

**GUNTHER INTERNATIONAL LTD.**  
CONSOLIDATED  
FINANCIAL STATEMENTS

Years Ended March 31, 2016 and 2015

# **GUNTHER INTERNATIONAL LTD.**

**March 31, 2016 and 2015**

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Independent Auditor's Report

To the Board of Directors and Stockholders  
Gunther International Ltd.

We have audited the accompanying consolidated financial statements of Gunther International Ltd. and subsidiary, which comprise the consolidated balance sheets as of March 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gunther International Ltd. and subsidiary as of March 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Hartford, Connecticut  
June 17, 2016

**GUNTHER INTERNATIONAL LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share data)

	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Assets		
Current assets:		
Cash	\$ 1,895	\$ 2,932
Accounts receivable, less allowance of \$180 in 2016 and \$174 in 2015	2,725	2,282
Inventories	4,991	6,039
Prepaid expenses	335	359
Deferred income taxes	1,271	1,596
Total current assets	11,217	13,208
Equipment and leasehold improvements:		
Machinery and equipment	2,048	2,239
Furniture and fixtures	426	374
Leasehold improvements	233	218
	2,707	2,831
Accumulated depreciation and amortization	(2,030)	(1,975)
	677	856
Patents, net of amortization of \$101 in 2016 and \$98 in 2015	7	10
Deferred income taxes	1,506	1,841
Total assets	\$ 13,407	\$ 15,915
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,094	\$ 2,017
Accrued expenses	1,552	1,861
Deposits on systems contracts	623	1,026
Deferred service contract revenue	2,808	3,399
Accrued interest due to Gunther Partners LLC- a related party	545	1,226
Current portion of note payable to Gunther Partners LLC – a related party	200	-
Current portion on notes payable - other	-	32
Current portion of capital lease obligation	15	15
Total current liabilities	6,837	9,576
Notes payable to Gunther Partners LLC- a related party	3,400	4,000
Notes payable – other	-	16
Capital lease obligation, less current portion	12	17
Total long-term liabilities	3,412	4,033
Total liabilities	10,249	13,609
Commitments and contingencies		
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	(16,813)	(17,665)
Total stockholders' equity	3,158	2,306
Total liabilities and stockholders' equity	\$ 13,407	\$ 15,915

See accompanying notes.

**GUNTHER INTERNATIONAL LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in thousands, except per share data)

	Years Ended March 31,	
	2016	2015
Sales:		
Systems	\$ 12,410	\$ 7,888
Maintenance	14,978	15,909
Supplies	4,254	3,972
Total sales	31,642	27,769
Cost of sales:		
Systems	8,765	5,721
Maintenance	11,580	11,630
Supplies	3,215	3,046
Total cost of sales	23,560	20,397
Gross profit	8,082	7,372
Operating expenses:		
Selling and administrative	5,336	4,973
Research and development	1,237	1,128
Total operating expenses	6,573	6,101
Operating income	1,509	1,271
Interest expense	21	25
Interest income	(2)	(5)
Income before income taxes	1,490	1,251
Income taxes	638	534
Net income	\$ 852	\$ 717
Basic and diluted net income per share	\$ 0.04	\$ 0.04
Weighted-average number of common shares outstanding	19,767,435	19,767,435

See accompanying notes.

**GUNTHER INTERNATIONAL LTD.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years Ended March 31, 2016 and 2015**  
**(Dollars in thousands)**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
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	-	-	-	-	-	852	852
Balance, March 31, 2016	19,767,435	\$ 20	-	\$ -	\$ 19,951	\$ (16,813)	\$ 3,158

See accompanying notes.

**GUNTHER INTERNATIONAL LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)

	Years Ended March 31,	
	2016	2015
Operating activities:		
Net income	\$ 852	\$ 717
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization	232	208
Deferred income taxes	660	452
Changes in operating assets and liabilities:		
Accounts receivable	(443)	(542)
Inventories	1,188	(1,218)
Prepaid expenses and other assets	24	(63)
Accounts payable	(924)	906
Accrued expenses	(309)	316
Accrued interest due to Gunther Partners, LLC - a related party	(680)	(354)
Deferred service contract revenue	(591)	(187)
Deposits on systems contracts	(403)	750
Net cash (used in) provided by operating activities	(394)	985
Investing activities:		
Purchase of equipment and leasehold improvements	(162)	(229)
Net cash used in investing activities	(162)	(229)
Financing activities:		
Payments on notes payable to Gunther Partners, LLC – a related party	(400)	(100)
Payments on notes payable - other	(48)	(41)
Payments on capital leases	(33)	(13)
Net cash used in financing activities	(481)	(154)
Change in cash	(1,037)	602
Cash, beginning of year	2,932	2,330
Cash, end of year	\$ 1,895	\$ 2,932
Supplemental cash flow information:		
Cash paid for interest including \$700 in 2016 and \$375 in 2015 to related parties	\$ 721	\$ 380
Cash paid for income taxes	\$ 33	\$ 42
Supplemental disclosure of noncash investing and financing activities:		
Equipment financed with capital lease	\$ 28	\$ 11
Equipment re-characterized as inventory	\$ 140	\$ -

See accompanying notes.

**GUNTHER INTERNATIONAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2016 AND 2015**  
**(Dollars in thousands, except per share data)**

**1. Business and Operations**

The operations of Gunther International Ltd. and its wholly-owned subsidiary inc.jet, Inc. (together, the “Company”) consist of two business segments: Mail Inserting and Ink Jet. The Mail Inserting segment designs, develops, assembles, markets and services high-speed systems that automatically assemble printed documents, fold, staple or bind the documents and insert completed documents into appropriate envelopes for mailing or other distribution. The Ink Jet segment designs, develops, markets and services ink jet imagers as well as sells product into the packaging industry emphasizing product traceability. The Company’s products are dependent upon proprietary technology and require especially skilled engineers and technicians to design, enhance and produce them to meet customer needs. The Company operates from leased facilities located in Norwich, Connecticut.

The Company has performed a review of events subsequent from March 31, 2016 through June 17, 2016, the date these financial statements were available for issuance. As of June 17, 2016, the Company had signed contracts for additional systems sales approximating \$1,613 compared to \$1,084 as of March 31, 2016.

**2. Accounting Policies**

*Principles of consolidation -*

The accompanying consolidated financial statements include the accounts of Gunther International Ltd. and its wholly-owned subsidiary. All intercompany activity has been eliminated from the consolidated financial statements.

*Cash -*

Cash represents the amounts the Company has in accounts with a local banking institution. At times, cash deposits exceed federally insured limits.

*Revenue recognition and accounts receivable -*

The Company recognizes revenues net of applicable sales taxes and related costs under sales contracts for its high-speed assembly equipment upon customer acceptance. Related accounts receivable are recognized as billings are rendered under the terms of the sales contract. Sales and related accounts receivable of ink jet imagers and consumables are recognized when the products are shipped and ownership transfers. Accounts receivable for service contracts are recognized when billed and related revenue is recognized over the term of the contract; amounts applicable to future periods are deferred.

The Company had allowances for credit losses of \$180 at March 31, 2016 and \$174 at March 31, 2015. The Company evaluates the collectability of accounts receivable on an ongoing basis based on an assessment of the customers’ current financial condition, general economic conditions and past experience. The Company ages its accounts receivable based on the due date. The credit losses have been within management’s expectations.

*Inventories -*

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.



## 2. Accounting Policies - continued

### *Equipment and leasehold improvements -*

Equipment and leasehold improvements are stated at cost. Depreciation of equipment is computed using the straight-line method over the estimated useful lives of the respective assets as follows: machinery and equipment - 3 to 7 years; and furniture and fixtures - 7 years. Amortization of leasehold improvements is computed over the useful life of the improvement or lease terms, whichever is shorter. Amortization of production tooling is computed using the straight-line method over the useful life of the product that the tooling was designed to produce. Fully-depreciated assets no longer used in operations are written off. Depreciation of equipment and amortization of leasehold improvements was \$229 in 2016 and \$205 in 2015.

### *Patents -*

Initial patent costs are amortized over 10 years. Renewal and maintenance costs are expensed as incurred. Patent amortization of \$3 per year will continue through 2018.

### *Shipping and handling costs -*

Expenses associated with shipping and handling are included in cost of sales.

### *Research and development -*

Expenses associated with research and development activities are expensed as incurred.

### *Foreign Exchange -*

Some inventory items are purchased internationally from vendors whose financial transactions are accounted for in foreign currency. Increases or decreases in the value of the U.S. dollar compared to foreign currencies may negatively affect the value of these items in the Company's consolidated financial statements, even though their value has not changed in local currency. Expenses associated with foreign exchange are expensed as incurred. Such costs were not material for any period presented.

### *Sale and advertising costs -*

Costs associated with sales, advertising and marketing activities are expensed as incurred. Such costs were not material for any period presented.

### *Product warranty -*

The Company provides a warranty on each mail inserting system for a period of 90 days after installation. In addition, the Company provides a warranty of up to 12 months on standard ink jet imagers or a lifetime warranty on managed ink jet imagers. The warranty expense and reserve follows:

Balance, March 31, 2014	\$	20
Accrual		116
Cost Incurred		<u>(45)</u>
Balance, March 31, 2015		91
Accrual		114
Cost Incurred		<u>(79)</u>
Balance, March 31, 2016	\$	<u>126</u>

## 2. Accounting Policies - concluded

### *Income taxes -*

Deferred income taxes are provided on temporary differences between the financial statement and income tax basis of assets and liabilities and on net operating loss and research and development tax credit carryforwards using enacted tax rates in effect in the years in which differences are expected to reverse. A valuation allowance is recorded for the amount of deferred income tax assets for which realization is not likely in the near term.

### *Royalty expense -*

The Company has royalty agreements with certain stockholders and The Solutions Group (see Note 10). Royalties due under these agreements are expensed as incurred.

### *Income per share -*

Basic and diluted income per share amounts are determined using the weighted-average outstanding common shares for both years. In all periods presented, there are no outstanding potentially dilutive securities.

### *Use of estimates -*

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are those related to the allowances for credit losses, slow moving and obsolete inventories and deferred income tax assets.

### *Fair value of financial instruments -*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company utilizes a fair value hierarchy which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The fair value hierarchy has three levels of inputs that may be used to measure fair value:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The Company's financial instruments include cash, accounts receivable, accounts payable, certain accrued expenses, and notes payable. Due to their relative short-term nature, the carrying amounts for accounts receivable, accounts payable and accrued expenses are estimated to approximate fair value. The fair value of notes payable and related accrued interest was estimated at \$3,648 as of March 31, 2016 (\$4,078 as of March 31, 2015) based on Level 3 inputs for expected cash flows and current market conditions. The aggregate carrying value of the notes payable and related accrued interest was \$4,193 as of March 31, 2016 and \$5,273 as of March 31, 2015.

### 3. Inventories

Inventories consist of:

	March 31,	
	2016	2015
Materials and sub-assemblies	\$ 4,068	\$ 4,516
Work-in-process	202	1,130
Finished goods	721	393
	<u>\$ 4,991</u>	<u>\$ 6,039</u>

### 4. Capital Lease

The Company has capital leases for operating equipment, including three automobiles. The lease terms are 48 months and have interest rates ranging from 3.7% to 12.8%, and mature at varying dates through 2019. Future minimum lease payments as of March 31, 2016 follow:

2017	\$ 17
2018	8
2019	<u>6</u>
	31
Interest	<u>(4)</u>
Principal	27
Current portion	<u>(15)</u>
Long-term portion	<u>\$ 12</u>

Equipment includes \$73 as of March 31, 2016 (\$60 as of March 31, 2015) recorded under capital leases. Related accumulated depreciation was \$25 as of March 31, 2016 (\$16 as of March 31, 2015).

### 5. Related Party Debt

The Company has notes payable to Gunther Partners LLC, the Company's principal stockholder, aggregating \$3,600 as of March 31, 2016 and \$4,000 as of March 31, 2015. All of the aggregate amounts outstanding as of March 31, 2016 are due December 31, 2017 and bear interest at 0.5%. The Company has accrued interest due to Gunther Partners LLC aggregating \$545 and \$1,226 as of March 31, 2016 and March 31, 2015, respectively. Interest is payable at any time on or before 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. Subsequent to the current year end, the Company made a payment of \$200 on June 10, 2016. As such, \$200 of the notes payable to related party has been classified as current at March 31, 2016. No additional principal payments are currently expected to be made from June 17, 2016 through March 31, 2017.

The Company accrued interest on the related party debt of \$19 and \$21 for 2016 and 2015, respectively. The Company paid interest of \$700 and \$375 for 2016 and 2015, respectively.

## 6. Debt

The Company had notes payable to Chelsea Groton Bank, the financial institution which holds all of the Company's deposit accounts.

The Company had a note payable due April 1, 2015 plus interest at 5.5%, which was paid during 2015. The interest was paid on behalf of the Company by its public utility provider through a governmental energy program. The impact on the Company's financial statements was not significant. The principal was paid by the Company over the life of the loan. The Company did not accrue or pay any interest on the note payable to Chelsea Groton Bank.

The Company had a note payable of \$10 to Chelsea Groton Bank which bore interest at 5.5% to finance machining equipment, which was paid during 2016. Principal and interest were paid over the term of the note. The Company accrued and paid no interest in 2016 and \$1 in 2015.

The Company had a note payable of \$38 to Chelsea Groton Bank which bore interest at 4.5% to finance machining equipment, which was paid during 2016. Principal and interest were paid over the term of the note. The Company accrued and paid \$1 of interest on the loan in 2016 and 2015.

On June 5, 2014 the Company entered into a Commercial Revolving Loan Agreement that provided for a Demand Note (the "Note") of \$1,000 with Citizens Bank. Borrowings under the Note bear interest at 3.50% above the LIBOR Advantage Rate. The Note is 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 on April 30, 2017, after an extension on June 8, 2016, or upon demand by Citizens Bank. Closing costs of this loan were \$4.

## 7. Income Taxes

The (benefit) provision for income taxes follows:

	Year Ended March 31,	
	2016	2015
Current:		
Federal	\$ 3	\$ 30
State	(25)	52
Deferred:		
Federal	519	284
State	141	168
Total income taxes	<u>\$ 638</u>	<u>\$ 534</u>

The difference between the income tax expense on the reported income before income taxes at the federal statutory rate, and the actual expense shown in operations is due to the effect of net operating losses, state income taxes, and changes in the deferred income tax valuation allowance.

## 7. Income Taxes - concluded

Components of the Company's deferred income tax assets (liabilities) follow:

	March 31,	
	2016	2015
Deferred income tax assets:		
Allowance for credit losses	\$ 72	\$ 70
Accrued liabilities	623	902
Deferred revenue	19	89
Inventories	557	534
Research credits	826	875
Other credits	38	32
Net operating loss carryforwards	917	1,272
	<u>3,052</u>	<u>3,774</u>
Deferred income tax liabilities:		
Property and equipment	(175)	(237)
Net deferred income tax assets before		
Valuation allowance	2,877	3,537
Valuation allowance	(100)	(100)
Net deferred income tax assets	<u>\$ 2,777</u>	<u>\$ 3,437</u>

An income tax valuation allowance has been created for credits that are not believed to be recognizable. There was no change in the income tax valuation allowance in 2016 and 2015.

At March 31, 2016, the Company had federal net operating loss carryforwards of \$3,212 that begin to expire in 2022. At March 31, 2016, the Company had state net operating loss carryforwards in various states of \$2,263 that expire in varying amounts to 2022. As defined in Section 382 of the Internal Revenue Code, certain ownership changes limit the annual utilization of federal net operating losses and tax credit carryforwards. The Company believes that the Section 382 limitation from its previous ownership changes will result in the loss of \$941 of the net operating losses resulting in net usable losses of \$2,271 against future federal taxable income. The Company has not recognized any tax benefits associated with the net operating losses expected to be lost due to the Section 382 limitation. Research and development and other credit carryforwards of \$970 are scheduled to expire in varying amounts to 2027.

The Company files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2013. The Company has no significant uncertain income tax positions. The Company recognizes interest and penalties associated with tax matters as part of the income tax provision and includes accrued interest and penalties with the related tax liability in the consolidated balance sheets.

## 8. Treasury Stock

On September 30, 2014, the Company cancelled and retired common shares held in treasury.

## 9. Preferred Stock

The Board of Directors is authorized to determine the powers, preferences, rights and restrictions of the Company's Preferred Stock. At March 31, 2016 and 2015, there were no issued and outstanding shares of Preferred Stock.

## 10. Commitments and Contingencies

### *Leases -*

The Company leases its office and manufacturing facility under an operating lease that provides for monthly rental, as renewed in 2012, of \$23 through July 2016. The Company is evaluating its options, but anticipates utilizing a holdover provision under the current lease allowing for month-to-month occupancy at 150% of the current rental rate. Under this agreement, the Company is responsible for all operating costs including real estate taxes and maintenance. The Company also leases certain office equipment under operating lease agreements. Lease expense was \$307 and \$298 for 2016 and 2015, respectively.

As of March 31, 2016, future minimum payments under non-cancelable operating leases follow:

2017	\$	113
2018		2
	\$	<u>115</u>

### *Unconditional purchase obligations –*

As of March 31, 2016, the Company has contracted to purchase goods from various vendors as follows:

2017	\$	1,114
2018		2
	\$	<u>1,116</u>

### *Other commitments -*

As of April 1, 2014, the Company had agreements with two founding stockholders whereby the Company was obligated to pay these individuals an annual royalty equal to 0.24% of total revenues up to an aggregate total of \$2,920. For 2016 and 2015, royalty expense under these agreements was \$77 and \$68, respectively. The maximum remaining royalty that may be required to be paid to two founding stockholders, contingent upon the Company attaining certain revenues, is \$1,599 at March 31, 2016.

The Company has a royalty agreement with The Solutions Group (“TSG”), designers of the Company’s system operating software, “Champion.” Under this agreement the Company pays a royalty of the greater of \$20 per month or \$10 per “Champion” system sold within a calendar year. The Company renewed this agreement on February 28, 2016 with an amendment to reduce the monthly minimum royalty payment to \$12 per month as of July 2016. The Company records any additional royalty when it becomes probable and estimable. Royalty expense for both 2016 and 2015 was \$240.

### *Contingencies -*

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.

## 11. Employee Benefit Plans

The Company has a defined contribution benefit plan (the “Plan”) covering substantially all employees. The Plan is intended to comply with Section 401(k) of the Internal Revenue Code. Each year, eligible participants may elect to make salary reduction contributions on their behalf up to a maximum of 100% of pre-tax compensation or the annual maximum established by the Internal Revenue Service. Participants may also make voluntary after-tax contributions to the Plan. The Company can make contributions to the Plan at its sole discretion. There was no Company contribution expense in 2016 or 2015. The Company pays certain expenses of the Plan which are not material for any period presented.

## 12. Reportable Segments

The Company's operations consist of two business segments: Mail Inserting and Ink Jet. The Mail Inserting segment designs, develops, assembles, markets and services high speed systems that automatically assemble printed documents, fold, staple or bind the documents and insert completed documents into appropriate envelopes for mailing or other distribution. The Ink Jet segment designs, develops, markets and services ink jet imagers as well as sells product into the packaging industry emphasizing product traceability.

Due to the nature of the Mail Inserting products, a significant portion of the segment's revenues are generally derived from a few customers, the majority of which are business property and casualty insurance companies. In 2016, no customers in the Mail Inserting Systems segment accounted for 10% of total Company revenues while in 2015, one customer in the Mail Inserting Systems segment accounted for 10% of total Company revenues. No other customers accounted for 10% or more of the total Company revenues.

The Company's Ink Jet segment is based on a cross licensing agreement with a vendor. That agreement allows the segment and the vendor to use each other's ink jet technology. If that vendor changed the technology or this licensing relationship it could significantly affect the segment's business. Purchases from a vendor utilizing this technology accounted for 11% of total Company cost of sales in fiscal year 2016 and 12% in fiscal year 2015.

The following summarizes the operations of the Company's operating segments:

	<u>2016</u>	<u>2015</u>
<b>Sales:</b>		
Sales to customers:		
Mail Inserting	\$ 22,527	\$ 19,172
Ink Jet	9,153	8,690
Elimination	(38)	(93)
	<u>\$ 31,642</u>	<u>\$ 27,769</u>
Sales by geographic region:		
United States	\$ 28,622	\$ 25,172
Foreign	3,058	2,690
Elimination	(38)	(93)
	<u>\$ 31,642</u>	<u>\$ 27,769</u>
<b>Income before income taxes:</b>		
Mail Inserting	\$ 482	\$ 549
Ink Jet	1,027	722
Operating income	1,509	1,271
Interest expense, net	(19)	(20)
	<u>\$ 1,490</u>	<u>\$ 1,251</u>
<b>Identifiable assets:</b>		
Mail Inserting	\$ 5,624	\$ 8,678
Ink Jet	3,798	3,278
	9,422	11,956
General corporate	3,985	3,983
	<u>\$ 13,407</u>	<u>\$ 15,939</u>
<b>Depreciation and amortization:</b>		
Mail Inserting	\$ 207	\$ 190
Ink Jet	25	18
	<u>\$ 232</u>	<u>\$ 208</u>

## 12. Reportable Segments – concluded

	<u>2016</u>	<u>2015</u>
<b>Capital expenditures:</b>		
Mail Inserting	\$ 115	\$ 178
Ink Jet	47	51
	<u>\$ 162</u>	<u>\$ 229</u>

## 13. 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. The Company has not completed its assessment of ASU No. 2014-09; however the Company does not expect it will have a material impact on its 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 income 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.

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. There will be no impact on net income.