



Evercel, Inc. and Subsidiaries
Consolidated Financial Statements
March 31, 2021 and March 27, 2020

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EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2021 and March 27, 2020
(in thousands, except share and per share data)

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 52,358	\$ 58,181
Restricted cash	9,444	—
Short-term investments	1,286	3,464
Accounts receivable, net	68,724	9,115
Inventories, net	93,381	9,651
Income tax receivable	6,217	—
Prepaid expenses and other current assets	10,917	2,341
Total current assets	<u>242,327</u>	<u>82,752</u>
Property, plant and equipment, net	17,216	2,519
Goodwill	16,941	738
Other intangible assets, net	42,276	853
Deferred income tax assets, net (Note 19)	8,874	1,156
Other assets	2,924	583
Total assets	<u>\$ 330,553</u>	<u>\$ 88,601</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 59,181	\$ 3,209
Revenue contract liability	24,495	—
Warranty	2,691	100
Accrued wages and wage related expenses	9,263	1,966
Accrued Liabilities	7,169	2,745
Current portion of paycheck protection program loan	3,184	—
Current portion of term loan	13,430	—
Total current liabilities	<u>119,413</u>	<u>8,020</u>
Deferred revenue, net of current portion	604	751
Line of credit	40,000	—
Non-current portion of paycheck protection program loan	6,435	—
Non-current portion of term loan	59,382	—
Long-term transition tax payable, net of current portion (Note 19)	322	365
Other long-term liabilities	240	137
Total liabilities	<u>226,396</u>	<u>9,273</u>
Commitments and Contingencies (Note 10)		
Stockholders' Equity		
Preferred stock, Series A convertible 8% cumulative, \$0.01 par value (total liquidation value of \$29 and \$27, respectively)	—	—
Preferred stock, Series B convertible 8% cumulative, \$0.01 par value (total liquidation value of \$736 and \$681, respectively)	—	—
Common stock, \$0.01 par value; authorized 75,000,000 shares; issued and outstanding 32,536,234 shares	325	325
Additional paid-in capital (Note 12)	6,446	6,365
Retained earnings	66,687	65,166
Accumulated other comprehensive loss	(686)	—
Total controlling interest	<u>72,772</u>	<u>71,856</u>
Noncontrolling interest	<u>31,385</u>	<u>7,472</u>
Total stockholders' equity	<u>104,157</u>	<u>79,328</u>
Total liabilities and stockholders' equity	<u>\$ 330,553</u>	<u>\$ 88,601</u>

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the Fiscal Years Ended March 31, 2021 and March 27, 2020
(in thousands, except share and per share data)

	2021	2020
REVENUE	\$ 74,337	\$ 45,085
COST OF SALES	45,065	22,266
GROSS MARGIN	29,272	22,819
OPERATING EXPENSES		
Engineering and development	1,222	1,383
Sales and marketing	8,387	9,677
General and administrative	14,843	9,711
Restructuring (Note 2)	517	—
Transaction costs	8,277	—
Amortization of intangible assets	585	142
Total operating expenses	33,831	20,913
OPERATING INCOME FROM CONTINUING OPERATIONS	(4,559)	1,906
Foreign currency losses, net	(40)	(215)
Change in fair value of investments, net (Note 6)	988	(1,410)
Gain on forgiveness of debt (Note 20)	1,020	—
Interest income, net	135	524
Interest expense	(1,164)	—
Other income, net	2	569
(Loss) income from continuing operations before income taxes	(3,619)	1,374
Benefit (provision) for income taxes	(4,047)	41
Income from continuing operations	428	1,333
Net income, including noncontrolling interest	428	1,333
Less: net income attributable to noncontrolling interest	(1,149)	209
Net income attributable to Evercel, Inc. and Subsidiaries	1,577	1,124
Comprehensive income:		
Net income	428	1,333
Foreign currency translation loss	(1,232)	—
Comprehensive income	(804)	1,333
Less: net income and comprehensive income attributable to noncontrolling interest	(1,695)	209
Comprehensive income attributable to Evercel, Inc. and Subsidiaries	\$ 891	\$ 1,124
Basic and Diluted Net Earnings per common share attributable to Evercel, Inc. and subsidiaries:		
Earnings from continuing operations per share - basic and diluted	\$.05	\$.03
NET INCOME PER SHARE – BASIC AND DILUTED	\$.05	\$.03
Weighted-average Common Shares Outstanding:		
Basic	32,530,717	32,530,717
Diluted	33,091,263	33,019,001

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Fiscal Years Ended March 31, 2021 and March 27, 2020
(in thousands, except share and per share data)

	Preferred Stock						Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Evercel, Inc. and Subsidiaries	Non- Controlling Interest	Total Stockholders' Equity
	Series A		Series B		Common Stock							
	Shares	\$0.01 Par Value	Shares	\$0.01 Par Value	Shares	\$0.01 Par Value						
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
Preferred stock dividends	81	—	2,181	—	—	—	56	(56)	—	—	—	—
Share-based compensation	—	—	—	—	—	—	25	—	—	25	—	25
Accretion of Unit Grant compensation	—	—	—	—	—	—	—	—	—	—	78	78
Other comprehensive loss	—	—	—	—	—	—	—	—	(686)	(686)	(546)	(1,232)
Non-Controlling distributions	—	—	—	—	—	—	—	—	—	—	(5,970)	(5,970)
Non-Controlling capital contributions	—	—	—	—	—	—	—	—	—	—	31,500	31,500
Net income including noncontrolling interest	—	—	—	—	—	—	—	1,577	—	1,577	(1,149)	428
Balance, March 31, 2021	1,097	\$ —	29,449	\$ —	32,530,717	\$ 325	\$ 6,446	\$ 66,687	\$ (686)	\$ 72,772	\$ 31,385	\$ 104,157

EVERCEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended March 31, 2021 and March 27, 2020
(in thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 428	\$ 1,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in fair value of investments	(988)	1,410
Depreciation and amortization	2,210	1,224
Amortization of inventory step-up	3,289	—
Stock based compensation	103	82
Deferred income tax provision	—	—
Loss on disposal of property and equipment	219	(8)
Provision for bad debt	(1,156)	611
Changes in operating assets and liabilities		
Accounts receivable	15,676	1,961
Inventories	8,741	(2,058)
Prepaid expenses and other assets	(5,576)	(709)
Accounts payable	(6,824)	(489)
Payroll and employee benefits	1,148	—
Sales returns liability	(3,757)	—
Warranty	(2,538)	—
Accrued income taxes	547	—
Accrued liabilities	963	(1,956)
Deferred revenue	(313)	(524)
Other liabilities	—	(435)
Net cash provided by operating activities	12,172	442
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,048)	(521)
Purchase of short-term investments	(10,444)	(4,128)
Acquisition of ZAGG, Inc.	(116,591)	—
Acquisition of goodwill	—	(738)
Net proceeds from disposition of property and equipment	11	38
Net proceeds from sale of investment securities	13,610	40,129
Net cash used in investing activities	(114,462)	34,780
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	94,389	—
Payments on Line of Credit	(40,959)	—
Proceeds from Payroll Protection Program	176	—
Proceeds from Term loan	59,382	—
Common stock buy-back	—	(11)
Distribution to non-controlling interest	(5,970)	(2,250)
Net cash used in financing activities	107,018	(2,261)
Effect of foreign current exchange rate non cash and cash equivalents	(1,107)	—
Net increase (decrease) in cash and cash equivalents	3,621	32,961
CASH AND CASH EQUIVALENTS – beginning of fiscal year	58,181	25,220
CASH AND CASH EQUIVALENTS – end of fiscal year	\$ 61,802	\$ 58,181
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	\$ 799	\$ 3,524
Interest paid	\$ 779	\$ 1
NONCASH INVESTING AND FINANCING ACTIVITIES		
Forgiveness of debt	\$ 1,020	\$ —
Purchase of property and equipment financed through account payable	\$ 1,272	\$ —

EVERCEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and March 27, 2020

1. THE COMPANY

Evercel, Inc. (“Evercel”), a Delaware Corporation, is a holding company that oversees and manages subsidiary companies and portfolio investments. Companies owned and managed during the fiscal years ended March 31, 2021 and March 27, 2020, include Evercel Pioneer Holding Corp (“Evercel Pioneer Holding”), Evercel Holdings, LLC (“Evercel Holdings”), Zigg Holdings, LLC (“Zigg Holdings”), Zypher Holdings, LLC (“Zephyr Holdings”), and Paper Ventures LLC and Current Technologies LLC. ZAGG Evercel, Evercel Pioneer Holding, Evercel Holdings, Zigg Holdings, Zephyr Holdings, Paper Ventures and Current Technologies, along with their respective consolidated subsidiaries as further discussed below, 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 periodic 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 31, 2021 and March 27, 2020.

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.

Zigg Holdings LLC (Formerly SHSP Holdings LLC)

Zigg Holdings LLC is a legal entity, established on March 28, 2018, to hold an investment of a convertible note with SharpSpring Inc., a NASDAQ listed public company. In fiscal year 2020 the note was converted and the SharpSpring investment was realized. On February 22, 2021, Zigg Holdings invested, with co-investors, in a transaction to acquire ZAGG, Inc., a NASDAQ listed public company. Corona Park Investment Partners LLC, a related party, is the manager of Zigg Holdings. Evercel owns all 800 of the Class A units, with CPIP and other parties involved in the sourcing and managing of the investments owning all 200 of the Class B units. No other interests in Zigg Holdings are outstanding. Evercel receives a preferred return of its capital and expenses prior to all shareholders sharing pro rata in capital account allocations.

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Zephyr Parent, Inc. and ZAGG, Inc.

On February 22, 2021, 100% of the outstanding common shares of ZAGG, Inc. (“ZAGG”) were acquired by Zephyr Parent, Inc. (“Zephyr Parent”) and Zephyr Merger Sub, Inc., in accordance with the Agreement and Plan of Merger (the “Merger Agreement”), dated as of December 10, 2020. At the closing, Merger Sub, Inc. merged with and into ZAGG, with ZAGG continuing as the surviving corporation and a wholly-owned subsidiary of Zephyr Parent. Zephyr Parent is indirectly controlled by Zypher Holdings, Inc. which is in turn indirectly controlled by Evercel and its co-investors (collectively, the “ZAGG Investor Group”). The total consideration for the acquisition was \$160.14 million. The total purchase price was allocated to identifiable assets acquired and liabilities assumed based on their respective fair values (See Note 2).

ZAGG and its global subsidiaries are innovation leaders in mobile tech accessories for smartphones and tablets. For over 10 years, ZAGG has developed creative product solutions that enhance and protect mobile devices for consumers around the world. ZAGG has an award-winning product portfolio that includes screen protection, power management, wireless charging, power cases, audio, mobile keyboards, protective cases, and other mobile accessories sold under the ZAGG, InvisibleShield, mophie, IFROGZ, Gear4, and HALO brands.

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 and other parties involved in the sourcing and managing of the investments owning all 200 of the Class B units. No other interests in Paper Ventures LLC are outstanding. Evercel receives a preferred return of its capital and expenses prior to all shareholders sharing pro rata in capital account allocations.

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, Evercel Pioneer Holding, Printronix, Paper Ventures LLC, Current Technologies LLC, Zigg Holdings (formerly SHSP Holdings) and ZAGG, Inc, along with their respective consolidated subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements present the consolidated financial position, results of operations and comprehensive income, stockholders’ equity and cash flows for the fiscal years ended March 31, 2021 (“fiscal 2021”) and March 27, 2020 (“fiscal 2020”).

Evercel consolidates the accounts under the voting interest model when a reporting entity, directly or indirectly, has a controlling financial interest in another entity. For voting interest entities that are not VIEs, a controlling financial interest means ownership of a majority of the voting interests. Generally, ownership by one reporting entity, directly

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or indirectly, of more than 50% of the outstanding voting shares of another entity points toward consolidation. Management evaluated investments in the investment in and determined it was not considered to be a VIE. Evercel evaluated the investment Zephyr Holdings has in ZAGG under the voting interest model and determined Zephyr Holdings has a majority controlling interest and, therefore, will consolidate under the voting interest model.

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, Current Technologies LLC. Therefore, Evercel has consolidated such investees in the accompanying consolidated financial statements and notes thereto.

Reclassifications

Certain amounts for fiscal 2020 have been reclassified to conform to fiscal 2021 presentation with no effect on stockholders' equity or net income.

Accounting Period

The Company used a fifty-two or fifty-three week fiscal year ending on the last Friday of March for periods ending through March 27, 2020. The company changed its fiscal year end date to March 31 effective with fiscal year ending March 31, 2021. For the fiscal years presented, the year-end dates were March 31, 2021 and March 27, 2020.

Printronic 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 26, 2021 and March 27, 2020. Both fiscal years 2021 and 2020 are fifty-two week fiscal periods.

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.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Amounts receivable from credit card processors are also considered cash equivalents because they are

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both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction. Amounts receivable from credit card processors as of March 31, 2021 totaled \$63 million.

Investments

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 gain and a net loss from changes in fair value of investments in the accompanying Consolidated Statement of Operations of \$988 for the year ended March 31, 2021, and for the fiscal year ended March 27, 2020, respectively.

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 31, 2021 and March 27, 2020, Printronix held \$1.3 and \$3.5 million in exchange traded common stocks and mutual funds respectively.

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 Company estimates an allowance for credit losses in relation to our accounts receivable as outlined by Accounting Standards Codification (“ASC”) Topic 326, “Financial Instruments – Credit Losses” (“Topic 326”). Credit losses are estimated based on relevant qualitative and quantitative information about historical events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported accounts receivable. Topic 326 permits different methods to calculate the estimate for the allowance for credit losses. The Company utilizes an aging schedule to develop historical credit loss percentages, which is r Topic 326. The historical credit loss percentages are developed for each aging category based on eight quarters of credit loss history and the Company determined that its customers in each of these aging categories share similar risk characteristics.

Additionally, as required by Topic 326, the Company adjusts the historical credit loss percentage by current and forecasted economic conditions. Due to the short term nature of its accounts receivable and that it carries credit insurance on a significant portion of the accounts receivable balance, the Company believes changes to economic conditions may not have significant effect on the estimate of the allowance for credit losses for accounts receivable; thus, the Company determined to include a baseline credit loss percentage into the historical credit loss percentage for each aging category to reflect the potential impact of the current and future economic conditions. Such baseline credit loss is adjusted when changes in the economic environment change the Company’s expectation for future credit losses.

As of March 31, 2021 and March 27, 2020, the Company’s allowances for doubtful accounts and sales returns was \$1,385 thousand and \$780 thousand, respectively.

Inventories

Inventories, consisting primarily of finished goods and raw materials, are valued at the lower of cost, determined on a first in, first out basis, or net realizable value. Management performs periodic assessments to estimate realizable values and to determine existence of obsolete, slow moving, and non-saleable inventories, and records necessary write-downs in cost of sales to reduce such inventories to estimated net realizable value. Once established, the original cost of the inventory less the related inventory write-down represents the new cost basis of such products. As of March

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31, 2021, and March 27, 2020, The Company had recorded approximately \$24,166 and \$620 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
Computer equipment and software	3 to 5 years
Automobiles	5 years
Building Improvements	40 years
Leasehold improvements	1-8 years

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 \$1.8 and \$1.3 million in fiscal 2021 and 2020, 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.

In the fiscal year ending March 27, 2020 the Company acquired goodwill through the acquisition of Current Technologies.

Additionally, in connection with the fiscal 2021 acquisition of ZAGG, the Company, through its partial ownership in Zephyr Holdings, acquired intangible assets consisting of trade names, patents and technology, customer relationships and goodwill, as more fully discussed under Acquisition of ZAGG, Inc. below.

The 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. Goodwill represents the excess purchase price over the estimated fair value of net assets acquired in a business combination. At least annually or when there is a triggering event (e.g., a deterioration in general economic conditions or in the environment in which the Company operates), the Company performs an impairment assessment of goodwill.

When impairment indicators are identified, the Company's fair value is compared to its carrying amount, including goodwill. An impairment loss is recognized as the difference, if any, between the Company's carrying amount and its fair value to the extent the difference does not exceed the total amount of goodwill.

During fiscal 2021 and 2020, definite-lived intangible assets were amortized over 5-10 years, and \$583 and \$142 thousand, respectively, of amortization expense was recognized each year.

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Intangible assets at the end of fiscal 2021 and 2020 consisted of the following (in thousands):

<i>March 31, 2021</i>	Weighted Average Amortization Period	Gross Carrying Value	Accumulated Amortization	Net Book Value
Trade name and trademarks	8-10 years	\$ 26,422	\$ 541	\$ 25,881
Patents	10 years	7,885	459	7,426
Customer Relationships	5 years	9,120	151	8,969
		<u>43,427</u>	<u>1,151</u>	<u>42,276</u>
Goodwill	Indefinite	16,941	–	16,941
		<u>\$ 60,368</u>	<u>\$ 1,151</u>	<u>\$ 59,217</u>

<i>March 27, 2020</i>	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
		<u>1,422</u>	<u>(569)</u>	<u>853</u>
Goodwill	Indefinite	738	–	738
		<u>\$ 2,160</u>	<u>\$ (569)</u>	<u>\$ 1,591</u>

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

2022	\$ 5,432
2023	5,432
2024	5,432
2025	5,432
2026	5,280
Thereafter	<u>15,267</u>
	<u>\$ 42,275</u>

Impairment of long-lived assets

Long-lived assets, such as property and equipment and amortizing intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, recoverability of long-lived assets is measured by comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate over the remaining life in measuring whether the assets are recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Revenue Recognition

Printers and Printing Solutions

Printronix enters into contract arrangements that may include various combinations of tangible products, services, solution and software offerings, which are generally capable of being distinct and accounted for as separate performance obligations. We evaluate whether two or more contracts should be combined and accounted for as a single contract and whether the combined or single contract has more than one performance obligation. This evaluation requires judgement, and the decision to combine a group of contracts or separate the combined or single contract into multiple distinct performance obligations may impact the amount of revenue recorded in a reporting period. Printronix deems performance obligations to be distinct if the customer can benefit from the product or service on its down or

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together with readily available resources (“capable of being distinct”) and if the transfer of products or services is separately identifiable from other promises in the contract (“distinct within the context of the contract”).

For contract arrangements that include multiple performance obligations, Printronix allocates the total transaction price to each performance obligation in an amount based on the estimate relative standalone selling prices for each performance obligation. In general, standalone selling prices are observable for tangible products and standard software while standalone selling prices for repair and maintenance services are developed with an expected cost-plus margin or residual approach. Regional pricing, marketing strategies and business practices are evaluated to derive the estimate standalone selling price using a cost-plus margin methodology.

Printronix recognizes revenue for each performance obligation upon transfer of control of the promised goods or services. Control is deemed to have been transferred when the customer has the ability to direct the use of and has obtained substantially all of the remaining benefits from the goods and services. The determination of whether control transfers at a point in time or over time requires judgment and includes consideration of the following: 1) the customer simultaneously receives and consumes the benefits provided as Printronix performs its promises; 2) Printronix’s performance creates or enhances an asset that is under control of the customer; 3) Printronix’s performance does not create an asset with an alternative use to Printronix; and 4) Printronix has an enforceable right to payment for its performance completed to date.

Revenues for products are generally recognized upon shipment, whereas revenues for services are generally recognized by using a time-based method, assuming all other criteria for revenue recognition have been met. Revenues for software are recognized upon delivery.

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

Printronix’s remaining performance obligations primarily relate to repair and support services. The aggregated transaction price allocated to remaining performance obligations for arrangements with an original term exceeding one year was \$0.8 million and \$1.04 million, inclusive of deferred revenue, as of March 26, 2021 and March 27, 2020, respectively. On average, remaining performance obligations as of March 26, 2021 and March 27, 2020 are expected to be recognized over a period of approximately 2 years.

In addition, warranties provided to customers are considered as assurance-type warranties under Topic 606 due to the fact that such warranties primarily provide exchange of products for repair and do not offer additional services to the customers and consequently, they are not accounted in separate performance obligations but combined with the promised products sold into a single performance obligation.

Promotional products given to customers or potential customers are recognized as a cost of sales. Cash incentives provided to Printronix’s customers are recognized as a reduction of the related sale price and, therefore are a reduction in revenues.

Mobile Accessories

ZAGG’s revenue is derived from sales of device accessories, including screen protection, power cases, power management, wireless charging, personal audio, mobile keyboards and protective cases through its indirect channels, including retailers, distributors, televised home shopping channels and franchisees; and through its direct channels, including its website www.ZAGG.com, corporate-owned and franchise-owned mall kiosks, cellphone repair stores, and Company-branded stores. Such sales mostly contain promises to transfer manufactured products to customers,

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and in limited arrangement to provide services to customers, in which judgment is required to determine whether such promises are considered distinct performance obligations and should be accounted separately or combined into a single performance obligation. The products sold by ZAGG are considered distinct on their own and accounted for separately. In addition, warranties provided to customers are considered as assurance-type warranties under Topic 606 due to the fact that such warranties primarily provide exchange of products for repair and do not offer additional services to the customers and consequently, they are not accounted in separate performance obligations but combined with the promised products sold into a single performance obligation.

When determining the transaction price, or in other words, the amount of revenue to be recognized, transaction price is based on the observable standalone selling prices charged to customers that are mutually agreed upon by both parties before any orders are authorized, reduced by estimated sales returns and discounts, which are considered as variable consideration under Topic 606. To estimate the amount of variable consideration for revenue adjustment, ZAGG uses the expected value method with inputs from a portfolio of data where significant judgment is applied. As concluded above, the majority of products sold or services provided is either determined as a separate performance obligation or to be combined into a single performance obligation and therefore, no allocation of revenue across several performance obligations is required.

For substantially all of the ZAGG's sales, the performance obligations are satisfied, and revenues are recognized at a point in time when control of the products is transferred to customers, which generally occurs upon delivery to customers or to shipping carriers. Specifically, the ZAGG's standard shipping terms for product sales are free on board ("FOB") shipping point at which ZAGG recognizes revenues when the products are shipped. However, for certain customers, the contractual shipping terms are FOB destination in which revenues are recognized when the products are delivered as control is transferred to customers at such point.

The payment terms for ZAGG's customers vary by sales channels in which the products are sold. For products sold through the ZAGG's direct channels, customers typically pay in full at a point of sale. For products sold through indirect channels and franchisees, customers are extended credit that have terms which are less than six months.

Promotional products given to customers or potential customers are recognized as a cost of sales. Cash incentives provided to the ZAGG's customers are recognized as a reduction of the related sale price and, therefore are a reduction in revenues.

Incremental costs of obtaining a contract are expensed as incurred. Service revenue commissions are tied to the revenue recognized during the fiscal year.

Practical Expedients and Policy Elections

Printronic applies the following practical expedients in its application of Topic 606:

- Printronix does not adjust the transaction price for significant financing components for periods less than one year;
- Printronix recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that Printronix otherwise would have recognized is one year or less. These costs are included in selling, general, and administrative expenses;
- Printronix recognizes the cost for shipping and handling as a fulfillment activity after control over products has transferred to the customer. For product sales, the standard shipping terms are FOB shipping point under which revenue is recorded when the product is shipped, net of estimated returns and discounts. Shipping and handling costs are included in cost of sales; and
- Printronix does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which Printronix recognizes revenue at the amount to which it has the right to invoice for services performed.

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Allowances for sales returns, warranties and other credits

The Company's return policy allows end users and certain retailers rights to return purchased products. In addition, the Company generally provides the ultimate consumer a warranty for each product. Due to such policies, the Company's contracts give rise to several types of variable consideration under Topic 606, including sales returns, warranty, and other credits. Certain customers receive credit-based incentives or credits, which are accounted for as variable consideration in the form of credit memos off future purchases from the Company. The Company estimates these amounts based on the expected amount to be provided to customers and reduces revenue accordingly for each transaction.

The Company estimates a reserve for sales returns, warranties, and other credits, and records the respective estimated reserve amounts as a sales return liability in the consolidated balance sheets, including a right of return asset included in prepaid expenses and other current assets in the consolidated balance sheets when a product is expected to be returned and resold. Historical experience, actual claims, and customer return rights are the key factors used in determining the estimated sales returns, warranty claims, and other credits.

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 \$995 thousand and \$341 thousand in fiscal 2021 and 2020, respectively, which are included in sales and marketing expense in the accompanying consolidated statements of operations and comprehensive income.

Restructuring Charges

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

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

	<u>2021</u>
Beginning balance	\$ —
Add: restructuring charges	517
Deduct: cash payments	<u>(517)</u>
Ending Balance	<u><u>\$ —</u></u>

Foreign Currency Gains and Losses

The United States dollar is the functional currency for most foreign subsidiaries of Printronix. 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

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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. For Printronix, 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.

ZAGG's primary operations use U.S. dollars ("USD") as its functional currency. The Euro is the functional currency of the ZAGG's subsidiary in Ireland, while the Renminbi is the functional currency of the ZAGG's subsidiary in China. Accordingly, assets and liabilities for these subsidiaries are translated into USD using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the periods. Gains and losses from these translations are recorded as a component of owners' equity.

Net foreign currency transaction and re-measurement resulted in losses of \$200 thousand and \$215 thousand in fiscal 2021 and 2020, respectively, which are included in other income (loss) in the consolidated statements of operations and comprehensive income.

Business Combinations

The Company allocates the purchase price of the acquired company to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over these fair values is recorded as goodwill. The Company has engaged an independent third-party valuation firm to assist in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. The significant purchased classes of intangible assets recorded by the Company include customer relationships, trade names and patents and technology. The fair values assigned to the identified intangible assets are discussed in Note 3 to the consolidated financial statements.

Significant estimates in valuing certain intangible assets include but are not limited to future expected cash flows related to each individual asset, market position of the trade names and assumptions about cash flow savings from the trade names, determination of useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and thus, actual results may differ from estimates.

Earnings Per Share ("EPS")

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

Income Taxes

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. In instances where the Company utilizes the tax attributes of its Subsidiary the amounts are settled by payment of the benefit received or it is accounted for as a deemed equity contribution from the Parent.

On December 10, 2020, Evercel Inc. acquired 55% equity in Zephyr Holdings Inc. through ZIGG Holdings LLC, of which Evercel Inc. has 80% ownership. Zephyr Holdings Inc will be filing consolidated tax return with its wholly owned subsidiaries – Zephyr Intermediate Holdings Inc, Zephyr Parent Inc and ZAGG Inc (ZAGG entities). Evercel Inc. will continue to file consolidated tax return for the year ended March 31 2021 with Printronix Holding Corporation and Printronix LLC. The ZAGG entities are consolidated into the books with Evercel Inc. as required by GAAP but will be filing their own tax returns.

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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.

The Company has foreign subsidiaries that conduct or support its business outside the U.S. The Company’s intention before enactment of the Tax Cut and Jobs Act of 2017 (the “Tax Act”) was to permanently reinvest these earnings, thereby indefinitely postponing their remittance to the U.S. This will continue to be the Company’s intention. Foreign earnings will be taxed according to regulatory calculations in the period earned or eligible for a 100% dividends received deduction.

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.

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Segment reporting

FASB Accounting Standards Codification (ASC) 280-10-10-1 requires that all segments of a company's business align with the company's reporting structure. In general, if a unit of a business can be lifted out of the larger company and remain a self-sufficient entity, then it may be classified as a business segment. As such, management has concluded that the Company has multiple reporting segments to include Printers and Services, Mobile Accessories and Investing. ZAGG

The information regularly reviewed by the chief operating decision maker is at the consolidated level for all types of products and services generated by the Company, including relevant sales and budget reviews. In addition, global functional teams are directly managed by an executive from the corporate headquarters. These merged functional areas include the following: sales, marketing, product management, product development, operations, customer service, accounting, finance, legal, human resources, and IT. As such, management evaluated its reportable segments and concluded that the Company is a single reportable segment.

Recently Adopted Accounting Pronouncements

On March 28, 2020, the Company adopted Accounting Standard Codification 606, *Revenue from Contracts with Customers* (“ASC 606”) applying the modified retrospective method to those contracts which were not completed as of March 28, 2020. Results for reporting periods beginning after March 28, 2020 are presented under ASC 606, while prior period amounts were reported in accordance with our historic accounting under ASC 606, Revenue Recognition (“ASC 605”). Under ASC 606 revenue is recognized upon the transfer of control of goods or services under a five-step model, whereas under ASC 605 revenue was recognized under a risk and reward-based model. The adoption of ASC 606 did not have a material effect on the Company’s consolidated financial statements or results of operations.

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Recent Significant Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize (with the exception of short-term leases at the commencement date) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. The new guidance is effective for private companies for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. 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. ACQUISITION OF ZAGG, INC.

On February 22, 2021, 100% of the outstanding common shares of ZAGG were acquired by Zephyr Parent, Inc. ("Zephyr Parent") and Zephyr Merger Sub, Inc., in accordance with the Agreement and Plan of Merger (the "Merger Agreement"), dated as of December 10, 2020. At the closing, Merger Sub merged with and into ZAGG, with ZAGG continuing as the surviving corporation and a wholly-owned subsidiary of Zephyr Parent. Zephyr Parent is indirectly controlled by Evercel, Inc., a Delaware corporation ("Evercel"), and its co-investors (collectively, the "Evercel Group").

The following summarizes the components of the purchase consideration for ZAGG:

	Final Allocation February 22, 2021
Company common stock	\$ 128,003
RSU purchase price	4,492
Payment of existing indebtedness (Excl. PPP loan)	18,204
PPP Loan forgiveness right	9,444
Total purchase price	\$ 160,143

The total purchase price of \$160,143 was allocated to identifiable assets acquired and liabilities assumed based on their respective fair values.

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The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed as of February 22, 2021:

	Final Allocation February 22, 2021
Current assets	\$ 199,284
Non-current assets, excluding intangible assets	44,436
Intangible assets	42,005
Current liabilities	(108,083)
Non-current liabilities	(33,613)
Total identifiable net assets assumed	\$ 144,029
Goodwill	16,113
Total purchase price	\$ 160,143

4. REVENUES

Concentration of Risk – Printers and Printing Solutions

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company places its cash with high credit quality financial institutions. The Company maintains its cash in bank deposit accounts, which, at times, exceed federally insured limits. The Company has not experienced any losses in cash accounts for the period ended March 31, 2021.

No single customer accounted for more than 10% of consolidated revenue for both fiscal 2021 and 2020. Accounts receivable from one customer represented 15% of total consolidated accounts receivable as of March 31, 2021. Accounts receivable from two customers represented 23% of the consolidated accounts receivable as of March 27, 2020. 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.

Concentration of Risk – Mobile Accessories

Financial instruments which potentially subject ZAGG to concentrations of credit risk consist principally of cash and accounts receivable. ZAGG places its cash with high credit quality financial institutions. ZAGG maintains its cash in bank deposit accounts, which, at times, exceed federally insured limits. ZAGG has not experienced any losses in cash accounts for the period ended March 31, 2021.

For the period from February 22, 2021 to March 31, 2021, Verizon Wireless ("Verizon"), QVC, Inc ("QVC") and Best Buy Co., Inc. ("Best Buy") exceeded 10% of the ZAGG's accounts receivable. The amount of accounts receivable for each of these customers are outlined as follows:

	March 31,
Verizon	19 %
Best Buy	12 %

Other than the customers noted in the table above, no other customer account balances exceeded 10% of accounts receivable as of March 31, 2021. If one or more of ZAGG's significant customers were to become insolvent or were

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otherwise unable to pay for the products provided, it would have a material adverse effect on ZAGG's financial condition and results of operations.

ZAGG does not directly manufacture any of its products, rather ZAGG employs various third-party manufacturing partners in the U.S. and Asia to perform these services on its behalf. The services employed by these third-parties include the selection of sub-suppliers that provide raw materials and other components used in the manufacturing process. ZAGG has endeavored to use common components and readily available raw materials in the design of its products that can be sourced from multiple sub-suppliers.

Below is a high-level summary by product category of the manufacturing sources used by ZAGG:

- *Protection (Screen Protection and Cases)* – The screen protection product line is comprised of InvisibleShield Glass products (approximately 38% of net sales from February 22, 2021 to March 31, 2021), InvisibleShield Film products (approximately 12% of net sales from February 22, 2021 to March 31, 2021), and InvisibleShield On Demand® (“ISOD”) film blanks (approximately 5% of net sales from February 22, 2021 to March 31, 2021). The InvisibleShield Glass products are sourced from factories in Asia with protective glass expertise, each of which uses a number of sub-suppliers for raw materials and other components. The InvisibleShield Film and ISOD products are sourced through ZAGG's third-party logistics partner, who purchases the raw film inventory from a both factories in the U.S. and Asia. The VisionGuard raw materials are provided to ZAGG's manufacturers through an exclusive licensing agreement with a third-party partner.

The protective case product line consists of (1) ZAGG cases designed to protect device-specific mobile devices, and (2) Gear4 cases featuring D3O technology designed to protect smartphones and tablets. ZAGG's protective cases are sourced from factories in Asia with expertise in case protection manufacturing, each of which uses a number of sub-suppliers for raw materials and other components. The D3O raw materials are provided to the manufacturers through an exclusive licensing agreement with a third-party partner who is the sole manufacturer of D3O materials.

- *Power (Power Management and Power Cases)* – The power management product line consists of power products that are designed to provide on-the-go power for tablets, smartphones, smartwatches, cameras, and virtually all other electronic mobile devices. With the addition of HALO, ZAGG's power management product line includes power stations, wireless charging, car and wall chargers, portable power, power wallets, and more. The power products are sourced from factories in Asia with battery expertise, each of which uses a number of sub-suppliers for raw materials and other components.
- *Audio* – The audio product line consists of earbuds, headphones, and speakers that are designed to be compatible with virtually all electronic mobile devices. The audio products are sourced from factories in Asia with audio expertise, each of which uses a number of sub-suppliers for raw materials and other components.
- *Productivity (Keyboards and Other)* – The keyboard product line consists of (1) device-specific keyboards designed to fit individual tablets produced by original equipment manufacturers, and (2) keyboards that are designed to be device-agnostic and can be used on virtually any mobile device. The keyboard products are sourced from factories in Asia with keyboard expertise, each of which uses a number of sub-suppliers for raw materials and other components.

ZAGG's product and operations teams work closely with suppliers from initial product development and throughout the manufacturing process to ensure that (1) the supplier understands and will build according to product specifications, (2) appropriate quality is maintained for the finished goods and for all sub-components, and (3) the supplier can meet ZAGG's supply needs.

Although ZAGG has contracts in place governing the relationships with its retail distribution customers (“retailers”), the contracts are not long-term and all the retailers generally purchase from ZAGG on a purchase order basis. As a result, these retailers generally may, with little or no notice or penalty, cease ordering and selling ZAGG's products,

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or materially reduce their orders. If any of these retailers cease selling ZAGG's products, slow their rate of purchase of its products, or decrease the number of products they purchase, ZAGG's results of operations could be adversely affected.

Disaggregation of Revenue – Printers and Printing Solutions

The following table presents our Net sales disaggregated by product categories for each of our geographic regions, Americas, Europe Middle East and Africa ("EMEA"), and Asia, for fiscal 2021 and 2020:

	Tangible Products	Services	Total
Year ended March 26, 2021	\$ 69,705	4,631	\$ 74,336
Year ended March 27, 2020	\$ 39,037	\$ 4,248	\$ 43,285

Deferred revenue on the Consolidated Balance Sheets consist of payments and billings in advance of our performance. The combined short-term and long-term deferred revenue balances were \$2.3 million and \$2.5 million as of March 26, 2021 and March 27, 2020, respectively. Printronix recognized \$2.0 million and \$2.6 million in revenue that was previously included in the beginning balance of deferred revenue during the years ended March 26, 2021 and March 27, 2020, respectively.

Our payment terms vary by the type and location of our customer and the products, solutions or services offered. The time between invoicing and when payment is due is not significant. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts do not include a significant financing component.

Disaggregation of Revenue – Mobile Accessories

In the following tables, revenue from contracts with customers are disaggregated by key product lines, key distribution channels, and key geographic regions.

The percentage of net sales related to ZAGG's key product lines for the period from February 22, 2021 to March 31, 2021, was approximately as follows:

	For the Period from February 22, 2021 to
Protection (screen protection and cases)	70%
Power (power management and power cases)	20%
Productivity (keyboards and other)	7%
Audio	3%

The percentage of net sales related to ZAGG's key distribution channels for the period from February 22, 2021 to March 31, 2021, was approximately as follows:

	For the Period from February 22, 2021 to March 31, 2021
Indirect	85%
Website	10%
Franchisees	5%

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The percentage of net sales related to ZAGG's key geographic regions for the from February 22, 2021 to March 31, 2021, was approximately as follows:

	For the Period from February 22, 2021 to March 31, 2021
United States	87%
Europe	11%
Other	2%

Evercel Consolidated Contract Balances

Timing of revenue recognition may differ from timing of invoicing to customers or timing of consideration received. The following table provides information about receivables, right of return assets, contract liabilities, refund liabilities, and warranty liabilities from ZAGG's contracts with customers for the period from as of March 31, 2021:

	March 31, 2021
Receivables, which comprises the balance in accounts receivables, net of allowances	\$ 68,725
Right of return assets, which are included in prepaid expenses and other current assets	\$ 920
Refund liabilities, which are included in sales return liability	\$ 24,495
Warranty liabilities, which are included in sales return liability	\$ 2,691
Contract liabilities, which are included in accrued liabilities	\$ 307

The current balance of the right of return assets is the estimated amount of inventory to be returned that is expected to be resold. The current balance of refund liabilities is the expected amount of estimated sales returns, discounts and other credits from sales that have occurred. The current balance of warranty liabilities is the expected amount of warranty claim returns from sales that have occurred. The current balance of contract liabilities primarily relates to the advance consideration received from customers for products for which transfer of control has not yet occurred and therefore, revenue is deferred and will be recognized when the transfer of control has been completed.

Warranty Costs

The following is a summary of the accrued warranty obligation for fiscal 2021 and 2020 (in thousands):

	2021	2020
Beginning balance	\$ 100	\$ 137
Add: assumed liability from ZAGG	5,129	—
Add: estimated future warranty expense	274	128
Deduct: warranty claims settled	(2,811)	(165)
Foreign Currency translation gain	(1)	—
Ending balance	<u>\$ 2,691</u>	<u>\$ 100</u>

5. CONVERTIBLE NOTE RECEIVABLE

Evercel invested \$8 million in a convertible note receivable from SharpSpring, Inc. ("SharpSpring"), a NASDAQ publicly traded company (Ticker: SHSP), through Evercel Holdings (formerly, 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

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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.

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 carried interest payments to other partners, of such distributable proceeds.

6. 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.

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 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 31, 2021 and March 27, 2020, are presented in the following table (in thousands):

	<u>2021</u>	<u>2020</u>
Level 1:		
Investments in common stock	\$ 1,020	\$ 3
Investments in mutual funds	<u>266</u>	<u>3,461</u>
	<u>\$ 1,286</u>	<u>\$ 3,464</u>
Level 2:	<u>\$ —</u>	<u>\$ —</u>
Level 3:	<u>\$ —</u>	<u>\$ —</u>

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7. INVENTORIES

The Company's inventory consisted of the following as of March 31, 2021 and March 27, 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Raw materials	4,300	\$ 2,932
Subassemblies and work in process	751	2,072
Finished goods	71,986	4,647
Inventory and step-up from purchase accounting	16,344	—
Total inventories	<u>\$ 93,381</u>	<u>\$ 9,651</u>

8. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consisted of the following as of March 31, 2021 and March 27, 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Machinery and equipment	\$ 22,838	\$ 4,322
Furniture and fixtures	3,880	2,212
Computer Equipment and Software	2,372	—
Automobiles	36	—
Leasehold improvements	8,755	1,840
Building improvements	2,429	—
	<u>40,310</u>	<u>8,374</u>
Less: Accumulated depreciation and amortization	<u>(23,094)</u>	<u>(5,855)</u>
Total property, plant and equipment, net	<u>\$ 17,216</u>	<u>\$ 2,519</u>

9. ACCRUED LIABILITIES

The Company's accrued liabilities consisted of the following as of March 31, 2021 and March 27, 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Deferred Revenue	\$ 1,685	\$ 1,851
Service Contract Cost	283	145
Income Taxes	74	146
Other	5,127	603
	<u>7,169</u>	<u>2,745</u>

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10. DEBT AND LINE OF CREDIT

Long-term debt as of March 31, 2021, was as follows:

	March 31, 2021		
	Outstanding Principal	Unamortized Debt Issuance Costs	Net Carrying Amount
Line of credit	\$ 40,000	—	40,000
Paycheck protection program loan	9,619,	—	9,619
Term loan	75,000	2,188	72,812
Total debt	124,619	2,188	122,431
Less current maturities	17,184	570	16,614
Noncurrent portion of debt outstanding	\$ 107,435	1,618	105,817

The following table outlines maturities of our long-term debt, including the current portion, as of March 31, 2021:

2022	\$ —
2023	6,435
2024	47,000
2025	—
2026	40,000
Total	\$ 124,619

2021 Credit and Security Agreement

On February 22, 2021, the Company entered into a credit and security agreement (the “2021 Credit and Security Agreement”) among Zephyr Merger Sub, Inc. as the initial borrower prior to the consummation of the Buyout Transaction of ZAGG Inc as the borrower immediately following the consummation of the Buyout Transaction, with Keybank National Association as Administrative Agent, Swing Line Lender, and Issuing Lender, and KeyBanc Capital Markets Inc., as Sole Lead Arranger and Sole Book Runner, and the other lenders party thereto.

The 2021 Credit and Security Agreement consists of a \$85.0 million secured revolving credit facility (the “Revolver” and any advances thereunder, the “Revolving Loan”), which is subject to certain borrowing base limitations (as defined in the 2021 Credit and Security Agreement). Borrowings and repayments under the Revolving Loan may occur from time to time in the Company’s ordinary course of business. At the Company’s option, up to \$6.0 million of the Revolver may be made available as Swing Line loans. In addition, at the Company’s option, up to \$10.0 million of the Revolver may be made available for the issuance of Letters of Credit.

The payment obligations of the Company under the 2021 Credit and Security Agreement are guaranteed by the Company’s U.S. subsidiaries and are secured by substantially all of the existing and future personal property of the Company and its U.S. subsidiaries, a 100% pledge of the equity interests of the Company’s U.S. subsidiaries and first-tier foreign subsidiaries (other than voting equity interests in excess of 65% of any such foreign subsidiary that is a Controlled Foreign Corporation) (in each case, subject to certain exceptions).

The Revolving Loan initially bears interest at an annual rate, at the Company’s option, of (i) the Base Rate (as defined in the 2021 Credit and Security Agreement) or (ii) the Eurodollar Rate (as defined in the 2021 Credit and Security

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Agreement). The Revolving Loan matures February 21, 2026, subject to early termination in the event of default and/or other adverse conditions, as specified by the 2021 Credit and Security Agreement.

The 2021 Credit and Security Agreement contains customary representations and warranties and restrictive covenants. The 2021 Credit and Security Agreement also contains affirmative and negative covenants requiring, among other things, the Company to meet certain financial reporting, borrowing base requirements, and financial ratio tests and to provide certain information to the lenders. The 2021 Credit Security Agreement specifically includes financial maintenance covenants that require compliance with a Fixed Charge Coverage Ratio, a Leverage Ratio, and a Minimum Liquidity Ratio (each as defined in the 2021 Credit and Security Agreement).

The 2021 Credit and Security Agreement also contains customary events of default. If an event of default occurs, the lenders under the 2021 Credit and Security Agreement would be entitled to take various actions, including the acceleration of amounts due thereunder and all other actions permitted to be taken by a secured creditor.

Cumulative debt issuance costs incurred as a result of the 2021 Credit and Security Agreement was \$2.09 million with \$2.05 million remaining as of March 31, 2021 to be amortized which is included in prepaids and other current assets and other assets in the consolidated balance sheet. Amortization expense related to the 2021 Credit and Security Agreement debt issuance costs is included in interest expense in the consolidated statements of income and totaled \$42 million for the period ended March 31, 2021.

2021 Term Loan and Security Agreement

On February 22, 2021, the Company entered into a term loan and security agreement (the “2021 Term Loan and Security Agreement”) among Zephyr Merger Sub, Inc. as the initial borrower prior to the consummation of the Buyout Transaction, and ZAGG Inc as the borrower immediately following the consummation of the Buyout Transaction, and the Lenders noted in the 2021 Term Loan and Security Agreement, with Lynx Holdings V, LLC as Administrative Agent.

The 2021 Term Loan and Security Agreement consists of a \$35.0 million secured term loan (the “Term Loan”) of which a \$14.0 million required payment is due February 22, 2022, and the remaining \$21.0 million is due in full upon the maturity of the term loan (the Term Loan matures on February 22, 2024). The Company may at any time prepay all or a portion of the Term Loan, under certain conditions outlined by the 2021 Term Loan and Security Agreement.

On February 22, 2021, in connection with the debt financing for the acquisition of ZAGG Inc, the Company issued a five year Stock Purchase Warrant to a lender, Lynx Holdings V, LLC (“Lynx”), to purchase up to 29,167 shares of the Company’s non-voting common stock for \$100.00 per share. This Stock Purchase Warrant becomes exercisable only upon the first to occur of two specified events. While it is clear that one of these two events has not occurred (and the Company believes it is highly unlikely that such event will ever occur), there is a disagreement between the Company and Lynx as to whether the other event (the “Triggering Event”) occurred. (This event relates to actions taken in the two months following the closing of the ZAGG acquisition.) The Company strongly believes that the Triggering event did not occur and that this Stock Purchase Warrant will not become exercisable. In June 2021, Lynx asserted that, because it believed that the Triggering Event had occurred, it was entitled to receive a five year Stock Purchase Warrant to purchase up to 98,438 shares of the Company’s non-voting common stock for \$100.00 per share. Although the Company strongly disagreed with Lynx’s position that the Triggering Event had occurred, in order to avoid a claim by Lynx that the Company was in default under its debt agreements with Lynx, and because the second Stock Purchase Warrant would only become exercisable if the Triggering Event had, in fact occurred, the Company issued the second Stock Purchase Warrant to Lynx under protest. The Company and Lynx remain in disagreement as to whether or not the Triggering Event occurred. The Company refinanced the debt provided by Lynx in August 2021. The Company strongly believes that the Triggering Event has not occurred.

In accounting for the warrants issued under the 2021 Term Loan and Security Agreement, the Company considers the warrants to be embedded warrants and as such has not assigned a value to the warrants.

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The payment obligations of the Company under the 2021 Credit and Security Agreement are guaranteed by the Company's U.S. subsidiaries and are secured by substantially all of the existing and future personal property of the Company and its U.S. subsidiaries, a 100% pledge of the equity interests of the Company's U.S. subsidiaries and first-tier foreign subsidiaries (other than voting equity interests in excess of 65% of any such foreign subsidiary that is a Controlled Foreign Corporation) (in each case, subject to certain exceptions).

The Term Loan initially bears interest at an annual rate, of the Applicable Rate (as defined in the 2021 Credit and Security Agreement) commencing March 31, 2021. The Term Loan matures February 22, 2024, subject to early termination in the event of default and/or other adverse conditions, as specified by the 2021 Credit and Security Agreement.

The 2021 Term Loan and Security Agreement contains customary representations and warranties and restrictive covenants. The 2021 Term Loan and Security Agreement also contains affirmative and negative covenants requiring, among other things, the Company to meet certain financial reporting, borrowing base requirements, and financial ratio tests and to provide certain information to the lenders. The 2021 Term Loan Security Agreement specifically includes financial maintenance covenants that require compliance with a Fixed Charge Coverage Ratio, a Leverage Ratio, and a Minimum Liquidity Ratio (each as defined in the 2021 Term Loan and Security Agreement).

The 2021 Term Loan and Security Agreement also contains customary events of default. If an event of default occurs, the lenders under the 2021 Term Loan and Security Agreement would be entitled to take various actions, including the acceleration of amounts due thereunder and all other actions permitted to be taken by a secured creditor.

Cumulative debt issuance costs incurred as a result of the 2021 Term Loan and Security Agreement was \$1.71 million with \$1.65 million remaining as of March 31, 2021 to be amortized which is netted against the respective current and non-current portion of the long term loan in the consolidated balance sheet. Amortization expense related to the 2021 Term Loan and Security Agreement debt issuance costs is included in interest expense in the consolidated statements of income and totaled \$58 million for the period ended March 31, 2021.

Paycheck Protection Program Loan

On April 13, 2020, ZAGG entered into a loan agreement with KeyBank as the lender under the Paycheck Protection Program of the CARES Act administered by U.S. Small Business Administration (the "SBA"), and on April 17, 2020 (the "Disbursement Date"), received a loan in the amount of \$9,444 (the "PPP Loan") to help sustain its employee payroll costs, rent, and utilities due to the impact of the COVID-19 pandemic. Under the Paycheck Protection Program, ZAGG's PPP Loan is fully forgivable if ZAGG meets certain requirements and receives formal approval, as defined by the CARES Act, subject to an audit by the SBA. ZAGG formally filed for forgiveness of the full amount of the PPP Loan in January 2021. The interest rate for the PPP Loan is 1% per annum, and all required payments are deferred until August 2021 (interest will accrue over this deferral period). Unless the PPP Loan is fully or partially forgiven, ZAGG must pay \$398 of the principal and interest every month once the deferral period is over and pay a balloon payment of \$6,441 on the maturity date in April 2022, which is two years from the Disbursement Date. Due to the purchase of ZAGG by a buyer group led by Evercel, Inc. (which closed on February 22, 2021) and consistent with SBA guidance when a change of control occurs, a contingent purchase price of \$9,444 linked to the forgiveness of the PPP Loan was placed in escrow at KeyBank pending final resolution of the submitted PPP Loan forgiveness application. ZAGG is waiting for the SBA to audit the PPP Loan. If the PPP Loan passes the SBA audit, the funds revert to the former shareholders of ZAGG. If the PPP Loan fails the SBA audit or if SBA does not complete the PPP Loan audit by December 31, 2022, then ZAGG receives the funds.

In April, 2020, Printronix, received approval to enter into a U.S. Small Business Administration ("SBA") Promissory Note ("the PPP Loan") with a financial institution for approximately \$1.02 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 Printronix, 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

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PPP loan and is awaiting approval from the U.S. Small Business Administration. On April 1, 2021, Printronix received confirmation from our bank that SBA authorized full forgiveness of \$1.02 million for the PPP Loan.

On April, 20, 2020, Current Technologies LLC entered into a loan agreement with Capital Community Bank as the lender under the Paycheck Protection Program of the CARES Act administered by U.S. Small Business Administration (the "SBA"), and on April 20, 2020 (the "Disbursement Date"), received a loan in the amount of \$175 thousand (the "PPP Loan") to help sustain its employee payroll costs, rent, and utilities due to the impact of the COVID-19 pandemic. Under the Paycheck Protection Program, Current Technologies' PPP Loan is fully forgivable if the Current Technologies meets certain requirements and receives formal approval, as defined by the CARES Act, subject to an audit by the SBA. Current Technologies formally filed for forgiveness of the full amount of the PPP Loan November, 17 2020. On June 1, 2021, Current received confirmation from the bank that SBA authorized full forgiveness of \$175 thousand for the PPP Loan.

11. GAIN ON FORGIVENESS OF DEBT

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 in the amount of \$1.0 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.

On April 1, 2021, The Company received confirmation from our bank that SBA authorized full forgiveness of \$1.0 million for the PPP Loan.

12. EMPLOYEE BENEFIT PLANS

Savings and Investment Plans

In the United States of America, Printronix has a 401(k) Savings and Investment Plan, for all eligible U.S. employees of Printronix, which is designed to be tax deferred in accordance with the provisions of Section 401(k) of the Internal Revenue Code. Printronix matches employee contributions dollar-for-dollar up to the first 1 percent of compensation, and then an additional \$0.50 to-the-dollar on the next 1 percent of employee compensation.

Printronix contributions are vested annually, and become fully vested to the employee after four full years of employment. ZAGG contributions are immediately vested. The Company's total contribution was approximately \$56 thousand and \$60 thousand in fiscal 2021 and 2020, respectively.

ZAGG offers a 401(k) plan for full-time employees that is effective on the first day of employment. ZAGG matches participant contributions of 100% up to 5% of an employees' salary that is immediately vested . . Costs recognized for the period from February 22, 2021 to March 31, 2021 related to the employer 401(k) match, totaled \$455 thousand.

Savings and Investment Plans

Printronix 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. Printronix's total contribution overseas was approximately \$726 thousand and \$826 thousand in fiscal 2021 and 2020, respectively.

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13. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company conducts its foreign and domestic operations using leased facilities under non-cancelable operating leases that expires at various dates through fiscal year 2033. The Company's leases have remaining lease terms of 4 to 12 years, some of which include options to extend the leases up to 5 years. The Company has determined it is reasonably certain the renewal options will be exercised, and thus the renewal periods are included in the lease terms. Annual rental expense was approximately \$1.8 million and \$1.5 million for fiscal 2021 and 2020, respectively.

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

2022	\$ 4,000
2023	3,839
2024	3,939
2025	3,889
2026	3,102
Thereafter	<u>13,547</u>
	<u>\$ 32,316</u>

Guarantees

Printronic posted collateral in the form of a surety bond or other similar instruments, which are issued by independent insurance carriers (the "Surety"), to cover the risk of loss related to certain customs and employment activities. If any of the entities that hold such bonds should require payment from the Surety, Printronix would be obligated to indemnify and reimburse the Surety for all costs incurred. As of March 31, 2021 and March 27, 2020, Printronix 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 Printronix'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 Printronix at the time of the sale to qualify for this bonus. As of March 31, 2021, management concluded a sale of Printronix was not probable. Accordingly, no amounts were accrued in connection with this plan.

Environmental Matters

Matter involving prior Printronix facility. Printronix maintained a manufacturing operation in a leased facility in Irvine, California from 1980 to 1994. The facility was used for similar manufacturing operations by another tenant from 1968 to 1977. The manufacturing operations employed by the previous tenant are believed to have resulted in the contamination of soil and groundwater under the facility which included chlorinated volatile organic compounds ("VOCs").

Evidence indicates that the VOCs requiring cleanup were used by the prior tenant and not by Printronix. Printronix has been working with the prior tenant, which has agreed to share the costs of the activities in an equal percentage

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with Printronix, and the state regulatory agencies, including the California Department of Toxic Substances Control, to investigate and cleanup the subsurface contamination. The investigation is ongoing and a significant soil cleanup project was completed in 2017. Additional cleanup costs were incurred by Printronix of \$86 thousand and \$256 thousand in fiscal 2019 and 2018, respectively. Printronix had \$19 thousand in accrued liabilities to cover the current groundwater monitoring and investigation activities as of March 29, 2019.

In fiscal 2020, Printronix 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, Printronix 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, Printronix no longer takes part in monitoring or paying for any future investigation or cleanup activity. Printronix expects to have no such further costs associated with this facility. During fiscal 2020, Printronix was able to recover \$24 thousand from the prior tenant, and incurred advisory legal fees of \$44 thousand. In fiscal 2021, Printronix incurred \$2 thousand in legal fees.

Matter involving US Environmental Protection Agency ("EPA") and Utah Department of Agriculture and Food ("UDAF"). ZAGG received a Compliance Advisory letter dated July 2, 2020 from EPA asserting that it had determined that ZAGG was selling and distributing an unregistered pesticide in violation of FIFRA based on ZAGG's sales of InvisibleShield disinfecting wipes. ZAGG responded to the Compliance Advisory letter both via telephone and subsequent written letter to EPA dated September 15, 2020. During the telephone call, EPA raised concerns regarding ZAGG's other products with anti-microbial features. On October 21, 2020, UDAF issued a Notice of Inspection to ZAGG wherein UDAF requests various information from ZAGG regarding ZAGG's products with anti-microbial features. On November 6, 2020, ZAGG responded to UDAF with the requested information. On or about January 12, 2021, ZAGG received a Stop Sale, Use and Removal Order from UDAF which resulted in ZAGG recalling from its customers any unsold InvisibleShield Disinfecting Wipes. On March 18, 2021, ZAGG sent a letter to UDAF describing its actions to comply with the Stop Sale, Use and Removal Order. On March 22, 2021, ZAGG received written correspondence from UDAF indicating that based on the information provided, ZAGG has satisfied the demands of the Stop Sale, Use and Removal Order, and UDAF considers the matter closed.

Litigation

Matter involving the NOCO Company filed in the U.S International Trade Commission (ITC). On February 3, 2021, Complainant, NOCO, filed an amended Complaint in the ITC naming proposed Respondents, including ZAGG's subsidiary (Halo2Cloud, LLC) Company's customer, (QVC, Inc.) and others. ZAGG also received an indemnification demand from QVC, Inc. in connection with this matter. On March 17, 2021, the ITC instituted its investigation in response to NOCO's amended Complaint. On April 21, 2021, NOCO filed a motion to enter a Second Amended Complaint, which was granted by the presiding Administrative Law Judge, and is now the operative version of the Complaint. The Second Amended Complaint alleges that some of ZAGG's products infringe one patent owned by NOCO. The Second Amended Complaint seeks, among other remedies, an order excluding the Respondents from importing accessed products into the United States. ZAGG disputes NOCO's infringement allegations, challenges the validity and enforceability of the asserted patent, and will otherwise defend against the claims and respond to the allegations, as necessary.

SEC Investigation

2020 Subpoena to ZAGG Inc from the U.S. Securities and Exchange Commission ("SEC"). In September 2020, ZAGG Inc ("ZAGG") received a subpoena from the SEC in connection with a non-public investigation of ZAGG by the SEC. ZAGG is represented by outside counsel in the investigation and has been cooperating and intends to continue cooperating fully with the SEC's investigation. At this time, ZAGG is unable to predict the outcome of this matter or provide meaningful quantification of how the final resolution of this matter may impact ZAGG in the future.

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ZAGG is not a party to any other material litigation or claims at this time. While ZAGG currently believes that the amount of any ultimate probable loss for known matters would not be material to ZAGG's financial condition, the outcome of these actions is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material adverse effect on ZAGG's financial condition or results of operations in a particular period.

14. 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 1,097 shares issued and outstanding as of March 31, 2021.

In fiscal 2021, eight percent dividends were declared and paid to Series A stockholders, in the form of 81 additional shares of Series A stock, for the fiscal year ended March 31, 2021, totaling \$2 thousand. 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.

Series B Preferred Stock

There are 400,000 shares of Series B preferred stock authorized, with 29,449 shares issued and outstanding as of March 31, 2021.

In fiscal 2021 eight percent dividends were declared and paid to Series B stockholders, in the form of 2,181 additional shares of Series B stock, for the fiscal year ended March 31, 2021, totaling \$54 thousand. 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.

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.

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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 31, 2021 totaled \$734 thousand.

Common Stock Re-purchases

During fiscal 2021 and 2020 Evercel repurchased none and 5,517 shares of common stock for \$11 thousand, respectively.

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 31, 2021

Numerator:

Earnings attributable to Evercel, Inc. and Subsidiaries	\$ 1,617,000
Preferred stock dividends - Series A	(2,000)
Preferred stock dividends - Series B	(54,000)
Numerator for common EPS - income available to common stockholders	<u>1,561,000</u>

Effect of dilutive securities:

Preferred stock dividends - Series A	2,000
Preferred stock dividends - Series B	54,000
Numerator for diluted EPS - income available to common stockholders after assumed conversions	<u><u>\$ 1,617,000</u></u>

Denominator:

Denominator for basic EPS - weighted average shares	32,530,717
Effect of dilutive shares:	
Common stock options	530,000
Preferred stock outstanding - Series A	1,097
Preferred stock outstanding - Series B	29,449
Dilutive potential common shares	<u>560,546</u>
Denominator for diluted EPS - adjusted weighted average shares and assumed conversions	<u><u>33,091,263</u></u>
Basic EPS	<u>\$.05</u>
Diluted EPS	<u><u>\$.05</u></u>

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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	<u>1,071,000</u>

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	<u>\$ 1,124,000</u>

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	<u>488,284</u>
Denominator for diluted EPS - adjusted weighted average shares and assumed conversions	<u>33,019,001</u>
Basic EPS	<u>\$ 0.03</u>
Diluted EPS	<u>\$ 0.03</u>

Controlling Interest

The following summarizes the effects of change in the Company's equity attributable to noncontrolling interest as of March 31, 2021 (in thousands):

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 7,472	\$ 9,444
Distributions paid to noncontrolling interest	(5,970)	(2,250)
Net income attributable to noncontrolling interest of Printronix	1,410	209
Net income attributable to noncontrolling interest of Zephyr and ZAGG	(2,559)	-
Accretion of Unit Grant compensation	78	69
Other comprehensive loss FX translation	(546)	-
Non-Controlling Investment in ZAGG	<u>31,500</u>	<u>-</u>
Ending balance	<u>\$ 31,385</u>	<u>\$ 7,472</u>

15. 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.

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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 31, 2021, 530,000 Evercel common stock options granted were fully vested.

Stock Options

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

	<u>Number of Options</u>	<u>Range of Exercise Prices</u>	<u>Weighted Average Exercise Price</u>
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
Granted	50,000	\$2.00	
Outstanding at March 31, 2021	<u>530,000</u>	<u>\$.72 to \$2.00</u>	<u>\$.92</u>

Options outstanding and exercisable are as follows for the years ended March 31, 2021:

	<u>Options Outstanding</u>			<u>Options Exercisable</u>		
	<u>Range of Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted- Average Remaining Contractual Life</u>	<u>Weighted- Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted -Average Exercise Price</u>
2021	\$.072 to \$2.00	530,000		\$0.92	530,000	\$0.92
2020	\$0.72 to \$1.16	480,000	1.6	\$0.81	460,000	\$0.83

Compensation expense related to the options outstanding recognized in the accompanying consolidated statements of operations totaled \$24 and \$13 thousand for the fiscal years ended March 31, 2021 and March 27, 2020 respectively. There is no unrecognized compensation expense related to the outstanding options as of March 31, 2021.

16. UNIT GRANT AWARD

Current Technologies LLC executed a unit grant agreement with a key employee 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 \$77 and \$69 thousand for the fiscal year ended March 31, 2021 and March 27, 2020 respectively. There is \$230 thousand of unrecognized compensation expense related to the outstanding grant as of March 31, 2021 to be recognized through fiscal year 2024.

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17. RELATED PARTY TRANSACTIONS

Management and advisory services

On December 31, 2012, Evercel contracted with Corona Park Investment Partners, LLC (“CPIP”) for CPIP sourcing and managing the Printronix investment. Evercel agreed to compensate CPIP with a success-based fee, or “carried interest,” of 20% of all profits Evercel received from its investment in Printronix (e.g. net of Evercel’s basis). Subsequently, Evercel proposed a carried interest structure designed to be equivalent in value, whereby CPIP would agree to receive the compensation in the form of Evercel shares. To effectuate this outcome, CPIP would borrow via a promissory note and use the proceeds from the loan to purchase shares of Evercel and benefit solely from the upside in value of Evercel generated from the profits from Printronix, the only material asset at Evercel at the time. CPIP agreed to this proposed structure as it mirrored the economic arrangement from December 31, 2012. On June 27, 2013, Evercel and CPIP executed the transaction via CPIP purchasing 5,639,545 shares of common stock financed by the proceeds from a \$4.23 million promissory note which CPIP then owed to Evercel. 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 note matures on December 31, 2021 and can be extended at the discretion of the board. The promissory note and PIK notes are collateralized by the stock in a separate pledge agreement dated June 27, 2013, between Evercel and CPIP. The pledge agreement contains a clause whereby CPIP may put its shares back to the Company at current fair value following the sale of substantially all the assets of Printronix. If CPIP chooses to exercise its option and convert into cash the value of its shares, the Company would be required to remit cash if the value of the shares exceed its current carrying amount. The circumstances for redemption are outside the control of the Company and these shares are considered contingently redeemable.

As of March 31, 2021, and March 27, 2020, \$4.52 and \$4.47 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 2021 and in fiscal 2020 is included in additional paid-in capital of stockholders’ equity on the accompanying consolidated balance sheets.

Printronix incurred expenses of approximately \$910 thousand and \$987 thousand for management advisory services provided by Corona Park Investment Partners Inc., Pioneer Holding Corporation and MMXIV (collectively the “Consultant Group”) and reimbursable expenses in fiscal 2021 and 2020, respectively. Pioneer Holding, which is collectively 100 percent owned by Evercel Inc. and MMXIV, are related parties and shareholders of Printronix. Corona Park Investment Partners Inc. is a related party to Evercel Inc. and MMXIV. Printronix had no balance due to the Consultant Group as of March 31, 2021 and March 27, 2020.

ZAGG, Inc. incurred expenses of \$102 thousand for management advisory services provided by Corona Park Investment Partners Inc. Corona Park Investment Partners Inc. is a related party to Evercel Inc. ZAGG and its holding companies had no balance due to the Consultant Group as of March 31, 2021. In connection with the ZAGG acquisition, Corona Park Investment Partners, Inc. received a \$1 million transaction fee for completing the transaction.

Related Party Co-investments

CPIP holds a minority interest in Evercel Holdings, Zigg Holdings, Paper Ventures, Current Technologies LLC and a majority interest in MMXIV in the form of a 20% carried interest for purposes of compensating the manager for its sourcing and realization of the related investment ventures.

CPIP also holds a minority interest in certain co-investing entities of Zephyr Holdings (which is reflected as noncontrolling interest in the Company’s consolidated financial statements) in the form of a 20% carried interest of each respective entity for purposes of compensating CPIP as manager and for its sourcing and realization of the related investment ventures made by these unrelated third party co-investors.

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Loan to Officers

Printronic Holding Corporation issued a promissory note of \$300 thousand with a simple interest at 1.75% per annum to an Executive Officer, due and payable on February 29, 2024. The promissory note is included in other assets on the consolidated balance sheet as of March 31, 2021.

Zephyr Holdings Inc. issued a promissory note of \$500 thousand with a simple interest at 1.75% per annum to the Executive Officer of ZAGG, due and payable on March 31, 2028, in exchange for the issuance of shares in its subsidiary, Zephyr Intermediate Holdings, Inc, which wholly owns Zephyr Parent, Inc. The promissory note is included in other assets on the consolidated balance sheet as of March 31, 2021.

Income taxes

The Company files a consolidated tax return with Printronix, and certain other subsidiaries of Evercel which the Company has 80% or greater ownership interest in, and accordingly the tax benefits or obligations among these companies may be settled through intercompany balances or cash settlements, as determined by management at the time of the finalized tax filings.

18. INCOME TAXES

Provision for Income Taxes

For fiscal 2021 and 2020, the provision for income taxes consisted of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Current provision:		
Federal	\$ 1,832	\$ 2,299
State	427	388
Foreign	(674)	230
Deferred tax expense (benefit):		
Federal	(3,641)	(2,742)
State	(1,156)	(261)
Foreign	(29)	127
Income tax provision	<u>(3,241)</u>	<u>41</u>
Income tax benefit from discontinued operations	<u>—</u>	<u>—</u>
Income tax provision from continuing operations	<u><u>\$ (3,241)</u></u>	<u><u>\$ 41</u></u>

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The deferred income tax assets and liabilities as of March 31, 2021 and March 27, 2020 are as follows (in thousands):

	2021	2020
U.S. deferred income tax assets and liabilities:		
Inventory costs capitalized for tax, expensed for financial reporting purposes	\$ 1,367	\$ 119
Accruals	689	341
Credit carryforwards		—
Liabilities/reserves	666	48
Others	7	234
Property, plant and equipment	(37)	(15)
Intangibles	3,482	275
Capital losses		327
Valuation allowance		(327)
Deferred income tax (liabilities) assets, noncurrent	<u>6,175</u>	<u>1,002</u>
Foreign deferred income tax assets and liabilities:		
Accruals	324	223
Property, plant and equipment	65	65
Others	1,501	(134)
Deferred foreign income tax asset, noncurrent	<u>1,890</u>	<u>154</u>
Total noncurrent deferred tax (liabilities) assets, net	<u>\$ 8,064</u>	<u>\$ 1,156</u>

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

	2021	2020
Beginning balance	\$ 461	\$ 295
Provision for valuation allowance	-327	166
Utilization of valuation allowance		—
Ending balance	<u>\$ 134</u>	<u>\$ 461</u>

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 2021 and 2020.

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 benefit of \$3.2 million for fiscal 2021 pre-tax loss of \$3.6 million in continuing operations.

On December 10, 2020, Evercel Inc. acquired 55% equity in Zephyr Holdings Inc. through ZIGG Holdings LLC, of which Evercel Inc. has 80% ownership. Zephyr Holdings Inc will be filing consolidated tax return with its wholly owned subsidiaries – Zephyr Intermediate Holdings Inc, Zephyr Parent Inc and ZAGG Inc (ZAGG entities). Evercel Inc. will continue to file consolidated tax return for the year ended March 31 2021 with Printronix Holding Corporation and Printronix LLC. The ZAGG entities are consolidated into the books with Evercel Inc. as required by GAAP but will be filing their own tax returns. The effective tax rate is 18.79% for Evercel Inc. and 43.32% for ZAGG entities.

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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 2018 for federal and March 2017 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.

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 \$201 thousand. In addition, the Company recorded a current tax benefit of FDII deduction for the amount of \$88 thousand in the current year.

The following table presents a reconciliation from the statutory federal income tax rate to the effective rate for fiscal 2021 and 2020 for Evercel Inc:

	<u>2021</u>	<u>2020</u>
Income taxes at statutory rates	21.00%	21.00%
State tax, net of federal benefit	1.64%	2.33%
Permanent differences	(4.76)%	(3.25)%
GILTI, net of deduction	3.03%	0.00%
FDII	(1.33)%	(2.51)%
Return-to-provision and other true ups	6.42%	1.93%
Tax credits	(2.51)%	(.13)%
Foreign rate differential	.22%	.57%
Change in valuation allowance	(4.91)%	1.16%
Effective tax rate	<u>18.79%</u>	<u>21.10%</u>

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The following table presents a reconciliation from the statutory federal income tax rate to the effective rate for fiscal 2021 Zagg Inc:

	2021
Income taxes at statutory rates	21.00%
State tax, net of federal benefit	4.25%
Permanent differences	2.67%
GILTI, net of deduction	0.00%
FDII	0.00%
Return-to-provision and other true ups	3.47%
FIN48	(0.70)%
Tax credits	1.76%
Foreign rate differential	10.87%
Change in valuation allowance	0.00%
Effective tax rate	<u>43.32%</u>

19. SEGMENT REPORTING

Evercel operates in two primary segments: (i) printing solutions (ii) mobile accessories and (iii) 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 31, 2021 (in thousands):

	Printing Solutions	Mobile Accessories	Investing	Corporate/ Other	Total
Revenues	\$ 40,740	\$ 33,343	–	\$ 254	\$ 74,337
Gross Margin	\$ 21,929	\$ 7,153	–	\$ 190	\$ 29,272
Operating Expenses	\$ 15,459	\$ 16,129	–	\$ 2,244	\$ 33,832
Other Income/Expense	\$ 2,109	\$ (1,297)	\$ 126	\$ 3	\$ 941
Net income attributable to Evercel	\$ 5,674	\$ (2,370)	\$ 126	\$ (1,812)	\$ 1,618
Total Assets	\$ 32,401	\$ 280,825	\$ 15,393	\$ 1,934	\$3,330,553
Total Liabilities	\$ 9,865	\$ 216,405	\$ 5	–	\$ 226,275
Total Equity attributable to Evercel	\$ 11,371	\$ 66,519	\$ 17,797	\$ 1,934	\$ 98,561

Printronix operates in a single segment: printing solutions. 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 Printronix's printers. Printronix also sells other legacy consumable products which are considered non-core to its business. Printronix's products are primarily sold through channel partners, such as dealers and distributors, to end-users.

ZAGG operates in a single segment: Mobile Accessories. ZAGG designs and sells various mobile accessories. Mobile accessories consist of screen protection and cases, power management and cases, audio, keyboards, and other accessories. ZAGG's products are primarily sold through channel partners, such as dealers and distributors, to end-users.

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Net revenue by product line for fiscal 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Printers, service, and spares	\$ 21,639	\$ 22,610
Consumable products	18,665	19,765
Mobile Accessories	33,343	—
All other	690	2,710
Net revenue	<u>\$ 74,337</u>	<u>\$ 45,085</u>

The Company 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.

The breakdown of the Company's net revenue by geographic area for fiscal 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
United States	\$ 43,819	\$ 17,139
Canada and Latin America	2,544	2,194
Total Americas	46,363	19,333
Europe, Middle East, and Africa	14,265	11,160
China	5,400	5,588
India	3,628	3,477
Asia, excluding China and India	4,681	5,527
Total Asia	13,709	14,592
Net revenue	<u>\$ 74,337</u>	<u>\$ 45,085</u>

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 31, 2021 and March 27, 2020 are (in thousands):

	<u>2021</u>	<u>2020</u>
United States	\$ 14,895	\$ 467
Malaysia	1,371	2,002
Other foreign countries	978	50
Total long-lived assets	<u>\$ 17,244</u>	<u>\$ 2,519</u>

20. 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.

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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.

On April 1, 2021, Printronix received confirmation from our bank that SBA authorized full forgiveness of \$1.02 million for its PPP Loan. On June 1, 2021, Current Technologies received confirmation from our bank that SBA authorized full forgiveness of \$175.5 thousand for its PPP Loan.

On July 23, 2021, the Company closed on a \$75.0 million term loan agreement with Blue Torch Capital ("BT Term Loan"). Proceeds from the BT Term Loan were used to repay the outstanding principal amounts to the 2021 Term Loan and Security Agreement of \$35.0 million as well as distribute \$40.0 million to Zephyr Parent, the Company's direct parent company, for repayment of a \$40.0 million term loan. Interest is computed on borrowings under the BT Term Loan at the Company's options of a base rate (as defined in the BT Loan Agreement) or a variable rate based on the LIBOR rate, plus 8.50% per annum. Amounts borrowed under the BT Term Loan are required to be paid in quarterly installments of \$938 thousand commencing in December 2021. The BT Term Loan matures July 14, 2025, subject to early termination in the event of default and/or other adverse conditions, as specified by the agreement.

The BT Term Loan contains customary representations and warranties and restrictive covenants. Additionally, the BT Term Loan also contains affirmative and negative covenants requiring, among other things, the Company to meet certain financial reporting, borrowing base requirements, financial ratio tests, and to provide certain information to the lenders. The new Term Loan agreement specifically includes financial maintenance covenants that require compliance with a Fixed Charge Coverage Ratio, a Leverage Ratio, and a Minimum Liquidity Ratio, as defined in the 2021 Term Loan and Security Agreement.

On July 29, 2021, ZAGG received notice from Key Bank, the lender under the Paycheck Protection Program of the CARES Act administered by U.S. Small Business Administration (the "SBA"), that the SBA had accepted ZAGG's loan forgiveness application and remitted payment to Key Bank for the full amount of the outstanding PPP Loan. As a result of the loan forgiveness the \$9.44 million contingent purchase price held in escrow in connection with the acquisition of ZAGG was released to ZAGG. The SBA, at their discretion, may undertake a review of a loan of any size during the six-year period following forgiveness of the loan. The audit will include the loan forgiveness application, as well as whether ZAGG met eligibility requirements of the program and received the proper loan amount. The timing and outcome of any SBA review and audit is not known at this time. If the PPP Loan passes an SBA audit by December 31, 2022, the funds will be remitted to the former shareholders of ZAGG.