# Gunther International Ltd.

**Condensed Consolidated Financial Statements**
**(Unaudited)**
**Interim Periods Ended September 30, 2015 and 2014**

**GUNTHER INTERNATIONAL LTD.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Unaudited)**
***(dollar amounts in thousands, except per share data)***

| | September 30, 2015 | March 31, 2015 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash | $ 2,635 | $ 2,932 |
| Accounts receivable, less allowance of $120 | 1,537 | 2,282 |
| Inventories | 5,699 | 6,039 |
| Other current assets | 469 | 359 |
| Deferred income taxes | 1,360 | 1,596 |
| Total current assets | 11,700 | 13,208 |
| Equipment and leasehold improvements | 2,735 | 2,831 |
| Accumulated depreciation and amortization | (2,072) | (1,975) |
| | 663 | 856 |
| Patents, net of amortization | 8 | 10 |
| Deferred income taxes | 1,755 | 1,841 |
| Total Assets | $ 14,126 | $ 15,915 |
| Liabilities and Stockholders' Equity: | | |
| Current Liabilities: | | |
| Accounts payable | $ 1,519 | $ 2,017 |
| Accrued expenses | 2,076 | 1,861 |
| Deposits on systems contracts | 577 | 1,026 |
| Deferred service contract revenue | 2,291 | 3,399 |
| Accrued interest due to Gunther Partners LLC - a related party | 886 | 1,226 |
| Notes payable - other | - | 32 |
| Current portion of capital lease obligations | 19 | 15 |
| Total current liabilities | 7,368 | 9,576 |
| Long Term Liabilities: | | |
| Notes payable due to Gunther Partners LLC - a related party | 4,000 | 4,000 |
| Note payable - other | - | 16 |
| Capital lease obligations, less current portion | 18 | 17 |
| Total long term liabilities | 4,018 | 4,033 |
| Total liabilities | 11,386 | 13,609 |
| Stockholders' Equity: | | |
| Preferred stock, $.001 par value: 500,000 shares authorized; none issued | - | - |
| Common stock, $.001 par value: 32,000,000 shares authorized; | | |
| 19,767,435 shares issued and outstanding | 20 | 20 |
| Additional paid-in capital | 19,951 | 19,951 |
| Accumulated deficit | (17,231) | (17,665) |
| Total Stockholders' Equity | 2,740 | 2,306 |
| Total Liabilities and Stockholders' Equity | $ 14,126 | $ 15,915 |

See accompanying notes.

**GUNTHER INTERNATIONAL LTD.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**
***(dollar amounts in thousands, except per share data)***

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Sales: | | | | |
| Systems | $ 3,852 | $ 1,161 | $ 6,572 | $ 2,270 |
| Maintenance | 3,792 | 3,846 | 7,552 | 7,903 |
| Supplies | 1,141 | 898 | 2,016 | 1,918 |
| Total sales | 8,785 | 5,905 | 16,140 | 12,091 |
| Cost of sales: | | | | |
| Systems | 2,920 | 643 | 4,649 | 1,483 |
| Maintenance | 2,942 | 2,874 | 5,786 | 5,857 |
| Supplies | 871 | 675 | 1,527 | 1,462 |
| Total cost of sales | 6,733 | 4,192 | 11,962 | 8,802 |
| Gross profit | 2,052 | 1,713 | 4,178 | 3,289 |
| Operating expenses: | | | | |
| Selling and administrative | 1,383 | 1,216 | 2,784 | 2,365 |
| Research and development | 304 | 279 | 610 | 572 |
| Total operating expenses | 1,687 | 1,495 | 3,394 | 2,937 |
| Operating income | 365 | 218 | 784 | 352 |
| Interest expense, net | 5 | 6 | 10 | 11 |
| Income before income taxes | 360 | 212 | 774 | 341 |
| Income taxes | 179 | 79 | 340 | 133 |
| Net income | $ 181 | $ 133 | $ 434 | $ 208 |
| Basic and diluted net income per share | $ 0.01 | $ 0.01 | $ 0.02 | $ 0.01 |
| Weighted-average number of common shares outstanding | 19,767,435 | 19,767,435 | 19,767,435 | 19,767,435 |

See accompanying notes.

**GUNTHER INTERNATIONAL, LTD.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(Unaudited)**
***(Dollars in thousands)***

| | Common Stock | | Treasury Stock | | Additional Paid-in | Accumulated | |
|---|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** | **Capital** | **Deficit** | **Total** |
| Balance, March 31, 2014 | 20,687,004 | $ 21 | (919,569) | $ (138) | $ 20,088 | $ (18,382) | $ 1,589 |
| Net income | - | - | - | - | - | 717 | 717 |
| Retirement of Treasury Stock | (919,569) | (1) | 919,569 | 138 | (137) | - | - |
| Balance, March 31, 2015 | 19,767,435 | 20 | - | - | 19,951 | (17,665) | 2,306 |
| Net income | - | - | - | - | - | 434 | 434 |
| Balance, September 30, 2015 | 19,767,435 | $ 20 | - | $ - | $ 19,951 | $ (17,231) | $ 2,740 |

See accompanying notes.

**GUNTHER INTERNATIONAL LTD.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**
***(dollar amounts in thousands)***

| | Six Months Ended September 30, | |
|---|---|---|
| | **2015** | **2014** |
| Operating activities: | | |
| Net income | $ 434 | $ 208 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Depreciation and amortization | 111 | 102 |
| Deferred income taxes | 322 | 127 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 745 | 439 |
| Inventories | 480 | (1,259) |
| Prepaid expenses and other assets | (110) | 7 |
| Accounts payable | (498) | 600 |
| Accrued expenses | 215 | (139) |
| Interest accrued on related party debt | (340) | (140) |
| Deferred service contract revenue | (1,108) | (1,219) |
| Deposits on systems contracts | (449) | 379 |
| Net cash used by operating activities | (198) | (895) |
| Investing activities: | | |
| Purchase of equipment and leasehold improvements | (41) | (163) |
| Net cash used by investing activities | (41) | (163) |
| Financing activities: | | |
| Payments on notes payable other | (48) | (20) |
| Payments on capital lease obligations | (10) | (6) |
| Net cash used by financing activities | (58) | (26) |
| Change in cash | (297) | (1,084) |
| Cash, beginning of period | 2,932 | 2,329 |
| Cash, end of period | $ 2,635 | $ 1,245 |
| Supplemental Disclosure of Non Cash Investing Activities: | | |
| Equipment financed with capital lease | $ 14 | $ - |
| Equipment re-characterized as inventory | $ 140 | $ - |

See accompanying notes.

**Gunther International Ltd.**
**Notes to Condensed Consolidated Financial Statements**
**(Unaudited)**
**September 30, 2015**

## 1. Basis of Presentation:

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. However, they do not include all disclosures required for a complete set of financial statements. As such, these financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's audited financial statements for the fiscal year ended March 31, 2015. The condensed consolidated balance sheet as of March 31, 2015 was derived from the audited financial statements for the year then ended. The results of operations for the interim periods are not necessarily indicative of results to be expected for the full year.

## 2. Business and Operations

The Company has performed a review of events subsequent to the balance sheet date through November 13, 2015, the date the financial statements were issued. The Company has signed contracts for systems approximating $1,773,000 at September 30, 2015 and $1,541,000 at November 13, 2015.

## 3. Inventories

Inventories consist of:

| | (dollars in thousands) | |
|---|---|---|
| | September 30, 2015 | March 31, 2015 |
| Raw materials and sub-assembles | $ 5,135 | $ 4,516 |
| Work-in-process | 205 | 1,130 |
| Finished goods | 359 | 393 |
| | $ 5,699 | $ 6,039 |

## 4. Related Party Debt

The Company has notes payable to Gunther Partners LLC, the Company's principal stockholder, aggregating $4,000,000 as of September 30, 2014 and March 31, 2014. All of the aggregate amounts outstanding as of September 30, 2015 are due December 31, 2017 and bear interest at 0.5%. The Company has accrued interest due to Gunther Partners LLC aggregating $886,000 and $1,226,000 as of September 30, 2015 and March 31, 2015, respectively. Interest is payable at any time on or after the maturity date of the notes without compounding, however the Company intends to continue to make payments against the outstanding accrued interest. Also, early payments of principal and interest are allowed without premium or penalty.

## 5. Debt

On June 5, 2014 the Company entered into a Commercial Revolving Loan Agreement that provided for a Demand Note (the "Note") of $1,000,000 with Citizens Bank. Borrowings under the Note bear interest at 3.50% above the LIBOR Advantage Rate, as defined. Proceeds from the Note are to be used to finance working capital related to ongoing operations. Collateral for the note is substantially all of the Company's operating assets. Borrowings under the Note must be repaid on October 31, 2016, after an extension on October 20, 2015, or upon demand by Citizens Bank. At June 30, 2015, the Note had no outstanding balance leaving an available balance of $1,000,000.

## 6. Contingencies

From time to time, the Company is a party to legal proceedings arising in the ordinary course of business. Management believes that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, operating results or cash flows.

## 7. Segment Information

The following summarizes the Company's results by operating segment:

| | (dollars in thousands) | | | |
|---|---|---|---|---|
| | Three months ended September 30, | | Six months ended September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| **Sales:** | | | | |
| Intelligent Mail Inserting | $ 6,505 | $ 3,944 | $ 11,743 | $ 8,039 |
| Industrial Ink Jet Printing | 2,287 | 1,994 | 4,416 | 4,100 |
| Elimination | (7) | (33) | (19) | (48) |
| | $ 8,785 | $ 5,905 | $ 16,140 | $ 12,091 |
| **Income before income taxes:** | | | | |
| Intelligent Mail Inserting | $ 165 | $ 141 | $ 393 | $ 66 |
| Industrial Ink Jet Printing | 200 | 77 | 391 | 286 |
| Operating income | 365 | 218 | 784 | 352 |
| Interest expense, net | 5 | 6 | 10 | 11 |
| | $ 360 | $ 212 | $ 774 | $ 341 |

## 8. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue From Contracts with Customers. The purpose of this new standard is to clarify the principles for recognizing revenue so that can be applied consistently across various transactions, industries and capital markets. We have not completed our assessment of ASU No. 2014-09; however we do not expect it will have a material impact on our results.