

TRANSACT TECHNOLOGIES INC
Form 10-K
March 30, 2015

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from _____ to _____.

Commission file number: 0-21121

(Exact name of registrant as specified in its charter)

Delaware

06-1456680

(State or other jurisdiction of incorporation or organization)

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

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

06518

(Address of principal executive offices)

(Zip Code)

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

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

Title of Each Class - Common Stock, par value \$.01
per share

Name of Exchange on which Registered - NASDAQ
Global Market

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the Registrant was approximately \$82,400,000 based on the last sale price on June 30, 2014.

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the 2015 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

TRANSACT TECHNOLOGIES INCORPORATED

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PART I

Item 1. Business.

The Company

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

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

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

Financial Information about Segments

We operate in one reportable segment, the design, development, assembly and marketing of transaction printers and terminals and providing related software, services, supplies and spare parts. Information about our net sales, gross profit and assets can be found in our Consolidated Financial Statements on pages F-3 and F-4 hereof.

Products, Services and Distribution Methods

Printers and terminals

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

certain OEM customers. In collaboration with these customers, we provide engineering and manufacturing expertise for the design and development of specialized printers.

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

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

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

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

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

Printrex: Printrex printers include wide format, rack mounted and vehicle mounted thermal printers used by customers to log and plot oil field and down hole well drilling data in the oil and gas exploration industry. During 2012, we launched two new color printers for this market, the Printrex 920 and Printrex 980. The Printrex 920 is the first full-color printer designed from the ground up to perform in the adverse environment of a well logging truck or off-shore platform. Using thermal printer technology, it can print in black and white, or in full color using proprietary color paper, without the need for inkjet cartridges or ribbons. The Printrex 980 is the fastest full color printer available for plotting continuous logs in the data centers of the large oil field service companies. This printer uses proprietary inkjet cartridges. In 2015, we expect to launch the Responder MP2™, our first printer for the large machine-to-machine (M2M) vertical market. The Responder MP2™ is an all-in-one mobile printing solution for a number of vehicles, including fire, police, EMS, insurance, public utilities and delivery. In addition, we sell wide format thermal printers used to print test results in ophthalmology devices in the medical industry, as well as vehicle mounted printers used to print schematics and certain other critical information in emergency services vehicles and other mobile printing applications. We primarily sell our Printrex products directly to oil field service and drilling companies and OEM's, as well as through regional distributors in the United States, Europe, Canada and Asia. We also maintain a dedicated internal sales force with a sales office located in Houston, Texas.

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

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

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

Sources and Availability of Raw Materials

We design our products to optimize product performance, quality, reliability and durability. These designs combine cost efficient materials, sourcing and assembly methods with high standards of workmanship. Approximately 95% of our printer production is primarily through one third-party contract manufacturer in Asia and to a lesser extent one other in Asia and one in Mexico. The remaining 5% of our products are assembled in our Ithaca, NY facility largely on a configure-to-order basis using components and subassemblies that have been sourced from vendors and contract manufacturers around the world.

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

fully-assembled printers produced by our contract manufacturers have increased. We typically strive to maintain more than one source for our component parts, subassemblies and fully assembled printers to reduce the risk of parts shortages or unavailability. However, we could experience temporary disruption if certain suppliers ceased doing business with us, as described below.

We currently buy substantially all of our thermal print mechanisms, an important component of our thermal printers, and fully assembled printers for several of our printer models, from one foreign contract manufacturer, and to a much lesser extent, two other foreign contract manufacturers. Although we believe that other contract manufacturers could provide similar thermal print mechanisms or fully assembled printers, on comparable terms, a change in contract manufacturers could cause a delay in manufacturing and possible loss of sales, which may have a material adverse effect on our operating results. Although we do not have a supply agreement with our foreign contract manufacturers, our relationship with them remains strong and we have no reason to believe that they will discontinue their supply of thermal print mechanisms to us during 2015 or that their terms to us will be any less favorable than they have been historically.

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

ZINK Imaging Inc. (“ZINK”) is the sole supplier of proprietary color thermal paper used in our Printrex 920 oil and gas printer. We had a supply agreement with ZINK to exclusively supply us with ZINK color thermal paper for the oil and gas industry at fixed prices through December 31, 2014. We plan to renew this agreement during 2015. The loss of the supply of ZINK color thermal paper would have a material adverse effect on the sale of Printrex 920 printers and ZINK color thermal paper.

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

Patents and Proprietary Information

TransAct relies on a combination of trade secrets, patents, employee and third party nondisclosure agreements, copyright laws and contractual rights to establish and protect its proprietary rights in its products. We hold 29 United States and 30 foreign patents and have 8 United States and 12 foreign patent applications pending pertaining to our products. The duration of these patents range from 3 to 17 years. The expiration of any individual patent would not have a significant negative impact on our business. We regard certain manufacturing processes and designs to be proprietary and attempt to protect them through employee and third-party nondisclosure agreements and similar means. It may be possible for unauthorized third parties to copy certain portions of our products or to reverse engineer or otherwise obtain and use, to our detriment, information that we regard as proprietary. Moreover, the laws of some foreign countries do not afford the same protection to our proprietary rights as do the laws of the United States. There can be no assurance that legal protections we rely upon to protect our proprietary position will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technologies.

Seasonality

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

Working Capital

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

Certain Customers

GTECH has been our most significant customer. In December 2009, we signed a new five-year agreement effective November 20, 2009, with GTECH (the “GTECH Thermal Printer Agreement”). Under the terms of the agreement, we provide GTECH with their latest generation thermal lottery printers for various lottery applications. The terms of the agreement require that GTECH exclusively purchase all of its requirements for thermal on-line lottery printers from us and that we exclusively sell such printers to GTECH through May 8, 2015. We are currently in negotiations with GTECH to extend the agreement.

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

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

Backlog

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

Competition

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

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

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

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

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

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

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

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

Research and Development Activities

Research, development, and engineering expenditures represent costs incurred in the experimental or laboratory sense aimed at discovery and/or application of new knowledge in developing a new product or process, or in bringing about significant improvement in an existing product or process. We spent approximately \$4,302,000, \$4,065,000, and \$4,239,000 in 2014, 2013 and 2012, respectively, on engineering, design and product development efforts in connection with specialized engineering and design to introduce new hardware and software products and to customize or improve existing products.

Costs incurred in researching and developing a computer software product are charged to expense until technological feasibility has been established, at which point all material software costs are capitalized within Intangible assets in our Consolidated Balance Sheets until the product is available for sale to customers. While judgment is required in determining when technological feasibility of a product is established, we have determined that it is reached after all high-risk development issues have been documented in a formal detailed plan design. The amortization of these costs will be included in cost of sales over the estimated life of the product. During 2010 we began the development of EPICENTRAL™, which enables casino customers to print coupons and promotions at the slot machine. Unamortized development costs for such software were approximately \$169,000 and \$370,000 as of December 31, 2014 and 2013, respectively. The total amount charged to cost of sales for capitalized software development costs were approximately \$201,000, \$199,000, and \$189,000 in 2014, 2013 and 2012, respectively.

Environment

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

Employees

As of December 31, 2014, TransAct and our subsidiaries employed 129 persons, all of whom were full-time employees. None of our employees are unionized, and we consider our relationships with our employees to be good.

Financial Information About Geographic Areas

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

Trademarks, Service Marks and Copyrights

We own or have rights to trademarks, service marks, trade names and copyrights that we use in connection with the operation of our business, including our corporate names, logos and website names. Other trademarks, service marks and trade names appearing in this annual report on Form 10-K are the property of their respective owners. The trademarks we own include TransAct®, EPICENTRAL®, Ithaca®, RESPONDER® and Printrex®. Solely for convenience, some of the trademarks, service marks, trade names and copyrights referred to in this annual report on

Form 10-K are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our trademarks, service marks, trade names and copyrights.

Available Information

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

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

Item 1A. Risk Factors

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

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

Our operating results and financial condition may fluctuate.

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

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

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

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

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

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

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

Third parties may claim that we violated their intellectual property rights. To the extent of a violation of a third party's patent or other intellectual property right, we may be prevented from operating our business as planned and may be

required to pay damages, to obtain a license, if available, or to use a non-infringing method, if possible, to accomplish our objectives. Any of these claims, with or without merit, could result in costly litigation and divert the attention of key personnel. If such claims are successful, they could result in costly judgments or settlements. Refer to Item 3. “Legal Proceedings” for discussion surrounding litigation we were involved in regarding alleged misappropriation of unspecified trade secrets and confidential information.

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

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

We rely on resellers to sell our products and services.

We use a variety of distribution channels, including OEMs and distributors, to market our