

TRANSACT TECHNOLOGIES INC

Form 10-K

March 18, 2011

---

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

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

(Address of principal executive offices)

06518

(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

Name of Exchange on which Registered

Common Stock, par value \$.01 per share

NASDAQ Global Market

---

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

Edgar Filing: TRANSACT TECHNOLOGIES INC - Form 10-K

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

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

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

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

---

Large accelerated filer

Accelerated filer

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

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the Registrant was approximately \$64,400,000 based on the last sale price on June 30, 2010.

As of February 28, 2011, the registrant had outstanding 9,442,043 shares of common stock, \$0.01 par value.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the TransAct Technologies Incorporated Proxy Statement to be filed with the Securities and Exchange Commission (SEC) within 120 days after the year covered by this Form 10-K with respect to the 2011 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

---

TRANSACT TECHNOLOGIES INCORPORATED

INDEX

	<u>PART I.</u>	
Item 1.	<u>Business</u>	1
Item 1A.	<u>Risk Factors</u>	4
Item 1B.	<u>Unresolved Staff Comments</u>	9
Item 2.	<u>Properties</u>	9
Item 3.	<u>Legal Proceedings</u>	9
Item 4.	<u>(Removed and Reserved)</u>	9
	<u>PART II.</u>	
Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	9
Item 6.	<u>Selected Financial Data</u>	11
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
Item 8.	<u>Financial Statements and Supplementary Data</u>	24
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	24
Item 9A.	<u>Controls and Procedures</u>	25
Item 9B.	<u>Other Information</u>	25
	<u>PART III.</u>	
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	25
Item 11.	<u>Executive Compensation</u>	26
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	26
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	27
Item 14.	<u>Principal Accountant Fees and Services</u>	27
	<u>PART IV.</u>	
Item 15.	<u>Exhibits</u>	27
SIGNATURES		
	<u>Signatures</u>	28
CONSOLIDATED FINANCIAL STATEMENTS		
	<u>Index to Consolidated Financial Statements</u>	F-1
EXHIBITS		
	<u>Index to Exhibits</u>	



## Table of Contents

### 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, assembles, markets and services world-class transaction-based printers under the Epic and Ithaca® brand names. Known and respected worldwide for innovative designs and real-world service reliability, our thermal, inkjet and impact printers generate top-quality transaction records such as receipts, tickets, coupons, register journals and other documents. We focus on the following core markets: banking and point-of-sale ("POS"), casino and gaming, and lottery. 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, Latin America, the Caribbean Islands and the South Pacific. Beyond printers, TransAct is a leader in providing printing supplies to the full transaction printer market. 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, gaming, and government markets. Through our webstore, [www.transactsupplies.com](http://www.transactsupplies.com), and our direct selling team, we address the on-line demand for these products. We have one primary operating facility and eastern region service center located in Ithaca, NY, our printer sales headquarters and western region service center in Las Vegas, NV, a printhead manufacturing and repair center located in New Britain, CT, a European sales and service center in the United Kingdom, a sales office located in Macau and two other sales offices located in the United States. Our executive offices are located at One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT, 06518, with a telephone number of (203) 859-6800.

##### Financial Information about Segments

We operate in one reportable segment, the design, development, assembly and marketing of transaction-based printers and printer-related service, supplies and spare parts.

##### Products, Services and Distribution Methods

###### Printers

TransAct designs, develops, assembles and markets a broad array of transaction-based printers utilizing inkjet, thermal and impact printing technology for applications requiring up to 60 character columns, primarily in the banking, POS, casino, gaming and lottery markets. Our printers 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, 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.

**Banking and POS:** 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 and/or validate receipts 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 that print tickets or receipts instead of issuing coins at casinos, racetracks and other gaming establishments 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 allows casinos to print coupons and promotions. In addition, we sell printers using thermal and impact printing technology for use in non-casino establishments, including game types such as Amusements with Prizes ("AWP"), Skills with Prizes ("SWP"), Video lottery terminals ("VLT"), 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 regional distributors (four in the United States and Asia, one in Europe and Africa, two in Latin America and one in Australia). 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.

## Table of Contents

### TSG

Through TSG, we proactively market the sale of consumable products (including inkjet cartridges, ribbons, receipt paper and other transaction supplies), replacement parts and maintenance 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](http://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. During 2009, we completed a program to transfer final assembly for approximately 70% of our total printer production to a third-party contract manufacturer in China. We continue to perform final assembly for the remaining 30% of our products 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 printheads, printing/cutting mechanisms, power supplies, motors, injection molded plastic parts, 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 manufacturer, purchases of component parts have declined while purchases of fully-assembled printers produced by our contract manufacturer 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. 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 manufacturer, 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 2011 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 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 strong 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 any less favorable 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.

#### Patents and Proprietary Information

We have significantly expanded our patent portfolio since 2002, and expect to continue to do so in the future. We also believe our patent portfolio could provide additional opportunities to license our intellectual property in the future. We hold 25 United States and 26 foreign patents and have 14 United States and 28 foreign patent applications pending pertaining to our products. The duration of these patents range from 7 to 15 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.

Table of Contents**Seasonality**

Retailers typically reduce purchases of new POS equipment in the fourth quarter due to the increased volume of consumer transactions in that holiday period, and our sales of printers in the POS market historically have increased in the third quarter and decreased in the fourth quarter. Similarly, installations of lottery terminals are typically reduced in the fourth quarter, resulting in decreased sales of lottery printers.

**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 is our most significant customer. We currently have an ongoing OEM purchase agreement, as amended in February 2006 (the "GTECH Thermal Printer Agreement") with GTECH that provides for the sale of thermal on-line lottery printers and spare parts, at fixed prices, through June 28, 2012. In December 2009, we signed a new five-year agreement effective November 20, 2009, with GTECH (the "GTECH New Thermal Printer Agreement"). Under the terms of the new agreement, we will provide GTECH with their next generation thermal lottery printers for various lottery applications. The terms of the new 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. The exclusivity period will extend for four years from the start of production of the new printer, which began in January 2011.

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

	Year ended December 31,					
	2010		2009		2008	
GTECH	12	%	19	%	28	%
Customer A	14	%	10	%	*	
Customer B	*		12	%	*	

\* Customers represented less than 10% of total net sales

**Backlog**

Our backlog of firm orders was approximately \$12,764,000 as of February 28, 2011, compared to \$6,976,000 as of February 26, 2010. Based on customers' current delivery requirements, we expect to ship our entire current backlog during 2011.

**Competition**

The market for transaction-based printers 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 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, Star Micronics America, Inc., Citizen -- CBM America Corporation, Pertech Resources, Inc., Addmaster, and

Samsung/Bixelon. Certain competitors of ours have greater financial resources, lower costs attributable to higher volume production and sometimes offer lower prices than us.

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

In the casino and gaming market (consisting principally of slot machine and video lottery terminal transaction 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.

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

## Table of Contents

Our strategy for competing in our markets is to continue to develop new products 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 \$3,000,000, \$2,788,000 and \$2,942,000 in 2010, 2009 and 2008, respectively, on engineering, design and product development efforts in connection with specialized engineering and design to introduce new 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 for the product. Once technological feasibility is established, all material software costs are capitalized within Intangible and other assets in our consolidated balance sheet until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products 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 revenue over the estimated life of the product. During 2010 we began the development of a new software product that enables casino customers to print coupons and promotions at the slot machine. As of December 31, 2010, we have capitalized \$130,000 of developments costs for such software; there has been no amortization of capitalized software development costs.

### 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 February 28, 2011, TransAct and our subsidiaries employed 124 persons, of whom 123 were full-time and one 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 attendant to our foreign operations are described in Item 1A below.

### Available Information

We make available free of charge through our internet website, [www.transact-tech.com](http://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 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](http://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.

## Table of Contents

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 printers 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 printers 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.

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 and the related deterioration in the global business environment could have a material adverse effect on our business, operating results and financial condition.

Global consumer confidence has eroded amidst concerns over, among other things, declining asset values, inflation, volatility in energy costs, geopolitical issues, the availability and cost of credit, rising unemployment, and the stability and solvency of financial institutions, financial markets, businesses and sovereign nations. These concerns have

slowed global economic growth and have 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. As 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.

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 significant 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.

## Table of Contents

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 the Company expands, 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, 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 printers 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 in printers or supplies 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 have outsourced a large portion of the assembly of our printers to a contract manufacturer and will be dependent on them for the manufacturing of such printers. A failure by this contract manufacturer, 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 a contract manufacturer in China.

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 printers or any related operations or processes, including the internal controls associated with operations and processes conducted and the quality of our products assembled by the contract manufacturer. 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 the contract manufacturer experiences business difficulties or fails to meet our manufacturing needs, then we may be unable to meet production requirements, may lose revenue and may not be able to maintain relationships with our customers. Without the contract manufacturer continuing to manufacture our products and the continuing operation of the contract manufacturer's facility, we will have limited means for the final assembly of a majority of our printers 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.

## Table of Contents

The contract manufacturer has 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.
- 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.

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

The success of a newly introduced technology, such as printing coupons and promotions at the slot machine using our EPICENTRAL™ Print System, is dependent on our casino customers' acceptance of such technology. While we have designed our EPICENTRAL™ Print System 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 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

## Table of Contents

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.

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 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, 2010, the average daily trading volume for our common stock as reported by the NASDAQ Global Market was approximately 19,000 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. If any analyst were to discontinue coverage of our common stock, our trading volume may be further reduced. 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 significant 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,

Table of Contents

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.

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 corporate headquarters is currently located in Hamden, CT. Our global engineering, assembly and eastern region service facility is located in Ithaca, NY. We also maintain a facility in Las Vegas, NV that serves as our global printer sales headquarters and western region service center. In addition, we maintain an impact printhead manufacturing and repair facility in New Britain, CT. We believe that our facilities generally are in good condition, adequately maintained and suitable for their present and currently contemplated uses.

Our principal facilities as of December 31, 2010 are listed below:

Location	Operations Conducted	Size (Approx. Sq. Ft.)	Owned or Leased	Lease Expiration Date
Hamden, Connecticut	Executive offices and TSG sales office	11,100	Leased	April 23, 2017
Ithaca, New York	Research, design, assembly and service facility	73,900	Leased	June 30, 2012

Edgar Filing: TRANSACT TECHNOLOGIES INC - Form 10-K

Las Vegas, Nevada	Service center and printer sales headquarters	13,700	Leased	December 31, 2016
New Britain, Connecticut	Printhead manufacturing and repair facility	11,500	Leased	April 1, 2012
Doncaster, United Kingdom	Sales office and service center	2,800	Leased	August 1, 2016
Georgia and New York	Two regional sales offices	300	Leased	Various
Macau, China	Sales office	180	Leased	June 30, 2011
		113,480		

Item 3. Legal Proceedings.  
None.

Item 4. (Removed and Reserved).

## PART II

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

Table of Contents

Our common stock is traded on the NASDAQ Global Market under the symbol TACT. As of February 28, 2011, there were 481 holders of record of the common stock. The high and low sales prices of the common stock reported during each quarter of the years ended December 31, 2010 and 2009 were as follows:

	Year Ended December 31, 2010		Year Ended December 31, 2009	
	High	Low	High	Low
First Quarter	\$7.83	\$6.25	\$4.74	\$1.60
Second Quarter	7.90	6.88	5.96	2.35
Third Quarter	8.16	6.83	5.96	3.80
Fourth Quarter	9.75	7.50	6.94	4.75

No dividends on common stock have been declared and we do not anticipate declaring dividends in the foreseeable future. Our credit agreement with TD Bank prohibits the payment of cash dividends on our common stock for the term of the agreement.

**Issuer Purchases of Equity Securities**

On May 27, 2010, our Board of Directors approved a new stock repurchase program (the “Stock Repurchase Program”). Under the Stock Repurchase Program, we are authorized to repurchase up to \$10,000,000 of our outstanding shares of common stock from time to time in the open market over a three-year period ending May 27, 2013, depending on market conditions, share price and other factors.

During the fourth quarter of 2010, we made no repurchases of common stock. As of December 31, 2010, we have repurchased a total of 22,338 shares of common stock for approximately \$177,000, at an average price of \$7.95 per share, under the Stock Repurchase Program.

**CORPORATE PERFORMANCE GRAPH**

The following graph compares the cumulative total return on the Company’s Common Stock from December 31, 2005 through December 31, 2010, 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, 2005 in each of the Company’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.



Table of Contents

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

	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
TransAct Technologies Incorporated Common Stock	\$ 100.00	\$ 105.06	\$ 60.63	\$ 58.10	\$ 87.85	\$ 119.24
CRSP Total Return Index for the Nasdaq Stock Market (U.S.)	\$ 100.00	\$ 109.84	\$ 119.14	\$ 57.41	\$ 82.53	\$ 97.95
Nasdaq Computer Manufacturer Stocks Index	\$ 100.00	\$ 102.13	\$ 149.41	\$ 62.76	\$ 137.84	\$ 196.73

## 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,				
	2010	2009	2008	2007	2006
Consolidated Statement of Operations Data:					
Net sales	\$63,194	\$58,346	\$62,207	\$48,766	\$64,328
Gross profit	22,548	18,829	20,950	15,996	22,365
Operating expenses	16,687	15,533	19,089	19,751	16,277
Operating income (loss)	5,861	3,296	1,861	(3,755 )	6,088
Net income (loss)	3,904	2,140	1,444	(2,274 )	3,916
Net income (loss) per share:					
Basic	0.42	0.23	0.16	(0.24 )	0.41
Diluted	0.41	0.23	0.15	(0.24 )	0.40

Table of Contents

	2010	2009	December 31, 2008	2007	2006
Consolidated Balance Sheet Data:					
Total assets	\$43,621	\$34,899	\$32,234	\$30,414	\$33,706
Working capital	25,525	20,474	15,051	11,338	16,643
Shareholders' equity	31,134	26,354	23,282	21,608	24,290

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

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

## Forward Looking Statements

Certain statements included in this report, including without limitation statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "project" or "contingent" 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 2010, we again concentrated our efforts on growing overall revenue in our existing markets, with particular emphasis on gaining market share in the U.S. casino market. In addition, we also focused on increasing our gross margin and leveraging such increase to our operating income. We believe we successfully achieved these objectives in 2010. We increased our overall sales 8% and our U.S. casino and gaming printer sales 24%, despite a decline in the replacement cycle of casino printers and a difficult U.S. economy. Our printer shipments also increased 17% to almost 190,000 in 2010. In addition, our gross margin, operating margin and earnings per share for 2010 each increased substantially from 2009. We continued to generate positive cash flow during 2010, as we increased our cash balance to almost \$11,300,000 – a record high.

We continue to focus on sales growth in our core markets (banking and POS, casino and gaming, lottery, and TSG) to drive increased profitability. During 2010, our total net sales increased 8% to approximately \$63,194,000. See the table below for a breakdown of our sales by market.

(In thousands)	Year ended			Year ended			Change		
	December 31, 2010			December 31, 2009			\$	%	
Banking and POS	\$ 14,528	23.0	%	\$ 16,695	28.6	%	\$ (2,167 )	(13.0	%)
Casino and gaming	25,678	40.6	%	17,526	30.0	%	8,152	46.5	%
Lottery	8,142	12.9	%	9,551	16.4	%	(1,409 )	(14.8	%)
TSG	14,846	23.5	%	14,574	25.0	%	272	1.9	%
Total net sales	\$ 63,194	100.0	%	\$ 58,346	100.0	%	\$ 4,848	8.3	%

Sales of our banking and POS printers decreased 13% in 2010 compared to 2009. 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 2010, our banking printer sales decreased 79% primarily due to an order not

recurring in 2010 for a large banking customer who completed a project in 2009. This decrease was somewhat offset by the first year of volume sales of our Bankjet® 2500 printer. In the POS market, we focus primarily on supplying printers that print receipts or linerless labels for customers in the restaurant, hospitality and specialty retail markets. Sales of our POS printers increased 43% in 2010 largely due to a 121% increase in sales of our two printer products for McDonalds – (1) the Ithaca® 8000 thermal receipt/label printer, which is used at the POS terminal to print either a receipt at the front counter or a label at the grill station and (2) the Ithaca® 8040 label printer, which is used to print labels for McDonalds combined beverage initiative. During 2010, we benefited from increasing sales of printers for both of these McDonald's initiatives, with the majority of the increase related to the rollout of printers for the new POS system in more than 14,000 of its U.S. stores. We expect the rollout to the U.S. stores to continue into 2011, and as it nears completion in 2011, we expect McDonalds to begin the rollout in its international stores (totaling more than 18,000 stores).

Sales of our casino and gaming printers increased 47% in 2010 compared to 2009. 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 gaming devices that print tickets or receipts, worldwide. Sales in the international casino and gaming market grew for the third consecutive year in 2010. In fact, our international sales increased 63% from 2009, representing more than half – or 64% - of our total worldwide casino and gaming sales. This increase was led by an 84% increase in

## Table of Contents

our thermal casino printer sales. The increase in sales to our international customers was primarily due to the sales of gaming machines into Italy, where the Italian government has approved gambling operators to install approximately 50,000 VLT games. Since a substantial portion of these games were installed during 2010, we expect installations for 2011 to be significantly lower than in 2010. Domestic sales of our casino and gaming printers increased 24%, due largely to market share gains in the casino market, as we believe the overall replacement cycle of slot machines was lower in 2010 as compared to 2009.

In the lottery market, we continue to hold a leading position based on our long-term 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 for four years from the start of production of the new printer, which occurred in January 2011. This new agreement extends our relationship with GTECH through at least 2014. Currently, we fulfill substantially all of GTECH's printer requirements for lottery terminal installations and upgrades worldwide. During 2010, total printer sales to GTECH decreased approximately 15%, compared to 2009. Our sales to GTECH each year are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs. Our sales to GTECH are not indicative of GTECH's overall business or revenue.

Our TransAct Services Group, which sells service, replacement parts and consumable products, including receipt paper, ribbons and inkjet cartridges, continues to offer a growth opportunity and recurring revenue stream for TransAct. TSG revenue continued to increase in 2010, rising 2% from 2009 primarily due to higher sales of inkjet cartridges to new and existing customers, as well as an increase in service revenue from our new paper testing services program. Companies who produce and sell consumable items that are used in our printers, such as paper, utilize this new service for a fee to have their product qualified for use in our printers.

Operationally, both our gross margin and operating margin showed marked improvement from 2009. During 2010, our gross margin increased to 35.7% compared to 32.3% in 2009 and our operating margin increased to 9.3% in 2010 compared to 5.6% in 2009. Both our gross margin and operating margin increased due primarily to higher sales volume combined with an increase in sales of contract manufactured products with lower overall product costs, including lower labor costs, resulting from the move of production for the majority of our products to a low cost contract manufacturer in China. In addition, we also experienced a more favorable sales mix as we sold more higher margin casino printer products and fewer lower margin banking printers in 2010 compared to 2009.

We reported net income of \$3,904,000 and net income per diluted share of \$0.41 for 2010, compared to net income of \$2,140,000 and net income per diluted share of \$0.23 in 2009. In terms of cash flow for 2010, we generated \$2,132,000 of cash from operations, utilized \$1,107,000 of cash for capital expenditures and we finished the year with a record high \$11,285,000 of cash and no debt on our balance sheet as of December 31, 2010. Overall, we exited 2010 financially stronger than we entered it, with over \$11,000,000 of cash, no debt outstanding and over \$25,000,000 of working capital.

## 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 income statement 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, 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 to our distributors and resellers on a sell-in basis and on substantially the same terms as we recognize revenue from all our other customers. We provide for an estimate of product returns and price protection based on historical experience at the time of revenue recognition.

We account for all revenue arrangements involving multiple deliverables in accordance with ASC 605-25, “Multiple-Element Arrangements.” For these 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

## Table of Contents

among those separate units of accounting. We also determine whether revenue arrangements consist of more than one unit of accounting at inception of the arrangement and recognize revenue as each item in the arrangement is delivered. We allocate arrangement consideration to the separate units of accounting based on the relative fair value for all units of accounting in the arrangement, except where amounts allocable to the delivered units is limited to that which is contingent upon the delivery of additional deliverables or meeting other specified performance conditions.

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

Our customers have the right to return products that do not function properly within a limited time after delivery. We monitor and track product returns and record a provision for the estimated future returns based on historical experience. Returns have historically been within expectations and the provisions established, 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, 2010 was \$57,000, 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.

**Inventory** – 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** – We test the impairment of goodwill each year or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment as of December 31, 2010. 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. Goodwill amounted to \$1,469,000 at December 31, 2010 and we

have determined that no goodwill impairment has occurred.

**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

Table of Contents

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 24 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.

**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, 2010 compared to year ended December 31, 2009

**Net Sales.** Net sales, which include printer sales and sales of replacement parts, consumables and maintenance and repair services, by market for the years ended December 31, 2010 and 2009 were as follows:

(In thousands)	Year ended December 31, 2010			Year ended December 31, 2009			Change		
						\$		%	
Banking and POS	\$14,528	23.0	%	\$16,695	28.6	%	\$(2,167)	)	(13.0) %
Casino and gaming	25,678	40.6	%	17,526	30.0	%	8,152		46.5 %
Lottery	8,142	12.9	%	9,551	16.4	%	(1,409)	)	(14.8) %
TSG	14,846	23.5	%	14,574	25.0	%	272		1.9 %
	\$63,194	100.0	%	\$58,346	100.0	%	\$4,848		8.3 %
International*	\$19,093	30.2	%	\$12,456	21.3	%	\$6,637		53.3 %



\* 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 2010 increased \$4,848,000, or 8%, from 2009 due to sales increases in two out of four of our markets: casino and gaming (an increase of approximately \$8,152,000, or 47%) and TSG (an increase of approximately \$272,000, or 2%). Sales from banking and POS decreased approximately \$2,167,000, or 13%, and sales from our lottery market decreased approximately \$1,409,000, or 15%. Printer sales volume increased 17% while the average selling price of our printers decreased approximately 5% (due primarily to a decrease in sales of banking printers with higher average selling prices) from 2009 to 2010. Overall, international sales increased \$6,637,000, or 53%, driven by higher sales to the gaming portion of the casino and gaming market.

Banking and POS: Revenue from the banking and POS market includes sales of printers used by banks, credit unions and other financial institutions to print and/or validate receipts at bank teller stations. Revenue from this market also includes sales of inkjet, thermal and impact printers used primarily by retailers in restaurant (including fine dining, casual dining and fast food), hospitality, and specialty retail industries to

Table of Contents

print receipts for consumers, validate checks, or print on linerless labels or other inserted media. Sales of our banking and POS printers worldwide decreased approximately \$2,167,000, or 13%, from 2009.

(In thousands)	Year ended December 31, 2010			Year ended December 31, 2009			Change		
						\$		%	
Domestic	\$13,447	92.6	%	\$15,480	92.7	%	\$(2,033)	(13.1)	%
International	1,081	7.4	%	1,215	7.3	%	(134)	(11.0)	%
	\$14,528	100.0	%	\$16,695	100.0	%	\$(2,167)	(13.0)	%

Domestic banking and POS printer revenue was \$13,447,000, a 13% decrease from 2009, primarily driven by lower sales of our banking printers. Sales of our banking printers decreased 79% in 2010 compared to 2009 due to the completion of a project by one of our large banking customers utilizing our BANKjet® 1500 bank teller printers in 2009 that did not recur in 2010. This decrease was somewhat offset by the first year of volume sales of our BANKjet® 2500 printer. 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. Domestic sales of our POS printers increased approximately 52% largely due to sales of our two printer products for McDonalds for its combined beverage initiative and its POS system upgrade and grill initiatives. Sales of these printers increased approximately 121% during 2010 compared to 2009. We expect to continue to benefit from our relationship with McDonalds during 2011 as McDonalds continues and completes the rollout of its new POS system, which includes the grill initiative printer upgrades, to more than 14,000 U.S. stores and begins to expand the rollout to more than 18,000 international stores.

International banking and POS printer sales for 2010 decreased from 2009 by \$134,000, or 11%, to \$1,081,000 due primarily to lower legacy impact printer sales to our international distributor in Latin America.

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”), Fixed Odds Betting Terminals (“FOBT”) at non-casino gaming establishments and royalties related to our patented casino and gaming technology. Sales of our casino and gaming printers increased \$8,152,000, or 47%, from 2009.

(In thousands)	Year ended December 31, 2010			Year ended December 31, 2009			Change		
						\$		%	
Domestic	\$9,287	36.2	%	\$7,497	42.8	%	\$1,790	23.9	%
International	16,391	63.8	%	10,029	57.2	%	6,362	63.4	%
	\$25,678	100.0	%	\$17,526	100.0	%	\$8,152	46.5	%

Domestic sales of our casino and gaming printers increased \$1,790,000, or 24%, due largely to an increase of 53% in the volume of sales of our thermal casino printers. We believe that our increased casino printer sales during 2010 resulted from market share gains, as we believe the overall replacement cycle of slot machines was lower in 2010 as compared to 2009. Even though we anticipate little improvement in the domestic slot machine replacement cycle in 2011, we expect our domestic casino sales to be higher in 2011 than in 2010 as we expect to continue to gain market share. However, we believe the current uncertain economic environment could continue to negatively impact the casino industry’s level of capital expenditures in 2011, and as a result, our future sales to the domestic casino and gaming market could be unpredictable and adversely affected.

International casino and gaming printer sales increased \$6,362,000, or 63%, to \$16,391,000 in 2010. This increase was due primarily to a 161% increase in our thermal casino printer sales to our OEM and distributor customers in Canada and Europe, partially offset by a 23% decrease in casino printer sales to our distributor in Australia. The increase in sales to our customers in Canada and Europe was primarily due to the sales of gaming machines into Italy, where in 2010 the Italian government approved gambling operators to install approximately 50,000 VLT games over the course of several years. Since a substantial portion of these games were installed during 2010, we expect installations for 2011 to be significantly lower than in 2010. In addition, sales for 2010 included \$1,600,000 in sales of our off-premise gaming printers to a new customer for use in gaming machines in the U.K.

Lottery: Revenue from the lottery market includes sales of lottery printers to GTECH for various lottery applications.

(In thousands)	Year ended			Year ended			Change		
	December 31, 2010			December 31, 2009			\$	%	
Domestic	\$7,813	96.0	%	\$9,117	95.5	%	\$(1,304)	)	(14.3)%
International	329	4.0	%	434	4.5	%	(105)	)	(24.2)%
	\$8,142	100.0	%	\$9,551	100.0	%	\$(1,409)	)	(14.8)%

Table of Contents

Domestic and international lottery printer sales to GTECH, which include thermal on-line and other lottery printers, decreased approximately \$1,409,000, or 15%, in 2010 compared to 2009, with domestic sales decreasing approximately \$1,304,000 and international sales decreasing approximately \$105,000. 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. Our sales to GTECH are not indicative of GTECH's overall business or revenue. Based on our backlog of orders, we expect total sales to GTECH for 2011 to be significantly higher than those reported during 2010, particularly during the first half of 2011.

TSG: Revenue from TSG includes sales of consumable products (inkjet cartridges, ribbons, receipt paper and other printing supplies), replacement parts, maintenance and repair services, testing services, refurbished printers, and shipping and handling charges. Sales from TSG increased approximately \$272,000, or 2%, from 2009.

(In thousands)	Year ended December 31, 2010			Year ended December 31, 2009			Change		
	\$	%		\$	%		\$	%	
Domestic	\$13,554	91.3	%	\$13,796	94.7	%	\$(242)	(1.8)	%
International	1,292	8.7	%	778	5.3	%	514	66.1	%
	\$14,846	100.0	%	\$14,574	100.0	%	\$272	1.9	%

Domestic revenue from TSG decreased approximately \$242,000, or 2%, largely due to a decrease of 23% in sales of replacement parts compared to the same period in 2009. The decrease in replacement part sales was primarily due to lower demand for certain legacy printers, as the installed base of these legacy printers in the market continues to decline. In addition, maintenance and repair service revenue declined 18% due primarily to lower service contract revenue. These decreases were somewhat offset by an increase in revenue from our new paper testing services and a 2% increase in sales of inkjet cartridges largely due to newly acquired customers. We expect TSG sales in 2011 to be consistent with 2010.

Internationally, TSG revenue increased \$514,000, or 66%, to \$1,292,000, due primarily to higher sales of replacement parts and printer accessories, largely for our casino, gaming and lottery printers installed in Europe.

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

Year ended	December 31,		Percent Change		Percent of Total Sales – 2010		Percent of Total Sales – 2009	
	2010	2009						
	\$22,548	\$18,829	19.8	%	35.7	%	32.3	%

Gross profit is measured as revenue less cost of goods sold. Cost of goods sold includes primarily the cost of all raw materials and component parts, direct labor and the associated manufacturing overhead expenses, and the cost of finished products purchased directly from our contract manufacturer. Gross profit increased \$3,719,000, or 20%, to \$22,548,000 from \$18,829,000 and gross margin improved from 32.3% to 35.7% due primarily to (1) an increase in sales of contract manufactured products with lower overall product costs, including lower labor costs, resulting from the move of production for the majority of our products to a low cost contract manufacturer in China, (2) a more favorable sales mix as we sold more higher margin casino printers and fewer lower margin banking printers in 2010 compared to 2009 and (3) increased volume of 17% offset by a decrease of 5% in average selling prices of our printers in 2010 compared to 2009. Additionally, our gross margin for 2009 was adversely impacted by higher material and labor costs as we depleted a substantial portion of our higher cost domestic inventory in preparation for the completion of our production transfer to China. We expect our gross margin for 2011 to be approximately the same as in 2010.

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

	December 31,		Percent		Percent of		Percent of	
	2010	2009	Change		Total Sales		Total Sales	
Year ended	\$3,000	\$2,788	7.6	%	– 2010	%	– 2009	%

Engineering, design and product development expenses primarily include salary and payroll related expenses for our engineering staff, depreciation and design expenses (including prototype printer expenses, outside design and testing services, and supplies). Such expenses increased \$212,000, or 8%, to \$3,000,000. The increase was due primarily to higher employee compensation related expenses resulting largely from annual salary increases and higher incentive compensation of \$165,000, higher outside testing and pre-production expenses related to new product development of \$20,000, and higher consulting expenses of \$21,000 compared to 2009.

Table of Contents

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

	December 31,		Percent		Percent of		Percent of	
	2010	2009	Change		Total Sales		Total Sales	
Year ended					– 2010		– 2009	
	\$6,407	\$5,821	10.1	%	10.1	%	10.0	%

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. Selling and marketing expenses for 2010 increased \$586,000, or 10%, to \$6,407,000. The increase was due primarily to approximately \$182,000 of higher employee compensation related expenses associated with increased headcount within the sales departments and higher sales commissions resulting from higher sales volume, \$275,000 of increased travel related expenses, \$99,000 of increased tradeshow expenses, and \$46,000 of higher demonstration printer expenses. These increases were somewhat offset by \$13,000 decrease in other promotional marketing expenses compared to the prior year period.

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

	December 31,		Percent		Percent of		Percent of	
	2010	2009	Change		Total Sales		Total Sales	
Year ended					– 2010		– 2009	
	\$7,280	\$6,924	5.1	%	11.5	%	11.9	%

General and administrative expenses primarily include salaries and payroll related expenses for our executive, accounting, human resource, business development and information technology staff, expenses for our corporate headquarters, professional and legal expenses, telecommunication expenses, and other expenses related to being a publicly-traded company. General and administrative expenses increased \$356,000, or 5%, to \$7,280,000. The increase was due primarily to \$430,000 in increased employee compensation related expenses from annual salary increases and higher incentive compensation, as well as an increase of \$115,000 in certain state and local taxes. These increases were largely offset by a reduction in legal and professional fee expenses of \$150,000 and a reduction of depreciation expense of \$55,000.

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

	December 31,		Percent		Percent of		Percent of	
	2010	2009	Change		Total Sales		Total Sales	
Year ended					- 2010		– 2009	
	\$5,861	\$3,296	77.8	%	9.3	%	5.6	%

During 2010, we reported operating income of \$5,861,000, or 9.3%, of net sales, compared to operating income of \$3,296,000, or 5.6% of net sales in 2009. The increase in our operating income and operating margin was primarily due to higher gross profit resulting from the 8% increase in net sales and a 340 basis point improvement in gross margin in 2010 compared to 2009.

Interest. We recorded net interest expense of \$9,000 in 2010 compared to \$50,000 in 2009. The decrease in net interest expense is due to increased interest income earned on a higher average cash balance in 2010 compared to 2009, partially offset by \$26,000 of interest expense incurred in 2010 related to certain prior years' state and local tax

liabilities. 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 2010 and 2009. See “Liquidity and Capital Resources” below for more information.

Other Income. We recorded other expense of \$25,000 in 2010 compared to other expense of \$33,000 in 2009. Other expense for 2010 and 2009 primarily included foreign currency transaction exchange losses recorded by our U.K. subsidiary. These losses were relatively consistent in 2010 compared to 2009.

Income Taxes. We recorded an income tax provision for 2010 of \$1,923,000 at an effective tax rate of 33.0% compared to \$1,073,000 at an effective tax rate of 33.5%. The effective tax rate for 2010 decreased slightly as compared to 2009 primarily due to increased utilization of state net operating losses and certain credits. We expect our annual effective tax rate for 2011 to be approximately 34-35%.

Net Income. We reported net income during 2010 of \$3,904,000, or \$0.41, per diluted share, compared to \$2,140,000, or \$0.23, per diluted share, for 2009.

Table of Contents

## Results of Operations: Year ended December 31, 2009 compared to year ended December 31, 2008

Net Sales. Net sales, which include printer sales and sales of replacement parts, consumables and maintenance and repair services, by market for the years ended December 31, 2009 and 2008 were as follows:

(In thousands)	Year ended December 31, 2009			Year ended December 31, 2008			Change \$ %		
Banking and POS	\$16,695	28.6	%	\$11,866	19.1	%	\$4,829	40.7	%
Casino and gaming	17,526	30.0	%	22,299	35.8	%	(4,773)	(21.4)	%
Lottery	9,551	16.4	%	15,731	25.3	%	(6,180)	(39.3)	%
TSG	14,574	25.0	%	12,311	19.8	%	2,263	18.4	%
	\$58,346	100.0	%	\$62,207	100.0	%	\$(3,861)	(6.2)	%
International*	\$12,456	21.3	%	\$10,126	16.3	%	\$2,330	23.0	%

\* 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 2009 decreased \$3,861,000, or 6%, from 2008 due to sales decreases in two out of four of our markets: casino and gaming (a decrease of approximately \$4,773,000, or 21%) and lottery (a decrease of approximately \$6,180,000 or 39%). Sales from banking and POS increased approximately \$4,829,000 or 41% and sales from our TSG increased approximately \$2,263,000, or 18%. Printer sales volume decreased 17% while the average selling price of our printers increased by approximately 6% (due primarily to an increase in sales of banking printers with higher average selling prices) from 2008 to 2009. Overall, international sales increased \$2,330,000, or 23%, driven by higher sales to the gaming portion of the casino and gaming market.

Banking and POS: Sales of our banking and POS printers worldwide increased approximately \$4,829,000, or 41%, from 2008.

(In thousands)	Year ended December 31, 2009			Year ended December 31, 2008			Change \$ %		
Domestic	\$15,480	92.7	%	\$10,664	89.9	%	\$4,816	45.2	%
International	1,215	7.3	%	1,202	10.1	%	13	1.1	%
	\$16,695	100.0	%	\$11,866	100.0	%	\$4,829	40.7	%

Domestic banking and POS printer revenue increased to \$15,480,000, representing a \$4,816,000, or 45%, increase from 2008 primarily driven by higher sales of our banking printers. Sales of our banking printers increased 443% in 2009 compared to 2008 as we finished shipping against the \$4,900,000 order we received from a large banking customer in February 2009 as well as additional orders from this same customer. Sales of our POS printers declined approximately 15% largely due to the general economic slowdown that we believe adversely impacted the capital spending of a number of our retail and hospitality customers during 2009. Contributing to the decline in sales of our POS printers, sales of our legacy line of POS impact printers decreased approximately 39%. Despite these declines, sales of our two new printer products for McDonalds, the Ithaca 8000® (for McDonald's new POS system upgrade including the grill initiative) and Ithaca® 8040 (for McDonald's combined beverage initiative), increased approximately 48% during 2009 compared to 2008. During 2009, we benefited from increasing sales of printers for both of these McDonald's initiatives, but most especially from the rollout of printers for the combined beverage initiative that was nearing completion.



International banking and POS printer shipments for 2009 were consistent with 2008, increasing \$13,000, or 1%, to \$1,215,000.

Casino and gaming: Sales of our casino and gaming printers decreased \$4,773,000, or 21%, from 2008, due primarily to decreased sales of our thermal casino and gaming printers domestically offset by increased sales of our thermal gaming printers internationally.

(In thousands)	Year ended December 31, 2009			Year ended December 31, 2008			Change		
							\$	%	
Domestic	\$7,497	42.8	%	\$14,355	64.4	%	\$(6,858)	)	(47.8)%
International	10,029	57.2	%	7,944	35.6	%	2,085		26.2%
	\$17,526	100.0	%	\$22,299	100.0	%	\$(4,773)	)	(21.4)%

Domestic sales of our casino and gaming printers decreased \$6,858,000, or 48%, due largely to a decrease in sales of our thermal casino printers, and to a lesser extent sales of our gaming printers, both of which were impacted by the downturn in the domestic casino and gaming market.

Table of Contents

International casino and gaming printer sales increased \$2,085,000, or 26%, to \$10,029,000 in 2009. International gaming printer sales increased 89%, led largely by continued growing sales of our line of off-premise gaming printers in both Europe and Australia. International casino printer sales for 2009 increased 3% due primarily to an 83% increase in sales to our Australian distributor that was largely offset by a 39% decline in sales to our European distributor.

Lottery: Revenue from the lottery market includes sales of lottery printers to GTECH for various lottery applications.

(In thousands)	Year ended December 31, 2009			Year ended December 31, 2008			Change		
							\$	%	
Domestic	\$9,117	95.5	%	\$15,283	97.2	%	\$(6,166)	)	(40.3)%
International	434	4.5	%	448	2.8	%	(14)	)	(3.1)%
	\$9,551	100.0	%	\$15,731	100.0	%	\$(6,180)	)	(39.3)%

Domestic and international lottery printer sales to GTECH, which include thermal on-line and other lottery printers, decreased approximately \$6,180,000, or 39%, in 2009 compared to 2008, with domestic sales decreasing approximately \$6,166,000 and international sales decreasing approximately \$14,000. 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. Our sales to GTECH are not indicative of GTECH's overall business or revenue.

TSG: Sales from TSG increased approximately \$2,263,000, or 18% from 2008.

(In thousands)	Year ended December 31, 2009			Year ended December 31, 2008			Change		
							\$	%	
Domestic	\$13,796	94.7	%	\$11,779	95.7	%	\$2,017		17.1%
International	778	5.3	%	532	4.3	%	246		46.2%
	\$14,574	100.0	%	\$12,311	100.0	%	\$2,263		18.4%

Domestic revenue from TSG increased approximately \$2,017,000, or 17%, largely due to an increase of approximately 33% in sales of consumable products from 2008, mostly due to significantly higher inkjet cartridge sales to a large banking customer. During 2009, this large customer purchased approximately two years worth of inkjet cartridges based on their annual average consumption rate.

Internationally, TSG revenue increased \$246,000, or 46%, to \$778,000, due primarily to a 51% increase in sales of replacement parts and accessories and a 47% increase in maintenance and repair services revenue largely due to new service contracts won during 2009.

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

Year ended	December 31,		Percent Change		Percent of Total Sales – 2009		Percent of Total Sales – 2008	
	2009	2008						
	\$18,829	\$20,950	(10.1)	)%	32.3	%	33.7	%

Gross profit decreased \$2,121,000, or 10%, to \$18,829,000 from \$20,950,000, and gross margin declined from 33.7% to 32.3% due primarily to (1) a 6% decrease in sales in 2009 compared to 2008, (2) a less favorable sales mix resulting from higher sales of banking printers and certain consumable products at lower gross margins than our

overall gross margin and (3) higher material and labor cost as we depleted a substantial portion of our higher cost domestic inventory in the second half of 2009 as we completed the transition of full production of 70% of our printers to a contract manufacturer in China. These decreases were partially offset by (1) approximately \$247,000 of lower product warranty expense from improved repair history and a 17% decline in printer shipments in 2009 compared to 2008 and (2) approximately \$387,000 of lower manufacturing expenses due to the transition of more of our production to China.

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

	December 31,		Percent		Percent of		Percent of	
	2009	2008	Change		Total Sales – 2009		Total Sales – 2008	
Year ended	\$2,788	\$2,942	(5.2	)%	4.8	%	4.7	%

Table of Contents

Engineering, design and product development expenses decreased \$154,000, or 5%, to \$2,788,000. Approximately \$60,000 of the decrease was due to lower outside testing and pre-production prototype expenses related to new product development and approximately \$97,000 of the decrease was due to lower employee compensation related expenses, including lower incentive compensation.

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

	December 31,		Percent		Percent of		Percent of	
	2009	2008	Change		Total Sales		Total Sales	
Year ended					– 2009		– 2008	
	\$5,821	\$6,078	(4.2)	)%	10.0	%	9.8	%

Selling and marketing expenses for 2009 decreased \$257,000, or 4%, due primarily to approximately \$104,000 of lower sales commissions resulting from a 6% decrease in sales, approximately \$33,000 of lower travel related expenses, approximately \$151,000 in reduced promotional marketing expenses, and a reduction of approximately \$54,000 in consulting and professional fees due to the cost control initiatives that were put in place for 2009. These decreases were partially offset by an increase of approximately \$67,000 in employee compensation related expenses as we replaced several existing sales employees with higher level sales employees at higher compensation levels during 2009 to upgrade certain key sales positions.

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

	December 31,		Percent		Percent of		Percent of	
	2009	2008	Change		Total Sales		Total Sales	
Year ended					– 2009		– 2008	
	\$6,924	\$7,040	(1.6)	)%	11.9	%	11.3	%

General and administrative expenses decreased \$116,000, or 2%, due primarily to a reduction of approximately \$515,000 in employee compensation related expenses largely due to lower incentive compensation in 2009 compared to 2008. These decreases were largely offset by approximately \$68,000 in increased legal expenses, increased employee compensation related expenses associated with the full year effect of the hiring of our new Vice President of Business Development in May 2008, and \$67,000 in increased depreciation. In addition, general and administrative expenses for 2009 included severance charges of approximately \$211,000 related to the termination of approximately 17 employees.

**Legal fees associated with lawsuit.** During 2009, we did not incur any legal fees related to the settled lawsuit with FutureLogic compared to \$3,029,000 in 2008. We settled our litigation with FutureLogic in May 2008 and as a result of the settlement, we do not expect to incur any additional legal fees related to the lawsuit.

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

	December 31,		Percent		Percent of		Percent of	
	2009	2008	Change		Total Sales		Total Sales	
Year ended					– 2009		– 2008	
	\$3,296	\$1,861	77.1	%	5.6	%	3.0	%

During 2009, we reported operating income of \$3,296,000, or 5.6% of net sales, compared to operating income of \$1,861,000, or 3.0% of net sales in 2008. The increase in our operating income and operating margin was due to lower operating expenses (including the absence of legal expense related to the FutureLogic lawsuit), partially offset by lower gross profit on a 6% decline in sales in 2009 compared to 2008.

**Interest.** We recorded net interest expense of \$50,000 in 2009 compared to \$11,000 in 2008. Although our cash balance increased from \$2,000,000 at December 31, 2008 to \$10,017,000 at December 31, 2009, and we maintained a higher average cash balance in 2009 than in 2008, we earned lower interest income in 2009 due to a lower overall rate of return on our invested cash balance due to the decreasing interest rate environment. 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 2009 and 2008. See “Liquidity and Capital Resources” below for more information.

**Other Income.** We recorded other expense of \$33,000 in 2009 compared to other income of \$368,000 in 2008. The decrease was primarily due to foreign currency transaction exchange losses recorded by our U.K. subsidiary resulting from a 10% weakening of the U.S. dollar against the British pound during 2009, as compared to a foreign currency transaction exchange gain resulting from a 28% strengthening of the U.S. dollar against the British pound in 2008.

## Table of Contents

**Income Taxes.** We recorded an income tax provision for 2009 of \$1,073,000 at an effective tax rate of 33.5% compared to \$774,000 at an effective tax rate of 34.9%. The effective tax rate for 2009 decreased as compared to 2008 primarily due to increased utilization of state net operating losses and certain credits.

**Net Income.** We reported net income during 2009 of \$2,140,000, or \$0.23 per diluted share, compared to \$1,444,000, or \$0.15 per diluted share, for 2008.

## **Liquidity and Capital Resources**

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

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

During 2010, our cash flows primarily reflected higher sales volume, resulting in higher accounts receivable balances and increased inventory investment. Our cash balance increased \$1,268,000, or 13%, from December 31, 2009 and we ended 2010 with approximately \$11,285,000 in cash and cash equivalents and no debt outstanding.

**Operating activities:** The following significant factors primarily affected our cash provided by operations of \$2,132,000 in 2010 as compared to \$8,373,000 in 2009.

During 2010:

- We reported net income of \$3,904,000.
- We recorded depreciation, amortization and non-cash compensation expense of \$2,114,000.
- We recorded non-cash deferred income tax expense of \$540,000.
- Accounts receivable increased \$1,878,000 due to higher sales volume and the timing of sales during the year.
- Inventories increased \$6,851,000 as we increased stocking levels of our lower cost, fully-built printers from our contract manufacturer in China in the first half of 2010. During the second half of 2010, inventory purchases were at a significantly higher level than the first half due to backlogged orders that will be shipped in 2011. We expect our inventories to decline starting in the second quarter of 2011 as we ship our backlog of orders and reduce our inventory purchases.
- Accounts payable increased \$3,289,000 due to higher inventory purchases in the fourth quarter of 2010 in anticipation of significantly higher demand in the first half of 2011, and to a lesser extent, the timing of payments in the fourth quarter of 2010.
- Accrued liabilities and other liabilities increased \$625,000 due primarily to higher incentive compensation and fringe benefit related accruals as well as increased income taxes payable resulting from a higher level of taxable income.

During 2009:

- We reported net income of \$2,140,000.
- We recorded depreciation, amortization and non-cash compensation expense of \$2,397,000.
- We recorded non-cash deferred income tax expense of \$1,002,000.

- Accounts receivable increased \$263,000 due to the timing of sales.
- Inventories decreased \$3,968,000 as we depleted a substantial portion of our domestic inventory prior to the final transition of full production of 70% of our printers to a contract manufacturer in China that was completed by the end of 2009.
  - Accounts payable increased \$187,000 due to the timing of payments in the fourth quarter of 2009.
- Accrued liabilities and other liabilities decreased \$642,000 due primarily to lower payroll, fringe benefit and incentive compensation related accruals.

Investing activities: Our capital expenditures were approximately \$1,107,000 and \$643,000 in 2010 and 2009, respectively. Expenditures in 2010 included approximately \$643,000 for the purchase of new product tooling, \$269,000 for the purchase of computer, networking equipment, and software, \$130,000 for capitalized development costs for our new EPICENTRAL™ promotional printing system for the casino market, \$29,000 for the purchase of engineering equipment, and the remaining amount primarily for the purchase of manufacturing equipment, leasehold improvements and furniture and fixtures. Expenditures in 2009 included approximately \$295,000 for the purchase of new product tooling, \$236,000 for the purchase of computer, networking equipment, and software, \$72,000 for the purchase of manufacturing equipment, and the remaining amount primarily for the purchase of engineering equipment and leasehold improvements. We expect our capital

## Table of Contents

expenditures for 2011 to be between \$1,500,000, and \$2,000,000, largely for new product tooling and continued development of our EPICENTRAL™ software product.

**Financing activities:** We generated approximately \$237,000 of cash from financing activities during 2010 due to \$414,000 of proceeds and tax benefits from stock option exercises offset by \$177,000 of purchases of common stock for treasury. During 2009, we generated approximately \$290,000 from financing activities due to proceeds and tax benefits from stock option exercises.

### Working Capital

Our working capital increased to \$25,525,000 at December 31, 2010 from \$20,474,000 at December 31, 2009. Our current ratio decreased to 3.2 at December 31, 2010, compared to 3.7 at December 31, 2009. The increase in our working capital was largely due to higher cash balances, accounts receivable balances and inventory balances offset by higher accounts payable and accrued liabilities balances all resulting from higher sales and inventory purchases. The current ratio decreased due to higher accounts payable and accrued liabilities balances resulting from higher inventory purchases.

### Resource Sufficiency

We believe that our cash on hand and cash flows generated from operations will provide sufficient resources to meet our working capital needs, finance our capital expenditures and meet our liquidity requirements through at least the next twelve months.

### Credit Facility and Borrowings

On November 28, 2006, we signed a, five-year \$20,000,000 credit facility (the “TD Bank Credit Facility”) with TD Bank. The TD Bank Credit Facility provides for a \$20,000,000 revolving credit line expiring on November 28, 2011. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate minus one percent and are secured by a lien on all of our assets. We also pay a fee of 0.25% on unused borrowings under the revolving credit line. The total deferred financing costs relating to expenses incurred to complete the TD Bank Credit Facility was \$94,000. The TD Bank Credit Facility imposes certain quarterly financial covenants on us and restricts, among other things, our ability to incur additional indebtedness, the payment of dividends on our common stock and the creation of other liens. We expect to renew our credit facility with TD Bank or another financial institution during 2011. We were in compliance with all financial covenants of the TD Bank Credit Facility at December 31, 2010. The following table lists the financial covenants and the performance measurements at December 31, 2010:

Financial Covenant	Requirement/Restriction	Calculation at December 31, 2010
Operating cash flow / Total debt service	Minimum of 1.25 times	74.7 times
Funded debt / EBITDA	Maximum of 3.25	0 times

As of December 31, 2010, we had no balances outstanding on the revolving credit line. Undrawn commitments under the TD Bank Credit facility were approximately \$20,000,000 at December 31, 2010.

### Stock Repurchase Program

On May 27, 2010, our Board of Directors approved a new stock repurchase program (the “Stock Repurchase Program”). Under the Stock Repurchase Program, we are authorized to repurchase up to \$10,000,000 of our outstanding shares of common stock from time to time in the open market over a three-year period ending May 27, 2013, depending on market conditions, share price and other factors.



During the fourth quarter of 2010, we made no repurchases of common stock. As of December 31, 2010, we have repurchased a total of 22,338 shares of common stock for approximately \$177,000, at an average price of \$7.95 per share, under the Stock Repurchase Program.

#### Shareholders' Equity

Shareholders' equity increased \$4,780,000 to \$31,134,000 at December 31, 2010 from \$26,354,000 at December 31, 2009. The increase was primarily due to net income of \$3,904,000, proceeds of approximately \$393,000 from the issuance of 84,672 shares of common stock from stock option exercises, compensation expense related to stock options and restricted stock of \$565,000, an increase in additional paid-in capital of approximately \$21,000 due to tax benefits resulting from employee stock transactions and approximately \$77,000 from the issuance of 10,204 shares of deferred stock units. These increases were offset by \$177,000 for the purchase of 22,338 shares of treasury stock.

#### Contractual Obligations

Our contractual obligations as of December 31, 2010 were as follows:

Table of Contents

(In thousands)	Total	Payments due by period			
		< 1 year	1-3 years	3-5 years	> 5 years
Operating lease obligations	\$3,110	\$952	\$958	\$740	\$460
Purchase obligations	19,601	19,370	231	-	-
Total	\$22,711	\$20,322	\$1,189	\$740	\$460

Purchase obligations are for purchases made in the normal course of business to meet operational requirements, primarily of fully assembled printers and component part inventory.

**Recently Issued Accounting Pronouncements**

**Multiple-Deliverable Revenue Arrangements:** In October 2009, the FASB established the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This guidance provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. Currently these provisions do not have an impact on our consolidated financial statements and we do not anticipate these provisions will have a material impact on our consolidated financial statements.

**Financing Receivables:** In July 2010 the FASB issued new accounting guidance to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. Accounts receivable with terms exceeding one year are considered finance receivables subject to the provisions of this standard. Our trade receivables, which arose from the sale of goods or services, have a contractual maturity of one year or less and therefore are not subject to the provisions of this standard. We do not have any significant receivables with a term exceeding one year and as a result, the standard does not have a material impact on us.

**Impact of Inflation**

We believe that our business has not been affected to a significant degree by inflationary trends during the past three years. However, inflation is still a factor in the worldwide economy and may increase the cost of purchasing printers from our contract manufacturer in China, as well as the cost of certain raw materials, component parts and labor used in the production of our products. It also may increase our operating expenses, manufacturing overhead expenses and the cost to acquire or replace fixed assets. Despite growing costs of oil, gas and freight over the last two years, we have generally been able to maintain or improve our profit margins through productivity and efficiency improvements, cost reduction programs and to a lesser extent, price increases, and we expect to be able to do the same during 2011. As such, we do not believe that inflation will have a significant impact on our business during 2011.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.****Interest Rate Risk**

Our exposure to market risk for changes in interest rates relates primarily to the investment of our available cash and cash equivalents. In accordance with our investment policy, we strive to achieve above market rates of return in exchange for accepting a prudent amount of incremental risk, which includes the risk of interest rate movements. Risk tolerance is constrained by an overriding objective to preserve capital. An effective increase or

decrease of 10% in interest rates would not have a material effect on our results of operations or cash flows.

#### Foreign Currency Exchange Risk

A substantial portion of our sales are denominated in U.S. dollars and, as a result, we have relatively little exposure to foreign currency exchange risk with respect to sales made. This exposure may change over time as business practices evolve and could have a material adverse impact on our financial results in the future. We do not use forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. We estimate that the combined translational and transactional impact of a 10% overall movement in exchange rates from December 31, 2010 (principally the U.K. Pound Sterling) would increase/decrease net income 2%.

#### Item 8. Financial Statements and Supplementary Data.

The financial statements of the Company are annexed to this report as pages F-3 through F-17. An index to such materials appears on page F-1.

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

None.

## Table of Contents

### Item 9A. Controls and Procedures.

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

#### Evaluation of Disclosure Controls and Procedures

As of December 31, 2010, the Company, with the participation of its CEO and CFO conducted an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on that evaluation, our CEO and CFO concluded that the Company’s disclosure controls and procedures (as defined in Rule 13a-15 of the Exchange Act) were effective as of December 31, 2010. There has been no change in the Company’s internal control over financial reporting during the quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

#### Management’s Annual Report on Internal Control Over Financial Reporting

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

Management assessed our internal control over financial reporting as of December 31, 2010. Management based its assessment on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2010.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

### Item 9B. Other Information.

Not applicable.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled “Election of Directors” and “Executive Officers.”

Executive Officers of the Registrant

The following list is included as an unnumbered item in Part III of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 27, 2011.

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

Name	Age	Position
Bart C. Shuldsman	53	Chairman of the Board and Chief Executive Officer
Steven A. DeMartino	41	President, Chief Financial Officer, Treasurer and Secretary
Michael S. Kumpf	61	Executive Vice President-Engineering
Tracey S. Chernay	51	Executive Vice President-Sales and Marketing
Andrew J. Hoffman	53	Senior Vice President-Operations
Benjamin C. Wyatt	37	Vice President-Software Products and Business Development
Christopher Galletta	33	Corporate Controller

## Table of Contents

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

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

Michael S. Kumpf was appointed Executive Vice President of Engineering in March 2002. He served as Senior Vice President, Engineering from June 1996 to March 2002.

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

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

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

Christopher Galletta was appointed Corporate Controller in October 2007. Previously, Mr. Galletta served as TransAct's Assistant Corporate Controller from June 2005 to September 2007. Prior to joining TransAct, Mr. Galletta was employed by PricewaterhouseCoopers LLP, an independent public accounting firm, most recently as a senior associate in the technology audit practice.

### Item 11. Executive Compensation.

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled "Executive Compensation and Certain Transactions" and "Compensation Discussion and Analysis."

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

The information in response to this item is incorporated by reference from the Proxy Statement section entitled "Security Ownership of Certain Beneficial Owners and Management."

Information regarding our equity compensation plans as of December 31, 2010 is as follows:

Plan category	(a)	(b)	(c)
	Number of securities to	Weighted-average exercise price of	Number of securities

	be issued upon exercise of outstanding options, warrants and rights	outstanding options, warrants and rights	remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
1996 Stock Plan	186,267	\$ 3.76	-
1996 Non-Employee Director Plan	123,750	12.92	-
2005 Equity Incentive Plan	623,104	6.36	534,196
Total	933,121	\$ 6.71	534,196
Equity compensation plans not approved by security holders:			
2001 Employee Stock Plan	23,039	\$ 5.42	-
	956,160	\$ 6.68	534,196

Table of Contents

The TransAct Technologies Incorporated 2001 Employee Stock Plan (the “2001 Employee Plan”) was adopted by our Board of Directors, without approval of our security holders, effective February 26, 2001. Under the 2001 Employee Plan, we may issue non-qualified stock options, shares of restricted stock, restricted units to acquire shares of common stock, stock appreciation rights and limited stock appreciation rights to key employees of TransAct or any of our subsidiaries and to non-employees who provide services to TransAct or any of our subsidiaries. The 2001 Employee Plan is administered by our Compensation Committee, which has the authority to determine the vesting period and other similar restrictions and terms of awards, provided that the exercise price of options granted under the plan may not be less than the fair market value of the underlying shares on the date of grant.

In May 2005, our shareholders approved the adoption of the 2005 Equity Incentive Plan. In May 2010, our shareholders approved an amendment to the 2005 Equity Incentive Plan to increase the number of shares of common stock which may be subject to awards granted under the plan from 600,000 to its current level of 1,200,000. No new awards will be available for future issuance under any of our existing equity plans other than the 2005 Equity Incentive Plan.

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

The information in response to this item is incorporated by reference from the Proxy Statement section entitled “Certain Relationships and Related Transactions.”

Item 14. Principal Accountant Fees and Services.

The information in response to this item is incorporated by reference from the Proxy Statement section entitled “Independent Registered Public Accounting Firm’s Services and Fees.”

PART IV

Item 15. Exhibits.

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



Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANSACT TECHNOLOGIES INCORPORATED

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

Date: March 18, 2011

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

Signature	Title	Date
/s/ Bart C. Shuldman Bart C. Shuldman	Chairman of the Board and Chief Executive Officer, (Principal Executive Officer)	March 18, 2011
/s/ Steven A. DeMartino Steven A. DeMartino	President, Chief Financial Officer,  Treasurer and Secretary (Principal Financial Officer)	March 18, 2011
/s/ Christopher Galletta Christopher Galletta	Corporate Controller  (Principal Accounting Officer)	March 18, 2011
/s/ Charles A. Dill Charles A. Dill	Director	March 18, 2011
/s/ Thomas R. Schwarz Thomas R. Schwarz	Director	March 18, 2011

/s/ Graham Y. Tanaka      Director  
Graham Y. Tanaka

March 18, 2011

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
INDEX TO FINANCIAL STATEMENTS

Financial Statements

<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated balance sheets as of December 31, 2010 and 2009</u>	F-3
<u>Consolidated statements of income for the years ended December 31, 2010, 2009 and 2008</u>	F-4
<u>Consolidated statements of changes in shareholders' equity and comprehensive income for the years ended December 31, 2010, 2009 and 2008</u>	F-5
<u>Consolidated statements of cash flows for the years ended December 31, 2010, 2009 and 2008</u>	F-6
<u>Notes to consolidated financial statements</u>	F-7

All other financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Table of Contents

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of TransAct Technologies Incorporated and its subsidiaries at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
Hartford, Connecticut  
March 18, 2011

Table of Contents

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

	December 31, 2010	December 31, 2009
Assets:		
Current assets:		
Cash and cash equivalents	\$11,285	\$10,017
Receivables, net	10,864	8,996
Inventories	12,795	5,952
Refundable income taxes	-	270
Deferred tax assets	1,705	2,240
Other current assets	403	521
Total current assets	37,052	27,996
Fixed assets, net	4,200	4,551
Goodwill	1,469	1,469
Deferred tax assets	789	669
Intangible and other assets, net of accumulated amortization of \$475 and \$390, respectively	111	214
	6,569	6,903
Total assets	\$43,621	\$34,899
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable	\$8,342	\$5,052
Accrued liabilities	2,865	1,890
Deferred revenue	320	580
Total current liabilities	11,527	7,522
Deferred revenue, net of current portion	295	501
Deferred rent, net of current portion	393	385
Other liabilities	272	137
	960	1,023
Total liabilities	12,487	8,545
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 4,800,000 authorized, none issued and outstanding	-	-
Preferred stock, Series A, \$0.01 par value, 200,000 authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value, 20,000,000 authorized at December 31, 2010 and 2009; 10,612,881 and 10,528,209 shares issued; 9,426,443 and 9,364,109 shares outstanding, at December 31, 2010 and 2009, respectively	106	105
Additional paid-in capital	22,875	21,820

Edgar Filing: TRANSACT TECHNOLOGIES INC - Form 10-K

Retained earnings	16,937	13,033
Accumulated other comprehensive loss, net of tax	(69 )	(66 )
Treasury stock, 1,186,438 and 1,164,100 shares, at cost	(8,715 )	(8,538 )
Total shareholders' equity	31,134	26,354
Total liabilities and shareholders' equity	\$43,621	\$34,899

See accompanying notes to consolidated financial statements.

F-3

Table of Contents

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

	Year Ended December 31,		
	2010	2009	2008
Net sales	\$63,194	\$58,346	\$62,207
Cost of sales	40,646	39,517	41,257
Gross profit	22,548	18,829	20,950
Operating expenses:			
Engineering, design and product development	3,000	2,788	2,942
Selling and marketing	6,407	5,821	6,078
General and administrative	7,280	6,924	7,040
Legal fees associated with lawsuit (See Note 11)	-	-	3,029
	16,687	15,533	19,089
Operating income	5,861	3,296	1,861
Interest and other income (expense):			
Interest expense	(96 )	(70 )	(70 )
Interest income	87	20	59
Other, net	(25 )	(33 )	368
	(34 )	(83 )	357
Income before income taxes	5,827	3,213	2,218
Income tax provision	1,923	1,073	774
Net income	\$3,904	\$2,140	\$1,444
Net income per common share:			
Basic	\$0.42	\$0.23	\$0.16
Diluted	\$0.41	\$0.23	\$0.15
Shares used in per-share calculation:			
Basic	9,390	9,289	9,308
Diluted	9,590	9,377	9,489

See accompanying notes to consolidated financial statements.

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE  
INCOME

(In thousands, except share data)

	Common Stock		Additional Paid-in	Retained	Treasury	Accumulated Other Comprehensive Income (Loss)	Total	Total Comprehensive Income
	Shares	Amount	Capital	Earnings	Stock			
Balance, December 31, 2007	9,365,866	\$ 104	\$ 19,872	\$ 9,449	\$(7,995 )	\$ 178	\$ 21,608	
Cancellation of restricted stock	(1,250 )	-	-	-	-	-	-	
Issuance of shares from exercise of stock options	66,972	1	313	-	-	-	314	
Tax charge related to vesting of restricted stock	-	-	(98 )	-	-	-	(98 )	
Purchase of treasury stock	(130,100 )	-	-	-	(543 )	-	(543 )	
Share-based compensation expense	-	-	803	-	-	-	803	
Comprehensive income (loss):								
Foreign currency translation adj., net of tax	-	-	-	-	-	(246 )	(246 )	\$ (246 )
Net income	-	-	-	1,444	-	-	1,444	1,444
Balance, December 31, 2008	9,301,488	105	20,890	10,893	(8,538 )	(68 )	23,282	\$ 1,198
Cancellation of restricted stock	(500 )	-	-	-	-	-	-	
Issuance of shares from exercise of stock options	63,121	-	211	-	-	-	211	
Tax benefit related to employee stock sales and vesting of restricted stock	-	-	79	-	-	-	79	
Share-based compensation expense	-	-	640	-	-	-	640	
Comprehensive income:	-	-	-	-	-	2	2	\$ 2



Foreign currency  
translation adj., net  
of tax

Net income	-	-	-	2,140	-	-	2,140	2,140
Balance, December 31, 2009	9,364,109	105	21,820	13,033	(8,538 )	(66 )	26,354	\$ 2,142
Issuance of shares from exercise of stock options	84,672	1	392	-	-	-	393	
Issuance of deferred stock units	-	-	77	-	-	-	77	
Tax benefit related to employee stock sales and vesting of restricted stock	-	-	21	-	-	-	21	
Purchase of treasury stock	(22,338 )	-	-	-	(177 )	-	(177 )	
Share-based compensation expense	-	-	565	-	-	-	565	
Comprehensive income:								
Foreign currency translation adj., net of tax	-	-	-	-	-	(3 )	(3 )	\$ (3 )
Net income	-	-	-	3,904	-	-	3,904	3,904
Balance, December 31, 2010	9,426,443	\$ 106	\$ 22,875	\$ 16,937	\$(8,715 )	\$ (69 )	\$ 31,134	\$ 3,901

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 3,904	\$ 2,140	\$ 1,444
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based compensation expense	565	640	803
Incremental tax benefits from stock options exercised	(21 )	(79 )	-
Depreciation and amortization	1,549	1,757	1,847
Deferred income taxes	540	1,002	592
Loss on sale of fixed assets	2	-	3
Foreign currency transaction (gain) loss	21	33	(368 )
Changes in operating assets and liabilities:			
Receivables	(1,878 )	(263 )	(2,611 )
Inventories	(6,851 )	3,968	(1,257 )
Refundable income taxes	270	(235 )	14
Other current assets	116	(169 )	8
Other assets	1	34	29
Accounts payable	3,289	187	178
Accrued liabilities and other liabilities	625	(642 )	19
Net cash provided by operating activities	2,132	8,373	701
Cash flows from investing activities:			
Purchases of fixed assets	(1,107 )	(643 )	(979 )
Proceeds from sale of assets	10	-	-
Net cash used in investing activities	(1,097 )	(643 )	(979 )
Cash flows from financing activities:			
Proceeds from stock option exercises	393	211	314
Purchases of common stock for treasury	(177 )	-	(543 )
Incremental tax benefits from stock options exercised	21	79	-
Net cash provided by (used in) financing activities	237	290	(229 )
Effect of exchange rate changes on cash	(4 )	(3 )	(54 )
Increase (decrease) in cash and cash equivalents	1,268	8,017	(561 )
Cash and cash equivalents, beginning of period	10,017	2,000	2,561
Cash and cash equivalents, end of period	\$ 11,285	\$ 10,017	\$ 2,000
Supplemental cash flow information:			
Interest paid	\$ 51	\$ 51	\$ 51
Income taxes paid	740	482	34

See accompanying notes to consolidated financial statements.



Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of business

TransAct Technologies Incorporated (“TransAct” or the “Company”), which has its headquarters in Hamden, CT and its primary operating facility in Ithaca, NY, operates in one operating segment: market-specific printers for transaction-based industries. These industries include casino, gaming, lottery, banking, kiosk and point-of-sale. Our printers are designed based on market-specific requirements and are sold under the Ithaca® and Epic product brands. We distribute our products through OEMs, value-added resellers, selected distributors, and directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. We also generate revenue from the after-market side of the business, providing printer service, supplies and spare parts.

2. Summary of significant accounting policies

**Principles of consolidation:** The accompanying consolidated financial statements were prepared on a consolidated basis to include the accounts of TransAct and its wholly-owned subsidiaries. All intercompany accounts, transactions and unrealized profit were eliminated in consolidation.

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

**Use of estimates:** The accompanying consolidated financial statements were prepared using estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

**Allowance for doubtful accounts:** We establish an allowance for doubtful accounts to ensure trade receivables are valued appropriately. We maintain an allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, significant one-time events and historical experience. We record a specific allowance for individual accounts when we become aware of a customer’s inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer’s operating results or financial position. If circumstances related to customers change, we would further adjust estimates of the recoverability of receivables. Allowances for doubtful accounts on accounts receivable balances were \$57,000 as of December 31, 2010 and 2009.

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

(In thousands)	Year ended December 31,		
	2010	2009	2008
Balance, beginning of period	\$57	\$55	\$62
Additions charged to costs and expenses	-	3	-
Deductions	-	(1 )	(7 )
Balance, end of period	\$57	\$57	\$55

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

**Fixed assets:** Fixed assets are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives. The estimated useful life of tooling is five years; machinery and equipment is ten years; furniture and office equipment is five to ten years; and computer software and equipment is three to seven years. Leasehold improvements are amortized over the shorter of the term of the lease or the useful life of the asset. Costs related to repairs and maintenance are expensed as incurred. The costs of sold or retired assets are removed from the related asset and accumulated depreciation accounts and any gain or loss is recognized. Depreciation expense was \$1,446,000, \$1,655,000 and \$1,744,000 in 2010, 2009 and 2008, respectively.

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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

**Goodwill:** We account for goodwill in accordance with the provisions of ASC 350, “Intangibles - Goodwill and Other.” We test goodwill annually for impairment, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We have performed an impairment test as of December 31, 2010 and determined that no impairment has occurred.

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

We account for all revenue arrangements involving multiple deliverables in accordance with ASC 605-25, “Multiple-Element Arrangements.” For these 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 as each item in the arrangement is delivered. We allocate arrangement consideration to the separate units of accounting based on the relative fair value for all units of accounting in the arrangement, except where amounts allocable to the delivered units is limited to that which is contingent upon the delivery of additional deliverables or meeting other specified performance conditions.

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

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

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

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

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

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

	December 31,			
	2010		2009	
Customer A	17	%	24	%
Customer B	22	%	18	%

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. Summary of significant accounting policies (continued)

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

	Year ended December 31,					
	2010		2009		2008	
Customer A	12	%	19	%	28	%
Customer B	14	%	10	%	*	
Customer C	*		12	%	*	

\* -Customers represent less than 10% of total net sales

**Warranty:** We generally warrant our products for up to 24 months and record the estimated cost of such product warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experience of product repairs and the related estimated cost of labor and material to make the necessary repairs.

The following table summarizes the activity recorded in the accrued product warranty liability:

(In thousands)	Year ended December 31,		
	2010	2009	2008
Balance, beginning of period	\$233	\$393	\$500
Accruals for warranties issued during the period	84	112	297
Changes in estimates	172	(96)	(34)
Settlements during the period	(240)	(176)	(370)
Balance, end of period	\$249	\$233	\$393

Approximately \$71,000 and \$64,000 of the accrued product warranty liability were classified as long-term at December 31, 2010 and 2009, respectively.

**Research and development expenses:** Research and development expenses include engineering, design and product development expenses incurred in connection with specialized engineering and design to introduce new products and to customize existing products, and are expensed as a component of operating expenses as incurred. We recorded approximately \$3,000,000, \$2,788,000 and \$2,942,000 of research and development expenses in 2010, 2009 and 2008, respectively.

Costs incurred in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all material software costs are capitalized within Intangible and other assets in our consolidated balance sheet until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products 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 revenue over the estimated life of the product. During 2010 we began the development of a new software product that enables casino customers to print coupons and promotions at the slot machine. As of December 31, 2010, we have capitalized \$130,000 of developments costs for such software; there has been no amortization of capitalized software development costs.



**Advertising:** Advertising costs are expensed as incurred. Advertising expenses, which are included in selling and marketing expense on the accompanying consolidated statements of operations, for 2010, 2009 and 2008 totaled \$824,000, \$763,000 and \$916,000, respectively. These expenses include items such as consulting and professional services, tradeshow, and print advertising.

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

**Income taxes:** The income tax amounts reflected in the accompanying financial statements are accounted for under the liability method in accordance with ASC 740, "Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We assess the likelihood that net deferred tax assets will be realized

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

from future taxable income, and to the extent that we believe that realization is not likely, we establish a valuation allowance. In accordance with ASC 740, we identified, evaluated and measured the amount of benefits to be recognized for our tax return positions. See Note 13 for information regarding our accounting for income taxes.

Foreign currency translation: The financial position and results of operations of our foreign subsidiary in the United Kingdom are measured using local currency as the functional currency. Assets and liabilities of such subsidiary have been translated into U.S. dollars at the year-end exchange rate, related revenues and expenses have been translated at the average exchange rate for the year, and shareholders' equity has been translated at historical exchange rates. The resulting translation gains or losses, net of tax, are recorded in stockholders' equity as a cumulative translation adjustment, which is a component of accumulated other comprehensive income. Foreign currency transaction gains and losses, including those related to intercompany balances, are recognized in other income (expense).

Comprehensive income: ASC 220, "Comprehensive Income," requires that items defined as comprehensive income or loss be separately classified in the financial statements and that the accumulated balance of other comprehensive income or loss be reported separately from accumulated deficit and additional paid-in-capital in the equity section of the balance sheet. We include the foreign currency translation adjustment, net of tax, related to our subsidiary in the United Kingdom within our calculation of comprehensive income.

Share-based Payments: At December 31, 2010, we had stock-based employee compensation plans, which are described more fully in Note 12 - Stock incentive plans. We account for those plans under the recognition and measurement principles of ASC 718, "Compensation - Stock Compensation." Share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period. We have no awards with market or performance conditions.

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

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

### 3. Recently issued accounting pronouncements

**Multiple-Deliverable Revenue Arrangements:** In October 2009, the FASB established the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This guidance provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. Currently these provisions do not have an impact on our consolidated financial statements and we do not anticipate these provisions will have a material impact on our consolidated financial statements.

**Financing Receivables:** In July 2010 the FASB issued new accounting guidance to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. Accounts receivable with terms exceeding one year are considered finance receivables subject to the provisions of this standard. Our trade receivables, which arose from the sale of goods or services,

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. Recently issued accounting pronouncements (continued)

have a contractual maturity of one year or less and therefore are not subject to the provisions of this standard. We do not have any significant receivables with a term exceeding one year and as a result, the standard does not have a material impact on us.

## 4. Inventories

The components of inventories are:

(In thousands)	December 31, 2010	2009
Raw materials and purchased component parts	\$5,077	\$4,466
Work-in-process	2	2
Finished goods	7,716	1,484
	\$12,795	\$5,952

## 5. Fixed assets

The components of fixed assets, net are:

(In thousands)	December 31, 2010	2009
Tooling, machinery and equipment	\$12,825	\$13,721
Furniture and office equipment	1,659	1,704
Computer software and equipment	5,124	4,922
Leasehold improvements	1,888	1,874
	21,496	22,221
Less: Accumulated depreciation and amortization	(17,296 )	(17,670 )
	\$4,200	\$4,551

## 6. Intangible assets

Identifiable intangible assets are recorded in Intangible and other assets in the accompanying consolidated balance sheets. Identifiable intangible assets are comprised of the following:

	December 31,			
	2010		2009	
(In thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Purchased technology	\$ 364	\$ (334 )	\$ 364	\$ (273 )
Covenant not to compete	146	(115 )	146	(94 )
Patents	57	(26 )	57	(23 )
Total	\$ 567	\$ (475 )	\$ 567	\$ (390 )

Amortization expense was \$85,000 in 2010 and \$84,000 in 2009 and 2008, respectively. Amortization expense for each of the next five years ending December 31 is expected to be as follows: \$54,000 in 2011; \$13,000 in 2012; \$3,000 in 2013; \$3,000 in 2014; \$3,000 in 2015; and \$16,000 thereafter.

#### 7. Accrued liabilities

The components of accrued liabilities (current portion) are:

F-11

---

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 7. Accrued liabilities (continued)

(In thousands)	December 31, 2010	2009
Payroll and fringe benefits	\$1,736	\$1,189
Income taxes	359	6
Warranty	178	169
Professional and consulting	111	171
Other	481	355
	\$2,865	\$1,890

## 8. Accrued business consolidation and restructuring expenses

In 2009, due to an adverse economic climate, and in 2010, due to the completion of the move of a substantial portion of our printer production to a contract manufacturer in China, we initiated and completed certain restructuring programs to better utilize our workforce. These restructuring activities reduced the number of employees and caused us to incur costs for employee termination benefits related to the employee reductions. During 2010 and 2009, we recorded pre-tax restructuring charges of approximately \$156,000 and \$211,000, respectively, in accordance with ASC 420-10-25-4, "Exit or Disposal Cost Obligations." These one-time termination benefit charges have been included within general and administrative expenses in the accompanying consolidated statements of income. The restructuring activity during 2010 and 2009 included severance costs related to the termination of 16 and 17 employees, respectively.

The following table summarizes the activity recorded in accrued restructuring expenses during 2010 and 2009, and is included in accrued liabilities in the accompanying consolidated balance sheets.

(In thousands)	December 31, 2010	2009
Accrual balance, beginning of period	\$13	\$18
Severance charges	156	211
Cash payments	(169)	(216)
Accrual balance, end of period	\$-	\$13

## 9. Retirement savings plan

We maintain a 401(k) plan under which all full-time employees are eligible to participate at the beginning of each month immediately following their date of hire. We match employees' contributions at a rate of 50% of employees' contributions up to the first 6% of the employees' compensation contributed to the 401(k) plan. Our matching contributions were \$223,000, \$237,000 and \$244,000 in 2010, 2009 and 2008, respectively.

## 10. Borrowings

On November 28, 2006, we signed a five-year \$20,000,000 credit facility (the "TD Bank Credit Facility") with TD Bank. The TD Bank Credit Facility provides for a \$20,000,000 revolving credit line expiring on November 28, 2011. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate minus one percent and are

collateralized by a lien on all of our assets. We also pay a fee of 0.25% on unused borrowings under the revolving credit line. The total deferred financing costs relating to expenses incurred to complete the TD Bank Credit Facility was \$94,000. The TD Bank Credit Facility imposes certain quarterly financial covenants on us and restricts, among other things, our ability to incur indebtedness, the payment of dividends on our common stock and the creation of other liens. We were in compliance with all financial covenants of the TD Bank Credit Facility at December 31, 2010.

As of December 31, 2010, we had no outstanding borrowings on the revolving credit line. Undrawn commitments under the TD Bank Credit Facility were \$20,000,000 at December 31, 2010.

#### 11. Commitments and contingencies

We had been involved in patent litigation with FutureLogic, Inc. (“FutureLogic”) with respect to our patents U.S. Patent 6,924,903 and U.S. Patent 7,099,035. On May 13, 2008, we signed a Patent License and Settlement Agreement with FutureLogic that settled the current patent litigation and all other legal matters outstanding between the two parties. Under the Patent License and Settlement Agreement, FutureLogic agreed to license our dual port technology for printers and upgrade kits that utilize the patented technology. The license grants FutureLogic worldwide, perpetual rights for U.S. Patent 6,924,903, U.S. Patent 7,099,035, related applications and patents, and foreign counterparts.

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 11. Commitments and contingencies (continued)

At December 31, 2010, we were the lessee on operating leases for equipment and real property. Rent expense was approximately \$1,047,000, \$1,024,000 and \$1,030,000 in 2010, 2009 and 2008, respectively. Minimum aggregate rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2010 are as follows: \$952,000 in 2011; \$598,000 in 2012; \$360,000 in 2013; \$365,000 in 2014; \$375,000 in 2015; and \$460,000 thereafter.

## 12. Stock incentive plans

Stock incentive plans. We currently have four primary stock incentive plans: the 1996 Stock Plan, which provided for the grant of awards to officers and other key employees of the Company; the 1996 Directors' Stock Plan, which provided for non-discretionary awards to non-employee directors; the 2001 Employee Stock Plan, which provided for the grant of awards to key employees of the Company and other non-employees who provided services to the Company; and the 2005 Equity Incentive Plan, which provides for awards to executives, key employees, directors and consultants. The plans generally provide for awards in the form of: (i) incentive stock options, (ii) non-qualified stock options, (iii) restricted stock, (iv) restricted stock units, (v) stock appreciation rights or (vi) limited stock appreciation rights. However, the 2001 Employee Stock Plan does not provide for incentive stock option awards. Options granted under these plans have exercise prices equal to 100% of the fair market value of the common stock at the date of grant. Options granted have a ten-year term and generally vest over a three- to five-year period, unless automatically accelerated for certain defined events. As of May 2005, no new awards will be made under the 1996 Stock Plan, the 1996 Directors' Stock Plan or the 2001 Employee Stock Plan. Under our 2005 Equity Incentive Plan, we may authorize up to 1,200,000 of shares of TransAct common stock. At December 31, 2010, approximately 534,196 shares of common stock remained available for issuance under the 2005 Equity Incentive Plan.

Under the assumptions indicated below, the weighted-average fair value of stock option grants for the years ended December 31, 2010, 2009 and 2008 was \$7.45, \$2.56 and \$5.85, respectively. The table below indicates the key assumptions used in the option valuation calculations for options granted in the years ended December 31, 2010, 2009 and 2008 and a discussion of our methodology for developing each of the assumptions used in the valuation model:

	Year ended December 31,					
	2010		2009		2008	
Expected option term	6.1 years		6.0 years		5.7 years	
Expected volatility	66.8	%	67.4	%	61.7	%
Risk-free interest rate	2.3	%	2.0	%	3.0	%
Dividend yield	0	%	0	%	0	%

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

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



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

**Dividend Yield** - We have not made any dividend payments on our common stock, and we have no plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease compensation expense.

For the years ending December 31, 2010, 2009 and 2008, we recorded \$565,000, \$640,000, and \$803,000 of share-based compensation costs, respectively, in our consolidated statements of income. We recorded income tax benefits of \$186,000, \$214,000, and \$280,000 in 2010, 2009, and 2008 respectively, related to share-based compensation. At December 31, 2010, these benefits are recorded as a deferred tax asset in the consolidated balance sheet.

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

F-13

---

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 12. Stock incentive plans (continued)

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	939,028	\$6.37		
Granted	127,500	7.45		
Exercised	(84,672 )	4.64		
Forfeited	(28,900 )	5.04		
Expired	(10,000 )	8.35		
Outstanding at December 31, 2010	942,956	\$6.69	5.4 years	\$3,376,000
Options exercisable at December 31, 2010	550,956	\$7.27	3.5 years	\$1,983,000
Options vested or expected to vest	905,402	\$6.72	5.2 years	\$3,249,000

Shares that are issued upon exercise of employee stock options are newly issued shares and not issued from treasury stock. As of December 31, 2010, unrecognized compensation cost related to stock options totaled \$1,019,000, which is expected to be recognized over a weighted average period of 3.2 years.

The total intrinsic value of stock options exercised was \$299,000, \$161,000 and \$402,000 and the total fair value of stock options vested was \$424,000, \$341,000, and \$247,000 during the years ended December 31, 2010, 2009 and 2008, respectively. Cash received from option exercises were \$393,000, \$211,000 and \$314,000 for 2010, 2009 and 2008, respectively. We recorded a realized tax benefit in 2010 from equity-based awards of \$21,000 related to options exercised which has been included as a component of cash flows from financing activities in the consolidated statement of cash flows.

**Restricted stock:** Under the 1996 Stock Plan, 2001 Employee Stock Plan and 2005 Equity Incentive Plan, we have granted shares of restricted common stock, for no consideration, to our officers, directors and certain key employees. Restricted stock activity for the 1996 Stock Plan, 2001 Employee Stock Plan and 2005 Equity Incentive Plan is summarized below:

	Shares	Weighted Average Grant Date Fair Values
Nonvested shares at December 31, 2009	23,000	\$10.97
Granted	-	-
Vested	(20,000 )	10.55
Canceled	-	-
Nonvested shares at December 31, 2010	3,000	\$13.78

As of December 31, 2010, unrecognized compensation cost related to restricted stock totaled \$20,000, which is expected to be recognized over a weighted average period of less than 1 year.

We paid a portion of the 2009 incentive bonus for the chief executive officer and chief financial officer in the form of 10,204 deferred stock units with a corresponding credit recorded to Additional Paid in Capital in the amount of \$77,000. Such deferred stock units were granted in March 2010 and were fully vested at the time of grant. These units will be converted three years from the grant date to shares of the Company's common stock on a one-for-one basis. The weighted average exercise price of the deferred stock units was \$7.54, the aggregate intrinsic value was \$19,000 and the weighted average remaining contractual term was 2.2 years.

### 13. Income taxes

The components of the income tax provision are as follows:

F-14

---

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13. Income taxes (continued)

(In thousands)	Year Ended December 31,		
	2010	2009	2008
Current:			
Federal	\$1,297	\$53	\$-
State	51	13	16
Foreign	35	5	166
Deferred:			
Federal	457	891	386
State	82	110	207
Foreign	1	1	(1 )
Income tax provision	\$1,923	\$1,073	\$774

At December 31, 2010, we have \$285,000 of state net operating loss carryforwards that begin to expire in 2027, and no federal net operating loss carryforwards. We also have approximately \$99,000 in state tax credit carryforwards that begin to expire in 2010. We had foreign income (loss) before taxes of \$35,000, (\$49,000) and \$541,000 in 2010, 2009 and 2008, respectively.

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

(In thousands)	December 31,	
	2010	2009
Deferred tax assets:		
Net operating losses	\$114	\$129
Capitalized research and development	273	342
Inventory reserves	1,210	1,066
Deferred revenue	176	91
Warranty reserve	87	82
Stock compensation expense	586	421
Foreign tax and other credits	65	913
Other liabilities and reserves	562	435
Gross deferred tax assets	3,073	3,479
Valuation allowance	(125 )	(76 )
Net deferred tax assets	2,948	3,403
Gross deferred tax liabilities:		
Depreciation	392	453
Other	62	41
Net deferred tax liabilities	454	494
Total net deferred tax assets	\$2,494	\$2,909

The following table summarizes the activity recorded in the valuation allowance on the deferred tax assets:

(In thousands)	Year ended December 31,		
	2010	2009	2008
Balance, beginning of period	\$76	\$26	\$-
Additions charged to income tax expense	55	50	26
Reductions credited to income tax expense	(6 )	-	-
Balance, end of period	\$125	\$76	\$26

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

F-15

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13. Income taxes (continued)

	Year Ended December 31,					
	2010		2009		2008	
Federal statutory tax rate	34.0	%	34.0	%	34.0	%
State income taxes, net of federal income taxes	1.5		2.5		6.6	
Tax benefit from tax credits, net of valuation allowance	(2.9	)	(4.5	)	(5.6	)
Foreign rate differential	-		-		(2.4	)
Valuation allowance and tax accruals	0.8		0.8		1.2	
Permanent items	(0.2	)	0.7		1.4	
Other	(0.2	)	-		(0.3	)
Effective tax rate	33.0	%	33.5	%	34.9	%

At December 31, 2010 and 2009, we had approximately \$201,000 and \$189,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. We are not aware of any events that could occur within the next twelve months that could cause a significant change in the total amount of unrecognized tax benefits. A tabular reconciliation of the gross amounts of unrecognized tax benefits at the beginning and end of the year is as follows:

(In thousands)	2010	2009
Unrecognized tax benefits as of January 1	\$189	\$160
Tax positions taken during the current period	61	29
Settlements	-	-
Lapse of statute of limitations	(49	) -
Unrecognized tax benefits as of December 31	\$201	\$189

We are subject to U.S. federal income tax as well as income tax of certain state and foreign jurisdictions. We have substantially concluded all U.S. federal income tax, state and local, and foreign tax matters through 2003. During 2008, a limited scope examination of our 2005 and 2006 federal tax returns was completed. However, our federal tax returns for the years 2004 through 2009 remain open to examination. Various state and foreign tax jurisdiction tax years remain open to examination as well, though we believe that any additional assessment would be immaterial to the consolidated financial statements. No federal, state or foreign tax jurisdiction income tax returns are currently under examination.

We do not anticipate that the total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations prior to December 31, 2011.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2010 and 2009, we have approximately \$4,000 and \$12,000 of accrued interest and penalties related to uncertain tax positions.

## 14. Earnings per share

For 2010, 2009 and 2008, earnings per share were computed as follows (in thousands, except per share amounts):



Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 14. Earnings per share (continued)

	Year Ended December 31,		
	2010	2009	2008
Net income	\$3,904	\$2,140	\$1,444
Shares:			
Basic: Weighted average common shares outstanding	9,390	9,289	9,308
Add: Dilutive effect of outstanding options as determined by the treasury stock method	200	88	181
Diluted: Weighted average common and common equivalent shares outstanding	9,590	9,377	9,489
Net income per common share:			
Basic	\$0.42	\$0.23	\$0.16
Diluted	0.41	0.23	0.15

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

Certain stock-based awards were not included in the full year computation of earnings per diluted share because the effect would be anti-dilutive. Anti-dilutive stock options, restricted shares and deferred stock units excluded from the computation of earnings per dilutive share were 367,750, 525,500, and 258,250, at December 31, 2010, 2009 and 2008 respectively.

## 15. Stock repurchase program

On May 27, 2010, our Board of Directors approved a new stock repurchase program (the "Stock Repurchase Program"). Under the Stock Repurchase Program, we are authorized to repurchase up to \$10,000,000 of our outstanding shares of common stock from time to time in the open market over a three-year period ending May 27, 2013, depending on market conditions, share price and other factors. As of December 31, 2010, we repurchased a total of 22,338 shares of common stock for approximately \$177,000 under this program, at an average price of \$7.95 per share. As of December 31, 2010, we repurchased a total of 1,186,438 shares of common stock for approximately \$8,715,000 under all of our stock repurchase programs, at an average price of \$7.35 per share. 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.

## 16. Geographic Area Information

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

Year Ended December 31,



Edgar Filing: TRANSACT TECHNOLOGIES INC - Form 10-K

(In thousands)	2010	2009	2008
Net sales:			
United States	\$44,101	\$45,890	\$52,081
International	19,093	12,456	10,126
Total	\$63,194	\$58,346	\$62,207
Fixed assets, net:			
United States	\$2,823	\$3,395	\$4,190
International	1,377	1,156	1,373
Total	\$4,200	\$4,551	\$5,563

Sales to international customers were 30%, 21%, and 16% in 2010, 2009, and 2008 respectively. Sales to Europe represented 43%, 45%, and 56%, sales to the Pacific Rim (which includes Australia and Asia) represented 18%, 31%, and 21%, and sales to Canada represented 20%, 11%, and 8% of total international sales in 2010, 2009, and 2008 respectively. International long-lived assets consist of net fixed assets located at our foreign subsidiary in the United Kingdom as well as our contract manufacturers in China, Malaysia and Mexico.

F-17

Table of Contents

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 17. Quarterly results of operations (unaudited)

Our quarterly results of operations for 2010 and 2009 are as follows:

(In thousands, except per share amounts)	Quarter Ended			
	March 31	June 30	September 30	December 31
2010:				
Net sales	\$ 14,208	\$ 16,443	\$ 16,369	\$ 16,174
Gross profit	5,189	6,155	5,557	5,647
Net income	629	1,145	1,052	1,078
Net income per share:				
Basic	0.07	0.12	0.11	0.12
Diluted	0.07	0.12	0.11	0.11
2009:				
Net sales	\$ 12,202	\$ 14,236	\$ 17,982	\$ 13,926
Gross profit	4,126	4,856	5,525	4,322
Net income	121	649	1,184	186
Net income per share:				
Basic	0.01	0.07	0.13	0.02
Diluted	0.01	0.07	0.13	0.02

F-18

Table of Contents

Index to Exhibits

3.1(a)	Certificate of Incorporation of TransAct Technologies Incorporated (“TransAct” or the “Company”) filed with the Secretary of State of Delaware on June 17, 1996.	(2)
3.1(b)	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Secretary of State of Delaware on June 4, 1997.	(4)
3.1(c)	Certificate of Designation, Series A Preferred Stock, filed with the Secretary of State of Delaware on December 2, 1997.	(5)
3.1(d)	Certificate of Designation, Series B Preferred Stock, filed with the Secretary of State of Delaware on April 6, 2000.	(8)
3.2	Amended and Restated By-laws of the Company.	(6)
4.1	Specimen Common Stock Certificate.	(2)
10.1(x)	1996 Stock Plan, effective July 30, 1996.	(3)
10.2(x)	Non-Employee Directors’ Stock Plan, effective August 22, 1996.	(3)
10.3(x)	2001 Employee Stock Plan.	(9)
10.4(x)	2005 Equity Incentive Plan.	(14)
10.5(x)	Employment Agreement, dated July 31, 1996, by and between TransAct and Bart C. Shuldman.	(2)
10.6(x)	Severance Agreement by and between TransAct and Michael S. Kumpf, dated September 4, 1996.	(3)
10.7(x)	Severance Agreement by and between TransAct and Steven A. DeMartino, dated June 1, 2004.	(13)
10.8(x)	Severance Agreement by and between TransAct and Tracey S. Chernay, dated July 29, 2005.	(18)
10.9(x)	Amendment to Employment Agreement, effective January 1, 2008, by and between TransAct and Bart C. Shuldman.	(19)
10.10(x)	Amendment to Severance Agreement by and between TransAct and Michael S. Kumpf, effective January 1, 2008.	(19)
10.11(x)	Amendment to Severance Agreement by and between TransAct and Steven A. DeMartino, effective January 1, 2008.	(19)
10.12(x)	Amendment to Severance Agreement by and between TransAct and Tracey S. Chernay, effective January 1, 2008.	(19)
10.13	Lease Agreement by and between Bomax Properties and Ithaca, dated as of March 23, 1992.	(2)
10.14	Second Amendment to Lease Agreement by and between Bomax Properties and Ithaca, dated December 2, 1996.	(4)
10.15	Agreement regarding the Continuation and Renewal of Lease by and between Bomax Properties, LLC and TransAct, dated July 18, 2001.	(11)
10.16	Lease Agreement by and between Las Vegas Airport Properties LLC and TransAct dated December 2, 2004.	(13)
10.17	First Amendment to Lease Agreement by and between Las Vegas Airport Properties LLC and TransAct dated August 31, 2009	(20)
10.18	Lease Agreement by and between 2319 Hamden Center I, L.L.C. and TransAct dated November 27, 2006.	(16)
10.19	OEM Purchase Agreement by and between GTECH Corporation, TransAct and Magnetec Corporation commencing July 14, 1999. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)	(7)
10.20	OEM Purchase Agreement by and between GTECH Corporation and TransAct commencing July 2, 2002. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)	(10)
10.21	Amendment to OEM Purchase Agreement by and between GTECH Corporation and TransAct, dated February 17, 2006. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has	(15)

- requested confidential treatment of portions of this exhibit deleted from the filed copy.)
- 10.22 OEM Purchase Agreement by and between GTECH Corporation and TransAct, dated November (20) 20, 2009. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy)
- 10.23 Amended and Restated Revolving Credit and Security Agreement between TransAct and TD (16) Banknorth, N.A. dated November 28, 2006
- 10.24 First Amendment to Amended and Restated Revolving Credit and Security Agreement between (17) TransAct and TD Banknorth, N.A. effective September 30, 2007.
-

Table of Contents

- |       |   |     |
|-------|---|-----|
| 10.25 | License Agreement between Seiko Epson Corporation and TransAct dated May 17, 2004 (12)  |     |
|       | (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential  |     |
|       | treatment of portions of this exhibit deleted from the filed copy.)   |     |
| 23.1  | Consent of PricewaterhouseCoopers LLP.  | (1) |
| 31.1  | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   | (1) |
| 31.2  | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   | (1) |
| 32.1  | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | (1) |
| 32.2  | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | (1) |
- 
- (1) These exhibits are filed herewith.
  - (2) These exhibits, which were previously filed with the Company's Registration Statement on Form S-1 (No. 333-06895), are incorporated by reference.
  - (3) These exhibits, which were previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996, are incorporated by reference.
  - (4) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997, are incorporated by reference.
  - (5) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed February 18, 1999, is incorporated by reference.
  - (6) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1998, is incorporated by reference.
  - (7) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 25, 1999, is incorporated by reference.
  - (8) These exhibits, which were previously filed with the Company's Quarterly Report on Form 10-Q for the period ended March 25, 2000, are incorporated by reference.
  - (9) This exhibit, which was previously filed with the Company's Registration Statement on Form S-8 (No. 333-59570), is incorporated by reference.
  - (10) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is incorporated by reference.
  - (11) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2003, is incorporated by reference.
  - (12) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, is incorporated by reference.
  - (13) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2004, are incorporated by reference.
  - (14) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed June 1, 2005, is incorporated by reference.
  - (15) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated by reference.
  - (16) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2006, are incorporated by reference.
  - (17) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1997, is incorporated by reference.

- (18) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2007, is incorporated by reference.
  - (19) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2008, is incorporated by reference.
  - (20) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2009, is incorporated by reference.
-

Table of Contents

(x) Management contract or compensatory plan or arrangement.

---

Table of Contents

EXHIBIT LIST

The following exhibits are filed herewith.

Exhibit

- 23.1 Consent of PricewaterhouseCoopers LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.