TRANSACT TECHNOLOGIES INC
Form 10-K
March 11, 2016

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015
or

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

For the transition period from to .

Commission file number: 0-21121

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the Registrant was approximately $49,400,000 based on the last sale price on June 30, 2015.

As of February 29, 2016, the number of shares outstanding of the Registrant’s common stock, $0.01 par value, was 7,782,292.

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 2016 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

TRANSACT TECHNOLOGIES INCORPORATED

INDEX

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 AccuDate™, Ithaca®, RESPONDER®, Epic, EPICENTRAL™, 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 food rotation date and nutritional labels, promotional coupons and transaction records such as receipts, tickets, register journals and other documents as well as printed logging and plotting of oil field and well drilling 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, 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 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, hardware research and development and eastern region service center located in Ithaca, NY. In addition, we have a casino and gaming sales headquarters, software research and development 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, and a sales office located in Macau. 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 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 thermal, inkjet 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. Our food safety terminals also offer configurable menu options. 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: Our food safety terminals are printing devices that consist of an operating system, a touchscreen and one or two thermal print mechanisms, that print easy-to-read expiration and "enjoy by" date labels to help restaurants effectively manage food rotation and spoilage. In the food safety market, we use an internal sales force to manage sales of our terminals through distribution, as well as 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) and hospitality 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 IGT (formerly GTECH Corporation) and its subsidiaries, our largest customer and the world's largest provider of lottery terminals. In addition, during 2015 we launched a new lottery printer, the Epic 3000, that we will begin to sell to other lottery system customers beyond IGT. 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 IGT 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 EPICENTRALTM Print System (“EPICENTRALTM”), that enables casino operators to create promotional coupons and marketing messages and print them in real-time at the slot machine. With EPICENTRALTM, casinos 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 black/white and color thermal printers used by customers to log and plot oil field and down hole well drilling data in the oil and gas exploration industry. It also includes high-speed color inkjet desktop printers used to print logs at data centers of the oil and gas field service companies. In 2015, we launched 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 representative 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 TransAct Care, and other repair services for our printers and terminals. 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 two others in Asia. 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 thermal, inkjet 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 and food safety terminal models, from one foreign contract manufacturer, and to a much lesser extent, one other foreign contract manufacturer. Although we believe that other contract manufacturers could provide similar thermal print mechanisms or fully assembled printers and terminals, 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 2016 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.

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 33 United States and 35 foreign patents and have 4 United States and 6 foreign patent applications pending pertaining to our products. The duration of these patents range from 2 to 16 years. The expiration of any individual patent would not have a significant negative impact on our business. We regard certain manufacturing processes and designs to be proprietary and attempt to protect them through employee and third-party nondisclosure agreements and similar means. It may be possible for unauthorized third parties to copy certain portions of our products or to reverse engineer or otherwise obtain and use, to our detriment, information that we regard as proprietary. Moreover, the laws of some foreign countries do not afford the same protection to our proprietary rights as do the laws of the United States. There can be no assurance that legal protections 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 during 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

IGT (formerly GTECH Corporation) has been our most significant customer. On May 29, 2015, we signed a new agreement with IGT to sell on-line lottery and casino printers to IGT through December 31, 2019. This new agreement replaced the previous agreement that expired on May 29, 2015. Under the terms of the new agreement, we will sell on-line lottery and casino printers to IGT on a non-exclusive basis, and IGT will purchase such printers from us on a non-exclusive basis. This new agreement will allow TransAct to sell printers to other lottery system customers beyond IGT.

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

	Year ended December 31,		
	2015	2014	2013
IGT	29%	19%	19%
Suzo-Happ	14%	7%	4%
Eurocoin	0%	11%	12%

Backlog

Our backlog of firm orders was approximately $5,403,000 as of February 29, 2016, compared to $11,356,000 as of February 27, 2015. Based on customers' current delivery requirements, we expect to ship our entire current backlog during 2016.

Competition

The market for transaction-based and specialty printers is extremely competitive, and we expect such competition to continue in the future. However, we experience less competition for our food safety terminals and EPICENTRAL software due to the highly customized nature of the product. 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/Bixolon. Certain competitors of ours have greater financial resources, lower costs attributable to higher volume production and sometimes offer lower prices than us. However, we have and will continue to deemphasize efforts in the POS and banking markets going forward.

In the casino and gaming market (consisting principally of slot machine and VLT transaction printing and promotional coupon printing), we compete with several companies including JCM Global (formerly 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 relationship with IGT. On May 29, 2015, we signed a non-exclusive agreement with IGT to provide thermal lottery printers to IGT for various lottery applications through December 31, 2019. Prior to this agreement, we had an exclusive purchase agreement whereby IGT exclusively purchased all of its requirements for thermal on-line lottery printers from us and we exclusively sold such printers to IGT. We now compete in this market with other lottery printer providers such as Custom Engineering SPA, Star Micronics and Wincor Nixdorf.

In the Printrex market, we primarily compete with the Imaging Systems Group, Inc. (“iSys”), Neuralog Inc. and GSI Group. 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 continually develop new products (hardware and software) and product line extensions that are technologically advanced and provide differentiated features and functions, 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 thermal, inkjet 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 $3,599,000, $4,302,000, and $4,065,000 in 2015, 2014 and 2013, respectively, on engineering, design and product development efforts in connection with specialized engineering and design to introduce new hardware and software products and to customize or improve existing products.

Costs incurred in researching and developing a computer software product are charged to expense until technological feasibility has been established, at which point all material software costs are capitalized within Intangible assets in our Consolidated Balance Sheets until the product is available for sale to customers. While judgment is required in determining when technological feasibility of a product is established, we have determined that it is reached after all high-risk development issues have been documented in a formal detailed plan design. The amortization of these costs will be included in cost of sales over the estimated life of the product. During 2010, we began the development of EPICENTRALTM, which enables casino customers to print coupons and promotions at the slot machine. Unamortized development costs for such software were approximately $31,000 and $169,000 as of December 31, 2015 and 2014, respectively. The total amount charged to cost of sales for capitalized software development costs were approximately $138,000, $201,000, and $199,000 in 2015, 2014 and 2013, 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, 2015, TransAct and our subsidiaries employed 125 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 15 – 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®, AccuDate™, Epic, 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 the "Investor Relations" tab on 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.

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:

- 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;
- 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;
- 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;
- fluctuations of world-wide oil and gas prices;
- 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 AccuDate™ food safety terminals and RESPONDER MP2™ 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 contain software and 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 distributors and resellers to sell our products and services.

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

Our dependence upon distributors and 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 distributors and / or resellers' financial condition deteriorate;
- reduced visibility to end user demand and pricing issues which makes forecasting more difficult;
- distributors or resellers leveraging their buying power to change the terms of pricing, payment and product delivery schedules; and
- direct competition should a distributor or reseller decide to manufacture printers internally or source printers from a competitor.

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

We have outsourced substantially all of the assembly of our printers and terminals to three contract manufacturers and will be dependent on them for the manufacturing of such products. A failure by these contract manufacturers, or any disruption in such manufacturing or the flow of product from these manufacturers, may adversely affect our business results.
In an effort to achieve additional cost savings and operation benefits, we have continued to outsource the manufacturing and assembly of our printers and terminals to contract manufacturers in Asia. Approximately 80% of our printer and terminal manufacturing is conducted by one third party manufacturer in Asia.

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

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

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

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

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

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

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

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

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

- fluctuating foreign currency rates could restrict sales, or increase costs of purchasing, in foreign countries;
- foreign governments may impose burdensome tariffs, quotas, taxes, trade barriers or capital flow restrictions;
- political and economic instability may reduce demand for our products or put our foreign assets at risk;
- restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets; and
- potentially limited intellectual property protection in certain countries, such as China, may limit recourse against infringing products or cause us to refrain from selling in certain geographic territories.

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

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

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

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

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

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

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

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

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

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

key employees, could have a material adverse effect on our results of operations.

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

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

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

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

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

Our stock price may fluctuate significantly.

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

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

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

Limited trading volume and a reduction in analyst coverage of our common stock may contribute to its price volatility.

Our common stock is traded on the NASDAQ Global Market. During the year ended December 31, 2015, the average daily trading volume for our common stock as reported by the NASDAQ Global Market was approximately 25,000 shares. We are uncertain whether a more active trading market in our common stock will develop. In addition, many investment banks no longer find it profitable to provide securities research on micro-cap and small-cap companies. As a result, relatively small trades may have a significant impact on the market price of our common stock, which could increase the volatility and depress the price of our common stock.

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

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

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

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

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

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

Intangible computer software costs may not be recoverable.

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

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

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

Fluctuations in oil and gas prices could adversely affect drilling and exploration activities by oil and gas companies and our revenue in our Printrex market. If oil and gas prices remain volatile, or if oil or gas prices remain low or decline further, the demand for our Printrex products could be adversely affected.
The demand for our Printrex products depends on the level of spending by oil and gas companies for drilling and exploratory activities, which are affected by short-term and long-term trends in oil and gas prices, including current and anticipated oil and gas prices. Oil and gas prices, as well as the level of drilling and exploration, historically have been extremely volatile and are expected to continue to be highly volatile. If oil and gas prices continue to remain low or decline further, or if there is a further reduction in drilling and exploration activities, the demand for our Printrex products could be materially and adversely affected.

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

Item 1B. Unresolved Staff Comments.
Not applicable.

Item 2. Properties.
Our principal facilities as of December 31, 2015 are listed below and we believe that all facilities generally are in good condition, adequately maintained and suitable for their present and currently contemplated uses.

Location	Operations Conducted	Size (Approx. Sq. Ft.)	Owned or Leased	Lease Expiration Date
Hamden, Connecticut	Executive offices and TSG sales office	11,100	Leased	April 23, 2017
Ithaca, New York *	Hardware design and development, assembly and service facility	73,900	Leased	May 31, 2016
Las Vegas, Nevada	Software design and development, service center and casino and gaming sales office	19,600	Leased	October 31, 2022
Doncaster, United Kingdom	Sales office and service center	2,800	Leased	August 1, 2016
Houston, Texas	Sales office and service center	100	Leased	April 30, 2016
Macau, China	Sales office	180	Leased	June 30, 2016
		107,680		

*On January 14, 2016 we signed an amendment to extend our lease in Ithaca to May 31, 2021. The amendment is included as an exhibit to this 10-K.

Item 3. Legal Proceedings.

On June 8, 2012, Avery Dennison Corporation ("AD") filed a civil complaint against us and a former employee of ours and of AD, in the Court of Common Pleas (the "Court") in Lake County, Ohio. The complaint alleged that we and this former employee misappropriated unspecified trade secrets and confidential information from AD related to the design of our food safety terminals. The complaint requested a preliminary and permanent injunction against us from manufacturing and selling our Ithaca® 9700 and 9800 food safety terminals. On July 16, 2012, we filed our answer, affirmative defenses and counterclaims, seeking all available damages including legal fees. A hearing on the plaintiff's motion for preliminary injunction took place in August 2012, and in November 2012, the Court denied this request. AD filed an appeal of the Court's ruling to the Eleventh Appellate District (the "Court of Appeals"), which heard oral arguments on the appeal on July 16, 2013. On July 23, 2013, AD requested that the Court of Appeals enjoin our further sale and marketing of the food safety terminals, pending the Court of Appeals' decision. On July 29, 2013, we opposed this request. On October 15, 2013, the Court of Appeals ruled in our favor, affirming the Court's decision and denying AD's further request of an injunction pending the Court of Appeals' decision. On October 24, 2013, AD filed a motion seeking that the Court of Appeals reconsider its decision. On April 16, 2014, the Court of Appeals denied AD's motion to reconsider its decision. On July 28, 2014, AD filed a motion requesting leave from the Court to file an amended complaint and indicating that it has elected to pursue only its claim for damages, dropping its claim for injunctive relief. On September 4, 2014, the Court granted AD's motion to file an amended complaint. On September 25, 2014, we filed our answer, affirmative defenses and counterclaims with respect to the amended complaint, seeking all available damages including legal fees. On January 30, 2015, we filed a motion for summary judgment seeking judgment in our favor on all counts as to the Company. On the same day, AD filed two motions for partial summary judgment. On February 17, 2015, we opposed both of AD's motions, and AD opposed our motion. On February 23, 2015, the Company filed a reply brief in support of its motion for summary judgment. A trial was scheduled to begin on April 21, 2015, however, on March 25, 2015 the parties executed a confidential settlement agreement and release (the "Settlement Agreement") in which the parties mutually agreed to resolve the dispute that was the subject of the lawsuit filed by AD against the Company to the parties' mutual satisfaction. Under the terms of the Settlement Agreement, we agreed to pay AD $3,600,000 payable on or before April 8, 2015 and also to qualify certain AD labels for use on our food safety terminals at an estimated cost of $25,000. We made the $3,600,000 payment to AD on April 8, 2015 and borrowed $2,500,000 under our revolving credit facility with TD Bank to fund the payment. We recorded the total expense of $3,625,000 in the fourth quarter 2014 as an operating expense included in the line item "Legal fees and settlement expenses associated with lawsuit" on the Consolidated Statement of Operations and as a current liability included in the line item "Accrued lawsuit settlement expenses" on the Consolidated Balance Sheet. In the second quarter of 2015 we reversed $25,000 of this expense because AD did not provide the label testing information by the due date required per the Settlement Agreement.

Item 4. Mine Safety Disclosures.
Not applicable.

PART II

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

Our common stock is traded on the NASDAQ Global Market under the symbol TACT. As of February 29, 2016, there were 363 holders of record of the common stock. The high and low bid sales prices of the common stock reported during each quarter of the years ended December 31, 2015 and 2014 were as follows:

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	High	Low	High	Low
First Quarter	$6.85	$5.46	$12.99	$9.80
Second Quarter	7.50	5.02	11.50	9.12
Third Quarter	9.20	6.40	10.44	6.45
Fourth Quarter	10.46	7.95	6.95	5.19

In September 2012, we announced that our Board of Directors approved the initiation of a quarterly cash dividend program which is subject to the Board’s approval each quarter. On May 6, 2014, our Board of Directors declared an increase to the quarterly cash dividend from $0.07 per share to $0.08 per share. Dividends declared and paid on our common stock totaled $2,485,000 or $0.32 per share and $2,556,000 or $0.31 per share, in 2015 and 2014, respectively. On February 1, 2016, our Board of Directors approved the first quarter 2016 dividend in the amount of $0.08 per share payable on or about March 15, 2016 to common shareholders of record at the close of business on February 19, 2016.

Issuer Purchases of Equity Securities

Prior to its expiration on July 31, 2015, we maintained a stock repurchase program. Under this stock repurchase program, we were authorized to repurchase up to $7,500,000 of our outstanding shares of common stock from time to time in the open market, depending on market conditions, share price and other factors. We use the cost method to account for treasury stock purchases, under which the price paid for the stock is charged to the treasury stock account. Repurchases of our common stock are accounted for as of the settlement date. From January 1, 2015 through the expiration date of this stock repurchase program, we repurchased 166,553 shares of our common stock for approximately $1,020,000 at an average price of $6.12 per share. From the start of this stock repurchase program on August 11, 2014 through December 31, 2014, we repurchased 434,998 shares of our common stock for approximately $2,634,000 at an average price per share of $6.06. From January 1, 2005 through the expiration of the stock repurchase program on July 31, 2015, we repurchased a total of 3,388,589 shares of common stock for approximately $26,181,000, at an average price of $7.73 per share.

On February 25, 2016, our Board of Directors approved a new stock repurchase program. Under this new repurchase program, we are authorized to repurchase up to $5,000,000 of our outstanding shares of common stock from time to time in the open market through December 31, 2017 at prevailing market prices based on market conditions, share price and other factors.

Securities Authorized for Issuance under Equity Compensation Plans

For a discussion of the Company’s equity compensation plan information, please see Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Form 10-K.

10

CORPORATE PERFORMANCE GRAPH

The following graph compares the cumulative total return on the Company's Common Stock from December 31, 2010 through December 31, 2015, with the CRSP Total Return Index for the Nasdaq Stock Market (U.S.) and the Nasdaq Computer Hardware Stocks Index. The graph assumes that $100 was invested on December 31, 2010 in each of TransAct's common stock, the CRSP Total Return Index for the Nasdaq Stock Market (U.S.) and the Nasdaq Computer Manufacturer Stocks Index, and that all dividends were reinvested.

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

	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
TransAct Technologies Incorporated Common Stock	$100.00	$77.07	$76.65	$133.01	$58.07	$91.19
CRSP Total Return Index for the Nasdaq Stock Market (U.S.)	$100.00	$100.31	$116.79	$155.90	$175.33	$176.17
Nasdaq Computer Hardware Stocks Index	$100.00	$104.83	$125.68	$147.85	$200.43	$182.49

11

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,				
	2015	2014	2013	2012	2011
Consolidated Statement of Operations Data:					
Net sales	$59,676	$53,108	$60,141	$68,386	$65,969
Gross profit	24,978	21,711	25,092	25,982	24,626
Operating expenses	20,510	25,483	18,475	20,380	17,637
Operating income (loss)	4,468	(3,772)	6,617	5,602	6,989
Net income (loss)	3,092	(2,421)	4,935	3,621	4,676
Net income (loss) per share:					
Basic	0.40	(0.29)	0.57	0.40	0.50
Diluted	0.39	(0.29)	0.57	0.40	0.49
Dividends declared and paid per share	0.32	0.31	0.27	0.06	-

	December 31,				
	2015	2014	2013	2012	2011
Consolidated Balance Sheet Data:					
Total assets	$32,569	$35,491	$40,408	$45,228	$42,740
Working capital	18,983	18,361	24,871	25,492	27,222
Shareholders' equity	25,728	25,394	32,521	33,369	35,313

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

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

Overview
During 2015, we focused our efforts on sales execution and growing the revenue of our new, value-added products and technologies. From 2012 to 2015, we spent significant time and resources developing new products such as the Ithaca® 9700 food safety terminal, EPICENTRAL™ software for the casino and gaming industry, RESPONDER MP2™ mobile printer for vehicles and our Printrex® 920 and 980 color printers for the oil and gas industry. With that first development phase behind us we were able to fully shift our focus to growing our revenue resulting in a 12% increase overall from the prior year. Additionally, we were able to successfully execute against our cost reduction initiatives and lowered operating expenses by over $1 million during 2015 upon completing the product development investments we made during the past three years.

During 2015, our sales increased due to continued growth of sales in our food safety terminals as well as higher lottery printer sales. The investments we have made in the food safety market have resulted in strong sales growth that we believe will continue to grow in future years. In regards to our casino and gaming markets, we continued to gain domestic market share despite a relative weak replacement cycle in the domestic casino and gaming market as well as sluggishness in the international markets. Our Printex market has seen a significant negative impact from the world-wide decline in oil and gas prices. While it is difficult to predict when a rebound of oil and gas prices will occur, with the adjustments we have made to our cost structure and focus on sales, we have experienced considerable growth during 2015.

During 2015, our total net sales increased 12% to approximately $59,676,000. See the table below for a breakdown of our sales by market:

(In thousands)	Year ended December 31, 2015		Year ended December 31, 2014		Change $	Change %
Food safety, banking and POS	$ 13,029	21.8%	$ 9,308	17.5%	$ 3,721	40.0%
Casino and gaming	21,755	36.5%	22,731	42.8%	(976)	(4.3%)
Lottery	9,468	15.9%	4,761	9.0%	4,707	98.9%
Printrex	1,381	2.3%	3,910	7.4%	(2,529)	(64.7%)
TSG	14,043	23.5%	12,398	23.3%	1,645	13.3%
Total net sales	$ 59,676	100.0%	$ 53,108	100.0%	$ 6,568	12.4%

Sales of our food safety, banking and POS products increased 40% in 2015 compared to 2014. In the food safety market, our focus lies with providing terminals that print food rotational date and nutritional labels to help restaurants and other food providing establishments effectively manage food rotation and spoilage. Sales of our food safety terminals almost doubled in 2015; increasing 92% over 2014 and also increasing sequentially each quarter of 2015. The increase resulted largely from the continued success of our AccuDate™ 9700 terminal. In addition to the continued market penetration of the AccuDate™ 9700, we introduced a new food safety terminal, the AccuDate™ Pro and experienced the first revenue contributions from this product during 2015. In the POS market, we focus primarily on supplying printers that print receipts or linerless labels for customers in the restaurant and quick serve markets. During 2015, sales of our POS printers increased 30% compared to 2014, primarily driven by sales of our Ithaca ® 9000 printers to support new initiatives at McDonald's. We expect this level of sales to continue into 2016. 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., though we have recently de-emphasized our focus on this legacy market Opportunities in the banking market are project oriented and, as a result, our banking printer sales can fluctuate significantly year-to-year. During 2015, our banking printer sales decreased 16%. Our focus for 2016 will be to continue increasing market penetration with our line of food safety terminals as well as continue to support McDonald's initiatives and accelerated rollouts with our Ithaca® 9000 printer. However, we have aligned our sales force mostly towards food safety.

Sales of our casino and gaming products decreased 4% in 2015 compared to 2014. In our casino and gaming market, our focus lies primarily in supplying printers for use in slot machines at casinos and racetracks, as well as in other electronic gaming devices that print tickets or receipts, worldwide. Additionally, we supplement these printer sales with revenue from EPICENTRAL™, our promotional printing system that enables casino operators to create promotional coupons and marketing messages and print them real time at the slot machine. Domestic printer sales increased 6% even with a weak replacement cycle for printers, as we believe we increased market share during 2015. International printer sales declined by 11% due to sluggishness in Europe, Australia and Asia. EPICENTRAL™ software sales decreased 28% due to one installation completed in 2015 compared to a larger, multi-property installation completed during 2014. We plan to make strategic investments to improve and enhance EPICENTRAL for Aristocrat and to add features requested by our customers during 2016 which we believe will lead to future revenue growth beginning in 2016.

In the lottery market, we continue to hold a leading position based on our long-term relationship with IGT (formerly GTECH Corporation), our largest customer and the world's largest provider of lottery terminals. IGT has been our customer since 1995, and we continue to maintain a good relationship with them. On May 29, 2015, we signed a non-exclusive agreement with IGT to provide thermal lottery printers to IGT for various lottery applications through December 31, 2019. Prior to this agreement, we had an exclusive purchase agreement whereby IGT exclusively purchased all of its requirements for thermal on-line lottery printers from us and we exclusively sold such printers to IGT. During 2015, total lottery printer sales to IGT increased approximately 99%, compared to 2014, due to a number of new installations domestically and internationally. Our sales to IGT each year are directly dependent on the timing and number of new and upgraded lottery terminal installations IGT performs and are not indicative of IGT's overall business or revenue. While we no longer have an exclusive arrangement with IGT, we do not believe this will significantly impact our business as we continue to have a good relationship with IGT and we now have the ability to sell our market leading products to other lottery system customers. In fact, we recently launched our new EPIC 3000 lottery printer for the lottery market and we expect to see our first contributions from this product during 2016.

Sales of our Printrex branded printers include wide format, rack mounted and vehicle mounted thermal printers used by customers to log and plot oil field and down hole well drilling data in the oil and gas exploration industry. Sales in this market also includes wide format printers used to print test results in ophthalmology devices in the medical industry, as well as vehicle mounted printers used to print schematics and certain other critical information in emergency services vehicles and other mobile printing applications. During 2015, we experienced a 65% lower Printrex product sales due to the negative impact on drilling activity from our customers resulting from the steep decline in worldwide oil prices. Although we are uncertain when the oil and gas market will recover, we have taken prudent steps to align our cost structure with the current revenue level while we wait for the rebound to occur. In the mobile market, we recognized the first sales contributions of 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. Although this is our first product entrant into this market, we remain optimistic that the Responder MP2™ will begin to add to our revenue stream in the years to come.

Our TSG group, which sells service, replacement parts and consumable products, including receipt paper, ribbons and inkjet cartridges, continues to offer a recurring revenue stream for the Company. TSG sales increased 13% in 2015 from 2014 primarily due to higher sales of replacement parts mainly to IGT for the lottery market. This increase was partially offset by a decrease in sales of Printrex consumables due to lower usage by our oil and gas customers due to depressed oil prices, as well as lower sales of HP inkjet cartridges used in our banking printers as we deemphasize our focus on this commoditized product.

Operationally, our gross margin increased to a record high 41.9% in 2015 from 40.9% in 2014. Our gross margin in 2015 improved due to a more favorable sales mix compared to 2014 as we experienced higher sales of our higher margin value-added food safety terminals and TSG products. This truly demonstrates the positive impact the transition to our new products is having on our gross margin. We believe this trend will continue in 2016 as sales of our new products continue to grow and become a larger portion of our overall sales. In 2015 we achieved operating margin of 7.5% compared to a negative operating margin of 7.1% in 2014. The negative operating margin in 2014 resulted mainly from $5.5 million in legal and settlement expenses we incurred related to the AD Lawsuit that was settled in March 2015.

We reported net income of $3,092,000 and net income per diluted share of $0.39 for 2015, compared to a net loss of $2,421,000 and net loss per diluted share of $0.29 for 2014. In terms of cash flow for 2015, we experienced a very strong year, generating $5,600,000 of cash from operating activities. We also returned $3,500,000 to our shareholders in the form of $2,485,000 for cash dividends and $1,020,000 for treasury share while still finishing the year with cash and cash equivalents of $4,473,000 and no debt on our Consolidated Balance Sheet at December 31, 2015.

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

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

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

Our software solution, EPICENTRALTM, enables casino operators to create promotional coupons and marketing messages and to print them in real-time at the slot machine. Revenue arrangements for EPICENTRALTM include multiple deliverables and as a result such arrangements are accounted for in accordance with both ASC 605-25, "Multiple-Element Arrangements" and ASC 985-605, "Software." EPICENTRALTM is primarily comprised of both a software component, which is licensed to the customer, and a hardware component. EPICENTRAL™ contains both software and hardware that are integrated to deliver the system's full functionality. These arrangements are accounted for in accordance with ASC 605-25, "Multiple-Element Arrangements". EPICENTRAL™ can also include an additional software offering, Mobile Host, that allows the customer to access certain applications on mobile devices. Mobile Host is accounted for in accordance with ASC 985-605, "Software" as Mobile Host software does not function together with the hardware device to deliver its essential functionality.

Revenue, inclusive of software license fees, is generally recognized upon installation and formal acceptance by the customer with the exception of any amount allocated to free maintenance which is deferred and recognized over the initial maintenance period, generally one year.

For EPICENTRALTM and other multiple deliverable arrangements, we consider whether the deliverables in an arrangement are within the scope of existing higher-level GAAP and apply such literature to the extent that it provides guidance regarding whether to separate multiple-deliverable arrangements and how to allocate value among those separate units of accounting. When we enter into a multiple deliverable arrangement, we also determine whether revenue arrangements consist of more than one unit of accounting. At that time, we allocate arrangement consideration to the separate units of accounting based on a relative selling price hierarchy, except where amounts allocable to the delivered units is limited to that which is contingent upon the delivery of additional deliverables or meeting other specified performance conditions. The relative selling price for each element is based upon the following selling price hierarchy: vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") to the extent that VSOE or TPE are not available.

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

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

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

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

Accounts Receivable – We have standardized credit granting and review policies and procedures for all customer accounts, including: credit reviews of all new customer accounts; ongoing credit evaluations of current customers; credit limits and payment terms based on available credit information; and adjustments to credit limits based upon payment history and the customer's current creditworthiness. We also provide an estimate of doubtful accounts based on historical experience and specific customer collection issues. Our allowance for doubtful accounts as of December 31, 2015 was approximately $50,000, or less than 1% of outstanding accounts receivable, which we feel is appropriate considering the overall quality of our accounts receivable. While credit losses have historically been within expectations and the reserves established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience.

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

Goodwill and Intangible Assets – We acquire businesses in purchase transactions that result in the recognition of goodwill and intangible assets. The determination of the value of intangible assets requires management to make estimates and assumptions. In accordance with Accounting Standards Codification ("ASC") 350-20 "Goodwill", acquired goodwill is not amortized but is subject to impairment testing at least annually and when an event occurs or circumstances change, that indicate it is more likely than not an impairment exists. Factors considered that may trigger an impairment review are: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of acquired assets or the strategy for the overall business; significant negative industry or economic trends; and significant decline in market capitalization relative to net book value. Definite lived intangible assets are amortized and are tested for impairment when appropriate. We reported $2,621,000 of goodwill and $888,000 of unamortized definite-lived intangible assets at December 31, 2015. We have determined that no goodwill impairment has occurred based on our assessment as of December 31, 2015 when the impairment review is performed.

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

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

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

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

Contingencies – We record an estimated liability related to contingencies based on our estimates of the probable outcomes pursuant to ASC 450, "Contingencies." On a quarterly basis, we assess the potential liability related to pending litigation, audits and other contingencies and confirm or revise estimates and reserves as appropriate. If the actual liabilities are settled in an amount greater than those recorded on the balance sheet, a charge to income would be recorded. As of December 31, 2014 we had reduced the contingent liability to $0 in connection with a contingent consideration arrangement entered into as part of the Printrex acquisition. The reduction made in 2014 resulted from a decrease of $60,000 that was the result of our revised estimate of the expected payout in connection with this arrangement primarily due to changes in probabilities and decreases in revenue and gross margin estimates, and was credited to general and administrative expense during 2014. No contingent liability reserve was recorded in 2015 and we will not make any further reserves in the future in regards to the Printrex acquisition as the contingent consideration measurement period expired on December 31, 2014. See Note 3 to the Consolidated Financial Statements for further discussion.

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

Results of Operations: Year ended December 31, 2015 compared to year ended December 31, 2014

Net Sales. Net sales, which include printer, terminal and software sales as well as sales of replacement parts, consumables and maintenance and repair services, by market for the years ended December 31, 2015 and 2014 were as follows:

	Year ended		Year ended		Change	
(In thousands)	December 31, 2015		December 31, 2014		$	%
Food safety, banking and POS	$13,029	21.8%	$9,308	17.5%	$3,721	40.0%
Casino and gaming	21,755	36.5%	22,731	42.8%	(976)	(4.3%)
Lottery	9,468	15.9%	4,761	9.0%	4,707	98.9%
Printrex	1,381	2.3%	3,910	7.4%	(2,529)	(64.7%)
TSG	14,043	23.5%	12,398	23.3%	1,645	13.3%
	$59,676	100.0%	$53,108	100.0%	$6,568	12.4%
International*	$13,946	23.4%	$14,541	27.4%	$(595)	(4.1%)

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

15

Net sales for 2015 increased $6,568,000, or 12%, from 2014. Printer and terminal sales volume increased 22% to approximately 167,000 units primarily due to increases in the lottery and food safety, banking and POS markets, of 97% and 33%, respectively. The average selling price of our printers decreased approximately 7% from 2014 to 2015 due primarily to a large portion of our sales being generated from lower priced lottery printers. Overall, international sales decreased $595,000, or 4%, primarily driven by lower sales in the international casino and gaming, TSG and Printrex markets. The declines in the international market were partially offset by increases in both the food safety, banking and POS and lottery markets.

Food safety, banking and POS: Revenue from the food safety, banking and POS market includes sales of food safety terminals which are printing devices that consist of an operating system, a touchscreen and one or two thermal print mechanisms, that print easy-to-read expiration and "enjoy by" date labels to help restaurants effectively manage food rotation and spoilage. Revenue from this market also includes sales of thermal, inkjet and impact printers used primarily by retailers in the restaurant (including fine dining, casual dining and fast food) and hospitality industries to print receipts for consumers, validate checks, or print on linerless labels or other inserted media. In addition, revenue includes sales of printers used by banks, credit unions and other financial institutions to print receipts and/or validate checks at bank teller stations. A summary of sales of our worldwide food safety, banking and POS products for the years ended December 31, 2015 and 2014 is as follows:

(In thousands)	Year ended December 31, 2015		Year ended December 31, 2014		Change $	Change %
Domestic	$12,037	92.4%	$8,984	96.5%	$3,053	34.0%
International	992	7.6%	324	3.5%	668	206.2%
	$13,029	100.0%	$9,308	100.0%	$3,721	40.0%

The increase in both domestic and international food safety, banking and POS product revenue from 2014 was primarily driven by a 92% increase in sales of our food safety terminals due largely to the resumption of shipments to our distributor who made a large initial stocking order in 2013 and did not make any purchases during the first nine months of 2014. Also, 2015 food safety sales benefited from shipments to a large national quick service chain store as well as first revenue contributions from our newly launched AccuDate™ Pro food safety terminal. We expect sales of our food safety terminals to continue to increase during 2016. In addition to increased food safety terminal sales, sales of our Ithaca®9000 printers increased 31% due to new initiatives by McDonald’s Corporation that started and accelerated in 2015. We expect sales to McDonalds for these initiatives to continue into 2016. These increases were partially offset by lower sales of our legacy banking printers and other POS printers. We expect sales of these legacy products to continue to decline during 2016 as we shift sales focus to our new products.

Casino and gaming: Revenue from the casino and gaming market includes sales of printers used in slot machines, video lottery terminals (“VLTs”), and other gaming machines that print tickets or receipts instead of issuing coins (“ticket-in, ticket-out” or “TITO”) at casinos and racetracks (“racinos”) and other gaming venues worldwide. Revenue from this market also includes sales of printers used in the international off-premise gaming market in gaming machines such as Amusement with Prizes (“AWP”), Skills with Prizes (“SWP”) and Fixed Odds Betting Terminals (“FOBT”) at non-casino gaming establishments. Revenue from this market also includes royalties related to our patented casino and gaming technology. In addition, casino and gaming market revenue includes sales of our software solution (including annual software maintenance for), the EPICENTRALTM print system that enables casino operators to create promotional coupons and marketing messages and to print them real-time at the slot machine. A summary of sales of our worldwide casino and gaming products for the years ended December 31, 2015 and 2014 is as follows:

(In thousands)	Year ended December 31, 2015		Year ended December 31, 2014		Change $	Change %
Domestic	$11,354	52.2%	$10,437	45.9%	$917	8.8%

International	10,401	47.8%	12,294	54.1%	(1,893)	(15.4%)
	$21,755	100.0%	$22,731	100.0%	$(976)	(4.3%)

During 2015, domestic printer sales increased 6% compared to 2014 which we believe is due to market share gains, as the replacement cycle for slot machines remains weak. Domestic EPICENTRAL™ software sales also increased 79% as we completed one installation during 2015 compared to no domestic installations completed in 2014.

International sales declined in 2015 due to decreases in sales of our thermal casino printer and EPICENTRALTM software of 19% and 87%, respectively. EPICENTRAL™ software sales decreased as we had no new international installations in 2015 compared to one large multi-property installation for a customer in South America in 2014. We expect EPICENTRAL software sales to be higher in 2016 than in 2015 based on our backlog of signed contracts and pipeline of prospects. The decreases in sales of thermal casino printer and EPICENRAL™ were partially offset by a 22% increase in sales of our off-premises thermal gaming printers in 2015 compared to 2014 largely due to installations in sports betting machines in Spain. Sales of our off-premise gaming printers are largely project-oriented and therefore may fluctuate significantly from quarter to quarter and year to year.

Lottery: Revenue from the lottery market includes sales of thermal on-line and other lottery printers to IGT and its subsidiaries for various lottery applications. A summary of sales of our worldwide lottery printers for the years ended December 31, 2015 and 2014 is as follows:

	Year ended		Year ended		Change	
(In thousands)	December 31, 2015		December 31, 2014		$	%
Domestic	$8,064	85.2%	$4,682	98.3%	$3,382	72.2%
International	1,404	14.8%	79	1.7%	1,325	1,677.2%
	$9,468	100.0%	$4,761	100.0%	$4,707	98.9%

Our sales to IGT are directly dependent on the timing and number of new and upgraded lottery terminal installations IGT (formerly GTECH Corporation) performs, and as a result, may fluctuate significantly quarter-to-quarter and year-to-year and are not indicative of IGT's overall business or revenue. International sales increased significantly due to a one-time sale to IGT of a custom lottery printer for the Spanish lottery.

Printrex: Printrex branded printers are sold into markets that include wide format, rack mounted and vehicle mounted black/white and color thermal printers used by customers to log and plot oil field and down hole well drilling data in the oil and gas exploration industry. It also includes high-speed color inkjet desktop printers used to print logs at data centers of the oil and gas field service companies. Revenue in this market also includes sales of wide format printers used to print test results in ophthalmology devices in the medical industry, as well as vehicle mounted printers used to print schematics and certain other critical information in emergency services vehicles and other mobile printing applications. A summary of sales of our worldwide Printrex printers for the years ended December 31, 2015 and 2014 is as follows (in thousands, except percentages):

	Year ended		Year ended		Change	
(In thousands)	December 31, 2015		December 31, 2014		$	%
Domestic	$1,088	78.8%	$3,352	85.7%	$(2,264)	(67.5%)
International	293	21.2%	558	14.3%	(265)	(47.5%)
	$1,381	100.0%	$3,910	100.0%	$(2,529)	(64.7%)

The decrease in Printrex printers is primarily due to 67% lower worldwide sales of printers in the oil and gas market due to the continued negative impact from the decline in worldwide oil prices we expect to continue to negatively impact our sales during 2016. In addition, worldwide sales of our medical and mobile printers declined 59% due largely to the loss of a customer in the medical industry. Due to the low margin on this product, we do not believe the loss of this customer will have a material adverse impact to our 2016 operating results. This decrease was partially offset by the first contribution from our RESPONDER mobile printer in 2015.

TSG: Revenue from TSG includes sales of consumable products (inkjet cartridges, ribbons, receipt paper, color thermal paper and other printing supplies), replacement parts, maintenance and repair services, testing services, refurbished printers, and shipping and handling charges. A summary of sales in our worldwide TSG market for the years ended December 31, 2015 and 2014 is as follows:

	Year ended		Year ended		Change	
(In thousands)	December 31, 2015		December 31, 2014		$	%
Domestic	$13,187	93.9%	$11,112	89.6%	$2,075	18.7%
International	856	6.1%	1,286	10.4%	(430)	(33.4%)
	$14,043	100.0%	$12,398	100.0%	$1,645	13.3%

The increase in domestic revenue from TSG is primarily due to a 58% increase in sales of replacement parts mainly to IGT who purchased unusually high volume of spare parts for the lottery market in 2015 that is not likely to repeat in 2016 and to a lesser extent a 22% increase in services revenue largely from project oriented paper testing services. These increases were partially offset by a 9% decline in non-Printrex consumables, largely from the decline of HP inkjet cartridges, as we continue to deemphasize this commoditized consumable product. As a result, we expect sales of HP inkjet cartridges to continue to decline in 2016. In addition, consumables revenue for our Printrex color printers declined by 32%, due to lower printing usage resulting from reduced drilling activity caused by the decline in worldwide oil prices.

Internationally, TSG revenue decreased due primarily to lower sales of replacement parts and accessories in 2015 compared to 2014 due to a unusually high sales to IGT in 2014 to support international legacy lottery printers that did not reoccur in 2015.

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

	December 31, 2015	2014	Percent Change	Percent of Total Sales - 2015	Percent of Total Sales - 2014
Year ended	$24,978	$21,711	15.0%	41.9%	40.9%

Gross profit is measured as revenue less cost of sales, which includes primarily the cost of all raw materials and component parts, direct labor, manufacturing overhead expenses, cost of finished products purchased directly from our contract manufacturers and expenses associated with installations and maintenance of our EPICENTRAL® print system. Gross profit increased $3,267,000, or 15%, on a 12% increase in sales. Additionally, our gross margin increased by 100 basis points as we experienced a more favorable sales mix during 2015 compared to 2014. This increase in gross margin was achieved despite a large portion of our sales being generated from our lottery printers during 2015 which carry lower gross margin than our other products. The improved gross margin was attained primarily due to higher margin contributions from TSG products and food safety terminal sales. We expect our gross margin for 2016 to increase as we expect to benefit from increased sales of our newer, value-added products.

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

	December 31, 2015	2014	Percent Change	Percent of Total Sales - 2015	Percent of Total Sales - 2014
Year ended	$3,599	$4,302	(16.3%)	6.0%	8.1%

Engineering, design and product development expenses primarily include salary and payroll related expenses for our hardware and software engineering staff, depreciation and design expenses (including prototype printer expenses, outside design and testing services, and supplies). Such expenses decreased $703,000 or 16%, due primarily to a 17% reduction of engineering compensation costs as a result of our 2014 cost reduction initiatives as well as lower pre-production expenses during 2015 compared to 2014 when we were in the process of launching three new products. We expect engineering, design and product development expenses in 2016 to be higher than 2015 due to increased strategic investment in our EPICENTRAL™ software development and continued expansion of our line of food safety terminals.

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

December 31,		Percent	Percent of	Percent of
2015	2014	Change		