inc.jet Holding, Inc.

CONSOLIDATED
FINANCIAL STATEMENTS

December 31, 2019 and 2018

inc.jet Holding, Inc.

December 31, 2019 and 2018

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Independent Auditor's Report

To the Board of Directors
inc.jet Holding, Inc.

We have audited the accompanying consolidated financial statements of inc.jet Holding, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2019 and for the period from April 1, 2018 to December 31, 2018, 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 inc.jet Holding, Inc. and subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the year ended December 31, 2019 and for the period from April 1, 2018 to December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Hartford, Connecticut
March 20, 2020

inc.jet Holding, Inc.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash	$ 771	$ 380
Accounts receivable, less allowance of $42 in 2019 and 2018	1,214	1,468
Current portion of receivable from sale of Mail Inserting segment	150	-
Inventories	1,911	1,497
Prepaid expenses and other assets	225	117
Total current assets	4,271	3,462
Equipment and leasehold improvements:		
Machinery and equipment	613	585
Furniture and fixtures	222	208
Leasehold improvements	380	380
	1,215	1,173
Accumulated depreciation and amortization	(737)	(652)
	478	521
Patents, net of amortization of $54 in 2019 and $50 in 2018	48	24
Receivable from sale of Mail Inserting segment, less current portion	918	1,068
Deferred income taxes	2,415	2,475
Lease – right-of-use	317	-
Total assets	$ 8,447	$ 7,550
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,277	$ 1,654
Accrued expenses	872	993
Current portion of note payable to Gunther Partners LLC - a related party	-	50
Lease payable	55	-
Total current liabilities	2,204	2,697
Notes payable to Gunther Partners LLC - a related party	2,700	2,950
Lease payable, less current portion	262	-
Total liabilities	5,166	5,647
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	20,057	19,984
Accumulated deficit	(16,796)	(18,101)
Total stockholders' equity	3,281	1,903
Total liabilities and stockholders' equity	$ 8,447	$ 7,550

See accompanying notes.

inc.jet Holding, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)

	Year Ended December 31, 2019	Period from April 1, 2018 to December 31, 2018
Sales:		
Systems	$ 5,502	$ 4,560
Supplies	8,758	6,187
Total sales	14,260	10,747
Cost of sales:		
Systems	2,779	2,327
Supplies	6,393	4,574
Total cost of sales	9,172	6,901
Gross profit	5,088	3,846
Operating expenses:		
Selling and administrative	2,732	2,220
Research and development	1,230	796
Total operating expenses	3,962	3,016
Operating income	1,126	830
Interest expense	61	57
Income before income taxes	1,065	773
Income taxes (benefit) expense	(23)	224
Net income from continuing operations	1,088	549
Income from discontinued operations, net of tax	217	-
Net income	$ 1,305	$ 549
Basic and diluted net income per share – continuing operations	$ 0.06	$ 0.03
Basic and diluted net income per share – discontinued operations	0.01	0.00
Basic and diluted net income per share	$ 0.07	$ 0.03
Weighted-average number of common shares outstanding:		
Basic	19,767,435	19,767,435
Diluted	19,842,080	19,773,544

See accompanying notes.

inc.jet Holding, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the year ended December 31, 2019 and the period from April 1, 2018 to December 31, 2018
(Dollars in thousands)

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, April 1, 2018	19,767,435	$ 20	$ 19,951	$ (18,650)	$ 1,321
Stock-based compensation expense	-	-	33	-	33
Net income	-	-	-	549	549
Balance, December 31, 2018	19,767,435	20	19,984	(18,101)	1,903
Stock-based compensation expense	-	-	73	-	73
Net income	-	-	-	1,305	1,305
Balance, December 31, 2019	19,767,435	$ 20	$ 20,057	$ (16,796)	$ 3,281

See accompanying notes.

inc.jet Holding, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31, 2019	Period from April 1, 2018 to December 31, 2018
Operating activities:		
Net income	$ 1,305	$ 549
Net income from discontinued operations	217	-
Net income from continuing operations	1,088	549
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	89	48
Loss on disposal of asset	-	12
Non-cash income taxes	(23)	253
Stock-based compensation	73	33
Changes in operating assets and liabilities:		
Accounts receivable	254	(159)
Inventories	(414)	(512)
Prepaid expenses and other assets	(108)	139
Accounts payable	(377)	178
Accrued expenses	(121)	(446)
Net cash provided by operating activities	461	95
Investing activities:		
Purchase of equipment and leasehold improvements	(42)	(415)
Capitalized patents	(28)	-
Proceeds from sale of discontinued operations	-	382
Net cash used in investing activities – continuing operations	(70)	(33)
Net cash provided by investing activities – discontinued operations	300	-
Net cash provided by (used in) investing activities	230	(33)
Financing activities:		
Payments on notes payable to Gunther Partners LLC - a related party	(300)	(300)
Payments on capital leases	-	(5)
Net cash used in financing activities	(300)	(305)
Change in cash	391	(243)
Cash, beginning of year	380	623
Cash, end of year	$ 771	$ 380
Supplemental cash flow information:		
Cash paid for interest including $57 for the year ended December 31, 2019 and $271 for the nine months ended December 31, 2018 to related parties	$ 61	$ 57
Cash paid for income taxes	$ 31	$ 10

See accompanying notes.

1. Business and Operations

The operations of inc.jet Holding, Inc. and its wholly-owned subsidiary inc.jet, Inc. (together, the "Company") consisted of two business segments: Mail Inserting and Ink Jet. The Mail Inserting segment designed, developed, assembled, marketed and serviced high-speed systems that automatically assembled printed documents, folded, stapled or bound the documents and inserted 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 changed its year end from March 31 to December 31 for the period ended December 31, 2018 and all future periods.

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 of its resources on the remaining Ink Jet segment.

2. Accounting Policies

Principles of consolidation -

The accompanying consolidated financial statements include the accounts of inc.jet Holding, Inc. 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 revenue from systems and supplies net of applicable sales taxes and related costs. The Company's revenue results from the sale of goods and reflect the consideration to which the Company expects to be entitled. The Company does not offer financing and cash from sales is due in 30 days. The Company records revenue based on a five-step model. For its customer contracts, the Company identifies performance obligations (sale of goods), determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when (or as) the performance obligation is transferred to the customer. A good is transferred when (or as) the customer obtains control of that good. The Company generates revenue from product sales. No contract resulting in recognized revenue exists for a term greater than one year. Returns costs are not material for any period presented.

The Company had allowances for credit losses of $42 at December 31, 2019 and 2018. The Company evaluates the collectability of accounts receivable on an ongoing basis based on an assessment of the customer's 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 net realizable value. Overhead is grouped with finished goods classification of inventory.

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. Capitalized assets in process are classified as other assets. Depreciation of equipment and amortization of leasehold improvements was $85 in the year ended December 2019 and $44 in the nine months ended December 2018.

Patents -

Initial patent costs are amortized over 10 years. Renewal and maintenance costs are expensed as incurred. Patent amortization expense was $4 in the year ended December 2019 and $4 in the nine months ended December 2018. Future patent amortization is expected to be $6 for 2020 through 2024, $5 for 2025, $4 for 2026, and $3 for 2027 through 2029.

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 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, April 1, 2018	$	214
Accrual		92
Cost incurred		(43)
Balance, December 31, 2018		263
Accrual		158
Cost incurred		(98)
Balance, December 31, 2019	$	323

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 a royalty agreement with a stockholder (see Note 10). Royalties due under this agreement is expensed as incurred.

Income per share -

Basic and diluted income or (loss) per share amounts are determined using the weighted-average outstanding common shares for both years. Diluted earnings per share include the impact of potentially dilutive securities (stock options) using the treasury stock method when the effect is dilutive.

Use of estimates -

The preparation of these consolidated 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 consolidated 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, and notes payable. Due to their relative short-term nature, the carrying amounts for accounts receivable, and accounts payable are estimated to approximate fair value. The fair value of notes payable was estimated at $2,226 as of December 31, 2019 ($2,246 as of December 31, 2018) based on Level 3 inputs for expected cash flows and current market conditions. The aggregate carrying value of the notes payable was $2,700 as of December 31, 2019 and $3,000 as of December 31, 2018.

3. Capital Leases

The Company had capital leases for operating equipment, including two automobiles. The lease terms were 48 months and had interest rates ranging from 3.7% to 3.8%, and matured on April 2, 2018. The Company paid the balance of these capital leases on April 2, 2018. Equipment included $25 as of March 31, 2018 recorded under capital leases. Related accumulated depreciation was $20 as of March 31, 2018.

4. Inventories

Inventories consist of:

	December 2019	December 2018
Materials and sub-assemblies	$ 1,142	$ 1,060
Work-in-process	36	8
Finished goods	733	429
	$ 1,911	$ 1,497

5. Related Party Debt

The Company has notes payable to Gunther Partners LLC, the Company's principal stockholder, aggregating $2,700 as of December 31, 2019 and $3,000 as of December 31, 2018. All of the aggregate amounts outstanding as of December 31, 2019 are due December 31, 2021, after an extension on November 12, 2018, and bear interest equal to the short-term Applicable Federal Rate as issued by the Department of the Treasury. 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 to keep interest current. Also, early payments of principal and interest are allowed without premium or penalty. No principal payments are currently expected to be made through December 31, 2020.

The Company recognized and paid interest expense on the related party debt of $61 for the year ended December 31, 2019 and $57 for the nine months ended December 31, 2018.

6. Debt

The Company obtained a Commercial Revolving Loan Agreement on December 14, 2018 with Citizens Bank that provides for a Demand Note (the "Note") of $1,250. 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. There was no borrowing outstanding at December 31, 2019 or December 31, 2018.

7. Common Stock Options and Capital Stock

On July 17, 2018, the Company entered into a Non-Qualified Stock Option Award Agreement (the "Agreement") with its President and Chief Executive Officer. Under the Agreement, the Company granted 1,000,000 non-qualified common stock options with an exercise price of $0.30 a share. The options vest 33% on each of the first three annual anniversaries from the grant date and have a five-year term. The options automatically vest in the event of a change of control, as defined.

The Company recognizes compensation expense related to stock options granted to its employees based on their fair value on the grant date. The fair value of each option is estimated using the Black-Scholes option-pricing model. The Company recognizes expense ratably over the service period.

The weighted average per share fair value of common stock options granted in 2018 was $0.22. Stock compensation expense was $73 for the year ended December 31, 2019 and $33 for the nine months ended December 31, 2018, and is classified with selling and administrative expenses in the accompanying consolidated statements of operations. As of December 31, 2019, there was $112 of unrecognized stock option expense. This expense will be recognized ratably through July 16, 2021. The fair value of the stock options granted during 2018 was estimated on the date of grant using the Black-Scholes option-pricing model assuming a weighted average stock volatility rate of 105.75%, an expected option life of 4 years, a weighted average risk-free interest rate of 2.72% and a dividend yield of 0.0%. The volatility rate was determined using the historical implied volatilities of the underlying common stock of the Company's common stock. The expected life is based on the vesting period and the option term. The risk-free interest rate approximates the U.S. Treasury yields in effect at the time of the grant for securities with a term equal to the expected stock option term. The dividend rate has been set at 0.0% as the Company does not expect to pay dividends.

8. Income Taxes

Income tax expense (benefit) from continuing operations follows:

	Year ended December 31, 2019	Period from April 1, 2018 to December 31, 2018
Current:		
Federal	$ 123	$ (47)
State	64	18
Deferred:		
Federal	103	144
State	(313)	109
Total income taxes (benefit) expense	$ (23)	$ 224

Income tax expense from discontinued operations follows:

	Year ended December 31, 2019
Current:	
Federal	$ (134)
State	(55)
Deferred:	
Federal	8
State	75
Total income taxes (benefit) expense	$ 83

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, changes in tax rates and effect of the Tax Cuts and Jobs Act in 2018, and changes in the deferred income tax valuation allowance.

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

	December 31, 2019	December 31, 2018
Deferred income tax assets:		
Allowance for credit losses	$ 11	$ 11
Accrued liabilities	152	155
Deferred revenue	-	269
Inventories	47	20
Research credits	914	874
Other credits	480	206
Net operating loss carryforwards	933	970
	2,537	2,505
Deferred income tax liabilities:		
Property and equipment	(122)	(30)
Net deferred income tax assets	$ 2,415	$ 2,475

At December 31, 2019, the Company had federal net NOL carryforwards of $5,322 that begin to expire in 2022. As defined in Section 382 of the Internal Revenue Code, certain ownership changes limit the annual utilization of federal NOL and tax credit carryforwards. The Company believes that the Section 382 limitation from its previous ownership changes will result in the loss of $887 of the NOL resulting in net usable losses of $4,435 against future federal taxable income. The Company has not recognized any tax benefits associated with the NOL expected to be lost due to the Section 382 limitation. The Company had federal tax credits of $914, scheduled to expire in varying amounts to 2039.

8. Income Taxes - concluded

At December 31, 2019, the Company had state net operating loss carryforwards in Connecticut of $226 that expire in varying amounts to 2022. The Company had state research and development and other credit carryforwards of $620, scheduled to expire in varying amounts to 2033.

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 2017. 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.

9. Commitments and Contingencies

Leases -

In May 2018, the Company signed a lease in a new building. The terms of this lease are seven years at approximately $60 per year. 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. The Company adopted the new lease recognition standard January 1, 2019 using the modified retrospective method. The standard had no effect on prior year results. Upon adoption, the Company recognized the asset and liability associated with each lease on its consolidated balance sheet and will reflect payments on the consolidated statement of cash flows. The value of this asset and liability was $374 on the adoption date. Lease expense and cash paid was $57 for the year ended December 31, 2019 and $140 for the nine months ended December 31, 2018.

As of December 31, 2019, future minimum payments under non-cancelable operating leases follow:

2020	$	55
2021		56
2022		57
2023		58
2024		60
Thereafter		31
	$	317

Unconditional purchase obligations –

As of December 31, 2019, the Company has contracted to purchase goods from various vendors in the amount of $1,083 in 2020.

Other commitments -

As of April 1, 2018, the Company had agreements with one founding stockholder whereby the Company was obligated to pay this individual an annual royalty equal to 0.15% of total revenues up to an aggregate total of $1,820. Royalty expense under this agreement was $22 and $16 for the year ended December 31, 2019 and the nine months ended December 31, 2018, respectively. The maximum remaining royalty that may be required to be paid to the founding stockholder, contingent upon the Company attaining certain revenues, is $880 at December 31, 2019.

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. The Company could be materially and adversely affected by the risks related to the recent outbreak of the novel coronavirus (COVID-19). Management is monitoring the potential impacts COVID-19 may have on the Company. The ultimate extent of the impact this event may pose to the Company’s business operations and financial condition is highly uncertain and unpredictable, and therefore could materially and adversely affect the Company.

10. Preferred Stock

The Board of Directors is authorized to determine the powers, preferences, rights and restrictions of the Company's Preferred Stock. At December 31, 2019 and 2018, there were no issued and outstanding shares of Preferred Stock.

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 the year ended December 31, 2019 or the nine months ended December 2018. The Company pays certain expenses of the Plan which are not material for any period presented.

12. Economic Dependence and Significant Customers

The Company's ink jet technology is based on a cross licensing agreement with a significant vendor. That agreement allows the Company and the vendor to use each other's ink jet technology. If that vendor changed the technology or this licensing relationship, it would significantly affect the Company's business. Vendors utilizing this technology are also the primary providers of ink purchases that are sold to customers. These purchases from two key vendors accounted for 68% of cost of sales in the year ended December 31, 2019 and 61% in the nine months ended December 31, 2018. No other vendors accounted for 10% or more of the total Company costs.

Additionally, due to the nature of the Company's products, a significant portion of the Company's revenues are generally derived from a few customers, the majority of which are OEMs. In the year ended December 31, 2019, two customers accounted for 36% of total revenues and 35% in the nine months ended December 31, 2018. No other customers accounted for 10% or more of the total Company revenues.

13. 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, $1,500 of which was payable at closing and $1,000 which is payable in six monthly installments beginning one month after the closing. The sale price also included a working capital adjustment of $687. 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 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 business had for the month prior to the closing (the "Base Revenue") to the monthly service revenue the buyer has retained by the twelfth and eighteenth month anniversaries of the sale for the month prior to 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 payment(s) will be earned, (2) if the Future Revenue exceeds 95% of the Base Revenue, a proration between $300 and $500 will be earned, (3) if the Future Revenue exceeds 94% of the Base Revenue, a $100 payment will be earned, (4) if the Future Revenue exceeds 93% of the Base Revenue, a $50 payment will be earned, and (5) if the Future Revenue exceeds 92% of the Base Revenue, a $10 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 payments until it is likely such amounts will be received. On January 25, 2019, the Company received the first contingent payment of $300 for the twelfth month anniversary. There is no payment for the second contingent period.

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 $3,928.

13. Discontinued Operations – concluded

As of December 31, 2019, the Company has $1,068 of the gross proceeds of the sale classified as receivables for contractual payments due to the Company resulting from the sale of the assets of the Mail Inserting segment. Management believes this full amount to be collectable in future periods. The entire receivable is funded by the buyer of the Mail Inserting segment and is held in escrow until certain conditions are met. A portion of the escrow, classified as an indemnity escrow, totaling $150 was received January 13, 2020 and is classified as a current asset. The remaining balance will be released to the Company as the aforementioned royalty amount decreases or the earlier of the dissolution of the royalty agreement or five years.

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

The following is a reconciliation of the major classes of lines items constituting pretax loss of discontinued operations.

		Year Ended December 31, 2019
Selling and administrative reduction		(300)
Income before income taxes		300
Income tax expense		83
Net income on discontinued operations	$	217

The following is a reconciliation of the major classes of line items constituting changes in cash flows of discontinued operations.

		Year Ended December 31, 2019
Major classes of line items constituting changes in cash flow on discontinued operations		
Income from discontinued operations	$	217
Non-cash income taxes		83
Net cash provided by discontinued investing activities		300

14. 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.