

TRANSACT TECHNOLOGIES INC
Form 10-K
March 14, 2014

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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

(Exact name of registrant as specified in its charter)

Delaware

06-1456680

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

One Hamden Center, 2319 Whitney Avenue, Suite 3B,
Hamden, CT

06518

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code 203-859-6800

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class - Common Stock, par value \$.01 per share Name of Exchange on which Registered - NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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

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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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the Registrant was approximately \$67,800,000 based on the last sale price on June 28, 2013.

As of February 28, 2014, the number of shares outstanding of the Registrant's common stock, \$0.01 par value, was 8,371,307.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

TRANSACT TECHNOLOGIES INCORPORATED

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PART I

Item 1. Business.

The Company

TransAct Technologies Incorporated (“TransAct” or the “Company”) was incorporated in June 1996 and began operating as a stand-alone business in August 1996 as a spin-off of the printer business that was formerly conducted by certain subsidiaries of Tridex Corporation. We completed an initial public offering on August 22, 1996.

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, and Printrex (which serves the oil and gas, medical and emergency vehicle markets). We sell our products to original equipment manufacturers (“OEMs”), value-added resellers (“VARs”), selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. TransAct also provides world-class printer service, spare parts, accessories and printing supplies to its growing worldwide installed base of 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, and our direct selling team, we address the on-line demand for these products. We have one primary operating and global research and development and eastern region service center located in Ithaca, NY. In addition, we have a casino and gaming sales headquarters and western region service center in Las Vegas, NV, a satellite research and development office in San Jose, CA, a European sales and service center in the United Kingdom, a sales office located in Macau and three other sales offices located in the United States. Our executive offices are located at One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT, 06518, with a telephone number of (203) 859-6800.

On August 19, 2011, we completed the acquisition of Printrex, Inc. (“Printrex”) for \$4,000,000 in cash and potential future contingent consideration. Printrex is a leading manufacturer of specialty printers primarily sold into the oil and gas exploration and medical and mobile markets. Printrex serves commercial and industrial customers primarily in the United States, Canada, Europe and Asia. This acquisition was completed to complement our existing product offerings.

Financial Information about Segments

We operate in one reportable segment, the design, development, assembly and marketing of transaction printers and terminals and providing related software, services, supplies and spare parts.

Products, Services and Distribution Methods

Printers and terminals

TransAct designs, develops, assembles and markets a broad array of transaction-based and specialty printers and terminals utilizing inkjet, thermal and impact printing technology for applications, primarily in the food safety, banking and POS, casino and gaming, lottery, oil and gas, medical and emergency vehicle markets. Our printers and terminals are configurable and offer customers the ability to choose from a variety of features and functions. Options typically include interface configuration, paper cutting devices, paper handling capacities and cabinetry color. In addition to our configurable printers and terminals, we design and assemble custom printers for certain OEM customers. In collaboration with these customers, we provide engineering and manufacturing expertise for the design

and development of specialized printers.

Food safety, banking and POS: During 2012 in an effort to address the Food Safety Modernization Act, we developed a food safety terminal, a hardware device that consists 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. In the food safety market, we use an internal sales representative to manage sales of our terminals through distribution, as well as a dedicated internal sales force to solicit sales directly from end-users.

Our banking and POS printers include hundreds of optional configurations that can be selected to meet particular customer needs. We believe that this is a significant competitive strength, as it allows us to satisfy a wide variety of printing applications that our customers request. In the banking market, we sell printers that are used by banks, credit unions and other financial institutions to print receipts and/ or validate checks at bank teller stations. In the POS market, we sell several models of printers utilizing inkjet, thermal and impact printing technology. Our printers are 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 the POS market, we primarily sell our products through a network of domestic and international distributors and resellers. We use an internal sales force to manage sales through our distributors and resellers, as well as to solicit sales directly from end-users. In the banking market, we primarily sell our products directly to end-user banks and financial institutions through the use of our internal sales force.

Lottery: We supply lottery printers to Lottomattica's GTECH Corporation ("GTECH"), our largest customer and the world's largest provider of lottery terminals. These printers are designed for high-volume, high-speed printing of lottery tickets for various lottery applications. Sales of our lottery products are made directly to GTECH and managed by an internal sales representative.

Casino and gaming: We sell several models of printers used in slot machines and video lottery terminals ("VLT's") and other gaming machines that print tickets or receipts instead of issuing coins ("ticket-in, ticket-out" or "TITO") at casinos, racetracks ("racinos") and other gaming venues worldwide. These printers utilize thermal printing technology and can print tickets or receipts in monochrome or two-color (depending upon the model), and offer various other features such as jam resistant bezels and a dual port interface that enables casinos to print coupons and promotions. In addition, we sell printers using thermal printing technology for use in non-casino establishments, including game types such as Amusements with Prizes ("AWP"), Skills with Prizes ("SWP"), Fixed Odds Betting Terminals ("FOBT") and other off-premise gaming type machines around the world. We sell our products primarily to (1) slot machine manufacturers, who incorporate our printers into slot machines and, in turn, sell completed slot machines directly to casinos and other gaming establishments and (2) through distributors (one in the United States, Australia and Asia, and one in Europe and Africa). We also maintain a dedicated internal sales force to solicit sales from slot manufacturers and casinos, as well as to manage sales through our distributors.

We have also gained traction from our software solution, the EPICENTRAL™ Print System (“EPICENTRAL™”), that enables casino operators to create promotional coupons and marketing messages and print them in real-time at the slot machine. With EPICENTRAL™, casinos will be able to utilize the system to create multiple promotions and incentives to either increase customer time spent on the casino floor or encourage additional visits to generate more revenue to the casinos.

Printrex: Printrex printers include wide format, rack mounted and vehicle mounted thermal printers used by customers to log and plot oil field and down hole well drilling data in the oil and gas exploration industry. During 2012, we launched two new color printers for this market, the Printrex 920 and Printrex 980. The Printrex 920 is the first full-color printer designed from the ground up to perform in the adverse environment of a well logging truck or off-shore platform. Using thermal printer technology, it can print in black and white, or in full color using proprietary color paper without the need for inkjet cartridges or ribbons. The Printrex 980 is the fastest full color printer available for plotting continuous logs in the data centers of the large oil field service companies. This printer uses proprietary inkjet cartridges. In addition, we sell wide format thermal 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. We primarily sell our Printrex products directly to oil field service and drilling companies and OEM’s, as well as through regional distributors in the United States, Europe, Canada and Asia. We also maintain a dedicated internal sales force with a sales office located in Houston, Texas.

TSG: Through TSG, we proactively market the sale of consumable products (including inkjet cartridges, ribbons, receipt paper, color thermal paper and other printing supplies), replacement parts, maintenance and repair services and testing services for all of our products and certain competitor’s products. Our maintenance services include the sale of extended warranties, multi-year maintenance contracts, 24-hour guaranteed replacement product service called TransAct XpressSM, and other repair services for our printers. Within the United States, we provide repair services through our eastern region service center in Ithaca, NY and our western region service center in Las Vegas, NV. Internationally, we provide repair services through our European service center located in Doncaster, United Kingdom, and through partners strategically located around the world.

We also provide customers with telephone sales and technical support, and a personal account representative to handle orders, shipping and general information. Technical and sales support personnel receive training on all of our manufactured products and our services.

In addition to personalized telephone and technical support, we also market and sell consumable products 24 hours a day, seven days a week, via our online webstore www.transactsupplies.com.

Sources and Availability of Raw Materials

We design our products to optimize product performance, quality, reliability and durability. These designs combine cost efficient materials, sourcing and assembly methods with high standards of workmanship. Approximately 90% of our printer production is primarily through one third-party contract manufacturer in Asia and to a lesser extent three others in Asia. The remaining 10% of our products are assembled in our Ithaca, NY facility largely on a configure-to-order basis using components and subassemblies that have been sourced from vendors and contract manufacturers around the world.

We procure component parts and subassemblies for use in the assembly of our products in Ithaca, NY. Critical component parts and subassemblies include inkjet, thermal and impact print heads, printing/cutting mechanisms, power supplies, motors, injection molded plastic parts, LCD screens, circuit boards and electronic components, which are obtained from domestic and foreign suppliers at competitive prices. As a result of the majority of our production being performed by our contract manufacturers, purchases of component parts have declined while purchases of fully-assembled printers produced by our contract manufacturers have increased. We typically strive to maintain more than one source for our component parts, subassemblies and fully assembled printers to reduce the risk of parts

shortages or unavailability. However, we could experience temporary disruption if certain suppliers ceased doing business with us, as described below.

We currently buy substantially all of our thermal print mechanisms, an important component of our thermal printers, and fully assembled printers for several of our printer models, from one foreign contract manufacturer, and to a much lesser extent, three other foreign contract manufacturers. Although we believe that other contract manufacturers could provide similar thermal print mechanisms or fully assembled printers, on comparable terms, a change in contract manufacturers could cause a delay in manufacturing and possible loss of sales, which may have a material adverse effect on our operating results. Although we do not have a supply agreement with our foreign contract manufacturers, our relationship with them remains strong and we have no reason to believe that they will discontinue their supply of thermal print mechanisms to us during 2014 or that their terms to us will be any less favorable than they have been historically.

Hewlett-Packard Company (“HP”) is the sole supplier of inkjet cartridges that are used in all of our banking inkjet printers. In addition, we also sell a substantial number of HP inkjet cartridges as a consumable product through TSG. Although other inkjet cartridges that are compatible with the HP inkjet cartridge are available, the loss of the supply of HP inkjet cartridges could have a material adverse effect on both the sale of our inkjet printers and TSG consumable products. Our relationship with HP remains stable and we have no reason to believe that HP will discontinue its supply of inkjet cartridges to us or that their terms to us will be materially different than they have been historically. The inkjet cartridges we purchase from HP are used not only in our inkjet printers for the banking and POS market, but also in other manufacturer’s printing devices across several other markets.

ZINK Imaging Inc. (“ZINK”) is the sole supplier of proprietary color thermal paper used in our Printrex 920 oil and gas printer. We have a supply agreement with ZINK to exclusively supply us with ZINK color thermal paper for the oil and gas industry at fixed prices through December 31, 2014. The loss of the supply of ZINK color thermal paper would have a material adverse effect on the sale of Printrex 920 printers and ZINK color thermal paper.

Canon, Inc. (“Canon”) is the sole supplier of inkjet cartridges and other consumable items (“Canon Consumables”) that are used in our Printrex 980 oil and gas printer. The loss of supply of Canon Consumables would have a material adverse effect on the sale of Printrex 980 printers and the Canon Consumables. We have a supply agreement with Canon to supply us with Canon Consumables until May 2017. Prices under this agreement were fixed through May 2013, but may be changed for the remainder of the agreement due to significant exchange rate fluctuations between the Japanese yen and the U.S. dollar.

Patents and Proprietary Information

TransAct relies on a combination of trade secrets, patents, employee and third party nondisclosure agreements, copyright laws and contractual rights to establish and protect its proprietary rights in its products. We hold 29 United States and 28 foreign patents and have 10 United States and 11 foreign patent applications pending pertaining to our products. The duration of these patents range from 4 to 16 years. The expiration of any individual patent would not have a significant negative impact on our business. We regard certain manufacturing processes and designs to be proprietary and attempt to protect them through employee and third-party nondisclosure agreements and similar means. It may be possible for unauthorized third parties to copy certain portions of our products or to reverse engineer or otherwise obtain and use, to our detriment, information that we regard as proprietary. Moreover, the laws of some foreign countries do not afford the same protection to our proprietary rights as do the laws of the United States. There can be no assurance that legal protections relied upon by the Company to protect our proprietary position will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technologies.

Seasonality

Restaurants typically reduce purchases of new food safety equipment in the fourth quarter due to the increased volume of transactions in that holiday period.

Working Capital

Inventory, accounts receivable, and accounts payable levels, payment terms, and where applicable, return policies are in accordance with the general practices of the industry and standard business procedures. See also Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Certain Customers

GTECH has been our most significant customer. In December 2009, we signed a new five-year agreement effective November 20, 2009, with GTECH (the “GTECH Thermal Printer Agreement”). Under the terms of the agreement, we provide GTECH with their latest generation thermal lottery printers for various lottery applications. The terms of the agreement require that GTECH exclusively purchase all of its requirements for thermal on-line lottery printers from us and that we exclusively sell such printers to GTECH through January 2015.

Sales to GTECH and other customers representing 10% or more of our total net sales were as follows:

| | Year ended December 31, | | |
|------------|-------------------------|------|------|
| | 2013 | 2012 | 2011 |
| GTECH | 12% | 18% | 26% |
| Customer A | 12% | 15% | 13% |

Backlog

Our backlog of firm orders was approximately \$4,778,000 as of February 28, 2014, compared to \$4,776,000 as of February 28, 2013. Based on customers’ current delivery requirements, we expect to ship our entire current backlog during 2014.

Competition

The market for transaction-based and specialty printing solutions is extremely competitive, and we expect such competition to continue in the future. We compete with a number of companies, many of which have greater financial, technical and marketing resources than us. We believe our ability to compete successfully depends on a number of factors both within and outside our control, including durability, reliability, quality, design capability, product customization, price, customer support, success in developing new products, manufacturing expertise and capacity, supply of component parts and materials, strategic relationships with suppliers, the timing of new product introductions by us and our competitors, general market, economic and political conditions and, in some cases, the uniqueness of our products.

In the food safety market, we compete with Avery Dennison Corporation, Ecolab Inc. and Integrated Control Corp. We compete in this market based largely on our ability to provide highly specialized products, custom engineering and ongoing technical support.

In the banking and POS market, our major competitor is Epson America, Inc., which holds a dominant market position of the POS markets into which we sell. We also compete, to a much lesser extent, with Transaction Printer Group (“TPG”), Star Micronics America, Inc., Citizen -- CBM America Corporation, Pertech Resources, Inc., Addmaster, and Samsung/Bixolon. Certain competitors of ours have greater financial resources, lower costs attributable to higher volume production and sometimes offer lower prices than us.

In the casino and gaming market (consisting principally of slot machine and video lottery terminal transaction printing and promotional coupon printing), we compete with several companies including FutureLogic, Inc., Nanoptix, Inc., Custom Engineering SPA and others. Certain of our products sold for casino and gaming applications compete based upon our ability to provide highly specialized products, custom engineering and ongoing technical support.

In the lottery market (consisting principally of on-line lottery transaction printing), we hold a leading position, based largely on our long-term purchase agreement with GTECH. We compete in this market based solely on our ability to provide specialized, custom-engineered products to GTECH.

In the Printrex market, we compete with the Imaging Systems Group, Inc. (“iSys”), Neuralog Inc., GSI Group and others. We compete in this market based largely on our ability to provide specialized, custom-engineered products.

The TSG business is highly fragmented, and we compete with numerous competitors of various sizes, including POS and internet resellers, depending on the geographic area.

Our strategy for competing in our markets is to continue to develop new products (hardware and software) and product line extensions, to increase our geographic market penetration, to take advantage of strategic relationships, and to lower product costs by sourcing certain products overseas. Although we believe that our products, operations and relationships provide a competitive foundation, there can be no assurance that we will compete successfully in the future. In addition, our products utilize certain inkjet, thermal and impact printing technology. If other technologies, or variations to existing technologies, were to evolve or become available to us, it is possible that we would incorporate these technologies into our products. Alternatively, if such technologies were to evolve or become available to our competitors, our products could become obsolete, which would have a significant negative impact on our business.

Research and Development Activities

Research, development, and engineering expenditures represent costs incurred in the experimental or laboratory sense aimed at discovery and/or application of new knowledge in developing a new product or process, or in bringing about significant improvement in an existing product or process. We spent approximately \$4,065,000, \$4,239,000 and \$3,418,000 in 2013, 2012 and 2011, respectively, on engineering, design and product development efforts in connection with specialized engineering and design to introduce new hardware and software products and to customize or improve existing products.

Costs incurred in researching and developing a computer software product are charged to expense until technological feasibility has been established, at which point all material software costs are capitalized within Intangible assets in our Consolidated Balance Sheets until the product is available for sale to customers. While judgment is required in determining when technological feasibility of a product is established, we have determined that it is reached after all high-risk development issues have been documented in a formal detailed plan design. The amortization of these costs will be included in cost of sales over the estimated life of the product. During 2010 we began the development of EPICENTRAL™, which enables casino customers to print coupons and promotions at the slot machine. Unamortized development costs for such software were approximately \$370,000 and \$528,000 as of December 31, 2013 and 2012, respectively. The total amount charged to cost of sales for capitalized software development costs were approximately \$199,000, \$189,000 and \$62,000 in 2013, 2012 and 2011, respectively.

Environment

We are not aware of any material noncompliance with federal, state and local provisions that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment.

Employees

As of December 31, 2013, TransAct and our subsidiaries employed 139 persons, of whom 138 were full-time employees and 1 was a temporary employee. None of our employees are unionized, and we consider our relationships with our employees to be good.

Financial Information About Geographic Areas

For financial information regarding our geographic areas see Note 16 – Geographic Area Information in the Notes to the Consolidated Financial Statements. Risks related to our foreign operations are described in Item 1A below.

Trademarks, Service Marks and Copyrights

We own or have rights to trademarks, service marks, trade names and copyrights that we use in connection with the operation of our business, including our corporate names, logos and website names. Other trademarks, service marks and trade names appearing in this annual report on Form 10-K are the property of their respective owners. The trademarks we own include TransAct®, EPICENTRAL™, Ithaca® and Printrex®. Solely for convenience, some of the trademarks, service marks, trade names and copyrights referred to in this annual report on Form 10-K are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our

trademarks, service marks, trade names and copyrights.

Available Information

We make available free of charge through our internet website, www.transact-tech.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). You may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. This information is also available at www.sec.gov. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and should not be considered part of this document.

We maintain a Code of Business Conduct that includes our code of ethics that is applicable to all employees, including our Chief Executive Officer, Chief Financial Officer and Controller. This Code, which requires continued observance of high ethical standards such as honesty, integrity and compliance with the law in the conduct of our business, is available for public access on our internet website. Any person may request a copy of our Code of Business Conduct free of charge by calling (203) 859-6800.

Item 1A. Risk Factors

Investors should carefully consider the risks, uncertainties and other factors described below, as well as other disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations, because they could have a material adverse effect on our business, financial condition, operating results, and growth prospects. The risks described below are not the only ones facing our Company. Additional risks not known to us now or that we currently deem immaterial may also impair our business operations.

We assume no obligation (and specifically disclaim any such obligation) to update these Risk Factors or any other forward-looking statements contained in this Annual Report to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements, except as required by law.

Our operating results and financial condition may fluctuate.

Our operating results and financial condition may fluctuate from quarter to quarter and year to year and are likely to continue to vary due to a number of factors, many of which are not within our control. If our operating results do not meet the expectations of securities analysts or investors, who may derive their expectations by extrapolating data from recent historical operating results, the market price of our common stock will likely decline. Fluctuations in our operating results and financial condition may be due to a number of factors, including, but not limited to, those identified throughout this “Risk Factors” section:

- market acceptance of our products, both domestically and internationally;
- development of new competitive products by others;
- our responses to price competition;
- our level of research and development activities;
- changes in the amount that we spend to develop, acquire or license new products, consumables, technologies or businesses;
- changes in the amount we spend to promote our products and services;
- changes in the cost of satisfying our warranty obligations and servicing our installed base of printers;
- delays between our expenditures to develop and market new or enhanced products and consumables and the generation of sales from those products;
- the geographic distribution of our sales;
- availability of third-party components at reasonable prices;
- general economic and industry conditions, including changes in interest rates affecting returns on cash balances and investments, that affect customer demand;
- severe weather events (such as hurricanes) that can disrupt or interrupt the operation of our customers or suppliers facilities; and
- changes in accounting rules.

Due to all of the foregoing factors, and the other risks discussed in this report, quarter-to-quarter comparisons of our operating results may not be an indicator of future performance.

Our revenue and profitability depend on our ability to continue to develop, on a timely basis, new products and technologies which are free from hardware or software anomalies and cannot be fraudulently manipulated.

The success of newly introduced products such as the Ithaca® 9700 food safety terminal and the Printrex® 920 and Printrex® 980 oil and gas color printers is dependent on how quickly customers in the related markets accept them given the very little market penetration these products have experienced since they are new and innovative and have limited competition. Additionally, the success of innovative technology, such as printing coupons and promotions at the slot machine using EPICENTRAL™, is dependent on our casino customers' acceptance of such technology. While we have designed EPICENTRAL™ to support our customers' existing investment in our Epic 950® thermal casino printers, such acceptance may nevertheless only build gradually over time or not at all. Delays in acceptance by our customers of new technologies may adversely affect our operations.

Our success depends upon our ability to adapt our capabilities and processes to meet the demands of producing new and innovative products. Because our newer products are generally more technologically sophisticated than those we have produced in the past, we must continually refine our capabilities to meet the needs of our product innovation. If we cannot efficiently adapt our infrastructure to meet the needs of our product innovations in a timely manner, our business could be negatively impacted.

We rely on resellers to sell our products and services.

We use a variety of distribution channels, including OEMs and distributors, to market our products. We may be adversely impacted by any conflicts that could arise between and among our various sales channels.

Our dependence upon resellers exposes us to numerous risks, including:

- loss of channel and the ability to bring new products to market;
- concentration of credit risk, including disruption in distribution should the resellers' financial condition deteriorate;
 - reduced visibility to end user demand and pricing issues which makes forecasting more difficult;
- resellers leveraging their buying power to change the terms of pricing, payment and product delivery schedules; and
- direct competition should a reseller decide to manufacture printers internally or source printers from a competitor.

We cannot guarantee that resellers will not reduce, delay or eliminate purchases from us, which could have a material adverse effect upon the business, consolidated results of operations and financial condition.

General economic conditions could have a material adverse effect on our business, operating results and financial condition.

Global economic growth has slowed and has resulted in recessions in numerous countries, including many of those in North America, Europe and Asia, where the Company does substantially all of its business. If these economic conditions continue to persist, or if they worsen, a number of negative effects on our business could result, including customers or potential customers reducing or delaying orders, the insolvency of key suppliers which could result in production delays, the inability of customers to obtain credit, and the insolvency of one or more customers. Any of these effects could impact our ability to effectively manage inventory levels and collect receivables, create unabsorbed costs due to lower net sales, and ultimately decrease our net sales and profitability including write-downs of assets.

We have outsourced a large portion of the assembly of our printers to four contract manufacturers and will be dependent on them for the manufacturing of such printers. A failure by these contract manufacturers, or any disruption in such manufacturing, may adversely affect our business results.

In an effort to achieve additional cost savings and operation benefits, we have continued to outsource the manufacturing and assembly of our printers to contract manufacturers in Asia. Approximately 90% of our printer manufacturing is conducted by one third party manufacturer in Asia.

However, to the extent we rely on a third-party service provider for manufacturing services, we may incur increased business continuity risks. We will no longer be able to exercise control over the assembly of certain of our products or any related operations or processes, including the internal controls associated with operations and processes conducted and the quality of our products assembled by contract manufacturers. If we are unable to effectively develop and implement our outsourcing strategy, we may not realize cost structure efficiencies and our operating and financial results could be materially adversely affected.

In addition, if any of our contract manufacturers experience business difficulties or fails to meet our manufacturing needs, then we may be unable to meet production requirements, may lose revenue and may not be able to maintain relationships with our customers. Without the contract manufacturers continuing to manufacture our products and the continuing operation of the contract manufacturers' facilities, we will have limited means for the final assembly of a majority of our products until we are able to secure the manufacturing capability at another facility or develop an alternative manufacturing facility, which could be costly and time consuming and have a material adverse effect on our operating and financial results.

The increased elements of risk that arise from conducting certain operating processes in foreign jurisdictions may lead to an increase in reputational risk.

Although we carry business interruption insurance to cover lost revenue and profits in an amount we consider adequate, this insurance does not cover all possible situations. In addition, the business interruption insurance would not compensate us for the loss of opportunity and potential adverse impact, both short-term and long-term, on relations with our existing customers resulting from our inability to produce products for them.

The contract manufacturers have access to our intellectual property, which increases the risk of infringement or misappropriation of this intellectual property.

We source some of our component parts and consumable products from sole source suppliers; any disruptions may impact our ability to manufacture and sell our products.

A disruption in the supply of such component parts and consumable products could have a material adverse effect on our operations and financial results.

We sell a significant portion of our products internationally and purchase important components from foreign suppliers. These circumstances create a number of risks.

We sell a significant amount of our products to customers outside the United States. Shipments to international customers are expected to continue to account for a material portion of net sales. Risks associated with sales and purchases outside the United States include:

- fluctuating foreign currency rates could restrict sales, or increase costs of purchasing, in foreign countries;
- foreign governments may impose burdensome tariffs, quotas, taxes, trade barriers or capital flow restrictions;
- political and economic instability may reduce demand for our products or put our foreign assets at risk;
-

restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets; and

- potentially limited intellectual property protection in certain countries, such as China, may limit recourse against infringing products or cause us to refrain from selling in certain geographic territories.

We face risks associated with manufacturing forecasts.

If we fail to predict our manufacturing requirements accurately, we could incur additional costs or experience manufacturing delays, which could cause us to lose orders or customers and result in lower net sales. We currently use a rolling 12-month forecast based primarily on our anticipated product orders and our product order history to help determine our requirements for components and materials. It is very important that we accurately predict both the demand for our products and the lead-time required to obtain the necessary components and raw materials.

Lead times for materials and components that we order vary significantly and depend on factors such as the specific supplier, the size of the order, contract terms, and demand for each component at a given time. If we underestimate our requirements, we may have inadequate manufacturing capacity or inventory, which could interrupt manufacturing of our products and result in delays in shipments and net sales. If we overestimate our requirements, we could have excess inventory of parts. In addition, delays in the manufacturing of our products could cause us to lose orders or customers.

In the lottery market, we have been dependent on sales to one large customer; the loss of this customer or reduction in orders from this customer could materially affect our sales.

We expect that sales to one large customer will continue to represent a material percentage of our net sales for the foreseeable future. A reduction, delay or cancellation in orders from this customer, including reductions or delays due to market, economic, or competitive conditions in the industries in which we serve, could have a material adverse effect upon our results of operations.

Our success will depend on our ability to sustain and manage growth.

As part of our business strategy, we intend to pursue a growth strategy. Assuming this growth occurs, it will require the expansion of distribution relationships in international markets, the successful development and marketing of new products for our existing and new markets, expanded customer service and support, and the continued implementation and improvement of our operational, financial and management information systems.

To the extent that we seek growth through acquisitions, our ability to manage our growth will also depend on our ability to integrate businesses that have previously operated independently. We may not be able to achieve this integration without encountering difficulties or experiencing the loss of key employees, customers or suppliers. It may be difficult to design and implement effective financial controls for combined operations and differences in existing controls for each business may result in weaknesses that require remediation when the financial controls and reporting functions are combined. As we pursue acquisitions, we may incur legal, accounting and other transaction related expenses for unsuccessful acquisition attempts that could adversely affect our results of operations in the period in which they are incurred.

There can be no assurance that we will be able to successfully implement our growth strategy, or that we can successfully manage expanded operations. As we expand, we may from time to time experience constraints that will adversely affect our ability to satisfy customer demand in a timely fashion. Failure to manage growth effectively could adversely affect our results of operations and financial condition.

We compete in highly competitive markets, which are likely to become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements.

We face significant competition in developing and selling our printers, terminals, software, transaction supplies and services. Principal competitors have substantial marketing, financial, development and personnel resources. To remain competitive, we believe we must continue to provide:

- technologically advanced products that satisfy the user demands;
- superior customer service;
- high levels of quality and reliability; and
- dependable and efficient distribution networks.

We cannot ensure we will be able to compete successfully against current or future competitors. Increased competition may result in price reductions, lower gross profit margins and loss of market share, and could require increased spending on research and development, sales and marketing and customer support. Some competitors may make strategic acquisitions or establish cooperative relationships with suppliers or companies that produce complementary products. Any of these factors could reduce our earnings.

We depend on key personnel, the loss of which could materially impact our business.

Our future success will depend in significant part upon the continued service of certain key management and other personnel and our continuing ability to attract and retain highly qualified managerial, technical and sales and marketing personnel. There can be no assurance that we will be able to recruit and retain such personnel. The loss of either Bart C. Shuldman, the Company's Chairman of the Board and Chief Executive Officer, or Steven A. DeMartino, the Company's President, Chief Financial Officer, Treasurer and Secretary, or the loss of certain groups of key employees, could have a material adverse effect on our results of operations.

If we are unable to enforce our patents or if it is determined that we infringe patents held by others it could damage our business.

Prosecuting and defending patent lawsuits is very expensive. We are committed to aggressively asserting and defending our technology and related intellectual property, which we have spent a significant amount of money to develop. These factors could cause us to become involved in new patent litigation in the future. The expense of prosecuting or defending these future lawsuits could also have a material adverse effect on our business, financial condition and results of operations.

If we were to lose a patent lawsuit in which another party is asserting that our products infringe its patents, we would likely be prohibited from marketing those products and could also be liable for significant damages. Either or both of these results may have a material adverse effect on our business, financial condition and results of operations. If we lose a patent lawsuit in which we are claiming that another party's products are infringing our patents and thus, are unable to enforce our patents, it may have a material adverse effect on our business, financial condition and results of operations. In addition to disputes relating to the validity or alleged infringement of other parties' rights, we may become involved in disputes relating to our assertion of our own intellectual property rights. Whether we are defending the assertion of intellectual property rights against us or asserting our intellectual property rights against others, intellectual property litigation can be complex, costly, protracted, and highly disruptive to business operations by diverting the attention and energies of management and key technical personnel. Plaintiffs in intellectual property cases often seek injunctive relief, and the measures of damages in intellectual property litigation are complex and often subjective or uncertain. Thus, any adverse determinations in this type of litigation could subject us to significant liabilities and costs. During the course of these lawsuits there may be public announcements of the results of hearings, motions, and other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could harm the market price of our stock.

The inability to protect intellectual property could harm our reputation, and our competitive position may be materially damaged.

Our intellectual property is valuable and provides us with certain competitive advantages. Copyrights, patents, trade secrets and contracts are used to protect these proprietary rights. Despite these precautions, it may be possible for third parties to copy aspects of our products or, without authorization, to obtain and use information which we regard as trade secrets.

Infringement on the proprietary rights of others could put us at a competitive disadvantage, and any related litigation could be time consuming and costly.

Third parties may claim that we violated their intellectual property rights. To the extent of a violation of a third party's patent or other intellectual property right, we may be prevented from operating our business as planned and may be required to pay damages, to obtain a license, if available, or to use a non-infringing method, if possible, to accomplish our objectives. Any of these claims, with or without merit, could result in costly litigation and divert the attention of key personnel. If such claims are successful, they could result in costly judgments or settlements. Refer to Item 3. "Legal Proceedings" for discussion surrounding litigation we are currently involved in regarding alleged misappropriation of unspecified trade secrets and confidential information.

Our stock price may fluctuate significantly.

The market price of our common stock could fluctuate significantly in response to variations in quarterly operating results and other factors, such as:

- changes in our business, operations or prospects;
- developments in our relationships with our customers;
- announcements of new products or services by us or by our competitors;
- announcement or completion of acquisitions by us or by our competitors;
- changes in existing or adoption of additional government regulations;
- unfavorable or reduced analyst coverage; and
- prevailing domestic and international market and economic conditions.

In addition, the stock market has experienced significant price fluctuations in recent years. Broad market fluctuations, general economic conditions and specific conditions in the industries in which we operate may adversely affect the market price of our common stock.

Limited trading volume and a reduction in analyst coverage of our capital stock may contribute to its price volatility. Our common stock is traded on the NASDAQ Global Market. During the year ended December 31, 2013, the average daily trading volume for our common stock as reported by the NASDAQ Global Market was approximately 20,000 shares. We are uncertain whether a more active trading market in our common stock will develop. In addition, many investment banks no longer find it profitable to provide securities research on micro-cap and small-cap companies. As a result, relatively small trades may have a significant impact on the market price of our common stock, which could increase the volatility and depress the price of our common stock.

Future sales of our common stock may cause our stock price to decline.

In the future, we may sell additional shares of our common stock in public or private offerings, and we may also issue additional shares of our common stock to finance future acquisitions. Shares of our common stock are also available for future sale pursuant to stock options that we have granted to our employees, and in the future we may grant additional stock options and other forms of equity compensation to our employees. Sales of our common stock or the perception that such sales could occur may adversely affect prevailing market prices for shares of our common stock and could impair our ability to raise capital through future offerings.

If market conditions deteriorate or future results of operations are less than expected, a valuation allowance may be required for all or a portion of our deferred tax assets.

We currently have deferred tax assets, which may be used to reduce taxable income in the future. We assess the realization of these deferred tax assets on a quarterly basis, and if we determine that it is more likely than not that some portion of these assets will not be realized, an income tax valuation allowance is recorded. If market conditions deteriorate or future results of operations are less than expected, or there is a change to applicable tax rules, future assessments may result in a determination that it is more likely than not that some or all of our net deferred tax assets are not realizable. As a result, we may need to establish a valuation allowance for all or a portion of our net deferred tax assets, which may have a material adverse effect on our business, results of operations and financial condition.

We cannot provide any assurance that current laws, or any laws enacted in the future, will not have a material adverse effect on our business.

Our operations are subject to laws, rules, regulations, including environmental regulations, government policies and other requirements in each of the jurisdictions in which we conduct business. Changes in laws, rules, regulations, policies or requirements could result in the need to modify our products and could affect the demand for our products, which may have an adverse impact on our future operating results. If we do not comply with applicable laws, rules

and regulations we could be subject to costs and liabilities and our business may be adversely impacted.

Intangible computer software costs may not be recoverable.

Costs incurred in researching and developing a computer software product are charged to expense until technological feasibility has been established, at which point all material software costs are capitalized within Intangible assets in our Consolidated Balance Sheets until the product is available for general release to customers. While judgment is required in determining when technological feasibility of a product is established, we have determined that it is reached after all high-risk development issues have been documented in a formal detailed plan design. The amortization of these costs will be included in cost of sales over the estimated life of the product. To the extent technological feasibility of products is not achieved, related capitalized computer software costs may not be recoverable.

Our business could be adversely affected by actual or threatened terrorist attacks or the related heightened security measures, military actions and other efforts to combat terrorism.

Our business could be adversely affected by actual or threatened terrorist attacks or the related heightened security measures, military actions and other efforts to combat terrorism. It is possible that terrorist attacks could be directed at important locations for the gaming industry. Heightened security measures and other efforts to combat terrorism may also have an adverse effect on the gaming industry by reducing tourism. Any of these developments could also negatively affect the general economy and consumer confidence. Any downturn in the economy or in the gaming industry in particular could reduce demand for our products and adversely affect our business and results of operations. In addition, heightened security measures may cause certain governments to restrict the import/export of goods, which may have an adverse effect on our ability to buy/sell goods.

Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely impact our business. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on our business, financial condition, and results of operations.

Item 1B. Unresolved Staff Comments.

Not applicable.

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Item 2. Properties.

Our principal facilities as of December 31, 2013 are listed below and we believe that all facilities generally are in good condition, adequately maintained and suitable for their present and currently contemplated uses.

| Location | Operations Conducted | Size (Approx. Sq. Ft.) | Owned or Leased | Lease Expiration Date |
|-------------------------------|---|------------------------------|-----------------------|-----------------------------|
| H a m d e n Connecticut | Executive offices and Printrex and TSG sales office | 11,100 | Leased | April 23, 2017 |
| Ithaca, New York | Global engineering, design, assembly and service facility | 73,900 | Leased | May 31, 2016 |
| L a s V e g a s Nevada | Service center and casino and gaming sales office | 13,700 | Leased | December 31, 2016 |
| Doncaster, United Kingdom | Sales office and service center | 2,800 | Leased | August 1, 2016 |
| Houston, Texas | Sales office and service center | 1,350 | Leased | April 30, 2015 |
| S a n J o s e , California | Engineering office | 1,340 | Leased | February 28, 2014 |
| Georgia and New York | Two regional sales offices | 300 | Leased | Various |
| Macau, China | Sales office | 180 | Leased | June 30, 2014 |
| | | 104,670 | | |

Item 3. Legal Proceedings.

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 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the NASDAQ Global Market under the symbol TACT. As of February 28, 2014, there were 424 holders of record of the common stock. The high and low bid sales prices of the common stock reported during each quarter of the years ended December 31, 2013 and 2012 were as follows:

| | Year Ended | | Year Ended | |
|----------------|-------------------|---------|-------------------|---------|
| | December 31, 2013 | | December 31, 2012 | |
| | High | Low | High | Low |
| First Quarter | \$ 8.20 | \$ 7.15 | \$ 8.37 | \$ 6.46 |
| Second Quarter | 8.50 | 7.22 | 9.15 | 7.29 |
| Third Quarter | 13.19 | 7.75 | 7.97 | 6.64 |
| Fourth Quarter | 15.23 | 11.54 | 7.91 | 7.01 |

On September 10, 2012, we announced that our Board of Directors approved the initiation of a quarterly cash dividend program which is subject to the Board's approval each quarter. On May 2, 2013, our Board of Directors declared an increase to the quarterly cash dividend from \$0.06 per share to \$0.07 per share. Dividends declared and paid on our common stock totaled \$2,317,000 or \$0.27 per share and \$526,000 or \$0.06 per share, in 2013 and 2012, respectively. On February 4, 2014, our Board of Directors approved the first quarter 2014 dividend in the amount of \$0.07 per share payable on or about March 14, 2014 to common shareholders of record at the close of business on February 20, 2014.

Issuer Purchases of Equity Securities

Prior to its expiration on May 27, 2013, we maintained a stock repurchase program (the "Stock Repurchase Program") whereby we were authorized to repurchase up to \$15,000,000, as increased from \$10,000,000 in March 2012, of our 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 May 27, 2013 and was not renewed. We use the cost method to account for treasury stock purchases, under which the price paid for the stock is charged to the treasury stock account. Repurchases of our common stock are accounted for as of the settlement date. From January 1, 2013 through the expiration date of the Stock Repurchase Program, we repurchased 114,161 shares of our common stock for approximately \$887,000 at an average price per share of \$7.77. In addition to shares repurchased under the Stock Repurchase Program, during the year ended December 31, 2013, we repurchased 490,000 shares of our common stock for approximately \$4,307,000 at an average price per share of \$8.79 in an open-market transaction. From January 1, 2005 through December 31, 2013, we repurchased a total of 2,787,038 shares of common stock for approximately \$22,527,000, at an average price of \$8.08 per share. As of December 31, 2013, no additional shares are authorized for future repurchases due to the expiration of the Stock Repurchase Program.

CORPORATE PERFORMANCE GRAPH

The following graph compares the cumulative total return on the Company's Common Stock from December 31, 2008 through December 31, 2013, with the CRSP Total Return Index for the Nasdaq Stock Market (U.S.) and the Nasdaq Computer Manufacturer Stocks Index. The graph assumes that \$100 was invested on December 31, 2008 in each of TransAct's common stock, the CRSP Total Return Index for the Nasdaq Stock Market (U.S.) and the Nasdaq Computer Manufacturer Stocks Index, and that all dividends were reinvested.

**COMPARISON OF CUMULATIVE TOTAL RETURN AMONG
TRANSACT TECHNOLOGIES INCORPORATED COMMON STOCK,
THE CRSP TOTAL RETURN INDEX FOR THE NASDAQ STOCK MARKET (U.S.),
AND THE NASDAQ COMPUTER MANUFACTURER STOCKS INDEX**

| | 12/31/08 | 12/31/09 | 12/31/10 | 12/31/11 | 12/31/12 | 12/31/13 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| TransAct Technologies Incorporated Common Stock | \$ 100.00 | \$ 151.20 | \$ 205.23 | \$ 158.17 | \$ 157.30 | \$ 272.98 |
| CRSP Total Return Index for the Nasdaq Stock Market (U.S.) | \$ 100.00 | \$ 143.74 | \$ 170.17 | \$ 171.08 | \$ 202.40 | \$ 281.91 |
| Nasdaq Computer Manufacturer Stocks Index | \$ 100.00 | \$ 219.64 | \$ 313.47 | \$ 367.84 | \$ 467.63 | \$ 538.59 |

Item 6. Selected Financial Data (in thousands, except per share amounts)

The following is summarized from our audited financial statements of the past five years:

| | Year ended December 31, | | | | |
|---|-------------------------|-----------|-----------|-----------|-----------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Consolidated Statement of Operations Data: | | | | | |
| Net sales | \$ 60,141 | \$ 68,386 | \$ 65,969 | \$ 63,194 | \$ 58,346 |
| Gross profit | 25,092 | 25,982 | 24,626 | 22,548 | 18,829 |
| Operating expenses | 18,475 | 20,380 | 17,637 | 16,687 | 15,533 |
| Operating income | 6,617 | 5,602 | 6,989 | 5,861 | 3,296 |
| Net income | 4,935 | 3,621 | 4,676 | 3,904 | 2,140 |
| Net income per share: | | | | | |
| Basic | 0.57 | 0.40 | 0.50 | 0.42 | 0.23 |
| Diluted | 0.57 | 0.40 | 0.49 | 0.41 | 0.23 |
| Dividends declared and paid per share | 0.27 | 0.06 | - | - | - |

| | December 31, | | | | |
|---|--------------|-----------|-----------|-----------|-----------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Consolidated Balance Sheet Data: | | | | | |
| Total assets | \$ 40,408 | \$ 45,228 | \$ 42,740 | \$ 43,621 | \$ 34,899 |
| Working capital | 24,871 | 25,492 | 27,222 | 25,525 | 20,474 |
| Shareholders' equity | 32,521 | 33,369 | 35,313 | 31,134 | 26,354 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto.

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 other similar words. All forward-looking statements involve risks and uncertainties, including, but not limited to those listed in Item 1A of this Annual Report. 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

During 2013, we continued to transition our business to focus on sales of value-added products and technologies in diversified growth markets while moving away from the low margin, commoditized POS market. To that end, we saw a significant increase in sales from our new food safety and nutritional labeling terminal, the Ithaca® 9700 food safety terminal, which has been well received by our customers. We have numerous field tests and trials that are currently ongoing at several restaurant chains and while these trials are progressing, we expect further sales growth from the Ithaca® 9700 food safety terminal in 2014. Additionally, during 2013 we installed EPICENTRAL™ at an additional six

casinos and experienced significant revenue growth from these installations as a result. Casinos that have installed the system can now measure its success through various industry metrics, such as increased carded play and the results our casino customers have experienced has been very positive. Because these casinos have allowed us to share such metrics with other potential customers, we expect our EPICENTRAL™ sales to continue to ramp during 2014.

During 2012, we developed and launched two new printers for the oil and gas exploration market which we believe represents a worldwide growth opportunity for us. Our Printrex® 980 printer, the fastest color office printer designed specifically for high-volume printing of oil and gas logging reports in the office has already won orders and has the opportunity to drive significant recurring consumable revenue based on proprietary inkjet cartridges, inkjet print heads and other items that these printers consume as our customers use the printer. Our Printrex® 920, a thermal truck-mounted printer designed for the rugged and demanding exploration and production market, prints color logging reports at the well site, has also begun to win orders, and utilizes proprietary color thermal paper which represents another lucrative recurring consumable revenue stream for us. Although we began to see revenue contributions from both the Printrex 920 and 980 during 2013, the sales cycle is taking longer than we anticipated as the printers must be integrated into the many oil and gas explorations systems around the world. However, we continue to receive positive responses from the industry to our new color thermal printing technology which would replace the black and white printing of logging reports done today for drilling, casing and wire-line analysis and believe sales will slowly ramp in 2014.

We also continued to focus on increasing our overall gross margin and leveraging such increase to our operating income primarily by focusing our sales effort on our new, higher margin products in addition to our continual effort of reducing costs of our foreign-sourced printers. Despite lower sales volume of 12% in 2013, we increased our gross margin to 41.7% which was a record high for us. Also, while our total printer and terminal shipments decreased 23% to approximately 153,000 in 2013, the average selling price of printers sold during the year increased by 7%.

During 2013, our total net sales decreased 12% to approximately \$60,141,000. See the table below for a breakdown of our sales by market:

| (In thousands) | Year ended | | Year ended | | Change | |
|------------------------------|-------------------|--------|-------------------|--------|------------|---------|
| | December 31, 2013 | | December 31, 2012 | | \$ | % |
| Food safety, banking and POS | \$ 11,296 | 18.8% | \$ 9,484 | 13.9% | \$ 1,812 | 19.1% |
| Casino and gaming | 27,300 | 45.4% | 29,129 | 42.6% | (1,829) | (6.3%) |
| Lottery | 4,450 | 7.4% | 11,634 | 17.0% | (7,184) | (61.8%) |
| Printrex | 4,335 | 7.2% | 4,673 | 6.8% | (338) | (7.2%) |
| TSG | 12,760 | 21.2% | 13,466 | 19.7% | (706) | (5.2%) |
| Total net sales | \$ 60,141 | 100.0% | \$ 68,386 | 100.0% | \$ (8,245) | (12.1%) |

Sales of our food safety, banking and POS products increased 19% in 2013 compared to 2012. During 2013, our newly developed Ithaca® 9700 food safety terminal provided significant revenue contributions. We currently have over 100 customers trialing the Ithaca 9700 and we expect this product to be a significant contributor to our revenue growth over the next few years. In the banking market, we focus mainly on supplying printers for use in bank teller stations at banks and financial institutions primarily in the U.S. Opportunities in the banking market are project oriented and, as a result, our banking printer sales can fluctuate significantly year-to-year. During 2013, our banking printer sales decreased 61% primarily due to sales from a large order for our Ithaca® 280 thermal receipt printer to a new banking customer that occurred in 2012 and did not repeat in 2013. In the POS market, we focus primarily on supplying printers that print receipts or linerless labels for customers in the restaurant, hospitality and specialty retail markets. Sales of our POS printers decreased 13% in 2013 primarily driven by lower domestic and international sales of our legacy POS printers as we continue to decrease our focus on this commoditized market. However, sales of POS printers to McDonald's continued to grow in 2013 with the first year of volume sales of our new Ithaca 9000 and we expect to continue to pursue more business from McDonald's for both this printer, and the Ithaca 9700 food safety terminal during 2014.

Sales of our casino and gaming products decreased 6% in 2013 compared to 2012. In our casino and gaming market, our focus lies primarily in supplying printers for use in slot machines at casinos and racetracks, as well as in other electronic gaming devices that print tickets or receipts, worldwide. Additionally, we supplement these printer sales with revenue from EPICENTRAL™ - our promotional printing system that enables casino operators to create promotional coupons and marketing messages and print them real time at the slot machine -for which we had nine executed contracts as of the end of 2013. Domestic casino and gaming sales increased 8%, mostly from a significant increase in revenue resulting from six completed installations of EPICENTRAL™ during 2013. International sales decreased by 20%, primarily due to decreases in both casino ticket printer sales and off-premise thermal gaming printers, mainly from our European distributor.

In the lottery market, we continue to hold a leading position based on our long-term exclusive purchase agreement with GTECH, our largest customer and the world's largest provider of lottery terminals. GTECH has been our customer since 1995, and we continue to maintain a good relationship with them. In 2009 we expanded our long-standing relationship with GTECH by executing a new exclusive purchase agreement to develop and supply them with their next generation online thermal lottery printer. Pursuant to the new agreement, GTECH will exclusively purchase all of its requirements for thermal on-line lottery printers from us and we will exclusively sell such printers to GTECH through November 2014. Currently, we fulfill substantially all of GTECH's printer requirements for lottery terminal installations and upgrades worldwide. During 2013, total printer sales to GTECH decreased approximately 62%, compared to 2012. Sales for 2012 were unusually high as GTECH made a final purchase for an older generation lottery printer that we discontinued production for at the end of 2012. Our sales to

GTECH each year are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs and are not indicative of GTECH's overall business or revenue.

Sales of our Printrex branded printers include wide format, rack mounted and vehicle mounted thermal printers used by customers to log and plot oil field and down hole well drilling data in the oil and gas exploration industry. Sales in this market also includes 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. During 2013, we had solid revenue contributions from our new Printrex® 920 and Printrex® 980 oil and gas color printers developed in 2012. We believe that over time, sales of our color printers will increase as these printers provide customers with more value as data printed in color is easier to read and analyze than the same data printed in black and white. Despite the increase in color printer sales, Printrex printer sales for 2013 decreased by approximately \$338,000 primarily due to lower black and white oil and gas printer sales compared to 2012.

Our TSG group, which sells service, replacement parts and consumable products, including receipt paper, ribbons and inkjet cartridges, continues to offer a recurring revenue stream for the Company. TSG sales decreased 5% in 2013 from 2012 primarily due to lower sales of non-Printrex consumables compared to 2012 from the effect of lower HP inkjet cartridge sales as we deemphasize our focus on this commoditized product. This decrease was partially offset by higher replacement part sales and Printrex color printer consumable sales which should continue to increase as the installed base of these printers grows.

Operationally, our gross margin increased to a record annual high 41.7% compared to 38.0% in 2012. This increase in our gross margin reflects the success we've had in transitioning our business to a more favorable sales mix of our new value-added products, including the Ithaca® 9700 food safety terminals and EPICENTRAL™ software. In addition, we continue to benefit from cost control efforts, specifically in striving to drive lower production costs. Our operating margin for 2013 was 11.0% compared to 8.2% in 2012.

We reported net income of \$4,935,000 and net income per diluted share of \$0.57 for 2013, compared to net income of \$3,621,000 and net income per diluted share of \$0.40 in 2012. In terms of cash flow for 2013, we generated \$2,493,000 of cash from operating activities and received cash proceeds from stock option exercises, inclusive of incremental tax benefits, of \$1,177,000. We also utilized \$5,194,000 for treasury share repurchases, \$2,317,000 for cash dividend payments to shareholders and \$751,000 for capital expenditures and additions to capitalized software resulting in cash and cash equivalents of \$2,936,000 and no debt on our Consolidated Balance Sheet at December 31, 2013.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect both Balance Sheet items and Statement of Income categories. Such estimates and judgments are based upon historical experience and certain assumptions that are believed to be reasonable in the particular circumstances. We evaluate our assumptions on an ongoing basis by comparing actual results with our estimates. Actual results may differ from the original estimates.

The following accounting policies are those that we believe to be most critical in the preparation of our financial statements. These items utilize assumptions and estimates about the effect of future events that are inherently uncertain and are therefore based on our judgment. Please refer to Note 2 – Summary of significant accounting policies in the accompanying Consolidated Financial Statements for a complete listing of our accounting policies.

Revenue Recognition – Our typical contracts include the sale of printers and terminals, which are sometimes accompanied by separately-priced extended warranty contracts. We also sell replacement parts, consumables, and other repair services (sometimes pursuant to multi-year product maintenance contracts), which are not included in the original printer sale and are ordered by the customer as needed. We recognize revenue pursuant to the guidance within Accounting Standards Codification (“ASC”) 605, “Revenue Recognition” (ASC 605). Specifically, revenue is recognized when evidence of an arrangement exists, delivery (based on shipping terms which are generally FOB shipping point) has occurred, the selling price is fixed and determinable, and collectability is reasonably assured. We recognize revenue from the sale of printers and terminals to our distributors and resellers on a sell-in basis and on substantially the same terms as we recognize revenue from all our other customers. We provide for an estimate of product returns and price protection based on historical experience at the time of revenue recognition.

Our software solution, EPICENTRAL™, enables casino operators to create promotional coupons and marketing messages and to print them in real-time at the slot machine. Revenue arrangements for EPICENTRAL™ include multiple deliverables and as a result such arrangements are accounted for in accordance with both ASC 605-25, “Multiple-Element Arrangements” and ASC 985-605, “Software.” EPICENTRAL™ is primarily comprised of both a software component, which is licensed, and a hardware component, which can either be leased or sold to end users, and both components are integrated to deliver the system’s full functionality. Under leasing arrangements, revenue is generally recognized ratably over the lease term, excluding revenue allocated to installation, which is recognized upon completion. In an arrangement where the hardware is purchased, revenue, inclusive of software license fees, is generally recognized upon installation and formal acceptance by the customer. For EPICENTRAL™ and other multiple deliverable arrangements, we consider whether the deliverables in an arrangement are within the scope of existing higher-level GAAP and apply such literature to the extent that it provides guidance regarding whether to separate multiple-deliverable arrangements and how to allocate value among those separate units of accounting. We also determine whether revenue arrangements consist of more than one unit of accounting at inception of the arrangement and recognize revenue as each item in the arrangement is delivered. We allocate arrangement consideration to the separate units of accounting based on the relative fair value for all units of accounting in the arrangement, except where amounts allocable to the delivered units is limited to that which is contingent upon the delivery of additional deliverables or meeting other specified performance conditions.

Revenue related to extended warranty and product maintenance contracts is recognized pursuant to ASC 605-20-25, “Separately Priced Extended Warranty and Product Maintenance Contracts.” Pursuant to this guidance, revenue related to separately priced product maintenance contracts is deferred and recognized over the term of the maintenance period. We record deferred revenue for advance payments received from customers for maintenance contracts.

Our customers have the right to return products that do not function properly within a limited time after delivery. We monitor and track product returns and record a provision for the estimated future returns based on historical

experience. Returns have historically been within expectations and the provisions established, but we cannot guarantee that we will continue to experience return rates consistent with historical patterns.

We offer some of our customers price protection as an incentive to carry inventory of our product. These price protection plans provide that if we lower prices, we will credit them for the price decrease on inventory they hold. Our customers typically carry limited amounts of inventory, and we infrequently lower prices on current products. As a result, the amounts paid under these plans have not been material. However, we cannot guarantee that this minimal level will continue.

We charge our customers for shipping and handling services. The amounts billed to customers are recorded as revenue when the product ships. Any costs incurred related to these services are included in cost of sales.

Accounts Receivable – We have standardized credit granting and review policies and procedures for all customer accounts, including: credit reviews of all new customer accounts; ongoing credit evaluations of current customers; credit limits and payment terms based on available credit information; and adjustments to credit limits based upon payment history and the customer’s current creditworthiness. We also provide an estimate of doubtful accounts based on historical experience and specific customer collection issues. Our allowance for doubtful accounts as of December 31, 2013 was approximately \$63,000, or less than 1.0% of outstanding accounts receivable, which we feel is appropriate considering the overall quality of our accounts receivable. While credit losses have historically been within expectations and the reserves established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience.

Inventories – Our inventories are stated at the lower of cost (principally standard cost, which approximates actual cost on a first-in, first-out basis) or market. We review market value based on historical usage and estimates of future demand. Assumptions are reviewed at least quarterly and adjustments are made, as necessary, to reflect changing market conditions. Based on these reviews, inventory write-downs are recorded, as necessary, to reflect estimated obsolescence, excess quantities and market value. Should circumstances change and we determine that additional inventory is subject to obsolescence, additional write-downs of inventory could result in a charge to income.

Goodwill and Intangible Assets – We acquire businesses in purchase transactions that result in the recognition of goodwill and intangible assets. The determination of the value of intangible assets requires management to make estimates and assumptions. In accordance with Accounting Standards Codification (“ASC”) 350-20 “Goodwill”, acquired goodwill is not amortized but is subject to impairment testing at least annually and when an event occurs or circumstances change, that indicate it is more likely than not an impairment exists. Factors considered that may trigger an impairment review are: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of acquired assets or the strategy for the overall business; significant negative industry or economic trends; and significant decline in market capitalization relative to net book value. Definite lived intangible assets are amortized and are tested for impairment when appropriate. We reported \$2,621,000 of goodwill and \$1,856,000 of unamortized definite-lived intangible assets at December 31, 2013. We have determined that no goodwill impairment has occurred based on our assessment as of December 31, 2013 when the impairment review is performed.

Income Taxes – In preparing our Consolidated Financial Statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This involves estimating the actual current tax exposure together with assessing temporary differences between the tax basis of certain assets and liabilities and their reported amounts in the financial statements, as well as net operating losses, tax credits and other carryforwards. These differences result in deferred tax assets and liabilities, which are included within our Consolidated Balance Sheets. We then assess the likelihood that the deferred tax assets will be realized from future taxable income, and to the extent that we believe that realization is not likely, we establish a valuation allowance.

Significant judgment is required in determining the provision for income taxes and, in particular, any valuation allowance or tax reserves with respect to our deferred tax assets and uncertain tax positions. On a quarterly basis, we evaluate the recoverability of our deferred tax assets based upon historical results and forecasted taxable income over future years, and match this forecast against the basis differences, deductions available in future years and the limitations allowed for net operating loss and tax credit carryforwards to ensure that there is adequate support for the realization of the deferred tax assets. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance or tax reserve, in the event we were to determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the valuation allowance or tax reserves would be charged as a reduction to income in the period such determination was made. Likewise, should we determine that we would be able to realize future deferred tax assets in excess of its net recorded amount, an adjustment to the valuation allowance or tax reserves would increase net income in the period such determination was made.

We account for income taxes in accordance with ASC 740, “Income Taxes.” Among other things this provision prescribes a minimum recognition threshold that an income tax position must meet before it is recorded in the reporting entity’s financial statements. It also requires that the effects of such income tax positions be recognized only if, as of the balance sheet reporting date, it is “more likely than not” (i.e., more than a 50% likelihood) that the income tax position will be sustained based solely on its technical merits. When making this assessment, management must assume that the responsible taxing authority will examine the income tax position and have full knowledge of all relevant facts and other pertinent information. The accounting guidance also clarifies the method of accruing for interest and penalties when there is a difference between the amount claimed, or expected to be claimed, on a company’s income tax returns and the benefits recognized in the financial statements.

Warranty – 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. If actual future product repair rates or the actual costs of material and labor differ from the estimates, adjustments to the accrued warranty liability and related warranty expense would be made.

Contingencies – We record an estimated liability related to contingencies based on our estimates of the probable outcomes pursuant to ASC 450, “Contingencies.” On a quarterly basis, we assess the potential liability related to pending litigation, audits and other contingencies and confirm or revise estimates and reserves as appropriate. If the actual liabilities are settled in an amount greater than those recorded on the balance sheet, a charge to income would be recorded. As of December 31, 2013 and 2012, a contingent liability of \$60,000 and \$960,000, respectively, was recorded in connection with a contingent consideration arrangement entered into as part of the Printrex acquisition. The decrease of \$900,000 was the result of our revised estimate of the expected payout in connection with this arrangement primarily due to changes in probabilities and decreases in revenue and gross margin estimates, and was credited to general and administrative expense during 2013. See Note 3 to the Consolidated Financial Statements for further discussion.

Share-Based Compensation – We calculate share-based compensation expense in accordance with ASC 718, “Compensation – Stock Compensation” using the Black-Scholes option-pricing model to calculate the fair value of

share-based awards. The key assumptions for this valuation method include the expected term of an option grant, stock price volatility, risk-free interest rate, dividend yield, and forfeiture rate. The determination of these assumptions is based on past history and future expectations, and is subject to a high level of judgment. To the extent any of the assumptions were to change from year to year, the fair value of new option grants may vary significantly.

Results of Operations: Year ended December 31, 2013 compared to year ended December 31, 2012

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 years ended December 31, 2013 and 2012 were as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|------------------------------------|-------------------|--------|-------------------|--------|------------|---------|
| | December 31, 2013 | | December 31, 2012 | | \$ | % |
| Food safety, banking and POS | \$ 11,296 | 18.8% | \$ 9,484 | 13.9% | \$ 1,812 | 19.1% |
| Casino and gaming | 27,300 | 45.4% | 29,129 | 42.6% | (1,829) | (6.3%) |
| Lottery | 4,450 | 7.4% | 11,634 | 17.0% | (7,184) | (61.8%) |
| Printrex | 4,335 | 7.2% | 4,673 | 6.8% | (338) | (7.2%) |
| TSG | 12,760 | 21.2% | 13,466 | 19.7% | (706) | (5.2%) |
| | \$ 60,141 | 100.0% | \$ 68,386 | 100.0% | \$ (8,245) | (12.1%) |
| International* | \$ 13,764 | 22.9% | \$ 18,454 | 27.0% | \$ (4,690) | (25.4%) |

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

Net sales for 2013 decreased \$8,245,000, or 12%, from 2012. Printer and terminal sales volume decreased 23% to approximately 153,000 units primarily due to declines in the lottery and casino and gaming markets of 60% and 11%, respectively. The average selling price of our printers increased approximately 7% from 2012 to 2013 due primarily to higher sales of our food safety terminals which have a significantly higher average selling price than most of our other printers. Also contributing to our higher average selling price was a significant reduction in lottery printer sales volume due to a large order by GTECH in 2012 which was not repeated in 2013. Overall, international sales decreased \$4,690,000, or 25%, primarily driven by lower sales in both the international casino and gaming and lottery markets.

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 years ended December 31, 2013 and 2012 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|----------|---------|
| | December 31, 2013 | | December 31, 2012 | | \$ | % |
| Domestic | \$ 10,956 | 97.0% | \$ 8,876 | 93.6% | \$ 2,080 | 23.4% |
| International | 340 | 3.0% | 608 | 6.4% | (268) | (44.1%) |
| | \$ 11,296 | 100.0% | \$ 9,484 | 100.0% | \$ 1,812 | 19.1% |

The increase in domestic food safety, banking and POS product revenue from 2012 was primarily driven by higher sales from our newly launched Ithaca® 9700 food safety terminal and Ithaca® 9000 printer. This was partially offset by lower sales of our banking printers mainly due to the shipment of a large order for our Ithaca® 280 thermal receipt printer to a banking customer in 2012 that did not repeat in 2013 as well as lower sales of our legacy POS printers as we continue to decrease our focus on this commoditized market. Although we are currently pursuing several banking opportunities, due to the project-oriented nature of these sales, we cannot predict the level of future sales.

International banking and POS printer sales for 2013 decreased 44% from 2012 due primarily to lower sales for the McDonald's POS system upgrade and grill initiative in its Canadian stores in 2013 compared to 2012, partially offset by higher sales of our Ithaca® 9700 food safety terminal.

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, EPICENTRAL™, 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 years ended December 31, 2013 and 2012 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|-------|-------------------|-------|----------|---------|
| | December 31, 2013 | | December 31, 2012 | | \$ | % |
| Domestic | \$ 15,367 | 56.3% | \$ 14,283 | 49.0% | \$ 1,084 | 7.6% |
| International | 11,933 | 43.7% | 14,846 | 51.0% | (2,913) | (19.6%) |

| | | | | | |
|-----------|--------|-----------|--------|------------|--------|
| \$ 27,300 | 100.0% | \$ 29,129 | 100.0% | \$ (1,829) | (6.3%) |
|-----------|--------|-----------|--------|------------|--------|

The increase in domestic sales is primarily due to an increase in EPICENTRAL™ software sales partially offset by a 3% decline in sales of our thermal casino printers mainly due to fewer new casino openings during 2013 compared to 2012.

International casino and gaming product sales decreased due primarily to a 38% decrease in sales of our off-premise thermal gaming printers mainly from a 35% decrease in sales to our European distributor and a 35% decrease in sales to our customers in Australia and Asia. 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 by 12% primarily from 20% lower sales to our European distributor. This decline in sales of our thermal casino printers resulted primarily from fewer installations of VLT gaming machines in Italy as the government approved rollout of these games was substantially completed during 2012, and we therefore shipped fewer printers in 2013. The decrease in thermal casino printers was partially offset by higher international EPICENTRAL™ software sales in 2013.

Lottery: Revenue from the lottery market includes sales of thermal on-line and other lottery printers to GTECH and its subsidiaries for various lottery applications. A summary of sales of our worldwide lottery printers for the years ended December 31, 2013 and 2012 is as follows:

| | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|------------|---------|
| (In thousands) | December 31, 2013 | | December 31, 2012 | | \$ | % |
| Domestic | \$ 4,417 | 99.3% | \$ 10,574 | 90.9% | \$ (6,157) | (58.2%) |
| International | 33 | 0.7% | 1,060 | 9.1% | (1,027) | (96.9%) |
| | \$ 4,450 | 100.0% | \$ 11,634 | 100.0% | \$ (7,184) | (61.8%) |

Our sales to GTECH are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs, and as a result, may fluctuate significantly quarter-to-quarter and year-to-year and are not indicative of GTECH's overall business or revenue. However, sales for 2012 were unusually high as GTECH made a final purchase for an older generation lottery printer that we discontinued production for at the end of 2012. Based on our backlog of orders and customer's forecast, we expect total sales to GTECH for 2014 to be approximately \$4 to \$5 million.

Printrex: Printrex branded printers are sold into markets that include wide format, rack mounted and vehicle mounted black/white and color thermal printers used by customers to log and plot oil field and down hole well drilling data in the oil and gas exploration industry. It also includes high-speed color inkjet desktop printers used to print logs at data centers of the oil and gas field service companies. Revenue in this market also includes sales of wide format printers used to print test results in ophthalmology devices in the medical industry, as well as vehicle mounted printers used to print schematics and certain other critical information in emergency services vehicles. A summary of sales of our worldwide Printrex printers for the years ended December 31, 2013 and 2012 is as follows (in thousands, except percentages):

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|----------|---------|
| | December 31, 2013 | | December 31, 2012 | | \$ | % |
| Domestic | \$ 3,712 | 85.6% | \$ 3,915 | 83.8% | \$ (203) | (5.2%) |
| International | 623 | 14.4% | 758 | 16.2% | (135) | (17.8%) |
| | \$ 4,335 | 100.0% | \$ 4,673 | 100.0% | \$ (338) | (7.2%) |

The decrease in Printrex printers is primarily due to lower sales of black and white printers in the oil and gas market, partially offset by higher sales of our two new color printers, the Printrex® 920 and Printrex® 980, into the worldwide oil and gas market.

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 years ended December 31, 2013 and 2012 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|----------|---------|
| | December 31, 2013 | | December 31, 2012 | | \$ | % |
| Domestic | \$ 11,925 | 93.5% | \$ 12,284 | 91.2% | \$ (359) | (2.9%) |
| International | 835 | 6.5% | 1,182 | 8.8% | (347) | (29.4%) |
| | \$ 12,760 | 100.0% | \$ 13,466 | 100.0% | \$ (706) | (5.2%) |

The decrease in domestic revenue from TSG is primarily due to a 25% decrease in sales of consumables, largely HP inkjet cartridges, as we continue to deemphasize this commoditized consumable product. As a result, we expect sales of HP inkjet cartridges to continue to decline in 2014. In addition, paper testing service revenue declined by 38% as we performed fewer tests in 2013 than in 2012. These decreases were partially offset by a 45% increase in sales of replacement parts as well as first year sales contributions from consumables for our new Printrex color printers. Internationally, TSG revenue decreased due primarily to lower sales of replacement parts and accessories as compared to 2012. We expect TSG sales in 2014 to be lower than in 2013, as we expect lower HP inkjet cartridges partially offset by higher expected sales of consumables from our newly launched Printrex color oil and gas printers.

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

| | December 31, | | Percent | Percent | Percent |
|------------|--------------|-----------|---------|---------|---------|
| | 2013 | 2012 | Change | of | of |
| | | | | Total | Total |
| | | | | Sales - | Sales - |
| | | | | 2013 | 2012 |
| Year ended | \$ 25,092 | \$ 25,982 | (3.4%) | 41.7% | 38.0% |

Gross profit is measured as revenue less cost of sales, which includes primarily the cost of all raw materials and component parts, direct labor, manufacturing overhead expenses, cost of finished products purchased directly from our contract manufacturers and expenses associated with installations and maintenance of EPICENTRAL®. Gross profit decreased \$890,000, or 3%, while gross margin improved 370 basis points as we continued to transition of business towards a more favorable sales mix of new value-added products. During 2013 our gross margin primarily benefited from sales contributions from our Ithaca® 9700 food safety terminals in addition to significantly higher EPICENTRAL™ software sales combined with lower lottery printer sales. We expect our gross margin for 2014 to continue to increase as we expect to continue to benefit from increased sales of our new, value-added products.

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

| | December 31, | | Percent | Percent | Percent |
|------------|--------------|----------|---------|---------|---------|
| | 2013 | 2012 | Change | of | of |
| | | | | Total | Total |
| | | | | Sales - | Sales - |
| | | | | 2013 | 2012 |
| Year ended | \$ 4,065 | \$ 4,239 | (4.1%) | 6.8% | 6.2% |

Engineering, design and product development expenses primarily include salary and payroll related expenses for our engineering staff, depreciation and design expenses (including prototype printer expenses, outside design and testing services, and supplies). Such expenses decreased \$174,000, or 4%, due primarily to lower outside testing and pre-production expenses related to new product development from the four new products we launched in 2012. We expect engineering, design and product development expenses in 2014 to be slightly higher than in 2013 as we plan to launch three new products during 2014.

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

| | December 31, | | Percent | Percent | Percent |
|------------|--------------|----------|---------|---------|---------|
| | 2013 | 2012 | Change | of | of |
| | | | | Total | Total |
| | | | | Sales - | Sales - |
| Year ended | \$ 7,346 | \$ 6,637 | 10.7% | 2013 | 2012 |

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 \$709,000, or 11%, primarily due to the addition of new sales staff and increased marketing spend to support our newly launched products. We expect selling and marketing expenses to be higher in 2014 than in 2013 primarily due to planned expansion of our sales staff and higher trade show and promotional marketing expenses as we further focus our selling and marketing efforts on our newly launched, value-added products in 2014.

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

| | December 31, | | Percent | Percent | Percent |
|------------|--------------|----------|---------|---------|---------|
| | 2013 | 2012 | Change | of | of |
| | | | | Total | Total |
| | | | | Sales - | Sales - |
| Year ended | \$ 6,588 | \$ 7,833 | (15.9%) | 2013 | 2012 |

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 \$1,245,000, or 16%, due primarily to a reduction in the accrued contingent consideration liability to be paid in connection with the acquisition of Printrex of \$900,000 (as discussed in more detail in Note 3 to the Consolidated Financial Statements) in addition to lower incentive compensation-related expenses for executive and administrative employees. These decreases were partially offset by higher recruitment fees of \$160,000 due to the additional sales and engineering staff as previously discussed, as compared to 2012. We expect general and administrative expenses in 2014 to be relatively consistent with 2013, after excluding the \$900,000 reduction in the Printrex accrued contingent consideration liability.

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

| | December 31, | | Percent | Percent of | Percent of |
|------------|--------------|----------|---------|--------------------|--------------------|
| | 2013 | 2012 | Change | Total Sales - 2013 | Total Sales - 2012 |
| Year ended | \$ 476 | \$ 1,533 | (68.9%) | 0.8% | 2.2% |

As disclosed in Note 11 to the Consolidated Financial Statements, in June 2012, Avery Dennison Corporation (“AD”) filed a civil complaint against the Company. In connection with this lawsuit, we incurred legal fees and other related expenses of \$476,000 and \$1,533,000 in 2013 and 2012, respectively. As a result of AD’s actions, we may incur additional legal fees related to this lawsuit in 2014 and beyond, although we cannot predict the timing and extent of

such legal fees.

Business Consolidation and Restructuring. Business consolidation and restructuring information is summarized below (in thousands, except percentages):

| | December 31, | | Percent | Percent of | Percent of |
|------------|--------------|--------|----------|--------------------|--------------------|
| | 2013 | 2012 | Change | Total Sales - 2013 | Total Sales - 2012 |
| Year ended | \$ - | \$ 138 | (100.0%) | -% | 0.2% |

As disclosed in Note 8 to the Consolidated Financial Statements, 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. During 2012, we recorded a restructuring charge of \$138,000 for employee termination benefits related to these employee reductions as well as moving costs. The closing of the San Jose manufacturing operations was completed as of December 31, 2012. We did not incur any restructuring charges during 2013.

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

| | December 31, | | Percent | Percent | Percent |
|------------|--------------|----------|---------|-----------------------|-----------------------|
| | 2013 | 2012 | Change | of Total Sales - 2013 | of Total Sales - 2012 |
| Year ended | \$ 6,617 | \$ 5,602 | 18.1% | 11.0% | 8.2% |

The increase in our operating income and operating margin was primarily due to the 370 basis point improvement in gross margin in 2013 as compared to 2012 as well as to lower legal fees incurred from the AD lawsuit as previously discussed. In addition, our operating margin for 2013 benefited by 150 basis points from the \$900,000 reduction in the Printrex accrued contingent consideration liability.

Interest. We recorded net interest expense of \$23,000 in 2013 compared to net interest income of \$6,000 in 2012. The decrease in net interest income is primarily due to lower interest income earned on a lower average cash balance, as we used a significant amount of our cash (approximately \$7,511,000) to repurchase our common stock and pay cash dividends in 2013. Interest expense related to the unused revolving credit line fee and amortization of deferred financing costs on our revolving credit facility with TD Bank remained consistent in 2013 and 2012. See "Liquidity and Capital Resources" below for more information.

Other, net. We recorded other expense of \$63,000 in 2013 compared to \$23,000 in 2012. The change was primarily due to a loss from the disposal of certain tooling equipment during 2013 of \$60,000 offset by lower foreign currency transaction exchange losses recorded by our U.K. subsidiary in 2013 compared to 2012.

Income Taxes. We recorded an income tax provision for 2013 of \$1,596,000 at an effective tax rate of 24.4% compared to \$1,964,000 at an effective tax rate of 35.2% for 2012. Our effective tax rate for 2013 is unusually low because it includes: 1) 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 and 2) the benefit from the 2012 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 expect our annual effective tax rate for 2014 to be between 32% and 33%.

Net Income. We reported net income during 2013 of \$4,935,000, or \$0.57, per diluted share, compared to \$3,621,000, or \$0.40, per diluted share, for 2012.

Results of Operations: Year ended December 31, 2012 compared to year ended December 31, 2011

Net Sales. Net sales, which include printer, terminal and software sales and as well as sales of replacement parts, consumables and maintenance and repair services, by market for the years ended December 31, 2012 and 2011 were as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|------------------------------|-------------------|--------|-------------------|--------|----------|---------|
| | December 31, 2012 | | December 31, 2011 | | \$ | % |
| Food safety, banking and POS | \$ 9,484 | 13.9% | \$ 9,943 | 15.1% | \$ (459) | (4.6%) |
| Casino and gaming | 29,129 | 42.6% | 24,955 | 37.8% | 4,174 | 16.7% |
| Lottery | 11,634 | 17.0% | 14,933 | 22.6% | (3,299) | (22.1%) |
| Printrex | 4,673 | 6.8% | 1,710 | 2.6% | 2,963 | 173.3% |
| TSG | 13,466 | 19.7% | 14,428 | 21.9% | (962) | (6.7%) |
| | \$ 68,386 | 100.0% | \$ 65,969 | 100.0% | \$ 2,417 | 3.7% |
| International* | \$ 18,454 | 27.0% | \$ 16,668 | 25.3% | \$ 1,786 | 10.7% |

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

Net sales for 2012 increased \$2,417,000, or 4%, from 2011. Printer and terminal sales volume decreased 1% to approximately 199,000 units as a 26% decline in lottery printer unit volume was almost entirely offset by an 18% increase in unit volume from the casino and gaming market. The average selling price of our printers and terminals increased approximately 7% from 2011 to 2012 due primarily to higher sales of casino and gaming printers as well as our first full year of sales of Printrex printers, both of which have significantly higher average selling prices than all our other printers. Overall, international sales increased \$1,786,000, or 11%, primarily driven by higher sales in both the international casino and gaming and lottery markets.

Food safety, banking and POS: A summary of sales of our worldwide food safety, banking and POS products for the years ended December 31, 2012 and 2011 is as follows:

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| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|----------|---------|
| | December 31, 2012 | | December 31, 2011 | | \$ | % |
| Domestic | \$ 8,876 | 93.6% | \$ 8,968 | 90.2% | \$ (92) | (1.0%) |
| International | 608 | 6.4% | 975 | 9.8% | (367) | (37.6%) |
| | \$ 9,484 | 100.0% | \$ 9,943 | 100.0% | \$ (459) | (4.6%) |

The decrease in domestic food safety, banking and POS printer revenue from 2011 was primarily driven by a decrease in U.S. sales of our two POS printer products to McDonald's, the Ithaca® 8000 and Ithaca® 8040, for its combined beverage initiative and its POS system upgrade which includes grill initiative printer upgrades, as the U.S. rollout of printers for these initiatives was substantially completed. However, beginning in the second half of 2012, we began to ship Ithaca 8000® printers to McDonald's for a new application. This decrease in sales was largely offset by higher sales of our banking printers mainly due to sales from a large order for our Ithaca® 280 thermal receipt printer to a new banking customer which we completed shipments to in the third quarter of 2012. Sales for 2012 also benefited from the first revenue contributions from our newly launched Ithaca® 9700 food service terminal.

International banking and POS printer sales for 2012 decreased 38% from 2011 due primarily to lower sales for the aforementioned McDonald's POS system upgrade and grill initiative as well as the combined beverage initiative to its Canadian stores in 2012 compared to 2011.

Casino and gaming: A summary of sales of our worldwide casino and gaming printers and Epicentral software for the years ended December 31, 2012 and 2011 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|----------|-------|
| | December 31, 2012 | | December 31, 2011 | | \$ | % |
| Domestic | \$ 14,283 | 49.0% | \$ 11,007 | 44.1% | \$ 3,276 | 29.8% |
| International | 14,846 | 51.0% | 13,948 | 55.9% | 898 | 6.4% |
| | \$ 29,129 | 100.0% | \$ 24,955 | 100.0% | \$ 4,174 | 16.7% |

The increase in domestic sales of our casino and gaming products is primarily due to an increase of 31% in sales of our thermal casino printers. We believe that our increased casino printer sales during 2012 resulted from a combination of new casino openings and continued market share gains. Revenue in 2012 also benefited from the first contribution of EPICENTRALTM software sales.

International casino and gaming printer sales increased due primarily to a 14% increase in thermal casino printer sales during 2012 primarily driven by a 100% increase in sales to a Canadian OEM as well as 9% higher sales to our European distributor. Sales of our off-premise thermal gaming printers decreased 10% in 2012 compared to 2011 due largely to a 47% decrease in sales to distribution and an OEM customer in Australia and Asia as well as a 77% decrease in sales to a Canadian OEM. These decreases were somewhat offset by 29% higher sales of off-premise printers to our European distributor.

Lottery: A summary of sales of our worldwide lottery printers for the years ended December 31, 2012 and 2011 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|------------|---------|
| | December 31, 2012 | | December 31, 2011 | | \$ | % |
| Domestic | \$ 10,574 | 90.9% | \$ 14,557 | 97.5% | \$ (3,983) | (27.4%) |
| International | 1,060 | 9.1% | 376 | 2.5% | 684 | 181.9% |
| | \$ 11,634 | 100.0% | \$ 14,933 | 100.0% | \$ (3,299) | (22.1%) |

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

Printrex: A summary of sales of our worldwide Printrex printers for the years ended December 31, 2012 and 2011 is as follows (in thousands, except percentages):

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|----------|--------|
| | December 31, 2012 | | December 31, 2011 | | \$ | % |
| Domestic | \$ 3,915 | 83.8% | \$ 1,391 | 81.3% | \$ 2,524 | 181.4% |
| International | 758 | 16.2% | 319 | 18.7% | 439 | 137.6% |
| | \$ 4,673 | 100.0% | \$ 1,710 | 100.0% | \$ 2,963 | 173.3% |

The increase in sales is primarily due to a full twelve months of sales being reported in 2012 as compared to approximately four and one-half months of sales in 2011 as we acquired Printrex on August 19, 2011.

TSG: A summary of sales in our worldwide TSG market for the years ended December 31, 2012 and 2011 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|------------|--------|
| | December 31, 2012 | | December 31, 2011 | | \$ | % |
| Domestic | \$ 12,284 | 91.2% | \$ 13,378 | 92.7% | \$ (1,094) | (8.2%) |
| International | 1,182 | 8.8% | 1,050 | 7.3% | 132 | 12.6% |
| | \$ 13,466 | 100.0% | \$ 14,428 | 100.0% | \$ (962) | (6.7%) |

The decrease in domestic revenue from TSG is primarily due to a 19% decrease in sales of consumables from the effect of a loss of sales to two OEM customers partially offset by an increase in service revenue of approximately \$582,000 during 2012 from several new contracts for paper testing services that did not occur in 2011. Additionally, Printrex TSG sales increased by approximately \$272,000 to reflect a full twelve months of sales being reported in

2012 as compared to approximately four and one-half months of sales in 2011. Internationally, TSG revenue increased due primarily to higher sales of replacement parts as compared to 2011.

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

| | December 31, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|------------|--------------|-----------|-------------------|---|---|
| | 2012 | 2011 | | | |
| Year ended | \$ 25,982 | \$ 24,626 | 5.5% | 38.0% | 37.3% |

Gross profit increased \$1,356,000, or 6%, and gross margin improved 70 basis points due primarily to a favorable sales mix as we sold more higher margin casino and gaming and Printrex printers, and fewer lower margin lottery printers in 2012 compared to 2011.

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

| | December 31, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|------------|--------------|----------|-------------------|---|---|
| | 2012 | 2011 | | | |
| Year ended | \$ 4,239 | \$ 3,418 | 24.0% | 6.2% | 5.2% |

Such expenses increased \$821,000, or 24%, due primarily to the full twelve months effect of the addition of engineering staff and related expenses from the acquisition of Printrex of approximately \$657,000, and higher outside testing and prototype expenses related to new product development from the four new products we launched in the fourth quarter of 2012.

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

| | December 31, | | Percent | Percent | Percent |
|------------|--------------|----------|---------|---------|---------|
| | 2012 | 2011 | Change | of | of |
| | | | | Total | Total |
| | | | | Sales - | Sales - |
| | | | | 2012 | 2011 |
| Year ended | \$ 6,637 | \$ 6,402 | 3.7% | 9.7% | 9.7% |

Such expenses increased \$235,000, or 4%, primarily due to higher expenses from the full twelve months effect from the acquisition of Printrex of approximately \$365,000, including the addition of new sales staff, partially offset by lower promotional marketing expenses in 2012 as compared to 2011.

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

| | December 31, | | Percent | Percent | Percent |
|------------|--------------|----------|---------|---------|---------|
| | 2012 | 2011 | Change | of | of |
| | | | | Total | Total |
| | | | | Sales - | Sales - |
| | | | | 2012 | 2011 |
| Year ended | \$ 7,833 | \$ 7,633 | 2.6% | 11.5% | 11.6% |

General and administrative expenses increased \$200,000, or 3%, due primarily to an increase in accrued contingent consideration of \$280,000 (as discussed in more detail in Note 3 to the Consolidated Financial Statements) and higher amortization of intangible assets of \$227,000, both in connection with the acquisition of Printrex. These increases were partially offset by lower recruitment fees of \$175,000 as compared to 2011.

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

| | December 31, | | Percent | Percent of | Percent of |
|------------|--------------|------|---------|--------------------|--------------------|
| | 2012 | 2011 | Change | Total Sales - 2012 | Total Sales - 2011 |
| Year ended | \$ 1,533 | \$ - | 100.0% | 2.2% | -% |

As disclosed in Note 11 to the Consolidated Financial Statements, in June 2012, Avery Dennison Corporation (“AD”) filed a civil complaint against the Company. In connection with this lawsuit, we incurred legal fees and other related expenses of \$1,533,000 in 2012.

Business Consolidation and Restructuring. Business consolidation and restructuring information is summarized below (in thousands, except percentages):

| | December 31, | | Percent | Percent of | Percent of |
|------------|--------------|--------|---------|--------------------|--------------------|
| | 2012 | 2011 | Change | Total Sales - 2012 | Total Sales - 2011 |
| Year ended | \$ 138 | \$ 184 | (25.0%) | 0.2% | 0.3% |

As disclosed in Note 8 to the Consolidated Financial Statements, 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. During 2012, we recorded a restructuring charge of \$138,000 for employee termination benefits related to these employee reductions as well as moving costs. The closing of the San Jose manufacturing operations was

completed as of December 31, 2012.

In May 2011, we undertook a plan to close our New Britain, CT service facility. The New Britain facility primarily serviced our first generation legacy impact printers for GTECH. We no longer needed to maintain this facility since these printers were replaced by our thermal lottery printers. During 2011, we recorded a restructuring charge of \$184,000 in connection with this facility closure. As of June 30, 2011, all New Britain activities ceased. Please also refer to Note 8 in the Consolidated Financial Statements.

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

| | December 31, | | Percent | Percent | Percent |
|------------|--------------|----------|---------|---------|---------|
| | 2012 | 2011 | Change | of | of |
| | | | | Total | Total |
| | | | | Sales - | Sales - |
| | | | | 2012 | 2011 |
| Year ended | \$ 5,602 | \$ 6,989 | (19.8%) | 8.2% | 10.6% |

The decrease in our operating income and operating margin was primarily due to the legal fees incurred from the AD lawsuit and higher operating expenses attributable to the Printrex acquisition of approximately \$1,145,000 which were partially offset by higher gross profit as previously discussed.

Interest. We recorded net interest income of \$6,000 in 2012 compared to net interest income of \$18,000 in 2011. The decrease in net interest income is primarily due to lower interest income earned on a lower average cash balance, as we used a significant amount of our cash (approximately \$6,464,000) to repurchase our common stock and pay cash dividends in 2012. Interest expense related to the unused revolving credit line fee and amortization of deferred financing costs on our revolving credit facility with TD Bank remained consistent in 2012 and 2011. See "Liquidity and Capital Resources" below for more information.

Other, net. We recorded other expense of \$23,000 in 2012 compared to other income of \$1,000 in 2011. The change from 2011 was primarily due to foreign currency transaction exchange losses recorded by our U.K. subsidiary in 2012 compared to a small gain in 2011.

Income Taxes. We recorded an income tax provision for 2012 of \$1,964,000 at an effective tax rate of 35.2% compared to \$2,332,000 at an effective tax rate of 33.3% for 2011. The effective tax rate for 2012 is higher because it does not include a benefit from the federal R&D credit, which is normally included in our tax rate, as this credit expired at the end of 2011 and was not renewed until January 2, 2013 as a component of the Act. Since the Act was not signed until 2013, the cumulative 2012 impact of the R&D credit was reflected as a discrete item in the first quarter of 2013. Had the R&D credit been included in our effective tax rate for 2012, it would have lowered our income tax provision and effective tax rate, by approximately \$220,000 and 400 basis points, respectively.

Net Income. We reported net income during 2012 of \$3,621,000, or \$0.40, per diluted share, compared to \$4,676,000, or \$0.49, per diluted share, for 2011.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Significant factors affecting the management of liquidity are cash flows from operating activities, capital expenditures, treasury share repurchases, dividend payments, access to bank lines of credit and our ability to attract long-term capital with satisfactory terms.

Internal cash generation together with currently available cash and cash equivalents, available borrowing facilities and an ability to access credit lines, if needed, are expected to be sufficient to fund operations, capital expenditures, treasury share repurchases, dividend payments and any increase in working capital that would be required to accommodate a higher level of business activity. We actively seek to expand by acquisition as well as through the growth of our current business. While a significant acquisition may require additional debt and/or equity financing, although no assurances can be given, we believe that we would be able to obtain additional financing based on our historical earnings performance.

Cash Flow

During 2013, our cash balance decreased \$4,601,000, or 61%, from December 31, 2012 as we used a substantial portion of our cash flow to return to shareholders in the form of \$5,194,000 of repurchases of our common stock and \$2,317,000 of cash dividends paid to our common shareholders. Even after funding these items and our capital expenditures, we still ended 2013 with \$2,936,000 in cash and cash equivalents and no debt outstanding.

Operating activities: The following significant factors primarily affected our cash provided by operating activities of \$2,493,000 in 2013 as compared to \$8,030,000 in 2012. During 2013:

- We reported net income of \$4,935,000.
- We recorded depreciation, amortization and share-based compensation expense of \$2,262,000, including \$311,000 of amortization related to intangible assets acquired from Printrex.
- Accounts receivable decreased \$2,685,000 due primarily to significantly lower sales volume during the fourth quarter of 2013 compared to the fourth quarter of 2012.
- Inventories increased \$3,189,000 as we increased stocking levels of our new food safety and Printrex products during 2013 in anticipation of higher expected sales volume. We expect our inventories to gradually decrease during 2014 as we sell through this inventory buildup.
- Accounts payable decreased \$1,674,000 due to primarily to lower inventory purchases made during the fourth quarter of 2013 compared to the fourth quarter of 2012, as well as the timing of payments.
- Accrued liabilities and other liabilities decreased \$2,156,000 due primarily to a decrease in our estimate of accrued contingent consideration associated with the acquisition of Printrex of \$900,000 during 2013 based on our revised estimate of the expected payout. Additionally, income taxes payable decreased by approximately \$603,000 resulting

from the overpayment of our 2013 tax liability. Correspondingly, we recorded prepaid income taxes of \$390,000.

During 2012:

- We reported net income of \$3,621,000.
- We recorded depreciation, amortization and share-based compensation expense of \$2,278,000, including \$366,000 of amortization related to intangible assets acquired from Printrex.
- Accounts receivable increased \$6,332,000 due primarily to significantly higher sales volume during the fourth quarter of 2012 compared to the fourth quarter of 2011.
- Inventories decreased \$3,684,000 due primarily to a focused effort at inventory management through a reduction in inventory purchases and sales fulfillment through existing inventory stock throughout 2012.
- Accounts payable increased \$3,403,000 due to primarily to higher inventory purchases made during the fourth quarter 2012 to support significantly higher sales volume compared to the fourth quarter of 2011.
- Accrued liabilities and other liabilities increased \$1,182,000 due primarily to an increase in income taxes payable of approximately \$589,000 resulting from a higher level of income before income taxes in the fourth quarter 2012 compared to 2011. Additionally, we increased our estimate of accrued contingent consideration associated with the acquisition of Printrex by \$280,000 during 2012 based on our revised estimate of the expected payout.

Investing activities: Our capital expenditures were \$709,000 and \$1,082,000 in 2013 and 2012, respectively. Expenditures in 2013 included approximately \$89,000 for costs incurred in connection with an upgrade to the Company's ERP software and the remaining amount primarily for the purchase of new product tooling and computer equipment. Expenditures in 2012 included \$490,000 for the purchase of new product tooling with the remaining amount primarily for the purchase of computer hardware and software and manufacturing equipment. Additionally, our capitalized software development costs for EPICENTRAL™ were \$42,000 and \$35,000 in 2013 and 2012, respectively.

Capital expenditures for 2014 are expected to be approximately \$1,000,000, primarily for new product tooling, and tooling enhancements for our existing products, as well as for new computer equipment purchases.

Financing activities: We used \$6,334,000 of cash from financing activities during 2013 to purchase \$5,194,000 of common stock for treasury and to pay cash dividends of \$2,317,000 to common shareholders partially offset by proceeds and tax benefits from stock option exercises of \$1,177,000. During 2012, we used \$6,242,000 of cash from financing activities to purchase \$5,938,000 of common stock for treasury and \$526,000 to make our first ever cash dividend payment, partially offset by \$229,000 of proceeds and incremental tax benefits from stock option exercises.

Working Capital

Our working capital decreased approximately 2% to \$24,871,000 at December 31, 2013 from \$25,492,000 at December 31, 2012. Our current ratio of current assets to current liabilities increased to 4.4 at December 31, 2013, compared to 3.5 at December 31, 2012. The decrease in our working capital was primarily due to lower cash and cash equivalent balances of \$4,601,000 resulting from the significant treasury share repurchases and cash dividend payments previously discussed, as well as higher inventories and lower accounts payable balances, partially offset by lower accounts receivable. The increase in our current ratio was primarily due to lower accounts payable and accrued liabilities balances primarily resulting from reduced inventory purchases and the timing of payments in the fourth quarter of 2013 as compared to 2012 in addition to higher inventory balances. These were partially offset by lower accounts receivable and cash and cash equivalents balances in 2013 compared to 2012.

Resource Sufficiency

We believe that our cash and cash equivalents on hand and cash flows generated from operating activities will provide sufficient resources to meet our working capital needs, finance our capital expenditures, treasury stock repurchases, dividend payments and meet our liquidity requirements through at least the next twelve months.

Credit Facility and Borrowings

We maintain a credit facility (the "TD Bank Credit Facility") with TD Bank which provides for a \$20,000,000 revolving credit line that expires on November 28, 2014. Borrowings under the TD Bank Credit Facility 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 0.25% on unused borrowings under the TD Bank Credit Facility. We expect to renew our credit facility with TD Bank or replace it with a similar credit facility from another financial institution during 2014.

On September 7, 2012, we signed an amendment to the TD Bank Credit Facility that allows us to declare and pay cash dividends to holders of our outstanding common shares subject to approval by our Board of Directors and provided that no default or event of default has occurred and is continuing under the credit facility on the date of the dividend payment. The amendment also allows us to use up to \$5,000,000 in revolving credit loans to fund future cash dividend payments or treasury share buybacks as well as requires cash dividend payments to be treated as distributions for purposes of quarterly debt covenant calculations.

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 December 31, 2013. The following table lists the financial covenants and the performance measurements at December 31, 2013:

| Financial Covenant | Requirement/Restriction | Calculation at December 31, 2013 |
|--------------------|-------------------------|----------------------------------|
| | Minimum of 1.25 times | 60.4 times |

Operating cash flow / Total debt
service

Funded debt / EBITDA

Maximum of 3.0 times

0 times

As of December 31, 2013, undrawn commitments under the TD Bank Credit facility were \$20,000,000.

Shareholder Dividend Payments

On September 10, 2012, we announced that our Board of Directors approved the initiation of a quarterly cash dividend program which is subject to the Board's approval each quarter. On May 2, 2013, our Board of Directors declared an increase to the quarterly cash dividend from \$0.06 per share to \$0.07 per share. Dividends declared and paid on our common stock totaled \$2,317,000, or \$0.27 per share, and \$526,000, or \$0.06 per share, in 2013 and 2012, respectively. On February 4, 2014, our Board of Directors approved the first quarter 2014 dividend in the amount of \$0.07 per share payable on or about March 14, 2014 to common shareholders of record at the close of business on February 20, 2014. We expect to pay approximately \$2,400,000 in cash dividends to our common shareholders during 2014.

Stock Repurchase Program

Prior to its expiration on May 27, 2013, we maintained the Stock Repurchase Program whereby we were authorized to repurchase up to \$15,000,000, as increased from \$10,000,000 in March 2012, of our 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 May 27, 2013 and was not renewed. We use the cost method to account for treasury stock purchases, under which the price paid for the stock is charged to the treasury stock account. Repurchases of our common stock are accounted for as of the settlement date. From January 1, 2013 through the expiration date of the Stock Repurchase Program, we repurchased 114,161 shares of our common stock for approximately \$887,000 at an average price per share of \$7.77. In addition to shares repurchased under the Stock Repurchase Program, during the year ended December 31, 2013, we repurchased 490,000 shares of our common stock for approximately \$4,307,000 at an average price per share of \$8.79 in an open-market transaction. From January 1, 2005 through December 31, 2013, we repurchased a total of 2,787,038 shares of common stock for approximately \$22,527,000, at an average price of \$8.08 per share. As of December 31, 2013, no additional shares are authorized for future repurchases due to the expiration of the Stock Repurchase Program. The following table summarizes the repurchase of our common stock for the year ended December 31, 2013:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased under the May 2010 Program |
|--|----------------------------------|------------------------------|--|---|
| January 1, 2013 – January 31, 2013 | 45,177 | \$ 7.59 | 45,177 | \$ 5,863,000 |
| February 1, 2013 – February 28, 2013 | 23,339 | 8.06 | 23,339 | \$ 5,675,000 |
| March 1, 2013 – March 31, 2013 | 20,384 | 7.89 | 20,384 | \$ 5,514,000 |
| April 1, 2013 – April 30, 2013 | 22,494 | 7.75 | 22,494 | \$ 5,340,000 |
| May 1, 2013 – May 31, 2013 | 2,767 | 7.48 | 2,767 | -* |
| June 1, 2013 – June 30, 2013 | - | - | - | -* |
| July 1, 2013 – July 31, 2013 | - | - | - | -* |
| August 1, 2013 – August 31, 2013 | 490,000 | 8.79 | - | -* |
| September 1, 2013 – September 30, 2013 | - | - | - | -* |
| October 1, 2013 – October 31, 2013 | - | - | - | -* |
| November 1, 2013 – November 30, 2013 | - | - | - | -* |
| December 1, 2013 – December 31, 2013 | - | - | - | -* |
| Total | 604,161 | \$ 8.60 | 114,161 | |

* - Stock Repurchase Program expired on May 27, 2013 and was not renewed.

Shareholders' Equity

Shareholders' equity decreased \$848,000 to \$32,521,000 at December 31, 2013 from \$33,369,000 at December 31, 2012. The decrease was primarily due to our purchase of 604,161 shares of treasury stock for \$5,194,000 and dividend payments of \$2,317,000. These decreases were partially offset by net income of \$4,935,000, proceeds and the associated incremental tax benefits of approximately \$1,177,000 from the issuance of 196,358 shares of common stock from stock option exercises, share-based compensation expense related to stock options of \$521,000 and approximately \$111,000 from the issuance of 6,919 shares of deferred stock units, net of relinquishments.

Contractual Obligations

Our contractual obligations as of December 31, 2013 were as follows:

| (In thousands) | Total | Payments due by period | |
|----------------|-------|------------------------|-----------|
| | | < 1 year | 1-3 years |
| | | | |

| | | | | 3-5 years | > 5 years |
|----------------------------------|-----------|----------|----------|--------------|--------------|
| Operating lease obligations | \$ 2,294 | \$ 832 | \$ 1,384 | \$ 78 | \$ - |
| Purchase obligations | 9,025 | 8,820 | 205 | - | - |
| Accrued contingent consideration | 60 | 60 | - | - | - |
| Total | \$ 11,379 | \$ 9,712 | \$ 1,589 | \$ 78 | \$ - |

Purchase obligations are for purchases made in the normal course of business to meet operational requirements, primarily of fully assembled printers and component part inventory. Accrued contingent consideration consists of potential future obligations for performance-based cash payments in connection with the Printrex acquisition.

Impact of Inflation

We believe that our business has not been affected to a significant degree by inflationary trends during the past three years. However, inflation is still a factor in the worldwide economy and may increase the cost of purchasing products from our contract manufacturers in Asia, as well as the cost of certain raw materials, component parts and labor used in the production of our products. It also may increase our operating expenses, manufacturing overhead expenses and the cost to acquire or replace fixed assets. Despite continued growing costs of oil, gas and freight, we have generally been able to maintain or improve our profit margins through productivity and efficiency improvements, cost reduction programs and to a lesser extent, price increases, and we expect to be able to do the same during 2014. As such, we do not believe that inflation will have a significant impact on our business during 2014.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to the investment of our available cash and cash equivalents. In accordance with our investment policy, we strive to achieve above market rates of return in exchange for accepting a prudent amount of incremental risk, which includes the risk of interest rate movements. Risk tolerance is constrained by an overriding objective to preserve capital. An increase or decrease of 10% in effective interest rates would not have a material effect on our results of operations or cash flows.

Foreign Currency Exchange Risk

A substantial portion of our sales are denominated in U.S. dollars and, as a result, we have relatively little exposure to foreign currency exchange risk with respect to sales made. This exposure may change over time as business practices evolve and could have a material adverse impact on our financial results in the future. We do not use forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. We estimate that the combined translational and transactional impact of a 10% overall movement in exchange rates from December 31, 2013 (principally the U.K. Pound Sterling) would not have a material impact on our results of operations or cash flows.

Item 8. Financial Statements and Supplementary Data.

The financial statements of the Company are annexed to this report as pages F-3 through F-19. An index to such materials appears on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This “Controls and Procedures” section includes information concerning the controls and controls evaluation referred to in the certifications.

Evaluation of Disclosure Controls and Procedures

As of December 31, 2013, the Company, with the participation of its CEO and CFO conducted an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on that evaluation, our CEO and CFO concluded that the Company’s disclosure controls and procedures (as defined in Rule 13a-15 of the Exchange Act) were effective as of December 31, 2013. There has been no change in the Company’s internal control over financial reporting during the quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Management assessed our internal control over financial reporting as of December 31, 2013. Management based its assessment on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“1992 COSO”). Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2013

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2013, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Set forth below is certain information regarding our executive officers. The remaining information in response to this item will be contained in our Proxy Statement for our 2014 Annual Meeting of Stockholders (the “Proxy

Statement”), which will be filed within 120 days after the year covered by this Form 10-K and is incorporated herein by reference.

Executive Officers of the Registrant

The following list is included as an unnumbered item in Part III of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2014.

The following is a list of the names and ages of all executive officers of the registrant, indicating all positions and offices with the registrant held by each such person and each person’s principal occupations and employment during at least the past five years.

| Name | Age | Position |
|---------------------|-----|---|
| Bart C. Shuldman | 56 | Chairman of the Board and Chief Executive Officer |
| Steven A. DeMartino | 44 | President, Chief Financial Officer, Treasurer and Secretary |
| Donald E. Brooks | 61 | Senior Vice President-Engineering Executive Vice President, Casino and Gaming |
| Tracey S. Chernay | 54 | Sales and Marketing |
| Andrew J. Hoffman | 56 | Senior Vice President-Operations Vice President-Software Products and Business |
| Benjamin C. Wyatt | 40 | Development |

Bart C. Shuldman has been Chief Executive Officer, President and a Director of the Company since its formation in June 1996. In February 2001, Mr. Shuldman was elected Chairman of the Board. Mr. Shuldman relinquished the President title, effective June 1, 2010, to focus on new products and markets, international expansion and potential acquisitions.

Steven A. DeMartino was named as TransAct’s President, Chief Financial Officer, Treasurer and Secretary on June 1, 2010. Previously, Mr. DeMartino served as Executive Vice President, Chief Financial Officer, Treasurer and Secretary from June 2004 to May 2010, Senior Vice President, Finance and Information Technology from October 2001 to May 2004, Vice President and Corporate Controller from January 1998 to October 2001, and Corporate Controller from August 1996 to December 1997. Mr. DeMartino is a certified public accountant.

Donald E. Brooks was appointed Senior Vice President of Engineering in April 2012. Previously, Mr. Brooks served as Vice President, Engineering from September 2004 to April 2012, Senior Project Engineer from February 1998 to September 2004, Project Engineer from June 1997 to February 1998, Director of Electrical Engineering from March 1986 to June 1997 and Manager of Electronic Development from December 1983 to March 1986.

Tracey S. Chernay was appointed Executive Vice President, Casino and Gaming Sales and Marketing in June 2010, with responsibility for the sales and marketing of all casino and gaming products. Previously, Ms. Chernay served as Senior Vice President, Sales and Marketing from June 2007 to May 2010, Senior Vice President, Marketing & Sales, POS & Banking with the Company from July 2006 to June 2007, and joined TransAct in May of 2005 as Senior Vice President, Marketing. Prior to joining TransAct, Ms. Chernay was employed with Xerox Corporation where she held the role of Manager, Worldwide Marketing since 2003, and Manager, Sales Operations from 2000 to 2002. She joined Xerox Corporation in 1983.

Andrew J. Hoffman was appointed Senior Vice President, Operations for TransAct worldwide in November 2004. He served as Vice President, Operations from September 1994 to November 2004.

Benjamin C. Wyatt was appointed Vice President, Software Products and Business Development in December 2010. Previously, Mr. Wyatt served as Vice President, Business Development for TransAct from May 2008 to November 2010. Prior to joining TransAct, Mr. Wyatt was employed with Pitney Bowes Mail Services where he held the role of Director Business Development since 2006, and Manager Acquisitions and Integration from 2004 to 2006

Item 11. Executive Compensation.

The information in response to this item will be contained in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information in response to this item will be contained in the Proxy Statement and is incorporated herein by reference.

Information regarding our equity compensation plans as of December 31, 2013 is as follows:

| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding warrants and rights | (c) |
|---|--|---|---|
| | | | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| Equity compensation plans approved by security holders: | | | |
| 1996 Non-Employee Director Plan | 22,500 | 31.82 | - |
| 2005 Equity Incentive Plan | 746,966 | 7.73 | 195,755 |
| Total | 769,466 | \$ 8.43 | 195,755 |

| | | | | |
|---|---------|----|-------|---------|
| Equity compensation plans not approved by security holders: | | | | |
| 2001 Employee Stock Plan | 1,000 | \$ | 26.23 | - |
| | 770,466 | \$ | 8.46 | 195,755 |

The TransAct Technologies Incorporated 2001 Employee Stock Plan was adopted by our Board of Directors, without approval of our security holders, effective February 26, 2001. The Company also maintains the 2005 Equity Incentive Plan which was approved by our shareholders. The number of shares of common stock which may be subject to awards granted under the 2005 Equity Incentive Plan is 1,200,000. No new awards will be available for future issuance under any of our existing equity plans other than the 2005 Equity Incentive Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information in response to this item will be contained in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information in response to this item will be contained in the Proxy Statement section and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The exhibits filed as a part of this report are listed in the accompanying Index to Exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Bart C. Shuldman
 Name: Bart C. Shuldman
 Title: Chairman of the Board and Chief Executive Officer

Date: March 14, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|--|----------------|
| /s/ Bart C. Shuldman Bart C. Shuldman | Chairman of the Board and Chief Executive Officer, (Principal Executive Officer) | March 14, 2014 |
| /s/ Steven A. DeMartino Steven A. DeMartino | President, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer) | March 14, 2014 |
| /s/ John M. Dillon John M. Dillon | Director | March 14, 2014 |
| /s/ Thomas R. Schwarz Thomas R. Schwarz | Director | March 14, 2014 |

/s/ Graham Y. Director
Tanaka

March 14, 2014

Graham Y.
Tanaka

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TRANSACT TECHNOLOGIES INCORPORATED
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All other financial statement schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of TransAct Technologies Incorporated:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of TransAct Technologies Incorporated and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
March 14, 2014

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TRANSACT TECHNOLOGIES INCORPORATED
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,936 | \$ 7,537 |
| Accounts receivable, net | 13,234 | 15,927 |
| Inventories | 13,509 | 10,321 |
| Prepaid income taxes | 390 | - |
| Deferred tax assets | 1,655 | 1,443 |
| Other current assets | 497 | 471 |
| Total current assets | 32,221 | 35,699 |
| | | |
| Fixed assets, net | 2,732 | 3,302 |
| Goodwill | 2,621 | 2,621 |
| Deferred tax assets | 920 | 1,172 |
| Intangible assets, net of accumulated amortization of \$1,811 and \$1,298, respectively | 1,856 | 2,328 |
| Other assets | 58 | 106 |
| | 8,187 | 9,529 |
| Total assets | \$ 40,408 | \$ 45,228 |
| | | |
| Liabilities and Shareholders' Equity: | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,749 | \$ 6,422 |
| Accrued liabilities | 2,215 | 2,927 |
| Income taxes payable | 26 | 629 |
| Accrued contingent consideration (Note 3) | 60 | 136 |
| Deferred revenue | 300 | 93 |
| Total current liabilities | 7,350 | 10,207 |
| | | |
| Deferred revenue, net of current portion | 103 | 168 |
| Deferred rent, net of current portion | 244 | 308 |
| Accrued contingent consideration, net of current portion (Note 3) | - | 824 |
| Other liabilities | 190 | 352 |
| | 537 | 1,652 |
| Total liabilities | 7,887 | 11,859 |
| | | |
| Commitments and contingencies (Note 11) | | |
| Shareholders' equity: | | |
| | - | - |

| | | |
|---|-----------|-----------|
| Preferred stock, \$0.01 par value, 4,800,000 authorized, none issued and outstanding | | |
| Preferred stock, Series A, \$0.01 par value, 200,000 authorized, none issued and outstanding | - | - |
| Common stock, \$0.01 par value, 20,000,000 authorized at December 31, 2013 and 2012; 11,106,354 and 10,903,077 shares issued; 8,319,316 and 8,720,200 shares outstanding, at December 31, 2013 and 2012, respectively | 111 | 109 |
| Additional paid-in capital | 27,674 | 25,940 |
| Retained earnings | 27,326 | 24,708 |
| Accumulated other comprehensive loss, net of tax | (63) | (55) |
| Treasury stock, 2,787,038 and 2,182,877 shares, at cost | (22,527) | (17,333) |
| Total shareholders' equity | 32,521 | 33,369 |
| Total liabilities and shareholders' equity | \$ 40,408 | \$ 45,228 |

See accompanying notes to Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

| | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2013 | 2012 | 2011 |
| Net sales | \$ 60,141 | \$ 68,386 | \$ 65,969 |
| Cost of sales | 35,049 | 42,404 | 41,343 |
| Gross profit | 25,092 | 25,982 | 24,626 |
| Operating expenses: | | | |
| Engineering, design and product development | 4,065 | 4,239 | 3,418 |
| Selling and marketing | 7,346 | 6,637 | 6,402 |
| General and administrative | 6,588 | 7,833 | 7,633 |
| Legal fees associated with lawsuit (Note 11) | 476 | 1,533 | - |
| Business consolidation and restructuring (Note 8) | - | 138 | 184 |
| | 18,475 | 20,380 | 17,637 |
| Operating income | 6,617 | 5,602 | 6,989 |
| Interest and other income (expense): | | | |
| Interest expense | (64) | (61) | (69) |
| Interest income | 41 | 67 | 87 |
| Other, net | (63) | (23) | 1 |
| | (86) | (17) | 19 |
| Income before income taxes | 6,531 | 5,585 | 7,008 |
| Income tax provision | 1,596 | 1,964 | 2,332 |
| Net income | \$ 4,935 | \$ 3,621 | \$ 4,676 |
| Net income per common share: | | | |
| Basic | \$ 0.57 | \$ 0.40 | \$ 0.50 |
| Diluted | \$ 0.57 | \$ 0.40 | \$ 0.49 |
| Shares used in per-share calculation: | | | |
| Basic | 8,589 | 9,032 | 9,443 |
| Diluted | 8,703 | 9,121 | 9,603 |
| Dividends declared and paid per common share: | \$ 0.27 | \$ 0.06 | \$ - |

See accompanying notes to Consolidated Financial Statements.

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TRANSACT TECHNOLOGIES INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except share data)

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Net income | \$ 4,935 | \$ 3,621 | \$ 4,676 |
| Foreign currency translation adjustment, net of tax | (8) | 16 | (2) |
| Comprehensive income | \$ 4,927 | \$ 3,637 | \$ 4,674 |

See accompanying notes to Consolidated Financial Statements.

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TRANSACT TECHNOLOGIES INCORPORATED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except share data)

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Equity |
|--|------------------------|------------------------|----------------------------------|----------------------|-------------------|---|-----------------|
| Balance, December 31, 2010 | 9,426,443 | \$ 106 | \$22,875 | \$16,937 | \$(8,715) | \$(69) | \$31,134 |
| Issuance of shares from exercise of stock options | 239,074 | 2 | 957 | - | - | - | 959 |
| Issuance of deferred stock units | - | - | 141 | - | - | - | 141 |
| Tax benefit related to employee stock sales and vesting of restricted stock | - | - | 498 | - | - | - | 498 |
| Purchase of treasury stock | (275,255) | - | - | - | (2,680) | - | (2,680) |
| Share-based compensation expense | - | - | 587 | - | - | - | 587 |
| Foreign currency translation adj., net of tax | - | - | - | - | - | (2) | (2) |
| Net income | - | - | - | 4,676 | - | - | 4,676 |
| Balance, December 31, 2011 | 9,390,262 | \$ 108 | \$25,058 | \$21,613 | \$(11,395) | \$(71) | \$35,313 |
| Issuance of shares from exercise of stock options | 51,122 | 1 | 171 | - | - | - | 172 |
| Issuance of deferred stock units | - | - | 134 | - | - | - | 134 |
| Tax benefit related to employee stock | - | - | 57 | - | - | - | 57 |

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| | | | | | | | |
|---|-----------|-------|----------|----------|------------|--------|----------|
| sales | | | | | | | |
| Purchase of treasury stock | (721,184) | - | - | - | (5,938) | - | (5,938) |
| Dividends declared and paid on common stock | - | - | - | (526) | - | - | (526) |
| Share-based compensation expense | - | - | 520 | - | - | - | 520 |
| Foreign currency translation adj., net of tax | - | - | - | - | - | 16 | 16 |
| Net income | - | - | - | 3,621 | - | - | 3,621 |
| Balance, December 31, 2012 | 8,720,200 | \$109 | \$25,940 | \$24,708 | \$(17,333) | \$(55) | \$33,369 |
| Issuance of shares from exercise of stock options | 196,358 | 2 | 1,043 | - | - | - | 1,045 |
| Issuance of deferred stock units | - | - | 139 | - | - | - | 139 |
| Issuance of common stock on deferred stock units, net of relinquishments | 6,919 | - | (28) | - | - | - | (28) |
| Tax benefit related to employee stock sales | - | - | 132 | - | - | - | 132 |
| Purchase of treasury stock | (604,161) | - | - | - | (5,194) | - | (5,194) |
| Dividends declared and paid on common stock | - | - | - | (2,317) | - | - | (2,317) |
| Share-based compensation expense | - | - | 521 | - | - | - | 521 |
| Reversal of deferred tax asset in connection with stock options forfeited | - | - | (73) | - | - | - | (73) |
| | - | - | - | - | - | (8) | (8) |

| | | | | | | | | |
|--|-----------|-------|----------|----------|------------|--------|----------|--|
| Foreign currency translation adj., net of tax | | | | | | | | |
| Net income | - | - | - | 4,935 | - | - | 4,935 | |
| Balance, December 31, 2013 | 8,319,316 | \$111 | \$27,674 | \$27,326 | \$(22,527) | \$(63) | \$32,521 | |

See accompanying notes to Consolidated Financial Statements.

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TRANSACT TECHNOLOGIES INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Cash flows from operating activities: | | | |
| Net income | \$ 4,935 | \$ 3,621 | \$ 4,676 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Share-based compensation expense | 521 | 520 | 587 |
| Incremental tax benefits from stock options exercised | (132) | (57) | (498) |
| Depreciation and amortization | 1,741 | 1,758 | 1,608 |
| Deferred income tax provision (benefit) | 46 | (95) | 519 |
| Loss (gain) on sale of fixed assets | 60 | (13) | 24 |
| Foreign currency transaction losses (gains) | 3 | 34 | (6) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 2,685 | (6,332) | 1,977 |
| Inventories | (3,189) | 3,684 | (568) |
| Prepaid income taxes | (367) | 479 | (446) |
| Other current and long term assets | 20 | (154) | 2 |
| Accounts payable | (1,674) | 3,403 | (5,427) |
| Accrued liabilities and other liabilities | (2,156) | 1,182 | (352) |
| Net cash provided by operating activities | 2,493 | 8,030 | 2,096 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (709) | (1,082) | (640) |
| Additions to capitalized software | (42) | (35) | (616) |
| Proceeds from sale of fixed assets | 5 | 15 | 1 |
| Acquisitions | - | - | (4,000) |
| Net cash used in investing activities | (746) | (1,102) | (5,255) |
| Cash flows from financing activities: | | | |
| Proceeds from stock option exercises | 1,045 | 172 | 959 |
| Purchases of common stock for treasury | (5,194) | (5,938) | (2,680) |
| Payment of dividends on common stock | (2,317) | (526) | - |
| Incremental tax benefits from stock options exercised | 132 | 57 | 498 |
| Payment of deferred financing costs | - | (7) | (31) |
| Net cash used in financing activities | (6,334) | (6,242) | (1,254) |
| Effect of exchange rate changes on cash and cash equivalents | (14) | (12) | (9) |

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| | | | |
|--|----------|----------|----------|
| (Decrease) increase in cash and cash equivalents | (4,601) | 674 | (4,422) |
| Cash and cash equivalents, beginning of period | 7,537 | 6,863 | 11,285 |
| Cash and cash equivalents, end of period | \$ 2,936 | \$ 7,537 | \$ 6,863 |
| Supplemental cash flow information: | | | |
| Interest paid | \$ 51 | \$ 51 | \$ 51 |
| Income taxes paid | 2,585 | 912 | 2,545 |
| Non-cash financing activities | | | |
| Purchases of common stock for treasury at year end | \$ - | \$ - | \$ (61) |

See accompanying notes to Consolidated Financial Statements.

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TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of business

TransAct Technologies Incorporated (“TransAct” or the “Company”), which has its headquarters in Hamden, CT and its primary operating facility in Ithaca, NY, operates in one operating segment: market specific solutions, including printers, terminals, software and other products for transaction-based and other industries. These industries include casino, gaming, lottery, banking, point-of-sale, food safety, oil and gas and medical and mobile. Our printers are designed based on market-specific requirements and are sold under the Ithaca®, Epic and Printrex® product brands. We distribute our products through OEMs, value-added resellers, selected distributors, and 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. We also generate revenue from the after-market side of the business, providing printer service, supplies and spare parts in addition to revenue from our software solution, the EPICENTRAL™ Print System (“EPICENTRAL™”), that enables casino operators to create promotional coupons and marketing messages and print them in real-time at the slot machine.

2. Summary of significant accounting policies

Principles of consolidation: The accompanying Consolidated Financial Statements include the accounts of TransAct and its wholly-owned subsidiaries, which require consolidation, after the elimination of intercompany accounts, transactions and unrealized profit.

Reclassifications: Certain amounts in the prior years’ financial statements have been reclassified to conform to the current year’s presentation.

Use of estimates: The accompanying Consolidated Financial Statements were prepared using estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities as of the date of the Consolidated Financial Statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

Segment reporting: We apply the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 280, “Segment Reporting.” We view our operations and manage our business as one segment: the design, development, assembly and marketing of transaction printers and terminals and providing printer-related software, services, supplies and spare parts. Factors used to identify TransAct’s single operating segment include the organizational structure of the Company and the financial information available for evaluation by the chief operating decision-maker in making decisions about how to allocate resources and assess performance.

Cash and cash equivalents: We consider all highly liquid investments with a maturity date of three months or less at date of purchase to be cash equivalents.

Allowance for doubtful accounts: We establish an allowance for doubtful accounts to ensure trade receivables are valued appropriately. We maintain an allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, significant one-time events and historical experience. We record a specific allowance for individual accounts when we become aware of a customer’s inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer’s operating results or financial position. If circumstances related to customers change, we would further adjust estimates of the recoverability of receivables. Allowances for doubtful accounts on accounts receivable balances were \$63,000 as of December 31, 2013 and \$66,000 as of December 31, 2012.

The following table summarizes the activity recorded in the valuation account for accounts receivable:

| (In thousands) | Year ended December 31, | | |
|---|-------------------------|-------|-------|
| | 2013 | 2012 | 2011 |
| Balance, beginning of period | \$ 66 | \$ 70 | \$ 57 |
| Additions charged to costs and expenses | - | - | 1 |
| Acquisition of business | - | - | 15 |
| Deductions | (3) | (4) | (3) |
| Balance, end of period | \$ 63 | \$ 66 | \$ 70 |

Inventories: Inventories are stated at the lower of cost (principally standard cost, which approximates actual cost on a first-in, first-out basis) or market. We review market value based on historical usage and estimates of future demand. Based on these reviews, inventory write-downs are recorded, as necessary, to reflect estimated obsolescence, excess quantities and market value.

Fixed assets: Fixed assets are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives. The estimated useful life of tooling is five years; machinery and equipment is ten years; furniture and office equipment is five to ten years; and computer software and equipment is three to seven years. Leasehold improvements are amortized over the shorter of the term of the lease or the useful life of the asset. Costs related to repairs and maintenance are expensed as incurred. The costs of sold or retired assets are removed from the related asset and accumulated depreciation accounts and any gain or loss is recognized. Depreciation expense was \$1,216,000, \$1,183,000 and \$1,339,000 in 2013, 2012 and 2011, respectively.

Leases: Rent expense under non-cancelable operating leases with scheduled rent increases or free rent periods are accounted for on a straight-line basis over the lease term, beginning on the date of control of physical use of the asset or of initial possession. The amount of the excess of straight-line rent expense over scheduled payments is recorded as a deferred liability. Construction allowances and other such lease incentives are recorded as deferred credits, and are amortized on a straight-line basis as a reduction of rent expense beginning in the period they are deemed to be earned, which generally coincides with the occupancy date.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Goodwill and Intangible assets: We acquire businesses in purchase transactions that result in the recognition of goodwill and intangible assets. The determination of the value of intangible assets requires management to make estimates and assumptions. In accordance with Accounting Standards Codification (“ASC”) 350-20 “Goodwill”, acquired goodwill is not amortized but is subject to impairment testing at least annually and when an event occurs or circumstances change, that indicate it is more likely than not an impairment exists. Factors considered that may trigger an impairment review of either acquired goodwill or intangible assets are: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of acquired assets or the strategy for the overall business; significant negative industry or economic trends; and significant decline in market capitalization relative to net book value. Definite lived intangible assets are amortized and are tested for impairment when appropriate. We have determined that no goodwill impairment has occurred based on our assessment as of December 31, 2013 when the impairment review is performed.

Revenue recognition: Our typical contracts include the sale of printers, which are sometimes accompanied by separately-priced extended warranty contracts. We also sell replacement parts, consumables, and other repair services (sometimes pursuant to multi-year product maintenance contracts), which are not included in the original printer sale and are ordered by the customer as needed. We recognize revenue pursuant to the guidance within ASC 605, “Revenue Recognition” (ASC 605). Specifically, revenue is recognized when evidence of an arrangement exists, delivery (based on shipping terms, which are generally FOB shipping point) has occurred, the selling price is fixed and determinable, and collectability is reasonably assured. We recognize revenue from the sale of printers and terminals to our distributors and resellers on a sell-in basis and on substantially the same terms as we recognize revenue from all our other customers. We provide for an estimate of product returns and price protection based on historical experience at the time of revenue recognition.

We have developed a software solution, EPICENTRAL, that will enable casino operators to create promotional coupons and marketing messages and to print them in real-time at the slot machine. Revenue arrangements for EPICENTRAL™ include multiple deliverables and as a result such arrangements are accounted for in accordance with both ASC 605-25, “Multiple-Element Arrangements” and ASC 985-605, “Software.” EPICENTRAL™ is primarily comprised of both a software component, which is licensed, and a hardware component, which can either be leased or sold to end users, and both components are integrated to deliver the system’s full functionality. Under leasing arrangements, revenue is generally recognized ratably over the lease term, excluding revenue allocated to installation, which is recognized upon completion. In an arrangement where the hardware is purchased, revenue, inclusive of software license fees, is generally recognized upon installation and formal acceptance by the customer with the exception of any amount allocated to free maintenance which is deferred and recognized over the free maintenance period. For EPICENTRAL™ and other multiple deliverable arrangements, we consider whether the deliverables in an arrangement are within the scope of existing higher-level GAAP and apply such literature to the extent that it provides guidance regarding whether to separate multiple-deliverable arrangements and how to allocate value among those separate units of accounting. We also determine whether revenue arrangements consist of more than one unit of accounting at inception of the arrangement and recognize revenue as each item in the arrangement is delivered. We allocate arrangement consideration to the separate units of accounting based on the relative fair value for all units of accounting in the arrangement, except where amounts allocable to the delivered units is limited to that which is contingent upon the delivery of additional deliverables or meeting other specified performance conditions.

Revenue related to extended warranty and product maintenance contracts is recognized pursuant to ASC 605-20-25, “Separately Priced Extended Warranty and Product Maintenance Contracts.” Pursuant to this provision, revenue related to separately priced product maintenance contracts is deferred and recognized over the term of the maintenance period. We record deferred revenue for advance payments received from customers for maintenance contracts.

Our customers have the right to return products that do not function properly within a limited time after delivery. We monitor and track product returns and record a provision for the estimated future returns based on historical experience. Returns have historically been within expectations and the provisions established.

We offer some of our customers price protection as an incentive to carry inventory of our product. These price protection plans provide that if we lower prices, we will credit them for the price decrease on inventory they hold. Our customers typically carry limited amounts of inventory, and we infrequently lower prices on current products. As a result, the amounts paid under these plans have not been material.

We charge our customers for shipping and handling services. The amounts billed to customers are recorded as revenue when the product ships. Any costs incurred related to these services are included in cost of sales.

Concentration of credit risk: Financial instruments that potentially expose us to concentrations of credit risk are limited to cash and cash equivalents held by our banks in excess of insured limits and accounts receivable.

Accounts receivable from customers representing 10% or more of total accounts receivable were as follows:

| | December 31, | |
|------------|--------------|------|
| | 2013 | 2012 |
| GTECH | 21% | 37% |
| Customer A | 22% | 17% |

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Sales to customers representing 10% or more of total net sales were as follows:

| | Year ended December 31, | | |
|------------|-------------------------|------|------|
| | 2013 | 2012 | 2011 |
| GTECH | 12% | 18% | 26% |
| Customer A | 12% | 15% | 13% |

Warranty: 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:

| (In thousands) | Year ended December 31, | | |
|------------------------------|-------------------------|--------|--------|
| | 2013 | 2012 | 2011 |
| Balance, beginning of period | \$ 274 | \$ 421 | \$ 249 |
| Warranties issued | 492 | 104 | 472 |
| Acquisition of business | - | - | 25 |
| Warranty settlements | (400) | (251) | (325) |
| Balance, end of period | \$ 366 | \$ 274 | \$ 421 |

Approximately \$84,000 and \$101,000 of the accrued product warranty liability were classified as long-term at December 31, 2013 and 2012, respectively.

Research and development expenses: Research and development expenses include engineering, design and product development expenses incurred in connection with specialized engineering and design to introduce new products and to customize existing products, and are expensed as a component of operating expenses as incurred. We recorded approximately \$4,065,000, \$4,239,000 and \$3,418,000 of research and development expenses in 2013, 2012 and 2011, respectively.

Costs incurred in researching and developing a computer software product are charged to expense until technological feasibility has been established at which point all material software costs are capitalized within Intangible assets in our Consolidated Balance Sheet until the product is available for general release to customers. While judgment is required in determining when technological feasibility of a product is established, we have determined that it is reached after all high-risk development issues have been documented in a formal detailed plan design. The amortization of these costs will be included in cost of sales over the estimated life of the product. During 2010 we began the development of EPICENTRAL™ and unamortized development costs for such software were approximately \$370,000 and \$528,000 as of December 31, 2013 and 2012, respectively. The total amount charged to cost of sales for capitalized software development costs was approximately \$199,000, \$189,000 and \$62,000 in 2013, 2012 and 2011, respectively. The weighted-average amortization period of unamortized capitalized software

developments costs is approximately 2 years.

Advertising: Advertising costs are expensed as incurred. Advertising expenses, which are included in selling and marketing expense on the accompanying Consolidated Statements of Income, for 2013, 2012 and 2011 totaled \$1,058,000, \$949,000 and \$871,000, respectively. These expenses include items such as consulting and professional services, tradeshow, and print advertising.

Restructuring: We continually evaluate our cost structure to ensure that it is appropriately positioned to respond to changing market conditions. We record pre-tax restructuring charges in accordance with ASC 420-10-25-4, "Exit or Disposal Cost Obligations." See Note 8 for further discussion.

Income taxes: The income tax amounts reflected in the accompanying Consolidated Financial Statements are accounted for under the liability method in accordance with ASC 740, "Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We assess the likelihood that net deferred tax assets will be realized from future taxable income, and to the extent that we believe that realization is not likely, we establish a valuation allowance. In accordance with ASC 740, we identified, evaluated and measured the amount of benefits to be recognized for our tax return positions. See Note 13 for information regarding our accounting for income taxes.

Foreign currency translation: The financial position and results of operations of our foreign subsidiary in the United Kingdom are measured using local currency as the functional currency. Assets and liabilities of such subsidiary have been translated into U.S. dollars at the year-end exchange rate, related sales and expenses have been translated at the average exchange rate for the year, and shareholders' equity has been translated at historical exchange rates. The resulting translation gains or losses, net of tax, are recorded in shareholders' equity as a cumulative translation adjustment, which is a component of

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

accumulated other comprehensive income. Foreign currency transaction gains and losses, including those related to intercompany balances, are recognized in Other, net on the Consolidated Statements of Income.

Share-based payments: At December 31, 2013, we had share-based employee compensation plans, which are described more fully in Note 12 - Stock incentive plans. We account for those plans under the recognition and measurement principles of ASC 718, "Compensation – Stock Compensation." Share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period. We have no awards with market or performance conditions.

We use the Black-Scholes option-pricing model to calculate the fair value of share based awards. The key assumptions for this valuation method include the expected term of the option, stock price volatility, risk-free interest rate, dividend yield, market price of our underlying stock and exercise price. Many of these assumptions are judgmental and highly sensitive in the determination of compensation expense. In addition, we estimate forfeitures when recognizing compensation expense, and we adjust our estimate of forfeitures over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative true-up adjustment in the period of change and also impacts the amount of compensation expense to be recognized in future periods.

Net income and loss per share: We report net income or loss per share in accordance with ASC 260, "Earnings per Share (EPS)." Under this guidance, basic EPS, which excludes dilution, is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Unvested restricted stock is excluded from the calculation of weighted average common shares for basic EPS. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted EPS includes restricted stock and in-the-money stock options using the treasury stock method. During a loss period, the assumed exercise of in-the-money stock options has an anti-dilutive effect, and therefore, these instruments are excluded from the computation of dilutive EPS. See Note 14 - Earnings per share.

3. Business acquisitions

On August 19, 2011, we completed the purchase of substantially all of the assets of Printrex, Inc. ("Printrex") for \$4,000,000 in cash and potential future contingent consideration further discussed below. Printrex is a leading manufacturer of specialty printers primarily sold into the oil and gas exploration and medical markets which serve commercial and industrial customers primarily in the United States, Canada, Europe and Asia. This acquisition was completed primarily to expand our product offerings into the oil and gas exploration and medical markets. We have completed our analysis of fair value attributes of the assets acquired through the Printrex acquisition and the final assessment of values did not differ materially from our preliminary assessment.

The following table summarizes the final fair values of the assets acquired and liabilities assumed related to the Printrex acquisition:

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| | |
|---|-----------|
| Purchase Price Allocation (In thousands): | |
| Receivables | \$ 673 |
| Inventories | 677 |
| Fixed assets | 11 |
| Other current assets | 6 |
| Intangible assets | 2,280 |
| Goodwill | 1,152 |
| Other assets | 22 |
| Initial estimate for liability related to potential future contingent consideration | (680) |
| Other liabilities | (141) |
| Total purchase price | \$ 4,000 |
| Intangible Assets: | |
| Customer relationships | \$ 1,300 |
| Trademark | 480 |
| Developed technology | 420 |
| Other | 80 |
| Total Intangible assets | \$ 2,280 |
| Intangible Asset Weighted Average Amortization Period: | |
| Customer relationships | 6 years |
| Trademark | 10 years |
| Developed technology | 9 years |
| Other | 1.2 years |
| Total weighted average | 7.2 years |

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TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Business acquisitions (continued)

The fair values assigned to intangible assets were determined through the use of the income approach, specifically the relief from royalty method and the multi-period excess earnings method. The valuation of tangible assets was derived using a combination of the income approach, the market approach and the cost approach.

We entered into a contingent consideration arrangement with Printrex as part of the acquisition for 30% of the gross profit for a three-year period related to 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 \$0 to \$200,000. The fair value of the contingent consideration arrangement was \$60,000 and \$960,000 at December 31, 2013 and 2012, respectively, which were 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 2013, the fair value of the contingent consideration was decreased by \$900,000 and this credit is included in general and administrative expenses on the Consolidated Statements of Income. No payments were made under the arrangement during 2013 as the underlying conditions of the contingent consideration arrangement were not satisfied.

Key assumptions include a discount rate range of 4% to 5% and a probability-adjusted level of gross profit between \$300,000 and \$1,200,000.

The Printrex acquisition resulted in \$1,152,000 of goodwill, which is deductible for tax purposes, and largely consists of expected synergies resulting from the acquisition. Key areas of potential cost savings include increased purchasing power for raw materials; manufacturing and supply chain work process improvements; and the elimination of redundant manufacturing overhead and operating expenses. We also anticipate that the transaction will produce growth synergies as a result of applying TransAct's sales and engineering expertise to Printrex's products.

The change in carrying value of goodwill for the year ended December 31, 2012 was as follows (in thousands):

| | |
|--|---------|
| Balance at December 31, 2011 | \$2,518 |
| Inventory measurement adjustment in connection with Printrex acquisition | 103 |
| Balance at December 31, 2012 | \$2,621 |

We incurred acquisition-related costs of \$159,000 during the year ended December 31, 2011. These costs included legal, accounting, valuation and other professional services and were included in general and administrative expenses in the Consolidated Statements of Income. In addition, we incurred approximately \$78,000 of integration-related expenses in 2011 that were also included in general and administrative expenses in the Consolidated Statements of Income. No such expenses were incurred during 2012 or 2013.

The Printrex acquisition contributed \$1,892,000 to net sales and reduced net income by \$23,000 for the year ended December 31, 2011. This reduction includes the after-tax impact of \$139,000 of amortization expense from the intangible assets acquired from Printrex as well as \$78,000 of integration expenses. The following unaudited pro forma consolidated results of operations for the year ended December 31, 2011 are provided for illustrative purposes only and assume that the acquisition of Printrex occurred on January 1, 2010. This unaudited pro forma information should not be relied upon as being indicative of the historical results that would have been obtained if the acquisition had occurred on that date, nor of the results that may be obtained in the future.

| | |
|----------------|-----------|
| (In thousands) | |
| Sales | \$ 69,694 |
| Net income | \$ 5,025 |

4. Inventories

The components of inventories are:

| (In thousands) | December 31, | |
|---|--------------|-----------|
| | 2013 | 2012 |
| Raw materials and purchased component parts | \$ 7,263 | \$ 6,871 |
| Work-in-process | 31 | - |
| Finished goods | 6,215 | 3,450 |
| | \$ 13,509 | \$ 10,321 |

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TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Fixed assets

The components of fixed assets, net are:

| (In thousands) | December 31, | |
|---|--------------|-----------|
| | 2013 | 2012 |
| Tooling, machinery and equipment | \$ 12,066 | \$ 12,913 |
| Furniture and office equipment | 1,492 | 1,555 |
| Computer software and equipment | 5,986 | 5,546 |
| Leasehold improvements | 1,926 | 1,800 |
| | 21,470 | 21,814 |
| Less: Accumulated depreciation and amortization | (18,989) | (18,925) |
| | 2,481 | 2,889 |
| Construction in-process | 251 | 413 |
| | \$ 2,732 | \$ 3,302 |

6. Intangible assets

Identifiable intangible assets are recorded in Intangible assets in the accompanying Consolidated Balance Sheets and are comprised of the following:

| (In thousands) | December 31, | | | |
|-------------------------|-----------------|-----------------------------|-----------------|-----------------------------|
| | 2013 | | 2012 | |
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Purchased technology | \$ 1,604 | \$ (924) | \$ 1,563 | \$ (679) |
| Customer relationships | 1,300 | (513) | 1,300 | (296) |
| Trademark | 480 | (113) | 480 | (65) |
| Covenant not to compete | 146 | (146) | 146 | (146) |
| Patents | 57 | (35) | 57 | (32) |
| Other | 80 | (80) | 80 | (80) |
| Total | \$ 3,667 | \$ (1,811) | \$ 3,626 | \$ (1,298) |

Amortization expense was \$513,000 in 2013, \$568,000 in 2012 and \$255,000 in 2011. Amortization expense for each of the next five years ending December 31 is expected to be as follows: \$514,000 in 2014; \$456,000 in 2015; \$333,000 in 2016; \$244,000 in 2017; and \$309,000 thereafter.

7. Accrued liabilities

The components of accrued liabilities are:

| (In thousands) | December 31, | |
|-----------------------------|--------------|----------|
| | 2013 | 2012 |
| Payroll and fringe benefits | \$ 1,447 | \$ 1,770 |
| Warranty | 282 | 173 |
| Professional and consulting | 139 | 189 |
| Other | 347 | 795 |

| | |
|----------|----------|
| \$ 2,215 | \$ 2,927 |
|----------|----------|

8. Accrued business consolidation and restructuring expenses

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 \$138,000 in 2012 for employee termination benefits related to these employee reductions as well as moving costs and the closing of the San Jose manufacturing operations that was completed as of December 31, 2012. This restructuring charge was recorded in accordance with ASC 420-10-25-4 "Exit or Disposal Cost Obligations" and is included within Business consolidation and restructuring expenses in the accompanying Consolidated Statements of Income. Cash payments made under this restructuring plan were completed by October 2012.

In May 2011, we closed our New Britain, CT service facility which primarily serviced our first generation legacy lottery printers for GTECH Corporation ("GTECH") and incurred \$184,000 in facility closure and severance costs in the second quarter of 2011. These restructuring activities reduced the number of employees and closed a facility, which caused us to incur costs for employee termination benefits related to these employee reductions as well as lease termination costs and the disposal of fixed assets. Cash payments made under this restructuring plan were completed by April 2012.

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TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Accrued business consolidation and restructuring expenses (continued)

The following table summarizes the activity recorded in accrued restructuring expenses during 2012, and is included in accrued liabilities in the accompanying Consolidated Balance Sheets. There was no activity in accrued restructuring expenses during 2013.

| | |
|--------------------------------------|-------|
| (In thousands) | |
| Accrual balance, beginning of period | \$ 45 |
| Severance & moving charges | 138 |
| Cash payments | (183) |
| Accrual balance, end of period | \$ - |

9. Retirement savings plan

We maintain a 401(k) plan under which all full-time employees are eligible to participate at the beginning of each month immediately following their date of hire. We match employees' contributions at a rate of 50% of employees' contributions up to the first 6% of the employees' compensation contributed to the 401(k) plan. Our matching contributions were \$265,000, \$280,000 and \$201,000 in 2013, 2012 and 2011, respectively.

10. Borrowings

We maintain a credit facility (the "TD Bank Credit Facility") with TD Bank which provides for a \$20,000,000 revolving credit line that expires on November 28, 2014. Borrowings under the TD Bank Credit Facility 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 0.25% on unused borrowings under the TD Bank Credit Facility.

On September 7, 2012, we signed an amendment to the TD Bank Credit Facility that allows us to declare and pay cash dividends to holders of our outstanding common shares subject to approval by our Board of Directors and provided that no default or event of default has occurred and is continuing under the credit facility on the date of the dividend payment. The amendment also allows us to use up to \$5,000,000 in revolving credit loans to fund future cash dividend payments or treasury share buybacks as well as requires cash dividend payments to be treated as distributions for purposes of quarterly debt covenant calculations.

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 December 31, 2013.

As of December 31, 2013, undrawn commitments under the TD Bank Credit facility were \$20,000,000.

11. 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.

At December 31, 2013, we were the lessee on operating leases for equipment and real property. Rent expense was approximately \$918,000, \$1,005,000 and \$1,030,000 in 2013, 2012 and 2011, respectively. Minimum aggregate rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2013 are as follows: \$832,000 in 2014; \$821,000 in 2015; \$563,000 in 2016 and \$78,000 in 2017.

12. Stock incentive plans

Stock incentive plans. We currently have three primary stock incentive plans: the 1996 Directors’ Stock Plan, which provided for non-discretionary awards to non-employee directors; the 2001 Employee Stock Plan, which provided for the grant of awards to key employees of the Company and other non-employees who provided services to the Company; and the 2005 Equity Incentive Plan, which provides for awards to executives, key employees, directors and consultants. The plans generally provide for awards in the form of: (i) incentive stock options, (ii) non-qualified stock options, (iii) restricted stock, (iv) restricted stock units, (v) stock appreciation rights or (vi) limited stock appreciation rights. However, the 2001 Employee Stock Plan does not provide for incentive stock option awards. Options granted under these plans have exercise prices equal to 100% of the fair market value of the common stock at the date of grant. Options granted have a ten-year term and generally vest over a three- to five-year period, unless automatically accelerated for certain defined events. As of May 2005, no new awards will be made under the 1996 Directors’ Stock Plan or the 2001 Employee Stock Plan. Under our 2005 Equity Incentive Plan, we may authorize up to 1,200,000 of shares of TransAct common stock. At December 31, 2013, 195,755 shares of common stock remained available for issuance under the 2005 Equity Incentive Plan.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Stock incentive plans (continued)

Under the assumptions indicated below, the weighted-average fair value of stock option grants for the years ended December 31, 2013, 2012 and 2011 was \$7.94, \$6.91 and \$10.42, respectively. The table below indicates the key assumptions used in the option valuation calculations for options granted in the years ended December 31, 2013, 2012 and 2011 and a discussion of our methodology for developing each of the assumptions used in the valuation model:

| | Year ended December 31, | | |
|-------------------------|-------------------------|-----------|-----------|
| | 2013 | 2012 | 2011 |
| Expected option term | 6.8 years | 6.7 years | 6.8 years |
| Expected volatility | 56.5% | 57.8% | 62.5% |
| Risk-free interest rate | 0.8% | 0.8% | 2.0% |
| Dividend yield | 3.1% | -% | -% |

Expected Option Term - This is the weighted average period of time over which the options granted are expected to remain outstanding giving consideration to our historical exercise patterns. Options granted have a maximum term of ten years and an increase in the expected term will increase compensation expense.

Expected Volatility – The stock volatility for each grant is measured using the weighted average of historical daily price changes of our common stock over the most recent period approximately equal to the expected option term of the grant. An increase in the expected volatility factor will increase compensation expense.

Risk-Free Interest Rate - This is the U.S. Treasury rate in effect at the time of grant having a term approximately equal to the expected term of the option. An increase in the risk-free interest rate will increase compensation expense.

Dividend Yield – We began paying a quarterly dividend of \$.06 per share to common shareholders in December 2012, which was increased to \$.07 per share in May 2013. The dividend yield is calculated by dividing the annual dividend declared per common share by the weighted average market value of our common stock on the date of grant. An increase in the dividend yield will decrease compensation expense.

For the years ending December 31, 2013, 2012 and 2011, we recorded \$521,000, \$520,000, and \$587,000 of share-based compensation expense, respectively, included primarily in general and administrative expense in our Consolidated Statements of Income. We also recorded income tax benefits of approximately \$127,000, \$183,000, and \$195,000 in 2013, 2012, and 2011 respectively, related to such share-based compensation. At December 31, 2013, these benefits are recorded as a deferred tax asset in the Consolidated Balance Sheets.

The 1996 Directors' Stock Plan, 2001 Employee Stock Plan and 2005 Equity Incentive Plan option activity is summarized below:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-------------------------------------|---------------------|--|--|---------------------------------|
| Outstanding at December 31, 2012 | 849,961 | \$ 8.19 | | |

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| | | | | |
|---------------------------------------|-----------|---------|-----------|--------------|
| Granted | 129,000 | 7.94 | | |
| Exercised | (206,111) | 5.45 | | |
| Forfeited | (2,000) | 6.70 | | |
| Cancelled | (52,375) | 14.24 | | |
| Outstanding at | | | | |
| December 31, 2013 | 718,475 | \$ 8.49 | 6.2 years | \$ 3,349,000 |
| Options exercisable at | | | | |
| December 31, 2013 | 388,650 | \$ 9.26 | 4.6 years | \$ 1,717,000 |
| Options vested or expected to vest | 699,575 | \$ 8.52 | 6.1 years | \$ 3,255,000 |

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TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Stock incentive plans (continued)

Shares that are issued upon exercise of employee stock options are newly issued shares and not issued from treasury stock. As of December 31, 2013, unrecognized compensation cost related to stock options is approximately \$903,000, which is expected to be recognized over a weighted average period of 2.4 years.

The total intrinsic value of stock options exercised was \$910,000, \$222,000 and \$1,576,000 and the total fair value of stock options vested was \$815,000, \$641,000, and \$504,000 during the years ended December 31, 2013, 2012 and 2011, respectively. Cash received from option exercises was \$1,045,000, \$172,000 and \$959,000 for 2013, 2012 and 2011, respectively. We recorded a realized tax benefit in 2013, 2012 and 2011 from equity-based awards of \$132,000, \$57,000 and \$498,000, respectively, related to options exercised which has been included as a component of cash flows from financing activities in the Consolidated Statement of Cash Flows.

Restricted stock: Under the 2001 Employee Stock Plan and 2005 Equity Incentive Plan, we granted shares of restricted common stock, for no consideration, to our officers, directors and certain key employees. As of December 31, 2013, there was no unrecognized compensation cost related to restricted stock and all previously issued restricted shares are fully vested.

We paid a portion of the 2012, 2011 and 2010 incentive bonus for the chief executive officer and chief financial officer in the form of 17,613, 20,055 and 14,323 deferred stock units, respectively, with a corresponding credit recorded to Additional Paid in Capital (net of share relinquishments) in the amounts of \$111,000, \$134,000 and \$141,000 in 2013, 2012 and 2011, respectively. Such deferred stock units were granted in March 2013, 2012 and 2011, respectively, and were fully vested at the time of grant. These units will be converted three years from the grant date to shares of the Company's common stock on a one-for-one basis. The weighted average exercise price of the deferred stock units was \$7.98.

13. Income taxes

The components of the income tax provision are as follows:

| (In thousands) | Year Ended December 31, | | |
|------------------|-------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Current: | | | |
| Federal | \$ 1,479 | \$ 1,973 | \$ 1,695 |
| State | 38 | 46 | 74 |
| Foreign | 33 | 40 | 44 |
| | 1,550 | 2,059 | 1,813 |
| Deferred: | | | |
| Federal | 80 | (116) | 448 |
| State | (34) | 21 | 71 |
| Foreign | - | - | - |

| | | | |
|----------------------|----------|----------|----------|
| | 46 | (95) | 519 |
| Income tax provision | \$ 1,596 | \$ 1,964 | \$ 2,332 |

Our effective tax rates were 24.4%, 35.2% and 33.3% for the years ended December 31, 2013, 2012 and 2011, respectively. Our effective tax rate for 2013 is unusually low because it includes: 1) 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 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.

At December 31, 2013, we have no federal or state net operating loss carryforwards. We have approximately \$67,000 in state tax credit carryforwards that begin to expire in 2014. Foreign (loss) income before taxes was \$(29,000), \$92,000 and \$68,000 in 2013, 2012 and 2011, respectively.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Income taxes (continued)

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements. Our gross deferred tax assets and liabilities were comprised of the following:

| (In thousands) | December 31, | |
|--------------------------------------|--------------|----------|
| | 2013 | 2012 |
| Deferred tax assets: | | |
| Foreign net operating losses | \$ 242 | \$ 186 |
| Capitalized research and development | 68 | 136 |
| Inventory reserves | 1,050 | 961 |
| Deferred revenue | 59 | 79 |
| Warranty reserve | 127 | 96 |
| Stock compensation expense | 956 | 1,036 |
| Foreign tax and other credits | 45 | 34 |
| Other liabilities and reserves | 491 | 705 |
| Gross deferred tax assets | 3,038 | 3,233 |
| Valuation allowance | (242) | (216) |
| Net deferred tax assets | 2,796 | 3,017 |
| Deferred tax liabilities: | | |
| Depreciation | 175 | 365 |
| Other | 46 | 37 |
| Net deferred tax liabilities | 221 | 402 |
| Total net deferred tax assets | \$ 2,575 | \$ 2,615 |

A valuation allowance of \$242,000 has been established for foreign net operating loss carryforwards that are not expected to be used. The following table summarizes the activity recorded in the valuation allowance on the deferred tax assets:

| (In thousands) | Year ended December 31, | | |
|---|-------------------------|--------|--------|
| | 2013 | 2012 | 2011 |
| Balance, beginning of period | \$ 216 | \$ 176 | \$ 125 |
| Additions charged to income tax provision | 56 | 40 | 51 |
| Reductions credited to income tax provision | (30) | - | - |
| Balance, end of period | \$ 242 | \$ 216 | \$ 176 |

Differences between the U.S. statutory federal income tax rate and our effective income tax rate are analyzed below:

| | Year Ended December 31, | | |
|--|-------------------------|------|------|
| | 2013 | 2012 | 2011 |

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| | | | |
|--|-------|-------|-------|
| Federal statutory tax rate | 34.0% | 34.0% | 34.0% |
| State income taxes, net of federal income taxes | 0.1 | 0.8 | 1.4 |
| Tax benefit from tax credits, net of valuation allowance | - | - | (2.7) |
| Valuation allowance and tax accruals | 0.9 | 0.9 | 0.7 |
| Permanent items | (8.3) | (0.8) | (0.4) |
| Other | (2.3) | 0.3 | 0.3 |
| Effective tax rate | 24.4% | 35.2% | 33.3% |

At December 31, 2013 and 2012, we had approximately \$106,000 and \$251,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. We are not aware of any events that could occur within the next twelve months that could cause a significant change in the total amount of unrecognized tax benefits. A tabular reconciliation of the gross amounts of unrecognized tax benefits at the beginning and end of the year is as follows:

| (In thousands) | 2013 | 2012 |
|---|--------|--------|
| Unrecognized tax benefits as of January 1 | \$ 251 | \$ 228 |
| Tax positions taken during the current period | 79 | 23 |
| Lapse of statute of limitations | (224) | - |
| Unrecognized tax benefits as of December 31 | \$ 106 | \$ 251 |

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TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Income taxes (continued)

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 Consolidated Financial Statements.

We do not anticipate that the total unrecognized tax benefits of approximately \$106,000 will significantly change due to the settlement of audits and the expiration of statute of limitations prior to December 31, 2014.

We recognize interest and penalties related to uncertain tax positions in the income tax provision. As of December 31, 2013 and 2012, we have approximately \$10,000 and \$46,000, respectively, of accrued interest and penalties related to uncertain tax positions.

14. Earnings per share

For 2013, 2012 and 2011, earnings per share were computed as follows (in thousands, except per share amounts):

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Net income | \$ 4,935 | \$ 3,621 | \$ 4,676 |
| Shares: | | | |
| Basic: Weighted average common shares outstanding | 8,589 | 9,032 | 9,443 |
| Add: Dilutive effect of outstanding options as determined by the treasury stock method | 114 | 89 | 160 |
| Diluted: Weighted average common and common equivalent shares outstanding | 8,703 | 9,121 | 9,603 |
| Net income per common share: | | | |
| Basic | \$ 0.57 | \$ 0.40 | \$ 0.50 |
| Diluted | 0.57 | 0.40 | 0.49 |

We compute earnings per share using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities. Restricted stock granted by the Company is considered a participating security since it contains a non-forfeitable right to dividends.

Certain stock-based awards were not included in the full year computation of earnings per diluted share because the effect would be anti-dilutive. Anti-dilutive stock options, restricted shares and deferred stock units excluded from the

computation of earnings per dilutive share were 311,000, 585,125, and 309,250, at December 31, 2013, 2012 and 2011 respectively.

15. Stock repurchase program

Prior to its expiration on May 27, 2013, we maintained a stock repurchase program (the “Stock Repurchase Program”) whereby we were authorized to repurchase up to \$15,000,000, as increased from \$10,000,000 in March 2012, of our 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 May 27, 2013 and was not renewed. We use the cost method to account for treasury stock purchases, under which the price paid for the stock is charged to the treasury stock account. Repurchases of our common stock are accounted for as of the settlement date. From January 1, 2013 through the expiration date of the Stock Repurchase Program, we repurchased 114,161 shares of common stock for approximately \$887,000, at an average price of \$7.77 per share. In addition to shares repurchased under the Stock Repurchase Program, during the year ended December 31, 2013, we repurchased 490,000 shares of our common stock for approximately \$4,307,000 at an average price per share of \$8.79 in an open-market transaction. From January 1, 2005 through December 31, 2013, we repurchased a total of 2,787,038 shares of common stock for approximately \$22,527,000 under all of our stock repurchase programs, at an average price of \$8.08 per share. At December 31, 2013, no additional shares are authorized for future repurchases due to the expiration of the Stock Repurchase Program.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Geographic area information

Information regarding our operations by geographic area is contained in the following table. These amounts in the geographic area table are based on the location of the customer and vendor.

| (In thousands) | Year Ended December 31, | | |
|---------------------------|-------------------------|------------------|------------------|
| | 2013 | 2012 | 2011 |
| Net sales: | | | |
| United States | \$ 46,377 | \$ 49,932 | \$ 49,301 |
| International | 13,764 | 18,454 | 16,668 |
| Total | \$ 60,141 | \$ 68,386 | \$ 65,969 |
| Fixed assets, net: | | | |
| United States | \$ 1,583 | \$ 1,941 | \$ 2,129 |
| International | 1,149 | 1,361 | 1,229 |
| Total | \$ 2,732 | \$ 3,302 | \$ 3,358 |

Sales to international customers were approximately 23%, 27%, and 25% in 2013, 2012, and 2011 respectively. Sales to the United Kingdom represented 52%, 52%, and 51%, sales to the Pacific Rim (which includes Australia and Asia) represented 26%, 18%, and 25%, and sales to Canada represented 10%, 16%, and 6% of total international sales in 2013, 2012, and 2011 respectively. International long-lived assets consist of net fixed assets located at our foreign subsidiary in the United Kingdom as well as our contract manufacturers in China, Thailand, Malaysia and Mexico.

17. Quarterly results of operations (unaudited)

Our quarterly results of operations for 2013 and 2012 are as follows:

| (In thousands, except per share amounts) | Quarter Ended | | | |
|--|---------------|-----------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| 2013: | | | | |
| Net sales | \$ 15,057 | \$ 15,788 | \$ 16,768 | \$ 12,528 |
| Gross profit | 6,433 | 6,452 | 7,206 | 5,001 |
| Net income | 1,160 | 1,215 | 1,451 | 1,109 |
| Net income per share: | | | | |
| Basic | 0.13 | 0.14 | 0.17 | 0.13 |
| Diluted | 0.13 | 0.14 | 0.17 | 0.13 |
| 2012: | | | | |
| Net sales | \$ 17,559 | \$ 15,853 | \$ 15,358 | \$ 19,616 |
| Gross profit | 6,778 | 5,842 | 5,679 | 7,683 |
| Net income | 1,208 | 508 | 23 | 1,882 |
| Net income per share: | | | | |

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| | | | | |
|---------|------|------|------|------|
| Basic | 0.13 | 0.06 | 0.00 | 0.21 |
| Diluted | 0.13 | 0.06 | 0.00 | 0.21 |

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Index to Exhibits

| | | |
|----------|---|------|
| 3.1(a) | Certificate of Incorporation of TransAct Technologies Incorporated (“TransAct” or the “Company”) filed with the Secretary of State of Delaware on June 17, 1996. | (2) |
| 3.1(b) | Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Secretary of State of Delaware on June 4, 1997. | (4) |
| 3.1(c) | Certificate of Designation, Series A Preferred Stock, filed with the Secretary of State of Delaware on December 2, 1997. | (5) |
| 3.1(d) | Certificate of Designation, Series B Preferred Stock, filed with the Secretary of State of Delaware on April 6, 2000. | (7) |
| 3.2 | Amended and Restated By-laws of the Company. | (6) |
| 4.1 | Specimen Common Stock Certificate. | (2) |
| 10.1(x) | 1996 Stock Plan, effective July 30, 1996. | (3) |
| 10.2(x) | Non-Employee Directors’ Stock Plan, effective August 22, 1996. | (3) |
| 10.3(x) | 2001 Employee Stock Plan. | (8) |
| 10.4(x) | 2005 Equity Incentive Plan. | (12) |
| 10.5(x) | Employment Agreement, dated July 31, 1996, by and between TransAct and Bart C. Shuldman. | (2) |
| 10.6(x) | Severance Agreement by and between TransAct and Benjamin C. Wyatt, dated May 27, 2008. | (21) |
| 10.7(x) | Severance Agreement by and between TransAct and Steven A. DeMartino, dated June 1, 2004. | (11) |
| 10.8(x) | Severance Agreement by and between TransAct and Tracey S. Chernay, dated July 29, 2005. | (15) |
| 10.9(x) | Amendment to Employment Agreement, effective January 1, 2008, by and between TransAct and Bart C. Shuldman. | (16) |
| 10.10(x) | Amendment to Severance Agreement by and between TransAct and Benjamin C. Wyatt, effective January 1, 2008. | (21) |
| 10.11(x) | Amendment to Severance Agreement by and between TransAct and Steven A. DeMartino, effective January 1, 2008. | (16) |
| 10.12(x) | Amendment to Severance Agreement by and between TransAct and Tracey S. Chernay, effective January 1, 2008. | (16) |
| 10.13 | Lease Agreement by and between Bomax Properties and Ithaca, dated as of March 23, 1992. | (2) |
| 10.14 | Second Amendment to Lease Agreement by and between Bomax Properties and Ithaca, dated December 2, 1996. | (4) |
| 10.15 | Agreement regarding the Continuation and Renewal of Lease by and between Bomax Properties, LLC and TransAct, dated July 18, 2001. | (9) |
| 10.16 | Amendment No. 1 to Lease Agreement between Bomax Properties, LLC and TransAct. | (19) |
| 10.17 | Lease Agreement by and between Las Vegas Airport Properties LLC and TransAct dated December 2, 2004. | (11) |
| 10.18 | First Amendment to Lease Agreement by and between Las Vegas Airport Properties LLC and TransAct dated August 31, 2009 | (17) |
| 10.19 | Lease Agreement by and between 2319 Hamden Center I, L.L.C. and TransAct dated November 27, 2006. | (13) |
| 10.20 | OEM Purchase Agreement by and between GTECH Corporation and TransAct, dated November 20, 2009. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy) | (17) |
| 10.21 | Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Banknorth, N.A. dated November 28, 2006 | (13) |
| 10.22 | First Amendment to Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Banknorth, N.A. effective September 30, 2007. | (14) |

| | | |
|---------|--|------|
| 10.23 | Second Amendment to Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Bank, N.A. effective November 22, 2011. | (18) |
| 10.24 | Third Amendment to Amended and Restated Revolving Credit and Security Agreement | (20) |
| 10.25 | License Agreement between Seiko Epson Corporation and TransAct dated May 17, 2004 (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) | (10) |
| 23.1 | Consent of PricewaterhouseCoopers LLP. | (1) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | (1) |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | (1) |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | (1) |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | (1) |
| 101.INS | XBRL Instance Document. | (1) |
| 101.SCH | XBRL Taxonomy Extension Schema Document. | (1) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. | (1) |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. | (1) |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. | (1) |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. | (1) |

- (1) These exhibits are filed herewith.
- (2) These exhibits, which were previously filed with the Company's Registration Statement on Form S-1 (No. 333-06895), are incorporated by reference.
- (3) These exhibits, which were previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996, are incorporated by reference.
- (4) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997, are incorporated by reference.
- (5) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed February 18, 1999, is incorporated by reference.
- (6) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1998, is incorporated by reference.
- (7) These exhibits, which were previously filed with the Company's Quarterly Report on Form 10-Q for the period ended March 25, 2000, are incorporated by reference.
- (8) This exhibit, which was previously filed with the Company's Registration Statement on Form S-8 (No. 333-59570), is incorporated by reference.
- (9) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2003, is incorporated by reference.
- (10) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, is incorporated by reference.
- (11) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2004, are incorporated by reference.
- (12) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed June 1, 2005, is incorporated by reference.
- (13) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2006, are incorporated by reference.

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- (14) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1997, is incorporated by reference.
 - (15) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2007, is incorporated by reference.
 - (16) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2008, is incorporated by reference.
 - (17) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2009, is incorporated by reference.
 - (18) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2011, is incorporated by reference.
 - (19) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2012, is incorporated by reference.
 - (20) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed September 11, 2012, is incorporated by reference.
 - (21) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2012, are incorporated by reference.
 - (x) Management contract or compensatory plan or arrangement.
-

EXHIBIT LIST

The following exhibits are filed herewith.

Exhibit

- 23.1 Consent of PricewaterhouseCoopers LLP.
- 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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