

**Gunther International Ltd.**  
**Condensed Consolidated Financial Statements**  
**(Unaudited)**  
**Interim Periods Ended June 30, 2017 and 2016**

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

	<u>June 30, 2017</u>	<u>March 31, 2017</u>
Assets		
Current Assets:		
Cash	\$ 485	\$ 573
Accounts receivable, less allowance of \$180	2,792	2,663
Inventories	5,444	5,861
Other current assets	215	364
Total current assets	<u>8,936</u>	<u>9,461</u>
Equipment and leasehold improvements:		
Machinery and equipment	1,993	1,993
Furniture and fixtures	429	429
Leasehold improvements	233	233
	<u>2,655</u>	<u>2,655</u>
Accumulated depreciation and amortization	<u>(2,094)</u>	<u>(2,051)</u>
	<u>561</u>	<u>604</u>
Patents, net of amortization	17	18
Deferred income taxes	2,818	2,781
Total Assets	<u>\$ 12,332</u>	<u>\$ 12,864</u>
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 1,585	\$ 1,695
Accrued expenses	1,401	1,754
Deposits on systems contracts	504	803
Deferred service contract revenue	2,085	1,738
Accrued interest due to Gunther Partners LLC - a related party	159	224
Current portion of capital lease obligations	6	6
Total current liabilities	<u>5,739</u>	<u>6,220</u>
Long Term Liabilities:		
Notes payable due to Gunther Partners LLC - a related party	3,400	3,400
Capital lease obligations, less current portion	4	5
Total long term liabilities	<u>3,404</u>	<u>3,405</u>
Total liabilities	<u>9,144</u>	<u>9,625</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	(16,782)	(16,732)
Total Stockholders' Equity	<u>3,189</u>	<u>3,239</u>
Total Liabilities and Stockholders' Equity	<u>\$ 12,332</u>	<u>\$ 12,864</u>

See accompanying notes.

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

	<b>Three Months Ending June 30,</b>	
	<b>2017</b>	<b>2016</b>
Sales:		
Systems	\$ 2,202	\$ 1,611
Maintenance	3,349	3,527
Supplies	<u>1,636</u>	<u>1,291</u>
Total sales	<u>7,187</u>	<u>6,429</u>
Cost of sales:		
Systems	1,529	1,277
Maintenance	2,829	2,658
Supplies	<u>1,220</u>	<u>968</u>
Total cost of sales	<u>5,578</u>	<u>4,903</u>
Gross profit	<u>1,609</u>	<u>1,526</u>
Operating expenses:		
Selling and administrative	1,352	1,336
Research and development	<u>325</u>	<u>360</u>
Total operating expenses	<u>1,677</u>	<u>1,696</u>
Operating loss	(68)	(170)
Interest expense, net	<u>10</u>	<u>5</u>
Loss before income taxes	(78)	(175)
Income tax benefit	<u>(28)</u>	<u>(69)</u>
Net loss	<u>\$ (50)</u>	<u>\$ (106)</u>
Basic and diluted net loss per share	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted-average number of common shares outstanding	<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)*

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Total</b>
			<b>Capital</b>		
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	-	-	-	(50)	(50)
Balance, June 30, 2017	<u>19,767,435</u>	<u>\$ 20</u>	<u>\$ 19,951</u>	<u>\$ (16,782)</u>	<u>\$ 3,189</u>

See accompanying notes.

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

	<b>Three Months Ending June 30,</b>	
	<b>2017</b>	<b>2016</b>
Operating activities:		
Net loss	\$ (50)	\$ (105)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	43	69
Deferred income taxes	(37)	(60)
Changes in operating assets and liabilities:		
Accounts receivable	(130)	1,343
Inventories	420	(194)
Prepaid expenses and other assets	149	(51)
Accounts payable	(111)	(64)
Accrued expenses	(353)	(336)
Interest accrued on related party debt	(65)	(116)
Deferred service contract revenue	347	(507)
Deposits on systems contracts	(299)	194
Net cash used in operating activities	<u>(86)</u>	<u>173</u>
Investing activities:		
Purchase of equipment and leasehold improvements	-	(7)
Net cash used in investing activities	<u>-</u>	<u>(7)</u>
Financing activities:		
Payments on notes payable due to Gunther Partners LLC - a related party	-	(200)
Payments on notes payable - other	-	-
Payments on capital lease obligations	(2)	(5)
Net cash used in financing activities	<u>(2)</u>	<u>(205)</u>
Change in cash	(88)	(39)
Cash, beginning of period	<u>573</u>	<u>1,895</u>
Cash, end of period	<u>\$ 485</u>	<u>\$ 1,856</u>
Equipment re-characterized as inventory	<u>\$ 2</u>	<u>\$ -</u>

See accompanying notes.

**Gunther International Ltd.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**  
**June 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.

**2. Business and Operations**

The Company has performed a review of events subsequent to the balance sheet date through August 11, 2017, the date the financial statements were issued. The Company has signed contracts for systems approximating \$851,000 at June 30, 2017 and \$1,305,000 at August 11, 2017.

**3. Inventories**

Inventories consist of:

	(dollars in thousands)	
	June 30, 2017	March 31, 2017
Raw materials and sub-assemblies	\$ 3,919	\$ 4,233
Work-in-process	595	929
Finished goods	930	699
	\$ 5,444	\$ 5,861

**4. Related Party Debt**

The Company has notes payable to Gunther Partners LLC, the Company's principal stockholder, aggregating \$3,400,000 as of June 30, 2017 and March 31, 2017. All of the aggregate amounts outstanding as of June 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 \$159,000 and \$224,000 as of June 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 30, 2018, or upon demand by Citizens Bank. At June 30, 2017 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:

	<u>Three Months Ending June 30,</u>	
	<u>2017</u>	<u>2016</u>
	(dollars in thousands)	
<b>Sales:</b>		
Intelligent Mail Inserting	\$ 4,425	\$ 4,067
Industrial Ink Jet Printing	2,776	2,377
Elimination	<u>(14)</u>	<u>(15)</u>
	<u>\$ 7,187</u>	<u>\$ 6,429</u>
<b>Loss before income taxes:</b>		
Intelligent Mail Inserting	\$ (321)	\$ (373)
Industrial Ink Jet Printing	<u>253</u>	<u>203</u>
Operating loss	(68)	(170)
Interest expense, net	<u>10</u>	<u>5</u>
	<u>\$ (78)</u>	<u>\$ (175)</u>

## 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.