inc.jet Holding, Inc

Condensed Consolidated Financial Statements

(Unaudited)

Interim Periods Ended June 30, 2018 and 2017

inc.jet Holding, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(dollar amounts in thousands, except per share data)

	June 30, 2018	March 31, 2018
Assets		
Current Assets:		
Cash	$ 543	$ 623
Accounts receivable, less allowance of $42	1,501	1,309
Current portion of receivable from sale of Mail Inserting segment	300	300
Inventories	1,021	985
Other current assets	289	256
Total current assets	3,654	3,473
Equipment and leasehold improvements	800	795
Accumulated depreciation and amortization	(633)	(633)
	167	162
Patents, net of amortization	27	28
Receivable from sale of Mail Inserting segment, less current portion	1,150	1,150
Deferred income taxes	2,628	2,728
Total Assets	$ 7,626	$ 7,541
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	$ 1,442	$ 1,476
Accrued expenses	1,395	1,426
Deferred service contract revenue	16	13
Notes payable due to Gunther Partners LLC - a related party	-	100
Current portion of capital lease obligations	-	5
Total current liabilities	2,853	3,020
Long Term Liabilities:		
Notes payable due to Gunther Partners LLC - a related party	3,150	3,200
Total long term liabilities	3,150	3,200
Total liabilities	6,003	6,220
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	(18,348)	(18,650)
Total Stockholders' Equity	1,623	1,321
Total Liabilities and Stockholders' Equity	$ 7,626	$ 7,541

See accompanying notes.

inc.jet Holding, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(dollar amounts in thousands, except share and per share data)

	Three Months Ended June 30,	
	2018	**2017**
Sales:		
Systems	$ 1,696	$ 1,140
Supplies	2,024	1,636
Total sales	3,720	2,776
Cost of sales:		
Systems	789	501
Supplies	1,500	1,220
Total cost of sales	2,289	1,721
Gross profit	1,431	1,055
Operating expenses:		
Selling and administrative	760	584
Research and development	252	225
Total operating expenses	1,012	809
Operating income	419	246
Interest expense, net	17	10
Income from continuing operations before income taxes	402	236
Income tax expense	100	94
Net income from continuing operations	302	142
Loss from discontinued operations, net of tax	-	(199)
Net income (loss)	$ 302	$ (57)
Basic and diluted net income per share - continuing operations	$ 0.02	$ 0.01
Basic and diluted net loss per share - discontinued operations	$ -	$ (0.01)
Basic and diluted net income (loss) per share	$ 0.02	$ (0.00)
Weighted-average number of common shares outstanding	19,767,435	19,767,435

See accompanying notes.

inc.jet Holding, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands)

	Common Stock		Additional Paid-in	Accumulated	
	Shares	**Amount**	**Capital**	**Deficit**	**Total**
Balance, March 31, 2017	19,767,435	$ 20	$ 19,951	$ (16,732)	$ 3,239
Net loss	-	-	-	(1,918)	(1,918)
Balance, March 31, 2018	19,767,435	20	19,951	(18,650)	1,321
Net loss	-	-	-	302	302
Balance, June 30, 2018	19,767,435	$ 20	$ 19,951	$ (18,348)	$ 1,623

See accompanying notes.

inc.jet Holding, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(dollar amounts in thousands)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Continuing operating activities:		
Net income (loss)	$ 302	$ (57)
Net loss from discontinued operations	-	(199)
Net income from continuing operations	302	142
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	11	7
Loss on disposal of asset	14	-
Deferred income taxes	100	37
Changes in operating assets and liabilities:		
Accounts receivable	(191)	(50)
Inventories	(36)	34
Prepaid expenses and other assets	(33)	13
Accounts payable	(34)	-
Accrued expenses	(31)	(100)
Interest accrued on related party debt	-	(65)
Deferred service contract revenue	3	19
Net cash provided by operating activities - continuing operations	105	37
Net cash used in operating activities - discontinued operations	-	(124)
Net cash provided by (used in) operating activities	105	(87)
Investing activities:		
Purchase of equipment and leasehold improvements	(30)	-
Net cash used in investing activities	(30)	-
Financing activities:		
Payments on notes payable due to Gunther Partners LLC - a related party	(150)	-
Payments on capital lease obligations	(5)	(1)
Net cash used in financing activities	(155)	(1)
Change in cash	(80)	(88)
Cash, beginning of period	623	573
Cash, end of period	$ 543	$ 485

See accompanying notes.

inc.jet Holding, Inc
Notes to Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2018

1. Basis of Presentation:

In the opinion of management of inc.jet Holding, Inc. (the "Company"), 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, 2018. The condensed consolidated balance sheet as of March 31, 2018 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, 2017 the Company signed an Asset Purchase Agreement to sell the assets of the Mail Inserting segment. The transaction closed on January 1, 2018. The Mail Inserting segment is classified as discontinued operations for all periods presented.

The sale will allow the Company to focus all its resources on the remaining Ink Jet segment.

2. Inventories

Inventories consist of:

	(dollars in thousands)	
	June 30, 2018	March 31, 2018
Raw materials and sub-assembles	$ 607	$ 520
Work-in-process	10	51
Finished goods	404	414
	$ 1,021	$ 985

3. Related Party Debt

The Company has notes payable to Gunther Partners LLC, the Company's principal stockholder, aggregating $3,150,000 as of June 30, 2018 and $3,300,000 as of March 31, 2018. All of the aggregate amounts outstanding as of June 30, 2018 are due December 31, 2019 after an extension signed on December 31, 2017 and bear interest equal to the short-term Applicable Federal Rate as issued by the Department of the Treasury. Interest is payable at any time on or after the maturity date of the notes without compounding. The Company has paid all incurred interest as of June 30, 2018 and March 31, 2018. Also, early payments of principal are allowed without premium or penalty.

4. Common Stock Options and Capital Stock

On July 17, 2018, the Company entered into a Non-Qualified Stock Option Award Agreement (the "Agreement") with its President and Chief Executive Officer. Under the Agreement, the Company granted 1,000,000 non-qualified common stock options with an exercise price of $0.30 a share. The options vest 33% on each of the first three anniversaries from the grant date and have a five-year term. The options automatically vest in the event of a change of control, as defined.

5. 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.

6. Discontinued Operations

On December 12, 2017 the Company signed an Asset Purchase Agreement to sell the assets of the Mail Inserting segment of the business. The transaction was completed and effective on January 1, 2018. The sales price was $2,500,000, $1,500,000 of which was payable at closing and $1,000,000 that is payable in six monthly installments beginning one month after the closing. The sale price also included a working capital adjustment that is currently estimated to increase the sales price by $720,000. The working capital adjustment was computed based on the change between the working capital provided at the closing with the average working capital for the twelve monthly periods ended October 31, 2017.

In addition to the sales price, there is a provision for two contingent payments of up to $500,000 each, payable after the twelfth and eighteenth month anniversaries of the closing. The contingent payments will be computed by comparing the monthly service revenue the Company had for the month prior to the closing (the “Base Revenue”) to the monthly service revenues the buyer has retained by the twelfth and eighteenth month anniversaries of the sale for the month prior the anniversaries (the “Future Revenue”). The computation of the contingent payments will be computed as follows: (1) if the Future Revenue equals or exceeds the Base Revenue, the full $500,000 payment(s) will be earned, (2) if the Future Revenue exceeds 95% of the Base Revenue, a proration between $300,000 and $500,000 will be earned, (3) if the Future Revenue exceeds 94% of the Base Revenue, a $100,000 payment will be earned, (4) if the Future Revenue exceeds 93% of the Base Revenue, a $50,000 payment will be earned, (5) if the Future Revenue exceeds 92% of the Base Revenue, a $10,000 payment will be earned. Since these contingent payments are tied to future events and can be influenced by many factors, the Company will not recognize any of the potential revenue until it is likely any amounts will be earned.

Under the Asset Purchase Agreement, the Company transferred substantially all the assets and certain liabilities of the Mail Inserting segment to the buyer. The net value of the assets and liabilities transferred to the buyer was $3,921,000.

As of June 30, 2018, the Company has $1,450 classified of the gross proceeds of the sale as receivables for contractual payments due to the Company resulting from the sale of the assets of the Mail Inserting segment. Management believes this full amount to be collectable in future periods. The entire receivable is funded by the buyer of the Mail Inserting segment and is held in escrow until certain conditions are met. The Company has classified $300 of this receivable as current because the Company expects to collect it in the current fiscal year. The remaining $1,150 has been classified as long term because these funds are due in greater than one year.

The Mail Inserting segment is classified as discontinued operations for all periods presented. The Company had significant continuing involvement in the discontinue operations through June 30, 2018, however the Company’s future involvement is expected to be minimal.

The following is a summary of the major classes of line items constituting the loss on the sale of the discontinued operations.

6. Discontinued Operations - concluded

The following is a reconciliation of the major classes of lines items constituting pretax loss of discontinued operations (dollar amounts in thousands).

	Three Months Ended June 30, 2017	
Net sales	$	4,410
Cost of sales		3,856
Gross profit		554
Selling and administrative		776
Research and development		99
		(321)
Income tax expense (benefit)		(122)
Net loss on discontinued operations	$	(199)

The following is a reconciliation of the major classes of line items constituting changes in cash flow of discontinued operations (dollar amounts in thousands).

	Three Months Ended June 30, 2017	
Major classes of line items constituing changes in cash flow on discontinued operations		
Loss from discontinued operations	$	(199)
Depreciation and amortization		34
Loss on disposal of asset		2
Deferred income taxes		(74)
Accounts receivable		(79)
Inventories		384
Prepaid expenses and other assets		136
Accounts payable		(111)
Accrued expenses		(246)
Deferred service contract revenue		328
Deposits on systems contracts		(299)
Net cash used in discontinued operating activities	$	(124)

7. 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.

7. Recent Accounting Pronouncements - concluded

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. The adoption of ASU No. 2014-09, including the cumulative effect of its adoption, did not have a material impact on the Company's financial statements.

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. The Company has not completed its assessment of ASU No. 2016-02.