TRANSACT TECHNOLOGIES INC
Form 10-K
March 14, 2014

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from to .

Commission file number: 0-21121

(Exact name of registrant as specified in its charter)

Delaware	06-1456680
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT	06518
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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 o No ý

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 ý No o

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

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. ý

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

TRANSACT TECHNOLOGIES INCORPORATED

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PART I

Item 1. Business.

The Company

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

TransAct designs, develops and sells market-specific solutions, including printers, terminals, software and other products for transaction-based and other industries. These world-class products are sold under the Epic, EPICENTRALTM, Ithaca® and Printrex® brand names. Known and respected worldwide for innovative designs and real-world service reliability, our thermal, inkjet and impact printers and terminals generate top-quality labels and transaction records such as receipts, tickets, coupons, register journals and other documents as well as printed logging and plotting of data. We focus on the following core markets: food safety, banking and point-of-sale (“POS”), casino and gaming, lottery, and Printrex (which serves the oil and gas, medical and emergency vehicle markets). We sell our products to original equipment manufacturers (“OEMs”), value-added resellers ("VARs"), selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. TransAct also provides world-class printer service, spare parts, accessories and printing supplies to its growing worldwide installed base of printers. Through our TransAct Services Group (“TSG”) we provide a complete range of supplies and consumables used in the printing and scanning activities of customers in the hospitality, banking, retail, casino and gaming, government and oil and gas exploration markets. Through our webstore, www.transactsupplies.com, and our direct selling team, we address the on-line demand for these products. We have one primary operating and global research and development and eastern region service center located in Ithaca, NY. In addition, we have a casino and gaming sales headquarters and western region service center in Las Vegas, NV, a satellite research and development office in San Jose, CA, a European sales and service center in the United Kingdom, a sales office located in Macau and three other sales offices located in the United States. Our executive offices are located at One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT, 06518, with a telephone number of (203) 859-6800.

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

Financial Information about Segments

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

Products, Services and Distribution Methods

Printers and terminals

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

Food safety, banking and POS: During 2012 in an effort to address the Food Safety Modernization Act, we developed a food safety terminal, a hardware device that consists of a touchscreen and one or two thermal print mechanisms, that print easy-to-read expiration and "enjoy by" date labels to help restaurants effectively manage food spoilage. In the food safety market, we use an internal sales representative to manage sales of our terminals through distribution, as well as a dedicated internal sales force to solicit sales directly from end-users.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Patents and Proprietary Information

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

Seasonality

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

Working Capital

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

Certain Customers

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

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

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

Backlog

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

Competition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

trademarks, service marks, trade names and copyrights.

Available Information

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

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

We rely on resellers to sell our products and services.

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

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

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

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

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

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

We have outsourced a large portion of the assembly of our printers to four contract manufacturers and will be dependent on them for the manufacturing of such printers. A failure by these contract manufacturers, or any disruption in such manufacturing, may adversely affect our business results.
In an effort to achieve additional cost savings and operation benefits, we have continued to outsource the manufacturing and assembly of our printers to contract manufacturers in Asia. Approximately 90% of our printer manufacturing is conducted by one third party manufacturer in Asia.

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

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

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

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

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

We source some of our component parts and consumable products from sole source suppliers; any disruptions may impact our ability to manufacture and sell our products.
A disruption in the supply of such component parts and consumable products could have a material adverse effect on our operations and financial results.

We sell a significant portion of our products internationally and purchase important components from foreign suppliers. These circumstances create a number of risks.
We sell a significant amount of our products to customers outside the United States. Shipments to international customers are expected to continue to account for a material portion of net sales. Risks associated with sales and purchases outside the United States include:

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

restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets; and
- potentially limited intellectual property protection in certain countries, such as China, may limit recourse against infringing products or cause us to refrain from selling in certain geographic territories.

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

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

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

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

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

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

We compete in highly competitive markets, which are likely to become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements.
We face significant competition in developing and selling our printers, terminals, software, transaction supplies and services. Principal competitors have substantial marketing, financial, development and personnel resources. To remain competitive, we believe we must continue to provide:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments.
Not applicable.

Item 2. Properties.

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

Location	Operations Conducted	Size (Approx. Sq. Ft.)	Owned or Leased	Lease Expiration Date
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
San Jose, California	Engineering office	1,340	Leased	February 28, 2014
Georgia and New York	Two regional sales offices	300	Leased	Various
Macau, China	Sales office	180	Leased	June 30, 2014
		104,670		

Item 3. Legal Proceedings.

On June 8, 2012, Avery Dennison Corporation (“AD”) filed a civil complaint against the Company and a former employee of the Company and of AD, in the Court of Common Pleas (the “Court”) in Lake County, Ohio. The complaint alleges that this former employee and the Company misappropriated unspecified trade secrets and confidential information related to the design of our food safety terminals from AD. The complaint requests a preliminary and permanent injunction against the Company from manufacturing and selling our Ithaca® 9700 and 9800 food safety terminals. On July 16, 2012, the Company filed its answer, affirmative defenses and counterclaims, seeking all available damages including legal fees. A hearing on the plaintiff's motion for preliminary injunction took place in August 2012, and in November 2012, the Court denied this request. AD filed an appeal of the Court’s ruling to the Eleventh Appellate District, which heard oral arguments on the appeal on July 16, 2013. On July 23, 2013, AD requested that the Eleventh Appellate District enjoin the Company’s further sale and marketing of the food safety terminals, pending the appeals court's decision. On July 29, 2013, TransAct opposed this request. On October 15, 2013, the Eleventh District Court of Appeals affirmed the lower court’s decision in the Company’s favor and denied AD’s further request for an injunction pending the Court of Appeal’s decision. On October 24, 2013, AD filed a motion seeking that the Court of Appeals reconsider its decision.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

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

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

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

Issuer Purchases of Equity Securities

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

CORPORATE PERFORMANCE GRAPH

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

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

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

Item 6. Selected Financial Data (in thousands, except per share amounts)
The following is summarized from our audited financial statements of the past five years:

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

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
This discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto.

Forward Looking Statements
Certain statements included in this report, including without limitation statements in this Management’s Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as “may”, “will”, “expect”, “intend”, ”estimate”, “anticipate”, “believe”, “project” or “cont negative thereof or other similar words. All forward-looking statements involve risks and uncertainties, including, but not limited to those listed in Item 1A of this Annual Report. Actual results may differ materially from those discussed in, or implied by, the forward-looking statements. The forward-looking statements speak only as of the date of this report and we assume no duty to update them.

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

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

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

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

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

(In thousands)	Year ended December 31, 2013		Year ended December 31, 2012		Change $	Change %
Food safety, banking and POS	$ 11,296	18.8%	$ 9,484	13.9%	$ 1,812	19.1%
Casino and gaming	27,300	45.4%	29,129	42.6%	(1,829)	(6.3%)
Lottery	4.450	7.4%	11,634	17.0%	(7,184)	(61.8%)
Printrex	4,335	7.2%	4,673	6.8%	(338)	(7.2%)
TSG	12,760	21.2%	13,466	19.7%	(706)	(5.2%)
Total net sales	$ 60,141	100.0%	$ 68,386	100.0%	$ (8,245)	(12.1%)

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

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

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

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

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

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

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

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

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

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

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

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

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

Our customers have the right to return products that do not function properly within a limited time after delivery. We monitor and track product returns and record a provision for the estimated future returns based on historical experience. Returns have historically been within expectations and the provisions established, but we cannot guarantee that we will continue to experience return rates consistent with historical patterns.

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

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

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

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

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

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

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

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

Warranty – We generally warrant our products for up to 36 months and record the estimated cost of such product warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experience of product repairs and the related estimated cost of labor and material to make the necessary repairs. If actual future product repair rates or the actual costs of material and labor differ from the estimates, adjustments to the accrued warranty liability and related warranty expense would be made.

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

Share-Based Compensation – We calculate share-based compensation expense in accordance with ASC 718, "Compensation – Stock Compensation" using the Black-Scholes option-pricing model to calculate the fair value of share-based awards. The key assumptions for this valuation method include the expected term of an option grant, stock price volatility, risk-free interest rate, dividend yield, and forfeiture rate. The determination of these assumptions is based on past history and future expectations, and is subject to a high level of judgment. To the extent any of the assumptions were to change from year to year, the fair value of new option grants may vary significantly.

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

Net Sales. Net sales, which include printer, terminal and software sales as well as sales of replacement parts, consumables and maintenance and repair services, by market for the years ended December 31, 2013 and 2012 were as follows:

(In thousands)	Year ended December 31, 2013		Year ended December 31, 2012		Change $	%
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.

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

Food safety, banking and POS: Revenue from the food safety, banking and POS market includes sales of food safety terminals, hardware devices that consist of a touchscreen and one or two thermal print mechanisms, that print easy-to-read expiration and "enjoy by" date labels to help restaurants effectively manage food spoilage. Revenue from this market also includes sales of inkjet, thermal and impact printers used primarily by retailers in the restaurant (including fine dining, casual dining and fast food), hospitality, and specialty retail industries to print receipts for consumers, validate checks, or print on linerless labels or other inserted media. In addition, revenue includes sales of printers used by banks, credit unions and other financial institutions to print receipts and/ or validate checks at bank teller stations. A summary of sales of our worldwide food safety, banking and POS products for the years ended December 31, 2013 and 2012 is as follows:

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

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

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

Casino and gaming: Revenue from the casino and gaming market includes sales of printers used in slot machines, video lottery terminals ("VLTs"), and other gaming machines that print tickets or receipts instead of issuing coins ("ticket-in, ticket-out" or "TITO") at casinos and racetracks ("racinos") and other gaming venues worldwide. Revenue from this market also includes sales of printers used in the international off-premise gaming market in gaming machines such as Amusement with Prizes ("AWP"), Skills with Prizes ("SWP") and Fixed Odds Betting Terminals ("FOBT") at non-casino gaming establishments. Revenue from this market also includes royalties related to our patented casino and gaming technology. In addition, casino and gaming market revenue includes sales of our software solution, EPICENTRALTM, that enables casino operators to create promotional coupons and marketing messages and to print them real-time at the slot machine. A summary of sales of our worldwide casino and gaming products for the years ended December 31, 2013 and 2012 is as follows:

(In thousands)	Year ended December 31, 2013		Year ended December 31, 2012		Change $	Change %
Domestic	$ 15,367	56.3%	$ 14,283	49.0%	$ 1,084	7.6%
nternational	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 EPICENTRALTM 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 EPICENTRALTM software sales in 2013.

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

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

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

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

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

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

TSG: Revenue from TSG includes sales of consumable products (inkjet cartridges, ribbons, receipt paper, color thermal paper and other printing supplies), replacement parts, maintenance and repair services, testing services, refurbished printers, and shipping and handling charges. A summary of sales in our worldwide TSG market for the years ended December 31, 2013 and 2012 is as follows:

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

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

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

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

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

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

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

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

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

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

Selling and marketing expenses primarily include salaries and payroll related expenses for our sales and marketing staff, sales commissions, travel expenses, expenses associated with the lease of sales offices, advertising, trade show expenses, e-commerce and other promotional marketing expenses. Such expenses increased $709,000, or 11%, primarily due to the addition of new sales staff and increased marketing spend to support our newly launched products. We expect selling and marketing expenses to be higher in 2014 than in 2013 primarily due to planned expansion of our sales staff and higher trade show and promotional marketing expenses as we further focus our selling and marketing efforts on our newly launched, value-added products in 2014.

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

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

General and administrative expenses primarily include salaries and payroll related expenses for our executive, accounting, human resource, business development and information technology staff, expenses for our corporate headquarters, professional and legal expenses, telecommunication expenses, and other expenses related to being a publicly-traded company. General and administrative expenses decreased $1,245,000, or 16%, due primarily to a reduction in the accrued contingent consideration liability to be paid in connection with the acquisition of Printrex of $900,000 (as discussed in more detail in Note 3 to the Consolidated Financial Statements) in addition to lower incentive compensation-related expenses for executive and administrative employees. These decreases were partially offset by higher recruitment fees of $160,000 due to the additional sales and engineering staff as previously discussed, as compared to 2012. We expect general and administrative expenses in 2014 to be relatively consistent with 2013, after excluding the $900,000 reduction in the Printrex accrued contingent consideration liability.

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

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

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

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

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

As disclosed in Note 8 to the Consolidated Financial Statements, in January 2012, we determined that we no longer needed to maintain the existing Printrex manufacturing facility in San Jose, California, along with certain redundant headcount. During 2012, we recorded a restructuring charge of $138,000 for employee termination benefits related to these employee reductions as well as moving costs. The closing of the San Jose manufacturing operations was completed as of December 31, 2012. We did not incur any restructuring charges during 2013.

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

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

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

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

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

Income Taxes. We recorded an income tax provision for 2013 of $1,596,000 at an effective tax rate of 24.4% compared to $1,964,000 at an effective tax rate of 35.2% for 2012. Our effective tax rate for 2013 is unusually low because it includes: 1) a $224,000 reduction in tax liabilities for unrecognized tax benefits resulting from the completion of an audit of our 2010 federal income tax return and 2) the benefit from the 2012 R&D credit of approximately $220,000 as this credit was not renewed until January 2, 2013 as a component of the American Taxpayer Relief Act of 2012. We expect our annual effective tax rate for 2014 to be between 32% and 33%.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Lottery: A summary of sales of our worldwide lottery printers for the years ended