

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2016

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-8771

**EVANS & SUTHERLAND COMPUTER CORPORATION**

(Exact name of registrant as specified in its charter)

**Utah**

(State or other jurisdiction of incorporation or organization)

**87-0278175**

(I.R.S. Employer Identification No.)

**770 Komas Drive, Salt Lake City, Utah**

**84108**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **801-588-1000**

Securities registered pursuant to Section 12(b) of the Act:

**NONE**

Securities registered pursuant to Section 12(g) of the Act:

**Title of Each Class**

Common Stock, \$0.20 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [x] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. [ ] Yes [x] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [x] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [x] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [x]  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). [ ] Yes [x] No

The aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant as of July 1, 2016 the last business day of the registrant's most recently completed second fiscal quarter was \$4,468,308 based on the closing sale price of \$0.70 as reported by the Over-the-Counter Market. Shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock, based on Schedule 13D and 13G filings, have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination of affiliate status for other purposes.

The number of shares of the registrant's Common Stock outstanding as of March 1, 2017 was 11,352,516.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Certain information from the Registrant's definitive proxy statement for the 2017 Annual Meeting of Stockholders is incorporated by reference into Part III hereof.

**EVANS & SUTHERLAND COMPUTER CORPORATION**  
**FORM 10-K**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**PART I**

ITEM 1.	BUSINESS	3
ITEM 2.	PROPERTIES	6
ITEM 3.	LEGAL PROCEEDINGS	6
ITEM 4.	MINE SAFETY DISCLOSURES	6

**PART II**

ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	7
ITEM 6.	CONSOLIDATED FINANCIAL DATA	7
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	8
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	16
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	37
ITEM 9A.	CONTROLS AND PROCEDURES	37
ITEM 9B.	OTHER INFORMATION	37

**PART III**

ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	38
ITEM 11.	EXECUTIVE COMPENSATION	38
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	39
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	39
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	39

**PART IV**

ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	40
SIGNATURES		44

## PART I

### ITEM 1. BUSINESS

Throughout this document Evans & Sutherland Computer Corporation may be referred to as “Evans & Sutherland,” “E&S,” “we,” “us,” “our” or the “Company.” All dollar amounts are in thousands unless otherwise indicated.

Evans & Sutherland was incorporated in the state of Utah on May 10, 1968. Our principal offices are located at 770 Komas Drive, Salt Lake City, Utah 84108, and our telephone number is (801) 588-1000. Through a link on our website, [www.es.com](http://www.es.com), we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (“Exchange Act”) as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the “SEC”). We make our website content available for informational purposes only. The information provided on our website is not incorporated by reference into this Form 10-K and our website address is not intended to be a hyperlink. The above reports and other information are also available, free of charge, at [www.sec.gov](http://www.sec.gov). Alternatively, the public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

#### General

Evans & Sutherland focuses on the production of high-quality advanced visual display systems used primarily in full-dome video projection applications, dome projection screens, dome architectural treatments, and unique content for planetariums, schools, science centers, other educational institutions, and entertainment venues. With a nearly 50-year history in computer graphics, we are widely regarded as both a pioneer and a leader in providing the world’s most compelling full-dome digital theater and planetarium systems as well as original full-dome shows. With our subsidiary, Spitz, Inc. (“Spitz”), and its over 70-year history as a leading supplier of planetarium systems, dome projection screens and other dome displays, E&S supplies premier total system solutions for its digital theater markets as well as customized domes and other unique geometric structures in the architectural market.

We continue to maintain a significant share of the overall planetarium and digital theater market. We estimate that our market share has ranged from 35% to 70%, depending on the specific market and time period. We estimate that the size of the market for digital theater and planetarium systems is approximately \$65 million annually.

#### Description of Products

E&S offers a range of products and services primarily for dome and planetarium theaters in educational institutions, training, and entertainment venues. These products include state of the art planetarium and dome theater systems consisting of proprietary hardware and software, and other unique visual display systems primarily used to project digital video on large curved surfaces. We also produce unique show content both for our own library which we license to customers and for specific customer requirements for planetarium and dome theaters. Additionally, we manufacture and install metal domes with customized optical coatings and acoustical properties that are used for planetarium and dome theaters as well as many other unique custom applications. Our dome engineering and manufacturing resources also design and supply geometrically complex structures for customized architectural treatments, often involving curved metal shapes with unique optical and acoustical properties.

#### Description of Markets

We are an industry leader in providing full-dome hardware and software to an international customer base in the digital theater, planetarium, entertainment, training and educational markets. In each of these markets we face highly competitive conditions where we compete on features, performance, and responsiveness to customer needs as well as on price. E&S is unique among its competitors by virtue of its capability as a single source that can directly supply and integrate all of the equipment in the planetarium theater, including the projection system, sound, lighting, computer control system and domed projection screen. We believe our range of visual systems and services at various price and performance levels, our research and development investments and capabilities, our responsiveness to customers, and our ability to design and manufacture value-added visual systems enable us to

compete effectively. Our competitive strengths with visual systems and services aid the sale of our dome projection screens as customers often require a new dome projection screen with their visual system. We also believe our capabilities to design and manufacture domes and certain other architectural structures are very unique and enable us to compete effectively in all of the markets where these products are sold.

#### ***Digital Theater***

In the digital theater market our products compete with traditional optical-mechanical products and digital display systems offered by GOTO Optical Mfg. Co., Konica-Minolta Planetarium Co. Ltd., Carl Zeiss Inc., and Sky-Skan, Inc. The Company's digital display systems can be configured with our proprietary projector systems or standard commercial projectors similar to systems sold by our competitors. Our proprietary Digistar full-dome digital system, along with other customized software tools differentiate our digital theater systems and compete favorably with competitive digital display systems. Our SciDome planetarium system, which uses a dome theater version of a retail desktop astronomy product with curriculum tools for teachers, creates a unique competitive advantage when targeting smaller classroom planetarium theaters.

#### ***Advanced Displays***

Our capabilities and products sometimes are used for special advance display applications primarily for wide audiences in specialty theaters and other visitor attractions. This includes the integration of the most advanced video projectors with customized lenses, software and unique application techniques to serve customers who are in search of extraordinary display of visual content. Our competition in these markets includes various specialty audio visual systems integrators and alternative solutions using other technologies.

#### ***Domed Structures***

Our Spitz subsidiary is the world's leading producer of domed projection screens. At Spitz we design, manufacture, and install domed projection screens used in planetarium theaters and a variety of other applications such as ride simulators, special or large format film theaters, simulation training systems and architectural treatments. We have developed proprietary dome products such as our NanoSeam dome which we believe provides the smoothest, most uniform projection surface available. Our experience with dome projection screens enables us to advise on the architectural integration of domed projection screens and solve complex optical problems involving reflectivity and image distortion on compound curved surfaces. We believe that these skills are important to buyers of domed projection screens. The principal customers of our dome business are entities in the entertainment, educational and commercial and military simulation markets. Customers include major theme parks, casinos, world expositions, museums, schools, and military defense contractors. There is currently one known domestic competitor that manufactures domed projection screens. In addition, construction or metal fabrication contractors occasionally supply domed projection screens, particularly in foreign markets. The structures we design and supply for architectural treatments are sold as complements to our dome screen products or into the architectural market for a wide variety of interesting venues. Competition for our architectural treatment products usually comes from construction or metal fabrication contractors often with an alternative design idea.

#### ***Intellectual Property***

We own a significant number of patents and trademarks and we are a licensee under several others. Our portfolio of patents and trademarks, as a whole, contributes to our business. However, no one piece of intellectual property is critical to our business, thus no individual piece of our intellectual property is separately discussed. In the U.S. and internationally, we hold active patents that cover many aspects of our visualization technology. Several patent applications are presently pending and routinely other patent applications are in preparation. We actively pursue patents on our new technology and we intend to vigorously protect our patent rights. We often trademark key product names and brand names to protect our equity in the marketplace. We routinely copyright software and documentation and institute copyright registration when appropriate. Currently we retain a total of 18 active U.S. patents.

#### ***Research and Development***

We consider the timely development and improvement of our technology to be essential to maintain our competitive position and to capitalize on market opportunities. We continue to fund essentially all research and development ("R&D") efforts internally.

R&D efforts continue to improve Digistar, our popular full-dome digital system and a key component to our planetarium and dome theater products. We also explore the possibility of other commercial applications for Digistar technology as opportunities arise. We conduct ongoing R&D to improve the functionality of SciDome to keep pace with updated versions of the desktop software it emulates and to take advantage of the latest digital display and theater technology. Some noteworthy specific R&D activities for our advance display and planetarium products include the development of unique techniques to display three dimensional digital video and the expansion of educational curriculum tools to cover new subject matter in addition to astronomy such as chemistry and earth sciences. We continue to develop improvements to our dome products including optical coatings and ways to make the projection surface more uniform. There are also R&D efforts ongoing to enhance components of the systems we sell, such as improvements to theater lighting.

We continually work with the new digital projection technologies to develop advanced visual display systems primarily to be used by wide audiences in specialty theaters and other visitor attractions. This includes the integration of the most advanced video projectors with customized lenses, software and unique application techniques to serve customers who are in search of extraordinary display of visual content.

### **Dependence on Suppliers**

Most of our current parts and assemblies are readily available through multiple sources in the open market; however, a limited number are available only from a single source. In these cases, we either stock adequate inventory to cover future product demands, obtain the agreement of the vendor to maintain adequate stock for future demands, or develop alternative components or sources where appropriate.

### **Employees**

As of December 31, 2016, Evans & Sutherland and its subsidiaries employed a total of 91 persons of which 88 were employed full time.

### **Environmental Standards**

We believe our facilities and operations are within standards fully acceptable to the Environmental Protection Agency and that all facilities and procedures are operated in accordance with environmental rules and regulations, and international, federal, state and local laws.

### **Strategic Relationships**

In the normal course of business, we develop and maintain various types of relationships with key customers and technology partners. The teaming agreements are with industry partners and are intended to improve our overall competitive position. The product development agreements enhance our products by the cooperative development of new features and capabilities necessary to maintain our industry leading position.

### **Forward-Looking Statements and Associated Risks**

This annual report, including all documents incorporated herein by reference, includes certain “forward-looking statements” within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, among others, those statements preceded by, followed by or including the words “estimates,” “believes,” “expects,” “anticipates,” “plans,” “projects,” “intends,” “predicts,” “may,” “will,” “could,” “would,” “potential” and similar expressions or the negative of such terms. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part II of this annual report on Form 10-K for a list of some of the forward-looking statements included in this Form 10-K.

## **EXECUTIVE OFFICERS OF THE REGISTRANT**

The following sets forth certain information regarding the executive officers of E&S as of December 31, 2016.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Jonathan A. Shaw	60	Chief Executive Officer and Director
Paul L. Dailey	60	Chief Financial Officer and Corporate Secretary
Kirk D. Johnson	55	Chief Operating Officer and President

Jonathan A. Shaw was appointed Chief Executive Officer and Director in September 2016. He previously served as President and Chief Executive Officer of Spitz since November 2001. Prior to his appointment as President and Chief Executive Officer of Spitz, Mr. Shaw held various management positions since 1985.

Paul L. Dailey was appointed Executive Vice President in December 2016. He was appointed Chief Financial Officer and Corporate Secretary in February 2007. He became an executive officer of E&S in August 2006 when he was appointed Acting Chief Financial Officer and Corporate Secretary. Prior to his appointments at E&S, Mr. Dailey served as Executive Vice President, Chief Financial Officer and Corporate Secretary of Spitz, where he started as Controller in 1983. Mr. Dailey is a Certified Public Accountant.

Kirk D. Johnson was appointed Chief Operating Officer and President in September 2016. He previously served as Vice President and General Manager of Digital Theater since January 2002. He joined E&S in April 1990 and has held various engineering and management positions throughout his service at E&S.

## **ITEM 2. PROPERTIES**

Our principal executive, engineering, manufacturing and operations facilities are located in the University of Utah Research Park in Salt Lake City, Utah, where we lease two buildings totaling approximately 68,000 square feet.

Spitz owns and occupies an approximately 47,000 square-foot building on approximately 15.2 acres in Chadds Ford, Pennsylvania. The property serves as collateral under Spitz's debt agreements through a mortgage granted to First Keystone Bank which is now The Bryn Mawr Trust Company, a commercial bank.

## **ITEM 3. LEGAL PROCEEDINGS**

In the normal course of business, we may have various legal claims and other contingent matters. We know of no legal claims outstanding that would have a material adverse effect on our consolidated financial position, liquidity or results of operations.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the Over-the-Counter Markets under the symbol “ESCC.” On March 1, 2017, there were approximately 430 holders of record of our common stock. Because brokers and other institutions hold many of our shares on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

We have never paid a cash dividend on our common stock and have used funds generated internally to operate our business. For the foreseeable future, we intend to follow our policy of retaining any future earnings to finance the development and growth of our business.

Additional information required by this item is incorporated by reference to the table captioned *Securities Authorized for Issuance Under Equity Compensation Plans as of December 31, 2016* in Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters,” of Part III of this annual report on Form 10-K.

The table below presents the high and low sales prices per share as reported by the Over-the-Counter Markets, by quarter for 2016 and 2015. The quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

	2016		2015	
	High	Low	High	Low
First Quarter	\$ 1.06	\$ 0.75	\$ 0.55	\$ 0.30
Second Quarter	1.15	0.70	0.95	0.42
Third Quarter	1.35	0.51	1.14	0.49
Fourth Quarter	1.48	0.90	1.21	0.72

### ITEM 6. CONSOLIDATED FINANCIAL DATA

Not applicable

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with our consolidated financial statements and notes included in Item 8, "Financial Statements and Supplementary Data," of this annual report on Form 10-K. Information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements that involve risks and uncertainties. Many factors could cause actual results to differ materially from those contained in the forward-looking statements. See "Forward-Looking Statements" below for additional information concerning these items.

*(All dollar amounts are in thousands unless otherwise indicated.)*

### ***Executive Summary***

The year ended 2016 produced healthy sales and gross profit down slightly from 2015. The continued healthy sales and gross profit were attributable to strong sales bookings in 2014 through 2016. The sales backlog remained healthy at the end of 2016 which supports an encouraging outlook for 2017. Operating expenses decreased from \$13,037 in 2015 to \$9,721 in 2016; however, both 2015 and 2016 included certain expenses that are considered to be unusual and non-recurring. Specifically, 2015 included a \$3,620 charge for the settlement of the pension liabilities and 2016 included a severance obligation of a prior executive. With the exception of the pension settlement expense in 2015 and the severance expense in 2016, our operating expenses in 2016 were comparable to 2015. We believe this illustrates the profit potential of our business without the burden of the Pension Plan. With a leaner executive leadership team and the healthy backlog and sales prospects, we anticipate sales at levels that are expected to yield profitable results in 2017.

We intend to continue to aggressively pursue opportunities in the digital theater and other markets served by our products, as well as the development and improvement of new innovative products such as Digistar for planetarium theaters. We will continue to develop and improve our planetarium products targeted for smaller venues in education markets such as our SciDome product. We intend to also continue development and improvement of our dome products used by planetarium theaters and many other varied applications. We intend to continue the production of quality show content for planetarium theaters. We believe that the ability to include the wide range of complementary products in the systems we sell, along with access to the legacy customer base of E&S and our subsidiary, Spitz, provides a unique competitive advantage.

We expect variable but reasonably consistent future sales and gross profits from our current product line at annual levels sufficient to cover or exceed operating expenses and meet our obligations including our annual obligation to the Pension Benefit Guaranty Corporation ("PBGC") related to the termination of our qualified defined benefit pension plan ("Pension Plan") in 2015 (the "Pension Settlement Obligation"). Although we reported a net loss for 2015 due to the pension settlement charge of \$3,620, the pension settlement contributed \$31,776 to comprehensive income bringing 2015 total comprehensive income to \$29,946. The 2015 total comprehensive income combined with profitable results in 2016 eliminated our stockholders' deficit, which was \$30,703 as of December 31, 2014, creating stockholders' equity of \$1,597 as of December 31, 2016. As the Company continues to move forward, we expect our improved financial position to present opportunities for better results through the availability of credit and stronger qualification for customer projects.

### **Results of Operations**

#### ***Consolidated Sales and Backlog***

The following table summarizes our consolidated sales for the years ended December 31:

	<b><u>2016</u></b>	<b><u>2015</u></b>
Sales	\$ 32,944	\$ 35,298

Sales decreased 7% from 2015 to 2016 due to lower sales of planetarium products which was partially offset by an increase in sales of dome products to theme parks.

The volume of new orders in 2016 was strong but slightly lower than the high volume of orders booked in 2015. As a result, our sales backlog was \$24,444 as of December 31, 2016 compared with \$26,298 as of December 31, 2015. The sales backlog of planetarium products improved while the backlog of domes for theme park attractions decreased but remained healthy at December 31, 2016, setting up 2017 for another strong year in sales with a more balanced contribution from our products. We anticipate that approximately 75% of the 2016 backlog will be converted to sales in 2017 and that we will receive sufficient new orders to produce total sales in 2017 comparable to 2016.

### ***Gross Profit***

The following table summarizes our gross profit and the percentage to total sales for the years ended December 31:

	<b>2016</b>	<b>2015</b>
Gross profit	\$ 12,073	\$ 12,342
Gross profit percentage	37%	35%

Our gross profit percentage was slightly higher in 2016 when compared to 2015. The lower gross margin percentage in 2015 was affected by higher than expected costs to complete two theme park projects.

### ***Operating Expenses***

The following table summarizes our operating expenses during the years ended December 31:

	<b>2016</b>	<b>2015</b>
Selling, general and administrative	\$ 7,115	\$ 6,633
Research and development	2,344	2,262
Pension	262	522
Pension settlement	-	3,620
Total operating expense	<u><u>\$ 9,721</u></u>	<u><u>\$ 13,037</u></u>

Selling, general and administrative expenses were higher in 2016 compared to 2015. This was primarily due to the additional costs accrued in the third quarter of 2016 in connection with the severance compensation for our former Chief Executive Officer.

Research and development expenses were slightly higher in 2016 compared to 2015. This was primarily due to redirecting resources from sales and marketing activities to research and development activities. Research and development activities consisted of exploration of new applications for our products, improvements to the software in our planetarium products, testing hardware to project high definition video on large dome screens, development of a graphical user interface device for dome theaters, improvements to theater lighting, testing of optical coatings for projection surfaces and developing techniques to make dome projection surfaces more uniform.

Pension expense was lower in 2016 compared to 2015 due to the termination of the Pension Plan in the second quarter of 2015. With the termination of the Pension Plan, the pension expense in 2016 and going forward is entirely the expenses attributable to our Supplemental Executive Retirement Plan (“SERP”).

The Pension settlement expense of \$3,620 reflects a one-time charge for the settlement of the Pension Plan liabilities in the second quarter of 2015.

### ***Other Expense, net***

The following table summarizes our other expense during the years ended December 31:

	<b>2016</b>	<b>2015</b>
Interest expense	\$ (510)	\$ (429)
Other expense, net	(6)	(163)

Interest expense in 2016 and 2015 consisted principally of imputed interest on the Pension Settlement Obligation. Interest expense also included interest paid on real estate debt in both years presented. Interest expense in 2017 is expected to be comparable to 2016.

The change in other expense, net was primarily attributable to higher realized currency losses in 2015.

### ***Income Taxes***

The income tax benefit (provision) consisted of federal and state income taxes as follows for the years ended December 31:

	<b>2016</b>	<b>2015</b>
Income tax benefit (provision)	\$ (93)	\$ 12

The 2016 income tax provision was for state income taxes resulting from Spitz' normal business activity in various jurisdictions.

### ***Other Comprehensive Income***

The following table summarizes other comprehensive income for the years ended December 31:

	<b>2016</b>	<b>2015</b>
Decrease (increase) to minimum pension liability	\$ 258	\$ (555)
Pension settlement	-	31,776
Other comprehensive income	<b><u>\$ 258</u></b>	<b><u>\$ 31,221</u></b>

The economic benefit to the Company from the settlement of Pension Plan liabilities was reflected in the financial statements as other comprehensive income of \$31,776 in 2015. This offset the \$3,620 charge to operating expenses from the same transaction. The other pension related charges and credits affecting other comprehensive income were attributable to the accounting for actuarial valuations of the pension liabilities. Other comprehensive income in future years is expected to be limited to accounting for potential changes in the actuarial valuation of the SERP liabilities.

### ***Liquidity and Capital Resources***

#### ***Outlook***

As discussed in the executive summary above, we have made significant progress toward eliminating our history of operating losses. We believe that the termination of the Pension Plan together with the settlement of the underlying pension liabilities achieved our goal of reducing our obligations to levels that make the business viable.

As a result, we believe existing liquidity resources and funds generated from forecasted revenue will be sufficient to meet our current and long-term obligations. We continue to operate in a rapidly evolving and often unpredictable business environment that may change the timing or amount of expected future cash receipts and expenditures.

### ***Cash Flows***

The following table summarizes our cash flows for the years ended December 31:

	<b>2016</b>	<b>2015</b>
Net cash and cash equivalents provided by (used in):		
Operating activities	\$ 3,747	\$ (2,943)
Investing activities	(174)	(173)
Financing activities	(484)	(188)
Increase (decrease) in cash and cash equivalents	<b><u>\$ 3,089</u></b>	<b><u>\$ (3,304)</u></b>

Cash and cash equivalents increased \$3,089 to \$6,823 during 2016, due primarily to cash provided by operating activities.

#### **Operating Activities**

The net cash provided by operating activities in 2016 was attributable to a decrease in working capital of \$912 plus \$2,835 of cash provided by the \$1,743 net income after the effect of \$1,092 of non-cash charges. The non-cash charges consisted primarily of \$294 of depreciation, \$258 of amortization of deferred pension costs, and \$344 in the provision for excess and obsolete inventory. The changes in working capital which used cash were largely attributable to the timing of progress payments on customer projects.

The net cash used in operating activities in 2015 was attributable to an increase in working capital of \$6,006 less \$3,063 of cash provided by the \$1,275 net loss after the effect of \$4,338 of non-cash charges. The non-cash charges consisted primarily of the \$3,620 pension settlement charge. The changes in working capital which used cash were largely attributable to the timing of progress payments on customer projects. Other significant cash outlays were the initial installment payments of the Pension Settlement Obligation.

#### **Investing Activities**

Investing activities used \$174 of cash during 2016 consisting entirely of purchases of property and equipment.

Investing activities used \$173 of cash during 2015 consisting entirely of purchases of property and equipment.

#### **Financing Activities**

Financing activities used \$484 of cash during 2016 consisting of \$199 for principal payments on debt obligations, \$356 for principal payments on the Pension Settlement Obligation and \$71 in proceeds from the exercise of options.

Financing activities used \$188 of cash during 2015 for principal payments on debt obligations.

#### ***Credit Facilities***

The Company is a party to a line-of-credit agreement with a commercial bank which permits borrowings of up to \$1,100 to fund Spitz working capital requirements. Under the line-of-credit agreement, interest is charged on amounts borrowed at the lender's prime rate less 0.25%. Any borrowings under the Credit Agreement are secured by Spitz real and personal property and all of the outstanding shares of Spitz common stock. The line-of-credit agreement and mortgage notes (with the same commercial bank) contain cross default provisions whereby a default on either agreement will result in a default on both agreements. There were no borrowings outstanding under the line-of-credit agreement as of December 31, 2016.

The ability to issue letters of credit and bank guarantees is an important tool to mitigate credit risk in our business. International sales are increasingly important to our business and, in many countries, letters of credit and bank guarantees serve as performance guarantees for customer contracts. Also, domestic sales sometimes require performance guarantees in the form of surety bonds. We have relationships with licensed surety companies to provide performance bonds subject to certain limitations and collateral which we must provide for security. Letters

of credit and bank guarantees are issued to serve as collateral and to ensure our performance for these purposes. Cash deposits or deferral of customer payments for performance guarantees can often be used as an alternative to letters of credit.

Under the terms of financing arrangements for letters of credit, the Company is required to maintain a balance in a specific cash account equal to or greater than the outstanding value of all letters of credit issued, plus other amounts necessary to adequately secure obligations with the financial institutions who issue the letters of credit. As of December 31, 2016, there were outstanding letters of credit and bank guarantees of \$600, which are scheduled to expire during the year ending December 31, 2017.

#### ***Mortgage Notes***

Debt obligations include a first mortgage note payable to a commercial bank which represents the balance on a \$3,200 note ("First Mortgage Note") issued on January 14, 2004 by Spitz. The First Mortgage Note requires repayment in monthly installments of principal and interest over 20 years. On each third anniversary of the First Mortgage Note, the interest rate is adjusted to the greater of 5.75% or 3% over the Three-Year Constant Maturity Treasury Rate published by the United States Federal Reserve ("3YCMT"). The monthly installment is recalculated in the first month following a change in the interest rate. The recalculated monthly installment is equal to the monthly installment sufficient to repay the principal balance, as of the date of the change in the interest rate, over the remaining portion of the original 20-year term. On January 14, 2016, the 3YCMT was 1.14% and the interest rate on the First Mortgage Note remained at 5.75% per annum. The monthly installment amount remained unchanged at \$23.

Debt obligations also include a second mortgage note payable to a commercial bank which represents the balance on a \$500 note ("Second Mortgage Note") issued on September 11, 2008 by Spitz. The Second Mortgage Note requires repayment in monthly installments of principal and interest over 20 years. On each 5-year anniversary, the interest rate is adjusted to the greater of 5.75% or 3% over 3YCMT. The monthly installment is recalculated on the first month following a change in the interest rate. The recalculated monthly installment is equal to the monthly installment sufficient to repay the principal balance, as of the date of the change in the interest rate, over the remaining portion of the original 20-year term. On September 11, 2013, the fifth anniversary of the Second Mortgage Note, the 3YCMT was 0.88%. As a result, interest continues at 5.75% until possible adjustment on the next 5-year anniversary. The monthly installment also remains unchanged at \$4.

The Mortgage Notes are secured by the real property occupied by Spitz pursuant to a Mortgage and Security Agreement. The real property had a carrying value of \$4,215 as of December 31, 2016. The Mortgage Notes are guaranteed by E&S.

#### ***Land and building lease***

In November 2014, the Company agreed to an extension of its lease for its corporate office buildings and its interest in the lease for the land occupied by the buildings for a term of 5 years. Base annual rent for the extended 5-year term is \$549.

The lease obligation is recorded as an operating lease for a term of five years commencing November 1, 2014. The accounting for lease extension resulted in \$620 gain on the disposition of leased assets under the prior lease which was deferred and is being amortized over the five-year term of the new operating lease. There was also a \$1,526 gain from the extinguishment of a deferred rent credit related to the underlying land lease which is being amortized over the five-year term of the new operating lease. The amortization of the deferred gain and deferred rent credit reduces the rent expense attributable to the cash rent payments.

#### ***Other***

In 2017, we expect capital expenditures similar to 2016. There were no material capital expenditure commitments as of December 31, 2016, nor do we anticipate any over the next several years.

Our Board of Directors has authorized the repurchase of 1,600,000 shares of our common stock. As of February 15, 2017, 463,500 shares remained available for repurchase under the plans approved by the Board of

Directors. No shares were repurchased during 2016 or 2015. Stock may be acquired on the open market or through negotiated transactions depending on market conditions, share price and other factors.

We also maintain trade credit arrangements with certain suppliers. The unavailability of a significant portion of, or the loss of, these trade credit arrangements from suppliers would have a material adverse effect on our financial condition and operations.

As of December 31, 2016, our total indebtedness was \$1,975 on the mortgage notes. Our cash and restricted cash, subject to various restrictions set forth in this annual report on Form 10-K, are available for working capital needs, capital expenditures, strategic investments, mergers and acquisitions, stock repurchases and other potential cash needs as they may arise.

#### ***Effects of Inflation***

The effects of inflation were not considered material for the years 2016 and 2015, and are not expected to be material for the year 2017.

#### **Application of Critical Accounting Estimates**

The application of the accounting estimates discussed below is considered by management to be critical to an understanding of our consolidated financial statements. Their application places significant demands on management's judgment, with financial reporting results relying on estimates about the effect of matters that are inherently uncertain. Specific risks for these critical accounting estimates are described in the following paragraphs. A summary of significant accounting policies can be found in Note 1, "Nature of Operations and Summary of Significant Accounting Policies," of Item 8, "Financial Statements and Supplementary Data," in this annual report on Form 10-K. For all of these policies, management cautions that future results rarely develop exactly as forecast, and the best estimates routinely require adjustment.

#### ***Revenue Recognition***

Revenue from long-term contracts requiring significant production, modification and customization is recorded using the percentage-of-completion method. This method uses the ratio of costs incurred to management's estimate of total anticipated costs. Our estimates of total costs include assumptions, such as man-hours to complete, estimated materials cost, and estimates of other direct and indirect costs. Actual results may vary significantly from our estimates. If the actual costs are higher than management's anticipated total costs, then an adjustment is required to reduce the previously recognized revenue as the ratio of costs incurred to management's estimate was overstated. If actual costs are lower than management's anticipated total costs, then an adjustment is required to increase the previously recognized revenue as the ratio of costs incurred to management's estimate is understated. Adjustments for revisions of previous estimates are made in the period they become known.

#### ***Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts and Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts***

Billings on uncompleted long-term contracts may be greater than or less than incurred costs and estimated earnings. As a result, these differences are recorded as an asset or liability on the balance sheet. Since revenue recognized on these long-term contracts includes management's estimates of total anticipated costs, the amounts in costs and estimated earnings in excess of billings on uncompleted contracts and billings in excess of costs and estimated earnings on uncompleted contracts also include these estimates.

#### ***Inventories***

Inventories include materials at standard costs, which approximate actual costs, and inventoried costs on programs, including material, labor, subcontracting costs, as well as an allocation of indirect costs. We periodically review inventories for excess supply, obsolescence, and valuations above estimated realizable amounts, and then provide a reserve we consider sufficient to reduce inventories to net realizable values. Reserve adequacy is based on estimates of future sales, product pricing, and requirements to complete projects. Revisions of these estimates would result in adjustments to our operating results.

#### ***Allowance for Doubtful Accounts Receivable***

We specifically analyze accounts receivable and consider historical experience, customer creditworthiness, facts and circumstances specific to outstanding balances, current economic trends, and changes in payment terms when

evaluating the adequacy of the allowance for doubtful accounts receivable. Changes in these factors could result in material adjustments to the expense recognized for bad debts.

#### **Income Taxes**

As part of the process of preparing our consolidated financial statements, we are required to estimate our actual income taxes in each of the jurisdictions in which we operate. This involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatments of items, such as accrued liabilities, for tax and accounting purposes. These differences result in deferred income tax assets and liabilities, which are included in our consolidated balance sheets. We must then assess the likelihood that our deferred income tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, we must include a corresponding adjustment within the income tax provision in the statement of comprehensive income (loss). Significant judgment by management is required to determine our provision for income taxes, our deferred income tax assets and liabilities and any valuation allowance recorded against our net deferred income tax assets.

#### **Impairment of Long- Lived Assets**

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate the carrying values of the assets may not be fully recoverable. When this occurs, we review the value assigned to long-lived assets by analyzing the anticipated, undiscounted cash flows they generate. When the expected future undiscounted cash flows from these assets do not exceed their carrying values, the Company determines the estimated fair value of such assets. Impairment is recognized to the extent the carrying values of the assets exceed their estimated fair values. Assets held for sale are reported at the lower of their carrying values or fair values less costs to sell.

#### **Straight-Line Rent and Contingent Obligation**

We recognize scheduled rent increases on a straight-line basis over the lease term, which may include optional lease renewal terms, and deferred rent income and expense is recognized to reflect the difference between the rent paid or received in the current period and the calculated straight-line amount.

#### **Recent Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 changes the accounting for leases. In particular, lessees will recognize lease assets and lease liabilities for operating leases. This update will have a minimal effect on lessor accounting. ASU 2016-02 is not effective until 2019. The Company is currently assessing the impact on its financial reporting of implementing this guidance.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740)* (“ASU 2015-17”). ASU 2015-17 requires that all deferred income tax assets and liabilities be classified as non-current. ASU 2015-17 is not effective until the 2017 fiscal year. The Company has elected to prospectively adopt the accounting standard in the beginning of the fourth quarter of fiscal 2016. Prior periods in our Consolidated Financial Statements were not retrospectively adjusted.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). ASU 2014-09 provides for a single, principles-based model for revenue recognition that replaces existing revenue recognition guidance. ASU 2014-09 is effective for the Company on January 1, 2018. It permits the use of either a retrospective or cumulative effect transition method and early adoption is not permitted. The Company has not yet selected a transition method and is in the process of evaluating the effect ASU 2014-09 will have on its consolidated financial statements and related disclosures. During 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date* (“ASU 2015-14”), which deferred the date of ASU 2014-09 by one year.

#### **Forward-Looking Statements**

The foregoing contains “forward-looking statements” within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including among others, those statements preceded by, followed by or including the words “estimates,” “believes,” “expects,” “plans,” “projects,” and similar expressions.

These forward-looking statements include, but are not limited to, the following statements:

- Our belief that our range of products and services at various price and performance levels, our research and development investments and capabilities, and our ability to design and manufacture products will enable us to compete effectively.
- Our belief that our facilities and operations are within standards fully acceptable to the Environmental Protection Agency and that all facilities and procedures are operated in accordance with environmental rules and regulations, and international, federal, state and local laws.
- Our belief that our existing sources of liquidity, including marketable securities, will provide sufficient liquidity to meet our obligations through 2017 and beyond.
- Our belief that our ability to include the wide range of complementary products offered by E&S and Spitz in the systems we sell, along with access to the legacy customer base of E&S and Spitz, provides a unique competitive advantage.
- Our expectations for variable future sales and gross profits from our current product line at annual levels sufficient to cover or exceed operating expenses.
- Our belief that an improved financial position as a result of relief from the burden of the Pension Plan may present opportunities for better results through the availability of credit and stronger qualification for customer projects.
- Our belief that any potential shortfalls in our forecasted revenues would be within a range whereby we could reduce variable costs in order to meet our 2017 obligations.
- Our belief that the business has the potential for long-term profitability without the burden of the Pension Plan.
- Our belief that capital expenditures during 2017 will be similar to the capital expenditures incurred during 2016.
- Our belief that the effects of inflation will not be material for 2017.
- Our belief that approximately 75% of our backlog will be converted to sales in 2017.
- Our belief that our 2016 orders will continue at a level sufficient to recognize sales in 2017 comparable to 2016.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Our actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include risks of product demand, market acceptance, economic conditions, competitive products and pricing, difficulties in product development, and product delays. In light of these risks and uncertainties, there can be no assurance that the events contemplated by the forward-looking statements contained in this annual report will, in fact, occur.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
**CONSOLIDATED BALANCE SHEETS**  
*(In thousands, except share data)*

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,823	\$ 3,734
Restricted cash	603	601
Accounts receivable, net	3,271	4,825
Current portion of lease receivable	252	-
Costs and estimated earnings in excess of billings on uncompleted contracts	3,038	2,695
Inventories, net	3,751	4,072
Prepaid expenses and deposits	902	1,038
Total current assets	<u>18,640</u>	<u>16,965</u>
Long-term lease receivable, net of current portion	1,083	-
Property and equipment, net	4,638	4,735
Goodwill	635	635
Intangible assets, net	-	27
Other assets	1,222	1,082
Total assets	<u><u>\$ 26,218</u></u>	<u><u>\$ 23,444</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 1,158	\$ 1,062
Accrued liabilities	1,400	1,031
Billings in excess of costs and estimated earnings on uncompleted contracts	6,500	3,995
Customer deposits	2,238	3,232
Current portion of retirement obligations	507	480
Current portion of pension settlement obligation	382	356
Current portion of long-term debt	211	199
Total current liabilities	<u>12,396</u>	<u>10,355</u>
Pension and retirement obligations, net of current portion	4,344	4,839
Pension settlement obligation, net of current portion	4,886	5,268
Long-term debt, net of current portion	1,764	1,975
Deferred rent obligation	1,231	1,653
Total liabilities	<u><u>24,621</u></u>	<u><u>24,090</u></u>
Commitments and contingencies (Notes 5, 6, 7 and 9)		
Stockholders' equity (deficit):		
Preferred stock, no par value: 10,000,000 shares authorized; no shares outstanding	-	-
Common stock, \$0.20 par value: 30,000,000 shares authorized; 11,616,866 and 11,441,666 shares issued, respectively	2,323	2,288
Additional paid-in-capital	53,641	53,434
Common stock in treasury, at cost, 264,350 shares	(3,532)	(3,532)
Accumulated deficit	(48,689)	(50,432)
Accumulated other comprehensive loss	(2,146)	(2,404)
Total stockholders' equity (deficit)	<u>1,597</u>	<u>(646)</u>
Total liabilities and stockholders' equity (deficit)	<u><u>\$ 26,218</u></u>	<u><u>\$ 23,444</u></u>

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

*(In thousands, except per share data)*

	<b>Years Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Sales	\$ 32,944	\$ 35,298
Cost of sales	(20,871)	(22,956)
Gross profit	<u>12,073</u>	<u>12,342</u>
Operating expenses:		
Selling, general and administrative	(7,115)	(6,633)
Research and development	(2,344)	(2,262)
Pension	(262)	(522)
Pension settlement	-	(3,620)
Total operating expenses	<u>(9,721)</u>	<u>(13,037)</u>
Operating income (loss)	2,352	(695)
Interest expense	(510)	(429)
Other expense, net	(6)	(163)
Income (loss) before income tax benefit (provision)	<u>1,836</u>	<u>(1,287)</u>
Income tax benefit (provision)	(93)	12
Net income (loss)	<u>\$ 1,743</u>	<u>\$ (1,275)</u>
Net income (loss) per common share – basic	\$ 0.16	\$ (0.11)
Net income (loss) per common share – diluted	<u>\$ 0.15</u>	<u>\$ (0.11)</u>
Weighted average common shares outstanding – basic	<u>11,214</u>	<u>11,150</u>
Weighted average common shares outstanding – diluted	<u>11,836</u>	<u>11,150</u>
Comprehensive income, net of tax:		
Net income (loss)	\$ 1,743	\$ (1,275)
Pension settlement	-	31,776
Decrease (increase) in minimum pension liability	258	(555)
Other comprehensive income	258	31,221
Total comprehensive income	<u>\$ 2,001</u>	<u>\$ 29,946</u>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

*(In thousands)*

	Accumulated						<b>Total</b>
	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Treasury Stock</b>	<b>Accumulated Deficit</b>	<b>Other Comprehensive Loss</b>		
<b>Shares</b>	<b>Amount</b>						
Balance, December 31, 2014	11,442	\$ 2,288	\$ 54,500	\$ (4,709)	\$ (49,157)	\$ (33,625)	\$ (30,703)
Net loss	-	-	-	-	(1,275)	-	(1,275)
Issuance of 88,117 shares from treasury for pension settlement	-	-	(1,107)	1,177	-	-	70
Other comprehensive income	-	-	-	-	-	31,221	31,221
Stock-based compensation	-	-	41	-	-	-	41
Balance, December 31, 2015	11,442	\$ 2,288	\$ 53,434	\$ (3,532)	\$ (50,432)	\$ (2,404)	\$ (646)
Net income	-	-	-	-	1,743	-	1,743
Issuance of shares on exercise of options	175	35	36	-	-	-	71
Other comprehensive income	-	-	-	-	-	258	258
Stock-based compensation	-	-	171	-	-	-	171
Balance, December 31, 2016	11,617	\$ 2,323	\$ 53,641	\$ (3,532)	\$ (48,689)	\$ (2,146)	\$ 1,597

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(*In thousands*)

	<b>Years Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 1,743	\$ (1,275)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	294	291
Amortization of deferred pension costs	258	106
Pension settlement charge	-	3,620
Provision for excess and obsolete inventory	344	155
Other	196	166
Changes in operating assets and liabilities:		
Decrease (increase) in restricted cash	(2)	110
Decrease (increase) in accounts receivable	1,533	(373)
Increase in lease receivable	(1,335)	-
Increase in inventories	(23)	(64)
Decrease (increase) in costs and estimated earnings in excess of billings on uncompleted contracts, net	2,162	(2,177)
Increase in prepaid expenses and other assets	(4)	(367)
Increase in accounts payable	96	352
Increase (decrease) in accrued liabilities	369	(111)
Decrease in accrued pension and retirement liabilities	(468)	(84)
Decrease in pension settlement obligation	-	(2,019)
Decrease in customer deposits	(994)	(849)
Decrease in deferred rent obligation	(422)	(424)
Net cash provided by (used in) operating activities	<u>3,747</u>	<u>(2,943)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(174)	(182)
Proceeds from sale of property and equipment	-	9
Net cash used in investing activities	<u>(174)</u>	<u>(173)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from shares issued on exercise of options	71	-
Principal payments on long-term debt	(199)	(188)
Principal payments on pension settlement obligation	(356)	-
Net cash used in financing activities	<u>(484)</u>	<u>(188)</u>
Net increase (decrease) in cash and cash equivalents	3,089	(3,304)
Cash and cash equivalents as of beginning of the year	3,734	7,038
Cash and cash equivalents as of end of the year	<u>\$ 6,823</u>	<u>\$ 3,734</u>
<b>Supplemental disclosures of non-cash investing and financing activities</b>		
Settlement of pension liability	\$ -	\$ 35,870
Increase in minimum pension and retirement obligations	-	661
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for:		
Interest	\$ 516	\$ 364
Income taxes	11	12

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*All dollar amounts are in thousands except share and per share information or unless otherwise indicated.*

### **Note 1 - Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations***

Evans & Sutherland Computer Corporation, referred to in these notes as “Evans & Sutherland,” “E&S,” or the “Company,” produces high-quality advanced visual display systems used primarily in full-dome video projection applications, dome projection screens and dome architectural treatments. E&S also produces unique content for planetariums, schools, science centers and other educational institutions and entertainment venues. The Company’s products include state of the art planetarium and dome theater systems consisting of proprietary hardware and software, and other unique visual display systems primarily used to project digital video on large curved surfaces. Additionally, E&S manufactures and installs metal domes with customized optical coatings and acoustical properties that are used for planetarium and dome theaters as well as many other unique custom applications. The Company operates in one business segment, which is the visual simulation market.

#### ***Basis of Presentation***

The consolidated financial statements include the accounts of Evans & Sutherland and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The accounting estimates that require management’s most difficult and subjective judgments include revenue recognition based on the percentage-of-completion method, inventory reserves, allowance for doubtful accounts receivable, allowance for deferred income tax assets, impairment of long-lived assets, pension and retirement obligations and useful lives of depreciable assets. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three or fewer months to be cash equivalents. The Company maintains cash balances in bank accounts that, at times, exceed federally insured limits. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to cash. As of December 31, 2016, cash deposits as reported by the banks, including restricted cash, exceeded the federally insured limits by approximately \$7,118.

#### ***Restricted Cash***

Restricted cash that guarantees letters of credit that mature or expire within one year is reported as a current asset. Restricted cash that guarantees letters of credit that mature or expire after more than one year is reported as a long-term asset. There was no restricted cash included in other assets as of December 31, 2016 and 2015.

#### ***Trade Accounts Receivable***

In the normal course of business, E&S provides unsecured credit terms to its customers. Accordingly, the Company maintains an allowance for doubtful accounts for possible losses on uncollectible accounts receivable. The Company routinely analyzes accounts receivable and costs and estimated earnings in excess of billings, and considers history, customer creditworthiness, facts and circumstances specific to outstanding balances, current economic trends, and changes in payment terms when evaluating the adequacy of the allowance for doubtful accounts receivable. Changes in these factors could result in material differences to bad debt expense. Past due balances are determined based on contractual terms and are reviewed individually for collectability. Uncollectible accounts receivable are charged against the allowance for doubtful accounts when management determines the probability of collection is remote.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below represents changes in E&S's allowance for doubtful accounts receivable for the years ended December 31:

	<b>2016</b>	<b>2015</b>
Beginning balance	\$ 286	\$ 217
Write-off of accounts receivable	(47)	(64)
Increase in estimated losses on accounts receivable	20	133
<b>Ending balance</b>	<b>\$ 259</b>	<b>\$ 286</b>

### ***Inventories***

Inventories include materials at standard costs, which approximate actual costs, as well as inventoried costs on programs and long-term contracts. Inventoried costs include material, direct engineering and production costs, and applicable overhead, not in excess of estimated realizable value. Spare parts and general stock materials are stated at cost not in excess of realizable value. E&S periodically reviews inventories for excess supply, obsolescence, and valuations above estimated realizable amounts, and provides a reserve sufficient to reduce inventories to net realizable values. Revisions of these estimates could impact net loss.

During the years ended December 31, 2016 and 2015, E&S recognized impairment losses on inventory of \$344 and \$155, respectively.

Inventories as of December 31, were as follows:

	<b>2016</b>	<b>2015</b>
Raw materials	\$ 5,427	\$ 5,958
Work in process	1,120	1,265
Finished goods	326	220
Reserve for obsolete inventory	(3,122)	(3,371)
<b>Inventories, net</b>	<b>\$ 3,751</b>	<b>\$ 4,072</b>

### ***Property and Equipment***

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets. Expenditures that materially increase values or capacities or extend useful lives of property and equipment are capitalized. Leasehold improvements are assigned useful lives based on the shorter of their useful lives or the term of the related leases, including renewal options likely to be exercised. Routine maintenance, repairs and renewal costs are expensed as incurred. When property is retired or otherwise disposed of, the carrying values are removed from the property and equipment and related accumulated depreciation and amortization accounts. Depreciation and amortization are included in cost of sales, research and development or selling, general and administrative expenses depending on the nature of the asset.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Depreciation expense was \$267 and \$250 for the years ended December 31, 2016 and 2015, respectively. The cost and estimated useful lives of property and equipment and the total accumulated depreciation and amortization were as follows as of December 31:

	<b>Estimated Useful Lives</b>	<b>2016</b>	<b>2015</b>
Land	n/a	\$ 2,250	\$ 2,250
Buildings and improvements	5 - 40 years	3,065	3,028
Manufacturing machinery and equipment	3 - 8 years	5,434	5,301
Office furniture and equipment	3 - 8 years	779	779
Total		11,528	11,358
Less accumulated depreciation and amortization		(6,890)	(6,623)
Net property and equipment		<u>\$ 4,638</u>	<u>\$ 4,735</u>

### ***Goodwill***

The Company tests its recorded goodwill for impairment on an annual basis during the fourth quarter, or more often if indicators of potential impairment exist, by determining if the carrying value of each reporting unit exceeds its estimated fair value. Factors that could trigger impairment include, but are not limited to, underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the Company's overall business and significant negative industry or economic trends. Future impairment reviews may require write-downs in the Company's goodwill and could have a material adverse impact on the Company's operating results for the periods in which such write-downs occur.

### ***Intangible Assets***

E&S amortizes the cost of intangible assets over their estimated useful lives. Amortizable intangible assets are reviewed at least annually to determine whether events and circumstances warrant a revision to the remaining period of amortization. Amortization expense was \$27 and \$41 for the years ended December 31, 2016 and 2015, respectively.

### ***Software Development Costs***

Software development costs, if material, are capitalized from the date technological feasibility is achieved until the product is available for general release to customers. Such costs were not material for the years presented.

### ***Impairment of Long-Lived Assets***

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate the carrying values of the assets may not be fully recoverable. When this occurs, the Company reviews the values assigned to long-lived assets by analyzing the anticipated, undiscounted cash flows they generate. When the expected future undiscounted cash flows from these assets do not exceed their carrying values, the Company estimates the fair values of such assets. Impairment is recognized to the extent the carrying values of the assets exceed their estimated fair values. Assets held for sale are reported at the lower of their carrying values or fair values less costs to sell.

### ***Warranty Reserve***

E&S provides a warranty reserve for estimated future costs of servicing products under warranty agreements extending for periods from 90 days to one year. Anticipated costs for product warranties are based upon estimates derived from experience factors and are recorded at the time of sale or over the period revenues are recognized for long-term contracts. Warranty reserves are classified as accrued liabilities in the accompanying consolidated balance sheets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below represents changes in E&S's warranty reserve for the years ended December 31:

	<b>2016</b>	<b>2015</b>
Beginning balance	\$ 127	\$ 125
Additions to warranty reserve	227	149
Warranty costs	(231)	(147)
<b>Ending balance</b>	<b>\$ 123</b>	<b>\$ 127</b>

### ***Revenue Recognition***

Sales include revenues from system hardware, software, database products and service contracts. The following table provides information on revenues by recognition method applied during the years:

	<b>2016</b>	<b>2015</b>
Percentage of completion	\$ 18,248	\$ 19,827
Completed contract	12,845	13,653
Other	1,851	1,818
<b>Total sales</b>	<b>\$ 32,944</b>	<b>\$ 35,298</b>

The following methods are used to record revenue:

*Percentage of Completion.* In arrangements that are longer in term and require significant production, modification or customization, revenue is recognized using the percentage-of-completion method. In applying this method, the Company utilizes the cost-to-cost methodology whereby it estimates the percent complete by calculating the ratio of costs incurred (consisting of material, labor and subcontracting costs, as well as an allocation of indirect costs) to its estimate of total anticipated costs. This ratio is then utilized to determine the amount of gross profit earned based on its estimate of total gross profit at completion. The Company routinely reviews estimates related to percentage-of-completion contracts and adjusts for changes in the period the revisions are made. Billings on uncompleted percentage-of-completion contracts may be greater than or less than incurred costs and estimated earnings, and are recorded as an asset or liability in the accompanying consolidated balance sheets.

*Completed Contract.* Contract arrangements which typically require a relatively short period of time to complete the production, modification, and customization of products are accounted for using the completed contract method. Accordingly, revenue is recognized upon delivery of the completed product, provided persuasive evidence of an arrangement exists, title and risk of loss have transferred, the fee is fixed or determinable, and collection is reasonably assured.

*Multiple Element Arrangements.* Some contracts include multiple elements. Significant deliverables in such arrangements commonly include various hardware components of visual display systems, domes, show content and various service and maintenance elements. Revenue earned on elements such as products, services and maintenance contracts are allocated to each element based on the relative fair values of the elements. Relative fair values of elements are generally determined based on actual and estimated selling price. Delivery times of such contracts typically occur within a three to six-month time period.

*Other.* Other revenue consists primarily of amounts earned under maintenance contracts that are generally sold as a single element to customers. Revenue from product maintenance contracts, including separately priced extended warranty contracts, is deferred and recognized over the period of performance under the contract.

*Anticipated Losses.* For contracts with anticipated losses at completion, a provision is recorded when the loss is probable. After an anticipated loss is recorded, subsequent revenue and cost of sales are recognized in equal, offsetting amounts as contract costs are incurred.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### ***Net Income (Loss) per Common Share***

Basic net income (loss) per common share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted net income per common share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares include shares that may be issued by the Company for outstanding stock options determined using the treasury stock method. In periods resulting in a net loss, potential common shares are anti-dilutive and therefore are not included. Net income (loss) per common share has been computed based on the following:

	<b>2016</b>	<b>2015</b>
<b>Numerator</b>		
Net Income (loss)	\$ 1,743	\$ (1,275)
<b>Denominator</b>		
Weighted-average number of common shares outstanding - basic	11,214	11,150
Incremental shares assumed for stock options	622	-
Weighted-average number of common shares outstanding - dilutive	<u>11,836</u>	<u>11,150</u>
Basic net income (loss) per common share	<u>\$ 0.16</u>	<u>\$ (0.11)</u>
Diluted net income (loss) per common share	<u><u>\$ 0.15</u></u>	<u><u>\$ (0.11)</u></u>

### ***Income Taxes***

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases and operating loss and income tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the enactment date.

### ***Other Comprehensive Income***

On a net basis for 2016 and 2015, there were deferred income tax assets resulting from items reflected in comprehensive income. However, E&S has determined that it is more likely than not that it will not realize such net deferred income tax assets and has therefore established a valuation allowance against the full amount of the net deferred income tax assets. Accordingly, the net income tax effect of the items included in other comprehensive income is zero. Therefore, the Company has included no income tax expense or benefit in relation to items reflected in other comprehensive income. The accumulated other comprehensive loss at the end of 2015 and 2016 consists of minimum pension liability attributable to the Supplemental Executive Retirement Plan (“SERP”) (see Note 6).

### ***Recent Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 changes the accounting for leases. In particular, lessees will recognize lease assets and lease liabilities for operating leases. This update will have a minimal effect on lessor accounting. ASU 2016-02 is not effective until 2019. The Company is currently assessing the impact on its financial reporting of implementing this guidance.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740)* (“ASU 2015-17”). ASU 2015-17 requires that all deferred income tax assets and liabilities be classified as non-current. ASU 2015-17 is not effective until the 2017 fiscal year. The Company has elected to prospectively adopt the accounting standard in the beginning of the fourth quarter of fiscal 2016. Prior periods in our Consolidated Financial Statements were not retrospectively adjusted.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 provides for a single, principles-based model for revenue recognition that replaces existing revenue recognition guidance. ASU 2014-09 is effective for the Company on January 1, 2018. It permits the use of either a retrospective or cumulative effect transition method and early adoption is not permitted. The Company has not yet selected a transition method and is in the process of evaluating the effect ASU 2014-09 will have on its consolidated financial statements and related disclosures. During 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date* ("ASU 2015-14"), which deferred the date of ASU 2014-09 by one year.

### **Note 2 – Goodwill**

Goodwill of \$635 resulted from the acquisition of the Company's wholly owned subsidiary, Spitz, and was measured as the excess of the \$2,884 purchase consideration paid over the fair value of the net assets acquired. The Company has made its annual assessment of impairment of goodwill and has concluded that goodwill is not impaired as of December 31, 2016.

### **Note 3 - Costs and Estimated Earnings on Uncompleted Contracts**

Comparative information with respect to uncompleted contracts as of December 31:

	<b>2016</b>	<b>2015</b>
Total accumulated costs and estimated earnings on uncompleted contracts	\$ 31,634	\$ 33,445
Less total billings on uncompleted contracts	(35,096)	(34,745)
<b>Ending balance</b>	<b>\$ (3,462)</b>	<b>\$ (1,300)</b>

The above amounts are reported in the consolidated balance sheets as of December 31 as follows:

	<b>2016</b>	<b>2015</b>
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 3,038	\$ 2,695
Billings in excess of costs and estimated earnings on uncompleted contracts	(6,500)	(3,995)
<b>Ending balance</b>	<b>\$ (3,462)</b>	<b>\$ (1,300)</b>

### **Note 4 – Lease Receivable**

In 2016, the Company entered into a lease agreement with a customer whereby the Company will be the Lessor and the customer will be the lessee of a Planetarium System produced, delivered and installed by the Company. The lease term is 5 years and requires the customer to make rent payments to the Company over the lease term in accordance with the fixed schedule in the agreement. The equipment will be returned to the Company at the end of the lease term at which time the Company estimates that the system will have no residual value. The customer obtained control of the leased assets upon delivery and acceptance of the system on December 7, 2016. The lease is accounted for as a sales-type lease since the lease term is for substantially all of the economic life of the system, the present value of the lease payments amounts to substantially all of the fair value of the underlying assets, and the customer will retain the control with substantially all of the risks and awards of ownership of the system. The discounted present value of the payments to be made under the lease agreement, using an annual rate of 6%, amounts to \$1,754. This amount represents the fair value of the equipment of \$1,678 and the maintenance services E&S is to provide over the terms of the lease valued at \$76. In 2016, the Company recorded the sale of the system of \$1,678. Also, \$76 of deferred revenue was recorded representing the value of the maintenance services.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The balance of lease receivable as of December 31, 2016 is recorded as follows:

<u>2016</u>	
Lease receivable	\$ 252
Lease receivable long term	<u>1,083</u>
<b>Total</b>	<b><u>\$ 1,335</u></b>

### **Note 5 – Leases and deferred gain on disposal of building assets**

The Company occupies real property and uses certain equipment under lease arrangements that are accounted for as operating leases. The Company's real property leases contain escalation clauses. Rental expense for all operating leases for 2016 and 2015 was \$194 and \$216, respectively.

In November 2014, the Company agreed to an extension of its lease for its corporate office buildings and its interest in the lease for the land occupied by the buildings for a term of 5 years. Base annual rent for the extended 5-year term is \$549. The new lease obligation is recorded as an operating lease for a term of five years which commenced November 1, 2014. The accounting for the lease extension resulted in a \$620 gain on the disposition of leased assets under the prior lease which was deferred and is being amortized over the five-year term of the new operating lease. There was also a \$1,526 gain from the extinguishment of a deferred rent credit related to the underlying land lease which is being amortized over the five-year term of the new operating lease. The amortization of the deferred gain and deferred rent credit reduces the rent expense attributable to the cash rent payments.

Future minimum rent expense payments under the new operating lease and the remaining deferred gain from the disposal of the building assets and deferred rent credit to be recognized are as follows:

<b>Years Ending</b>	<b>Rent</b>	<b>Gain on</b>	<b>Deferred</b>	<b>Net Rent</b>
<b>December 31,</b>	<b>Expense</b>	<b>Building</b>	<b>Rent Credit</b>	<b>Expense</b>
2017	\$ 549	\$ (124)	\$ (305)	\$ 120
2018	565	(124)	(305)	136
2019	475	(108)	(265)	102
<b>Total</b>	<b><u>\$ 1,589</u></b>	<b><u>\$ (356)</u></b>	<b><u>\$ (875)</u></b>	<b><u>\$ 358</u></b>

There are no other lease obligations that have initial or remaining non-cancelable lease terms in excess of one year.

### **Note 6 - Employee Retirement Benefit Plans**

#### *Settlement of Pension Plan Liabilities*

On April 21, 2015, the Company, as the administrator of its qualified defined benefit pension plan ("Pension Plan"), and the Pension Benefit Guaranty Corporation ("PBGC") entered into an Agreement For Appointment of Trustee and Termination of Plan (the "Termination Agreement") (a) terminating the Pension Plan, (b) establishing March 8, 2013 as the Plan's termination date and (c) appointing the PBGC as statutory trustee of the Pension Plan.

In connection with the Termination Agreement, on April 21, 2015, the Company entered into the Pension Settlement Agreement with the PBGC to settle all liabilities of the Pension Plan including any termination premium resulting from the Pension Plan termination (the "Settled ERISA Liabilities"). Pursuant to the Pension Settlement Agreement, the Company agreed to (a) pay to the PBGC a total of \$10,500, with \$1,500 due within ten days following the effective date of the Pension Settlement Agreement and the remainder paid in twelve annual installments of \$750 beginning on October 31, 2015 (the "Pension Settlement Obligation") and (b) issue within ten days following the effective date of the Pension Settlement Agreement 88,117 shares of the Company's treasury stock in the name of the PBGC. The Pension Settlement Agreement further provides that the PBGC will be deemed to have released the Company from all Settled ERISA Liabilities upon payment of the Pension Settlement Obligation. In the event of a

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

default by the Company of its obligations under the Pension Settlement Agreement or the underlying agreements which secure the Pension Settlement Obligation, the PBGC may enforce payment of the Settled ERISA Liabilities, which would accrue interest at various rates until payment is made and be reduced by any payments made by the Company pursuant to the Pension Settlement Agreement. The estimated total Settled ERISA Liabilities as of the settlement date is \$46,000.

To secure the Company's obligations under the Pension Settlement Agreement, on April 21, 2015, the Company also entered into a Security Agreement with the PBGC (the "Security Agreement"), and executed an Open-End Mortgage in favor of the PBGC (the "Mortgage") on certain real property owned by the Company's subsidiary, Spitz, Inc. ("Spitz"). The Security Agreement and Mortgage grant to the PBGC a security interest on all of the Company's presently owned and after-acquired property and proceeds thereof, free and clear of all liens and other encumbrances, except those described therein (the "Senior Liens"). The PBGC's security interest in the Company's property is subordinate to the Company's two senior lenders pursuant to the Security Agreement and agreements between the PBGC and the lenders (the "Intercreditor Agreements"). The Intercreditor Agreements provide for the lenders to extend credit to the Company, secured by the Senior Liens, up to specified limits. The Intercreditor Agreement between the lender of the mortgage notes and line of credit (see Note 7) and the PBGC provides for total aggregate loans of up to \$6,500 secured by Senior Liens on Spitz assets. The second Intercreditor Agreement between another lender and the PBGC provides for up to \$3,000 of letter of credit indebtedness secured by Senior Liens on cash deposits.

The termination of the Pension Plan and settlement of its underlying liabilities enabled the Company to satisfy the previously disclosed unfunded liability attributable to the Pension Plan by the issuing to the PBGC the 88,117 shares of stock from treasury and making the fixed installment payments of the Pension Settlement Obligation. As of the date of the Pension Settlement Agreement, the balance of the unfunded liability attributable to the Pension Plan, which was previously reported with Pension and Retirement Obligations, was \$35,870, of which \$31,776 was attributable to accumulated other comprehensive loss. The market value of the 88,117 shares of stock issued to the PBGC from treasury on April 23, 2015 was \$70. The Pension Settlement Obligation was recorded as a liability of the Company as of April 21, 2015 in the amount of \$7,643, reflecting the present value of the installments at an interest rate of 7%, which the Company believes represents the fair market interest rate for junior secured debt with similar secured terms of the Security Agreement. The unfunded Pension Plan liability of \$35,870 exceeded the \$7,714 combined value of the stock issued to the PBGC and the Pension Settlement Obligation by \$28,156. There are no income tax consequences of the settlement since no tax deduction was taken for the pension expense that gave rise to the Pension Plan liability. Accordingly, the settlement of the Pension Plan Liabilities was recorded as of April 21, 2015 as follows:

Unfunded Pension Plan Liability	\$ 35,870
Market value of common shares issued from treasury	(70)
Pension Settlement Obligation	(7,644)
Total consideration to PBGC	<u><u>(7,714)</u></u>
Total gain from settlement of Pension Plan Liabilities	<u><u>\$ 28,156</u></u>
Gain recorded as:	
Charge to statement of operations	\$ (3,620)
Other comprehensive Income	31,776
Contribution to total comprehensive income	<u><u>\$ 28,156</u></u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The balance of the Pension Settlement Obligation is recorded on the balance sheet as of December 31, 2016 and 2015 as follows:

	<b>2016</b>	<b>2015</b>
Current portion of pension settlement obligation	\$ 382	\$ 356
Pension settlement obligation, net of current portion	4,886	5,268
<b>Total Pension Settlement Obligation</b>	<b>\$ 5,268</b>	<b>\$ 5,624</b>

As a result of the settlement of Pension Plan liabilities on April 21, 2015, the Company's only remaining pension obligation is the SERP. The Company recorded expense of \$326 related to the Pension Plan for the first quarter of 2015 prior to the Termination Agreement executed on April 21, 2015.

### ***Supplemental Executive Retirement Plan***

The SERP provides eligible former executives, employed by the Company prior to 2002, defined pension benefits based on average salary, years of service and age at retirement. The SERP was amended in 2002 to discontinue further SERP gains from future salary increases and close the SERP to new participants.

### ***401(k) Deferred Savings Plan***

The Company has a deferred savings plan that qualifies under Section 401(k) of the Internal Revenue Code. The 401(k) plan covers all employees of the Company who have at least one year of service and who are age 18 or older. Matching contributions are made on employee contributions after the employee has achieved one year of service. Extra matching contributions can be made based on profitability and other financial and operational considerations. Effective January 1, 2017, the Company started making a 3% profit sharing contribution in addition to the matching contribution. Contributions to the 401(k) plan for 2016 and 2015 were \$182 and \$168, respectively.

### ***Obligations and Funded Status for Pension Plan and SERP***

E&S uses a December 31 measurement date for the SERP.

Information concerning the obligations, plan assets and funded status of employee retirement defined benefit plans are provided below:

<b>Changes in plan assets</b>	<b>Pension Plan</b>		<b>SERP</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Fair value of plan assets - beginning of year	\$ -	\$ 29,721	\$ -	\$ -
Actual return on plan assets	-	1,547	-	-
Contributions	-	-	475	497
Benefits paid	-	(339)	(475)	(497)
Transfer out upon termination	-	(30,929)	-	-
<b>Fair value of plan assets - end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Changes in benefit obligation</b>	<b>Pension Plan</b>		<b>SERP</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Projected benefit obligation - beginning of year	\$ -	\$ 64,831	\$ 5,320	\$ 4,871
Interest cost	-	617	190	177
Actuarial loss (gain)	-	1,690	(184)	769
Benefits paid	-	(339)	(475)	(497)
Transfer of benefit obligation upon termination	-	(66,799)	-	-
<b>Projected benefit obligation - end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,851</b>	<b>\$ 5,320</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<b>Net amount recognized</b>	<b>Pension Plan</b>		<b>SERP</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Unfunded status	\$ -	\$ -	\$ (4,851)	\$ (5,320)
Unrecognized net actuarial loss	-	-	2,146	2,415
Unrecognized prior service cost	-	-	-	(11)
<b>Net amount recognized</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,705)</b>	<b>\$ (2,916)</b>

Amounts recognized in the consolidated balance sheets consisted of:

	<b>Pension Plan</b>		<b>SERP</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Accrued liability	\$ -	\$ -	\$ (4,851)	\$ (5,320)
Accumulated other comprehensive loss	-	-	2,146	2,404
<b>Net amount recognized</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,705)</b>	<b>\$ (2,916)</b>

Components of net periodic benefit cost:

	<b>Pension Plan</b>		<b>SERP</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Interest cost	\$ -	\$ 617	\$ 190	\$ 177
Expected return on assets	-	(585)	-	-
Amortization of actuarial loss	-	195	82	68
Amortization of prior year service cost	-	-	(10)	(49)
Net periodic benefit expense	-	227	262	196
Insurance premium due PBGC		99	-	-
	<b>\$ -</b>	<b>\$ 326</b>	<b>\$ 262</b>	<b>\$ 196</b>

### **Additional information**

Pension expense was \$262 for the year ended December 31, 2016, which consisted of net periodic benefit expense of \$262 for the SERP. Pension expense was \$522 for the year ended December 31, 2015, which included net periodic benefit expense of \$227 for the Pension Plan, \$196 for the SERP and \$99 of insurance premiums due to the PBGC.

The SERP minimum liability recorded in other comprehensive loss decreased \$258 in 2016 compared to an increase of \$750 in 2015. The decrease in 2016 was primarily due to the death of one participant. The increase in 2015 reflected the decrease to the discount rate used to measure the SERP as of December 31, 2015 of 3.7% compared to 3.8% as of December 31, 2014 and the use of more current mortality tables.

### **Assumptions**

The weighted average assumptions used to remeasure benefit obligations as of December 31, 2016 and 2015 included a discount rate of 3.7% and 3.8%, respectively, for the SERP. The weighted average assumptions used to determine net periodic cost for the years ended December 31, 2016 and 2015 included a discount rate of 3.7% and 3.8%, respectively, in each year for the SERP.

### **Cash Flows**

#### **Employer contributions**

The Company is not currently required to fund the SERP. All benefit payments are made by E&S directly to those who receive benefits from the SERP. As such, these payments are treated as both contributions and benefits paid for reporting purposes.

The Company expects to contribute and pay benefits of approximately \$507 related to the SERP in 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Estimated future benefit payments

As of December 31, 2016, the following benefits are expected to be paid based on actuarial estimates and prior experience:

<b>Years Ending</b>	
<b>December 31,</b>	<b>SERP</b>
2017	\$ 507
2018	510
2019	423
2020	417
2021	411
2022-2026	1,937

### Note 7 –Debt

Long-term debt consisted of the following as of December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
First mortgage note payable due in monthly installments of \$23 (interest at 5.75%) through January 1, 2024; payment and rate subject to adjustment every 3 years, next adjustment January 14, 2019	\$ 1,611	\$ 1,789
Second mortgage note payable due in monthly installments of \$4 (interest at 5.75%) through October 1, 2028; payment and rate subject to adjustment every 5 years, next adjustment October 1, 2018	364	385
Total debt	1,975	2,174
Current portion of long-term debt	(211)	(199)
Long-term debt, net of current portion	\$ 1,764	\$ 1,975

Principal maturities on total debt are as follows:

<b>Years Ending</b>	
<b>December 31,</b>	
2017	\$ 211
2018	224
2019	237
2020	251
2021	267
Thereafter	785
Total debt	\$ 1,975

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### ***Mortgage Notes***

The first mortgage note payable represents the balance on a \$3,200 note (“First Mortgage Note”) issued on January 14, 2004 by Spitz. The First Mortgage Note requires repayment in monthly installments of principal and interest over 20 years. On each third anniversary of the First Mortgage Note, the interest rate is adjusted to the greater of 5.75% or 3% over the Three-Year Constant Maturity Treasury Rate published by the United States Federal Reserve (“3YCMT”). The monthly installment is recalculated on the first month following a change in the interest rate. The recalculated monthly installment is equal to the monthly installment sufficient to repay the principal balance, as of the date of the change in the interest rate, over the remaining portion of the original 20-year term. On January 14, 2016, the 3YCMT was 1.14% and the interest rate on the First Mortgage Note remained at 5.75% per annum. As a result, the monthly installment amount remained at \$23.

The second mortgage note payable represents the balance on a \$500 note (“Second Mortgage Note”) issued on September 11, 2008 by Spitz. The Second Mortgage Note requires repayment in monthly installments of principal and interest over 20 years. On each fifth anniversary of the Second Mortgage Note, the interest rate is adjusted to the greater of 5.75% or 3% over 3YCMT. The monthly installment is recalculated on the first month following a change in the interest rate. The recalculated monthly installment is equal to the monthly installment sufficient to repay the principal balance, as of the date of the change in the interest rate, over the remaining portion of the original 20-year term. On September 11, 2013, the fifth anniversary of the Second Mortgage Note, the 3YCMT was 0.88%. As a result, interest continues at 5.75% until possible adjustment on the next 5-year anniversary. The monthly installment also remains unchanged at \$4.

The Mortgage Notes are secured by the real property occupied by Spitz pursuant to a Mortgage and Security Agreement. The real property had a carrying value of \$4,215 as of December 31, 2016. The Mortgage Notes are guaranteed by E&S.

### ***Line of Credit***

The Company is a party to a line-of-credit agreement with a commercial bank which permits borrowings of up to \$1,100 to fund Spitz working capital requirements. Under the line of credit agreement, interest is charged on amounts borrowed at the lender’s prime rate less 0.25%. Any borrowings under the Credit Agreement are secured by Spitz real and personal property and all of the outstanding shares of Spitz common stock. The line-of-credit agreement and mortgage notes (with the same commercial bank) contain cross default provisions whereby a default on either agreement will result in a default on both agreements. There were no borrowings outstanding under the line-of-credit agreement as of December 31, 2016.

### **Note 8 - Income Taxes**

Income tax for 2016 and 2015 consisted of an expense of \$93 and a benefit of \$12, respectively, of federal and state income taxes. The actual expense differs from the expected tax provision (benefit) as computed by applying the U.S. federal statutory income tax rate of 34 percent for 2016 and 2015, as follows:

	<b>2016</b>	<b>2015</b>
Income tax provision (benefit) at U.S. federal statutory rate	\$ 624	\$ (440)
State tax provision (benefit), net of federal income tax	48	14
Change in valuation allowance attributable to operations	(936)	(4,146)
Change in effective tax rate	-	4,064
Pension settlement	(213)	466
Adjustments to federal tax carryforwards / deductions	548	-
Other, net	22	30
<b>Income tax provision (benefit)</b>	<b>\$ 93</b>	<b>\$ (12)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities as of December 31, 2016 and 2015 are as follows:

	<b>2016</b>	<b>2015</b>
Property and equipment, principally due to differences in depreciation	\$ (643)	\$ (722)
Inventory reserves and other inventory-related temporary basis differences	614	696
Warranty, vacation, deferred rent and other liabilities	687	883
Retirement liabilities	1,032	1,088
Net operating loss carryforwards	62,484	62,194
Credit carryforwards	36	817
Other	1,037	1,227
Total deferred income tax	65,247	66,183
Less valuation allowance	(65,247)	(66,183)
<b>Net deferred income tax</b>	<b>\$ -</b>	<b>\$ -</b>

Worldwide income (loss) before income taxes consisted of the following:

	<b>2016</b>	<b>2015</b>
United States	\$ 1,836	\$ (1,296)
International	-	-
<b>Total</b>	<b>\$ 1,836</b>	<b>\$ (1,296)</b>

Income tax benefit (provision) consisted of the following:

	<b>2016</b>	<b>2015</b>
<i>Current</i>		
U.S. federal	\$ 10	\$ -
State	83	(12)
Total current expense (benefit)	<b>\$ 93</b>	<b>\$ (12)</b>
<i>Deferred</i>		
U.S. federal	\$ 937	\$ 4,068
State	(1)	78
Total	936	4,146
Valuation allowance increase	(936)	(4,146)
Total deferred expense (benefit)	-	-
 Total income tax expense (benefit)	 <b>\$ 93</b>	 <b>\$ (12)</b>

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

E&S has total federal net operating loss carryforwards of approximately \$169,300 which expire from 2020 through 2036. The Company has federal minimum tax credit carryforwards of approximately \$36 which do not expire. The Company has \$3,200 of federal research credits that begin to expire in 2019 and \$2,400 of state research credits that begin to expire in 2017. The Company has not recorded a benefit for these research credits in the financial statements because it does not meet the more-likely-than-not position recognition threshold. E&S also has state net operating loss carryforwards of approximately \$149,300 that expire at various dates depending on the rules of the states to which the loss or credit is allocated.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company evaluates its deferred tax assets for realizability based on all of the available positive and negative evidence. Due to cumulative losses and the significance of the carryforwards, the Company determined that it is more likely than not that the deferred tax assets will not be realized. Accordingly, a valuation allowance has been established to offset the net deferred tax assets. During the years ended December 31, 2016 and 2015, the valuation allowance on deferred tax assets decreased by \$936 and \$4,146, respectively.

Pursuant to the guidelines of the recently issued ASU 2015-17 (“the Update”), all deferred tax assets and liabilities are to be classified as non-current. The effective date of the Update for public companies is for annual periods beginning after December 15, 2016 and later dates for all other entities. Early adoption is permitted. To comply with the guidance, the Company elected to adopt this Update for the annual period ending December 31, 2016. The guidance indicates that the Update may be applied either prospectively or retrospectively. The Company chose to apply the Update prospectively.

The Company is subject to audit by the IRS and various states for tax years dating back to 2013. No federal or state tax return are currently under audit. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

### **Note 9 - Commitments and Contingencies**

#### *Letters of Credit*

Under the terms of financing arrangements for letters of credit, E&S is required to maintain a balance in a specific cash account equal to or greater than the outstanding value of all letters of credit or bank guarantees issued, plus other amounts necessary to adequately secure obligations with the financial institution. As of December 31, 2016, there were outstanding letters of credit and bank guarantees of \$600, which are scheduled to expire in 2017. There was no restricted cash included in other assets as of December 31, 2016 or 2015.

### **Note 10 - Stock Option Plan**

In 2014, stockholders approved the adoption of the Evans & Sutherland Computer Corporation 2014 Stock Incentive Plan (“2014 Plan”) which replaced the expired 2004 Stock Incentive Plan of Evans & Sutherland Computer Corporation (“2004 Plan”). The 2014 Plan is a stock incentive plan that provides for the grant of options and restricted stock awards to employees and for the grant of options to non-employee directors essentially the same as the 2004 Plan. Under the 2014 Plan, non-employee directors may continue to receive an annual option grant for no more than 10,000 shares. New non-employee directors may also continue to receive an option grant for no more than 10,000 shares upon their appointment or election. With the adoption of the 2014 Plan, no additional options can be issued under the 2004 Plan. Options granted under the 2004 Plan are still held by recipients and will continue to be subject to the terms and conditions of the 2004 plan which are essentially the same as the 2014 Plan. The 2014 Plan continues a minimum exercise price for options of 110% of fair market value on the date of grant. Restricted stock awards may be qualified as a performance-based award that conditions a participant’s award upon achievement by the Company or its subsidiaries of performance goals established by the Board of Directors’ Compensation Committee.

The number of shares, terms, and exercise periods of option grants are determined by the Board of Directors on an option-by-option basis. Options generally vest ratably over three years and expire ten years from the date of grant. As of December 31, 2016, options to purchase 973,981 shares of common stock were authorized and reserved for future grant.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of activity follows (shares in thousands):

	2016		2015	
	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
Outstanding as of beginning of the year	1,470	\$ 1.53	1,333	\$ 2.08
Granted	512	0.90	221	0.39
Exercised	(175)	0.40	-	-
Forfeited or expired	(182)	6.59	(84)	7.23
Outstanding as of end of the year	<u>1,625</u>	0.88	<u>1,470</u>	1.53
Exercisable as of end of the year	<u>1,056</u>	0.95	<u>1,065</u>	2.01

The weighted average fair value of options granted during 2016 and 2015 was \$0.79 and \$0.39, respectively. As of December 31, 2016, options exercisable and options outstanding had a weighted average remaining contractual term of 4.1 and 5.8 years with aggregate intrinsic value of \$728 and \$1,038, respectively. As of December 31, 2015, options exercisable and options outstanding had a weighted average remaining contractual term of 3.4 and 4.8 years with aggregate intrinsic value of \$330 and \$591, respectively. The aggregate intrinsic value of the options exercised in 2016 was \$137.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the grants made in 2016 and 2015:

	2016	2015
Expected life (in years)	3.5	3.5
Risk free interest rate	1.04%	0.91%
Expected volatility	229%	340%
Dividend yield	-	-

Expected option lives and volatilities are based on historical data of the Company. The risk free interest rate is calculated as the average US Treasury bill rate that corresponds with the option life. Historically, the Company has not declared dividends and there are no plans to do so.

As of December 31, 2016, there was approximately \$198 of total unrecognized share-based compensation cost related to grants collectively under the 2004 Plan and 2014 Plan that will be recognized over a weighted-average period of 3.8 years. As of December 31, 2015, there was approximately \$35 of total unrecognized share-based compensation cost related to grants collectively under the 2004 Plan and 2014 Plan that will be recognized over a weighted-average period of 1.9 years.

Share-based compensation expense, from awards collectively under the 2004 Plan and 2014 Plan for the years ended December 31, 2016 and 2015 amounted to \$171 and \$41, respectively, and was recorded as general and administrative expense.

### **Note 11 - Preferred Stock**

#### ***Class A Preferred Stock***

The Company has 5,000,000 authorized shares of Class A Preferred stock. As of December 31, 2016 and 2015, there were no Class A Preferred shares outstanding.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### ***Class B Preferred Stock***

The Company has 5,000,000 authorized shares of Class B Preferred stock. As of December 31, 2016 and 2015, there were no Class B Preferred shares outstanding.

### **Note 12 - Geographic Information**

The table below presents sales by geographic location:

	<b>2016</b>	<b>2015</b>
United States	\$ 24,994	\$ 16,809
International	7,950	18,489
<b>Total sales</b>	<b>\$ 32,944</b>	<b>\$ 35,298</b>

### **Note 13 - Significant Customers**

As of December 31, 2016, Customers A and G represented 19% and 29% of accounts receivable, respectively, and Customers D and F represented 48% and 18% of costs and estimated earnings in excess of billings, respectively.

As of December 31, 2015, Customers A, B, C and D represented 14%, 14%, 13% and 13% of accounts receivable, respectively, and Customers E and F represented 41% and 12% of costs and estimated earnings in excess of billings, respectively.

For the year ended December 31, 2016, Customer D represented 23% of total sales. For the year ended December 31, 2015, no individual customer represented 10% or more of total sales.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Evans & Sutherland Computer Corporation

We have audited the accompanying consolidated balance sheets of Evans & Sutherland Computer Corporation (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income (loss), stockholders' equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Evans & Sutherland Computer Corporation as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LLC

Salt Lake City, Utah  
March 10, 2017

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures.**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective at the reasonable assurance level such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any control system cannot provide absolute assurance, however, that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

**Management’s Annual Report on Internal Control over Financial Reporting.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes of U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (1992). Based on this evaluation, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2016, our internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

**Changes in Internal Control Over Financial Reporting.**

There have been no changes in our internal control over financial reporting identified in connection with the evaluation of disclosure controls and procedures discussed above that occurred during the year ended December 31, 2016, or subsequent to that date, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies which may be identified during this process.

**ITEM 9B. OTHER INFORMATION**

None

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Certain information required by Item 401 of Regulation S-K will be included under the caption “Election of Directors” in the Proxy Statement for our 2017 Annual Meeting of Stockholders and that information is incorporated herein by reference. Information required by Item 405 of Regulation S-K will be included under the caption “Compliance with Section 16(a) of the Securities Exchange Act of 1934” in the Proxy Statement for our 2017 Annual Meeting of Stockholders and that information is incorporated herein by reference. Certain information required by Item 401 of Regulation S-K is included in Part I of this Form 10-K under the caption “Executive Officers of the Registrant.” The information required by Item 407(c)(3), 407(d)(4) and 407(d)(5) of Regulation S-K will be included under the caption “Election of Directors” in the Proxy Statement for our 2016 Annual Meeting of Stockholders and that information is herein incorporated by reference.

#### **Code of Ethics**

Evans & Sutherland maintains a Code of Ethics and Business Conduct which is applicable to all employees, including all officers, and including our independent non-employee directors with regard to Evans & Sutherland related activities. The Code of Ethics and Business Conduct incorporates our guidelines designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. It also incorporates our expectations of our employees that enable us to provide accurate and timely disclosure in our filings with the Securities and Exchange Commission and other public communications. In addition, they incorporate our expectations of our employees concerning prompt internal reporting of violations of our Code of Ethics and Business Conduct.

The full text of the Evans & Sutherland Code of Ethics and Business Conduct is published on our Investors Relations website at [www.es.com](http://www.es.com). We intend to disclose future amendments to certain provisions of our Code of Ethics and Business Conduct or waivers of such provisions granted to executive officers and directors on this website within four business days following the date of such amendment or waiver.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item will be included under the captions, “Executive Compensation,” and, “Election of Directors,” in the Proxy Statement for our 2017 Annual Meeting of Stockholders and that information is herein incorporated by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 403 of Regulation S-K will be included under the caption, “Security Ownership of Certain Beneficial Owners and Management,” in the Proxy Statement for our 2017 Annual Meeting of Stockholders and that information is herein incorporated by reference.

**Securities Authorized for Issuance Under Equity Compensation Plans as of December 31, 2016:**

	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>  (a)	<b>Weighted average exercise price of outstanding options, warrants and rights</b>  (b)	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>  (c)
Equity compensation plans approved by security holders	1,624,500	\$ 0.88	973,981
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>1,624,500</b>	<b>\$ 0.88</b>	<b>973,981</b>

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 404 of Regulation S-K will be included under the caption, “Certain Relationships and Related Party Transactions,” in the Proxy Statement for our 2017 Annual Meeting of Stockholders and that information is herein incorporated by reference. The information required by Item 407(a) of Regulation S-K will be included under the caption, “Election of Directors,” in the Proxy Statement for our 2017 Annual Meeting of Stockholders and that information is herein incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item will be included under the caption, “Report of the Audit Committee of the Board of Directors,” in the Proxy Statement for our 2017 Annual Meeting of Stockholders and that information is herein incorporated by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

#### (a) List of documents filed as part of this report

##### 1. Financial Statements

The following consolidated financial statements are included in Part II, Item 8 of this report on Form 10-K.

- Consolidated Balance Sheets as of December 31, 2016 and 2015
- Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2016 and 2015
- Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 2016 and 2015
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2016 and 2015
- Notes to Consolidated Financial Statements

##### 2. Financial Statement Schedules

There are no schedules filed because of the absence of conditions under which they are required or because the required information is presented in the consolidated financial statements or the notes thereto.

##### 3. Exhibits

###### Articles of Incorporation and Bylaws

- 3.1.1 Articles of Incorporation, as amended, filed as Exhibit 3.1 to Evans & Sutherland Computer Corporation's Annual Report on Form 10-K, SEC File No. 000-08771, for the fiscal year ended December 25, 1987, and incorporated herein by reference.
- 3.1.2 Amendments to Articles of Incorporation filed as Exhibit 3.1.1 to Evans & Sutherland Computer Corporation's Annual Report on Form 10-K, SEC File No. 000-08771, for the fiscal year ended December 30, 1988, and incorporated herein by reference.
- 3.1.3 Certificate of Designation, Preferences and Other Rights of the Class B-1 Preferred Stock of Evans & Sutherland Computer Corporation, filed as Exhibit 3.1 to Evans & Sutherland Computer Corporation's Form 10-Q, SEC File No. 000-08771, for the quarter ended September 25, 1998, and incorporated herein by reference.
- 3.2.1 Amended and Restated Bylaws of Evans & Sutherland Computer Corporation, filed as Exhibit 3.2 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2000, and incorporated herein by reference.
- 3.2.2 Amendment No. 1 to the Amended and Restated Bylaws of Evans & Sutherland Computer Corporation, filed as Exhibit 3.3 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2000, and incorporated herein by reference.
- 3.2.3 Amendment No. 2 to the Amended and Restated Bylaws of Evans & Sutherland Computer Corporation, filed as Exhibit 3.1 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on November 31, 2015, and incorporated herein by reference.

###### Material contracts

###### Management contracts and compensatory plans

- 10.1 Evans & Sutherland Computer Corporation 2004 Stock Incentive Plan, filed as Annex A to Evans & Sutherland's Form 14A, SEC File No. 001-14667, filed on April 19, 2004 and incorporated herein by reference.
- 10.2 Amended and Restated Evans & Sutherland Computer Corporation's Supplemental Executive Retirement Plan (SERP), dated May 16, 2002, filed as Exhibit 10.38 to Evans & Sutherland

Computer Corporation's Form 10-K for the year ended December 31, 2002, and incorporated herein by reference.

- 10.3 Evans & Sutherland Computer Corporation 2014 Stock Incentive Plan, filed as Exhibit 10.1 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on May 16, 2014, and incorporated herein by reference.
- 10.4 Form of Incentive Stock Option Award Agreement under the Evans & Sutherland Computer Corporation 2014 Stock Incentive Plan, filed as Exhibit 10.2 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on May 16, 2014, and incorporated herein by reference.
- 10.5 Form of Non-Qualified Stock Option Award Agreement under the Evans & Sutherland Computer Corporation 2014 Stock Incentive Plan, filed as Exhibit 10.3 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on May 16, 2014, and incorporated herein by reference.
- 10.6 Form of Indemnification Agreement, filed as Exhibit 10.1 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on September 2, 2016, and incorporated herein by reference.
- 10.7 Separation and Release Agreement between Evans & Sutherland Computer Corporation and David H. Bateman, dated September 2, 2016, filed as Exhibit 10.2 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on September 2, 2016, and incorporated herein by reference.
- 10.7 Employment Agreement by and between Evans & Sutherland Computer Corporation and Jonathan Shaw, dated September 2, 2016, filed as Exhibit 10.3 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on September 2, 2016, and incorporated herein by reference.
- 10.8 Employment Agreement by and between Evans & Sutherland Computer Corporation and Kirk Johnson, dated September 2, 2016, filed as Exhibit 10.4 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on September 2, 2016, and incorporated herein by reference.
- 10.9 Employment Agreement, by and between Evans & Sutherland Computer Corporation and Paul Dailey, dated December 15, 2016, filed herein.
- 10.10 First Amendment to Employment Agreement, by and between Evans & Sutherland Computer Corporation and Jonathan Shaw, dated January 9, 2017 filed herein.
- 10.11 First Amendment to Employment Agreement, by and between Evans & Sutherland Computer Corporation and Kirk Johnson, dated January 9, 2017, filed herein.

**Other material contracts**

- 10.12 Guaranty, dated April 28, 2006, by Evans and Sutherland Computer Corporation, filed as Exhibit 10.7 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.13 Pledge Agreement, dated April 28, 2006, by and between Evans & Sutherland Computer Corporation, Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.8 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.14 Security Agreement, dated April 28, 2006, by and between Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.9 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.

- 10.15 Open-end Mortgage and Security Agreement, dated April 28, 2006, by and between Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.10 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.16 Mortgage Note dated January 14, 2004, of Transnational Industries, Inc. and Spitz, Inc. to First Keystone Bank filed as Exhibit 10.25 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.17 Open-End Mortgage and Security Agreement dated January 14, 2004, between Spitz, Inc. and First Keystone Bank filed as Exhibit 10.26 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.18 Loan Agreement dated as January 14, 2004, between First Keystone Bank, Transnational Industries, Inc. and Spitz, Inc filed as Exhibit 10.27 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.19 First Modification Agreement to Mortgage Loan Agreements, dated March 30 2007, by and between Evans & Sutherland Computer Corporation, Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.28 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.20 Guaranty, dated March 30, 2007 by Evans and Sutherland Computer Corporation, filed as Exhibit 10.30 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.21 First Amendment to Sublease Agreement dated November 4, 2014, by and between Evans & Sutherland Computer Corporation and Wasatch Research Park I, LLC, filed as Exhibit 10.1 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended September 26, 2014 and incorporated herein by reference.
- 10.22 Line of Credit Agreement between Spitz, Inc. and Bryn Mawr Trust Company dated March 15, 2012 filed as Exhibit 10.2 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended September 26, 2014 and incorporated herein by reference.
- 10.23 Settlement Agreement, dated April 21, 2015, between Pension Benefit Guaranty Corporation, Evans & Sutherland Computer Corporation and Spitz, Inc., filed as Exhibit 10.1 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on April 24, 2015, and incorporated herein by reference.
- 10.24 Agreement for Appointment of Trustee and Termination of Plan, dated April 21, 2015, between Pension Benefit Guaranty Corporation and Evans & Sutherland Computer Corporation, filed as Exhibit 10.1 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on April 24, 2015, and incorporated herein by reference.
- 10.25 Security Agreement, dated April 21, 2015, between Pension Benefit Guaranty Corporation, Evans & Sutherland Computer Corporation and Spitz, Inc., filed as Exhibit 10.1 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on April 24, 2015, and incorporated herein by reference.
- 10.26 Open-End Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, dated April 21, 2015, executed by Spitz, Inc. in favor of Pension Benefit Guaranty Corporation, filed as Exhibit 10.1 to Evans & Sutherland Computer Corporation's Form 8-K filed with the Commission on April 24, 2015, and incorporated herein by reference.

Subsidiaries of the registrant

- 21.1 Subsidiaries of Registrant, filed herein.

Consent of experts and counsel

- 23.1 Consent of Independent Registered Public Accounting Firm, filed herein.

Rule 13a-14(a)/15d-14(a) Certifications

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, filed herein.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, filed herein.

Section 1350 Certifications

- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herein.

**TRADEMARKS USED IN THIS FORM 10-K**

E&S, Digistar, SciDome and NanoSeam are trademarks or registered trademarks of Evans & Sutherland Computer Corporation or Spitz. All other product, service, or trade names or marks are the properties of their respective owners.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EVANS & SUTHERLAND COMPUTER CORPORATION

By /s/ JONATHAN SHAW

Jonathan Shaw

Chief Executive Officer and Director

March 10, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JONATHAN SHAW</u> Jonathan Shaw	Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2017
<u>/s/ PAUL L. DAILEY</u> Paul L. Dailey	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 10, 2017
<u>/s/ L. TIM PIERCE</u> L. Tim Pierce	Director	March 10, 2017
<u>/s/ WILLIAM SCHNEIDER, JR.</u> William Schneider, Jr.	Director	March 10, 2017
<u>/s/ JAMES P. McCARTHY</u> James P. McCarthy	Director	March 10, 2017
<u>/s/ E. MICHAEL CAMPBELL</u> E. Michael Campbell	Director	March 10, 2017
<u>/s/ WILLIAM E. STRINGHAM</u> William E. Stringham	Director	March 10, 2017