

Gunther International Ltd.
Condensed Consolidated Financial Statements
(Unaudited)
Interim Periods Ended December 31, 2015 and 2014

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

	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Assets		
Current Assets:		
Cash	\$ 1,949	\$ 2,932
Accounts receivable, less allowance of \$120	2,143	2,282
Inventories	5,313	6,039
Other current assets	790	359
Deferred income taxes	1,218	1,596
Total current assets	<u>11,413</u>	<u>13,208</u>
Equipment and leasehold improvements:		
Machinery and equipment	1,987	2,239
Furniture and fixtures	382	374
Leasehold improvements	233	218
	<u>2,601</u>	<u>2,831</u>
Accumulated depreciation and amortization	<u>(1,965)</u>	<u>(1,975)</u>
	<u>636</u>	<u>856</u>
Patents, net of amortization	8	10
Deferred income taxes	1,755	1,841
Total Assets	<u>\$ 13,812</u>	<u>\$ 15,915</u>
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 974	\$ 2,017
Accrued expenses	2,078	1,861
Deposits on systems contracts	576	1,026
Deferred service contract revenue	2,856	3,399
Accrued interest due to Gunther Partners LLC - a related party	696	1,226
Notes payable - other	-	32
Current portion of capital lease obligations	18	15
Total current liabilities	<u>7,197</u>	<u>9,576</u>
Long Term Liabilities:		
Notes payable due to Gunther Partners LLC - a related party	3,600	4,000
Notes payable - other	-	16
Capital lease obligations, less current portion	14	17
Total long term liabilities	<u>3,614</u>	<u>4,033</u>
Total liabilities	<u>10,812</u>	<u>13,609</u>
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	(16,971)	(17,665)
Total Stockholders' Equity	<u>3,000</u>	<u>2,306</u>
Total Liabilities and Stockholders' Equity	<u>\$ 13,812</u>	<u>\$ 15,915</u>

See accompanying notes.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Sales:				
Systems	\$ 3,121	\$ 2,514	\$ 9,692	\$ 4,784
Maintenance	3,768	3,917	11,320	11,819
Supplies	1,101	1,048	3,118	2,967
Total sales	<u>7,990</u>	<u>7,479</u>	<u>24,130</u>	<u>19,570</u>
Cost of sales:				
Systems	2,264	1,972	6,913	3,455
Maintenance	2,901	2,875	8,687	8,731
Supplies	834	804	2,361	2,267
Total cost of sales	<u>5,999</u>	<u>5,651</u>	<u>17,961</u>	<u>14,453</u>
Gross profit	<u>1,991</u>	<u>1,828</u>	<u>6,169</u>	<u>5,117</u>
Operating expenses:				
Selling and administrative	1,302	1,320	4,086	3,685
Research and development	273	272	883	844
Total operating expenses	<u>1,575</u>	<u>1,592</u>	<u>4,969</u>	<u>4,529</u>
Operating income	416	236	1,200	588
Interest expense, net	5	6	15	17
Income before income taxes	411	230	1,185	571
Income taxes	151	115	491	248
Net income	<u>\$ 260</u>	<u>\$ 115</u>	<u>\$ 694</u>	<u>\$ 323</u>
Basic and diluted net income per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.02</u>
Weighted-average number of common shares outstanding	<u>19,767,435</u>	<u>19,767,435</u>	<u>19,767,435</u>	<u>19,767,435</u>

See accompanying notes.

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

	Common Stock		Treasury Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	
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	-	-	-	-	-	694	694
Balance, December 31, 2015	<u>19,767,435</u>	<u>\$ 20</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 19,951</u>	<u>\$ (16,971)</u>	<u>\$ 3,000</u>

See accompanying notes.

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

	Nine Months Ended December 31,	
	2015	2014
Operating activities:		
Net income	\$ 694	\$ 323
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	166	153
Deferred income taxes	464	193
Changes in operating assets and liabilities:		
Accounts receivable	139	82
Inventories	866	(1,374)
Prepaid expenses and other assets	(432)	(92)
Accounts payable	(1,043)	865
Accrued expenses	217	153
Interest accrued on related party debt	(530)	(210)
Deferred service contract revenue	(543)	(778)
Deposits on systems contracts	(450)	388
Net cash used by operating activities	<u>(452)</u>	<u>(297)</u>
Investing activities:		
Purchase of equipment and leasehold improvements	<u>(55)</u>	<u>(173)</u>
Net cash used by investing activities	<u>(55)</u>	<u>(173)</u>
Financing activities:		
Payments on notes payable due to Gunther Partners LLC - a related party	(400)	-
Payments on notes payable - other	(48)	(31)
Payments on capital lease obligations	<u>(28)</u>	<u>(9)</u>
Net cash used by financing activities	<u>(476)</u>	<u>(40)</u>
Change in cash	(983)	(510)
Cash, beginning of period	<u>2,932</u>	<u>2,330</u>
Cash, end of period	<u>\$ 1,949</u>	<u>\$ 1,820</u>
Supplemental Disclosure of Non Cash Investing Activities:		
Equipment financed with capital lease	<u>\$ 28</u>	<u>\$ 11</u>
Equipment re-characterized as inventory	<u>\$ 140</u>	<u>\$ -</u>

See accompanying notes.

Gunther International Ltd.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
December 31, 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 February 12, 2016, the date the financial statements were issued. The Company has signed contracts for systems approximating \$1,893,000 at December 31, 2015 and \$1,888,000 at February 12, 2016.

3. Inventories

Inventories consist of:

	(dollars in thousands)	
	December 31, 2015	March 31, 2015
Raw materials and sub-assemblies	\$ 4,323	\$ 4,516
Work-in-process	601	1,130
Finished goods	389	393
	<u>\$ 5,313</u>	<u>\$ 6,039</u>

4. Related Party Debt

The Company has notes payable to Gunther Partners LLC, the Company's principal stockholder, aggregating \$3,600,000 as of December 31, 2015 and \$4,000,000 at March 31, 2015. All of the aggregate amounts outstanding as of December 31, 2015 are due December 31, 2017 and bear interest at 0.5%. The Company has accrued interest due to Gunther Partners LLC aggregating \$696,000 and \$1,226,000 as of December 31, 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 by October 31, 2016, or upon demand by Citizens Bank. At December 31, 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)			
	<u>Three months ended December 31,</u>		<u>Nine months ended December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Sales:				
Intelligent Mail Inserting	\$ 5,635	\$ 5,398	\$ 17,378	\$ 13,437
Industrial Ink Jet Printing	2,367	2,094	6,783	6,194
Elimination	(12)	(13)	(31)	(61)
	<u>\$ 7,990</u>	<u>\$ 7,479</u>	<u>\$ 24,130</u>	<u>\$ 19,570</u>
Income before income taxes:				
Intelligent Mail Inserting	\$ 88	\$ 133	\$ 482	\$ 198
Industrial Ink Jet Printing	328	103	718	390
Operating income	416	236	1,200	588
Interest expense, net	5	6	15	17
	<u>\$ 411</u>	<u>\$ 230</u>	<u>\$ 1,185</u>	<u>\$ 571</u>

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. 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 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.

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 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.