Gunther International Ltd.

Condensed Consolidated Financial Statements

(Unaudited)

Interim Periods Ended December 31, 2016 and 2015

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

	December 31, 2016	March 31, 2016
Assets		
Current Assets:		
Cash	$ 334	$ 1,895
Accounts receivable, less allowance of $180	2,413	2,725
Inventories	5,361	4,991
Other current assets	504	335
Deferred income taxes	1,214	1,271
Total current assets	9,826	11,217
Equipment and leasehold improvements:		
Machinery and equipment	1,990	2,048
Furniture and fixtures	428	426
Leasehold improvements	233	233
	2,651	2,707
Accumulated depreciation and amortization	(2,022)	(2,030)
	629	677
Patents, net of amortization	5	7
Deferred income taxes	1,618	1,506
	1,623	1,513
Total Assets	$ 12,078	$ 13,407
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	$ 1,494	$ 1,094
Accrued expenses	1,995	1,552
Deposits on systems contracts	529	623
Deferred service contract revenue	1,247	2,808
Accrued interest due to Gunther Partners LLC - a related party	291	545
Notes payable due to Gunther Partners LLC - a related party	-	200
Current portion of capital lease obligations	8	15
Total current liabilities	5,563	6,837
Long Term Liabilities:		
Notes payable due to Gunther Partners LLC - a related party	3,400	3,400
Capital lease obligations, less current portion	7	12
Total long term liabilities	3,407	3,412
Total liabilities	8,970	10,249
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	(16,863)	(16,813)
Total Stockholders' Equity	3,108	3,158
Total Liabilities and Stockholders' Equity	$ 12,078	$ 13,407

See accompanying notes.

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

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2015
Sales:				
Systems	$ 1,902	$ 2,178	$ 6,037	$ 9,692
Maintenance	2,306	2,497	10,403	11,320
Supplies	1,526	1,101	4,148	3,118
Total sales	5,735	5,776	20,588	24,130
Cost of sales:				
Systems	1,226	1,465	4,500	6,913
Maintenance	1,796	1,884	7,906	8,687
Supplies	1,153	834	3,112	2,361
Total cost of sales	4,175	4,182	15,518	17,961
Gross profit	1,560	1,594	5,070	6,169
Operating expenses:				
Selling and administrative	1,092	993	4,046	4,086
Research and development	345	235	1,093	883
Total operating expenses	1,437	1,229	5,139	4,969
Operating (loss) income	123	365	(69)	1,200
Interest expense, net	5	3	16	15
(Loss) income before income taxes	118	361	(85)	1,185
Income tax (benefit) expense	(15)	58	(35)	491
Net (loss) income	$ 133	$ 303	$ (50)	$ 694
Basic and diluted net (loss) income per share	$ 0.01	$ 0.02	$ (0.00)	$ 0.04
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		Additional Paid-in	Accumulated	
	Shares	**Amount**	**Capital**	**Deficit**	**Total**
Balance, March 31, 2015	19,767,435	$ 20	$ 19,951	$ (17,665)	$ 2,306
Net income	-	-	-	852	852
Balance, March 31, 2016	19,767,435	20	19,951	(16,813)	3,158
Net loss	-	-	-	(50)	(50)
Balance, December 31, 2016	19,767,435	$ 20	$ 19,951	$ (16,863)	$ 3,108

See accompanying notes.

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

	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2015
Operating activities:		
Net (loss) income	$ (50)	$ 694
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	153	166
Loss on sales of equipment	46	-
Deferred income taxes	(55)	464
Changes in operating assets and liabilities:		
Accounts receivable	312	139
Inventories	(370)	866
Prepaid expenses and other assets	(169)	(432)
Accounts payable	400	(1,043)
Accrued expenses	443	217
Interest accrued on related party debt	(254)	(530)
Deferred service contract revenue	(1,561)	(543)
Deposits on systems contracts	(94)	(450)
Net cash used in operating activities	(1,199)	(452)
Investing activities:		
Purchase of equipment and leasehold improvements	(149)	(55)
Net cash used in investing activities	(149)	(55)
Financing activities:		
Payments on notes payable due to Gunther Partners LLC - a related party	(200)	(400)
Payments on notes payable - other	-	(48)
Payments on capital lease obligations	(13)	(28)
Net cash used in financing activities	(213)	(476)
Change in cash	(1,561)	(983)
Cash, beginning of period	1,895	2,932
Cash, end of period	$ 334	$ 1,949
Supplemental Disclosure of Non Cash Investing Activities:		
Equipment financed with capital lease	$ -	$ 28
Equipment re-characterized as inventory	$ -	$ 140

See accompanying notes.

Gunther International Ltd.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
December 31, 2016

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, 2016. The condensed consolidated balance sheet as of March 31, 2016 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 February 10, 2017, the date the financial statements were issued. The Company has signed contracts for systems approximating $1,284,000 at December 31, 2016 and $1,983,000 at February 10, 2017.

3. Inventories

Inventories consist of:

	(dollars in thousands)	
	December 31, 2016	March 31, 2016
Raw materials and sub-assembles	$ 4,088	$ 4,068
Work-in-process	349	202
Finished goods	925	721
	$ 5,362	$ 4,991

4. Related Party Debt

The Company has notes payable to Gunther Partners LLC, the Company's principal stockholder, aggregating $3,400,000 and $3,600,000 as of December 31, 2016 and March 31, 2016, respectively. All of the aggregate amounts outstanding as of December 31, 2016 are due December 31, 2018 and bear interest at 0.75% after an amendment on September 30, 2016. The Company has accrued interest due to Gunther Partners LLC aggregating $291,000 and $545,000 as of December 31, 2016 and March 31, 2016, 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

The Company has a Commercial Revolving Loan Agreement with Citizens Bank that provided for a Demand Note (the "Note") of $1,000,000. 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, as amended, must be repaid on April 30, 2017, or upon demand by Citizens Bank. At December 31, 2016 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:

	Three months ended Decmeber 31,		Nine months ended Decmeber 31,	
	2016	2015	2016	2015
	(dollars in thousands)		(dollars in thousands)	
Sales:				
Intelligent Mail Inserting	$ 4,153	$ 5,635	$ 12,798	$ 17,377
Industrial Ink Jet Printing	2,794	2,367	7,833	6,783
Elimination	(18)	(12)	(43)	(30)
	$ 6,929	$ 7,990	$ 20,588	$ 24,130
Income (loss) before income taxes:				
Intelligent Mail Inserting	$ (252)	$ 88	$ (925)	$ 482
Industrial Ink Jet Printing	272	328	856	718
Operating income (loss)	20	416	(69)	1,200
Interest expense, net	7	5	16	15
	$ 13	$ 411	$ (85)	$ 1,185

8. Recent Accounting Pronouncements

The Company continually assesses any new accounting pronouncements to determine their applicability to the Company. In the case where it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequence of the change to its financial reporting, and assures that there are proper controls in place to ascertain that the Company's financial statements properly reflect the change.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue From Contracts with Customers*. ASU No. 2014-09 was updated by ASU No. 2015-14 in August 2015, which deferred the effective date of the new standard to fiscal years beginning after December 15, 2017. The purpose of this new standard is to clarify the principles for recognizing revenue so that the standard can be applied consistently across various transactions, industries and capital markets. ASU No. 2014-09 was updated by ASU No. 2016-08, *Principal versus Agent Considerations*, in March 2016, by ASU No. 2016-10, *Identifying Performance Obligations and Licensing,* as well as other updates that address certain narrow-scope matters and practical expedients. We have not completed our assessment of ASU No. 2014-09 and the related updates; however we do not expect it will have a material impact on our results.

In November 2015, the Financial Accounting Standards Board issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. The purpose of this standard is to consolidate balance sheet reporting of deferred income taxes into non-current categories. The Company is required to adopt ASU No. 2015-17 in its interim period beginning April 1, 2017. Upon adoption, the Company will report all deferred income tax assets and liabilities as non-current. There will be no impact on net income.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*. The purpose of this standard is to mandate that lessees recognize the assets and liabilities that arise from leases.

For finance leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
2. Recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income
3. Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

For operating leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
2. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis
3. Classify all cash payments within operating activities in the statement of cash flows.

The Company is required to adopt ASU No. 2016-02 in its interim period beginning April 1, 2019. Upon adoption, the Company will recognize the asset and liability associated with each lease on its consolidated balance sheet and reflect payments on the consolidated statement of cash flows.

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments.* The purpose of this statement is to address eight specific cash flow issues with the objective of reducing the existing diversity of practice. The Company is currently compliant with the provisions of this pronouncement as far as the Company is affected.