

TRANSACT TECHNOLOGIES INC  
Form 10-Q  
November 08, 2013

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, 2013

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

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(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

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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

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, 2013, the number of shares outstanding of the Company’s common stock, \$0.01 par value, was 8,244,580.

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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, 2013	December 31, 2012
(In thousands, except share data)		
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,755	\$ 7,537
Accounts receivable, net	15,561	15,927
Inventories	12,896	10,321
Deferred tax assets	1,443	1,443
Other current assets	534	471
<b>Total current assets</b>	<b>33,189</b>	<b>35,699</b>
Fixed assets, net	2,946	3,302
Goodwill	2,621	2,621
Deferred tax assets	1,104	1,172
Intangible assets, net of accumulated amortization of \$1,683 and \$1,298, respectively	1,984	2,328
Other assets	67	106
	8,722	9,529
<b>Total assets</b>	<b>\$ 41,911</b>	<b>\$ 45,228</b>
<b>Liabilities and Shareholders' Equity:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 5,847	\$ 6,422
Accrued liabilities	3,120	2,927
Income taxes payable	26	629
Accrued contingent consideration (Note 4)	230	136
Deferred revenue	155	93
<b>Total current liabilities</b>	<b>9,378</b>	<b>10,207</b>
Deferred revenue, net of current portion	170	168
Deferred rent, net of current portion	261	308
Accrued contingent consideration, net of current portion (Note 4)	530	824
Other liabilities	163	352
	1,124	1,652
<b>Total liabilities</b>	<b>10,502</b>	<b>11,859</b>
<b>Shareholders' equity:</b>		
Common stock, \$0.01 par value, 20,000,000 shares authorized; 11,031,618 and 10,903,077 shares issued, respectively; 8,244,580 and 8,720,200 shares	110	109

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outstanding, respectively		
Additional paid-in capital	27,096	25,940
Retained earnings	26,796	24,708
Accumulated other comprehensive loss, net of tax	(66)	(55)
Treasury stock, at cost, 2,787,038 and 2,182,877 shares, respectively	(22,527)	(17,333)
Total shareholders' equity	31,409	33,369
Total liabilities and shareholders' equity	\$ 41,911	\$ 45,228

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,	
	2013	2012	2013	2012
	(In thousands, except share data)			
Net sales	\$ 16,768	\$ 15,358	\$ 47,613	\$ 48,770
Cost of sales	9,562	9,679	27,522	30,471
Gross profit	7,206	5,679	20,091	18,299
Operating expenses:				
Engineering, design and product development	1,041	1,087	3,048	3,252
Selling and marketing	2,059	1,571	5,702	4,846
General and administrative	2,049	1,919	5,819	5,822
Legal fees associated with lawsuit (Note 9)	142	1,036	398	1,507
Business consolidation and restructuring (Note 8)	-	23	-	140
	5,291	5,636	14,967	15,567
Operating income	1,915	43	5,124	2,732
Interest and other income (expense):				
Interest, net	(8)	3	(9)	7
Other, net	(22)	(10)	11	(21)
	(30)	(7)	2	(14)
Income before income taxes	1,885	36	5,126	2,718
Income tax provision	434	13	1,300	979
Net income	\$ 1,451	\$ 23	\$ 3,826	\$ 1,739
Net income per common share:				
Basic	\$ 0.17	\$ 0.00	\$ 0.44	\$ 0.19
Diluted	\$ 0.17	\$ 0.00	\$ 0.44	\$ 0.19
Shares used in per-share calculation:				
Basic	8,582	8,822	8,675	9,110
Diluted	8,695	8,911	8,759	9,205
Dividends declared and paid per common share:	\$ 0.07	\$ -	\$ 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,	
	2013	2012	2013	2012
	(In thousands)			
Net income	\$ 1,451	\$ 23	\$ 3,826	\$ 1,739
Foreign currency translation adjustment, net of tax	16	13	(11)	16
Comprehensive income	\$ 1,467	\$ 36	\$ 3,815	\$ 1,755

See notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,826	\$ 1,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	397	402
Incremental tax benefits from stock options exercised	(113)	(42)
Depreciation and amortization	1,314	1,314
Gain on sale of fixed assets	(5)	(12)
Foreign currency transaction (gains) losses	(6)	31
Changes in operating assets and liabilities:		
Accounts receivable	358	(228)
Inventories	(2,576)	3,397
Prepaid income taxes	59	17
Other current and long term assets	(3)	(433)
Accounts payable	(575)	909
Accrued liabilities and other liabilities	(638)	690
Net cash provided by operating activities	2,038	7,784
<b>Cash flows from investing activities:</b>		
Capital expenditures	(562)	(675)
Additions to capitalized software	(42)	(23)
Proceeds from sale of assets	5	14
Net cash used in investing activities	(599)	(684)
<b>Cash flows from financing activities:</b>		
Proceeds from stock option exercises	609	145
Payment of dividends on common stock	(1,738)	-
Purchases of common stock for treasury	(5,194)	(5,563)
Incremental tax benefits from stock options exercised	113	42
Net cash used in financing activities	(6,210)	(5,376)
Effect of exchange rate changes on cash and cash equivalents	(11)	(10)
(Decrease) increase in cash and cash equivalents	(4,782)	1,714
Cash and cash equivalents, beginning of period	7,537	6,863
Cash and cash equivalents, end of period	\$ 2,755	\$ 8,577

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 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 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, 2012 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, 2012 included in our Annual Report on Form 10-K.

The financial position and results of operations of our U.K. foreign 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 in the Condensed Consolidated Statements of Income.

The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the full year.

2. Inventories

The components of inventories are:

	September 30, 2013	December 31, 2012
	(In thousands)	
Raw materials and purchased component parts	\$ 7,930	\$ 6,871
Work-in-process	69	-
Finished goods	4,897	3,450
	\$ 12,896	\$ 10,321

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, 2013:

	(In thousands)
Balance, beginning of period	\$ 274
Warranties issued	408
Warranty settlements	(292)
Balance, end of period	\$ 390

Approximately \$90,000 of the accrued product warranty liability is classified as long-term in Other liabilities at September 30, 2013 in the Condensed Consolidated Balance Sheets.

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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 the earlier of 1) January 1, 2012 or 2) the date of first commercial introduction of the new products under development. The undiscounted fair value related to the contingent liability could range from approximately \$400,000 to \$1,500,000. The fair value of the contingent consideration arrangement was \$760,000 and \$960,000 at September 30, 2013 and December 31, 2012, 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 2013, the fair value of the contingent consideration decreased by \$200,000 and this is reflected as a reduction in general and administrative expenses on the Condensed Consolidated Statements of Income. No payments were made under the arrangement during the nine months ended September 30, 2013 as the underlying conditions of the contingent consideration arrangement were not satisfied. Refer to Note 3, Business acquisitions, to the Company's Consolidated Financial Statements included in the Company's 2012 Annual Report on Form 10-K for the year ended December 31, 2012 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,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Net income	\$ 1,451	\$ 23	\$ 3,826	\$ 1,739
<b>Shares:</b>				
Basic: Weighted average common shares outstanding	8,582	8,822	8,675	9,110
Add: Dilutive effect of outstanding options as determined by the treasury stock method	113	89	84	95
Diluted: Weighted average common and common equivalent shares outstanding	8,695	8,911	8,759	9,205
<b>Net income per common share:</b>				
Basic	\$ 0.17	\$ 0.00	\$ 0.44	\$ 0.19
Diluted	\$ 0.17	\$ 0.00	\$ 0.44	\$ 0.19

For the three months ended September 30, 2013 and 2012, there were 316,000 and 585,125, 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, 2013 and 2012, there were 405,000 and 585,125, respectively, potentially dilutive shares consisting of stock options that were excluded from the calculation of earnings per diluted share.

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

## 6. Shareholders' equity

Changes in shareholders' equity for the nine months ended September 30, 2013 were as follows (in thousands):

Balance at December 31, 2012	\$33,369
Net income	3,826
Proceeds from issuance of shares from exercise of stock options	609
Share-based compensation expense	397
Incremental tax benefits from stock options exercised	113
Issuance of deferred stock units, net of relinquishments	111
Foreign currency translation adjustment	(11)
Reversal of deferred tax asset in connection with stock options forfeited	(73)
Dividends declared and paid on common stock	(1,738)
Purchases of common stock for treasury	(5,194)
Balance at September 30, 2013	\$31,409

We paid a portion of the 2012 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 March 2013 and were fully vested at the time of grant.

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

## 7. Income taxes

We recorded an income tax provision for the third quarter of 2013 of \$434,000 at an effective tax rate of 23.0%, compared to an income tax provision during the third quarter of 2012 of \$13,000 at an effective tax rate of 36.1%. For the nine months ended September 30, 2013, we recorded an income tax provision of \$1,300,000 at an effective tax rate of 25.4%, compared to an income tax provision during the nine months ended September 30, 2012 of \$979,000 at an effective tax rate of 36.0%. Our effective tax rate for the third quarter of 2013 is unusually low due to a \$224,000 reduction in tax liabilities for unrecognized tax benefits resulting from the completion of an audit of our 2010 federal income tax return. Our effective tax rate for the first nine months of 2013 is unusually low because it includes: 1) the previously discussed reduction in tax liabilities for unrecognized tax benefits recorded in the third quarter of 2013 and 2) the benefit from the 2012 federal research and development credit ("R&D credit") of approximately \$220,000 as this credit was not renewed until January 2, 2013 as a component of the American Taxpayer Relief Act of 2012.

We are subject to U.S. federal income tax as well as income tax of certain state and foreign jurisdictions. We have substantially concluded all U.S. federal income tax, state and local, and foreign tax matters through 2009. 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 tax return was completed. However, our federal tax returns for the years 2010 through 2012 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, 2013, we had \$73,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

#### 8. Business consolidation and restructuring expenses

As discussed in Note 8, Accrued business consolidation and restructuring expenses, of the Company's 2012 Annual Report on Form 10-K for the year ended December 31, 2012, in January 2012, we determined that we no longer needed to maintain the existing Printrex manufacturing facility in San Jose, California, along with certain redundant headcount. As a result, we incurred expenses of \$23,000 and \$140,000, respectively, in the three and nine months ended September 30, 2012 for employee termination benefits related to these employee reductions as well as moving costs related to the closing of the San Jose manufacturing operations. This restructuring charge was recorded in accordance with ASC 420-10-25-4 "Exit or Disposal Cost Obligations" and cash payments made under this restructuring plan were completed by October 2012.

#### 9. 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 for 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.

## 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.

### 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, EPICENTRAL™, Ithaca® 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, oil and gas and medical and mobile. 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 printers. 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](http://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, 2012. We have reviewed those policies and determined that they remain our critical accounting policies for the nine months ended September 30, 2013.

Results of Operations: Three months ended September 30, 2013 compared to three months ended September 30, 2012

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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, 2013 and 2012 were as follows (in thousands, except percentages):

	Three months ended		Three months ended		Change	
	September 30, 2013		September 30, 2012		\$	%
Food safety, banking and POS	\$ 3,670	21.9%	\$ 1,829	11.9%	\$ 1,841	100.7%
Casino and gaming	7,511	44.8%	6,100	39.7%	1,411	23.1%
Lottery	1,025	6.1%	2,454	16.0%	(1,429)	(58.2%)
Printrex	1,111	6.6%	1,209	7.9%	(98)	(8.1%)
TSG	3,451	20.6%	3,766	24.5%	(315)	(8.4%)
	\$ 16,768	100.0%	\$ 15,358	100.0%	\$ 1,410	9.2%
International *	\$ 3,221	19.2%	\$ 4,075	26.5%	\$ (854)	(21.0%)

\* 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 2013 increased \$1,410,000, or 9%, from the same period in 2012. Printer sales volume increased 2% to approximately 43,000 units driven primarily by a 20% increase in unit volume from the casino and gaming market and a 45% increase in unit volume from the food safety, banking and POS market. These increases were partially offset by a decrease in unit volume of 57% from the lottery market. The average selling price of our printers increased approximately 9% in the third quarter of 2013 compared to the third quarter of 2012 primarily due to higher sales contributions from our Ithaca® 9700 food safety terminal. Overall, international sales decreased \$854,000, or 21%, primarily driven by lower international casino and gaming printer sales.

## Food safety, banking and POS:

Revenue from the food safety, banking and POS market includes sales of food safety terminals, hardware devices that consist of 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, 2013 and 2012 is as follows (in thousands, except percentages):

	Three months ended		Three months ended		Change	
	September 30, 2013		September 30, 2012		\$	%
Domestic	\$ 3,592	97.9%	\$ 1,726	94.4%	\$ 1,866	108.1%
International	78	2.1%	103	5.6%	(25)	(24.3%)
	\$ 3,670	100.0%	\$ 1,829	100.0%	\$ 1,841	100.7%

The increase in domestic food safety, banking and POS product revenue from the third quarter of 2012 was primarily driven by sales from our new Ithaca® 9700 food safety terminal and Ithaca® 9000 printer during the quarter. These increases were partially offset by lower sales of our legacy POS printers as we continue to decrease our focus on this commoditized market. For the fourth quarter of 2013, we believe sales of our food safety terminals may be impacted by seasonality as restaurants may reduce purchases during the holiday season.

## 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, 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, 2013 and 2012 is as follows (in thousands, except percentages):

	Three months ended		Three months ended		Change	
	September 30, 2013		September 30, 2012		\$	%
Domestic	\$ 4,806	64.0%	\$ 2,803	46.0%	\$ 2,003	71.5%
International	2,705	36.0%	3,297	54.0%	(592)	(18.0%)
	\$ 7,511	100.0%	\$ 6,100	100.0%	\$ 1,411	23.1%

The increase in domestic sales of our casino and gaming products is primarily due to a 64% increase in sales of our thermal casino printers in addition to higher EPICENTRAL™ software sales compared to 2012 due to a new installation that occurred in the third quarter of 2013. We believe that our higher casino printer sales during the third quarter of 2013 resulted primarily from a higher replacement volume as compared to the third quarter of 2012.

International casino and gaming printer sales decreased due primarily to a 40% decrease in sales of our off-premise thermal gaming printers mainly from a 91% and 28% decrease in sales to customers in Australia and Asia, and our

European distributor, respectively. Sales of our off-premise gaming printers are largely project-oriented, and we therefore cannot predict the level of future sales. Additionally, sales of our thermal casino printers decreased 9% primarily from lower sales to our European distributor.

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, 2013 and 2012 is as follows (in thousands, except percentages):

	Three months ended September 30, 2013	Three months ended September 30, 2012	Change \$	%
Domestic	\$ 1,025			