

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2012
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

TRANSACT
Technologies Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

06-1456680

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

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

(Address of Principal Executive Offices)

06518

(Zip Code)

(203) 859-6800

(Registrant's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report.)

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

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 (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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. (check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of October 31, 2012, the number of shares outstanding of the Company's common stock, \$0.01 par value, was 8,759,236.

TRANSACT TECHNOLOGIES INCORPORATED

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

| | <u>September 30,</u> <u>2012</u> | <u>December 31,</u> <u>2011</u> |
|---|-------------------------------------|------------------------------------|
| <i>(In thousands, except share data)</i> | | |
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,577 | \$ 6,863 |
| Accounts receivable, net | 9,814 | 9,583 |
| Inventories | 10,608 | 14,151 |
| Prepaid income taxes | 447 | 446 |
| Deferred tax assets | 1,636 | 1,636 |
| Other current assets | 750 | 375 |
| Total current assets | <u>31,832</u> | <u>33,054</u> |
| Fixed assets, net | 3,207 | 3,358 |
| Goodwill | 2,621 | 2,518 |
| Deferred tax assets | 882 | 890 |
| Intangible assets, net of accumulated amortization of \$1,168 and \$730, respectively | 2,445 | 2,861 |
| Other assets | 114 | 59 |
| | <u>9,269</u> | <u>9,686</u> |
| Total assets | <u>\$ 41,101</u> | <u>\$ 42,740</u> |
| Liabilities and Shareholders' Equity: | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,928 | \$ 3,019 |
| Accrued liabilities | 3,267 | 2,672 |
| Deferred revenue | 183 | 141 |
| Total current liabilities | <u>7,378</u> | <u>5,832</u> |
| Deferred revenue, net of current portion | 176 | 224 |
| Deferred rent, net of current portion | 322 | 357 |
| Accrued contingent consideration (Note 2) | 680 | 680 |
| Other liabilities | 317 | 334 |
| | <u>1,495</u> | <u>1,595</u> |
| Total liabilities | <u>8,873</u> | <u>7,427</u> |
| Commitments and contingencies (Note 9) | | |
| Shareholders' equity: | | |
| Common stock, \$0.01 par value, 20,000,000 shares authorized; 10,891,577 and 10,851,955 shares issued, respectively; 8,759,236 and 9,390,262 shares outstanding, respectively | 109 | 108 |
| Additional paid-in capital | 25,780 | 25,058 |
| Retained earnings | 23,352 | 21,613 |
| Accumulated other comprehensive loss, net of tax | (55) | (71) |
| Treasury stock, at cost, 2,132,341 and 1,461,693 shares, respectively | (16,958) | (11,395) |
| Total shareholders' equity | <u>32,228</u> | <u>35,313</u> |
| Total liabilities and shareholders' equity | <u>\$ 41,101</u> | <u>\$ 42,740</u> |

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--|---------------|--------------------------|-----------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| | <i>(In thousands, except share data)</i> | | | |
| Net sales | \$ 15,358 | \$ 14,111 | \$ 48,770 | \$ 52,324 |
| Cost of sales | <u>9,679</u> | <u>8,761</u> | <u>30,471</u> | <u>33,379</u> |
| Gross profit | <u>5,679</u> | <u>5,350</u> | <u>18,299</u> | <u>18,945</u> |
| Operating expenses: | | | | |
| Engineering, design and product development | 1,087 | 848 | 3,252 | 2,432 |
| Selling and marketing | 1,571 | 1,458 | 4,846 | 4,630 |
| General and administrative | 1,919 | 1,919 | 5,822 | 5,576 |
| Legal fees associated with lawsuit (Note 9) | 1,036 | - | 1,507 | - |
| Business consolidation and restructuring (Note 5) | 23 | - | 140 | 184 |
| | <u>5,636</u> | <u>4,225</u> | <u>15,567</u> | <u>12,822</u> |
| Operating income | <u>43</u> | <u>1,125</u> | <u>2,732</u> | <u>6,123</u> |
| Interest and other income (expense): | | | | |
| Interest, net | 3 | 7 | 7 | 18 |
| Other, net | <u>(10)</u> | <u>(17)</u> | <u>(21)</u> | <u>-</u> |
| | <u>(7)</u> | <u>(10)</u> | <u>(14)</u> | <u>18</u> |
| Income before income taxes | 36 | 1,115 | 2,718 | 6,141 |
| Income tax provision | 13 | 276 | 979 | 2,035 |
| Net income | <u>\$ 23</u> | <u>\$ 839</u> | <u>\$ 1,739</u> | <u>\$ 4,106</u> |
| Net income per common share: | | | | |
| Basic | \$ 0.00 | \$ 0.09 | \$ 0.19 | \$ 0.44 |
| Diluted | \$ 0.00 | \$ 0.09 | \$ 0.19 | \$ 0.43 |
| Shares used in per-share calculation: | | | | |
| Basic | 8,822 | 9,471 | 9,110 | 9,435 |
| Diluted | 8,911 | 9,661 | 9,205 | 9,651 |

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|---------------|--------------------------|-----------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| | <i>(In thousands)</i> | | | |
| Net income | \$ 23 | \$ 839 | \$ 1,739 | \$ 4,106 |
| Foreign currency translation adjustment, net of tax | 13 | (8) | 16 | - |
| Comprehensive income | <u>\$ 36</u> | <u>\$ 831</u> | <u>\$ 1,755</u> | <u>\$ 4,106</u> |

See notes to Condensed Consolidated Financial Statements.

TRANSACTION TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

Nine Months Ended
September 30,

2012 **2011**

(In thousands)

| | | | | |
|--|----|----------------|----|----------------|
| Cash flows from operating activities: | | | | |
| Net income | \$ | 1,739 | \$ | 4,106 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Share-based compensation expense | | 402 | | 445 |
| Incremental tax benefits from stock options exercised | | (42) | | (439) |
| Depreciation and amortization | | 1,314 | | 1,177 |
| (Gain) loss on disposal of fixed assets | | (12) | | 24 |
| Foreign currency transaction loss (gain) | | 31 | | (2) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | | (228) | | 1,292 |
| Inventories | | 3,397 | | (1,108) |
| Prepaid income taxes | | 17 | | - |
| Other current and long term assets | | (433) | | (327) |
| Accounts payable | | 909 | | (3,055) |
| Accrued liabilities and other liabilities | | 690 | | 380 |
| Net cash provided by operating activities | | <u>7,784</u> | | <u>2,493</u> |
| Cash flows from investing activities: | | | | |
| Capital expenditures | | (675) | | (472) |
| Additions to capitalized software | | (23) | | (568) |
| Acquisitions | | - | | (4,000) |
| Proceeds from sale of assets | | 14 | | 1 |
| Net cash used in investing activities | | <u>(684)</u> | | <u>(5,039)</u> |
| Cash flows from financing activities: | | | | |
| Proceeds from stock option exercises | | 145 | | 863 |
| Purchases of common stock for treasury | | (5,563) | | (2,075) |
| Incremental tax benefits from stock options exercised | | 42 | | 439 |
| Payment of deferred financing costs | | - | | (18) |
| Net cash used in financing activities | | <u>(5,376)</u> | | <u>(791)</u> |
| Effect of exchange rate changes on cash and cash equivalents | | <u>(10)</u> | | <u>(14)</u> |
| Change in cash and cash equivalents | | 1,714 | | (3,351) |
| Cash and cash equivalents, beginning of period | | 6,863 | | 11,285 |
| Cash and cash equivalents, end of period | \$ | <u>8,577</u> | \$ | <u>7,934</u> |

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited financial statements of TransAct Technologies Incorporated have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America to be included in full year financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the periods presented have been included. The December 31, 2011 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2011 included in our Annual Report on Form 10-K.

The financial position and results of operations of our U.K. foreign subsidiary are measured using local currency as the functional currency. Assets and liabilities of such subsidiary have been translated at the end of period exchange rates, and related revenues and expenses have been translated at the weighted average exchange rates with the resulting translation gain or loss recorded in accumulated other comprehensive income (loss) in the Condensed Consolidated Balance Sheets. Transaction gains and losses are included in other income in the Condensed Consolidated Statements of Income.

The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year. Certain prior period amounts in the Condensed Consolidated Financial Statements have been reclassified to conform with the current period presentation.

2. Business acquisitions

On August 19, 2011, we completed the acquisition of Printrex, Inc. ("Printrex"), a leading manufacturer of specialty printers primarily sold into the oil and gas exploration and medical markets which serves commercial and industrial customers primarily in the United States, Canada, Europe and Asia. We have included the financial results of Printrex in our Condensed Consolidated Financial Statements from the date of acquisition. The total purchase price for Printrex was \$4,000,000 in cash and potential future contingent consideration. As of December 31, 2011, we recorded \$2,280,000 of identifiable intangible assets, \$1,351,000 of net tangible assets, \$680,000 of contingent consideration, each based on their estimated fair values, and \$1,049,000 of residual goodwill.

During the nine months ended September 30, 2012, we recorded a purchase price adjustment to the fair value of inventory of \$103,000 which increased the carrying value of Goodwill related to the Printrex acquisition to \$1,152,000. As of September 30, 2012, we have completed our analysis of fair value attributes of the assets acquired through the Printrex acquisition and the final assessment of values did not differ materially from our preliminary assessment.

In connection with the acquisition of Printrex, we entered into a contingent consideration arrangement which resulted in a liability, at fair value, of \$680,000 at September 30, 2012, unchanged since December 31, 2011. The undiscounted fair value related to the contingent liability could range from \$100,000 to \$1,800,000. Refer to Note 4, Business acquisitions, of the Company's 2011 Annual Report on Form 10-K for the year ended December 31, 2011 for the specific terms of this contingent consideration arrangement.

The following unaudited pro forma consolidated results of operations are provided for illustrative purposes only and assume that the acquisition of Printrex occurred on January 1, 2010. This unaudited pro forma information should not be relied upon as being indicative of the historical results that would have been obtained if the acquisition had occurred on that date, nor of the results that may be obtained in the future.

| | Nine months ended | |
|------------|---------------------------|--------|
| | September 30, 2011 | |
| | <i>(In thousands)</i> | |
| Sales | \$ | 56,049 |
| Net income | \$ | 4,378 |

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

3. Inventories

The components of inventories are:

| | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| | <i>(In thousands)</i> | |
| Raw materials and purchased component parts | \$ 7,674 | \$ 6,863 |
| Work-in-process | 14 | 71 |
| Finished goods | 2,920 | 7,217 |
| | \$ 10,608 | \$ 14,151 |

4. Accrued product warranty liability

We generally warrant our products for up to 36 months and record the estimated cost of such product warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experience of product repairs and the related estimated cost of labor and material to make the necessary repairs.

The following table summarizes the activity recorded in the accrued product warranty liability during the nine months ended September 30, 2012:

| | <i>(In thousands)</i> | |
|--|-----------------------|-------|
| Balance, beginning of period | \$ | 421 |
| Accruals for warranties issued during the period | | 70 |
| Changes in estimates | | 4 |
| Settlements during the period | | (198) |
| Balance, end of period | \$ | 297 |

Approximately \$89,000 of the accrued product warranty liability is classified as long-term in Other liabilities at September 30, 2012 in the Condensed Consolidated Balance Sheets.

5. Accrued business consolidation and restructuring expenses

As discussed in Note 4, Business acquisitions, of the Company's 2011 Annual Report on Form 10-K for the year ended December 31, 2011, in January 2012, we determined that we no longer need to maintain the existing Printrex manufacturing facility in San Jose, California, along with certain redundant headcount. We estimate that these restructuring activities will cause us to incur costs of approximately \$140,000 in 2012 for employee termination benefits related to these employee reductions as well as moving costs. The closing of the San Jose manufacturing operations was substantially completed as of September 30, 2012. During the three and nine months ended September 30, 2012, we recorded restructuring charges of \$23,000 and \$140,000, respectively, in accordance with ASC 420-10-25-4 "Exit or Disposal Cost Obligations." This charge has been included within Business consolidation and restructuring expenses in the accompanying Condensed Consolidated Statements of Income. Cash payments made under this restructuring plan were completed by October 2012.

In May 2011, we closed our New Britain, CT service facility which primarily serviced our first generation legacy lottery printers for GTECH Corporation ("GTECH") and incurred \$184,000 in facility closure and severance costs in the second quarter of 2011. These restructuring activities reduced the number of employees and closed a facility, which caused us to incur costs for employee termination benefits related to these employee reductions as well as lease termination costs and the disposal of fixed assets. Cash payments made under this restructuring plan were completed by April 2012.

The following table summarizes the activity recorded in accrued restructuring expenses during the nine months ended September 30, 2012 and is included in Accrued liabilities in the accompanying Condensed Consolidated Balance Sheets.

| | <i>(In thousands)</i> | |
|--------------------------------------|-----------------------|-------|
| Accrual balance, beginning of period | \$ | 45 |
| Severance and moving charges | | 140 |
| Cash payments | | (169) |
| Accrual balance, end of period | \$ | 16 |

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

6. Earnings per share

The following table sets forth the reconciliation of basic weighted average shares outstanding and diluted weighted average shares outstanding:

| | Three Months Ended | | Nine Months Ended | |
|---|--|---------|--------------------------|----------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| | <i>(In thousands, except per share data)</i> | | | |
| Net income | \$ 23 | \$ 839 | \$ 1,739 | \$ 4,106 |
| Shares: | | | | |
| Basic: Weighted average common shares outstanding | 8,822 | 9,471 | 9,110 | 9,435 |
| Add: Dilutive effect of outstanding options and restricted stock as determined by the treasury stock method | 89 | 190 | 95 | 216 |
| Diluted: Weighted average common and common equivalent shares outstanding | 8,911 | 9,661 | 9,205 | 9,651 |
| Net income per common share: | | | | |
| Basic | \$ 0.00 | \$ 0.09 | \$ 0.19 | \$ 0.44 |
| Diluted | \$ 0.00 | \$ 0.09 | \$ 0.19 | \$ 0.43 |

Unvested restricted stock is excluded from the calculation of weighted average common shares for basic EPS. For diluted EPS, weighted average common shares include the impact of unvested restricted stock under the treasury stock method.

For both the three and nine months ended September 30, 2012 and 2011, there were 585,125 and 163,750, respectively, potentially dilutive shares consisting of stock options, and non-vested restricted stock (for the nine months ended September 30, 2011 only), that were excluded from the calculation of earnings per diluted share.

7. Shareholders' equity

Changes in shareholders' equity for the nine months ended September 30, 2012 were as follows (in thousands):

| | |
|---|------------------|
| Balance at December 31, 2011 | \$ 35,313 |
| Net income | 1,739 |
| Share-based compensation expense | 402 |
| Proceeds from stock option exercises | 145 |
| Issuance of deferred stock units | 134 |
| Incremental tax benefits from stock options exercised | 42 |
| Foreign currency translation adjustment | 16 |
| Purchases of common stock for treasury | (5,563) |
| Balance at September 30, 2012 | <u>\$ 32,228</u> |

We paid a portion of the 2011 incentive bonus for the chief executive officer and chief financial officer in the form of deferred stock units. Such deferred stock units were granted in March 2012 and were fully vested at the time of grant.

On September 10, 2012, we announced that our Board of Directors has approved the initiation of a quarterly cash dividend of \$0.06 per share of common stock outstanding. On November 2, 2012, our Board of Directors declared a quarterly cash dividend of \$0.06 per share which will be payable on or about December 12, 2012 to common shareholders of record at the close of business on November 21, 2012.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

8. Income taxes

We recorded an income tax provision for the third quarter of 2012 of \$13,000 at an effective tax rate of 36.1%, compared to an income tax provision during the third quarter of 2011 of \$276,000 at an effective tax rate of 24.8%. For the nine months ended September 30, 2012, we recorded an income tax provision of \$979,000 at an effective tax rate of 36.0%, compared to an income tax provision during the nine months ended September 30, 2011 of \$2,035,000 at an effective tax rate of 33.1%. Our effective tax rate for the third quarter and nine months of 2012 is higher than the corresponding 2011 periods because it does not include any benefit from the federal research and development credit that expired at the end of 2011. Additionally, the effective tax rate for the third quarter and nine months ended September 30, 2011 was favorably impacted by the recognition of \$53,000 for certain discrete tax benefits.

We are subject to U.S. federal income tax as well as income tax of certain state and foreign jurisdictions. We have substantially concluded all U.S. federal income tax, state and local, and foreign tax matters through 2003. During 2008, a limited scope examination of our 2005 and 2006 federal tax returns was completed. However, our federal tax returns for the years 2004 through 2011 remain open to examination. Various state and foreign tax jurisdiction tax years remain open to examination as well, though we believe that any additional assessment would be immaterial to the Condensed Consolidated Financial Statements. No federal, state or foreign tax jurisdiction income tax returns are currently under examination. As of September 30, 2012, we had \$228,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

9. Commitments & contingencies

On June 8, 2012, Avery Dennison Corporation (“AD”) filed a civil complaint against the Company and a former employee of the Company and of AD, in the Court of Common Pleas in Lake County, Ohio. The complaint alleges that this former employee and the Company misappropriated unspecified trade secrets and confidential information related to the design of our food safety terminals from AD. The complaint requests a preliminary and permanent injunction against the Company from manufacturing and selling our Ithaca® 9700 and 9800 food safety terminals. On July 16, 2012, the Company filed its answer, affirmative defenses and counterclaims, seeking all available damages including legal fees. A hearing on the plaintiff's motion for preliminary injunction took place in August 2012 and we are awaiting a ruling from the Court on this matter.

We are currently unable to estimate any potential liability or range of loss, if any, associated with this litigation. Accordingly, no amounts other than corresponding legal fees of approximately \$491,000 have been accrued in the Condensed Consolidated Balance Sheets related to this matter.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 "continue" or the 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 our most recently filed Annual Report on Form 10-K. 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

TransAct Technologies Incorporated ("TransAct") designs, develops and sells market-specific solutions, including printers, terminals, software and other products for transaction-based and other industries. These world-class products are sold under the Epic, EPICENTRAL™, Ithaca® and Printrex® brand names. Known and respected worldwide for innovative designs and real-world service reliability, our thermal, inkjet and impact printers generate top-quality transaction records such as receipts, tickets, coupons, register journals and other documents as well as printed logging and plotting of data. We focus on the following core markets: food safety, banking and point-of-sale ("POS"), casino and gaming, lottery, oil and gas and medical and mobile. We sell our products to original equipment manufacturers ("OEMs"), value-added resellers ("VARs"), selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. Beyond printers, TransAct provides world-class printer service, spare parts, accessories and printing supplies required by its 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, food safety, 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 operate in one reportable segment: the design, development, assembly and marketing of transaction printers and providing printer-related services, supplies and spare parts.

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

Critical Accounting Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America. The presentation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, inventory obsolescence, the valuation of deferred tax assets and liabilities, depreciable lives of equipment, warranty obligations, and contingent liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances.

For a complete description of our accounting policies, see Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, "Critical Accounting Policies and Estimates," included in our Annual Report on Form 10-K for the year ended December 31, 2011. We have reviewed those policies and determined that they remain our critical accounting policies for the nine months ended September 30, 2012 in addition to the policy described below.

Revenue recognition: We have developed a new software solution, the EPICENTRAL™ Print System ("EPICENTRAL™"), that will enable casino operators to create promotional coupons and marketing messages and to print them in real-time at the slot machine. Revenue arrangements for EPICENTRAL™ include multiple deliverables and as a result such arrangements are accounted for in accordance with both ASC 605-25, "Multiple-Element Arrangements" and ASC 985-605, "Software." EPICENTRAL™ is primarily comprised of both a software component, which is licensed, and a hardware component, which can either be leased or sold to end users, and both components are integrated to deliver the system's full functionality. Under leasing arrangements, revenue is generally recognized ratably over the lease term, excluding revenue allocated to installation, which is recognized upon completion. In an arrangement where the hardware is purchased, revenue, inclusive of software license fees, is generally recognized upon installation and formal acceptance by the customer. Also, refer to the Revenue Recognition policy included in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, "Critical Accounting Policies and Estimates," included in our Annual Report on Form 10-K for the year ended December 31, 2011 for further discussion.

Results of Operations: Three months ended September 30, 2012 compared to three months ended September 30, 2011

Net Sales. Net sales, which include printer and software sales and sales of replacement parts, consumables and repair and other services, by market for the three months ended September 30, 2012 and 2011 were as follows (in thousands, except percentages):

| | Three months ended | | Three months ended | | Change | |
|-------------------|--------------------|---------------|--------------------|---------------|-----------------|--------------|
| | September 30, 2012 | | September 30, 2011 | | \$ | % |
| Banking and POS | \$ 1,829 | 11.9% | \$ 2,818 | 20.0% | \$ (989) | (35.1%) |
| Casino and gaming | 6,100 | 39.7% | 5,861 | 41.5% | 239 | 4.1% |
| Lottery | 2,454 | 16.0% | 1,551 | 11.0% | 903 | 58.2% |
| Printrex | 1,209 | 7.9% | 464 | 3.3% | 745 | 160.6% |
| TSG | 3,766 | 24.5% | 3,417 | 24.2% | 349 | 10.2% |
| | <u>\$ 15,358</u> | <u>100.0%</u> | <u>\$ 14,111</u> | <u>100.0%</u> | <u>\$ 1,247</u> | <u>8.8%</u> |
| International * | <u>\$ 4,075</u> | <u>26.5%</u> | <u>\$ 3,285</u> | <u>23.3%</u> | <u>\$ 790</u> | <u>24.0%</u> |

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

Net sales for the third quarter of 2012 increased \$1,247,000, or 9%, from the same period in 2011 due primarily to higher printer sales in our lottery market (an increase of approximately \$903,000, or 58%), an increase in sales of printers from Printrex of approximately \$745,000 and to a lesser extent from higher sales in TSG and in the casino and gaming market. These higher sales were partially offset by a decrease in sales from our banking and POS market of approximately \$989,000, or 35%. Printer sales volume increased 3% to approximately 42,000 units in the third quarter of 2012 compared to the third quarter of 2011. The slight increase in unit volume was driven primarily by the lottery and casino and gaming markets where our unit volume increased 53% and 8%, respectively, in addition to the increase of Printrex units reflecting a full quarter of sales in 2012 as compared to only six weeks of sales in the third quarter of 2011 as we acquired Printrex on August 19, 2011. These unit volume increases were partially offset by a 40% decrease in unit volume from the banking and POS market. The average selling price of our printers increased 4% in the third quarter of 2012 compared to the third quarter of 2011 due primarily to (1) lower sales of POS printers to McDonalds that have lower average selling prices than our other printers and (2) an increase in sales of Printrex printers, that have significantly higher average selling prices than all of our other printers. These average sales price increases were somewhat offset by higher sales of lottery printers that have lower average selling prices than our other printers. Overall, international sales increased 24% primarily driven by higher sales to the casino and gaming market as well as an increase in international sales of Printrex printers reflecting a full quarter of sales in 2012 as compared to only six weeks of sales in the third quarter of 2011.

Banking and POS:

Revenue from the banking and POS market includes sales of printers used by banks, credit unions, and other financial institutions to print and/or validate receipts at bank teller stations. Revenue from this market also includes sales of inkjet, thermal and impact printers used primarily by retailers in the restaurant (including fine dining, casual dining and fast food), hospitality, and specialty retail industries to print receipts for consumers, validate checks, or print on linerless labels or other inserted media. A summary of sales of our worldwide banking and POS printers for the three months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Three months ended | | Three months ended | | Change | |
|---------------|--------------------|---------------|--------------------|---------------|-----------------|----------------|
| | September 30, 2012 | | September 30, 2011 | | \$ | % |
| Domestic | \$ 1,726 | 94.4% | \$ 2,667 | 94.6% | \$ (941) | (35.3%) |
| International | 103 | 5.6% | 151 | 5.4% | (48) | (31.8%) |
| | <u>\$ 1,829</u> | <u>100.0%</u> | <u>\$ 2,818</u> | <u>100.0%</u> | <u>\$ (989)</u> | <u>(35.1%)</u> |

The decrease in domestic banking and POS printer revenue was primarily due to a decrease in U.S. sales of our two POS printer products to McDonald's, the Ithaca® 8000 and Ithaca® 8040, for its combined beverage initiative and its POS system upgrade which includes grill initiative printer upgrades, as the U.S. rollout of printers for these initiatives is substantially complete. However, beginning in the third quarter 2012, we began to ship Ithaca 8000® printers to McDonald's for a new application that we expect to continue in the fourth quarter of 2012 and into 2013. Sales of our banking printers for the third quarter of 2012 remained consistent with those reported for the third quarter of 2011. Although we are currently pursuing several banking opportunities, due to the project-oriented nature of these sales, we cannot predict the level of future sales.

International banking and POS printer sales for the third quarter of 2012 decreased 32% from 2011 due primarily to lower sales from the aforementioned McDonald's POS system upgrade and grill initiative as well as the combined beverage initiative to its Canadian stores in 2012 compared to 2011.

Casino and gaming:

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 new software solution, the EPICENTRAL™ 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 printers for the three months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Three months ended September 30, 2012 | | Three months ended September 30, 2011 | | Change | |
|---------------|--|---------------|--|---------------|---------------|-------------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 2,803 | 46.0% | \$ 2,989 | 51.0% | \$ (186) | (6.2%) |
| International | 3,297 | 54.0% | 2,872 | 49.0% | 425 | 14.8% |
| | <u>\$ 6,100</u> | <u>100.0%</u> | <u>\$ 5,861</u> | <u>100.0%</u> | <u>\$ 239</u> | <u>4.1%</u> |

The decrease in domestic sales of our casino and gaming products is primarily due to a decrease in sales of our thermal casino printers. We believe that the lower casino printer sales during the third quarter of 2012 resulted from weakness in the overall replacement cycle for slot machines combined with fewer new casino openings in the third quarter of 2012 compared to 2011.

International casino and gaming printer sales increased by 15%. Sales of our thermal ticket printers increased by 44% from (1) a 35% increase in sales to our distributor and other customers in Europe, (2) a 32% increase in sales to our customers in Australia and Asia and (3) a 100% increase in sales to a Canadian OEM. Partially offsetting the increase in thermal ticket printer sales, sales of our off-premise thermal gaming printers declined by 22% in the third quarter of 2012 compared to 2011 primarily from a 59% decrease in sales to our customers in Australia and Asia.

Lottery:

Revenue from the lottery market includes sales of thermal on-line and other lottery printers to GTECH for various lottery applications. A summary of sales of our worldwide lottery printers for the three months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Three months ended September 30, 2012 | | Three months ended September 30, 2011 | | Change | |
|---------------|--|---------------|--|---------------|---------------|--------------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 2,369 | 96.5% | \$ 1,548 | 99.8% | \$ 821 | 53.0% |
| International | 85 | 3.5% | 3 | 0.2% | 82 | 2,733.3% |
| | <u>\$ 2,454</u> | <u>100.0%</u> | <u>\$ 1,551</u> | <u>100.0%</u> | <u>\$ 903</u> | <u>58.2%</u> |

Our sales to GTECH are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs, and as a result, may fluctuate significantly quarter-to-quarter and are not indicative of GTECH’s overall business or revenue. Based on our backlog of orders, we expect total sales to GTECH for the fourth quarter of 2012 to be significantly higher than those reported during the third quarter of 2012.

Printrex:

Printrex branded printers are sold into markets that 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. Revenue in this market also includes sales of wide format printers used to print test results in ophthalmology devices in the medical industry, as well as vehicle mounted printers used to print schematics and certain other critical information in emergency services vehicles. A summary of sales of our worldwide Printrex printers for the three months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Three months ended September 30, 2012 | | Three months ended September 30, 2011 | | Change | |
|---------------|--|---------------|--|---------------|---------------|---------------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 929 | 76.8% | \$ 414 | 89.2% | \$ 515 | 124.4% |
| International | 280 | 23.2% | 50 | 10.8% | 230 | 460.0% |
| | <u>\$ 1,209</u> | <u>100.0%</u> | <u>\$ 464</u> | <u>100.0%</u> | <u>\$ 745</u> | <u>160.6%</u> |

The increase in sales of Printrex branded printers is primarily due to a full quarter of sales being reported in the third quarter of 2012 as compared to approximately six weeks of sales in the third quarter of 2011 as we acquired Printrex on August 19, 2011. We expect sales of Printrex printers for 2012 to be between approximately \$5,000,000 and \$5,500,000.

TSG:

Revenue from TSG includes sales of consumable products (inkjet cartridges, ribbons, receipt paper and other printing supplies), replacement parts, maintenance and repair services, paper testing services, refurbished printers, and shipping and handling charges. A summary of sales in our worldwide TSG market for the three months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| (In thousands) | Three months ended | | Three months ended | | Change | |
|----------------|--------------------|---------------|--------------------|---------------|---------------|--------------|
| | September 30, 2012 | | September 30, 2011 | | \$ | % |
| Domestic | \$ 3,456 | 91.8% | \$ 3,208 | 93.9% | \$ 248 | 7.7% |
| International | 310 | 8.2% | 209 | 6.1% | 101 | 48.3% |
| | <u>\$ 3,766</u> | <u>100.0%</u> | <u>\$ 3,417</u> | <u>100.0%</u> | <u>\$ 349</u> | <u>10.2%</u> |

The increase in domestic revenue from TSG is primarily due to service revenue from several new contracts for paper testing services that did not occur in the third quarter of 2011. Internationally, TSG revenue increased due primarily to higher sales of replacement parts as compared to the third quarter of 2011.

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

| Three months ended | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|--------------------|--------------------|----------------|-------------------------------|-------------------------------|
| 2012 | September 30, 2011 | | | |
| \$ 5,679 | \$ 5,350 | 6.1% | 37.0% | 37.9% |

Gross profit is measured as revenue less cost of sales, which includes primarily the cost of all raw materials and component parts, direct labor and the associated manufacturing overhead expenses, and the cost of finished products purchased directly from our contract manufacturers. Gross profit increased \$329,000, or 6%, due largely to higher total sales volume. Gross margin decreased by 90 basis points as the effect of an unfavorable sales mix of a greater number of lower margin lottery printers sold during the quarter outweighed the benefit of higher total sales volumes in the third quarter of 2012 compared to the third quarter of 2011. We expect our gross margin for the full year of 2012 to be relatively consistent with that of 2011.

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

| Three months ended | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|--------------------|--------------------|----------------|-------------------------------|-------------------------------|
| 2012 | September 30, 2011 | | | |
| \$ 1,087 | \$ 848 | 28.2% | 7.1% | 6.0% |

Engineering, design and product development expenses primarily include salary and payroll related expenses for our engineering staff, depreciation and design expenses (including prototype printer expenses, outside design and testing services, and supplies). Such expenses increased \$239,000, or 28%, in the third quarter of 2012 due primarily to the full quarter effect of the addition of engineering staff and related expenses from the acquisition of Printrex of approximately \$116,000 and higher outside testing and pre-production expenses related to new product development as we prepare to launch four new products in the fourth quarter of 2012. We expect engineering, design and product development expenses to be higher in 2012 than in 2011 due largely to the full year effect of the Printrex acquisition.

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

| Three months ended | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|--------------------|--------------------|----------------|-------------------------------|-------------------------------|
| 2012 | September 30, 2011 | | | |
| \$ 1,571 | \$ 1,458 | 7.8% | 10.2% | 10.3% |

Selling and marketing expenses primarily include salaries and payroll related expenses for our sales and marketing staff, sales commissions, travel expenses, expenses associated with the lease of sales offices, advertising, trade show expenses, e-commerce and other promotional marketing expenses. Such expenses increased \$113,000, or 8%, in the third quarter of 2012 compared to the third quarter of 2011 due primarily to the full quarter effect of the addition of new sales staff and selling and marketing expenses from the acquisition of Printrex. We expect selling and marketing expenses to be higher in 2012 than in 2011 due to the full year effect of the Printrex acquisition.

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

| Three months ended | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|--------------------|--------------------|----------------|-------------------------------|-------------------------------|
| 2012 | September 30, 2011 | | | |
| \$ 1,919 | \$ 1,919 | - % | 12.5% | 13.6% |

General and administrative expenses primarily include salaries and payroll related expenses for our executive, accounting, human resource, business development and information technology staff, expenses for our corporate headquarters, professional and legal expenses, telecommunication expenses, and other expenses related to being a publicly-traded company. General and administrative expenses remained consistent in both periods as higher professional fees and amortization of intangible assets related to the acquisition of Printrex were fully offset by a \$144,000 decline in transaction and integration expenses incurred from the acquisition of Printrex in the third quarter of 2011. We expect general and administrative expenses to be higher in 2012 than in 2011 due largely to the full year effect of the amortization of intangible assets acquired in the Printrex acquisition.

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

| Three months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|-------------------------------------|------|-------------------|----------------------------------|----------------------------------|
| 2012 | 2011 | | | |
| \$ 1,036 | \$ - | 100% | 6.7% | - % |

As disclosed in Note 9 to the Condensed Consolidated Financial Statements, in June 2012, Avery Dennison Corporation filed a civil complaint against the Company. In connection with this lawsuit, we incurred legal fees and other related expenses of \$1,036,000 in the third quarter of 2012. We may incur additional legal fees related to this lawsuit in the fourth quarter of 2012 and beyond, although we cannot predict the timing and extent of such legal fees.

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

| Three months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|-------------------------------------|------|-------------------|----------------------------------|----------------------------------|
| 2012 | 2011 | | | |
| \$ 23 | \$ - | 100% | 0.1% | - % |

As disclosed in Note 5 to the Condensed Consolidated Financial Statements, in January 2012, we determined that we no longer needed to maintain the existing Printrex manufacturing facility in San Jose, California, along with certain redundant headcount. During the three months ended September 30, 2012, we recorded a restructuring charge of \$23,000 for employee termination benefits related to these employee reductions as well as moving costs. The closing of the San Jose manufacturing operations was substantially completed as of September 30, 2012. We expect the closing of this facility will result in annualized cost savings of \$800,000, or \$200,000 per quarter, beginning in the fourth quarter of 2012.

In May 2011, we undertook a plan to close our New Britain, CT service facility. The New Britain facility primarily serviced our first generation legacy impact printers for GTECH. We no longer needed to maintain this facility since these printers were replaced by our thermal lottery printers. During the three months ended June 30, 2011, we recorded a restructuring charge of \$184,000 in connection with this facility closure. As of June 30, 2011, all New Britain activities ceased. Also see Note 5 in the Consolidated Condensed Financial Statements.

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

| Three months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|-------------------------------------|----------|-------------------|----------------------------------|----------------------------------|
| 2012 | 2011 | | | |
| \$ 43 | \$ 1,125 | (96.2%) | 0.3% | 8.0% |

The decrease in our operating income and operating margin was primarily due to the legal fees incurred from the Avery Dennison lawsuit in addition to higher operating expenses attributable to the full quarter effect of the Printrex acquisition of approximately \$213,000.

Interest. We recorded net interest income of \$3,000 in the third quarter of 2012 compared to \$7,000 in the third quarter of 2011. Interest expense related to the unused revolving credit line fee and amortization of the deferred financing costs on our revolving credit facility with TD Bank, which is included in our net interest income, remained relatively consistent in the third quarter of 2012 compared to the third quarter of 2011. See "Liquidity and Capital Resources" below for more information.

Other, net. We recorded other expense of \$10,000 in the third quarter of 2012 compared to other expense of \$17,000 in the third quarter of 2011 which primarily represents foreign currency transaction exchange losses from the operations of our U.K. subsidiary. Other expense in the third quarter of 2012 also included a \$14,000 gain on the sale of certain fixed assets.

Income Taxes. We recorded an income tax provision for the third quarter of 2012 of \$13,000 at an effective tax rate of 36.1%, compared to an income tax provision during the third quarter of 2011 of \$276,000 at an effective tax rate of 24.8%. Our effective tax rate for the third quarter of 2012 is higher because it does not include a benefit from the federal research and development credit, which is normally included in our tax rate, as this credit expired at the end of 2011. If this credit is not reinstated, we expect our annual effective tax rate for 2012 to be approximately 36%. Additionally, the effective tax rate for the third quarter ended September 30, 2011 was favorably impacted by the recognition of \$53,000 of certain discrete tax benefits.

Net Income. We reported net income during the third quarter of 2012 of \$23,000, or \$0.00 per diluted share, compared to \$839,000, or \$0.09 per diluted share, for the third quarter of 2011.

Nine months ended September 30, 2012 compared to nine months ended September 30, 2011

Net Sales. Net sales by market for the nine months ended September 30, 2012 and 2011 were as follows (in thousands, except percentages):

| | Nine months ended September 30, 2012 | | Nine months ended September 30, 2011 | | Change | |
|-------------------|---|---------------|---|---------------|-------------------|---------------|
| | \$ | % | \$ | % | \$ | % |
| Banking and POS | \$ 6,841 | 14.0% | \$ 8,106 | 15.5% | \$ (1,265) | (15.6%) |
| Casino and gaming | 22,623 | 46.4% | 18,762 | 35.8% | 3,861 | 20.6% |
| Lottery | 5,212 | 10.7% | 14,066 | 26.9% | (8,854) | (62.9%) |
| Printrex | 3,622 | 7.4% | 464 | 0.9% | 3,158 | 680.6% |
| TSG | 10,472 | 21.5% | 10,926 | 20.9% | (454) | (4.2%) |
| | <u>\$ 48,770</u> | <u>100.0%</u> | <u>\$ 52,324</u> | <u>100.0%</u> | <u>\$ (3,554)</u> | <u>(6.8%)</u> |
| International * | \$ 14,555 | 29.8% | \$ 12,967 | 24.8% | \$ 1,588 | 12.2% |

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

Net sales for the first nine months of 2012 decreased \$3,554,000, or 7%, from the same period last year due primarily to lower printer sales into our lottery market (a decrease of \$8,854,000, or 63%) as well as lower sales in the banking and POS market and TSG. These lower sales were partially offset by an increase in sales from our casino and gaming market of approximately \$3,861,000, or 21%, and an increase in sales of Printrex branded printers of \$3,158,000 during the first nine months of 2012 compared to the same period last year. During the first nine months of 2012, our printer sales volume decreased 19% to approximately 136,000 units compared to the first nine months of 2011. The decrease in unit volume was driven primarily by the lottery market where our unit volume decreased 64% in addition to 17% lower unit volume in our banking and POS market during the first nine months of 2012 compared to the same period last year. These decreases were partially offset by a 21% increase in unit volume during the first nine months of 2012 from the casino and gaming market as well as an increase in Printrex units sold reflecting a full nine months of sales in 2012 as compared to only six weeks of sales in the first nine months of 2011 as we acquired Printrex on August 19, 2011. The average selling price of our printers increased 14% in the first nine months of 2012 compared to the first nine months of 2011 due primarily to (1) significantly lower sales of lottery printers which have lower average selling prices than our other printers and (2) higher sales of casino and gaming printers as well as an increase in sales of Printrex printers, both of which have significantly higher average selling prices than all our other printers. Overall, international sales in all markets increased 12% in the first nine months of 2012 compared to the same period in 2011 primarily driven by higher sales to the casino and gaming market as well as an increase in international sales of Printrex printers reflecting a full nine months of sales in 2012 as compared to only six weeks of sales in the first nine months of 2011.

Banking and POS:

A summary of sales of our worldwide banking and POS printers for the nine months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2012 | | Nine months ended September 30, 2011 | | Change | |
|---------------|---|---------------|---|---------------|-------------------|----------------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 6,502 | 95.0% | \$ 7,285 | 89.9% | \$ (783) | (10.7%) |
| International | 339 | 5.0% | 821 | 10.1% | (482) | (58.7%) |
| | <u>\$ 6,841</u> | <u>100.0%</u> | <u>\$ 8,106</u> | <u>100.0%</u> | <u>\$ (1,265)</u> | <u>(15.6%)</u> |

The decrease in domestic banking and POS printer revenue from the first nine months of 2012 was primarily driven by a decrease in U.S. sales of our two POS printer products to McDonald's, the Ithaca® 8000 and Ithaca® 8040, for its combined beverage initiative and its POS system upgrade which includes grill initiative printer upgrades, as the U.S. rollout of printers for these initiatives is substantially complete. However, beginning in the third quarter 2012, we began to ship Ithaca 8000® printers to McDonald's for a new application that we expect to continue in the fourth quarter of 2012 and into 2013. This decrease in sales was partially offset by higher sales of our banking printers mainly due to sales from a large order for our Ithaca® 280 thermal receipt printer to a new banking customer which we completed shipments to in the third quarter of 2012. Although we are currently pursuing several banking opportunities, due to the project-oriented nature of these sales, we cannot predict the level of future sales.

International banking and POS printer sales for the first nine months of 2012 decreased 59% from 2011 due primarily to lower sales for the aforementioned McDonald's POS system upgrade and grill initiative as well as the combined beverage initiative to its Canadian stores in 2012 compared to 2011.

Casino and gaming:

A summary of sales of our worldwide casino and gaming printers for the nine months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2012 | | Nine months ended September 30, 2011 | | Change | |
|---------------|---|---------------|---|---------------|-----------------|--------------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 10,345 | 45.7% | \$ 7,745 | 41.3% | \$ 2,600 | 33.6% |
| International | 12,278 | 54.3% | 11,017 | 58.7% | 1,261 | 11.4% |
| | <u>\$ 22,623</u> | <u>100.0%</u> | <u>\$ 18,762</u> | <u>100.0%</u> | <u>\$ 3,861</u> | <u>20.6%</u> |

The increase in domestic sales of our casino and gaming products is primarily due to an increase of 35% in sales of our thermal casino printers during the first nine months of 2012. We believe that this increase in casino printer sales resulted from a combination of new casino openings and continued market share gains. Revenue in the first nine months of 2012 also benefited from the first contribution of EPICENTRAL™ software sales.

The increase in international casino and gaming printer sales was primarily due to a 17% increase in casino ticket printer sales during the first nine months of 2012 driven by a 100% increase in sales to a Canadian OEM. Sales of our off-premise thermal gaming printers were relatively consistent in the first nine months of 2012 compared to 2011 as a 42% increase in sales to our European distributor was almost fully offset by a 48% decrease in sales to our customers in Australia and Asia.

Lottery:

A summary of sales of our worldwide lottery printers for the nine months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2012 | | Nine months ended September 30, 2011 | | Change | |
|---------------|---|---------------|---|---------------|-------------------|----------------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 4,892 | 93.9% | \$ 13,696 | 97.4% | \$ (8,804) | (64.3%) |
| International | 320 | 6.1% | 370 | 2.6% | (50) | (13.5%) |
| | <u>\$ 5,212</u> | <u>100.0%</u> | <u>\$ 14,066</u> | <u>100.0%</u> | <u>\$ (8,854)</u> | <u>(62.9%)</u> |

Our sales to GTECH are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs, and as a result, may fluctuate significantly quarter-to-quarter and year-to-year and are not indicative of GTECH's overall business or revenue. Based on our backlog of orders, we expect total sales to GTECH for the fourth quarter of 2012 to be significantly higher than those reported during the third quarter of 2012.

Printrex:

A summary of sales of our worldwide Printrex printers for the nine months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2012 | | Nine months ended September 30, 2011 | | Change | |
|---------------|---|---------------|---|---------------|-----------------|---------------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 2,966 | 81.9% | \$ 414 | 89.2% | \$ 2,552 | 616.4% |
| International | 656 | 18.1% | 50 | 10.8% | 606 | 1,212.0% |
| | <u>\$ 3,622</u> | <u>100.0%</u> | <u>\$ 464</u> | <u>100.0%</u> | <u>\$ 3,158</u> | <u>680.6%</u> |

The increase in sales is primarily due to a full nine months of sales being reported in 2012 as compared to approximately six weeks of sales in the first nine months of 2011 as we acquired Printrex on August 19, 2011. We expect sales of Printrex printers for 2012 to be between approximately \$5,000,000 and \$5,500,000.

TSG:

A summary of sales in our worldwide TSG market for the nine months ended September 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Nine months ended September 30, 2012 | | Nine months ended September 30, 2011 | | Change | |
|---------------|---|---------------|---|---------------|-----------------|---------------|
| | \$ | % | \$ | % | \$ | % |
| Domestic | \$ 9,510 | 90.8% | \$ 10,217 | 93.5% | \$ (707) | (6.9%) |
| International | 962 | 9.2% | 709 | 6.5% | 253 | 35.7% |
| | <u>\$ 10,472</u> | <u>100.0%</u> | <u>\$ 10,926</u> | <u>100.0%</u> | <u>\$ (454)</u> | <u>(4.2%)</u> |

The decrease in domestic revenue is largely due to a decrease of 19% in sales of consumables compared to the same period in 2011 from the effect of a loss of sales to two OEM customers partially offset by an increase in service revenue of approximately \$540,000 during the first nine months of 2012 from several new contracts for paper testing services that did not occur in the first nine months of 2011 as well as incremental Printrex TSG sales of approximately \$284,000 during the first nine months of 2012. Internationally, TSG revenue increased during the first nine months of 2012 due primarily to higher sales of replacement parts as compared to the first nine months of 2011.

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

| | Nine months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|----|------------------------------------|-----------|-------------------|----------------------------------|----------------------------------|
| | 2012 | 2011 | | | |
| \$ | \$ 18,299 | \$ 18,945 | (3.4%) | 37.5% | 36.2% |

While gross profit decreased \$646,000, or 3% due largely to lower sales volume, our gross margin improved by 130 basis points due primarily to a favorable sales mix as we sold more higher margin casino and gaming and Printrex printers, and significantly fewer lower margin lottery printers, in the first nine months of 2012 compared to the first nine months of 2011. We expect our gross margin for the full year of 2012 to be relatively consistent with that of 2011.

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

| | Nine months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|----|------------------------------------|----------|-------------------|----------------------------------|----------------------------------|
| | 2012 | 2011 | | | |
| \$ | \$ 3,252 | \$ 2,432 | 33.7% | 6.7% | 4.6% |

Engineering and product development expenses increased \$820,000, or 34%, due primarily to the full nine months effect of the addition of engineering staff and related expenses from the acquisition of Printrex of approximately \$514,000 and higher outside testing and pre-production expenses related to new product development as we prepare to launch four new products in the fourth quarter of 2012. We expect engineering, design and product development expenses to be higher in 2012 than in 2011 due largely to the full year effect of the Printrex acquisition.

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

| | Nine months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|----|------------------------------------|----------|-------------------|----------------------------------|----------------------------------|
| | 2012 | 2011 | | | |
| \$ | \$ 4,846 | \$ 4,630 | 4.7% | 9.9% | 8.8% |

Selling and marketing expenses increased \$216,000, or 5%, in the first nine months of 2012 compared to the first nine months of 2011 primarily due to higher expenses from the full nine months effect from the acquisition of Printrex, including the addition of new sales staff, of approximately \$321,000 somewhat offset by lower promotional marketing expenses and sales commissions due to lower sales volume. We expect selling and marketing expenses to be higher in 2012 than in 2011 due to the full year effect of the Printrex acquisition.

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

| | Nine months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|----|------------------------------------|----------|-------------------|----------------------------------|----------------------------------|
| | 2012 | 2011 | | | |
| \$ | \$ 5,822 | \$ 5,576 | 4.4% | 11.9% | 10.7% |

General and administrative expenses increased \$246,000, or 4%, due primarily to amortization of intangible assets acquired in the acquisition of Printrex of approximately \$229,000. We expect general and administrative expenses to be higher in 2012 than in 2011 due largely to the full year effect of the amortization of intangible assets acquired in the Printrex acquisition.

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

| Nine months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|------------------------------------|------|-------------------|----------------------------------|----------------------------------|
| 2012 | 2011 | | | |
| \$ 1,507 | \$ - | 100% | 3.1% | - % |

As disclosed in Note 9 to the Condensed Consolidated Financial Statements, in June 2012, Avery Dennison Corporation filed a civil complaint against the Company. In connection with this lawsuit, we incurred legal fees and other related expenses of \$1,507,000 in the first nine months of 2012. We may incur additional legal fees related to this lawsuit in the fourth quarter of 2012 and beyond, although we cannot predict the timing and extent of such legal fees.

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

| Nine months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|------------------------------------|--------|-------------------|----------------------------------|----------------------------------|
| 2012 | 2011 | | | |
| \$ 140 | \$ 184 | (23.9%) | 0.3% | 0.4% |

As disclosed in Note 5 to the Condensed Consolidated Financial Statements, in January 2012, we determined that we no longer needed to maintain the existing Printrex manufacturing facility in San Jose, California, along with certain redundant headcount. During the nine months ended September 30, 2012, we recorded a restructuring charge of \$140,000 for employee termination benefits related to these employee reductions as well as moving costs. The closing of the San Jose manufacturing operations was substantially completed as of September 30, 2012. We expect the closing of this facility will result in annualized cost savings of \$800,000, or \$200,000 per quarter, beginning in the fourth quarter of 2012.

In May 2011, we undertook a plan to close our New Britain, CT service facility. The New Britain facility primarily serviced our first generation legacy impact printers for GTECH. We no longer needed to maintain this facility since these printers were replaced by our thermal lottery printers. During the six months ended June 30, 2011, we recorded a restructuring charge of \$184,000 in connection with this facility closure. As of June 30, 2011, all New Britain activities ceased. Also see Note 5 in the Consolidated Condensed Financial Statements.

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

| Nine months ended September 30, | | Percent Change | Percent of Total Sales - 2012 | Percent of Total Sales - 2011 |
|------------------------------------|----------|-------------------|----------------------------------|----------------------------------|
| 2012 | 2011 | | | |
| \$ 2,732 | \$ 6,123 | (55.4%) | 5.6% | 11.7% |

The decrease in our operating income and operating margin was primarily due to the legal fees incurred from the Avery Dennison lawsuit, higher operating expenses attributable to the Printrex acquisition of approximately \$1,102,000, lower gross profit as previously discussed and higher new product development costs.

Interest. We recorded net interest income of \$7,000 in the first nine months of 2012 compared to net interest income of \$18,000 in the first nine months of 2011. Interest expense related to the unused revolving credit line fee and amortization of the deferred financing costs on our revolving credit facility with TD Bank, which is included in our net interest income, remained relatively consistent in the first nine months of 2012 compared to the first nine months of 2011. See "Liquidity and Capital Resources" below for more information.

Other, net. We recorded other expense of \$21,000 in the first nine months of 2012 compared to no other income or expense in the first nine months of 2011. The change was due primarily to a foreign currency transaction exchange loss in the first nine months of 2012 recorded by our U.K. subsidiary during that period that did not occur in the first nine months of 2011.

Income Taxes. We recorded an income tax provision for the first nine months of 2012 of \$979,000 at an effective tax rate of 36.0% compared to an income tax provision for the first nine months of 2011 of \$2,035,000 at an effective tax rate of 33.1%. Our effective tax rate for the first nine months of 2012 is higher because it does not include a benefit from the federal research and development credit, which is normally included in our tax rate, as this credit expired at the end of 2011. If this credit is not reinstated, we expect our annual effective tax rate for 2012 to be approximately 36%. Additionally, the effective tax rate for the nine months ended September 30, 2011 was favorably impacted by the recognition of \$53,000 of certain discrete tax benefits.

Net Income. We reported net income during the first nine months of 2012 of \$1,739,000, or \$0.19 per diluted share, compared to net income of \$4,106,000, or \$0.43 per diluted share, for the first nine months of 2011.

Liquidity and Capital Resources

Cash Flow

In the first nine months of 2012, our cash and cash equivalents balance increased \$1,714,000, or 25%, from December 31, 2011 and we ended the first nine months of 2012 with \$8,577,000 in cash and cash equivalents and no debt outstanding.

Operating activities: The following significant factors affected our cash provided by operating activities of \$7,784,000 in the first nine months of 2012 as compared to \$2,493,000 in the first nine months of 2011:

During the first nine months of 2012:

- We reported net income of \$1,739,000.
- We recorded depreciation, amortization, and non-cash compensation expense of \$1,716,000, including \$285,000 of amortization related to intangible assets acquired from Printrex.
- Accounts receivable increased \$228,000 due to a higher concentration of sales made during the latter portion of the third quarter.
- Inventories decreased \$3,397,000 due to our continued effort to reduce inventory purchases and to fulfill sales with existing inventory stock. However, we expect our inventories to increase during the fourth quarter of 2012 due to an anticipated increase in sales volume and as we make initial stocking orders for our newly-launched products.
- Other current and long-assets increased \$433,000 primarily due to higher prepaid tradeshow expenses, insurance and software maintenance contracts.
- Accounts payable increased \$909,000 due primarily to the timing of payments during the latter portion of the third quarter.
- Accrued liabilities and other liabilities increased \$690,000 due primarily to higher accrued legal fees primarily in connection with the Avery Dennison lawsuit of approximately \$491,000 as disclosed in Note 9 to the Condensed Consolidated Financial Statements in addition to higher accrued professional fees and promotional liabilities.
- Incremental tax benefits from stock options exercised of \$42,000.

During the first nine months of 2011:

- We reported net income of \$4,106,000.
- We recorded depreciation, amortization, and non-cash compensation expense of \$1,622,000, including \$56,000 of amortization related to intangible assets acquired from Printrex.
- Accounts receivable decreased \$1,292,000 due to lower sales volume and the timing of sales during the quarter.
- Inventories increased \$1,108,000 due to lower than anticipated sales volume in the first nine months of 2011.
- Accounts payable decreased \$3,055,000 due to lower inventory purchases and the timing of payments during the quarter.
- Incremental tax benefits from stock options exercised of \$439,000.

Investing activities: Our capital expenditures were \$675,000 and \$472,000 in the first nine months of 2012 and 2011, respectively. Expenditures in 2012 included \$369,000 for the purchase of new product tooling with the remaining amount primarily for the purchase of computer hardware and software. Expenditures in 2011 included \$217,000 for the purchase of computer equipment, \$179,000 for the purchase of new product tooling and the remaining amount primarily for the purchase of engineering and manufacturing equipment. Additionally, our capitalized software development costs were \$23,000 and \$568,000 in the first nine months of 2012 and 2011, respectively, all related to our new EPICENTRAL™ print system.

Capital expenditures, including capitalized software development costs, for 2012 are expected to be approximately \$1,000,000, primarily for new product tooling and tooling enhancements for our existing products, as well as consulting and hardware costs in connection with the planned upgrade of our Oracle software system which we expect to complete in the first quarter of 2013.

On August 19, 2011, we completed the purchase of substantially all of the assets of Printrex for \$4,000,000 in cash and contingent consideration. Printrex is a leading manufacturer of specialty printers primarily sold into the oil and gas exploration and medial markets.

Financing activities: We used \$5,376,000 of cash from financing activities during the first nine months of 2012 due to the repurchase of \$5,563,000 of Company stock partially offset by proceeds and tax benefits from stock option exercises of \$187,000. During the first nine months of 2011, we used \$791,000 of cash from financing activities due to the repurchase of \$2,075,000 of Company stock partially offset by proceeds and tax benefits from stock option exercises of \$1,302,000.

Working Capital

Our working capital decreased 10% to \$24,454,000 at September 30, 2012 from \$27,222,000 at December 31, 2011. Our current ratio decreased to 4.3 as of September 30, 2012 compared to 5.7 at December 31, 2011. The decrease in our working capital and current ratio was primarily due to higher accounts payable and accrued expenses and lower inventory balances offset by higher cash and cash equivalents balances for the reasons discussed above.

Credit Facility and Borrowings

On November 22, 2011, we signed a three-year amendment to renew our existing \$20,000,000 credit facility (the “TD Bank Credit Facility”) with TD Bank. The TD Bank Credit Facility provides for a \$20,000,000 revolving credit line expiring on November 28, 2014. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate minus one percent and are secured by a lien on all of our assets. We also pay a fee of 0.25% on unused borrowings under the revolving credit line. The total deferred financing costs relating to expenses incurred to complete the TD Bank Credit Facility was \$31,000.

On September 7, 2012, we signed an amendment to our existing \$20 million credit facility with TD Bank, N.A. (“TD Bank”) that allows us to declare and pay cash dividends to holders of our outstanding common shares subject to approval by our Board of Directors and provided that no default or event of default has occurred and is continuing under the credit facility on the date of the dividend payment. The amendment also allows us to use up to \$5,000,000 in Revolving Credit Loans to fund future cash dividend payments or treasury share buybacks as well as requires cash dividend payments to be treated as distributions for purposes of quarterly debt covenant calculations.

The TD Bank Credit Facility imposes certain quarterly financial covenants on us and restricts, among other things, our ability to incur additional indebtedness and the creation of other liens. We were in compliance with all financial covenants of the TD Bank Credit Facility at September 30, 2012. The following table lists the financial covenants and the performance measurements at September 30, 2012:

| Financial Covenant | Requirement/Restriction | Calculation at September 30, 2012 |
|------------------------------------|-------------------------|-----------------------------------|
| Operating cash flow / Debt service | Minimum of 1.25 times | 67.4 times |
| Funded Debt / EBITDA | Maximum of 3.0 times | 0 times |

As of September 30, 2012, undrawn commitments under the TD Bank Credit facility were \$20,000,000.

Shareholder Dividend Payments

On September 10, 2012, we announced that our Board of Directors approved the initiation of a quarterly cash dividend program. On November 2, 2012, our Board of Directors declared a quarterly cash dividend of \$0.06 per share which will be payable on or about December 12, 2012 to common shareholders of record at the close of business on November 21, 2012. We estimate this initial dividend payment to be approximately \$526,000.

Stock Repurchase Program

We maintain a stock repurchase program (the “Stock Repurchase Program”) whereby we are authorized to repurchase up to \$15,000,000, as increased from \$10,000,000 in March 2012 through Board of Director approval, of our outstanding shares of common stock from time to time in the open market over a three-year period ending May 27, 2013, depending on market conditions, share price and other factors. During the nine months ended September 30, 2012, we repurchased 670,648 shares of our common stock for approximately \$5,563,000 at an average price per share of \$8.30. As of September 30, 2012, approximately \$6,581,000 remains authorized for future repurchases under the Stock Repurchase Program.

In March 2012, our Board of Directors authorized us to purchase up to 1,000,000 shares of our common stock under a 10b5-1 Plan (the “Plan”). Under the Plan, we expect to repurchase outstanding shares of common stock on the open market through 2012, depending on market conditions, share price and other factors. In September 2012, in conjunction with the initiation of our dividend policy, we suspended the Plan but we remain authorized to purchase stock from time to time under the Stock Repurchase Program as previously discussed.

Resource Sufficiency

We believe that our cash and cash equivalents on hand and cash flows generated from operating activities will provide sufficient resources to meet our working capital needs, finance our capital expenditures, dividend payments and treasury share repurchases, and meet our liquidity requirements through at least the next twelve months.

Contractual Obligations / Off-Balance Sheet Arrangements

The disclosure of payments we have committed to make under our contractual obligations is set forth under the heading “Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. There have been no material changes in our contractual obligations outside the ordinary course of business since December 31, 2011. We have no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The disclosure of our exposure to market risk is set forth under the heading “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. There has been no material change in our exposure to market risk during the three months ended September 30, 2012.

Item 4. CONTROLS AND PROCEDURES

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2012. There has been no change in the Company's internal control over financial reporting during the quarter ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On June 8, 2012, Avery Dennison Corporation ("AD") filed a civil complaint against the Company and a former employee of the Company and of AD, in the Court of Common Pleas in Lake County, Ohio. The complaint alleges that this former employee and the Company misappropriated unspecified trade secrets and confidential information related to the design of our food safety terminals from AD. The complaint requests a preliminary and permanent injunction against the Company from manufacturing and selling our Ithaca® 9700 and 9800 food safety terminals. On July 16, 2012, the Company filed its answer, affirmative defenses and counterclaims, seeking all available damages including legal fees. A hearing on the plaintiff's motion for preliminary injunction took place in August 2012 and we are awaiting a ruling from the Court on this matter.

We are currently unable to estimate any potential liability or range of loss, if any, associated with this litigation. Accordingly, no amounts other than corresponding legal fees of approximately \$491,000 have been accrued in the Condensed Consolidated Balance Sheets related to this matter.

Item 1A. RISK FACTORS

Information regarding risk factors appears in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no material changes from the risk factors previously disclosed in that Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

We maintain a stock repurchase program (the "Stock Repurchase Program") whereby we are authorized to repurchase up to \$15,000,000, as increased from \$10,000,000 in March 2012 through Board of Director approval, of our outstanding shares of common stock from time to time in the open market over a three-year period ending May 27, 2013, depending on market conditions, share price and other factors. During the nine months ended September 30, 2012, we repurchased 670,648 shares of our common stock for approximately \$5,563,000 at an average price per share of \$8.30. As of September 30, 2012, approximately \$6,581,000 remains authorized for future repurchases under the Stock Repurchase Program. The following table summarizes the repurchase of our common stock in the nine months ended September 30, 2012:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased under the May 2010 Program |
|--|--|---------------------------------|--|---|
| January 1, 2012 – January 31, 2012 | 447 | \$ 7.65 | 447 | \$ 7,140,000 |
| February 1, 2012 – February 29, 2012 | - | - | - | \$ 7,140,000 |
| March 1, 2012 – March 31, 2012 | 19,708 | 7.19 | 19,708 | \$ 11,998,000* |
| April 1, 2012 – April 30, 2012 | 374,228 | 8.59 | 374,228 | \$ 8,784,000* |
| May 1, 2012 – May 31, 2012 | 93,302 | 8.58 | 93,302 | \$ 7,983,000* |
| June 1, 2012 – June 30, 2012 | 128,680 | 7.69 | 128,680 | \$ 6,993,000* |
| July 1, 2012 – July 31, 2012 | 26,960 | 7.79 | 26,960 | \$ 6,783,000* |
| August 1, 2012 – August 31, 2012 | 20,309 | 7.46 | 20,309 | \$ 6,631,000* |
| September 1, 2012 – September 30, 2012 | 7,014 | 7.30 | 7,014 | \$ 6,581,000* |
| Total | 670,648 | \$ 8.30 | 670,648 | |

* Reflects authorized share increase to \$15,000,000 in March 2012.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

| | |
|--------------|--|
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.2 | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANSACT TECHNOLOGIES INCORPORATED
(Registrant)

November 8, 2012

/s/ Steven A. DeMartino
Steven A. DeMartino
President, Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Bart C. Shuldman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TransAct Technologies Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2012

/s/ Bart C. Shuldman

Bart C. Shuldman

Chairman and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Steven A. DeMartino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TransAct Technologies Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2012

/s/ Steven A. DeMartino

Steven A. DeMartino
President, Chief Financial Officer,
Treasurer and Secretary

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of TransAct Technologies Incorporated (the "Company") on Form 10-Q for the period ending September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bart C. Shuldman, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2012

/s/ Bart C. Shuldman

Bart C. Shuldman

Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of TransAct Technologies Incorporated (the "Company") on Form 10-Q for the period ending September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven A. DeMartino, President, Chief Financial Officer, Treasurer and Secretary of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2012

/s/ Steven A. DeMartino

Steven A. DeMartino
President, Chief Financial Officer, Treasurer and
Secretary