TRANSACT TECHNOLOGIES INC
Form 10-Q
November 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2014
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number: 0-21121

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	06-1456680 (I.R.S. Employer Identification No.)
One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT (Address of Principal Executive Offices)	06518 (Zip Code)
(203) 859-6800 (Registrant’s Telephone Number, Including Area Code)	

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý

As of October 31, 2014, the number of shares outstanding of the Company’s common stock, $0.01 par value, was 8,220,292.

TRANSACT TECHNOLOGIES INCORPORATED

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2014	December 31, 2013
Assets:	(In thousands, except share data)	
Current assets:		
Cash and cash equivalents	$ 3,071	$ 2,936
Accounts receivable, net	11,173	13,234
Inventories	14,008	13,509
Prepaid income taxes	257	390
Deferred tax assets	1,633	1,655
Other current assets	744	497
Total current assets	30,886	32,221
Fixed assets, net	2,608	2,732
Goodwill	2,621	2,621
Deferred tax assets	900	920
Intangible assets, net of accumulated amortization of $2,198 and $1,811, respectively	1,469	1,856
Other assets	38	58
	7,636	8,187
Total assets	$ 38,522	$ 40,408
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable	$ 3,827	$ 4,749
Accrued liabilities	2,903	2,215
Income taxes payable	7	26
Accrued contingent consideration	-	60
Deferred revenue	427	300
Total current liabilities	7,164	7,350
Deferred revenue, net of current portion	67	103
Deferred rent, net of current portion	190	244
Other liabilities	204	190
	461	537
Total liabilities	7,625	7,887
Shareholders' equity:		
Common stock, $0.01 par value, 20,000,000 shares authorized; 11,116,293 and 11,106,354 shares issued, respectively; 8,220,292 and 8,319,316 shares outstanding, respectively	111	111

Additional paid-in capital		28,172		27,674
Retained earnings		26,033		27,326
Accumulated other comprehensive loss, net of tax		(66)		(63)
Treasury stock, at cost, 2,896,001 and 2,787,038 shares, respectively		(23,353)		(22,527)
Total shareholders' equity		30,897		32,521
Total liabilities and shareholders' equity	$	38,522	$	40,408

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net sales	$ 13,389	$ 16,768	$ 40,812	$ 47,613
Cost of sales	8,103	9,562	24,012	27,522
Gross profit	5,286	7,206	16,800	20,091
Operating expenses:				
Engineering, design and product development	1,053	1,041	3,434	3,048
Selling and marketing	1,847	2,059	6,069	5,702
General and administrative	1,901	2,049	5,789	5,819
Legal fees associated with lawsuit	428	142	475	398
	5,229	5,291	15,767	14,967
Operating income	57	1,915	1,033	5,124
Interest and other income (expense):				
Interest, net	(12)	(8)	(38)	(9)
Other, net	9	(22)	(11)	11
	(3)	(30)	(49)	2
Income before income taxes	54	1,885	984	5,126
Income tax provision	4	434	365	1,300
Net income	$ 50	$ 1,451	$ 619	$ 3,826
Net income per common share:				
Basic	$ 0.01	$ 0.17	$ 0.07	$ 0.44
Diluted	$ 0.01	$ 0.17	$ 0.07	$ 0.44
Shares used in per-share calculation:				
Basic	8,337	8,582	8,362	8,675
Diluted	8,403	8,695	8,487	8,759
Dividends declared and paid per common share:	$ 0.08	$ 0.07	$ 0.23	$ 0.20

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	$ 50	$ 1,451	$ 619	$ 3,826
Foreign currency translation adjustment, net of tax	(8)	16	(3)	(11)
Comprehensive income	$ 42	$ 1,467	$ 616	$ 3,815

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30, 2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 619	$ 3,826
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	442	397
Incremental tax benefits from stock options exercised	-	(113)
Depreciation and amortization	1,084	1,314
Gain on sale of fixed assets	-	(5)
Deferred income tax provision	44	-
Foreign currency transaction (gains) losses	10	(6)
Changes in operating assets and liabilities:		
Accounts receivable	2,061	358
Inventories	(499)	(2,576)
Prepaid income taxes	133	59
Other current and long term assets	(230)	(3)
Accounts payable	(921)	(575)
Accrued liabilities and other liabilities	713	(638)
Net cash provided by operating activities	3,456	2,038
Cash flows from investing activities:		
Capital expenditures	(568)	(562)
Additions to capitalized software costs	-	(42)
Proceeds from sale of assets	-	5
Net cash used in investing activities	(568)	(599)
Cash flows from financing activities:		
Proceeds from stock option exercises	-	609
Payment of dividends on common stock	(1,912)	(1,738)
Purchases of common stock for treasury	(826)	(5,194)
Incremental tax benefits from stock options exercised	-	113
Net cash used in financing activities	(2,738)	(6,210)
Effect of exchange rate changes on cash and cash equivalents	(15)	(11)
Increase (Decrease) in cash and cash equivalents	135	(4,782)
Cash and cash equivalents, beginning of period	2,936	7,537
Cash and cash equivalents, end of period	$ 3,071	$ 2,755

See notes to Condensed Consolidated Financial Statements.

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TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited financial statements of TransAct Technologies Incorporated have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America to be included in full year audited financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the periods presented have been included and are of a normal recurring nature. The December 31, 2013 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2013 included in our Annual Report on Form 10-K.

The financial position and results of operations of our U.K. subsidiary are measured using local currency as the functional currency. Assets and liabilities of such subsidiary have been translated at the end of period exchange rates, and related revenues and expenses have been translated at the weighted average exchange rates during the period reported with the resulting translation gain or loss recorded in accumulated other comprehensive income (loss) in the Condensed Consolidated Balance Sheets. Transaction gains and losses are included in other income in the Condensed Consolidated Statements of Income.

The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year.

2. Inventories

The components of inventories are:

	September 30, 2014	December 31, 2013
	(In thousands)	
Raw materials and purchased component parts	$ 6,982	$ 7,263
Work-in-process	1	31
Finished goods	7,025	6,215
	14,008	$ 13,509

3. Accrued product warranty liability

We generally warrant our products for up to 36 months and record the estimated cost of such product warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experience of product repairs and the related estimated cost of labor and material to make the necessary repairs.

The following table summarizes the activity recorded in the accrued product warranty liability during the nine months ended September 30, 2014:

	(In thousands)
Balance, beginning of period	$ 366
Warranties issued	148
Warranty settlements	(212)
Balance, end of period	$ 302

Approximately $212,000 of the accrued product warranty liability is classified as current in Accrued liabilities at September 30, 2014 in the Condensed Balance Sheets. The remaining $90,000 of the accrued product warranty liability is classified as long-term in Other liabilities.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

4. Accrued contingent consideration

In connection with the acquisition of substantially all of the assets of Printrex, Inc. (“Printrex”) on August 19, 2011, we entered into a contingent consideration arrangement for 30% of the gross profit for a three-year period related to certain new products under development, less certain other adjustments, beginning on January 1, 2012 which was the earlier of (1) January 1, 2012 or (2) the date of first commercial introduction of the new products under development. As of September 30, 2014, the undiscounted fair value related to the contingent liability was estimated to be zero and we do not expect to make a contingent consideration payment. The fair value of the contingent consideration arrangement was $0 and $60,000 at September 30, 2014 and December 31, 2013, respectively, which was estimated by applying the income approach. That measure is based on significant inputs that are not observable in the market, which fair value measurement guidance refers to as Level 3 inputs. During the first nine months of 2014 and 2013, the fair value of the contingent consideration decreased by $60,000 and $200,000, respectively, and this credit is included in the general and administrative expenses on the Condensed Consolidated Statement of Income. No payments were made under the arrangement during the nine months ended September 30, 2014 as the underlying conditions of the contingent consideration arrangement were not satisfied. Refer to Note 3, Business acquisitions, of the Company’s Consolidated Financial Statements included in the Company’s 2013 Annual Report on Form 10-K for the year ended December 31, 2013 for additional information regarding this contingent consideration arrangement.

5. Earnings per share

The following table sets forth the reconciliation of basic weighted average shares outstanding and diluted weighted average shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net income	$ 50	$ 1,451	$ 619	$ 3,826
Shares:				
Basic: Weighted average common shares outstanding	8,337	8,582	8,362	8,675
Add: Dilutive effect of outstanding options as determined by the treasury stock method	66	113	125	84
Diluted: Weighted average common and common equivalent shares outstanding	8,403	8,695	8,487	8,759
Net income per common share:				
Basic	$ 0.01	$ 0.17	$ 0.07	$ 0.44
Diluted	$ 0.01	$ 0.17	$ 0.07	$ 0.44

The computation of diluted earnings per share excludes the effect of the potential exercise of stock options, when the average market price of the common stock is lower than the exercise price of the related stock option during the period. These outstanding stock options are not included in the computation of diluted earnings per share because the effect would be anti-dilutive. For the three months ended September 30, 2014 and 2013, there were 505,000 and 316,000, respectively, potentially dilutive shares consisting of stock options that were excluded from the calculation of earnings per diluted share. For the nine months ended September 30, 2014 and 2013, there were 268,500 and 405,000, respectively, potentially dilutive shares consisting of stock options that were excluded from the calculation of earnings per diluted share.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

6. Shareholders' equity

Changes in shareholders' equity for the nine months ended September 30, 2014 were as follows (in thousands):

Balance at December 31, 2013	$32,521
Net income	619
Share-based compensation expense	442
Issuance of deferred stock units, net of relinquishments	56
Foreign currency translation adjustment	(3)
Dividends declared and paid on common stock	(1,912)
Purchases of common stock for treasury	(826)
Balance at September 30, 2014	$30,897

We paid a portion of the 2013 incentive bonus for the chief executive officer and chief financial officer in the form of deferred stock units. Such deferred stock units were granted in February 2014 and were fully vested at the time of grant.

For the three months ended September 30, 2014, our Board of Directors declared a quarterly cash dividend of $0.08 per share, totaling approximately $664,000, which was paid in September 2014 to common shareholders of record at the close of business on August 20, 2014. For the three months ended September 30, 2013, dividends declared and paid totaled approximately $611,000, or $0.07 per share. For the nine months ended September 30, 2014 and 2013, dividends declared and paid totaled $1,912,000, or $0.23 per share and $1,738,000, or $0.20 per share, respectively.

7. Income taxes

We recorded an income tax provision for the third quarter of 2014 of $4,000 at an effective tax rate of 7.4%, compared to an income tax provision during the third quarter of 2013 of $434,000 at an effective tax rate of 23.0%. Our effective tax rate for the third quarter of 2014 was unusually low due to the near breakeven level of pretax income. For the nine months ended September 30, 2014, we recorded an income tax provision of $365,000 at an effective tax rate of 37.1%, compared to an income tax provision during the nine months ended September 30, 2013 of $1,300,000 at an effective tax rate of 25.4%. Our effective tax rate for the first nine months of 2013 was unusually low because it includes the benefit from both the 2012 and 2013 federal research and development ("R&D") credit as this credit was not renewed until January 2, 2013 as a component of the American Taxpayer Relief Act of 2012 (the "Act"). The effective tax rate for both the three and nine months period ended September 30, 2014 does not include any benefit from the 2014 R&D credit as this credit expired at the end of 2013.

We are subject to U.S. federal income tax as well as income tax of certain state and foreign jurisdictions. We have substantially concluded with the applicable tax authorities all U.S. federal income tax, state and local, and foreign tax matters through 2010. During 2008, a limited scope examination of our 2005 and 2006 federal tax returns was completed and during 2013, an examination of our 2010 federal return was completed. However, our federal tax returns for the years 2011 through 2013 remain open to examination. Various state and foreign tax jurisdiction tax years remain open to examination as well, though we believe that any additional assessment would be immaterial to the Condensed Consolidated Financial Statements. No state or foreign tax jurisdiction income tax returns are currently under examination. As of September 30, 2014, we had $114,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods.

8. Commitments and contingencies

On June 8, 2012, Avery Dennison Corporation ("AD") filed a civil complaint against the Company and a former employee of the Company and of AD, in the Court of Common Pleas (the "Court") in Lake County, Ohio. The complaint alleges that this former employee and the Company misappropriated unspecified trade secrets and confidential information related to the design of our food safety terminals from AD. The complaint requests a preliminary and permanent injunction against the Company from manufacturing and selling our Ithaca® 9700 and 9800 food safety terminals. On July 16, 2012, the Company filed its answer, affirmative defenses and counterclaims, seeking all available damages including legal fees. A hearing on the plaintiff's motion for preliminary injunction took place in August 2012, and in November 2012, the Court denied this request. AD filed an appeal of the Court's ruling to the Eleventh Appellate District, which heard oral arguments on the appeal on July 16, 2013. On July 23, 2013, AD requested that the Eleventh Appellate District enjoin the Company's further sale and marketing of the food safety terminals, pending the appeals court's decision. On July 29, 2013, TransAct opposed this request. On October 15, 2013, the Eleventh District Court of Appeals affirmed the lower court's decision in the Company's favor and denied AD's further request of an injunction pending the Court of Appeal's decision. On October 24, 2013, AD filed a motion seeking that the Court of Appeals reconsider its decision. On April 16, 2014, the Court of Appeals denied AD's motion to reconsider its decision. On July 28, 2014, AD filed a motion requesting leave from the Court to file an amended complaint and indicating that it has elected to pursue only its claim for damages, dropping its claim for injunctive relief. A trial is scheduled to begin on April 21, 2015.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

Certain statements included in this report, including without limitation statements in this Management’s Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as “may”, “will”, “expect”, “intend”, ”estimate”, “anticipate”, “believe”, “project” or “cont negative thereof or other similar words. All forward-looking statements involve risks and uncertainties, including, but not limited to those listed in Item 1A of our most recently filed Annual Report on Form 10-K. Actual results may differ materially from those discussed in, or implied by, the forward-looking statements. The forward-looking statements speak only as of the date of this report and we assume no duty to update them. As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to “we,” “us,” “our,” the “Company” and “TransA refer to the consolidated operations of TransAct Technologies Incorporated, and its consolidated subsidiaries.

Overview

TransAct Technologies Incorporated (“TransAct”) designs, develops and sells market-specific solutions, including printers, terminals, software and other products for transaction-based and other industries. These world-class products are sold under the Epic, EPICENTRALTM, Ithaca®, Printrex® and Responder® brand names. Known and respected worldwide for innovative designs and real-world service reliability, our thermal, inkjet and impact printers and terminals generate top-quality labels and transaction records such as receipts, tickets, coupons, register journals and other documents as well as printed logging and plotting of data. We focus on the following core markets: food safety, banking and point-of-sale (“POS”), casino and gaming, lottery, and Printrex (which serves the oil and gas, medical and emergency vehicle markets). We sell our products to original equipment manufacturers (“OEMs”), value-added resellers ("VARs"), selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. TransAct also provides world-class printer service, spare parts, accessories and printing supplies to its growing worldwide installed base of products. Through our TransAct Services Group (“TSG”) we provide a complete range of supplies and consumables used in the printing and scanning activities of customers in the hospitality, banking, retail, casino and gaming, government and oil and gas exploration markets. Through our webstore, www.transactsupplies.com, and our direct selling team, we address the on-line demand for these products. We operate in one reportable segment: the design, development, assembly and marketing of transaction printers and terminals and providing printer-related services, supplies and spare parts.

Critical Accounting Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America. The presentation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, inventory obsolescence, the valuation of deferred tax assets and liabilities, depreciable lives of equipment, warranty obligations, and contingent liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances.

For a complete description of our accounting policies, see Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Critical Accounting Policies and Estimates,” included in our Annual Report on Form 10-K for the year ended December 31, 2013. We have reviewed those policies and determined that they remain our critical accounting policies for the nine months ended September 30, 2014.

Results of Operations: Three months ended September 30, 2014 compared to three months ended September 30, 2013

Net Sales. Net sales, which include printer, terminal and software sales as well as sales of replacement parts, consumables and maintenance and repair services, by market for the three months ended September 30, 2014 and 2013 were as follows (in thousands, except percentages):

	Three months ended September 30, 2014		Three months ended September 30, 2013		Change $	Change %
Food safety, banking and POS	$ 2,628	19.6%	$ 3,670	21.9%	$ (1,042)	(28.4%)
Casino and gaming	5,062	37.8%	7,511	44.8%	(2,449)	(32.6%)
Lottery	1,473	11.0%	1,025	6.1%	448	43.7%
Printrex	1,043	7.8%	1,111	6.6%	(68)	(6.1%)
TSG	3,183	23.8%	3,451	20.6%	(268)	(7.8%)
	$ 13,389	100.0%	$ 16,768	100.0%	$ (3,379)	(20.2%)
International *	$ 3,720	27.8%	$ 3,221	19.2%	$ 499	15.5%

* International sales do not include sales of printers made to domestic distributors or other domestic customers who may in turn ship those printers to international destinations.

Net sales for the third quarter of 2014 decreased $3,379,000 or 20%, from the same period in 2013. Printer sales volume decreased 16% to approximately 36,000 units driven primarily by a 31% decrease in unit volume from the casino and gaming market and a 10% decrease in unit volume from the food safety, banking and POS market. These decreases were partially offset by increased unit volume of 44% from the lottery market. The average selling price of our printers decreased approximately 7% in the third quarter of 2014 compared to the third quarter of 2013 primarily due to lower sales contributions of our Ithaca ® 9700 food safety terminal. Overall, international sales increased $499,000, or 16%, primarily due to increases in the international casino and gaming market.

Food safety, banking and POS:
Revenue from the food safety, banking and POS market includes sales of food safety terminals which are hardware devices that consist of a touchscreen and one or two thermal print mechanisms that print easy-to-read food rotation labels to help restaurants effectively manage food spoilage. Revenue from this market also includes sales of inkjet, thermal and impact printers used primarily by retailers in the restaurant (including fine dining, casual dining and fast food), hospitality, and specialty retail industries to print receipts for consumers, validate checks, or print on linerless labels or other inserted media. In addition, revenue includes sales of printers used by banks, credit unions and other financial institutions to print receipts and/or validate checks at bank teller stations. A summary of sales of our worldwide food safety, banking and POS products for the three months ended September 30, 2014 and 2013 is as follows (in thousands, except percentages):

	Three months ended September 30, 2014		Three months ended September 30, 2013		Change $	Change %
Domestic	$ 2,513	95.6%	$ 3,592	97.9%	$ (1,079)	(30.0%)
International	115	4.4%	78	2.1%	37	47.4%
	$ 2,628	100.0%	$ 3,670	100.0%	$ (1,042)	(28.4%)

The decrease in domestic food safety, banking and POS product revenue from the third quarter of 2013 was primarily driven by lower sales of our Ithaca ® 9700 food safety terminal as sales in the prior year quarter included a stocking order to a distributor that did not repeat in the third quarter 2014. This decrease was partially offset by a 75% increase in worldwide sales or our Ithaca®9700 food safety terminal to other customers as well as higher sales of our Ithaca® 9000 printers as McDonald's accelerated its rollout of these printers for a new initiative. We expect sales of food safety terminals, for the remainder of 2014 to be relatively consistent with the reported sales for the third quarter 2014, and to begin to increase in 2015 when we expect customers who are currently trialing the product to begin to make purchase decisions.

Casino and gaming:
Revenue from the casino and gaming market includes sales of printers used in slot machines, video lottery terminals ("VLTs"), and other gaming machines that print tickets or receipts instead of issuing coins ("ticket-in, ticket-out" or "TITO") at casinos and racetracks ("racinos") and other gaming venues worldwide. Revenue from this market also includes sales of printers used in the international off-premise gaming market in gaming machines such as Amusement with Prizes ("AWP"), Skills with Prizes ("SWP") and Fixed Odds Betting Terminals ("FOBT") at non-casino gaming establishments. Revenue from this market also includes royalties related to our patented casino and gaming technology. In addition, casino and gaming market revenue includes sales of our software solution (including annual software maintenance) for, the EPICENTRALTM print system that enables casino operators to create promotional coupons and marketing messages and to print them real-time at the slot machine. A summary of sales of our worldwide casino and gaming products for the three months ended September 30, 2014 and 2013 is as follows (in thousands, except percentages):

	Three months ended September 30, 2014		Three months ended September 30, 2013		Change $	Change %
Domestic	$ 1,816	35.9%	$ 4,806	64.0%	$ (2,990)	(62.2%)

International	3,246	64.1%	2,705	36.0%	541	20.0%
	$ 5,062	100.0%	$ 7,511	100.0%	$ (2,449)	(32.6%)

The decrease in domestic sales of our casino and gaming products is primarily due to a 62% decrease in sales of our thermal casino printers. In addition, EPICENTRALTM software sales decreased 67% due to no new installations occurring in the domestic market during the third quarter of 2014 compared to one new installation occurring in the third quarter of 2013. Due to the project-oriented nature of sales of EPCENTRAL™ software, we cannot predict the level of future sales and such sales may fluctuate significantly quarter-to-quarter. We believe that our lower domestic casino printer sales during the third quarter of 2014 resulted primarily from general weakness in the replacement cycle in the regional casino market, as well as a large replacement of a certain OEM’s slot machines at a multi-property casino group in the third quarter last year that did not repeat.

International casino and gaming printer sales increased due primarily to a 27% increase in sales of our thermal casino printers and a 21% increase in sales of our off-premise thermal gaming printers primarily from stronger sales to our Australasia distributor and an OEM customer in Asia in the third quarter of 2014. Sales of our off-premise gaming printers are largely project-oriented and we therefore cannot predict the level of future sales. These increases were partially offset by lower EPICENTRAL™ software sales due to no new installations occurring in the international market during the third quarter of 2014.

Lottery:
Revenue from the lottery market includes sales of thermal on-line and other lottery printers to GTECH Corporation ("GTECH") and its subsidiaries for various lottery applications. A summary of sales of our worldwide lottery printers for the three months ended September 30, 2014 and 2013 is as follows (in thousands, except percentages):

	Three months ended September 30, 2014		Three months ended September 30, 2013		Change $	Change %
Domestic	$ 1,438	97.6%	$ 1,025	100.0%	$ 413	40.3%
International	35	2.4%	-	-%	35	100.0%
	$ 1,473	100.0%	$ 1,025	100.0%	$ 448	43.7%

Our sales to GTECH are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs, and as a result, may fluctuate significantly quarter-to-quarter and year-to-year and are not indicative of GTECH's overall business or revenue. Based on our backlog of orders and customer's forecast, we expect total sales to GTECH for 2014 to be approximately $4.5 to $5 million.

Printrex:
Printrex branded printers are sold into markets that include wide format, rack mounted and vehicle mounted black/white and color thermal printers used by customers to log and plot oil field and down hole well drilling data in the oil and gas exploration and seismic data industry. It also includes high-speed color inkjet desktop printers used to print logs at data centers of the oil and gas field service companies. Revenue in this market also includes sales of wide format printers used to print test results in ophthalmology devices in the medical industry, as well as vehicle mounted printers used to print schematics and certain other critical information in emergency services vehicles. A summary of sales of our worldwide Printrex printers for the three months ended September 30, 2014 and 2013 is as follows (in thousands, except percentages):

	Three months ended September 30, 2014		Three months ended September 30, 2013		Change $	Change %
Domestic	$ 903	86.6%	$ 860	77.4%	$ 43	5.0%
International	140	13.4%	251	22.6%	(111)	(44.2%)
	$ 1,043	100.0%	$ 1,111	100.0%	$ (68)	(6.1%)

The decrease in sales of Printrex printers is primarily due to 60% lower international sales in the oil and gas markets resulting from the negative impact of declining worldwide oil prices and the U.S. embargo on shipments to Russia. This decrease was partially offset by 10% and 73% higher domestic and international sales in the medical and mobile market, respectively. Despite the decline in oil and gas printer sales, sales of our two new color printers, the Printrex® 920 and Printrex® 980, remained consistent.

TSG:
Revenue from TSG includes sales of consumable products (inkjet cartridges, ribbons, receipt paper, color thermal paper and other printing supplies), replacement parts, maintenance and repair services, testing services, refurbished printers, and shipping and handling charges. A summary of sales in our worldwide TSG market for the three months ended September 30, 2014 and 2013 is as follows (in thousands, except percentages):

	Three months ended September 30, 2014		Three months ended September 30, 2013		Change $	Change %
Domestic	$ 2,999	94.2%	$ 3,264	94.6%	$ (265)	(8.1%)
International	184	5.8%	187	5.4%	(3)	(1.6%)
	3,183	100.0%	$ 3,451	100.0%	$ (268)	(7.8%)

The decrease in domestic revenue from TSG is primarily due to a 12% decrease in sales of non-Printrex consumable products, largely HP inkjet cartridges, as we continue to deemphasize this commoditized consumable product, as well as 9% lower sales of spare parts and accessories and 12% lower revenue from service contracts as compared to the third quarter of 2013. These decreases were partially offset by a 53% increase in revenue from consumables for our Printrex color printers.

Gross Profit. Gross profit information is summarized below (in thousands, except percentages):

Three months ended September 30, 2014	Three months ended September 30, 2013	Percent Change	Percent of Total Sales - 2014	Percent of Total Sales - 2013
$ 5,286	$ 7,206	(26.6%)	39.5%	43.0%

Gross profit is measured as revenue less cost of sales, which includes primarily the cost of all raw materials and component parts, direct labor, manufacturing overhead expenses, cost of finished products purchased directly from our contract manufacturers and expenses associated with installations and maintenance of our EPICENTRAL® print system. Gross profit decreased $1,920,000, or 27%, on 20% lower sales volume. Our gross margin also declined 350 basis points due to lower sales volume as well as lower sales of our higher value-added casino printers, food safety terminals and EPICENTRAL® software during the third quarter of 2014.

Engineering, Design and Product Development. Engineering, design and product development information is summarized below (in thousands, except percentages):

Three months ended September 30, 2014	Three months ended September 30, 2013	Percent Change	Percent of Total Sales - 2014	Percent of Total Sales - 2013
$ 1,053	$ 1,041	1.2%	7.9%	6.2%

Engineering, design and product development expenses primarily include salary and payroll related expenses for our engineering staff, depreciation and design expenses (including prototype printer expenses, outside design and testing services, and supplies). Such expenses remained relatively consistent, increasing $12,000, or 1%, due primarily to increases in engineering staff in the third quarter 2014.

Selling and Marketing. Selling and marketing information is summarized below (in thousands, except percentages):

Three months ended September 30, 2014	Three months ended September 30, 2013	Percent Change	Percent of Total Sales - 2014	Percent of Total Sales - 2013
$ 1,847	$ 2,059	(10.3%)	13.8%	12.3%

Selling and marketing expenses primarily include salaries and payroll related expenses for our sales and marketing staff, sales commissions, travel expenses, expenses associated with the lease of sales offices, advertising, trade show expenses, e-commerce and other promotional marketing expenses. Such expenses decreased by $212,000, or 10%, in the third quarter of 2014 compared to the third quarter of 2013 primarily due to lower expenses associated with sales commissions on lower sales volume and lower trade show expenses due to the timing of our largest tradeshow, the Global Gaming Expo (“G2E”), which occurred in the fourth quarter in 2014 and the third quarter in 2013.

General and Administrative. General and administrative information is summarized below (in thousands, except percentages):

Three months ended September 30,	Percent	Percent of