

TRANSACT TECHNOLOGIES INC
Form 10-Q
November 09, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2015
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 No

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 No

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

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

As of October 31, 2015, the number of shares outstanding of the Company’s common stock, \$0.01 par value, was 7,754,792.

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, 2015 | December 31, 2014 |
|---|--------------------------------------|-------------------------|
| | (In thousands, except share data) | |
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$2,450 | \$3,131 |
| Accounts receivable, net | 9,937 | 9,094 |
| Inventories | 12,451 | 11,806 |
| Prepaid income taxes | - | 409 |
| Deferred tax assets | 1,822 | 3,068 |
| Other current assets | 494 | 489 |
| Total current assets | 27,154 | 27,997 |
| Fixed assets, net | 2,346 | 2,438 |
| Goodwill | 2,621 | 2,621 |
| Deferred tax assets | 1,113 | 1,068 |
| Intangible assets, net of accumulated amortization of \$2,684 and \$2,326, respectively | 983 | 1,341 |
| Other assets | 23 | 26 |
| | 7,086 | 7,494 |
| Total assets | \$34,240 | \$35,491 |
| Liabilities and Shareholders' Equity: | | |
| Current liabilities: | | |
| Accounts payable | \$5,459 | \$2,365 |
| Accrued liabilities | 2,589 | 3,320 |
| Income taxes payable | 24 | 13 |
| Accrued lawsuit settlement expenses | - | 3,625 |
| Deferred revenue | 176 | 313 |
| Total current liabilities | 8,248 | 9,636 |
| Deferred revenue, net of current portion | 68 | 64 |
| Deferred rent, net of current portion | 112 | 172 |
| Other liabilities | 203 | 225 |
| | 383 | 461 |
| Total liabilities | 8,631 | 10,097 |
| Shareholders' equity: | | |
| Common stock, \$0.01 par value, 20,000,000 shares authorized; 11,142,381 and 11,122,293 shares issued, respectively; 7,753,792 and 7,900,257 shares outstanding, respectively | 111 | 111 |

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| | | |
|---|----------|----------|
| Additional paid-in capital | 28,709 | 28,167 |
| Retained earnings | 23,046 | 22,349 |
| Accumulated other comprehensive loss, net of tax | (76) | (72) |
| Treasury stock, at cost, 3,388,589 and 3,222,036 shares | (26,181) | (25,161) |
| Total shareholders' equity | 25,609 | 25,394 |
| Total liabilities and shareholders' equity | \$34,240 | \$35,491 |

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, | |
|---|---------------------------------------|----------|------------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands, except per share data) | | | |
| Net sales | \$14,172 | \$13,389 | \$47,560 | \$40,812 |
| Cost of sales | 7,881 | 8,103 | 27,616 | 24,012 |
| Gross profit | 6,291 | 5,286 | 19,944 | 16,800 |
| Operating expenses: | | | | |
| Engineering, design and product development | 766 | 1,053 | 2,494 | 3,434 |
| Selling and marketing | 2,137 | 1,847 | 6,060 | 6,069 |
| General and administrative | 1,823 | 1,901 | 5,665 | 5,789 |
| Legal fees and settlement expenses associated with lawsuit (Note 7) | - | 428 | 1,738 | 475 |
| | 4,726 | 5,229 | 15,957 | 15,767 |
| Operating income | 1,565 | 57 | 3,987 | 1,033 |
| Interest and other income (expense): | | | | |
| Interest, net | (7) | (12) | (23) | (38) |
| Other, net | 11 | 9 | (1) | (11) |
| | 4 | (3) | (24) | (49) |
| Income before income taxes | 1,569 | 54 | 3,963 | 984 |
| Income tax provision | 541 | 4 | 1,403 | 365 |
| Net income | \$1,028 | \$50 | \$2,560 | \$619 |
| Net income per common share: | | | | |
| Basic | \$0.13 | \$0.01 | \$0.33 | \$0.07 |
| Diluted | \$0.13 | \$0.01 | \$0.33 | \$0.07 |
| Shares used in per-share calculation: | | | | |
| Basic | 7,800 | 8,337 | 7,818 | 8,362 |
| Diluted | 7,848 | 8,403 | 7,844 | 8,487 |
| Dividends declared and paid per common share: | \$0.08 | \$0.08 | \$0.24 | \$0.23 |

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, | |
|---|-------------------------------------|------|------------------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | | |
| Net income | \$1,028 | \$50 | \$2,560 | \$619 |
| Foreign currency translation adjustment, net of tax | (8) | (8) | (4) | (3) |
| Comprehensive income | \$1,020 | \$42 | \$2,556 | \$616 |

See notes to Condensed Consolidated Financial Statements.

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

| | Nine Months Ended September 30, 2015 2014 (In thousands) | |
|---|--|---------|
| Cash flows from operating activities: | | |
| Net income | \$2,560 | \$619 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Share-based compensation expense | 377 | 442 |
| Incremental tax benefit from stock options exercised | (2) | - |
| Depreciation and amortization | 1,077 | 1,084 |
| Gain on sale of fixed asset | (4) | - |
| Deferred income tax provision | 1,202 | 44 |
| Foreign currency transaction losses | 4 | 10 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (845) | 2,061 |
| Inventories | (644) | (499) |
| Prepaid income taxes | 409 | 133 |
| Other current and long term assets | (2) | (230) |
| Accounts payable | 2,957 | (921) |
| Accrued liabilities and other liabilities | (4,434) | 713 |
| Net cash provided by operating activities | 2,655 | 3,456 |
| Cash flows from investing activities: | | |
| Capital expenditures | (491) | (568) |
| Proceeds from sale of assets | 4 | - |
| Net cash used in investing activities | (487) | (568) |
| Cash flows from financing activities: | | |
| Revolving credit line borrowings | 2,500 | - |
| Revolving credit line payments | (2,500) | - |
| Proceeds from stock option exercises | 42 | - |
| Payment of dividends on common stock | (1,863) | (1,912) |
| Purchases of common stock for treasury | (1,020) | (826) |
| Incremental tax benefits from stock options exercised | 2 | - |
| Net cash used in financing activities | (2,839) | (2,738) |
| Effect of exchange rate changes on cash and cash equivalents | (10) | (15) |
| (Decrease) increase in cash and cash equivalents | (681) | 135 |
| Cash and cash equivalents, beginning of period | 3,131 | 2,936 |
| Cash and cash equivalents, end of period | \$2,450 | \$3,071 |
| Supplemental schedule of non-cash investing activities: | | |
| Capital expenditures funded by accounts payable | 137 | - |

See notes to Condensed Consolidated Financial Statements.

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 (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP to be included in full year 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, 2014 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2014 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 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 (expenses) in the Condensed Consolidated Statements of Income.

The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

2. Inventories

The components of inventories are:

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| | (In thousands) | |
| Raw materials and purchased component parts | \$ 6,345 | \$ 6,183 |
| Work-in-process | - | 4 |
| Finished goods | 6,106 | 5,619 |
| | \$ 12,451 | \$ 11,806 |

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, 2015:

(In thousands)

| | | |
|------------------------------|----|-------|
| Balance, beginning of period | \$ | 287 |
| Warranties issued | | 155 |
| Warranty settlements | | (201) |
| Balance, end of period | \$ | 241 |

Approximately \$143,000 of the accrued product warranty liability is classified as current in Accrued liabilities at September 30, 2015 in the Condensed Consolidated Balance Sheets. The remaining \$98,000 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. 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, | |
|--|---------------------------------------|--------|------------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands, except per share data) | | | |
| Net income | \$1,028 | \$50 | \$2,560 | \$619 |
| Shares: | | | | |
| Basic: Weighted average common shares outstanding | 7,800 | 8,337 | 7,818 | 8,362 |
| Add: Dilutive effect of outstanding options as determined by the treasury stock method | 48 | 66 | 26 | 125 |
| Diluted: Weighted average common and common equivalent shares outstanding | 7,848 | 8,403 | 7,844 | 8,487 |
| Net income per common share: | | | | |
| Basic | \$0.13 | \$0.01 | \$0.33 | \$0.07 |
| Diluted | \$0.13 | \$0.01 | \$0.33 | \$0.07 |

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, 2015 and 2014, there were 700,000 and 505,000, 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, 2015 and 2014, there were 844,000 and 268,500, respectively, potentially dilutive shares consisting of stock options that were excluded from the calculation of earnings per diluted share.

5. Shareholders' equity

Changes in shareholders' equity for the nine months ended September 30, 2015 were as follows (in thousands):

| | |
|---|----------|
| Balance at December 31, 2014 | \$25,394 |
| Net income | 2,560 |
| Share-based compensation expense | 377 |
| Issuance of deferred stock units, net of relinquishments | 121 |
| Proceeds from issuance of shares from exercise of stock options | 42 |
| Incremental tax benefits from stock options exercised | 2 |

| | |
|---|----------|
| Foreign currency translation adjustment | (4) |
| Dividends declared and paid on common stock | (1,863) |
| Purchase of common stock for treasury | (1,020) |
| Balance at September 30, 2015 | \$25,609 |

We paid a portion of the 2014 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 2015 and were fully vested at the time of grant.

For the three months ended September 30, 2015, our Board of Directors declared a quarterly cash dividend of \$0.08 per share, totaling \$620,000, which was paid in September 2015 to common shareholders of record at the close of business on August 20, 2015. For the three months ended September 30, 2014, dividends declared and paid totaled \$664,000, or \$0.08 per share. For the nine months ended September 30, 2015 and 2014, dividends declared and paid totaled \$1,863,000, or \$0.24 per share and \$1,912,000, or \$0.23 per share, respectively.

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

6. Income taxes

We recorded an income tax provision for the third quarter of 2015 of \$541,000 at an effective tax rate of 34.5%, compared to an income tax provision during the third quarter of 2014 of \$4,000 at an effective tax rate of 7.4%. 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, 2015, we recorded an income tax provision of \$1,403,000 at an effective tax rate of 35.4%, compared to an income tax provision during the nine months ended September 30, 2014 of \$365,000 at an effective tax rate of 37.1%.

We are subject to U.S. federal income tax as well as income tax in certain state and foreign jurisdictions. We have substantially concluded all U.S. federal income tax, state and local, and foreign tax regulatory examination matters through 2011. During 2013, an examination of our 2010 federal tax return was completed. However, our federal tax returns for the years 2012 through 2014 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, 2015, we had \$105,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. During the third quarter of 2015, we recognized \$49,000 of previously unrecognized tax benefits as the statute of limitations expired during the third quarter of 2015.

7. Commitments and contingencies

On June 8, 2012, Avery Dennison Corporation (“AD”) filed a civil complaint against us and a former employee of ours and of AD, in the Court of Common Pleas (the “Court”) in Lake County, Ohio. The complaint alleged that we and this former employee misappropriated unspecified trade secrets and confidential information from AD related to the design of our food safety terminals. The complaint requested a preliminary and permanent injunction against us from manufacturing and selling our Ithaca® 9700 and 9800 food safety terminals. On July 16, 2012, we filed our 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 our further sale and marketing of the food safety terminals, pending the Court of Appeals' decision. On July 29, 2013, we opposed this request. On October 15, 2013, the Eleventh District Court of Appeals affirmed the lower court's decision in our favor and denied AD's further request of an injunction pending the Court of Appeals' 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. On September 4, 2014, the Court granted AD's motion to file an amended complaint. On September 25, 2014, we filed our answer, affirmative defenses and counterclaims with respect to the amended complaint, seeking all available damages including legal fees. On January 30, 2015, we filed a motion for summary judgment seeking judgment in our favor on all counts as to the Company. On the same day, AD filed two motions for partial summary judgment. On February 17, 2015, we opposed both of AD's motions, and AD opposed our motion. On February 23, 2015, the Company filed a reply brief in support of its motion for summary judgment. A trial was

scheduled to begin on April 21, 2015, however, on March 25, 2015 the parties executed a confidential settlement agreement and release (the "Settlement Agreement") in which the parties mutually agreed to resolve the dispute that was the subject of the lawsuit filed by AD against the Company to the parties' mutual satisfaction. Under the terms of the Settlement Agreement, we agreed to pay AD \$3,600,000 payable on or before April 8, 2015 and also to qualify certain AD labels for use on our food safety terminals at an estimated cost of \$25,000. We made the \$3,600,000 payment to AD on April 8, 2015 and borrowed \$2,500,000 under our revolving credit facility with TD Bank to fund the payment. We recorded the total expense of \$3,625,000 in the fourth quarter 2014 as an operating expense included in the line item "Legal fees and settlement expenses associated with lawsuit" on the Consolidated Statement of Operations and as a current liability included in the line item "Accrued lawsuit settlement expenses" on the Consolidated Balance Sheet. In the second quarter of 2015 we reversed \$25,000 of this expense because AD did not provide the label testing information by the due date required per the settlement agreement.

8. Accounting pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers." This ASU is intended to clarify the principles for recognizing revenue by removing inconsistencies in revenue requirements; providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. In April 2015, the FASB voted to defer the effective date of the new revenue recognition standard by one year. As a result, the provisions of this ASU are now effective for interim and annual periods beginning after December 15, 2017. We are currently evaluating the impact of this ASU.

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 "contingent" and 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 "TransAct" 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 AccuDate™, Ithaca®, RESPONDER®, Epic, EPICENTRAL™, and Printrex® 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 mobile printing markets). We sell our products to original equipment manufacturers, value-added resellers, 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, 2014. We have reviewed those policies and determined that they remain our critical accounting policies for the nine months ended September 30, 2015.

Results of Operations: Three months ended September 30, 2015 compared to three months ended September 30, 2014

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, 2015 and 2014 were as follows (in thousands, except percentages):

| | Three months ended September 30, 2015 | | Three months ended September 30, 2014 | | Change | |
|------------------------------|--|--------|--|--------|-----------|---------|
| | \$ | % | \$ | % | \$ | % |
| Food safety, banking and POS | \$3,381 | 23.9% | \$2,628 | 19.6% | \$753 | 28.7% |
| Casino and gaming | 4,399 | 31.0% | 5,062 | 37.8% | (663) | (13.1%) |
| Lottery | 1,797 | 12.7% | 1,473 | 11.0% | 324 | 22.0% |
| Printrex | 225 | 1.6% | 1,043 | 7.8% | (818) | (78.4%) |
| TSG | 4,370 | 30.8% | 3,183 | 23.8% | 1,187 | 37.3% |
| | \$14,172 | 100.0% | \$13,389 | 100.0% | \$783 | 5.8% |
| International * | \$2,510 | 17.7% | \$3,720 | 27.8% | \$(1,210) | (32.5%) |

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 2015 increased \$783,000, or 6%, from the same period in 2014. Overall printer sales volume decreased 3% to approximately 35,000 but the decrease in printer sales volume was more than offset by a 37% increase in the TSG market in the third quarter of 2015 compared to the same period in 2014. The decrease in units was driven primarily by a 16% decrease in unit volume from the casino and gaming market and an 84% decrease in the Printrex market. These printer unit sales decreases were partially offset by an increase in unit volume of 18% from the food safety, banking and POS market and a 15% increase in the lottery market. The average selling price of our printers decreased by less than 1% in the third quarter of 2015 compared to the third quarter of 2014. International sales decreased \$1,210,000, or 33%, due primarily to decreases in the international casino and gaming market that were partially offset by an increase in the international lottery market.

Food safety, banking and POS:

Revenue from the food safety, banking and POS market includes sales of food safety terminals which are printing devices that consist of an operating system, a touchscreen and one or two thermal print mechanisms that print easy-to-read expiration and "enjoy by" date 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, 2015 and 2014 is as follows (in thousands, except percentages):

| | Three months ended | | Three months ended | | Change | |
|---------------|--------------------|--------|--------------------|--------|--------|---------|
| | September 30, 2015 | | September 30, 2014 | | \$ | % |
| Domestic | \$3,283 | 97.1% | \$2,513 | 95.6% | \$770 | 30.6% |
| International | 98 | 2.9% | 115 | 4.4% | (17) | (14.8%) |
| | \$3,381 | 100.0% | \$2,628 | 100.0% | \$753 | 28.7% |

The increase in the domestic food safety, banking and POS product revenue from the third quarter of 2014 was primarily driven by a 91% increase in sales of our food safety terminal, including the first shipment of our AccuDate™ Pro food safety terminal in the third quarter of 2015. Additionally, domestic sales of our Ithaca®9000 printers increased 27% primarily to support new initiatives at McDonald's Corporation. These increases were partially offset by lower sales of our older generation POS printers.

Casino and gaming:

Revenue from the casino and gaming market includes sales of printers used in slot machines, video lottery terminals, 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, Skills with Prizes and Fixed Odds Betting Terminals 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 EPICENTRAL™ 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, 2015 and 2014 is as follows (in thousands, except percentages):

| | Three months ended | | Three months ended | | Change | |
|---------------|--------------------|-------|--------------------|-------|---------|---------|
| | September 30, 2015 | | September 30, 2014 | | \$ | % |
| Domestic | \$2,927 | 66.5% | \$1,816 | 35.9% | \$1,111 | 61.2% |
| International | 1,472 | 33.5% | 3,246 | 64.1% | (1,774) | (54.7%) |

| | | | | | |
|---------|--------|---------|--------|---------|---------|
| \$4,399 | 100.0% | \$5,062 | 100.0% | \$(663) | (13.1%) |
|---------|--------|---------|--------|---------|---------|

The increase in domestic sales of our casino and gaming products was primarily due to a 70% increase in sales of our thermal casino printers during the third quarter of 2015 compared to the third quarter of 2014. We believe the increase resulted from market share gains, as the replacement cycle for slot machines remains weak. EPICENTRAL™ software sales for the third quarter 2015 remained relatively consistent with those reported for the third quarter 2014.

International casino and gaming printer sales decreased in the third quarter of 2015 compared to the third quarter of 2014 due primarily to a 71% decrease in sales of our thermal casino printers, primarily due to a significant decrease in casino printers being shipped to our European distributor. International sales of our off-premise gaming printers remained consistent for the third quarter 2015 compared to the third quarter 2014.

Lottery:

Revenue from the lottery market includes sales of thermal on-line and other lottery printers to IGT (formerly GTECH Corporation) and its subsidiaries for various lottery applications. A summary of sales of our worldwide lottery printers for the three months ended September 30, 2015 and 2014 is as follows (in thousands, except percentages):

| | Three months ended September 30, 2015 | | Three months ended September 30, 2014 | | Change | |
|---------------|--|--------|--|--------|----------|----------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 1,053 | 58.6% | \$ 1,438 | 97.6% | \$ (385) | (26.8%) |
| International | 744 | 41.4% | 35 | 2.4% | 709 | 2,025.7% |
| | \$ 1,797 | 100.0% | \$ 1,473 | 100.0% | \$ 324 | 22.0% |

Our sales to IGT are directly dependent on the timing and number of new and upgraded lottery terminal installations IGT performs, and as a result, may fluctuate significantly quarter-to-quarter and year-to-year and are not indicative of IGT's overall business or revenue. International lottery sales increased due to a sale to IGT for lottery terminals for the Spanish lottery.

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 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 and other mobile printing applications. A summary of sales of our worldwide Printrex printers for the three months ended September 30, 2015 and 2014 is as follows (in thousands, except percentages):

| | Three months ended September 30, 2015 | | Three months ended September 30, 2014 | | Change | |
|---------------|--|--------|--|--------|----------|---------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 189 | 84.0% | \$ 903 | 86.6% | \$ (714) | (79.1%) |
| International | 36 | 16.0% | 140 | 13.4% | (104) | (74.3%) |
| | \$ 225 | 100.0% | \$ 1,043 | 100.0% | \$ (818) | (78.4%) |

The decrease in sales of Printrex printers in the third quarter of 2015 compared to the third quarter of 2014 was primarily due to 69% lower domestic and international sales in the oil and gas market due to the continued negative impact from the decline in worldwide oil prices which we expect will continue to negatively impact our sales during the remainder of 2015. In addition, we experienced a 95% decline in medical and mobile printer sales due to the loss of a customer in the medical industry that will impact our sales further for the remainder of 2015.

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, 2015 and 2014 is as follows (in thousands, except percentages):

| | Three months ended September 30, 2015 | | Three months ended September 30, 2014 | | Change | |
|---------------|--|--------|--|--------|----------|---------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 4,210 | 96.3% | \$ 2,999 | 94.2% | \$ 1,211 | 40.4% |
| International | 160 | 3.7% | 184 | 5.8% | (24) | (13.0%) |
| | \$ 4,370 | 100.0% | \$ 3,183 | 100.0% | \$ 1,187 | 37.3% |

The increase in domestic revenue from TSG was primarily due to a 118% increase in sales of replacement parts due mainly to purchases for lottery printers by IGT. These increases were partially offset by 61% lower revenue from consumables for our Printrex color printers due to lower printing usage resulting from reduced drilling caused by the decline in worldwide oil prices as well as an 11% decrease in sales of non-Printrex consumable products, largely HP inkjet cartridges, as we continue to deemphasize this commoditized consumable product.

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

| Three months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|-----------------------|---------|-------------------|----------------------------------|----------------------------------|
| September 30, 2015 | 2014 | | | |
| \$6,291 | \$5,286 | 19.0% | 44.4% | 39.5% |

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 increased \$1,005,000, or 19%, and our gross margin increased by 490 basis points as we experienced a favorable sales mix in the third quarter of 2015 compared to the third quarter of 2014. During the third quarter of 2015, a large portion of our sales increase was generated from our higher margin TSG products and food safety terminals. We expect our gross margin for the full year 2015 to be higher than in 2014 as we expect to benefit from increased sales of our new value-added products, and expect to recognize the benefits from cost reduction initiatives we implemented during the fourth quarter of 2014.

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

| Three months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|--------------------|--------------------|----------------|-------------------------------|-------------------------------|
| September 30, 2015 | September 30, 2014 | | | |
| \$766 | \$1,053 | (27.3%) | 5.4% | 7.9% |

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 decreased \$287,000, or 27%, due primarily to a reduction of engineering staff resulting from our 2014 cost reduction initiatives as well as lower outside testing and pre-production expenses during the third quarter of 2015 compared to the third quarter of 2014 when we were in the process of launching three new products. We expect engineering, design and product development expenses in 2015 to be lower than in 2014 due to staff reductions and lower product development expenses resulting from cost reduction initiatives we implemented during the fourth quarter of 2014. We expect engineering, design and product development expenses in 2015 to be lower than in 2014 due to staff reductions and lower product development expenses resulting from cost reduction initiatives we implemented during the fourth quarter of 2014.

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

| Three months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|--------------------|--------------------|----------------|-------------------------------|-------------------------------|
| September 30, 2015 | September 30, 2014 | | | |
| \$2,137 | \$1,847 | 15.7% | 15.1% | 13.8% |

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 increased by \$290,000, or 16%, in the third quarter of 2015 compared to the third quarter of 2014 primarily due to planned investments made during the second half of 2014 and first nine months of 2015 in new sales staff to focus on sales execution of our new products. Additionally, we incurred higher trade show expenses due to the timing of our largest tradeshow, the Global Gaming Expo, which occurred in the third quarter in 2015 compared to the fourth quarter in 2014.

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

| Three months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|--------------------|--------------------|----------------|-------------------------------|-------------------------------|
| September 30, 2015 | September 30, 2014 | | | |

| | | | | |
|---------|---------|--------|-------|-------|
| \$1,823 | \$1,901 | (4.1%) | 12.9% | 14.2% |
|---------|---------|--------|-------|-------|

General and administrative expenses primarily include salaries and payroll related expenses for our executive, accounting, human resource, business development and information technology staff, expenses for our corporate headquarters, professional and legal expenses, telecommunication expenses, and other expenses related to being a publicly-traded company. General and administrative expenses decreased by 78,000, or 4%, in the third quarter of 2015 compared to the third quarter of 2014 primarily due to the departure of our VP, Business Development during the fourth quarter of 2014 who was not replaced.

Legal Fees and Settlement Expenses Associated with Lawsuit. Legal fee information is summarized below (in thousands, except percentages):

| Three months ended | | Percent Change | Percent of Total Sales – 2015 | Percent of Total Sales - 2014 |
|--------------------|--------------------|----------------|-------------------------------|-------------------------------|
| September 30, 2015 | September 30, 2014 | | | |
| \$- | \$428 | (100%) | -% | 3.2% |

As disclosed in Note 7 to the Condensed Consolidated Financial Statements, in June 2012, Avery Dennison Corporation (“AD”) filed a civil complaint against the Company, which we settled in March 2015. Due to the settlement of the AD lawsuit in March 2015, we did not incur any legal fees related to the lawsuit during the third quarter of 2015 and we do not expect to incur any additional expenses for the remainder of 2015.

Operating Income. Operating income information is summarized below (in thousands, except percentages):

| Three months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales – 2014 |
|-----------------------|------|-------------------|----------------------------------|----------------------------------|
| September 30, 2015 | 2014 | | | |
| \$1,565 | \$57 | 2,645.6% | 11.0% | 0.4% |

Our operating income increased by \$1,508,000 and our operating margin improved to 11.0% of net sales primarily due to a 490 basis point increase of our gross margin in the third quarter of 2015 compared to the third quarter of 2014. In addition our operating income was positively impacted by the settlement of the AD lawsuit during the first quarter of 2015 as we had no legal fees related to the lawsuit in the third quarter of 2015 compared to \$428,000 in the third quarter of 2014.

Interest. We recorded net interest expense of \$7,000 in the third quarter of 2015 compared to \$12,000 in the third quarter of 2014 due to the lower unused revolving credit line fee we are charged upon renewing our credit facility (the “TD Bank Credit Facility”) with TD Bank N.A. (“TD Bank”) on November 26, 2014. As of the renewal, we are charged a fee of 0.15% on unused borrowings compared to 0.25% during the third quarter of 2014. See “Liquidity and Capital Resources” below for more information.

Other, net. We recorded other income of \$11,000 in the third quarter of 2015 compared to other income of \$9,000 in the third quarter of 2014. The change was due primarily to a gain of \$4,000 recorded on the disposal of a fixed asset in the third quarter of 2015. Foreign currency transaction exchange gains recorded by our U.K. subsidiary remained consistent in the third quarter of 2015 compared to the third quarter of 2014.

Income Taxes. We recorded an income tax provision for the third quarter of 2015 of \$541,000 at an effective tax rate of 34.5%, compared to an income tax provision during the third quarter of 2014 of \$4,000 at an effective tax rate of 7.4%. Our effective tax rate for the third quarter of 2014 was unusually low due to the near breakeven level of pretax income. We expect our effective tax rate for the full year 2015 to be between 35% and 36%.

Net Income. We reported net income during the third quarter of 2015 of \$1,028,000, or \$0.13 per diluted share, compared to \$50,000, or \$0.01 per diluted share, for the third quarter of 2014.

Results of Operations: Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

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 nine months ended September 30, 2015 and 2014 were as follows (in thousands, except percentages):

| | Nine months ended September 30, 2015 | | Nine months ended September 30, 2014 | | \$ | Change % |
|------------------------------|---|--------|---|--------|---------|-------------|
| Food safety, banking and POS | \$9,030 | 19.0% | \$7,144 | 17.5% | | |
| Casino and gaming | 17,237 | 36.3% | 17,728 | 43.4% | (491) | (2.8%) |
| Lottery | 8,767 | 18.4% | 3,143 | 7.7% | 5,624 | 178.9% |
| Printrex | 1,152 | 2.4% | 3,013 | 7.4% | (1,861) | (61.8%) |
| TSG | 11,374 | 23.9% | 9,784 | 24.0% | 1,590 | 16.3% |
| | \$47,560 | 100.0% | \$40,812 | 100.0% | \$6,748 | 16.5% |
| International * | \$11,187 | 23.5% | \$11,230 | 27.5% | \$(43) | (0.4%) |

*

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 first nine months of 2015 increased \$6,748,000, or 17%, from the same period in 2014. Printer sales volume increased 28% to approximately 135,000 units driven primarily by a 176% increase in unit volume from the lottery market. Additionally, unit sales increased to a lesser extent in the first nine months of 2015 from a 15% increase from the food safety, banking and POS market. The average selling price of our printers decreased approximately 8% during the first nine months of 2015 compared to the first nine months of 2014 primarily due to the large volume of lower-priced lottery printers sold during the first nine months of 2015.

Overall, international sales decreased slightly by \$43,000, or less than 1%, as lower sales in the international casino and gaming market, Printrex market and TSG market were almost fully offset by increases in the international lottery market and international food safety, banking and POS market.

Food safety, banking and POS:

A summary of sales of our worldwide food safety, banking and POS products for the nine months ended September 30, 2015 and 2014 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2015 | | Nine months ended September 30, 2014 | | Change | |
|---------------|---|--------|---|--------|---------|--------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$8,417 | 93.2% | \$6,896 | 96.5% | \$1,521 | 22.1% |
| International | 613 | 6.8% | 248 | 3.5% | 365 | 147.2% |
| | \$9,030 | 100.0% | \$7,144 | 100.0% | \$1,886 | 26.4% |

The increase in both domestic and international food safety, banking and POS printer revenue as compared to the first nine months of 2014 was primarily driven by a 112% increase in sales of our food safety terminals during the first nine months of 2015 due largely to the resumption of shipments to our distributor who made a large initial stocking order in 2013 and did not make any purchases in the first nine months of 2014. Also, the sale of food safety products increased during the third quarter of 2015 as we shipped our first AccuDate™ Pro units. In addition to increased food safety terminal sales, sales of our Ithaca® 9000 printers increased 18% in the first nine months of 2015 compared to the first nine months of 2014 due to new initiatives by McDonald's Corporation that started in 2015. These increases were partially offset by lower sales of our banking printers and other POS printers.

Casino and gaming:

A summary of sales of our worldwide casino and gaming products for the nine months ended September 30, 2015 and 2014 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2015 | | Nine months ended September 30, 2014 | | Change | |
|---------------|---|--------|---|--------|---------|--------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$8,396 | 48.7% | \$8,279 | 46.7% | \$117 | 1.4% |
| International | 8,841 | 51.3% | 9,449 | 53.3% | (608) | (6.4%) |
| | \$17,237 | 100.0% | \$17,728 | 100.0% | \$(491) | (2.8%) |

The increase in domestic sales of our casino and gaming products resulted primarily from higher domestic EPICENTRAL™ software sales due to one new installation that occurred in the first nine months of 2015 compared to no new domestic installations in the first nine months of 2014. This increase was partially offset by a 3% decline in sales of our thermal casino printers in the first nine months of 2015 compared to the first nine months of 2014.

International casino and gaming printer sales decreased in the first nine months of 2015 due to 17% and 88% decreases in sales of our thermal casino printers and EPICENTRAL™ software, respectively. EPICENTRAL™ software sales decreased as we had no new international installations in the first nine months of 2015 compared to one international installation at multiple casino properties for a customer in South America during the first nine months of 2014. These decreases were partially offset by an 80% increase in sales of our off-premise thermal gaming printers during the first nine months of 2015 compared to the first nine months of 2014 largely due to installations in sports betting machines in Spain. Sales of our off-premise gaming printers are largely project-oriented and therefore may fluctuate significantly from quarter-to-quarter and year-to-year.

Lottery:

A summary of sales of our worldwide lottery printers for the nine months ended September 30, 2015 and 2014 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2015 | | Nine months ended September 30, 2014 | | Change | |
|--|---|---|---|---|--------|---|
| | \$ | % | \$ | % | \$ | % |

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| | | | | | | |
|---------------|---------|--------|---------|--------|---------|----------|
| Domestic | \$7,886 | 90.0% | \$3,084 | 98.1% | \$4,802 | 155.7% |
| International | 881 | 10.0% | 59 | 1.9% | 822 | 1,393.2% |
| | \$8,767 | 100.0% | \$3,143 | 100.0% | \$5,624 | 178.9% |

Our sales to IGT are directly dependent on the timing and number of new and upgraded lottery terminal installations IGT performs, and as a result, may fluctuate significantly quarter-to-quarter and year-to-year and are not indicative of IGT's overall business or revenue. International sales increased due to a sale to IGT for lottery terminals for the Spanish lottery.

Printrex:

A summary of sales of our worldwide Printrex printers for the nine months ended September 30, 2015 and 2014 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2015 | | Nine months ended September 30, 2014 | | Change | |
|---------------|---|--------|---|--------|-----------|---------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$978 | 84.9% | \$2,514 | 83.4% | \$(1,536) | (61.1%) |
| International | 174 | 15.1% | 499 | 16.6% | (325) | (65.1%) |
| | \$1,152 | 100.0% | \$3,013 | 100.0% | \$(1,861) | (61.8%) |

The decrease in Printrex printers was due primarily to 62% lower domestic and international sales in the oil and gas market due to the continued negative impact from the decline in worldwide oil prices. In addition, we experienced a 61% decline in medical and mobile printer sales due largely to the loss of a customer in the medical industry. This decrease was partially offset by the first sales contribution from our RESPONDER mobile printer in the first nine months of 2015.

TSG:

A summary of sales in our worldwide TSG market for the nine months ended September 30, 2015 and 2014 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2015 | | Nine months ended September 30, 2014 | | Change | |
|---------------|---|--------|---|--------|---------|---------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$10,696 | 94.0% | \$8,809 | 90.0% | \$1,887 | 21.4% |
| International | 678 | 6.0% | 975 | 10.0% | (297) | (30.5%) |
| | \$11,374 | 100.0% | \$9,784 | 100.0% | \$1,590 | 16.3% |

The increase in domestic revenue from TSG was primarily due to a 65% increase in sales of replacement parts mainly to IGT for the lottery market and a 25% increase in services revenue largely from project oriented paper testing services. These increases were partially offset by an 11% decline in sales of our non-Printrex consumables, largely from the decline in sales of HP inkjet cartridges, as we continue to deemphasize this commoditized consumable product and 29% lower revenue from consumables for our Printrex color printers due to lower printing usage resulting from reduced drilling caused by the decline in worldwide oil prices.

Internationally, TSG revenue decreased primarily due to a 38% decrease in sales of replacement parts and accessories due to a large number of shipments to IGT in 2014 to support international legacy lottery printers that did not reoccur during the first nine months of 2015.

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

| Nine months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|-----------------------|-----------------------|-------------------|----------------------------------|----------------------------------|
| September 30, 2015 | September 30, 2014 | | | |
| \$19,944 | \$16,800 | 18.7% | 41.9% | 41.2% |

Gross profit increased \$3,144,000, or 19%, due primarily to a 17% increase in sales. Additionally, our gross margin increased by 70 basis points as we experienced a slightly more favorable sales mix in the first nine months of 2015 compared to the first nine months of 2014. This increase in gross margin was achieved despite a large portion of our sales being generated from our lottery printers during the first half of 2015 which carry lower gross margin than our other products. The improved gross margin was attained primarily during the third quarter of 2015 due to higher margin contribution from TSG products and food safety terminal sales.

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

| Nine months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|-----------------------|-----------------------|-------------------|----------------------------------|----------------------------------|
| September 30, 2015 | September 30, 2014 | | | |
| \$2,494 | \$3,434 | (27.4%) | 5.2% | 8.4% |

Such expenses decreased \$940,000, or 27%, due primarily to a reduction of engineering staff resulting from our 2014 cost reduction initiatives as well as lower outside testing and pre-production expenses during the first nine months of 2015 compared to the first nine months of 2014 when we were in the process of launching three new products.

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

| Nine months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|-----------------------|-----------------------|-------------------|----------------------------------|----------------------------------|
| September 30, 2015 | September 30, 2014 | | | |
| \$6,060 | \$6,069 | (0.1%) | 12.7% | 14.9% |

Such expenses remained relatively consistent decreasing by less than 1% in the first nine months of 2015 compared to the first nine months of 2014 primarily due to lower marketing expenses from cost savings initiatives as well as lower travel expenses in our Printrex markets as we consciously decided to reduce these expenses in response to the worldwide decline in the oil and gas markets. These decreases were almost entirely offset by the planned investments we made during the second half of 2014 and early 2015 in new sales and marketing staff to focus on sales execution of our new products and higher tradeshow expense due to the timing of our largest tradeshow, the Global Gaming Expo, which occurred in the third quarter in 2015 compared to the fourth quarter in 2014.

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

| Nine months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|-----------------------|-----------------------|-------------------|----------------------------------|----------------------------------|
| September 30, 2015 | September 30, 2014 | | | |
| \$5,665 | \$5,789 | (2.1%) | 11.9% | 14.2% |

General and administrative expenses decreased \$124,000, or 2%, due primarily to lower salary expenses related to the departure of our VP, Business Development during the fourth quarter of 2014 who has not been replaced. This decrease was somewhat offset by higher incentive compensation expense in the first nine months of 2015 compared to the first nine months of 2014.

Legal Fees and Settlement Expenses Associated with Lawsuit. Legal fee information is summarized below (in thousands, except percentages):

| Nine months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|-----------------------|-----------------------|-------------------|----------------------------------|----------------------------------|
| September 30, 2015 | September 30, 2014 | | | |
| \$1,738 | \$475 | 265.9% | 3.7% | 1.2% |

As disclosed in Note 7 to the Condensed Consolidated Financial Statements, in June 2012, AD filed a civil complaint against the Company which we settled in March 2015. In connection with this lawsuit, we incurred legal fees of \$1,738,000 and \$475,000 in the first nine months of 2015 and 2014, respectively. Due to the settlement of the AD lawsuit in March 2015, we did not incur any additional expenses related to the lawsuit during the third quarter of 2015 and we do not expect to incur any further expenses for the remainder of 2015.

Operating Income. Operating income information is summarized below (in thousands, except percentages):

| Nine months ended | | Percent Change | Percent of Total Sales - 2015 | Percent of Total Sales - 2014 |
|-----------------------|-----------------------|-------------------|----------------------------------|----------------------------------|
| September 30, 2015 | September 30, 2014 | | | |
| \$3,987 | \$1,033 | 286.0% | 8.4% | 2.5% |

Both our operating income and operating margin increased primarily due to a 17% increase in sales in the first nine months of 2015 as compared to the first nine months of 2014. In addition, our operating income was positively impacted by cost savings initiatives we instituted in the fourth quarter of 2014 but were largely offset by higher legal expenses resulting from the AD lawsuit. Excluding the AD legal fees, our operating income would have increased \$4,217,000, or 280% in the first nine months of 2015 compared to the first nine months of 2014.

Interest. We recorded net interest expense of \$23,000 in the first nine months of 2015 compared to \$38,000 in the first nine months of 2014 due to the lower unused revolving credit line fee we are charged upon renewing the TD Bank Credit Facility with TD Bank on November 26, 2014. As of the renewal, we are charged a fee of 0.15% on unused borrowings compared to 0.25% during the first nine months of 2014. See “Liquidity and Capital Resources” below for more information.

Other, net. We recorded other expense of \$1,000 in the first nine months of 2015 compared to other expense of \$11,000 in the first nine months of 2014. The change was primarily due to lower net foreign currency transaction exchange losses recorded by our U.K. subsidiary in the first nine months of 2015 compared to the first nine months of 2014.

Income Taxes. We recorded an income tax provision for the first nine months of 2015 of \$1,403,000 at an effective tax rate of 35.4%, compared to an income tax provision during the first nine months of 2014 of \$365,000 at an effective tax rate of 37.1%. Our effective tax rate for the first nine months of 2014 was higher due to the impact from certain permanent book to tax adjustments on a relatively low level of pre-tax income.

Net Income. We reported net income during the first nine months of 2015 of \$2,560,000, or \$0.33 per diluted share, compared to \$619,000, or \$0.07 per diluted share, for the first nine months of 2014.

Liquidity and Capital Resources

Cash Flow

In the first nine months of 2015, our cash and cash equivalents balance decreased \$681,000, or 22%, from December 31, 2014 and we ended the third quarter of 2015 with \$2,450,000 in cash and cash equivalents, of which \$77,000 was held by our U.K. subsidiary, and no debt outstanding. However, in April 2015 we borrowed \$2,500,000 under our TD Bank Credit Facility to fund the \$3,600,000 payment related to the settlement of the AD lawsuit, which we fully repaid during the second quarter 2015.

Operating activities: The following significant factors affected our cash provided by operating activities of \$2,792,000 in the first nine months of 2015 as compared to our cash provided by operating activities of \$3,456,000 in the first nine months of 2014:

During the first nine months of 2015:

- We reported net income of \$2,560,000.
- We recorded depreciation, amortization, and share-based compensation expense of \$1,454,000.
- Accounts receivable increased \$845,000, or 9%, due to the increase and timing of sales during the third quarter of 2015.
- Inventories increased \$644,000, or 5%, due to the build-up of inventory in anticipation of higher sales volume in 2015.
- Accounts payable increased \$2,957,000 due primarily to increased inventory purchases during the first nine months of the year to support a higher level of sales.
- Accrued liabilities and other liabilities decreased \$4,434,000 due primarily to the payment of the AD lawsuit settlement in April 2015 and the payment of 2014 annual bonuses in March 2015.

During the first nine months of 2014:

- We reported net income of \$619,000.
- We recorded depreciation, amortization, and share-based compensation expense of \$1,526,000.
- Accounts receivable decreased \$2,061,000 due primarily to lower sales volume and collections made from the high concentration of sales made during the latter portion of the fourth quarter of 2013.
- Inventories increased \$499,000 due to increased stocking levels of our newly launched food safety and Printrex products combined with lower than expected sales volume.
- Accounts payable decreased \$921,000 due primarily to the timing of payments and decreased inventory purchases during the third quarter of 2014.
- Accrued liabilities and other liabilities increased \$713,000 primarily due to increased accrued salaries as well as higher levels of advanced payments received for EPICENTRAL™ software maintenance.

Investing activities: Our capital expenditures were \$491,000 and \$568,000 in the first nine months of 2015 and 2014, respectively. Expenditures in 2015 included approximately \$333,000 of cost incurred for the purchase of a new phone system and other computer equipment and the remaining amount was primarily for the purchase of new product tooling equipment. Expenditures in 2014 included \$316,000 of costs incurred for the purchase of new product tooling, \$39,000 for costs incurred in connection with an enhancement to the Company's ERP software and the remaining amount primarily for the purchase of manufacturing equipment and computer equipment.

Capital expenditures for 2015 are expected to be approximately \$800,000 primarily for the purchase of a new phone system, leasehold improvements at our Las Vegas facility and new product tooling and tooling enhancements for our existing products.

Financing activities: We used \$2,839,000 of cash from financing activities during the first nine months of 2015 to pay dividends of \$1,863,000 to common shareholders and to purchase \$1,020,000 of common stock for treasury, partially offset by proceeds and tax benefits from stock option exercises of \$44,000. During the first nine months of 2014, we used \$2,738,000 of cash from financing activities to pay cash dividends of \$1,912,000 to common shareholders and to purchase \$826,000 of common stock for treasury. Additionally, during the third quarter of 2015 we borrowed \$2,500,000 under the TD Bank Credit Facility to partially fund the \$3,600,000 payment related to the AD lawsuit, which we fully repaid before June 30, 2015.

Working Capital

Our working capital increased by 3% to \$18,906,000 at September 30, 2015 from \$18,361,000 at December 31, 2014. Our current ratio of current assets to current liabilities increased to 3.3 as of September 30, 2015 compared to 2.9 at December 31, 2014.

Credit Facility and Borrowings

The TD Bank Credit Facility provides for a \$20,000,000 revolving credit line. On November 26, 2014, we signed an amendment to renew the TD Bank Credit Facility through November 28, 2017. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate minus one percent and are secured by a lien on all of our assets. We also pay a fee of 0.15% on unused borrowings under the revolving credit line. The amendment increases the amount of revolving credit loans we may use to fund future cash dividend payments or treasury share buybacks to \$10,000,000 from \$5,000,000. The amendment also modified the definition of EBITDA to exclude certain non-recurring expenses, including without limitation, non-recurring litigation and acquisition expenses (including the \$3,625,000 expense we incurred in the fourth quarter of 2014 related to the settlement of the AD lawsuit); and modified the definition of Operating Cash Flow to exclude unfinanced capital expenditures for the quarters ending December 31, 2014, March 31, 2015 and June 30, 2015.

The TD Bank Credit Facility imposes certain quarterly financial covenants on us and restricts, among other things, our ability to incur additional indebtedness and the creation of other liens. We were in compliance with all financial covenants of the TD Bank Credit Facility at September 30, 2015. The following table lists the financial covenants and the performance measurements at September 30, 2015:

| Financial Covenant | Requirement/Restriction | Calculation at September 30, 2015 |
|--|-------------------------|-----------------------------------|
| Operating cash flow / Total debt service | Minimum of 1.25 times | 105.0 times |
| Funded Debt / EBITDA | Maximum of 3.0 times | 0 times |

During the second quarter of 2015 we borrowed \$2,500,000 under the TD Bank Credit Facility to partially fund the \$3,600,000 payment related to the AD lawsuit which we fully repaid before June 30, 2015.

As of September 30, 2015, borrowings available under the TD Bank Credit facility were \$20,000,000.

Shareholder Dividend Payments

In 2012, our Board of Directors initiated a quarterly cash dividend program which is subject to the Board's approval each quarter. For the three months ended September 30, 2015, our Board of Directors declared a quarterly cash dividend of \$0.08 per share, totaling approximately \$620,000, which was paid in September 2015 to common shareholders of record at the close of business on August 20, 2015. For the nine months ended September 30, 2015, dividends declared and paid totaled \$1,863,000, or \$0.24 per share. We expect to pay approximately \$2,500,000 in cash dividends to our common shareholders during 2015.

Stock Repurchase Program

Prior to its expiration on July 31, 2015, we maintained a stock repurchase program (the "Stock Repurchase Program") whereby we were authorized to repurchase up to \$7,500,000 of outstanding shares of common stock from time to time in the open market, depending on market conditions, share price and other factors. The Stock Repurchase Program expired on July 31, 2015 and was not renewed. During the nine months ended September 30, 2015 we repurchased 166,553 shares of our common stock for \$1,020,000 at an average price per share of \$6.12. As of September 30, 2015, no additional shares are authorized for future repurchases due to the expiration of the Stock Repurchase Program.

Resource Sufficiency

We believe that our cash and cash equivalents on hand, cash flows generated from operating activities and borrowings available under our TD Bank Credit Facility will provide sufficient resources to meet our working capital needs, finance our capital expenditures and dividend payments and meet our liquidity requirements through at least the next twelve months.

Contractual Obligations / Off-Balance Sheet Arrangements

The disclosure of payments we have committed to make under our contractual obligations is set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

On March 25, 2015 we executed a confidential settlement agreement on the AD lawsuit as disclosed herein under the heading "Other Information—Item 1. Legal Proceedings".

On May 29, 2015, we signed a non-exclusive agreement with IGT (formerly GTECH) to provide thermal lottery printers to IGT for various lottery applications through December 31, 2019.

On June 30, 2015, we signed a second amendment of our lease agreement for our facility in Las Vegas, Nevada with The Realty Associates Fund IX L.P. as disclosed herein under the heading “Other Information—Item 5. Other Information”.

Other than the items mentioned above, there have been no other material changes in our contractual obligations outside the ordinary course of business since December 31, 2014. We have no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The disclosure of our exposure to market risk is set forth under the heading “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. There has been no material change in our exposure to market risk during the nine months ended September 30, 2015.

Item 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

Information regarding risk factors appears in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes from the risk factors previously disclosed in that Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 6. EXHIBITS

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|--------------|--|
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |

- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANSACT TECHNOLOGIES INCORPORATED
(Registrant)

November 9, 2015

/s/ Steven A. DeMartino
Steven A. DeMartino
President, Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)

EXHIBIT LIST

The following exhibits are filed herewith.

Exhibit

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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