

Gunther International Ltd.
Condensed Consolidated Financial Statements
(Unaudited)
Interim Periods Ended December 31, 2011 and 2010

GUNTHER INTERNATIONAL LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(dollar amounts in thousands)

	<u>December 31, 2011</u>	<u>March 31, 2011</u>
Assets		
Current Assets:		
Cash	\$ 1,111	\$ 1,401
Accounts receivable (less allowance of \$126)	2,213	1,234
Inventories	7,822	7,255
Other current assets	337	298
Total current assets	<u>11,483</u>	<u>10,188</u>
Equipment and leasehold improvements	2,386	2,379
Accumulated depreciation and amortization	<u>(1,642)</u>	<u>(1,611)</u>
	<u>744</u>	<u>768</u>
Other Assets:		
Deferred royalties (net of amortization)	58	-
Goodwill	-	2,551
Other (net of amortization)	19	22
	<u>77</u>	<u>2,573</u>
Total Assets	<u>\$ 12,304</u>	<u>\$ 13,529</u>
Liabilities and Stockholders' Deficiency:		
Current Liabilities:		
Accounts payable	\$ 2,582	\$ 1,253
Accrued expenses	1,626	1,223
Deferred system contract revenue	936	1,203
Deferred service contract revenue	1,514	2,623
Accrued interest due to Gunther Partners LLC	1,830	1,587
Notes payable - other	744	11
Current maturities of capital lease obligation	4	4
Total current liabilities	<u>9,236</u>	<u>7,904</u>
Long Term Liabilities:		
Notes payable due to Gunther Partners LLC	5,522	5,522
Notes payable due to related party	500	500
Note payable - other	54	33
Deferred income taxes	-	383
Capital lease obligation (less current portion)	4	7
Total long term liabilities	<u>6,080</u>	<u>6,445</u>
Total liabilities	<u>15,316</u>	<u>14,349</u>
Stockholders' Deficiency:		
Preferred stock, \$.001 par value: 500,000 shares authorized; none issued	-	-
Common stock, \$.001 par value: 32,000,000 shares authorized; 20,687,004 shares issued	21	21
Treasury stock, at cost (919,569 shares)	(138)	(138)
Additional paid-in capital	20,088	20,088
Accumulated deficit	<u>(22,983)</u>	<u>(20,791)</u>
Total Stockholders' Deficiency	<u>(3,012)</u>	<u>(820)</u>
Total Liabilities and Stockholders' Deficiency	<u>\$ 12,304</u>	<u>\$ 13,529</u>

See accompanying notes.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Sales:				
Systems	\$ 3,302	\$ 1,796	\$ 7,303	\$ 4,343
Maintenance	3,809	3,742	11,202	11,476
Supplies and other	713	635	2,077	1,955
Total sales	<u>7,824</u>	<u>6,173</u>	<u>20,582</u>	<u>17,774</u>
Cost of sales:				
Systems	2,308	1,402	5,604	3,348
Maintenance	2,809	2,776	8,438	8,317
Supplies	579	502	1,676	1,582
Total cost of sales	<u>5,696</u>	<u>4,680</u>	<u>15,718</u>	<u>13,247</u>
Gross profit	<u>2,128</u>	<u>1,493</u>	<u>4,864</u>	<u>4,527</u>
Operating expenses:				
Selling and administrative	1,166	1,031	3,462	3,274
Research and development	351	332	990	1,033
Total operating expenses	<u>1,517</u>	<u>1,363</u>	<u>4,452</u>	<u>4,307</u>
Operating income	611	130	412	220
Interest expense, net	132	122	380	347
Income (loss) before income taxes	479	8	32	(127)
Income taxes	22	9	55	28
Net income (loss)	<u>\$ 457</u>	<u>\$ (1)</u>	<u>\$ (23)</u>	<u>\$ (155)</u>
Basic and diluted net income (loss) per share	<u>\$ 0.02</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted-average and diluted 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' DEFICIT
Quarter Ended December 31, 2011
(Unaudited)
(Dollars in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance, March 31, 2010	20,687,004	\$ 21	(919,569)	\$ (138)	\$ 20,088	\$ (20,527)	\$ (556)
Net Loss	-	-	-	-	-	(264)	(264)
Balance, March 31, 2011	20,687,004	21	(919,569)	(138)	20,088	(20,791)	(820)
Adjustment (See note 6)	-	-	-	-	-	(2,169)	(2,169)
Net Loss	-	-	-	-	-	(23)	(23)
Balance, December 31, 2011	<u>20,687,004</u>	<u>\$ 21</u>	<u>(919,569)</u>	<u>\$ (138)</u>	<u>\$ 20,088</u>	<u>\$ (22,983)</u>	<u>\$ (3,012)</u>

See accompanying notes.

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

	Nine Months Ended December 31,	
	2011	2010
Operating activities:		
Net loss	\$ (23)	\$ (155)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	164	154
Changes in operating assets and liabilities:		
Accounts receivable	(979)	(16)
Inventories	(567)	(1,443)
Prepaid expenses and other assets	(39)	139
Accounts payable	1,329	686
Accrued expenses	403	88
Interest accrued on related party debt	243	183
Deferred service contract revenue	(1,109)	(828)
Deposits on systems contracts	(267)	(36)
Net to cash used by operating activities	(845)	(1,233)
Investing activities:		
Acquisitions of equipment and leasehold improvements	(122)	(45)
Acquisitions of deferred royalties	(75)	-
Net cash used by investing activities	(197)	(45)
Financing activities:		
Proceeds from / (payments on) notes payable other	754	(8)
Payments on capital lease obligation	(3)	(20)
Net cash provided by financing activities	751	472
Change in cash	(290)	(805)
Cash, beginning of period	1,401	1,462
Cash, end of period	\$ 1,111	\$ 657
Supplemental Disclosure of Non Cash Investing Activities:		
Property and equipment acquired for lease payable	\$ -	\$ 15

See accompanying notes.

Gunther International Ltd.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
December 31, 2011

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, 2011. The condensed balance sheet as of March 31, 2011 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. The Company has performed a review of events subsequent to the balance sheet date through February 14, 2012, the date the financial statements were issued.

2. Business and Operations

The Company's historic operations had resulted in an accumulated deficit of \$22,983,000 as of December 31, 2011. In addition, the Company's results have been negatively impacted by ongoing, world-wide economic conditions, which have resulted in a reduction in spending on capital equipment such as our high-speed, intelligent mailing systems. In the nine months ended December 31, 2011, the Company reported sales of \$20,582,000 that included \$5,049,000 of Champion system sales and had an operating profit of \$412,000. In addition the Company has signed contracts for systems approximating \$1,347,000 and \$3,705,000 at December 31, 2011 and February 14, 2012, respectively. The current backlog is higher than these periods in the prior year and the Company has ongoing negotiations that should result in additional orders. On December 31, 2011, the Company had \$2,247,000 of working capital compared to working capital of \$2,284,000 on March 31, 2011. As such the Company anticipates cash on hand combined with cash expected to be generated from operations and a recent Revolving Line of Credit arrangement (see note 5) should be sufficient to finance operations through December 31, 2012.

3. Inventories

Inventories consist of:

	(dollars in thousands)	
	December 31, 2011	March 31, 2011
Raw materials and sub-assemblies	\$ 4,299	\$ 4,546
Work-in-process	1,627	1,106
Finished goods	1,896	1,603
	\$ 7,822	\$ 7,255

The inventories are reflected net of reserves of \$1,105,000 and 1,036,000 at December 31, 2011 and March 31, 2011, respectively.

Gunther International Ltd.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
December 31, 2011

4. Segment Information

The following summarizes the Company's results by operating segment:

	(dollars in thousands)			
	Three months ended December 31,		Nine months ended December 31,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Sales:				
Intelligent Mail Inserting	\$ 6,313	\$ 4,557	\$ 16,251	\$ 12,953
Industrial Ink Jet Printing	1,511	1,616	4,331	4,821
	\$ 7,824	\$ 6,173	\$ 20,582	\$ 17,774
Income (loss) before income taxes:				
Intelligent Mail Inserting	\$ 735	\$ 168	\$ 868	\$ 224
Industrial Ink Jet Printing	(124)	(38)	(456)	(4)
Operating income	611	130	412	220
Interest expense	132	122	380	347
	\$ 479	\$ 8	\$ 32	\$ (127)

5. Debt

On August 4, 2011, the Company obtained a Revolving Line of Credit ("Line") of \$1,000,000. Borrowings under the Line bear interest at prime rate plus 0.75%. The Line is to be used to finance working capital related to systems contracts with certain governmental agencies. The Line is based on collateral of 80% of accounts receivable less than 90 days outstanding and 50% of inventories. Borrowings under the Line must be repaid on August 4, 2012 or upon receipt of the final payment related to the contracts, whichever occurs first. The Company plans to initiate discussions to extend the Line into 2013. The Line included a 1% fee plus related closing costs. The Line is secured by substantially all of the operating assets of the Company. The balance of the used portion of the line was \$725,000 at December 31, 2011 and was subsequently repaid on January 24 2012.

6. Goodwill Impairment

As required, the Company adopted ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*, effective April 1, 2011. The cumulative effect of the adoption has been recognized as a cumulative effect adjustment to the accumulated deficit as of that date as provided for under the new standard. The cumulative effect adjustment represents the write-off of all of the mail inserting reporting unit segment's goodwill of \$2,551,429 less a related deferred income tax liability of \$382,721. The implied fair value of such goodwill was estimated at a nominal amount using a discounted cash flow method. The estimated nominal amount reflects the impact of allocating the overall fair value of the reporting unit to its identifiable assets (including intangibles assets not previously recognized) and liabilities with no remaining amount to be allocated to goodwill.