preferred Stock (continued)**

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

The 8% cumulative dividends on the preferred series A and preferred series B stock which have been paid to shareholders in the form of a stock dividend (additional shares of preferred stock) as of December 31, 2012 and 2011, is \$139,379 and \$78,093, respectively.

### **Note 8 – Warrants**

In connection with the acquisition of the net assets of SCI, the Company issued warrants to purchase up to 120,000 shares of the Company's common stock at a price of \$1.12 per share, subject to adjustment per the warrant agreement. The warrants, which have not been exercised, expire on April 24, 2016.

### **Note 9 – Equity Incentive Plan**

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

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The fair value is amortized as compensation cost on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. The Company uses historical data on employee turnover and terminations to estimate the percentage of options that will ultimately be exercised. Expected volatility is based on average volatility for a representative sample of publicly traded companies in the same industry sector. The expected term represents the period of time that the options are expected to be outstanding. The risk-free interest rate is estimated using the rate of return on the U.S. Treasury Notes with a life that approximates the expected life of the option. Stock options that have been granted are exercisable commencing one year after grant at the rate of 25% of such shares in each succeeding year. As of December 31, 2012, 1,135,000 of the 1,475,440 shares granted were fully vested.

In connection with the merger transaction in 2006, two former Sontek stockholders were allowed to exchange their Sontek options for options to purchase Evercel common stock. The conversion was at a rate similar to the conversion rate of Sontek stock for Evercel stock. As a result, each of the two stockholders has the option to purchase 257,720 shares of common stock (included in the 1,175,440 below) and 150,000 shares of series B preferred stock. These options are fully vested and expire ten years from the date of issuance. The exercise price is \$0.29 per common share and \$0.51 per preferred share.

# Evercel, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2012 and 2011

### Note 9 – Equity Incentive Plan (continued)

The following table summarizes the common stock option plan activity:

	Number of Options	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2010	1,175,440	\$0.29 to \$20.47	\$1.12
Issued	-		-
Exercised	-		-
Expired	-		-
Forfeited	<u>(100,000)</u>		\$2.45
Outstanding at December 31, 2011	1,075,440	\$0.29 to \$2.16	\$1.00
Issued	500,000		\$0.72
Exercise	-		-
Expired	-		-
Forfeited	<u>(100,000)</u>		\$0.72
Outstanding at December 31, 2012	<u>1,475,440</u>	\$0.29 to \$2.16	\$0.92

Options outstanding and exercisable at December 31, 2012 and 2011 are as follows:

Options Outstanding				Options Exercisable	
	Range of Exercise Price	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable
2012	\$0.29 to \$1.40	1,290,440	5.20	\$0.75	950,000
	\$2.16	<u>185,000</u>	0.30	\$2.16	<u>185,000</u>
	\$0.29 to \$2.16	<u>1,475,440</u>	4.60	\$0.92	<u>1,135,000</u>
2011	\$0.29 to \$1.40	890,440	4.40	\$0.76	890,440
	\$2.16	<u>185,000</u>	1.30	\$2.16	<u>185,000</u>
	\$0.29 to \$2.16	<u>1,075,440</u>	3.90	\$1.00	<u>1,075,440</u>

Compensation expense related to the options outstanding recognized in the accompanying statements of operations totaled \$39,000 and \$- for the years ended December 31, 2012 and 2011, respectively. There is \$248,625 unrecognized compensation expense related to the outstanding options as of December 31, 2012.

# Evercel, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2012 and 2011

### Note 10 – Income Taxes

The provision for income taxes consists of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Current:		
Federal	\$ 73,000	\$ -
State	235,500	426,000
Deferred:		
Federal	3,700,000	(3,668,872)
State	<u>-</u>	<u>1,048,872</u>
Total income taxes	<u>\$ 4,008,500</u>	<u>\$(2,194,000)</u>

The net deferred tax amounts included in the accompanying consolidated financial statements include the following amounts of deferred tax assets and liabilities as of December 31:

	<u>2012</u>		<u>2011</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Deferred tax assets	\$ -	\$ 12,394,815	\$ 2,131,000	\$ 10,739,945
Deferred tax liabilities	-	-	-	(10,662)
Deferred tax allowance	<u>-</u>	<u>(12,394,815)</u>	<u>-</u>	<u>(9,160,283)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,131,000</u>	<u>\$ 1,569,000</u>

The deferred tax assets result primarily from temporary differences in the recognition of income and expense items for book and tax purposes and net operating loss carry forwards. The Company operates as a “C” Corporation for tax purposes and has available federal net operating loss carry-forwards of approximately \$34,000,000 and \$38,500,000 as of December 31, 2012 and 2011, respectively, which will expire through 2030. The Company also has available various state operating loss carry-forwards of approximately \$254,000 and \$747,000 for the years ended December 31, 2012 and 2011, respectively, which expire at various dates through 2020. The deferred tax asset valuation allowance is a result of the tax benefit from net operating losses not expected to be used in the future.

Deferred income tax liabilities result from temporary differences in the recognition of income and expense items for book and tax purposes.

For Massachusetts income tax purposes, corporations are liable for the income measure of the corporate excise at the rate up to 8.00% and 8.25% on net income subject to tax for the years ended December 31, 2012 and 2011, respectively. Connecticut income tax is calculated at a 7.5% tax rate.

The Company’s federal and state income tax returns for 2009 through 2012 are subject to examination by the IRS and state tax authorities.

## **Evercel, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements December 31, 2012 and 2011**

#### **Note 10 – Income Taxes (continued)**

For the years ended December 31, 2012 and 2011, the Company's effective tax rate differs from the statutory rate due to the change in estimate of the value of the deferred tax valuation allowance as management's assessment on the Company's ability to use certain deferred tax assets in the future has changed.

#### **Note 11 – Related Party Transactions**

The Company was a tenant at will for warehouse and office space rented from a family member of its former President. The lease required rental payments of \$3,600 per month. Rent expense relating to this lease was \$43,200 for both years ended December 31, 2012 and 2011. In 2013, the Company terminated this lease agreement.

In November 2010, SCI entered into an informal lease agreement with its former President to rent warehouse space. Rent expense amounted to \$25,400 and \$43,025 for the years ended December 31, 2012 and 2011, respectively. In 2012, the Company terminated this lease agreement.

The Company had an arrangement with a New Hampshire firm to assemble and package various products for SMI. Various officers of the Company own 80% of the stock of the New Hampshire firm. The Company paid \$127,402 in 2012 and \$174,746 in 2011 to the New Hampshire firm for assembly and packaging services. Further, there was \$0 and \$956 in accounts payable to the New Hampshire firm at December 31, 2012 and 2011, respectively. In 2013, the Company terminated this arrangement as part of the sale of SMI.

In 2010, the Company entered into two financing agreements totaling \$200,000 from the President of the Company and a board member. The interest rate was the national prime rate plus 3% and was payable upon demand. The notes payable plus interest accrued were paid in full during 2011. Total interest expense relating to the notes payable was \$12,667 in 2011.

#### **Note 12 – Lease Commitment**

In February 2005, NECC purchased capital stock of a cooperative corporation, which represents the entire interest in the property it leases. The proprietary lease expires May 31, 2015. Under this agreement, NECC is required to pay monthly payments equal to the expenses incurred by the lessor for maintaining the property. NECC paid \$128,268 and \$124,701 for the years ended December 31, 2012 and 2011, respectively.

In March 2012, the Company renewed its one year lease agreement for office space located in New London, CT, the Company's worldwide headquarters. The company is required to make monthly payments of \$700. Rent expense relating to this lease was \$7,800 and \$4,800 for the years ended December 31, 2012 and 2011, respectively. The Company did not renew this lease in 2013.

# **Evercel, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements December 31, 2012 and 2011**

### **Note 13 – Concentrations**

#### **Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains its cash balances in financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 while non-interest bearing accounts are fully insured, regardless of the balance of the account. The Company's uninsured cash balances totaled \$0 and \$61,000 for the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012, two customers accounted for 20% and 13% of gross accounts receivable. As of December 31, 2011, two customers accounted for 34% and 15% of gross accounts receivable. Exposure to credit risk is limited by the large number of customers comprising the remainder of the Company's customer base and by ongoing customer credit evaluations performed by the Company.

#### **Transactions With Significant Customers**

During 2012 and 2011, SMI had sales to three and four customers representing 62% and 73% of its total sales, respectively. Accounts receivable due from these customers was \$56,319 and \$86,239 at December 31, 2012 and 2011, respectively.

During 2012, NECC had sales to one customer representing 17% of its total sales. Accounts receivable due from this customer was \$139,346 at December 31, 2012.

### **Note 14 – Deconsolidation**

On August 31, 2012, Evercel sold its ownership interest in Stretch & Cover, Inc. to Hidden Equity, an unrelated party, for \$31,795. The Company recognized a loss of \$24,517 on the transaction. The Company did not retain any investment and it does not have a continuing involvement in Stretch & Cover, Inc. Neither Stretch & Cover or Hidden Equity are considered to be related parties as a result of this transaction.

# Evercel, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2012 and 2011

### Note 15 – Summarized Financial Information

Summarized financial information for the Company and its subsidiaries is as follows:

	Evercel	NECC	SMI	SCI	Total
<b><u>2012</u></b>					
Income statement information:					
Revenue	\$ -	\$ 7,759,392	\$ 675,968	\$ -	\$ 8,435,360
Operating income (loss)	(870,089)	364,781	101,616	-	(403,692)
Income (loss) from continuing operations	(1,258,273)	364,802	99,063	-	(794,408)
Balance sheet information:					
Total assets	\$ 18,059,451	\$ 3,160,782	\$ 457,916	\$ -	\$ 21,678,149
Total liabilities	170,714	159,521	15,372	-	345,607
<b><u>2011</u></b>					
Income statement information:					
Revenue	\$ -	\$ 6,463,825	\$ 734,126	\$ -	\$ 7,197,951
Operating income (loss)	(330,880)	362,424	156,174	-	\$ 187,718
Income from continuing operations	16,340,881	354,851	145,263	-	16,840,995
Balance sheet information:					
Total assets	\$ 25,016,957	\$ 2,995,785	\$ 515,277	\$ 40,033	\$ 28,568,052
Total liabilities	402,494	124,981	17,803	23,966	569,244

### Note 16 – Supplemental Disclosure of Cash Flow Information

	December 31,	
	2012	2011
Interest paid	<u>\$ 220</u>	<u>\$ 34,323</u>
Income taxes paid	<u>\$ 698,381</u>	<u>\$ 19,475</u>

### Note 17 – Discontinued Operations

In the third quarter of 2012, the Company sold its Stretch and Cover subsidiary (see note 16) and accordingly, the Company's consolidated financial statements have been prepared with the results of operations of this subsidiary displayed separately as "discontinued Operations".

# Evercel, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2012 and 2011

### Note 17 – Discontinued Operations (continued)

The operating results of the discontinued operations are summarized as follows for the years ended December 31:

	2012	2011
Revenue	\$ 133,981	\$ 246,728
Operating income (loss)	(104,217)	(272,845)
Income (loss) from operations, net of tax	(104,217)	(272,845)
Other income (expense)	-	(177,930)
Loss on disposal, net of tax	(24,517)	-
Net income (loss) from discontinued operations	\$ (128,734)	\$ (450,775)

As of December 31, 2011, as the subsidiary was deconsolidated in 2012, the Company's assets and liabilities related to discontinued operations are as follows:

	2011
Current assets	\$ 35,969
Property and equipment, net	4,064
Current liabilities	(23,966)
Net assets of discontinued operations	\$ 16,067

### Note 18 – Subsequent Events

On March 31, 2013, the Company sold the assets of Sontek Medical, Inc. (SMI) for \$490,000. SMI is a manufacturer and developer of respiratory and related health products. The carrying amounts of the assets and liabilities as of December 31, 2012 and the revenues and earnings for the year ended December 31, 2012, are shown in note 17.

On April 24, 2013, the Company paid two former employees \$275,000.

On January 1, 2013 Evercel entered into an agreement with Corona Investment Partners, LLC to manage Evercel's ownership in Evercel Pioneer Holding Corporation. In addition, Evercel hired Daniel Allen, Corona Investment Partners' Managing Director, to be CEO of Evercel.

On June 27, 2013, Evercel sold to Corona Investment Partners, LLC 5,639,545 shares of common stock at \$0.75 per share in exchange for a promissory note with a principal amount of \$4,229,658.75 and interest rate of 0.95% compounded annually. Interest payments on the note are due annually and may be paid in cash or by issuing additional notes (PIK notes). The promissory note and PIK notes are collateralized by the stock in a separate pledge agreement dated June 27, 2013 between Evercel and Corona Investment Partners, LLC.

## **Evercel, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements December 31, 2012 and 2011**

#### **Note 18 – Subsequent Events (continued)**

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through December 12, 2013, the date the consolidated financial statements were issued.