

TRANSACT TECHNOLOGIES INC
Form 10-K
March 30, 2015

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, 2014

or

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

For the transition period from _____ to _____.

Commission file number: 0-21121

(Exact name of registrant as specified in its charter)

Delaware

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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark 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 \$82,400,000 based on the last sale price on June 30, 2014.

As of February 27, 2015, the number of shares outstanding of the Registrant's common stock, \$0.01 par value, was 7,784,804.

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 2015 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

TRANSACT TECHNOLOGIES INCORPORATED

INDEX

| | | |
|-----------------------------------|---|-----|
| | <u>PART I.</u> | |
| Item 1. | <u>Business</u> | 1 |
| Item 1A. | <u>Risk Factors</u> | 4 |
| Item 1B. | <u>Unresolved Staff Comments</u> | 9 |
| Item 2. | <u>Properties</u> | 9 |
| Item 3. | <u>Legal Proceedings</u> | 9 |
| Item 4. | <u>Mine Safety Disclosures</u> | 9 |
| | <u>PART II.</u> | |
| Item 5. | <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 9 |
| Item 6. | <u>Selected Financial Data</u> | 11 |
| Item 7. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 11 |
| Item 7A. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 23 |
| Item 8. | <u>Financial Statements and Supplementary Data</u> | 23 |
| Item 9. | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 23 |
| Item 9A. | <u>Controls and Procedures</u> | 23 |
| Item 9B. | <u>Other Information</u> | 24 |
| | <u>PART III.</u> | |
| Item 10. | <u>Directors, Executive Officers and Corporate Governance</u> | 24 |
| Item 11. | <u>Executive Compensation</u> | 25 |
| Item 12. | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 25 |
| Item 13. | <u>Certain Relationships and Related Transactions, and Director Independence</u> | 25 |
| Item 14. | <u>Principal Accounting Fees and Services</u> | 25 |
| | <u>PART IV.</u> | |
| Item 15. | <u>Exhibits</u> | 25 |
| SIGNATURES | | |
| | <u>Signatures</u> | 26 |
| CONSOLIDATED FINANCIAL STATEMENTS | | |
| | <u>Index to Consolidated Financial Statements</u> | F-1 |
| EXHIBITS | | |
| | <u>Index to Exhibits</u> | |

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®, RESPONDER® and Printrex® brand names. Known and respected worldwide for innovative designs and real-world service reliability, our thermal, inkjet and impact printers and terminals generate top-quality labels and transaction records such as receipts, tickets, coupons, register journals and other documents as well as printed logging and plotting of data. We focus on the following core markets: food safety, banking and point-of-sale (“POS”), casino and gaming, lottery, and Printrex (which serves the oil and gas, medical and mobile printing markets). We sell our products to original equipment manufacturers (“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, 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 sales and service center for the oil and gas industry in Houston, TX, a European sales and service center in the United Kingdom, a sales office located in Macau and two 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 printing 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. Information about our net sales, gross profit and assets can be found in our Consolidated Financial Statements on pages F-3 and F-4 hereof.

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 mobile printing 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, mounting 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 prints easy-to-read expiration and "enjoy by" date labels to help restaurants effectively manage food rotation and 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 our primary worldwide distributor, Suzo-Happ Group. We also maintain a dedicated internal sales force to solicit sales from slot manufacturers and casinos, as well as to manage sales through our distributor.

We also offer a 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 can 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 2015, we expect to launch the Responder MP2™, our first printer for the large machine-to-machine (M2M) vertical market. The Responder MP2™ is an all-in-one mobile printing solution for a number of vehicles, including fire, police, EMS, insurance, public utilities and delivery. 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 and other mobile printing applications. 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, our western region service center in Las Vegas, NV and our oil and gas industry service center in Houston, TX. 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 95% of our printer production is primarily through one third-party contract manufacturer in Asia and to a lesser extent one other in Asia and one in Mexico. The remaining 5% 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, two 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 2015 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 our banking inkjet printers 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 had 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. We plan to renew this agreement during 2015. 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 during the remainder of the agreement if the exchange rate fluctuates significantly 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 30 foreign patents and have 8 United States and 12 foreign patent applications pending pertaining to our products. The duration of these patents range from 3 to 17 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 we rely upon 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 May 8, 2015. We are currently in negotiations with GTECH to extend the agreement.

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

| | Year ended December 31, | | |
|---------------|-------------------------|------|------|
| | 2014 | 2013 | 2012 |
| GTECH | 16% | 12% | 18% |
| Eurocoin Ltd. | 11% | 12% | 15% |

Backlog

Our backlog of firm orders was approximately \$11,356,000 as of February 27, 2015, compared to \$4,778,000 as of February 28, 2014. Based on customers’ current delivery requirements, we expect to ship our entire current backlog during 2015.

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 CognitiveTPG, Star Micronics America, Inc., Citizen -- CBM America Corporation, Pertech Industries, Inc., Addmaster, and Samsung/Bixelon. 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 \$4,302,000, \$4,065,000, and \$4,239,000 in 2014, 2013 and 2012, 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 \$169,000 and \$370,000 as of December 31, 2014 and 2013, respectively. The total amount charged to cost of sales for capitalized software development costs were approximately \$201,000, \$199,000, and \$189,000 in 2014, 2013 and 2012, 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, 2014, TransAct and our subsidiaries employed 129 persons, all of whom were full-time employees. 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®, RESPONDER® 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 newer 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.

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 were involved in regarding alleged misappropriation of unspecified trade secrets and confidential information.

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 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.

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 or the flow of product from these manufacturers, 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 80% 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 experiences 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.

Political, social or economic instability in regions in which our manufacturers are located, could cause disruptions in trade, including exports to the U.S.

A significant portion of our printers are manufactured by contract manufacturers overseas and are exported to the U.S. Any such disruption in trade, including exports to the U.S., could adversely affect our business results. Events that could cause disruptions to such exports to the U.S. include:

- the imposition of additional trade law provisions or regulations;
- reliance on a limited number of shipping and air carriers who may experience capacity issues that adversely affect our ability to ship inventory in a timely manner or for an acceptable cost;
 - the imposition of additional duties, tariffs and other charges on imports and exports;
 - economic uncertainties and adverse economic conditions (including inflation and recession);
 - fluctuations in the value of the U.S. Dollar against foreign currencies;
 - significant labor disputes, such as dock strikes;

- significant delays in the delivery of cargo due to port security considerations;
- financial or political instability in any of the countries in which our printers are manufactured.

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, if they occur. 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. Our 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.

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, 2014, the average daily trading volume for our common stock as reported by the NASDAQ Global Market was approximately 24,000 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.

Item 2. Properties.

Our principal facilities as of December 31, 2014 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 |
|---------------------------|---|---------------------------|--------------------|--------------------------|
| Hamden, 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 |
| Las Vegas, 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 |
| Georgia and New York | Two regional sales offices | 300 | Leased | Various |
| Macau, China | Sales office | 180 | Leased | June 30, 2015 |
| | | 103,330 | | |

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 “AD Lawsuit”). The complaint alleged that this former employee and the Company misappropriated unspecified trade secrets and confidential information from AD related to the design of our food safety terminals. The complaint requested a preliminary and permanent injunction against 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, the Company opposed this request. On October 15, 2013, the Eleventh District Court of Appeals affirmed the lower court’s decision in the Company’s favor and denied AD’s further request of an injunction pending the Court of Appeal’s decision. On October 24, 2013, AD filed a motion seeking that the Court of Appeals reconsider its decision. On April 16, 2014, the Court of Appeals denied AD’s motion to reconsider its decision. On July 28, 2014, AD filed a motion requesting leave from the Court to file an amended complaint and indicating that it has elected to pursue only its claim for damages, dropping its claim for injunctive relief. On September 4, 2014, the Court granted AD’s motion to file an amended complaint. On September 25, 2014, the Company filed its answer, affirmative defenses and counterclaims with respect to the amended complaint, seeking all available damages including legal fees. On January 30, 2015, the Company filed a motion for summary judgment seeking judgment in favor of the Company on all counts as to the Company. On the same day, AD filed two motions for partial summary judgment. On February 17, 2015, the Company opposed both of AD’s motions, and AD opposed the Company’s motion. On February 23, 2015, the Company filed a reply brief in

support of its motion for summary judgment. A trial was scheduled to begin on April 21, 2015, however, on March 25, 2015 the parties executed a confidential settlement agreement and release (the “Settlement Agreement”) in which the parties mutually agreed to resolve the dispute that was the subject of the lawsuit filed by AD against the Company to the parties’ mutual satisfaction. Under the terms of the Settlement Agreement, the Company agreed to pay AD \$3,600,000 payable on or before April 8, 2015 and also to qualify certain AD labels for use on the Company’s food safety terminals at an estimated cost of \$25,000. The Company recorded the total expense of \$3,625,000 in the fourth quarter 2014 as an operating expense included in the line item “Legal fees and settlement expenses associated with lawsuit” on the Consolidated Statement of Operations and as a current liability included in the line item “Accrued lawsuit settlement expenses” on the Consolidated Balance Sheet.

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 27, 2015, there were 379 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, 2014 and 2013 were as follows:

| | Year Ended December 31, 2014 | | Year Ended December 31, 2013 | |
|----------------|---------------------------------|--------|---------------------------------|--------|
| | High | Low | High | Low |
| First Quarter | \$12.99 | \$9.80 | \$8.20 | \$7.15 |
| Second Quarter | 11.50 | 9.12 | 8.50 | 7.22 |
| Third Quarter | 10.44 | 6.45 | 13.19 | 7.75 |
| Fourth Quarter | 6.95 | 5.19 | 15.23 | 11.54 |

In September 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 6, 2014, our Board of Directors declared an increase to the quarterly cash dividend from \$0.07 per share to \$0.08 per share. Dividends declared and paid on our common stock totaled \$2,556,000 or \$0.31 per share and \$2,317,000 or \$0.27 per share, in 2014 and 2013, respectively. On February 4, 2015, our Board of Directors approved the first quarter 2015 dividend in the amount of \$0.08 per share payable on or about March 13, 2015 to common shareholders of record at the close of business on February 20, 2015.

Issuer Purchases of Equity Securities

On August 11, 2014, our Board of Directors approved a new stock repurchase program (the “Stock Repurchase Program”). Under the Stock Repurchase Program, we are authorized to repurchase up to \$7,500,000 of our outstanding shares of common stock from time to time in the open market through July 31, 2015, depending on market conditions, share price and other factors. On November 3, 2014, our Board of Directors modified the Stock Repurchase Program to include the repurchase of up to \$4,000,000 of the Company’s outstanding shares through April 30, 2015 pursuant to a Rule 10b5-1 trading plan though our Board ended this trading plan effective March 31, 2015. 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 August 11, 2014 through December 31, 2014, we purchased 434,998 shares of our common stock for approximately \$2,634,000 at an average price per share of \$6.06. In 2013, under a prior purchase program and an open market transaction, we purchased 604,161 shares of common stock for approximately \$5,194,000 at an average price of \$8.60. From January 1, 2005 through December 31, 2014, we repurchased a total of 3,222,036 shares of common stock for approximately \$25,161,000, at an average price of \$7.81 per share. See “Liquidity and Capital Resources” below for more information.

CORPORATE PERFORMANCE GRAPH

The following graph compares the cumulative total return on the Company’s Common Stock from December 31, 2009 through December 31, 2014, 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, 2009 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**

| | 12/31/09 | 12/31/10 | 12/31/11 | 12/31/12 | 12/31/13 | 12/31/14 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| TransAct Technologies Incorporated Common Stock | \$ 100.00 | \$ 135.73 | \$ 104.61 | \$ 104.03 | \$ 180.55 | \$ 78.82 |
| CRSP Total Return Index for the Nasdaq Stock Market (U.S.) | \$ 100.00 | \$ 117.55 | \$ 117.91 | \$ 137.29 | \$ 183.26 | \$ 206.09 |
| Nasdaq Computer Manufacturer Stocks Index | \$ 100.00 | \$ 123.53 | \$ 129.51 | \$ 155.26 | \$ 182.65 | \$ 247.60 |

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, | | | | |
|--|-------------------------|----------|----------|----------|----------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| Consolidated Statement of Operations Data: | | | | | |
| Net sales | \$53,108 | \$60,141 | \$68,386 | \$65,969 | \$63,194 |
| Gross profit | 21,711 | 25,092 | 25,982 | 24,626 | 22,548 |
| Operating expenses | 25,483 | 18,475 | 20,380 | 17,637 | 16,687 |
| Operating (loss) income | (3,772) | 6,617 | 5,602 | 6,989 | 5,861 |
| Net (loss) income | (2,421) | 4,935 | 3,621 | 4,676 | 3,904 |
| Net (loss) income per share: | | | | | |
| Basic | (0.29) | 0.57 | 0.40 | 0.50 | 0.42 |
| Diluted | (0.29) | 0.57 | 0.40 | 0.49 | 0.41 |
| Dividends declared and paid per share | 0.31 | 0.27 | 0.06 | - | - |

| | December 31, | | | | |
|----------------------------------|--------------|----------|----------|----------|----------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| Consolidated Balance Sheet Data: | | | | | |
| Total assets | \$35,491 | \$40,408 | \$45,228 | \$42,740 | \$43,621 |
| Working capital | 18,361 | 24,871 | 25,492 | 27,222 | 25,525 |
| Shareholders' equity | 25,394 | 32,521 | 33,369 | 35,313 | 31,134 |

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 2014, we completed the transition of our business towards new, value-added products and technologies that address large and diversified growth markets while moving away from the low margin, commoditized POS market. During the past three years we have spent significant time and resources developing new products such as the Ithaca® 9700 food safety terminal, EPICENTRAL™ software for the casino and gaming industry and our Printrex® 920 and 980 color printers for the oil and gas industry. With this development phase now behind us, we can reduce these expenses going forward as we believe we now have the right products to effectively compete in our markets.

During 2014, our sales and operating results declined due mainly to what we believe is a general weakness in the replacement cycle in the domestic casino and gaming market. In an effort to address the ongoing challenges of the domestic casino market and the related impact to our operating results, during the fourth quarter of 2014 we initiated cost reduction actions that will reduce expenses by at least \$1 million on an annual basis beginning in the first quarter of 2015. While it is difficult to predict when a rebound will occur in the domestic casino and gaming market, with a

lower overall cost structure and focus on sales execution we expect 2015 to be a much improved year..

During 2014, our total net sales decreased 12% to approximately \$53,108,000. See the table below for a breakdown of our sales by market:

| (In thousands) | Year ended | | Year ended | | Change | |
|------------------------------|-------------------|--------|-------------------|--------|-----------|---------|
| | December 31, 2014 | | December 31, 2013 | | \$ | % |
| Food safety, banking and POS | \$9,308 | 17.5% | \$11,296 | 18.8% | \$(1,988) | (17.6%) |
| Casino and gaming | 22,731 | 42.8% | 27,300 | 45.4% | (4,569) | (16.7%) |
| Lottery | 4,761 | 9.0% | 4,450 | 7.4% | 311 | 7.0% |
| Printrex | 3,910 | 7.4% | 4,335 | 7.2% | (425) | (9.8%) |
| TSG | 12,398 | 23.3% | 12,760 | 21.2% | (362) | (2.8%) |
| Total net sales | \$53,108 | 100.0% | \$60,141 | 100.0% | \$(7,033) | (11.7%) |

Sales of our food safety, banking and POS products decreased 18% in 2014 compared to 2013. During 2014, our Ithaca® 9700 food safety terminal sales declined 50% due to a large initial stocking order to a distributor that occurred in 2013 that did not repeat in 2014. However, we expect this distributor to begin ordering product again in 2015. However, we have received corporate approval from a growing number of large, national brand restaurants for the Ithaca 9700 and we expect this product to be a significant contributor to our revenue growth in 2015 and beyond. 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 2014, our banking printer sales decreased 31%. 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 increased 9% in 2014 primarily driven by sales of our Ithaca ® 9000 printers to McDonald's as they accelerated a rollout of these printers for a new initiative. Our focus for 2015 will be on sales execution with the goal of increasing market penetration with each of our new products.

Sales of our casino and gaming products decreased 17% in 2014 compared to 2013. 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. Domestic casino and gaming sales decreased 32%, from general weakness in the replacement cycle in the domestic casino market, as well as a large replacement of a certain OEM's slot machines at a multi-property casino group in 2013 that did not repeat in 2014. In addition, EPICENTRAL™ software sales decreased 47% due to only one installation 2014 compared to six completed installations during 2013. International sales increased by 3%, primarily due to a 3% increase in sales of our thermal casino printers when compared to 2013 and the sale of an EPICENTRAL™ software system internationally during 2014. These increases were partially offset by a 13% decline in sales of our off-premises thermal gaming printers, mainly from our European distributor and Australian and Asian customers.

In the lottery market, we continue to hold a leading position based on our long-term exclusive relationship 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 this agreement, GTECH exclusively purchases all of its requirements for thermal on-line lottery printers from us and we exclusively sell such printers to GTECH through May 8, 2015. Currently, we fulfill substantially all of GTECH's printer requirements for lottery terminal installations and upgrades worldwide. During 2014, total printer sales to GTECH increased approximately 7%, compared to 2013. 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. However based on current orders and forecasts from GTECH, we expect sales in 2015 to be higher than in 2014, especially during the first half of 2015.

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 and other mobile printing applications. During 2014, 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 2014 decreased by approximately 10% primarily due to the negative impact of steeply declining worldwide oil prices, as well as an 11% decline in the medical and mobile market. In 2015, we expect initial revenue contributions from the Responder MP2™, as we plan to introduce our first printer for the large machine-to-machine (M2M) vertical market. The Responder MP2™ is an all-in-one mobile printing solution for a number of vehicles, including fire, police, EMS, insurance, public utilities and delivery.

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 3% in 2014 from 2013 primarily due to lower sales of non-Printrex consumables compared to 2013 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 declined to 40.9% from 41.7% in 2013. Our gross margin for 2014 was impacted by lower sales of our higher margin value-added casino printers, food safety terminals and EPICENTRAL® installations compared to 2013. In 2014 we incurred a negative operating margin of 7.1% compared to a positive operating margin

of 11.0% in 2013. The negative operating margin in 2014 resulted mainly from \$5.5 million in legal and settlement expenses we incurred related to the AD Lawsuit that we settled in March 2015 and to a lesser extent, lower gross margins due to sales declines.

We reported a net loss of \$2,421,000 and net loss per diluted share of \$0.29 for 2014, compared to net income of \$4,935,000 and net income per diluted share of \$0.57 in 2013. In terms of cash flow for 2014, we experienced a very strong year, generating over \$6.0 million of cash from operating activities. We also returned almost \$5,200,000 to our shareholders in the form of \$2,634,000 for treasury share repurchases and \$2,556,000 for cash dividends while still finishing the year with cash and cash equivalents of \$3,131,000 and no debt on our Consolidated Balance Sheet at December 31, 2014.

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 to the customer, and a hardware component. EPICENTRAL™ contains both software and hardware that are integrated to deliver the system’s full functionality. These arrangements are accounted for in accordance with ASC 605-25, “Multiple-Element Arrangements”. EPICENTRAL™ can also include an additional software offering, Mobile Host, that allows the customer to access certain applications on mobile devices. Mobile Host is accounted for in accordance with ASC 985-605, “Software” as Mobile Host software does not function together with the hardware device to deliver its essential functionality.

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 initial maintenance period, generally one year.

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. When we enter into a multiple deliverable arrangement, we also determine whether revenue arrangements consist of more than one unit of accounting. At that time, we allocate arrangement consideration to the separate units of accounting based on a relative selling price hierarchy, 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. The relative selling price for each element is based upon the following selling price hierarchy: vendor specific objective evidence (“VSOE”) if available, third party evidence (“TPE”) if VSOE is not available, or best estimate of selling price (“BESP”) to the extent that VSOE or TPE are not available.

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, 2014 was approximately \$100,000, or approximately 1.1% 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 \$1,341,000 of unamortized definite-lived intangible assets at December 31, 2014. We have determined that no goodwill impairment has occurred based on our assessment as of December 31, 2014 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, 2014 and 2013, a contingent liability of \$0 and \$60,000, respectively, was recorded in connection with a contingent consideration arrangement entered into as part of the Printrex acquisition. The decrease of \$60,000 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 2014. 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 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, 2014 compared to year ended December 31, 2013

Net Sales. Net sales, which include printer, terminal and software sales as well as sales of replacement parts, consumables and maintenance and repair services, by market for the years ended December 31, 2014 and 2013 were as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|------------------------------|-------------------|--------|-------------------|--------|-----------|---------|
| | December 31, 2014 | | December 31, 2013 | | \$ | % |
| Food safety, banking and POS | \$9,308 | 17.5% | \$11,296 | 18.8% | \$(1,988) | (17.6%) |
| Casino and gaming | 22,731 | 42.8% | 27,300 | 45.4% | (4,569) | (16.7%) |
| Lottery | 4,761 | 9.0% | 4,450 | 7.4% | 311 | 7.0% |
| Printrex | 3,910 | 7.4% | 4,335 | 7.2% | (425) | (9.8%) |
| TSG | 12,398 | 23.3% | 12,760 | 21.2% | (362) | (2.8%) |
| | \$53,108 | 100.0% | \$60,141 | 100.0% | \$(7,033) | (11.7%) |
| International* | \$14,541 | 27.4% | \$13,764 | 22.9% | \$777 | 5.6% |

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 2014 decreased \$7,033,000, or 12%, from 2013. Printer and terminal sales volume decreased 10% to approximately 138,000 units primarily due to declines in the casino and gaming, and food safety, banking and POS markets, of 15% and 7%, respectively. The average selling price of our printers decreased approximately 3% from 2013 to 2014 due primarily to lower sales of our food safety terminals which have a significantly higher average selling price than most of our other printers. Overall, international sales increased \$777,000, or 6%, primarily driven by higher sales in both the international casino and gaming and TSG 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 rotation and 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, 2014 and 2013 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|-----------|---------|
| | December 31, 2014 | | December 31, 2013 | | \$ | % |
| Domestic | \$8,984 | 96.5% | \$10,956 | 97.0% | \$(1,972) | (18.0%) |
| International | 324 | 3.5% | 340 | 3.0% | (16) | (4.7%) |
| | \$9,308 | 100.0% | \$11,296 | 100.0% | \$(1,988) | (17.6%) |

The decrease in domestic food safety, banking and POS product revenue from 2013 was primarily driven by lower sales from our Ithaca® 9700 food safety terminal due to a large initial stocking order to a distributor that occurred in 2013 and did not repeat in 2014. We expect this distributor to begin ordering products again in 2015. This decrease was partially offset by higher sales of our Ithaca® 9000 printers to McDonald's during 2014 compared to 2013, as they accelerated a rollout of these printers for a new initiative.

International food safety, banking and POS printer sales for 2014 were relatively consistent with 2013.

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, 2014 and 2013 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|-----------|---------|
| | December 31, 2014 | | December 31, 2013 | | \$ | % |
| Domestic | \$10,437 | 45.9% | \$15,367 | 56.3% | \$(4,930) | (32.1%) |
| International | 12,294 | 54.1% | 11,933 | 43.7% | 361 | 3.0% |
| | \$22,731 | 100.0% | \$27,300 | 100.0% | \$(4,569) | (16.7%) |

The decrease in both domestic hardware and software casino and gaming sales from 2013 resulted primarily from general weakness in the replacement cycle in the domestic casino market, as well as a large replacement of a certain OEM's slot machines at a multi-property casino group in 2013 that did not repeat in 2014. Domestic sales of our thermal Epic 950 gaming printer decreased 27% in 2014 compared to 2013. In addition EPICENTRAL™ software sales fell 78% in 2014 compared to 2013 due to no new domestic installations occurring in 2014 compared to five installations in 2013.

The increase in international sales is due to an increase in sales of our thermal EPIC 950 printer and EPICENTRAL™ software sales of 4% and 106%, respectively. The increase in EPICENTRAL™ software sales is due

to one large multi-property installation for a customer in South America in 2014 compared to two smaller installations in 2013. These increases were partially offset by decreased sales of our off-premises thermal gaming printers of 13% in 2014 when compared to 2013. Sales of our off-premise gaming printers are largely project-oriented, and we therefore cannot predict the level of future sales.

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, 2014 and 2013 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|--------|--------|
| | December 31, 2014 | | December 31, 2013 | | \$ | % |
| Domestic | \$4,682 | 98.3% | \$4,417 | 99.3% | \$265 | 6.0% |
| International | 79 | 1.7% | 33 | 0.7% | 46 | 139.4% |
| | \$4,761 | 100.0% | \$4,450 | 100.0% | \$311 | 7.0% |

Our sales to GTECH are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs, and as a result, may fluctuate significantly quarter-to-quarter and year-to-year and are not indicative of GTECH's overall business or revenue. Based on our backlog of orders and customer's forecast, we expect total sales to GTECH for 2015 to be higher than those reported in 2014, especially in the first half of 2015.

Printrex: Printrex branded printers are sold into markets that include wide format, rack mounted and vehicle mounted black/white and color thermal printers used by customers to log and plot oil field and down hole well drilling data in the oil and gas exploration industry. It also includes high-speed color inkjet desktop printers used to print logs at data centers of the oil and gas field service companies. Revenue in this market also includes sales of wide format printers used to print test results in ophthalmology devices in the medical industry, as well as vehicle mounted printers used to print schematics and certain other critical information in emergency services vehicles and other mobile printing applications. A summary of sales of our worldwide Printrex printers for the years ended December 31, 2014 and 2013 is as follows (in thousands, except percentages):

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|---------|---------|
| | December 31, 2014 | | December 31, 2013 | | \$ | % |
| Domestic | \$3,352 | 85.7% | \$3,712 | 85.6% | \$(360) | (9.7%) |
| International | 558 | 14.3% | 623 | 14.4% | (65) | (10.4%) |
| | \$3,910 | 100.0% | \$4,335 | 100.0% | \$(425) | (9.8%) |

The decrease in Printrex printers is primarily due to 9% lower worldwide sales of printers in the oil and gas market due to the negative impact of steeply declining worldwide oil prices which we expect will continue to negatively impact our sales during 2015. In addition, worldwide sales of our medical and mobile printers declined 11% due to lower sales to a medical printer customer that began to phase out the use of our printer during 2014. We expect our last sale to this customer to occur in the first quarter of 2015 with no future expected shipments. Due to the low margin on this product, we do not believe the loss of this customer will have a material adverse impact to our 2014 operating results.

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, 2014 and 2013 is as follows:

| (In thousands) | Year ended | | Year ended | | Change | |
|----------------|-------------------|--------|-------------------|--------|---------|--------|
| | December 31, 2014 | | December 31, 2013 | | \$ | % |
| Domestic | \$11,112 | 89.6% | \$11,925 | 93.5% | \$(813) | (6.8%) |
| International | 1,286 | 10.4% | 835 | 6.5% | 451 | 54.0% |
| | \$12,398 | 100.0% | \$12,760 | 100.0% | \$(362) | (2.8%) |

The decrease in domestic revenue from TSG is primarily due to a 15% decrease in sales of non-Printrex consumables, largely from the decline of 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 2015. In addition, service revenue declined by 29%, largely due to a 57% decline in paper testing service revenue as we performed fewer tests in 2014 than in 2013, as well as lower maintenance and repair revenue from fewer service contracts. These decreases were partially offset by a 10% increase in sales of replacement parts as well as a 78% increase of consumables for our new Printrex color printers, which we expect to continue to increase during 2015 as the installed base of these printers grows.

Internationally, TSG revenue increased due primarily to higher sales of replacement parts and accessories as compared to 2013. We expect TSG sales in 2015 to be relatively consistent with 2014, as we expect lower HP inkjet cartridges will offset 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):

| Year ended | December 31, | | Percent Change | Percent of Total Sales - 2014 | Percent of Total Sales - 2013 |
|------------|--------------|----------|----------------|-------------------------------|-------------------------------|
| | 2014 | 2013 | | | |
| | \$21,711 | \$25,092 | (13.5%) | 40.9% | 41.7% |

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 \$3,381,000, or 14%, on 12% lower sales volume and a slightly less favorable sales mix. Additionally, our gross margin declined by 80 basis points due to lower sales contributions from our value-added Ithaca® 9700 food safety terminals, casino printers and EPICENTRAL™ software. We expect our gross margin for 2015 to increase as we expect to benefit from increased sales of our newer, value-added products, as well as cost reduction initiatives we initiated in the fourth quarter 2014.

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 - 2014 | Percent of Total Sales - 2013 |
|------------|--------------|---------|-------------------|-------------------------------------|-------------------------------------|
| | 2014 | 2013 | | | |
| Year ended | \$4,302 | \$4,065 | 5.8% | 8.1% | 6.8% |

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 increased \$237,000, or 6%, due primarily to additional engineering staff and higher pre-production expenses related to new product development for the new products we launched in 2014. We expect engineering, design and product development expenses in 2015 to be lower than in 2014 due to staff reductions and lower product development expenses resulting from cost reduction actions we initiated in the fourth quarter 2014.

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

| | December 31, | | Percent Change | Percent of Total Sales - 2014 | Percent of Total Sales - 2013 |
|------------|--------------|---------|-------------------|-------------------------------------|-------------------------------------|
| | 2014 | 2013 | | | |
| Year ended | \$7,920 | \$7,346 | 7.8% | 14.9% | 12.2% |

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 \$574,000, or 8%, primarily due to the planned investment in new sales and marketing staff to support our new products, a full year of commissions to our new casino and gaming distributor added in late 2013, Suzo Happ, and increased marketing spend to support our newly launched products in 2014.

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

| | December 31, | | Percent | Percent of | Percent of |
|------------|--------------|---------|---------|-----------------------|-----------------------|
| | 2014 | 2013 | Change | Total Sales - 2014 | Total Sales - 2013 |
| Year ended | \$7,756 | \$6,588 | 17.7% | 14.6% | 11.0% |

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 increased \$1,168,000, or 18%, due primarily to changes in the accrued contingent consideration liability to be paid in connection with the acquisition of Printrex. In 2014, we reduced the contingent consideration liability by \$60,000 to zero, compared to a reduction of \$900,000 in 2013. Excluding the changes we recorded to the contingent consideration liability, general and administrative expenses increased \$328,000, or 4% in 2014 compared to 2013. This increase is primarily due to higher severance costs related to the cost reduction initiatives we initiated in the fourth quarter 2014. We expect general and administrative expenses to be relatively consistent with 2014.

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

| | December 31, | | Percent | Percent of | Percent of |
|------------|--------------|-------|----------|-----------------------|-----------------------|
| | 2014 | 2013 | Change | Total Sales - 2014 | Total Sales - 2013 |
| Year ended | \$5,505 | \$476 | 1,056.5% | 10.4% | 0.8% |

As disclosed in Note 11 to the Consolidated Financial Statements, in June 2012, AD filed a civil complaint against the Company, which we settled in March 2015. In connection with this lawsuit, we incurred legal fees and settlement expenses of \$5,505,000 and \$476,000 in 2014 and 2013, respectively. We expect legal fees related to the lawsuit will be approximately \$2,000,000 for the first quarter of 2015. Due to the settlement of the AD lawsuit in March 2015, we do not expect to incur any additional expenses related to the lawsuit beyond the first quarter of 2015.

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

| | December 31, | | Percent | Percent of | Percent of |
|------------|--------------|---------|----------|-----------------------|-----------------------|
| | 2014 | 2013 | Change | Total Sales – 2014 | Total Sales – 2013 |
| Year ended | \$(3,772) | \$6,617 | (157.0%) | (7.1%) | 11.0% |

The decrease in our operating income and operating margin was primarily due to higher legal fees and \$3,625,000 of settlement expenses related to the lawsuit with AD that we settled in March 2015 as well as a 12% decline in sales. 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 \$49,000 in 2014 compared to net interest expense of \$23,000 in 2013. The increase in net interest expense is primarily due to lower interest income earned on a lower average cash balance during 2014, as we used a significant amount of our cash to repurchase our common stock and pay cash dividends during the latter half of 2013 and 2014. 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 2014

and 2013. See “Liquidity and Capital Resources” below for more information.

Other, net. We recorded other expense of \$33,000 in 2014 compared to \$63,000 in 2013. The change was primarily due to a \$60,000 loss from the disposal of certain tooling equipment during 2013 somewhat offset by higher foreign currency transaction exchange losses recorded by our U.K. subsidiary in 2014 compared to 2013.

Income Taxes. We recorded an income tax benefit for 2014 of \$1,433,000 at an effective tax rate of 37.2% compared to an income tax provision of \$1,596,000 at an effective tax rate of 24.4% for 2013. Our effective tax rate for 2013 was unusually low because it included; (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 both the 2012 and 2013 R&D credit, as the credit for 2012 was not renewed until January 2, 2013. We expect our annual effective tax rate for 2015 to be between 35% and 36%.

Net Income. We reported a net loss during 2014 of \$2,421,000, or \$(0.29), per diluted share, compared to net income of \$4,935,000, or \$0.57, per diluted share, for 2013.

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: 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.

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: 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: A summary of sales of our worldwide lottery printers 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 | \$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.

Printrex: 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: 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. 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.

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

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

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.

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

Engineering, design and product development 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.

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

| | December 31, | | Percent Change | Percent of Total Sales - 2013 | Percent of Total Sales - 2012 |
|------------|--------------|---------|-------------------|-------------------------------------|-------------------------------------|
| | 2013 | 2012 | | | |
| Year ended | \$7,346 | \$6,637 | 10.7% | 12.2% | 9.7% |

Selling and marketing 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.

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

| | December 31, | | Percent Change | Percent of Total Sales - 2013 | Percent of Total Sales - 2012 |
|------------|--------------|---------|-------------------|-------------------------------------|-------------------------------------|
| | 2013 | 2012 | | | |
| Year ended | \$6,588 | \$7,833 | (15.9%) | 11.0% | 11.5% |

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.

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

| | December 31, | | Percent Change | Percent of Total Sales - 2013 | Percent of Total Sales - 2012 |
|------------|--------------|---------|-------------------|----------------------------------|----------------------------------|
| | 2013 | 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, 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.

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

| | December 31, | | Percent Change | Percent of Total Sales - 2013 | Percent of Total Sales - 2012 |
|------------|--------------|-------|-------------------|----------------------------------|----------------------------------|
| | 2013 | 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 Change | Percent of Total Sales - 2013 | Percent of Total Sales - 2012 |
|------------|--------------|---------|-------------------|-------------------------------------|-------------------------------------|
| | 2013 | 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 was 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 was unusually low because it included: 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

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.

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 2014, our cash balance increased \$195,000, or 7%, from December 31, 2013 as we returned a substantial portion of our cash flow to shareholders in the form of \$2,634,000 of repurchases of our common stock and \$2,556,000 of cash dividends paid to common shareholders. Even after funding these items and our capital expenditures, we still ended 2014 with \$3,131,000 in cash and cash equivalents and no debt outstanding.

Operating activities: The following significant factors primarily affected our cash provided by operating activities of \$6,053,000 in 2014 as compared to \$2,493,000 in 2013. During 2014:

- We reported a net loss of \$2,421,000.
- We recorded depreciation, amortization and share-based compensation expense of \$1,951,000.
- Accounts receivable decreased \$4,139,000 due primarily to lower sales volume during the fourth quarter 2014 compared to the fourth quarter of 2013 in addition to improved collections.
- Inventories decreased \$1,703,000 due to the sell through of inventory on hand during 2014 compared to increasing stocking levels of our new food safety and Printrex products during 2013. We expect our inventories to steadily decline in 2015, beginning in the second quarter, as we sell through this inventory buildup.
- Accounts payable decreased \$2,384,000 due to primarily to lower inventory purchases made during the fourth quarter of 2014 compared to the fourth quarter of 2013, as well as the timing of payments.
- Accrued liabilities and other liabilities increased \$1,022,000 due primarily to higher legal expenses related to the AD Lawsuit and higher accrued incentive compensation in 2014 compared to 2013.
- We recorded accrued lawsuit settlement expenses of \$3,625,000 related to the settlement with AD. See Note 11 – Commitments and Contingencies in the Notes to the Consolidated Financial Statements for further information on the settlement charges recorded.

During 2013:

- We reported net income of \$4,935,000.
- We recorded depreciation, amortization and share-based compensation expense of \$2,262,000.
- 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.
- 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.

Investing activities: Our capital expenditures were \$660,000 and \$709,000 in 2014 and 2013, respectively. Expenditures in 2014 included approximately \$385,000 for costs incurred for the purchase of new product tooling, \$39,000 for costs incurred in connection with an enhancement to the Company's ERP software and the remaining amount primarily for the purchase of manufacturing equipment and computer equipment. Additionally, our capitalized software development costs for EPICENTRAL™ were \$0 and \$42,000 in 2014 and 2013, respectively.

Capital expenditures for 2015 are expected to be approximately \$800,000, primarily for new product tooling, and tooling enhancements for our existing products, as well as for new computer equipment purchases.

Financing activities: We used \$5,178,000 of cash from financing activities during 2014 to purchase \$2,634,000 of common stock for treasury, to pay cash dividends of \$2,556,000 to common shareholders and \$8,000 in financing costs associated with our amended TD Bank Credit Facility (as discussed below), partially offset by proceeds and tax benefits from stock option exercises of \$20,000. During 2013, we used \$6,334,000 of cash from financing activities during 2014 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.

Working Capital

Our working capital decreased approximately 26% to \$18,361,000 at December 31, 2014 from \$24,871,000 at December 31, 2013. Our current ratio of current assets to current liabilities decreased from 4.4 at December 31, 2013 to 2.9 at December 2014. The decrease in both our working capital and current ratio was primarily due to the settlement accrual related to the AD Lawsuit in 2014, as well as lower accounts receivable resulting from lower sales in 2014 and declining inventory levels.

Resource Sufficiency

We believe that our cash and cash equivalents on hand, cash flows generated from operating activities and borrowings available under our TD Bank Credit Facility will provide sufficient resources to meet our working capital needs, fund \$3,625,000 of accrued settlement expenses related to the settlement of the AD Lawsuit, 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 N.A. (“TD Bank”) which provides for a \$20,000,000 revolving credit line. On November 26, 2014, we signed an amendment to renew the TD Bank Credit Facility through November 28, 2017. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate minus one percent and are secured by a lien on all of our assets. We also pay a fee of 0.15% on unused borrowings under the revolving credit line. The total deferred financing costs relating to expenses incurred to complete the TD Bank Credit Facility was \$8,000. The amendment increases the amount of revolving credit loans we may use to fund future cash dividend payments or treasury share buybacks to \$10,000,000 from \$5,000,000. The amendment also modified the definition of EBITDA to exclude certain non-recurring expenses, including without limitation, non-recurring litigation and acquisition expenses (including the \$3,625,000 of accrued settlement expenses related to the AD Lawsuit; and modified the definition of Operating Cash Flow to exclude unfinanced capital expenditures for the quarters ending December 31, 2014, March 31, 2015 and June 30, 2015.

The TD Bank Credit Facility imposes certain quarterly financial covenants on us and restricts, among other things, our ability to incur additional indebtedness and the creation of other liens. We were in compliance with all financial covenants of the TD Bank Credit Facility at December 31, 2014. The following table lists the financial covenants and the performance measurements at December 31, 2014:

| Financial Covenant | Requirement/Restriction | Calculation at December 31, 2014 |
|--|-------------------------|----------------------------------|
| Operating cash flow / Total debt service | Minimum of 1.25 times | 16.0 times |
| Funded debt / EBITDA | Maximum of 3.0 times | 0 times |

As of December 31, 2014, undrawn commitments under the TD Bank Credit facility were \$20,000,000.

Shareholder Dividend Payments

In September 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 6, 2014, our Board of Directors declared an increase to the quarterly cash dividend from \$0.07 per share to \$0.08 per share. Dividends declared and paid on our common stock totaled \$2,556,000 or \$0.31 per share and \$2,317,000 or \$0.27 per share, in 2014 and 2013, respectively. On February 4, 2015, our Board of Directors approved the first quarter 2015 dividend in the amount of \$0.08 per share payable on or about March 13, 2015 to common shareholders of record at the close of business on February 20, 2015. We expect to pay approximately \$2,500,000 in cash dividends to our common shareholders during 2015.

Stock Repurchase Program

On August 11, 2014, our Board of Directors approved a new stock repurchase program (the “Stock Repurchase Program”). Under the Stock Repurchase Program, we are authorized to repurchase up to \$7,500,000 of our outstanding shares of common stock from time to time in the open market through July 31, 2015, depending on market conditions, share price and other factors. On November 3, 2014, our Board of Directors modified the Stock Repurchase Program (the “10b5-1 Plan”) to include the repurchase of up to \$4,000,000 of the Company’s outstanding shares through April 30, 2015 pursuant to a Rule 10b5-1 trading plan though our Board ended this trading plan effective March 31, 2015. 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 August 11, 2014 through December 31, 2014, we purchased 434,998 shares of our common stock for approximately \$2,634,000 at an average price per share of \$6.06. In 2013, under a prior repurchase program and an open market transaction, we repurchased 604,161 shares of common stock for approximately \$5,194,000 at an average price of \$8.60. From January 1, 2005 through December 31, 2014, we repurchased a total of 3,222,036 shares of common stock for approximately \$25,161,000, at an average price of \$7.81 per share. As of December 31, 2014, approximately \$4,866,000 and \$2,192,000 remains authorized for future repurchases under the Stock Repurchase

Program and 10b5-1 Plan, respectively. The following table summarizes the repurchase of our common stock for the year ended December 31, 2014:

| 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 August 2014 Program |
|--|----------------------------------|------------------------------|--|--|
| July 1, 2014 – July 31, 2014 | - | - | - | \$ 7,500,000 |
| August 1, 2014 – August 31, 2014 | 66,771 | 7.49 | 66,771 | \$ 7,000,000 |
| September 1, 2014 – September 30, 2014 | 42,192 | 7.72 | 42,192 | \$ 6,674,000 |
| October 1, 2014 – October 31, 2014 | - | - | - | \$ 6,674,000 |
| November 1, 2014 – November 30, 2014 | 215,400 | 5.54 | 215,400 | \$ 5,481,000 |
| December 1, 2014 – December 31, 2014 | 110,635 | 5.56 | 110,635 | \$ 4,866,000 |
| Total | 434,998 | \$ 6.06 | 434,998 | |

Shareholders' Equity

Shareholders' equity decreased \$7,127,000 to \$25,394,000 at December 31, 2014 from \$32,521,000 at December 31, 2013. The decrease was primarily due to our purchase of 434,998 shares of treasury stock for \$2,634,000, dividend payments of \$2,556,000 and a net loss of \$2,421,000. These decreases were partially offset by proceeds and the associated incremental tax benefits of approximately \$20,000 from the issuance of 6,000 shares of common stock from stock option exercises, share-based compensation expense related to stock options of \$506,000 and approximately \$56,000 from the issuance of 9,939 shares of deferred stock units, net of relinquishments.

Off Balance Sheet Arrangements

As of December 31, 2014, we had no off balance sheet arrangements that have had or that we expect would be reasonably likely to have a future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

Our contractual obligations as of December 31, 2014 were as follows:

| (In thousands) | Total | Payments due by period | | | |
|--------------------------------|----------|------------------------|-----------|-----------|-----------|
| | | < 1 year | 1-3 years | 3-5 years | > 5 years |
| Operating lease obligations | \$1,525 | \$850 | \$670 | \$5 | \$- |
| Purchase obligations | 6,963 | \$6,833 | \$130 | - | - |
| Lawsuit settlement obligations | 3,600 | 3,600 | - | - | - |
| Total | \$12,088 | \$11,283 | \$800 | \$5 | \$- |

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. Lawsuit settlement obligations relate to amounts due to AD pursuant to a confidential settlement and release agreement.

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 transportation and commodity costs, 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 2015. As such, we do not believe that inflation will have a significant impact on our business during 2015.

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, 2014 (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-17. 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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. Based upon that evaluation, our management, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2014, our disclosure controls and procedures are effective. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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, 2014. Management based its assessment on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“2013 COSO”). Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2014, 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 2015 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 14, 2015.

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 | 57 | Chairman of the Board and Chief Executive Officer |
| Steven A. DeMartino | 45 | President, Chief Financial Officer, Treasurer and Secretary |
| Donald E. Brooks | 62 | Senior Vice President-Engineering |
| Tracey S. Chernay | 55 | Executive Vice President, Casino, Gaming Sales and Lottery |
| Andrew J. Hoffman | 57 | Senior Vice President, Operations |
| Andrew J. Newmark | 56 | Executive Vice President, Sales and Marketing |

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.

Andrew Newmark joined TransAct on January 12, 2014 as Executive Vice President, Sales and Marketing with responsibility for the sales and marketing of all TransAct products. Prior to joining TransAct, Mr. Newmark was an investor and consultant with Newmark Capital Management from 2009 to 2015. From 2005 to 2009, Mr. Newmark was employed by Newell Rubbermaid as Vice President, Business Development and Strategy. Until 2005, Mr. Newmark held the role of Senior Vice President with DYMO after CoStar, a company he co-founded in 1989, was purchased by DYMO.

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.

Set forth below is certain information regarding our equity compensation plans. The remaining 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, 2014 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 options, 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: | | | |
| 2005 Equity Incentive Plan | 808,306 | \$ 8.33 | - |
| 2014 Equity Incentive Plan | 34,000 | 9.87 | 566,000 |
| Total | 842,306 | \$ 8.39 | 566,000 |

In May 2014, our shareholders approved the adoption of the 2014 Equity Incentive Plan. The Company also maintains the 2005 Equity Incentive Plan which was approved by our shareholders, however no new awards will be available for future issuance under this Plan. The number of shares of common stock which may be subject to awards granted under the 2014 Equity Incentive Plan is 600,000.

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 30, 2015

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 30, 2015 |
| /s/ Steven A. DeMartino Steven A. DeMartino | President, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer) | March 30, 2015 |
| /s/ John M. Dillon John M. Dillon | Director | March 30, 2015 |
| /s/ Thomas R. Schwarz Thomas R. Schwarz | Director | March 30, 2015 |
| /s/ Graham Y. Tanaka Graham Y. Tanaka | Director | March 30, 2015 |

TRANSACT TECHNOLOGIES INCORPORATED
INDEX TO FINANCIAL STATEMENTS

Financial Statements

| | |
|--|-----|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-2 |
| <u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u> | F-3 |
| <u>Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012</u> | F-4 |
| <u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012</u> | F-5 |
| <u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012</u> | F-6 |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u> | F-7 |
| <u>Notes to Consolidated Financial Statements</u> | F-8 |

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.

F-1

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, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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, 2014, based on criteria established in Internal Control - Integrated Framework (2013) 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 30, 2015

F-2

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

| | December 31, 2014 | December 31, 2013 |
|---|-------------------------|-------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$3,131 | \$2,936 |
| Accounts receivable, net | 9,094 | 13,234 |
| Inventories | 11,806 | 13,509 |
| Prepaid income taxes | 409 | 390 |
| Deferred tax assets | 3,068 | 1,655 |
| Other current assets | 489 | 497 |
| Total current assets | 27,997 | 32,221 |
| Fixed assets, net | 2,438 | 2,732 |
| Goodwill | 2,621 | 2,621 |
| Deferred tax assets | 1,068 | 920 |
| Intangible assets, net of accumulated amortization of \$2,326 and \$1,811, respectively | 1,341 | 1,856 |
| Other assets | 26 | 58 |
| Total assets | \$35,491 | \$40,408 |
| Liabilities and Shareholders' Equity: | | |
| Current liabilities: | | |
| Accounts payable | \$2,365 | \$4,749 |
| Accrued liabilities | 3,320 | 2,215 |
| Income taxes payable | 13 | 26 |
| Accrued contingent consideration (Note 3) | - | 60 |
| Accrued lawsuit settlement expenses (Note 11) | 3,625 | - |
| Deferred revenue | 313 | 300 |
| Total current liabilities | 9,636 | 7,350 |
| Deferred revenue, net of current portion | 64 | 103 |
| Deferred rent, net of current portion | 172 | 244 |
| Other liabilities | 225 | 190 |
| Total liabilities | 10,097 | 7,887 |
| 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, 2014 and 2013; 11,122,293 and 11,106,354 shares issued; 7,900,257 and 8,319,316 shares outstanding, at December 31, 2014 and 2013, respectively | 111 | 111 |

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| | | |
|---|----------|----------|
| Additional paid-in capital | 28,167 | 27,674 |
| Retained earnings | 22,349 | 27,326 |
| Accumulated other comprehensive loss, net of tax | (72) | (63) |
| Treasury stock, 3,222,036 and 2,787,038 shares, at cost | (25,161) | (22,527) |
| Total shareholders' equity | 25,394 | 32,521 |
| Total liabilities and shareholders' equity | \$35,491 | \$40,408 |

See accompanying notes to Consolidated Financial Statements.

F-3

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

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2014 | 2013 | 2012 |
| Net sales | \$53,108 | \$60,141 | \$68,386 |
| Cost of sales | 31,397 | 35,049 | 42,404 |
| Gross profit | 21,711 | 25,092 | 25,982 |
| Operating expenses: | | | |
| Engineering, design and product development | 4,302 | 4,065 | 4,239 |
| Selling and marketing | 7,920 | 7,346 | 6,637 |
| General and administrative | 7,756 | 6,588 | 7,833 |
| Legal fees and settlement expenses associated with lawsuit (Note 11) | 5,505 | 476 | 1,533 |
| Business consolidation and restructuring (Note 8) | - | - | 138 |
| | 25,483 | 18,475 | 20,380 |
| Operating income (loss) | (3,772) | 6,617 | 5,602 |
| Interest and other income (expense): | | | |
| Interest expense | (61) | (64) | (61) |
| Interest income | 12 | 41 | 67 |
| Other, net | (33) | (63) | (23) |
| | (82) | (86) | (17) |
| Income (loss) before income taxes | (3,854) | 6,531 | 5,585 |
| Income tax (benefit) provision | (1,433) | 1,596 | 1,964 |
| Net (loss) income | \$(2,421) | \$4,935 | \$3,621 |
| Net income(loss) per common share: | | | |
| Basic | \$(0.29) | \$0.57 | \$0.40 |
| Diluted | \$(0.29) | \$0.57 | \$0.40 |
| Shares used in per-share calculation: | | | |
| Basic | 8,307 | 8,589 | 9,032 |
| Diluted | 8,307 | 8,703 | 9,121 |
| Dividends declared and paid per common share: | \$0.31 | \$0.27 | \$0.06 |

See accompanying notes to Consolidated Financial Statements.

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

| | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2014 | 2013 | 2012 |
| Net (loss) income | \$ (2,421) | \$ 4,935 | \$ 3,621 |
| Foreign currency translation adjustment, net of tax | (9) | (8) | 16 |
| Comprehensive (loss) income | \$ (2,430) | \$ 4,927 | \$ 3,637 |

See accompanying notes to Consolidated Financial Statements.

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, 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 sales | - | - | 57 | - | - | - | 57 |
| 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) |
| | - | - | 132 | - | - | - | 132 |

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| | | | | | | | |
|---|-----------|--------|-----------|-----------|-------------|---------|-----------|
| Tax benefit related to employee stock sales | | | | | | | |
| 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) |
| Foreign currency translation adj., net of tax | - | - | - | - | - | (8) | (8) |
| Net income | - | - | - | 4,935 | - | - | 4,935 |
| Balance, December 31, 2013 | 8,319,316 | \$ 111 | \$ 27,674 | \$ 27,326 | \$ (22,527) | \$ (63) | \$ 32,521 |
| Issuance of shares from exercise of stock options | 6,000 | - | 13 | - | - | - | 13 |
| Issuance of deferred stock units | - | - | 100 | - | - | - | 100 |
| Issuance of common stock on deferred stock units, net of relinquishments | 9,939 | - | (44) | - | - | - | (44) |
| Tax benefit related to employee stock sales | - | - | 7 | - | - | - | 7 |
| Purchase of treasury stock | (434,998) | - | - | - | (2,634) | - | (2,634) |
| Dividends declared and paid on common stock | - | - | - | (2,556) | - | - | (2,556) |
| Share-based compensation expense | - | - | 506 | - | - | - | 506 |
| Reversal of deferred tax asset in connection with stock options forfeited | - | - | (89) | - | - | - | (89) |
| | - | - | - | - | - | (9) | (9) |

Foreign currency
translation adj.,
net of tax

| | | | | | | | |
|----------------------------------|-----------|--------|-----------|-----------|-------------|---------|-----------|
| Net loss | - | - | - | (2,421) | - | - | (2,421) |
| Balance, December 31, 2014 | 7,900,257 | \$ 111 | \$ 28,167 | \$ 22,349 | \$ (25,161) | \$ (72) | \$ 25,394 |

See accompanying notes to Consolidated Financial Statements.

F-6

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

| | Year Ended December 31, | | |
|--|-------------------------|---------|---------|
| | 2014 | 2013 | 2012 |
| Cash flows from operating activities: | | | |
| Net (loss) income | \$(2,421) | \$4,935 | \$3,621 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Share-based compensation expense | 506 | 521 | 520 |
| Incremental tax benefits from stock options exercised | (7) | (132) | (57) |
| Depreciation and amortization | 1,445 | 1,741 | 1,758 |
| Deferred income tax (benefit) provision | (1,558) | 46 | (95) |
| Loss (gain) on sale of fixed assets | 28 | 60 | (13) |
| Foreign currency transaction losses | 7 | 3 | 34 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 4,139 | 2,685 | (6,332) |
| Inventories | 1,703 | (3,189) | 3,684 |
| Prepaid income taxes | (98) | (367) | 479 |
| Other current and long term assets | 46 | 20 | (154) |
| Accounts payable | (2,384) | (1,674) | 3,403 |
| Accrued lawsuit settlement expenses | 3,625 | - | - |
| Accrued liabilities and other liabilities | 1,022 | (2,156) | 1,182 |
| Net cash provided by operating activities | 6,053 | 2,493 | 8,030 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (660) | (709) | (1,082) |
| Additions to capitalized software | - | (42) | (35) |
| Proceeds from sale of fixed assets | - | 5 | 15 |
| Net cash used in investing activities | (660) | (746) | (1,102) |
| Cash flows from financing activities: | | | |
| Proceeds from stock option exercises | 13 | 1,045 | 172 |
| Purchases of common stock for treasury | (2,634) | (5,194) | (5,938) |
| Payment of dividends on common stock | (2,556) | (2,317) | (526) |
| Incremental tax benefits from stock options exercised | 7 | 132 | 57 |
| Payment of deferred financing costs | (8) | - | (7) |
| Net cash used in financing activities | (5,178) | (6,334) | (6,242) |
| Effect of exchange rate changes on cash and cash equivalents | (20) | (14) | (12) |
| Increase (decrease) in cash and cash equivalents | 195 | (4,601) | 674 |
| Cash and cash equivalents, beginning of period | 2,936 | 7,537 | 6,863 |
| Cash and cash equivalents, end of period | \$3,131 | \$2,936 | \$7,537 |
| Supplemental cash flow information: | | | |
| Interest paid | \$49 | \$51 | \$51 |
| Income taxes paid | 173 | 2,585 | 912 |

See accompanying notes to Consolidated Financial Statements.

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®, RESPONDER®, Epic, EPICENTRAL® 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.

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 \$100,000 as of December 31, 2014 and \$63,000 as of December 31, 2013.

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

| (In thousands) | Year ended December 31, | | |
|---|-------------------------|------|------|
| | 2014 | 2013 | 2012 |
| Balance, beginning of period | \$63 | \$66 | \$70 |
| Additions charged to costs and expenses | 37 | - | - |
| Deductions | - | (3) | (4) |
| Balance, end of period | \$100 | \$63 | \$66 |

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 \$925,000, \$1,216,000 and \$1,183,000 in 2014, 2013 and 2012, 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.

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, 2014 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 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 to the customer, and a hardware component. EPICENTRAL™ contains both software and hardware that are integrated to deliver the system’s full functionality. These arrangements are accounted for in accordance with ASC 605-25, “Multiple-Element Arrangements”. EPICENTRAL™ can also include an additional software offering, Mobile Host, that allows the customer to access certain applications on mobile devices. Mobile Host is accounted for in accordance with ASC 985-605, “Software” as Mobile Host software does not function together with the hardware device to deliver its essential functionality.

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 initial maintenance period, generally one year.

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. When we enter into a multiple deliverable arrangement, we also determine whether revenue arrangements consist of more than one unit of accounting. At that time, we allocate arrangement consideration to the separate units of accounting based on a relative selling price hierarchy, 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. The relative selling price for each element is based upon the following selling price hierarchy: vendor specific objective evidence (“VSOE”) if available, third party evidence (“TPE”)

if VSOE is not available, or best estimate of selling price (“BESP”) to the extent that VSOE or TPE are not available.

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.

F-9

2. Summary of significant accounting policies (continued)

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, | |
|-------------|--------------|------|
| | 2014 | 2013 |
| GTECH | 15% | 21% |
| Eurocoin | 11% | 22% |
| Suzo-Happ | 23% | 6% |
| CMC Daymark | 11% | 19% |

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

| | Year ended December 31, | | |
|----------|-------------------------|------|------|
| | 2014 | 2013 | 2012 |
| GTECH | 16% | 12% | 18% |
| Eurocoin | 11% | 12% | 15% |

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:

| | Year ended December 31, | | |
|------------------------------|-------------------------|-------|-------|
| (In thousands) | 2014 | 2013 | 2012 |
| Balance, beginning of period | \$366 | \$274 | \$421 |
| Warranties issued | 183 | 492 | 104 |
| Warranty settlements | (262) | (400) | (251) |
| Balance, end of period | \$287 | \$366 | \$274 |

Approximately \$207,000 and \$282,000 of the accrued product warranty liability were classified as current in Accrued liabilities at December 31, 2014 and 2013, respectively. The remaining \$80,000 and \$84,000 of the accrued product warranty liability is classified as long-term in Other liabilities.

Engineering, design and product development: Research and development expenses include 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 \$4,302,000, \$4,065,000 and \$4,239,000 of research and development expenses in 2014, 2013 and 2012, 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 \$169,000 and \$370,000 as of December 31, 2014 and 2013, respectively. The total amount charged to

cost of sales for capitalized software development costs was approximately \$201,000, \$199,000 and \$189,000 in 2014, 2013 and 2012, respectively. The weighted-average amortization period of unamortized capitalized software developments costs is approximately one year.

Advertising: Advertising costs are expensed as incurred. Advertising expenses, which are included in selling and marketing expense on the accompanying Consolidated Statements of Operations, for 2014, 2013 and 2012 totaled \$1,191,000, \$1,058,000 and \$949,000, 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.

2. Summary of significant accounting policies (continued)

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 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 Operations.

Share-based payments: At December 31, 2014, 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. 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 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. Contingent Consideration

In connection with a business acquisition on August 19, 2011, whereby we purchased substantially all of the assets of Printrex, Inc ("Printrex"), 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. As of December 31, 2014, the undiscounted fair value related to the contingent liability was estimated to be zero and we do not expect to make a contingent consideration payment. The fair value of the contingent consideration arrangement was \$0 and \$60,000 at December 31, 2014 and 2013, 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 2014 and 2013, the fair value of the contingent consideration was decreased by \$60,000 and \$900,000, respectively, and this credit is included in general and administrative expenses on the Consolidated Statements of Operations. No payments were made under the arrangement during 2014 as the underlying conditions of the contingent consideration arrangement were not satisfied.

4. Inventories

The components of inventories are:

| (In thousands) | December 31, | |
|---|--------------|----------|
| | 2014 | 2013 |
| Raw materials and purchased component parts | \$6,183 | \$7,263 |
| Work-in-process | 4 | 31 |
| Finished goods | 5,619 | 6,215 |
| | \$11,806 | \$13,509 |

5. Fixed assets

The components of fixed assets, net are:

| (In thousands) | December 31, | |
|---|--------------|----------|
| | 2014 | 2013 |
| Tooling, machinery and equipment | \$10,620 | \$12,066 |
| Furniture and office equipment | 1,489 | 1,492 |
| Computer software and equipment | 6,132 | 5,986 |
| Leasehold improvements | 1,952 | 1,926 |
| | 20,193 | 21,470 |
| Less: Accumulated depreciation and amortization | (17,858) | (18,989) |
| | 2,335 | 2,481 |
| Construction in-process | 103 | 251 |
| | \$2,438 | \$2,732 |

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, | | | |
|-------------------------|-----------------|-----------------------------|-----------------|-----------------------------|
| | 2014 | | 2013 | |
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Purchased technology | \$ 1,604 | \$ (1,172) | \$ 1,604 | \$ (924) |
| Customer relationships | 1,300 | (729) | 1,300 | (513) |
| Trademark | 480 | (162) | 480 | (113) |
| Covenant not to compete | 146 | (146) | 146 | (146) |
| Patents | 57 | (37) | 57 | (35) |
| Other | 80 | (80) | 80 | (80) |
| Total | \$ 3,667 | \$ (2,326) | \$ 3,667 | \$ (1,811) |

Amortization expense was \$515,000 in 2014, \$513,000 in 2013 and \$568,000 in 2012. Amortization expense for each of the next five years ending December 31 is expected to be as follows: \$456,000 in 2015; \$333,000 in 2016; \$244,000 in 2017; \$102,000 in 2018; \$99,000 in 2019 and \$107,000 thereafter.

7. Accrued liabilities

The components of accrued liabilities are:

| (In thousands) | December 31, | |
|-----------------------------------|----------------|----------------|
| | 2014 | 2013 |
| Salaries and compensation related | \$1,852 | \$1,447 |
| Warranty | 207 | 282 |
| Professional and consulting | 959 | 139 |
| Other | 302 | 347 |
| | \$3,320 | \$2,215 |

8. Restructuring activities

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 Operations. Cash payments made under this restructuring plan were completed by October 2012.

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 \$282,000, \$265,000 and \$280,000 in 2014, 2013 and 2012, respectively.

10. Borrowings

We maintain a credit facility (the “TD Bank Credit Facility”) with TD Bank N.A. (“TD Bank) which provides for a \$20,000,000 revolving credit line. On November 26, 2014, we signed an amendment to the TD Bank Credit Facility through November 28, 2017. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate minus one percent and are secured by a lien on all of our assets. We also pay a fee of 0.15% on unused borrowings under the revolving credit line. The total deferred financing costs relating to expenses incurred to complete the TD Bank Credit

Facility was \$8,000 which will be amortized over the three year term. The amendment increased the amount of revolving credit loans we may use to fund future cash dividend payments or treasury share buybacks to \$10,000,000 from \$5,000,000. The amendment also modified the definition of EBITDA to exclude certain non-recurring expenses, including without limitation, non-recurring litigation and acquisition expenses; and modified the definition of Operating Cash Flow to exclude unfinanced capital expenditures for the quarters ending December 31, 2014, March 31, 2015 and June 30, 2015.

The TD Bank Credit Facility imposes certain quarterly financial covenants on us and restricts, among other things, our ability to incur additional indebtedness and the creation of other liens. We were in compliance with all financial covenants of the TD Bank Credit Facility at December 31, 2014.

As of December 31, 2014, 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 alleged that this former employee and the Company misappropriated unspecified trade secrets and confidential information from AD related to the design of our food safety terminals. The complaint requested a preliminary and permanent injunction against 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, the Company opposed this request. On October 15, 2013, the Eleventh District Court of Appeals affirmed the lower court’s decision in the Company’s favor and denied AD’s further request of an injunction pending the Court of Appeal’s decision. On October 24, 2013, AD filed a motion seeking that the Court of Appeals reconsider its decision. On April 16, 2014, the Court of Appeals denied AD’s motion to reconsider its decision. On July 28, 2014, AD filed a motion requesting leave from the Court to file an amended complaint and indicating that it has elected to pursue only its claim for damages, dropping its claim for injunctive relief. On September 4, 2014, the Court granted AD’s motion to file an amended complaint. On September 25, 2014, the Company filed its answer, affirmative defenses and counterclaims with respect to the amended complaint, seeking all available damages including legal fees. On January 30, 2015, the Company filed a motion for summary judgment seeking judgment in favor of the Company on all counts as to the Company. On the same day, AD filed two motions for partial summary judgment. On February 17, 2015, the Company opposed both of AD’s motions, and AD opposed the Company’s motion. On February 23, 2015, the Company filed a reply brief in support of its motion for summary judgment. A trial was scheduled to begin on April 21, 2015, however, on March 25, 2015 the parties executed a confidential settlement agreement and release (the “Settlement Agreement”) in which the parties mutually agreed to resolve the dispute that was the subject of the lawsuit filed by AD against the Company to the parties’ mutual satisfaction. Under the terms of the Settlement Agreement, the Company agreed to pay AD \$3,600,000 payable on or before April 8, 2015 and also to qualify certain AD labels for use on the Company’s food safety terminals at an estimated cost of \$25,000. The Company recorded the total expense of \$3,625,000 in the fourth quarter as an operating expense included in the line item “Legal fees and settlement expenses associated with lawsuit” on the Consolidated Statement of Operations and as a current liability included in the line item “Accrued lawsuit settlement expenses” on the Consolidated Balance Sheet.

At December 31, 2014, we were the lessee on operating leases for equipment and real property. Rent expense was approximately \$918,000, \$918,000 and \$1,005,000 in 2014, 2013 and 2012, 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, 2014 are as follows: \$850,000 in 2015; \$584,000 in 2016; \$86,000 in 2017; \$4,000 in 2018 and \$1,000 in 2019.

12. Stock incentive plans

Stock incentive plans. We currently have two primary stock incentive plans: the 2005 Equity Incentive Plan and 2014 Equity Incentive Plan, which provides for awards to executives, key employees, directors and consultants. We previously maintained two other stock incentive plans, the 1996 Director’s Stock Plan and the 2001 Employee Stock Plan, both of which expired during 2014. 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. 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 2014, no new

awards will be made under the 2005 Equity Incentive Plan. Under our 2014 Equity Incentive Plan, we may authorize up to 600,000 shares of TransAct common stock. At December 31, 2014, 566,000 shares of common stock remained available for issuance under the 2014 Equity Incentive Plan.

Under the assumptions indicated below, the weighted-average fair value of stock option grants for 2014, 2013 and 2012 was \$11.11, \$7.94 and \$6.91, respectively. The table below indicates the key assumptions used in the option valuation calculations for options granted in 2014, 2013 and 2012 and a discussion of our methodology for developing each of the assumptions used in the valuation model:

| | Year ended December 31, | | |
|-------------------------|-------------------------|-----------|-----------|
| | 2014 | 2013 | 2012 |
| Expected option term | 6.6 years | 6.8 years | 6.7 years |
| Expected volatility | 53.8% | 56.5% | 57.8% |
| Risk-free interest rate | 1.6% | 0.8% | 0.8% |
| Dividend yield | 2.6% | 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 to common shareholders in December 2012,. 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.

12. Stock incentive plans (continued)

For 2014, 2013 and 2012, we recorded \$506,000, \$521,000, and \$520,000 of share-based compensation expense, respectively, included primarily in general and administrative expense in our Consolidated Statements of Operations. We also recorded income tax benefits of approximately \$377,000, \$127,000, and \$183,000 in 2014, 2013, and 2012 respectively, related to such share-based compensation. At December 31, 2014, these benefits are recorded as a deferred tax asset in the Consolidated Balance Sheets.

Option activity in the 1996 Directors' Stock Plan, 2001 Employee Stock Plan, 2005 Equity Incentive Plan and 2014 Equity Incentive Plan is summarized below:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|---------------------|--|--|---------------------------------|
| Outstanding at December 31, 2013 | 718,475 | \$8.49 | | |
| Granted | 169,500 | 11.11 | | |
| Exercised | (6,000) | 2.18 | | |
| Forfeited | (62,500) | 8.51 | | |
| Expired | (23,500) | 31.58 | | |
| Outstanding at December 31, 2014 | 795,975 | \$8.41 | 5.7 years | \$87,000 |
| Options exercisable at December 31, 2014 | 490,725 | \$7.72 | 4.1 years | \$87,000 |
| Options vested or expected to vest | 784,108 | \$8.39 | 6.0 years | \$87,000 |

Shares that are issued upon exercise of employee stock options are newly issued shares and not issued from treasury stock. As of December 31, 2014, unrecognized compensation cost related to stock options is approximately \$955,000, which is expected to be recognized over a weighted average period of 2.5 years.

The total intrinsic value of stock options exercised was \$20,000, \$910,000 and \$222,000 and the total fair value of stock options vested was \$943,000, \$815,000, and \$641,000 during 2014, 2013 and 2012, respectively. Cash received from option exercises was \$13,000, \$1,045,000 and \$172,000 for 2014, 2013 and 2012, respectively. We recorded a realized tax benefit in 2014, 2013 and 2012 from equity-based awards of \$7,000, \$132,000 and \$57,000, respectively, related to options exercised which has been included as a component of cash flows from financing activities in the Consolidated Statements of Cash Flows.

Restricted stock: We paid a portion of the 2013, 2012 and 2011 incentive bonus for the chief executive officer and chief financial officer in the form of 8,663, 17,613 and 20,055 deferred stock units, respectively, with a corresponding credit recorded to Additional Paid in Capital (net of share relinquishments) in the amounts of \$56,000, \$111,000 and \$134,000 in 2014, 2013 and 2012, respectively. Such deferred stock units were granted in March 2014, 2013 and 2012, 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 \$8.07.

13. Income taxes

The components of the income tax provision are as follows:

| (In thousands) | Year Ended December 31, | | |
|----------------|-------------------------|---------|---------|
| | 2014 | 2013 | 2012 |
| Current: | | | |
| Federal | \$176 | \$1,479 | \$1,973 |

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| | | | |
|--------------------------------|-----------|---------|---------|
| State | 15 | 38 | 46 |
| Foreign | 12 | 33 | 40 |
| | 203 | 1,550 | 2,059 |
| Deferred: | | | |
| Federal | (1,653) | 80 | (116) |
| State | 17 | (34) | 21 |
| Foreign | - | - | - |
| | (1,636) | 46 | (95) |
| Income tax (benefit) provision | \$(1,433) | \$1,596 | \$1,964 |

F-14

13. Income taxes (continued)

Our effective tax rates were 37.2%, 24.4%, and 35.2% for 2014, 2013 and 2012, respectively. Our effective tax rate for 2013 was unusually low because it included: 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, 2014, we have no federal or state net operating loss carryforwards. We have approximately \$104,000 in R&D credit carryforwards that expire in 2034 and approximately \$3,000 in state tax credit carryforwards that begin to expire in 2019. Foreign (loss) income before taxes was \$(56,000), \$(29,000), and \$92,000 in 2014, 2013, and 2012, respectively.

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 deferred tax assets and liabilities were comprised of the following:

| (In thousands) | December 31, | |
|--------------------------------------|--------------|---------|
| | 2014 | 2013 |
| Deferred tax assets: | | |
| Foreign net operating losses | \$282 | \$242 |
| Capitalized research and development | - | 68 |
| Accrued lawsuit settlement expenses | 1,262 | - |
| Inventory reserves | 1,063 | 1,050 |
| Deferred revenue | 56 | 59 |
| Warranty reserve | 100 | 127 |
| Stock compensation expense | 1,049 | 956 |
| Other accrued compensation | 406 | - |
| Foreign tax and other credits | 106 | 45 |
| Other liabilities and reserves | 312 | 491 |
| Gross deferred tax assets | 4,636 | 3,038 |
| Valuation allowance | (282) | (242) |
| Net deferred tax assets | 4,354 | 2,796 |
| Deferred tax liabilities: | | |
| Depreciation | 142 | 175 |
| Other | 76 | 46 |
| Net deferred tax liabilities | 218 | 221 |
| Total net deferred tax assets | 4,136 | \$2,575 |

A valuation allowance of \$282,000 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, | | |
|---|-------------------------|-------|-------|
| | 2014 | 2013 | 2012 |
| Balance, beginning of period | \$242 | \$216 | \$176 |
| Additions charged to income tax provision | 40 | 56 | 40 |
| Reductions credited to income tax provision | - | (30) | - |
| Balance, end of period | \$282 | \$242 | \$216 |

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

| | Year Ended December 31, | | |
|---|-------------------------|-------|-------|
| | 2014 | 2013 | 2012 |
| Federal statutory tax rate | 34.0% | 34.0% | 34.0% |
| R&D credit | 6.0 | - | - |
| State income taxes, net of federal income taxes | (0.5) | 0.1 | 0.8 |
| Valuation allowance and tax accruals | (1.1) | 0.9 | 0.9 |
| Uncertain tax positions | (1.0) | - | - |
| Miscellaneous permanent items | (0.3) | (8.3) | (0.8) |
| Other | 0.1 | (2.3) | 0.3 |
| Effective tax rate | 37.2% | 24.4% | 35.2% |

F-15

13. Income taxes (continued)

At December 31, 2014 and 2013, we had approximately \$124,000 and \$106,000 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) | 2014 | 2013 |
|---|--------|-------|
| Unrecognized tax benefits as of January 1 | \$ 106 | \$251 |
| Tax positions taken during the current period | 18 | 79 |
| Lapse of statute of limitations | - | (224) |
| Unrecognized tax benefits as of December 31 | \$ 124 | \$106 |

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 2010. During 2013, an examination of our 2010 federal tax return was completed. However, our federal tax returns for the years 2011 through 2013 remain open to examination. Various state and foreign tax jurisdiction tax years remain open to examination as well, though we believe that any additional assessment would be immaterial to the Consolidated Financial Statements.

We do not anticipate that the total unrecognized tax benefits of approximately \$124,000 will significantly change due to the settlement of audits and the expiration of statute of limitations prior to December 31, 2015.

We recognize interest and penalties related to uncertain tax positions in the income tax provision. As of December 31, 2014 and 2013, we have approximately \$20,000 and \$10,000, respectively, of accrued interest and penalties related to uncertain tax positions.

14. Earnings per share

For 2014, 2013 and 2012, earnings per share were computed as follows (in thousands, except per share amounts):

| | Year Ended December 31, | | |
|--|-------------------------|---------|---------|
| | 2014 | 2013 | 2012 |
| Net (loss) income | \$(2,421) | \$4,935 | \$3,621 |
| Shares: | | | |
| Basic: Weighted average common shares outstanding | 8,307 | 8,589 | 9,032 |
| Add: Dilutive effect of outstanding options as determined by the treasury stock method | - | 114 | 89 |
| Diluted: Weighted average common and common equivalent shares outstanding | 8,307 | 8,703 | 9,121 |
| Net (loss) income per common share: | | | |
| Basic | \$(0.29) | \$0.57 | \$0.40 |
| Diluted | (0.29) | 0.57 | 0.40 |

The computation of diluted earnings per share excludes the effect of the potential exercise of stock options, when the average market price of the common stock is lower than the exercise price of the related stock option during the period. These outstanding stock options are not included in the computation of diluted earnings per share because the

effect would be anti-dilutive. Anti-dilutive stock options, restricted shares and deferred stock units excluded from the computation of earnings per dilutive share were 311,000, and 585,125, at December 31, 2013 and 2012 respectively. Regarding 2014, when a net loss is reported basic and diluted EPS are calculated using the same method.

15. Stock repurchase program

On August 11, 2014, our Board of Directors approved a new stock repurchase program (the “Stock Repurchase Program”). Under the Stock Repurchase Program, we are authorized to repurchase up to \$7,500,000 of our outstanding shares of common stock from time to time in the open market through July 31, 2015, depending on market conditions, share price and other factors. On November 3, 2014, our Board of Directors modified the Stock Repurchase Program to include the repurchase of up to \$4,000,000 of the Company’s outstanding shares through April 30, 2015 pursuant to a Rule 10b5-1 trading plan though our Board ended this trading plan effective March 31, 2015. 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 August 11, 2014 through December 31, 2014, we purchased 434,998 shares of our common stock for approximately \$2,634,000 at an average price per share of \$6.06. In 2013, under a prior repurchase program and an open market transaction, we purchased 604,161 shares of common stock for approximately \$5,194,000 at an average price of \$8.60. From January 1, 2005 through December 31, 2014, we repurchased a total of 3,222,036 shares of common stock for approximately \$25,161,000, at an average price of \$7.81 per share.

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, | | |
|--------------------|-------------------------|----------|----------|
| | 2014 | 2013 | 2012 |
| Net sales: | | | |
| United States | \$38,567 | \$46,377 | \$49,932 |
| International | 14,541 | 13,764 | 18,454 |
| Total | \$53,108 | \$60,141 | \$68,386 |
| Fixed assets, net: | | | |
| United States | \$1,490 | \$1,583 | \$1,941 |
| International | 948 | 1,149 | 1,361 |
| Total | \$2,438 | \$2,732 | \$3,302 |

Sales to international customers were approximately 27%, 23%, and 27% in 2014, 2013, and 2012 respectively. Sales to Europe represented 49%, 52%, and 52%, sales to the Pacific Rim (which includes Australia and Asia) represented 33%, 26%, and 18%, and sales to Canada represented 5%, 10%, and 16% of total international sales in 2014, 2013, and 2012 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 2014 and 2013 are as follows:

| (In thousands, except per share amounts) | March 31 | Quarter Ended | | |
|--|----------|---------------|--------------|-------------|
| | | June 30 | September 30 | December 31 |
| 2014: | | | | |
| Net sales | \$13,619 | \$13,804 | \$13,389 | \$12,296 |
| Gross profit | 5,726 | 5,788 | 5,286 | 4,911 |
| Net income (loss) | 394 | 175 | 50 | (3,040) |
| Net income (loss) per share: | | | | |
| Basic | 0.05 | 0.02 | 0.01 | (0.37) |
| Diluted | 0.05 | 0.02 | 0.01 | (0.37) |
| 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 |

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) | 2005 Equity Incentive Plan | (10) |
| 10.2(x) | 2014 Equity Incentive Plan | (3) |
| 10.3(x) | Employment Agreement, dated July 31, 1996, by and between TransAct and Bart C. Shuldman. | (2) |
| 10.4(x) | Severance Agreement by and between TransAct and Steven A. DeMartino, dated June 1, 2004. | (9) |
| 10.5(x) | Severance Agreement by and between TransAct and Tracey S. Chernay, dated July 29, 2005. | (13) |
| 10.6(x) | Amendment to Employment Agreement, effective January 1, 2008, by and between TransAct and Bart C. Shuldman. | (14) |
| 10.7(x) | Amendment to Severance Agreement by and between TransAct and Steven A. DeMartino, effective January 1, 2008. | (14) |
| 10.8(x) | Amendment to Severance Agreement by and between TransAct and Tracey S. Chernay, effective January 1, 2008. | (14) |
| 10.9 | Lease Agreement by and between Bomax Properties and Ithaca, dated as of March 23, 1992. | (2) |
| 10.10 | Second Amendment to Lease Agreement by and between Bomax Properties and Ithaca, dated December 2, 1996. | (4) |
| 10.11 | Agreement regarding the Continuation and Renewal of Lease by and between Bomax Properties, LLC and TransAct, dated July 18, 2001. | (8) |
| 10.12 | Amendment No. 1 to Lease Agreement between Bomax Properties, LLC and TransAct. | (17) |
| 10.13 | Lease Agreement by and between Las Vegas Airport Properties LLC and TransAct dated December 2, 2004. | (9) |
| 10.14 | First Amendment to Lease Agreement by and between Las Vegas Airport Properties LLC and TransAct dated August 31, 2009 | (15) |
| 10.15 | Lease Agreement by and between 2319 Hamden Center I, L.L.C. and TransAct dated November 27, 2006. | (11) |
| 10.16 | 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) | (15) |
| 10.17 | Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Banknorth, N.A. dated November 28, 2006 | (11) |
| 10.18 | First Amendment to Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Banknorth, N.A. effective September 30, 2007. | (12) |
| 10.19 | Second Amendment to Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Bank, N.A. effective November 22, 2011. | (16) |
| 10.20 | Third Amendment to Amended and Restated Revolving Credit and Security Agreement effective September 7, 2012 | (18) |
| 10.21 | Fourth Amendment to Amended and Restated Revolving Credit and Security Agreement effective November 26, 2014 | (19) |
| 23.1 | Consent of PricewaterhouseCoopers LLP. | (1) |

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| | | |
|---------|---|-----|
| 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) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed May 15, 2014 is 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 Quarterly Report on Form 10-Q for the period ended June 30, 2003, is incorporated by reference.
 - (9) 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.
 - (10) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed June 1, 2005, 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, 2006, are incorporated by reference.
 - (12) 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.
 - (13) 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.
 - (14) 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.
 - (15) 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.
 - (16) 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.
 - (17) 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.
 - (18) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed September 11, 2012, is incorporated by reference.
 - (19) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed December 1, 2014, is 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.
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