Gunther International Ltd.

Condensed Consolidated Financial Statements

(Unaudited)

Interim Periods Ended September 30, 2017 and 2016

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

	September 30, 2017	March 31, 2017
Assets		
Current Assets:		
Cash	$ 137	$ 573
Accounts receivable, less allowance of $62	1,210	1,072
Inventories	889	897
Assets of discontinued operations	6,169	7,143
Other current assets	171	226
Total current assets	8,576	9,911
	664	659
Accumulated depreciation and amortization	(523)	(504)
	141	154
Patents, net of amortization	31	18
Deferred income taxes	2,971	2,781
Total Assets	$ 11,719	$ 12,864
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	$ 1,082	$ 854
Accrued expenses	1,259	1,329
Deferred service contract revenue	30	12
Accrued interest due to Gunther Partners LLC - a related party	94	224
Revolving loan agreement	50	-
Current portion of capital lease obligations	6	6
Liabilities of discontinued operations	2,877	3,795
Total current liabilities	5,398	6,220
Long Term Liabilities:		
Notes payable due to Gunther Partners LLC - a related party	3,400	3,400
Capital lease obligations, less current portion	3	5
Total long term liabilities	3,403	3,405
Total liabilities	8,801	9,625
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	(17,053)	(16,732)
Total Stockholders' Equity	2,918	3,239
Total Liabilities and Stockholders' Equity	$ 11,719	$ 12,864

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 September 30,		Six Months Ending September 30,	
	2017	**2016**	**2017**	**2016**
Sales:				
Systems	$ 1,135	$ 1,332	$ 2,275	$ 2,418
Supplies	1,615	1,331	3,251	2,622
Total sales	2,750	2,663	5,526	5,040
Cost of sales:				
Systems	475	572	977	1,037
Supplies	1,201	990	2,421	1,958
Total cost of sales	1,676	1,562	3,398	2,995
Gross profit	1,074	1,101	2,128	2,045
Operating expenses:				
Selling and administrative	434	372	887	763
Research and development	239	217	464	431
Total operating expenses	673	589	1,351	1,194
Operating income	401	512	777	851
Interest expense, net	11	5	21	9
Income from continuing operations before income taxes	390	507	756	842
Income tax expense	156	203	302	337
Net income from continuing operations	234	304	454	505
Loss from discontinued operations, net of tax	(496)	(261)	(775)	(567)
Net (loss) income	$ (262)	$ 43	$ (321)	$ (62)
Basic and diluted net income per share - continuing operations	$ 0.01	$ 0.02	$ 0.02	$ 0.03
Basic and diluted net loss per share - discontinued operations	$ (0.03)	$ (0.01)	$ (0.04)	$ (0.03)
Basic and diluted net (loss) income per share	$ (0.01)	$ 0.00	$ (0.02)	$ (0.00)
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, 2016	19,767,435	$ 20	$ 19,951	$ (16,813)	$ 3,158
Net income	-	-	-	81	81
Balance, March 31, 2017	19,767,435	20	19,951	(16,732)	3,239
Net loss	-	-	-	(321)	(321)
Balance, September 30, 2017	19,767,435	$ 20	$ 19,951	$ (17,053)	$ 2,918

See accompanying notes.

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

	Six Months Ending September 30,	
	2017	2016
Continuing operating activities:		
Net income from continuing operations	$ 454	$ 505
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	22	27
Deferred income taxes	(190)	(36)
Changes in operating assets and liabilities:		
Accounts receivable	(138)	(224)
Inventories	7	32
Prepaid expenses and other assets	55	106
Accounts payable	228	5
Accrued expenses	(71)	(170)
Interest accrued on related party debt	(130)	(186)
Deferred service contract revenue	18	34
Net cash provided by continuing operating activities	255	93
Investing activities:		
Purchase of equipment and leasehold improvements	(5)	(3)
Capitalized patents	(15)	-
Discontinued operations	(719)	(1,160)
Net cash used in investing activities	(739)	(1,163)
Financing activities:		
Payments on notes payable due to Gunther Partners LLC - a related party	-	(200)
Proceeds from revolving loan agreement	50	-
Payments on capital lease obligations	(2)	(9)
Net cash provided (used) in financing activities	48	(209)
Change in cash	(436)	(1,279)
Cash, beginning of period	573	1,895
Cash, end of period	$ 137	$ 616

See accompanying notes.

Gunther International Ltd.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2017

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, 2017. The condensed consolidated balance sheet as of March 31, 2017 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.

On December 12, 2017the Company signed an Asset Purchase Agreement to sell the assets of the Mail Inserting segment of the business.

The sale that is for substantially all of the assets of the Mail Inserting Segment, is anticipated to be completed on or about January 1, 2018. The buyer is committed to supporting the current Service business and has indicated that they will continue to offer Gunther products into the future.

The Company will continue to operate all aspects of the Ink Jet segment of the business.

2. Business and Operations

The Company has performed a review of events subsequent to the balance sheet date through November 10, 2017, the date the financial statements were issued. The Company has signed contracts for systems approximating $1,086,000 at September 30, 2017 and $618,000 at December 15, 2017.

3. Inventories

Inventories consist of:

	(dollars in thousands)	
	September 30, 2017	March 31, 2017
Raw materials and sub-assembles	$ 551	$ 553
Work-in-process	10	41
Finished goods	328	303
	$ 889	$ 897

4. Related Party Debt

The Company has notes payable to Gunther Partners LLC, the Company's principal stockholder, aggregating $3,400,000 as of September 30, 2017 and March 31, 2017. All of the aggregate amounts outstanding as of September 30, 2017 are due December 31, 2018 and bear interest equal to the short-term Applicable Federal Rate as issued by the Department of the Treasury. The Company has accrued interest due to Gunther Partners LLC aggregating $94,000 and $224,000 as of September 30, 2017 and March 31, 2017, 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 July 31, 2017, must be repaid on July 31, 2018, or upon demand by Citizens Bank. At September 30, 2017 the Note had an outstanding balance of $50,000 leaving an available balance of $950,000. There was no borrowing outstanding at March 31, 2017.

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. Discontinued Operations

The following summarizes the Company's results for discontinued operations:

Reconciliation of the Carrying Amounts of Major Classes of Assets and Liabilities of the Discontinued Operation That Are Presented Separately in the Balance Sheet
(dollar amounts in thousands)

	September 30, 2017	March 31, 2017
Carrying amounts of the major classes of assets included in discontinued operations:		
Accounts receivable, less allowance of $26	$ 1,342	$ 1,591
Inventories	3,986	4,964
Other current assets	68	138
Total current assets	5,396	6,693
Plant, property, and equipment	773	450
Total assets of the disposal group classified as held for sale discontinued operations:	$ 6,169	$ 7,143
Carrying amounts of the major classes of liabilities included in discontinued operations:		
Accounts payable	$ 671	$ 841
Accrued expenses	306	424
Deposits on systems contracts	530	803
Deferred service contract revenue	1,370	1,727
Total liabilities of the disposal group classified as held for sale	$ 2,877	$ 3,795

Reconciliation of the Major Classes of Line Items Constituting Pretax Loss of Discontinued Operations That Are Presented in the Statement Where Net Income Is Presented
(dollar amounts in thousands)

	Three Months Ended September 30,		Six Months Ending September 30,	
	2017	**2016**	**2017**	**2016**
Major classes of line items constituting pretax loss on discontinued operations				
Net sales	$ 3,883	$ 4,567	$ 8,293	$ 8,619
Cost of sales	3,694	3,945	7,551	7,415
Gross profit	189	622	742	1,204
Selling and administrative	894	919	1,800	1,864
Research and development	91	134	191	280
Loss before income taxes	(796)	(431)	(1,249)	(940)
Income tax benefit	(300)	(170)	(474)	(373)
Net loss on discontinued operations	$ (496)	$ (261)	$ (775)	$ (567)

Reconciliation of the Major Classes of Line Items Constituting Changes in Cash Flow of Discontinued Operations That Are Presented Separately in the Statements of Cash Flows
(dollar amounts in thousands)

	Six Months Ending September 30,	
	2017	**2016**
Major classes of line items constituing changes in cash flow on discontinued operations		
Loss from discontinued operations	$ (775)	$ (567)
Depreciation and amortization	65	96
Loss on disposal of asset	2	-
Accounts receivable	249	585
Inventories	982	(129)
Prepaid expenses and other assets	70	(164)
Accounts payable	(170)	271
Accrued expenses	(118)	322
Deferred service contract revenue	(356)	(1,344)
Deposits on systems contracts	(273)	(90)
Net cash used in discontinued operating activities	(324)	(1,020)
Investing activities of discontinued operations:		
Purchase of equipment and leasehold improvements	(395)	(140)
Capitalized patents	-	-
Net cash used in investing activities of discontinued operation	(395)	(140)
Change in cash on discontinued operations	$ (719)	$ (1,160)

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 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.