inc.jet Holding, Inc f/k/a Gunther International Ltd.

Condensed Consolidated Financial Statements

(Unaudited)

Interim Periods Ended December 31, 2017 and 2016

inc.jet Holding, Inc. f/k/a Gunther International, Ltd
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(dollar amounts in thousands, except per share data)

	December 31, 2017	March 31, 2017
Assets		
Current Assets:		
Cash	$ 160	$ 573
Accounts receivable, less allowance of $62	1,069	1,072
Inventories	878	897
Assets of discontinued operations	5,800	7,143
Other current assets	189	226
Total current assets	8,095	9,911
Equipment and leasehold improvements	792	659
Accumulated depreciation and amortization	(624)	(504)
	168	154
Patents, net of amortization	29	18
Deferred income taxes	2,136	2,781
Total Assets	$ 10,429	$ 12,864
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	$ 1,557	$ 854
Accrued expenses	933	1,239
Deferred service contract revenue	12	12
Accrued interest due to Gunther Partners LLC - a related party	31	224
Current portion of capital lease obligations	6	6
Liabilities of discontinued operations	1,879	3,886
Total current liabilities	4,418	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	1	5
Total long term liabilities	3,401	3,405
Total liabilities	7,819	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	(17,361)	(16,732)
Total Stockholders' Equity	2,610	3,239
Total Liabilities and Stockholders' Equity	$ 10,429	$ 12,864

See accompanying notes.

inc.jet Holding, Inc. f/k/a Gunther International, Ltd
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(dollar amounts in thousands, except share and per share data)

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Nine Months Ending December 31, 2017	Nine Months Ending December 31, 2016
Sales:				
Systems	$ 1,278	$ 1,267	$ 3,553	$ 3,686
Supplies	1,729	1,526	4,980	4,148
Total sales	3,007	2,793	8,533	7,834
Cost of sales:				
Systems	552	548	1,529	1,585
Supplies	1,291	1,153	3,712	3,111
Total cost of sales	1,843	1,701	5,241	4,696
Gross profit	1,164	1,092	3,292	3,138
Operating expenses:				
Selling and administrative	610	547	1,759	1,578
Research and development	227	272	691	703
Total operating expenses	837	819	2,450	2,281
Operating income	327	273	842	857
Interest expense, net	12	6	33	16
Income from continuing operations before income taxes	315	267	809	841
Income tax expense	744	107	941	336
Net income from continuing operations	(429)	160	(133)	505
Income (loss) from discontinued operations, net of tax	121	(148)	(496)	(555)
Net (loss) income	$ (308)	$ 12	$ (629)	$ (50)
Basic and diluted net (loss) income per share - continuing operations	$ (0.02)	$ 0.01	$ (0.01)	$ 0.03
Basic and diluted net income (loss) per share - discontinued operations	$ 0.01	$ (0.01)	$ (0.03)	$ (0.03)
Basic and diluted net (loss) income per share	$ (0.02)	$ 0.00	$ (0.03)	$ (0.00)
Weighted-average number of common shares outstanding	19,767,435	19,767,435	19,767,435	19,767,435

See accompanying notes.

inc.jet Holding, Inc. f/k/a 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	-	-	-	(629)	(629)
Balance, December 31, 2017	19,767,435	$ 20	$ 19,951	$ (17,361)	$ 2,610

See accompanying notes.

inc.jet Holding, Inc. f/k/a Gunther International, Ltd
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(dollar amounts in thousands)

	Nine Months Ending December 31,	
	2017	**2016**
Continuing operating activities:		
Net (loss) income from continuing operations	$ (133)	$ 505
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	29	30
Deferred income taxes	645	(50)
Changes in operating assets and liabilities:		
Accounts receivable	3	(108)
Inventories	19	(78)
Prepaid expenses and other assets	37	1
Accounts payable	703	93
Accrued expenses	(306)	341
Interest accrued on related party debt	(193)	(254)
Deferred service contract revenue	-	38
Net cash provided by continuing operating activities	804	518
Investing activities:		
Purchase of equipment and leasehold improvements	(40)	(4)
Capitalized patents	(15)	-
Discontinued operations	(1,158)	(1,862)
Net cash used in investing activities	(1,213)	(1,866)
Financing activities:		
Payments on notes payable due to Gunther Partners LLC - a related party	-	(200)
Payments on capital lease obligations	(4)	(13)
Net cash used in financing activities	(4)	(213)
Change in cash	(413)	(1,561)
Cash, beginning of period	573	1,895
Cash, end of period	$ 160	$ 334

See accompanying notes.

inc.jet Holding, Inc f/k/a Gunther International Ltd.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
December 31, 2017

1. Basis of Presentation:

In the opinion of management of inc.jet Holding, Inc f/k/a Gunther International Ltd. (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, 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, 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)	
	December 31, 2017	March 31, 2017
Raw materials and sub-assembles	$ 547	$ 553
Work-in-process	30	41
Finished goods	301	303
	$ 878	$ 897

3. Related Party Debt

The Company has notes payable to Gunther Partners LLC, the Company's principal stockholder, aggregating $3,400,000 as of December 31, 2017 and March 31, 2017. All of the aggregate amounts outstanding as of December 31, 2017 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. The Company has accrued interest due to Gunther Partners LLC aggregating $31,000 and $224,000 as of December 31, 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.

4. Debt

The Company had a Commercial Revolving Loan Agreement with Citizens Bank, which was closed on December 26, 2017, that provided for a Demand Note (the "Note") of $1,000,000. Borrowings under the Note bore interest at 3.50% above the LIBOR Advantage Rate, as defined. Proceeds from the Note were to be used to finance working capital related to ongoing operations. Collateral for the note was substantially all of the Company's operating assets. There was no borrowing outstanding at March 31, 2017.

5. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that will affect 2017, including, but not limited to, (1) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years and (2) bonus depreciation that will allow for full expensing of qualified property. The Tax Act also establishes new tax laws that will affect 2018, including, but not limited to, (1) reduction of the U.S. federal corporate tax rate; (2) elimination of the corporate alternative minimum tax (AMT); (3) the creation of the base erosion anti-abuse tax (BEAT), a new minimum tax; (4) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (5) a new provision designed to tax global intangible low-taxed income (GILTI), which allows for the possibility of using foreign tax credits (FTCs) and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; (8) limitations on the deductibility of certain executive compensation; (9) limitations on the use of FTCs to reduce the U.S. income tax liability; and (10) limitations on net operating losses (NOLs) generated after December 31, 2017, to 80 percent of taxable income.

Our accounting for the Tax Act is incomplete. However, we were able to make reasonable estimates related to the reduction of the corporate tax rate to 21 percent effective January 1, 2018.

For certain of our DTAs and DTLs, we have recorded a provisional decrease of $618,000, with a corresponding net adjustment to deferred income tax expense of $618,000 for the quarter ended December 31, 2017. While we are able to make a reasonable estimate of the impact of the reduction in corporate rate, it may be affected by other analyses related to the Tax Act, including, but not limited to, our calculation of the state tax effect of adjustments made to federal temporary differences.

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

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.

7. Discontinued Operations - continued

The Company incurred $100,000 of professional fees and other costs to complete the transaction. In addition, the Company anticipates an estimated $1,275,000 of personnel and other related costs will be incurred as a result of the transaction.

The Mail Inserting segment is classified as discontinued operations for all periods presented.

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

Proceeds		
Contract Price		
Sales price - closing	$	1,500,000
Payments over 6 months		1,000,000
Working capital adjustment		720,000
Gross proceeds		3,220,000
Basis given		
Assets		5,800,000
Liabilities		1,879,000
Net Basis		3,921,000
Gross Loss on Sale		(701,000)
Related Expenses		
Professional fees and other costs		100,000
Total related expenses		**100,000**
Net loss on sale	**$**	**(801,000)**

The following is a reconciliation of the carrying amounts of major classes of assets and liabilities of the discontinued operation (dollar amounts in thousands).

		December 31, 2017		**March 31, 2017**
Carrying amounts of the major classes of assets included in discontinued operations:				
Accounts receivable, less allowance of $20 in 2017 and $26 in 2016	$	1,383	$	1,591
Inventories		3,698		4,964
Other current assets		17		138
Total current assets		5,098		6,693
Plant, property, and equipment		702		450
Total assets of the disposal group classified as held for sale	$	5,800	$	7,143
discontinued operations:				
Carrying amounts of the major classes of liabilities included in discontinued operations:				
Accounts payable	$	190	$	841
Accrued expenses		357		515
Deposits on systems contracts		467		803
Deferred service contract revenue		865		1,727
Total liabilities of the disposal group classified as held for sale	$	1,879	$	3,886

7. 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 December 31,		Nine Months Ending December 31,	
	2017	2016	2017	2016
Major classes of line items constituting pretax loss on discontinued operations				
Net sales	$ 4,530	$ 4,136	$ 12,824	$ 12,754
Cost of sales	3,639	3,406	11,190	10,821
Gross profit	891	729	1,634	1,933
Selling and administrative	667	872	2,205	2,468
Research and development	79	111	271	391
Income (loss) before income taxes	145	(254)	(842)	(926)
Income tax expense (benefit)	24	(106)	(346)	(371)
Net loss on discontinued operations	$ 121	$ (148)	$ (496)	$ (555)

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

	Nine Months Ending December 31,	
	2017	2016
Major classes of line items constituing changes in cash flow on discontinued operations		
Loss from discontinued operations	$ (496)	$ (555)
Depreciation and amortization	90	120
Loss on disposal of asset	12	46
Accounts receivable	208	420
Inventories	1,266	(293)
Prepaid expenses and other assets	133	(170)
Accounts payable	(651)	307
Accrued expenses	(157)	102
Deferred service contract revenue	(862)	(1,600)
Deposits on systems contracts	(336)	(95)
Net cash used in discontinued operating activities	(793)	(1,718)
Investing activities of discontinued operations:		
Purchase of equipment and leasehold improvements	(365)	(144)
Net cash used in investing activities of discontinued operation	(365)	(144)
Change in cash on discontinued operations	$ (1,158)	$ (1,862)

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.