CSP INC /MA/
Form 10-Q
May 15, 2015
United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2015
o 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 0-10843

CSP Inc.
(Exact name of Registrant as specified in its Charter)

Massachusetts	04-2441294
(State of incorporation)	(I.R.S. Employer Identification No.)

43 Manning Road
Billerica, Massachusetts 01821-3901
(978) 663-7598
(Address and telephone number of principal executive offices)

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 x No o.

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

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

Large accelerated filer o Accelerated filer o

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

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

As of May 13, 2015, the registrant had 3,675,120 shares of common stock issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CSP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value)

	March 31, 2015 (Unaudited)	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$9,022	$16,448
Accounts receivable, net of allowances of $271 and $241	14,643	12,532
Inventories, net	7,031	6,446
Refundable income taxes	1,010	418
Deferred income taxes	1,226	1,230
Other current assets	2,456	2,372
Total current assets	35,388	39,446
Property, equipment and improvements, net	1,341	1,472
Other assets:		
Intangibles, net	480	545
Deferred income taxes	1,792	1,892
Cash surrender value of life insurance	2,917	2,785
Other assets	209	167
Total other assets	5,398	5,389
Total assets	$42,127	$46,307
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$9,873	$9,751
Deferred revenue	2,682	4,101
Pension and retirement plans	644	658
Income taxes payable	—	1
Total current liabilities	13,199	14,511
Pension and retirement plans	9,312	10,440
Other long term liabilities	72	69
Total liabilities	22,583	25,020
Commitments and contingencies		
Shareholders’ equity:		
Common stock, $.01 par value per share; authorized, 7,500 shares; issued and outstanding 3,675 and 3,619 shares, respectively	37	36
Additional paid-in capital	11,951	11,658
Retained earnings	15,597	17,517
Accumulated other comprehensive loss	(8,041)	(7,924)
Total shareholders’ equity	19,544	21,287
Total liabilities and shareholders’ equity	$42,127	$46,307

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except for per share data)

	For the three months ended		For the six months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Sales:				
Product	$14,195	$14,319	$29,848	$29,068
Services	4,682	6,584	9,459	13,167
Total sales	18,877	20,903	39,307	42,235
Cost of sales:				
Product	11,380	11,668	24,513	24,389
Services	3,454	4,153	6,796	8,231
Total cost of sales	14,834	15,821	31,309	32,620
Gross profit	4,043	5,082	7,998	9,615
Operating expenses:				
Engineering and development	826	792	1,679	1,427
Selling, general and administrative	3,856	3,957	7,879	7,977
Total operating expenses	4,682	4,749	9,558	9,404
Bargain purchase gain on acquisition, net of tax	—	—	—	462
Operating income (loss)	(639)	333	(1,560)	673
Other expense:				
Foreign exchange loss	(108)	(27)	(129)	(53)
Other expense, net	(21)	(21)	(33)	(21)
Total other expense	(129)	(48)	(162)	(74)
Income (loss) before income taxes	(768)	285	(1,722)	599
Income tax expense (benefit)	(93)	118	(610)	86
Net income (loss)	$(675)	$167	$(1,112)	$513
Net income (loss) attributable to common stockholders	$(649)	$161	$(1,072)	$495
Net income (loss) per share – basic	$(0.19)	$0.05	$(0.31)	$0.14
Weighted average shares outstanding – basic	3,525	3,446	3,507	3,439
Net income (loss) per share – diluted	$(0.19)	$0.05	$(0.31)	$0.14
Weighted average shares outstanding – diluted	3,525	3,493	3,507	3,484

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Amounts in thousands)

	For the three months ended		For the six months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Net income (loss)	$(675)	$167	$(1,112)	$513
Other comprehensive income (loss):				
Foreign currency translation gain (loss) adjustments	(229)	4	(117)	154
Other comprehensive income (loss)	(229)	4	(117)	154
Total comprehensive income (loss)	$(904)	$171	$(1,229)	$667

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the six Months Ended March 31, 2015:
(Amounts in thousands, except per share data)

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated other comprehensive loss	Total Shareholders' Equity
Balance as of September 30, 2014	3,619	$36	$11,658	$17,517	$ (7,924)	$ 21,287
Net loss	—	—	—	(1,112)	—	(1,112)
Other comprehensive loss	—	—	—	—	(117)	(117)
Stock-based compensation	—	—	188	—	—	188
Restricted stock issuance	41	1	—	—	—	1
Issuance of shares under employee stock purchase plan	15	—	105	—	—	105
Cash dividends on common stock ($0.22 per share)	—	—	—	(808)	—	(808)
Balance as of March 31, 2015	3,675	$37	$11,951	$15,597	$ (8,041)	$ 19,544

See accompanying notes to unaudited consolidated financial statements.

CSP INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	For the six months ended March 31, 2015	March 31, 2014
Cash flows from operating activities:		
Net income (loss)	$(1,112)	$513
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Bargain purchase gain	—	(462)
Depreciation and amortization	266	245
Amortization of intangibles	65	60
Loss on sale of fixed assets, net	—	2
Foreign exchange loss	129	53
Non-cash changes in accounts receivable	37	67
Non-cash changes in inventory	38	140
Stock-based compensation expense on stock options and restricted stock awards	188	159
Deferred income taxes	(21)	21
Increase in cash surrender value of life insurance	(23)	(84)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,267)	(8,763)
Increase in inventories	(741)	(764)
(Increase) decrease in refundable income taxes	(619)	476
Increase in other current assets	(296)	(503)
Increase in other assets	(59)	—
Increase in accounts payable and accrued expenses	785	2,676
Increase (decrease) in deferred revenue	(1,017)	2,445
Decrease in pension and retirement plans liability	(36)	(120)
Increase (decrease) in income taxes payable	6	(486)
Increase in other long term liabilities	3	19
Net cash used in operating activities	(5,674)	(4,306)
Cash flows from investing activities:		
Life insurance premiums paid	(109)	(80)
Proceeds from the sale of fixed assets	—	6
Cash paid to acquire business	—	(500)
Purchases of property, equipment and improvements	(223)	(295)
Net cash used in investing activities	(332)	(869)
Cash flows from financing activities:		
Dividends paid	(808)	(752)
Proceeds from issuance of shares under equity compensation plans	105	6
Net cash used in financing activities	(703)	(746)
Effects of exchange rate on cash	(717)	162
Net decrease in cash and cash equivalents	(7,426)	(5,759)
Cash and cash equivalents, beginning of period	16,448	18,619
Cash and cash equivalents, end of period	$9,022	$12,860
Supplementary cash flow information:		
Cash paid for income taxes	$52	$63
Cash paid for interest	$85	$85
Non-cash acquisition of assets	$—	$1,214

See accompanying notes to unaudited consolidated financial statements.

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CSP INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED MARCH 31, 2015 AND 2014

Organization and Business

CSP Inc. was founded in 1968 and is based in Billerica, Massachusetts. To meet the diverse requirements of its industrial, commercial and defense customers worldwide, CSP Inc. and its subsidiaries (collectively "we", "us", "our", "CSPI" or the "Company") develop and market IT integration solutions and high-performance cluster computer systems. The Company operates in two segments, its High Performance Products ("HPP") segment (formerly the "High Performance Products and Solutions" segment) and its Technology Solutions ("TS") segment (formerly the Information Technology Solutions segment).

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. All adjustments were of a normal recurring nature. Certain information and footnote disclosures normally included in the annual consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States, have been omitted.

Accordingly, the Company believes that although the disclosures are adequate to make the information presented not misleading, the unaudited consolidated financial statements should be read in conjunction with the footnotes contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

2. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, including estimates and assumptions related to reserves for bad debt, reserves for inventory obsolescence, the impairment assessment of intangible assets, the calculation of estimated selling price used for revenue recognition and the calculation of income tax liabilities. Actual results may differ from those estimates under different assumptions or conditions.

3. Earnings Per Share of Common Stock

Basic net income (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per common share reflects the maximum dilution that would have resulted from the assumed exercise and share repurchase related to dilutive stock options and is computed by dividing net income (loss) by the assumed weighted average number of common shares outstanding.

We are required to present earnings per share, or EPS, utilizing the two class method because we had outstanding, non-vested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, which are considered participating securities.

Basic and diluted earnings per share computations for the Company's reported net income (loss) attributable to common stockholders are as follows:

	For the three months ended		For the six months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
	(Amounts in thousands except per share data)			
Net income (loss)	$(675)	$167	$(1,112)	$513
Less: net income (loss) attributable to nonvested common stock	(26)	6	(40)	18
Net income (loss) attributable to common stockholders	$(649)	$161	$(1,072)	$495
Weighted average total shares outstanding – basic	3,662	3,580	3,637	3,562
Less: weighted average non-vested shares outstanding	137	134	130	123
Weighted average number of common shares outstanding – basic	3,525	3,446	3,507	3,439
Potential common shares from non-vested stock awards and the assumed exercise of stock options	—	47	—	45
Weighted average common shares outstanding – diluted	3,525	3,493	3,507	3,484
Net income (loss) per share – basic	$(0.19)	$0.05	$(0.31)	$0.14
Net income (loss) per share – diluted	$(0.19)	$0.05	$(0.31)	$0.14

All anti-dilutive securities, including certain stock options, are excluded from the diluted income (loss) per share computation. The calculation of diluted loss per share for the three and six months ended March 31, 2015 excludes 35,000 stock options and the calculation of basic net income per share for the three and six months ended March 31, 2014 excludes 49,000 stock options with an exercise price in excess of fair value, because in each case the inclusion of those shares in the calculation would have been anti-dilutive.

4. Inventories

Inventories consist of the following:

	March 31, 2015	September 30, 2014
	(Amounts in thousands)	
Raw materials	$2,191	$2,377
Work-in-process	634	229
Finished goods	4,206	3,840
Total	$7,031	$6,446

Finished goods includes inventory that has been shipped, but for which all revenue recognition criteria have not been met, of approximately $0.1 million and $0.4 million as of March 31, 2015 and September 30, 2014, respectively.

Total inventory balances in the table above are shown net of reserves for obsolescence of approximately $4.6 million and $4.7 million as of March 31, 2015 and September 30, 2014.

5. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

	March 31, 2015	September 30, 2014
	(Amounts in thousands)	
Cumulative effect of foreign currency translation	$(2,612)	$(2,495)
Cumulative unrealized loss on pension liability	(5,429)	(5,429)
Accumulated other comprehensive loss	$(8,041)	$(7,924)

6. Pension and Retirement Plans

The Company has defined benefit and defined contribution plans in the United Kingdom, Germany and the U.S. In the United Kingdom and Germany, the Company provides defined benefit pension plans and defined contribution plans for the majority of its employees. In the U.S., the Company provides benefits through supplemental retirement plans to certain current and former employees. The domestic supplemental retirement plans have life insurance policies which are not plan assets but were purchased by the Company as a vehicle to fund the costs of the plan. Domestically, the Company also provides for officer death benefits through post-retirement plans to certain officers. All of the Company's defined benefit plans are closed to newly hired employees and have been for the two years ended September 30, 2014 and 2013 and for the six months ended March 31, 2015.

The Company funds its pension plans in amounts sufficient to meet the requirements set forth in applicable employee benefits laws and local tax laws. Liabilities for amounts in excess of these funding levels are accrued and reported in the consolidated balance sheets.

The Company's pension plan in the United Kingdom is the only plan with plan assets. The plan assets consist of an investment in a commingled fund which in turn comprises a diversified mix of assets including corporate equity securities, government securities and corporate debt securities.

The components of net periodic benefit costs related to the U.S. and international plans are as follows:

	For the Three Months Ended March 31,					
	2015			2014		
	Foreign	U.S.	Total	Foreign	U.S.	Total
	(Amounts in thousands)					
Pension:						
Service cost	$13	$—	$13	$12	$—	$12
Interest cost	155	13	168	193	17	210
Expected return on plan assets	(104)	—	(104)	(117)	—	(117)
Amortization of:						
Prior service gain	—	—	—	—	—	—
Amortization of net gain	49	(1)	48	23	(2)	21
Net periodic benefit cost	$113	$12	$125	$111	$15	$126
Post Retirement:						
Service cost	$—	$9	$9	$—	$2	$2
Interest cost	—	11	11	—	11	11
Amortization of net gain	—	(13)	(13)	—	(36)	(36)
Net periodic cost (benefit)	$—	$7	$7	$—	$(23)	$(23)

	For the Six Months Ended March 31,					
	2015			2014		
	Foreign	U.S.	Total	Foreign	U.S.	Total
	(Amounts in thousands)					
Pension:						
Service cost	$28	$—	$28	$23	$—	$23
Interest cost	320	26	346	383	34	417
Expected return on plan assets	(212)	—	(212)	(232)	—	(232)
Amortization of:						
Prior service gain	—	—	—	—	—	—
Amortization of net gain	102	(2)	100	46	(4)	42
Net periodic benefit cost	$238	$24	$262	$220	$30	$250
Post Retirement:						
Service cost	$—	$17	$17	$—	$5	$5
Interest cost	—	22	22	—	22	22
Amortization of net gain	—	(25)	(25)	—	(72)	(72)
Net periodic cost (benefit)	$—	$14	$14	$—	$(45)	$(45)

7. Segment Information

The following table presents certain operating segment information.

		Technology Solutions Segment				
For the three Months Ended March 31,	High Performance Products Segment	Germany	United Kingdom	U.S.	Total	Consolidated Total
	(Amounts in thousands)					
2015						
Sales:						
Product	$2,527	$1,796	$891	$8,981	$11,668	$14,195
Service	130	3,690	213	649	4,552	4,682
Total sales	2,657	5,486	1,104	9,630	16,220	18,877
Loss from operations	(647)	170	(93)	(69)	8	(639)
Assets	15,595	12,555	3,118	10,859	26,532	42,127
Capital expenditures	25	95	—	—	95	120
Depreciation and amortization	60	44	10	45	99	159
2014						
Sales:						
Product	$2,170	$3,452	$336	$8,361	$12,149	$14,319
Service	1,065	4,486	304	729	5,519	6,584
Total sales	3,235	7,938	640	9,090	17,668	20,903
Income (loss) from operations	113	294	(30)	(44)	220	333
Assets	15,644	20,882	2,726	13,438	37,046	52,690
Capital expenditures	41	14	22	32	68	109
Depreciation and amortization	54	49	4	46	99	153

For the six Months Ended March 31,	High Performance Products Segment	Technology Solutions Segment Germany	United Kingdom	U.S.	Total	Consolidated Total
	(Amounts in thousands)					
2015						
Sales:						
Product	$4,979	$3,940	$2,461	$18,468	$24,869	$29,848
Service	360	7,218	496	1,385	9,099	9,459
Total sales	5,339	11,158	2,957	19,853	33,968	39,307
Income (loss) from operations	(1,504)	249	(25)	(280)	(56)	(1,560)
Assets	15,595	12,555	3,118	10,859	26,532	42,127
Capital expenditures	46	176	1	—	177	223
Depreciation and amortization	131	91	17	92	200	331
2014						
Sales:						
Product	$3,176	$4,853	$983	$20,056	$25,892	$29,068
Service	2,348	8,674	632	1,513	10,819	13,167
Total sales	5,524	13,527	1,615	21,569	36,711	42,235
Income from operations	255	213	1	204	418	673
Assets	15,644	20,882	2,726	13,438	37,046	52,690
Capital expenditures	102	101	45	47	193	295
Depreciation and amortization	106	95	8	96	199	305

Income (loss) from operations consists of sales less cost of sales, engineering and development, selling, general and administrative expenses but is not affected by either other income/expense or by income taxes expense/benefit. Non-operating charges/income consists principally of investment income and interest expense. All intercompany transactions have been eliminated.

The following table lists customers from which the Company derived revenues in excess of 10% of total revenues for the three and six months ended March 31, 2015, and 2014.

	For the three Months Ended March 31, 2015 Customer Revenues	% of Total Revenues	2014 Customer Revenues	% of Total Revenues	For the six Months Ended March 31, 2015 Customer Revenues	% of Total Revenues	2014 Customer Revenues	% of Total Revenues
	(dollars in millions)							
Customer A	$2.4	13%	$1.9	9%	$4.7	12%	$8.0	19%
Customer B	$3.7	20%	$5.6	27%	$6.6	17%	$8.9	21%

In addition, accounts receivable from Customer B totaled approximately $4.5 million or 31% of total consolidated accounts receivable as of March 31, 2015 and $3.0 million or 20% of total consolidated accounts receivable as of September 30, 2014. We believe that the Company is not exposed to any significant credit risk with respect to the accounts receivable with this customer as of March 31, 2015. No other customer accounted for 10% or more of total consolidated accounts receivable as of March 31, 2015 or September 30, 2014.

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8. Fair Value Measures

Assets measured at fair value on a recurring basis are as follows:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Balance
	As of March 31, 2015 (Amounts in thousands)			
Assets:				
Money Market funds	$507	$—	$—	$507
Total assets measured at fair value	$507	$—	$—	$507
	As of September 30, 2014 (Amounts in thousands)			
Assets:				
Money Market funds	$1,006	$—	$—	$1,006
Total assets measured at fair value	$1,006	$—	$—	$1,006

These assets are included in cash and cash equivalents in the accompanying consolidated balance sheets. All other monetary assets and liabilities are short-term in nature and approximate their fair value. The Company did not have any transfers between Level 1, Level 2 or Level 3 measurements.

The Company had no liabilities measured at fair value as of March 31, 2015 or September 30, 2014. The Company had no assets or liabilities measured at fair value on a non recurring basis as of March 31, 2015 or September 30, 2014.

9. Dividends

On December 16, 2014, the Company's board of directors declared a cash dividend of $0.11 per share which was paid on January 8, 2015 to shareholders of record as of December 28, 2014, the record date.

On February 11, 2015 the Company's board of directors declared a cash dividend of $0.11 per share which was paid on March 12, 2015 to shareholders of record as of February 26, 2015, the record date.

10. Acquired Business

On November 4, 2013 the Company acquired substantially all of the assets of Myricom, Inc. Myricom has been integrated into the High Performance Products segment.
Although Myricom was an established business prior to the acquisition, it had previously sold off a significant portion of its business and was faced with the likelihood of having to shut down operations if it could not find a buyer to purchase its remaining assets because the revenue that Myricom was able to generate from these remaining assets was not sufficient to operate the business profitably. As a result, the Company recognized a bargain purchase gain. The Company paid total cash consideration of approximately $0.5 million to acquire substantially all of the assets of Myricom and incurred approximately $0.1 million for the assumption of certain other liabilities. The purchase of Myricom resulted in the recognition of a net after tax bargain purchase gain of approximately $0.5 million as shown below.

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The purchase price was allocated as follows:

	(Amounts in Thousands)
Inventory	$1,030
Property & equipment	17
Intangibles	260
Gross assets acquired	1,307
Product warranty liability assumed	(93)
Net assets acquired	1,214
Less: asset purchase price	500
Bargain purchase gain before tax	714
Deferred tax on bargain purchase gain	(252)
Bargain purchase gain, net of tax effect	$462

The results of operations of Myricom for the for the six months ended March 31, 2015 and the five month period beginning on November 4, 2013 and ending on March 31, 2014 are included in the Company's consolidated statements of operations for the three and six months ended March 31, 2015 and 2014, respectively.

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

Forward-Looking Statements

The discussion below contains certain forward-looking statements related to, among others, but not limited to, statements concerning future revenues and future business plans. In addition, forward-looking statements include statements in which we use words such as "expect," "believe," "anticipate," "intend," or similar expressions. Although we believe the expectations reflected in such forward-looking statements are based on reasonable assumptions, we cannot assure you that these expectations will prove to have been correct, and actual results may vary from those contained in such forward-looking statements.

Markets for our products and services are characterized by rapidly changing technology, new product introductions and short product life cycles. These changes can adversely affect our business and operating results. Our success will depend on our ability to enhance our existing products and services and to develop and introduce, on a timely and cost effective basis, new products that keep pace with technological developments and address increasing customer requirements. The inability to meet these demands could adversely affect our business and operating results.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate our estimates, including those related to uncollectible receivables, inventory valuation, income taxes, deferred compensation and retirement plans, estimated selling prices used for revenue recognition and contingencies. We base our estimates on historical performance and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies is contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014 in the "Critical Accounting Policies" section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Explanatory note

Beginning in the current period ending and as of March 31, 2015, we have renamed our segments. We have renamed the segment that was formerly known as the High Performance Products and Solutions segment to the High Performance Products ("HPP") segment. We have also renamed the segment that was formerly known as the Information Technology Solutions segment to the Technology Solutions ("TS") segment.

Overview of the three months ended March 31, 2015

Overview:

Our revenue decreased by approximately $2.0 million, or 10%, to $18.9 million for the three months ended March 31, 2015 versus $20.9 million for the three months ended March 31, 2014. The decrease in revenue is primarily attributed to $0.8 million of royalty revenue for one plane in the second quarter of 2014 as compared to no plane royalty revenue for the same period in 2015 and a $1.4 million decrease in TS segment revenues, partially offset by $0.2 million of additional HPP revenues. We expect to recognize royalty revenue on five planes during the last 6 months of fiscal year 2015.

Our gross profit margin percentage decreased overall, from 24% of revenues for the three months ended March 31, 2014 to 21% for the three months ended March 31, 2015. The 3% decrease in our gross margin percentage is attributed to not having $0.8 million of gross profit from plane royalty revenue the second quarter of 2015.