

TRANSACT TECHNOLOGIES INC  
Form 10-Q  
August 10, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC. 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: June 30, 2009

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 0-21121

\_\_\_\_\_  
\_\_\_\_\_

(Exact name of registrant as specified in its charter)

Delaware  
(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

06518  
(Zip Code)

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

(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

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                         | Outstanding as of July 31, 2009 |
|-------------------------------|---------------------------------|
| Common stock, \$.01 par value | 9,317,838                       |

TRANSACT TECHNOLOGIES INCORPORATED

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## PART I - FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

TRANSACT TECHNOLOGIES INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited)

| (In thousands, except per share data)   | June 30,<br>2009 | December<br>31,<br>2008 |
|---|------------------|-------------------------|
| Assets:   |                  |                         |
| Current assets:   |                  |                         |
| Cash and cash equivalents   | \$1,934          | \$2,000                 |
| Receivables, net  | 8,764            | 8,734                   |
| Inventories   | 10,421           | 9,919                   |
| Refundable income taxes   | 35               | 35                      |
| Deferred tax assets   | 2,055            | 2,054                   |
| Other current assets  | 541              | 352                     |
| Total current assets  | 23,750           | 23,094                  |
| Fixed assets, net   | 5,039            | 5,563                   |
| Goodwill  | 1,469            | 1,469                   |
| Deferred tax assets   | 1,375            | 1,759                   |
| Intangible and other assets, net of accumulated amortization of \$348 and \$306,<br>respectively                                  | 282              | 349                     |
|   | 8,165            | 9,140                   |
| Total assets  | \$31,915         | \$32,234                |
| Liabilities and Shareholders' Equity:   |                  |                         |
| Current liabilities:  |                  |                         |
| Accounts payable  | \$3,907          | \$4,863                 |
| Accrued liabilities   | 2,156            | 2,847                   |
| Deferred revenue  | 484              | 333                     |
| Total current liabilities   | 6,547            | 8,043                   |
| Deferred revenue, net of current portion  | 349              | 259                     |
| Accrued warranty, net of current portion  | 79               | 133                     |
| Deferred rent   | 450              | 473                     |
| Other liabilities   | 44               | 44                      |
|   | 922              | 909                     |
| Total liabilities   | 7,469            | 8,952                   |
| Commitments and contingencies (Note 9)  |                  |                         |
| Shareholders' equity:   |                  |                         |
| Common stock, \$0.01 par value, 20,000,000 authorized at June 30, 2009<br>and December 31, 2008; 10,480,438 and 10,465,588 shares |                  |                         |

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|  |          |          |
|--|----------|----------|
| issued, respectively; 9,316,338 and 9,301,488 shares outstanding<br>at June 30, 2009 and December 31, 2008, respectively | 105      | 105      |
| Additional paid-in capital   | 21,278   | 20,890   |
| Retained earnings  | 11,663   | 10,893   |
| Accumulated other comprehensive loss, net of tax   | (62 )    | (68 )    |
| Treasury stock, 1,164,100 shares, at cost  | (8,538 ) | (8,538 ) |
| Total shareholders' equity   | 24,446   | 23,282   |
| Total liabilities and shareholders' equity   | \$31,915 | \$32,234 |

See notes to condensed consolidated financial statements.

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TRANSACT TECHNOLOGIES INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

| (In thousands, except per share data)           | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|---|--------------------------------|----------|------------------------------|-----------|
|   | 2009                           | 2008     | 2009                         | 2008      |
| Net sales                                       | \$14,236                       | \$16,319 | \$26,438                     | \$30,604  |
| Cost of sales                                   | 9,380                          | 10,859   | 17,456                       | 20,365    |
| Gross profit                                    | 4,856                          | 5,460    | 8,982                        | 10,239    |
| Operating expenses:                             |                                |          |                              |           |
| Engineering, design and product development     | 666                            | 691      | 1,360                        | 1,406     |
| Selling and marketing                           | 1,455                          | 1,516    | 2,853                        | 2,967     |
| General and administrative                      | 1,693                          | 1,722    | 3,548                        | 3,497     |
| Legal fees associated with lawsuit (See Note 9) | -                              | 1,132    | -                            | 3,029     |
|   | 3,814                          | 5,061    | 7,761                        | 10,899    |
| Operating income (loss)                         | 1,042                          | 399      | 1,221                        | (660 )    |
| Interest and other expense:                     |                                |          |                              |           |
| Interest, net                                   | (18 )                          | (7 )     | (33 )                        | (3 )      |
| Other, net                                      | (50 )                          | (8 )     | (30 )                        | (6 )      |
|   | (68 )                          | (15 )    | (63 )                        | (9 )      |
| Income (loss) before income taxes               | 974                            | 384      | 1,158                        | (669 )    |
| Income tax provision (benefit)                  | 325                            | 94       | 388                          | (267 )    |
| Net income (loss)                               | \$649                          | \$290    | \$770                        | \$(402 )  |
| Earnings (loss) per common share:               |                                |          |                              |           |
| Basic   | \$0.07                         | \$0.03   | \$0.08                       | \$(0.04 ) |
| Diluted   | \$0.07                         | \$0.03   | \$0.08                       | \$(0.04 ) |
| Shares used in per-share calculation:           |                                |          |                              |           |
| Basic   | 9,284                          | 9,309    | 9,271                        | 9,294     |
| Diluted   | 9,353                          | 9,516    | 9,280                        | 9,294     |

See notes to condensed consolidated financial statements.

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

|  | Six Months Ended<br>June 30, |          |
|--|------------------------------|----------|
| (In thousands)   | 2009                         | 2008     |
| Cash flows from operating activities:  |                              |          |
| Net income (loss)  | \$770                        | \$(402 ) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                              |          |
| Share-based compensation expense   | 342                          | 409      |
| Depreciation and amortization  | 909                          | 959      |
| Deferred income taxes  | 377                          | (321 )   |
| Foreign currency transaction loss (gain)   | 31                           | (6 )     |
| Changes in operating assets and liabilities:   |                              |          |
| Receivables  | (31 )                        | (2,252 ) |
| Inventories  | (501 )                       | 1,416    |
| Other current assets   | (188 )                       | 39       |
| Other assets   | 17                           | 15       |
| Accounts payable   | (957 )                       | 727      |
| Accrued liabilities and other liabilities  | (556 )                       | (156 )   |
| Net cash provided by operating activities  | 213                          | 428      |
| Cash flows from investing activities:  |                              |          |
| Purchases of fixed assets  | (333 )                       | (521 )   |
| Net cash used in investing activities  | (333 )                       | (521 )   |
| Cash flows from financing activities:  |                              |          |
| Proceeds from option exercises   | 46                           | 63       |
| Net cash provided by financing activities  | 46                           | 63       |
| Effect of exchange rate changes on cash and cash equivalents                             | 8                            | (3 )     |
| Net decrease in cash and cash equivalents  | (66 )                        | (33 )    |
| Cash and cash equivalents, beginning of period   | 2,000                        | 2,561    |
| Cash and cash equivalents, end of period   | \$1,934                      | \$2,528  |

See notes to condensed consolidated financial statements.

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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, 2008 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, 2008 included in our Annual Report on Form 10-K.

The financial position and results of operations of our U.K. foreign subsidiary is 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 in the condensed consolidated balance sheets. Transaction gains and losses are included in other income in the condensed consolidated statement of operations.

The results of operations for the three and six months ended June 30, 2009 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. Recently issued accounting pronouncements

**Fair Value Measurements:** In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 157, “Fair Value Measurements”. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities and expands disclosure with respect to fair value measurements. In February 2008, the FASB issued a FASB Staff Position (“FSP”) 157-2 which allowed companies to elect a one year deferral of adoption of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. In October 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active”. In April 2009, the FASB issued FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly”. We currently do not have any financial assets or liabilities that are valued in inactive or non-orderly markets, and as such are not currently impacted by the issuance of FSP FAS 157-3 or FSP FAS 157-4. We have adopted SFAS No. 157 as of January 1, 2008 and FSP 157-2 as of January 1, 2009.

**Business Combinations:** In December 2007, the FASB issued SFAS No. 141(R) “Business Combinations”, which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. In April 2009, the FASB issued FSP 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that arise from



Contingencies”, which amends and clarifies the initial and subsequent accounting and disclosures of contingencies in a business combination. We have adopted SFAS No. 141(R) effective January 1, 2009 and will apply it and FSP 141(R)-1 prospectively to business combinations completed after January 1, 2009.

Noncontrolling Interests: In December 2007, the FASB issued SFAS No. 160 “Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51”. SFAS No. 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent’s equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent’s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. We have adopted SFAS No. 160 as of January 1, 2009. This statement will not have any effect on our financial statements since we do not participate in noncontrolling interests.

Participating Securities: In June 2008, the FASB issued FSP Emerging Issues Task Force (“EITF”) 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities”. FSP EITF 03-6-1 clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. We have adopted FSP EITF 03-6-1 as of January 1, 2009. See Note 6 – Earnings per share.

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

## 2. Recently issued accounting pronouncements (continued)

**Subsequent Events:** In May 2009, the FASB issued SFAS No. 165, “Subsequent Events”. SFAS No. 165 is based on the same principles as those that currently exist in the auditing standards and it includes a new required disclosure of the date through which an entity has evaluated subsequent events. We adopted SFAS No. 165 in the second quarter of 2009. See Note 11 – Subsequent Events.

**Transfers of Financial Assets:** In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets – an amendment of SFAS No. 140”, to improve the relevance and comparability of information that a reporting entity provides in its financial statements about a transfer of financial assets. This statement will be effective on January 1, 2010 and will be applied prospectively to transfers of financial assets completed after December 31, 2009. We do not anticipate this standard will have a material impact on our financial statements.

**Consolidation of Variable Interest Entities:** In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)”, amending the consolidation guidance for variable-interest entities. This statement will be effective on January 1, 2010. This statement will not have any effect on our financial statements since we do not have any variable-interest entities.

**FASB Accounting Standards Codification:** In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification™ (“Codification”) and the Hierarchy of Generally Accepted Accounting Principles”, effective for interim and annual reporting periods ending after September 15, 2009. This statement replaces SFAS No. 162, “Hierarchy of Generally Accepted Accounting Principles”, and establishes the Codification as the source of authoritative accounting principles used in the preparation of financial statements in conformity with generally accepted accounting principles. The Codification does not replace or affect guidance issued by the SEC or its staff. After the effective date of this statement, all non-grandfathered non-SEC accounting literature not included in the Codification will be superseded and deemed non-authoritative.

## 3. Inventories

The components of inventories are:

| (In thousands)                              | June 30,<br>2009 | December<br>31,<br>2008 |
|---|------------------|-------------------------|
| Raw materials and purchased component parts | \$6,982          | \$7,207                 |
| Work-in-process                             | 1                | 27                      |
| Finished goods                              | 3,438            | 2,685                   |
|   | \$10,421         | \$9,919                 |

## 4. Accrued product warranty liability

The following table summarizes the activity recorded in the accrued product warranty liability during the three and six months ended June 30, 2009 and 2008.

| Three months ended<br>June 30, | Six months ended<br>June 30, |
|--------------------------------|------------------------------|
|--------------------------------|------------------------------|

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| (In thousands)                                     | 2009  | 2008   | 2009  | 2008   |
|--|-------|--------|-------|--------|
| Balance, beginning of period                       | \$328 | \$518  | \$393 | \$500  |
| (Reversals) additions related to warranties issued | (6 )  | 81     | (20 ) | 216    |
| Warranty costs incurred                            | (47 ) | (116 ) | (98 ) | (233 ) |
| Balance, end of period                             | \$275 | \$483  | \$275 | \$483  |

The current portion of the accrued product warranty liability is included in accrued liabilities in the condensed consolidated balance sheets.

#### 5. Restructuring and other charges

The Company continually evaluates its cost structure to ensure that it is appropriately positioned to respond to changing market conditions. Given recent economic trends, in 2008 and continuing in the first half of 2009, the Company initiated and completed certain restructuring programs to better utilize its workforce. These restructuring activities reduced the number of employees and caused the Company to incur costs for employee termination benefits related to the employee reductions. During the three and six months ended June 30, 2009, the Company recorded pre-tax restructuring charges of approximately \$24,000 and \$146,000, respectively, in accordance with SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." These one time termination benefit charges have been included within general and

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

## 5. Restructuring and other charges (continued)

administrative expenses. The restructuring activity during the three and six months ended June 30, 2009 includes severance costs related to the termination of 1 and 13 employees, respectively.

The following table summarizes the activity recorded in accrued restructuring expenses during the three and six months ended June 30, 2009.

| (In thousands)                       | Three<br>months<br>ended<br>June 30,<br>2009 | Six months<br>ended<br>June 30,<br>2009 |
|--------------------------------------|--|---|
| Accrual balance, beginning of period | \$ 107                                       | \$ 18                                   |
| Pre-tax severance charges            | 24   | 146                                     |
| Cash payments                        | (80 )  | (113 )                                  |
| Accrual balance, end of period       | \$ 51  | \$ 51                                   |

## 6. Earnings per share

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

| (In thousands, except per share data)   | Three Months Ended |         | Six Months Ended |           |
|---|--------------------|---------|------------------|-----------|
|   | June 30,<br>2009   | 2008    | June 30,<br>2009 | 2008      |
| Net income (loss)   | \$ 649             | \$ 290  | \$ 770           | \$(402 )  |
| <b>Shares:</b>  |                    |         |                  |           |
| Basic: Weighted average common shares outstanding   | 9,284              | 9,309   | 9,271            | 9,294     |
| Add: Dilutive effect of outstanding options and restricted stock as determined by the treasury stock method | 69                 | 207     | 9                | -         |
| Diluted: Weighted average common and common equivalent shares outstanding                                   | 9,353              | 9,516   | 9,280            | 9,294     |
| <b>Net income (loss) per common share:</b>  |                    |         |                  |           |
| Basic   | \$ 0.07            | \$ 0.03 | \$ 0.08          | \$(0.04 ) |
| Diluted   | \$ 0.07            | \$ 0.03 | \$ 0.08          | \$(0.04 ) |

In June 2008, the FASB issued FSP Emerging Issues Task Force (“EITF”) 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities”. FSP EITF 03-6-1 clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. FSP EITF 03-6-1 was effective on January 1, 2009. This statement did not have a material effect on our computation of basic and diluted earnings per share since our unvested restricted stock awards do not contain rights to nonforfeitable dividends.

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 the three months ended June 30, 2009 and 2008, there were 531,100 and 223,750, respectively, potentially dilutive shares consisting of stock options and nonvested restricted stock, that were excluded from the calculation of earnings per diluted share. For the six months ended June 30, 2009 and 2008, there were 773,950 and 968,797, respectively, potentially dilutive shares (prior to consideration of the treasury stock method), consisting of stock options and unvested restricted stock, that were excluded from the earnings per share calculation as the effect of such shares would be anti-dilutive.

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## TRANSACT TECHNOLOGIES INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 7. Comprehensive income (loss)

The following table summarizes the Company's comprehensive income (loss):

| (In thousands)                          | Three Months Ended |       | Six Months Ended |         |
|---|--------------------|-------|------------------|---------|
|   | June 30,<br>2009   | 2008  | June 30,<br>2009 | 2008    |
| Net income (loss)                       | \$649              | \$290 | \$770            | \$(402) |
| Foreign currency translation adjustment | 23                 | 1     | 6                | (9)     |
| Total comprehensive income (loss)       | \$672              | \$291 | \$776            | \$(411) |

## 8. Stockholder's equity

Changes in stockholders' equity for the six months ended June 30, 2009 were as follows (in thousands):

|   |          |
|---|----------|
| Balance at December 31, 2008                                    | \$23,282 |
| Net income  | 770      |
| Proceeds from issuance of shares from exercise of stock options | 46       |
| Share-based compensation expense                                | 342      |
| Foreign currency translation adjustment                         | 6        |
| Balance at June 30, 2009  | \$24,446 |

## 9. Commitments and contingencies

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

## 10. Income taxes

We recorded an income tax provision for the second quarter of 2009 of \$325,000 at an effective tax rate of 33.4%, compared to an income tax provision during the second quarter of 2008 of \$94,000 at an effective tax rate of 24.5%. For the six months ended June 30, 2009, we recorded an income tax provision of \$388,000 at an effective tax rate of 33.5%, compared to an income tax benefit during the six months ended June 30, 2008 of \$267,000 at an effective tax rate of 39.9%.

As of June 30, 2009, we had a net deferred tax asset of \$3,430,000. In order to utilize this deferred tax asset, we will need to generate approximately \$9.7 million of taxable income in future years. Based on future projections of taxable income, we have determined that it is more likely than not that the existing net deferred tax asset will be realized.

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 2002. During

2008, a limited scope audit of our 2005 and 2006 federal tax returns was completed. However, our federal tax returns for the years 2003 through 2007 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 jurisdictions are currently under examination.

As of June 30, 2009, we had \$160,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. We are not aware of any events that could occur within the next twelve months that could cause a significant change in the total amount of unrecognized tax benefits.

#### 11. Subsequent Events

Our financial statements for the quarter ended June 30, 2009 were issued on August 10, 2009. We have determined that no other events or transactions have occurred through the date of issuance that would require recognition or disclosure within the financial statements.

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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. All 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 "could" and the negative thereof or other similar words. Forward-looking statements involve risks and uncertainties, including, but not limited to those listed in Item 1A of our most recently filed 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 designs, develops, assembles, markets and services world-class transaction printers under the Epic and Ithaca® brand names. Known and respected worldwide for innovative designs and real-world service reliability, our thermal, inkjet and impact printers generate top-quality transaction records such as receipts, tickets, coupons, register journals and other documents. We focus on the following core markets: banking and point-of-sale, casino and gaming, and lottery. We sell our products to original equipment manufacturers, value-added resellers, selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. Beyond printers, TransAct is a leader in providing printing supplies to the full transaction printer market. Through our TransAct Services Group we provide a complete range of supplies and consumables items used in the printing and scanning activities of customers in the hospitality, banking, retail, gaming, and government verticals. Through our webstore, [www.transactsupplies.com](http://www.transactsupplies.com), and an expert direct selling team, we address the rapidly growing on-line demand for this product category. We operate in one reportable segment, the design, development, assembly and marketing of transaction printers and printer-related service, supplies and spare parts.

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 Form 10-K for the year ended December 31, 2008. We have reviewed those policies and determined that they remain our critical accounting policies for the six months ended June 30, 2009.

Results of Operations

Three months ended June 30, 2009 compared to three months ended June 30, 2008



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Net Sales. Net sales, which include printer sales and sales of spare parts, consumables and repair services, by market for the three months ended June 30, 2009 and 2008 were as follows:

| (In thousands)            | Three months ended |       |   | Three months ended |       |   | Change     |       |    |
|---------------------------|--------------------|-------|---|--------------------|-------|---|------------|-------|----|
|                           | June 30, 2009      |       |   | June 30, 2008      |       |   | \$         | %     |    |
| Banking and point-of-sale | \$5,517            | 38.7  | % | \$3,013            | 18.5  | % | \$2,504    | 83.1  | %  |
| Casino and gaming         | 3,459              | 24.3  | % | 5,440              | 33.3  | % | (1,981 )   | (36.4 | %) |
| Lottery                   | 1,960              | 13.8  | % | 4,786              | 29.3  | % | (2,826 )   | (59.0 | %) |
| TransAct Services Group   | 3,300              | 23.2  | % | 3,080              | 18.9  | % | 220        | 7.1   | %  |
|                           | \$14,236           | 100.0 | % | \$16,319           | 100.0 | % | \$(2,083 ) | (12.8 | %) |
| International *           | \$2,171            | 15.3  | % | \$2,571            | 15.8  | % | \$(400 )   | (15.6 | %) |

Net sales for the second quarter of 2009 decreased \$2,083,000, or 13%, from the same period last year due primarily to lower printer sales in our lottery (a decrease of \$2,826,000, or 59%), and casino and gaming markets (a decrease of \$1,981,000, or 36%) partially offset by a \$2,504,000, or 83% increase from our banking and point-of-sale markets as well as a \$220,000, or 7%, increase from our TransAct Services Group (“TSG”). Printer sales volume decreased by 27% while the average selling price of our printers increased by approximately 13% (due primarily to an increase in sales of banking printers with higher average selling prices) from the second quarter of 2008 to the second quarter of

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2009. Overall, international sales decreased by \$400,000, or 16%, largely due to lower international shipments of our casino and gaming printers.

**Banking and point-of-sale:**

Revenue from the banking and point-of-sale (“POS”) market includes sales of printers used by banks, credit unions, and other financial institutions to print and/or validate receipts and checks 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 other inserted media. Sales of our banking and POS printers worldwide increased approximately \$2,504,000, or 83%.

| (In thousands) | Three months ended |       |   | Three months ended |       |   | Change  |        |   |
|----------------|--------------------|-------|---|--------------------|-------|---|---------|--------|---|
|                | June 30, 2009      |       |   | June 30, 2008      |       |   | \$      | %      |   |
| Domestic       | \$5,375            | 97.4  | % | \$2,748            | 91.2  | % | \$2,627 | 95.6   | % |
| International  | 142                | 2.6   | % | 265                | 8.8   | % | (123)   | (46.4) | % |
|                | \$5,517            | 100.0 | % | \$3,013            | 100.0 | % | \$2,504 | 83.1   | % |

Domestic banking and POS revenue increased to \$5,375,000, representing a \$2,627,000, or 96%, increase from the second quarter of 2008 primarily driven by higher sales of our banking printers. Sales of our banking printers increased by over 800% in the second quarter of 2009 compared to the second quarter of 2008 as we began to ship against the \$4.9 million order we received from a large banking customer in February 2009. We expect to finish the shipment for this order in the second half of 2009. Sales of our POS printers remained consistent in the second quarter of 2009 compared to the second quarter of 2008, however, sales of our two new printer products for McDonalds, the Ithaca® 8000 (for McDonald’s grill initiative) and Ithaca® 8040 (for McDonald’s combined beverage initiative), more than tripled in the second quarter of 2009 compared to the second quarter of 2008. We expect sales of these printer products to remain consistent in the third and fourth quarters of 2009 as compared to the second quarter of 2009, as McDonalds continues the current pace of its rollout of printers used in its new combined beverage initiative. The increase in POS printers sales resulting from sales of the two new printer products for McDonalds was largely offset by a decline in sales of non-McDonalds POS printers due to the general economic slowdown that we believe will continue to adversely impact sales of POS printers to our retail and hospitality customers. Contributing to this decline, sales of our legacy line of POS impact printers decreased by approximately 48%. We expect sales of our legacy impact printers for the remainder of 2009 to continue to be lower than those reported for the comparable 2008 period, as these printers continue to be replaced by our newer thermal and inkjet printers.

International banking and POS printer shipments decreased by approximately \$123,000, or 46%, to \$142,000, due primarily to lower sales to our international distributors in Asia and Latin America.

**Casino and gaming:**

Revenue from the casino and gaming market includes sales of printers used in slot machines, video lottery terminals (“VLTs”), and other gaming machines that print tickets or receipts instead of issuing coins (“ticket-in, ticket-out” or “TITO”) at casinos and racetracks (“racinos”) and other gaming venues worldwide. Revenue from this market also includes sales of printers used in the international off-premise gaming market in gaming machines at non-casino gaming establishments such as Amusement with Prizes (“AWP”), Skills with Prizes (“SWP”), and Fixed Odds Betting Terminals (“FOBT”). Sales of our casino and gaming products decreased by \$1,981,000, or 36%, from the second quarter of 2008.

| (In thousands) | Three months ended |       |   | Three months ended |       |   | Change    |        |   |
|----------------|--------------------|-------|---|--------------------|-------|---|-----------|--------|---|
|                | June 30, 2009      |       |   | June 30, 2008      |       |   | \$        | %      |   |
| Domestic       | \$1,778            | 51.4  | % | \$3,515            | 64.6  | % | \$(1,737) | (49.4) | % |
| International  | 1,681              | 48.6  | % | 1,925              | 35.4  | % | (244)     | (12.7) | % |
|                | \$3,459            | 100.0 | % | \$5,440            | 100.0 | % | \$(1,981) | (36.4) | % |

Domestic sales of our casino and gaming printers decreased by \$1,737,000, or 49%, due largely to a decrease in sales of our thermal casino printers, which have been impacted by the downturn in the domestic casino market. We expect the domestic casino and gaming market to continue to be weak for the remainder of 2009 as we believe the current uncertain economic environment is negatively impacting the casino industry's level of capital expenditures. In light of these negative market conditions, our future sales to the domestic casino and gaming market could be unpredictable and adversely affected.

International casino and gaming printer sales decreased \$244,000, or 13%, to \$1,681,000 in the second quarter of 2009. This decrease was due primarily to a 68% decrease in casino printer sales to our European distributor. The decrease was partially offset by a 209% increase of casino printer sales due to the timing of orders to our Australian distributor and a 16% increase in sales of our new line of off-premise gaming printers.

**Lottery:**

Revenue from the lottery market includes sales of lottery printers to Lottomatica's GTECH Corporation ("GTECH"), the world's largest provider of lottery terminals, for various lottery applications. Sales of our lottery products decreased by \$2,826,000, or 59%, from the second quarter of 2008, due to lower sales of lottery printers to GTECH, both domestically and internationally.

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| (In thousands) | Three months ended |       |   | Three months ended |       |   | Change    |          |
|----------------|--------------------|-------|---|--------------------|-------|---|-----------|----------|
|                | June 30, 2009      |       |   | June 30, 2008      |       |   | \$        | %        |
| Domestic       | \$1,735            | 88.5  | % | \$4,549            | 95.0  | % | \$(2,814) | (61.9 %) |
| International  | 225                | 11.5  | % | 237                | 5.0   | % | (12)      | (5.1 %)  |
|                | \$1,960            | 100.0 | % | \$4,786            | 100.0 | % | \$(2,826) | (59.0 %) |

Domestic and international printer sales to GTECH, which include thermal on-line and other lottery printers, decreased \$2,826,000, or 59%, in the second quarter of 2009 compared to the second quarter of 2008, due to the timing of orders, with domestic sales decreasing approximately \$2,814,000, or 62%, and international sales decreasing approximately \$12,000, or 5%. Our quarterly 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. Our sales to GTECH are not indicative of GTECH's overall business or revenue. We expect as we ship a \$3.6 million order we received from GTECH in April 2009, as well as other orders in our backlog combined with anticipated new future orders, sales to GTECH will increase for the rest of 2009 as compared to the first half of 2009.

## TransAct Services Group:

Revenue from TSG includes sales of consumable products (inkjet cartridges, ribbons, receipt paper and other printing supplies), replacement parts, maintenance and repair services, refurbished printers, accessories and shipping and handling charges. Sales from TSG increased \$220,000, or 7%.

| (In thousands) | Three months ended |       |   | Three months ended |       |   | Change |          |
|----------------|--------------------|-------|---|--------------------|-------|---|--------|----------|
|                | June 30, 2009      |       |   | June 30, 2008      |       |   | \$     | %        |
| Domestic       | \$3,177            | 96.3  | % | \$2,936            | 95.3  | % | \$241  | 8.2 %    |
| International  | 123                | 3.7   | % | 144                | 4.7   | % | (21)   | (14.6 %) |
|                | \$3,300            | 100.0 | % | \$3,080            | 100.0 | % | \$220  | 7.1 %    |

Domestic revenue from TSG increased \$241,000, or 8%, largely due to an increase of approximately 30% in sales of consumable products compared to the same period in 2008, including higher sales of inkjet cartridges, as well as growing sales of paper and other consumable products through our new e-commerce website, TransActSupplies.com. The increase was partially offset by a 32% decrease in sales of replacement parts for certain legacy printers, as the installed base of these legacy printers in the market continues to decline.

Internationally, TSG revenue decreased \$21,000, or 15%, to \$123,000, due primarily to decreased sales of consumables and replacements parts.

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

|                    | June 30, |         | Percent  | Percent of         | Percent of         |
|--------------------|----------|---------|----------|--------------------|--------------------|
|                    | 2009     | 2008    | Change   | Total Sales - 2009 | Total Sales - 2008 |
| Three months ended | \$4,856  | \$5,460 | (11.1 %) | 34.1 %             | 33.5 %             |

Gross profit is measured as revenue less cost of goods sold. Cost of goods sold includes primarily the cost of all raw materials and component parts, direct labor and the associated manufacturing overhead expenses, and the cost of finished products purchased directly from contract manufacturers. Gross profit decreased \$604,000, or 11%, to \$4,856,000 from \$5,460,000 due primarily to a 13% decrease in sales from the second quarter 2009 compared to the second quarter 2008. Despite a 13% decrease in sales, gross margin increased to 34.1% from 33.5%, due primarily to lower component part and labor costs resulting from our continued focus to increasingly move production of our products to a lower cost contract manufacturer in Asia, as well as approximately \$87,000 of lower product warranty

expense resulting from improved repair history and a 27% decline in printer shipments in the second quarter of 2009 compared to the second quarter of 2008. Gross profit for the second quarter of 2009 was also favorably impacted from our cost reduction initiatives as well as approximately \$150,000 of lower average per unit costs of certain manufacturing overhead expenses due to the transition of more of our production to Asia compared to the second quarter of 2008.

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

|                    | June 30, |       | Percent | Percent of         | Percent of         |
|--------------------|----------|-------|---------|--------------------|--------------------|
|                    | 2009     | 2008  | Change  | Total Sales - 2009 | Total Sales - 2008 |
| Three months ended | \$666    | \$691 | (3.6 %) | 4.7 %              | 4.2 %              |

Engineering, design and product development expenses primarily include salary and payroll related expenses for our engineering staff, depreciation and design expenses (including prototype printer expenses, outside design and testing services, and supplies). Such expenses for the second quarter 2009 decreased by \$25,000, or 4%, due primarily to lower employee compensation related expenses. Engineering and product development expenses increased as a percentage of net sales due primarily to a lower volume of sales in the second quarter of 2009 compared to the second quarter of 2008.

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

|                    | June 30, |         | Percent | Percent of         |                    | Percent of         |                    |
|--------------------|----------|---------|---------|--------------------|--------------------|--------------------|--------------------|
|                    | 2009     | 2008    | Change  | Total Sales - 2009 | Total Sales - 2008 | Total Sales - 2009 | Total Sales - 2008 |
| Three months ended | \$1,455  | \$1,516 | (4.0 %) | 10.2 %             | 9.3 %              |                    |                    |

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. Selling and marketing expenses for the second quarter of 2009 decreased by \$61,000, or 4%, due to approximately \$31,000 of lower sales commissions resulting from a 13% decrease in sales, approximately \$32,000 of lower travel related expenses, and a reduction of approximately \$17,000 in promotional marketing expenses due to the cost control initiatives that were put in place for 2009. These decreases were partially offset by approximately \$22,000 of higher employee compensation related expenses. Selling and marketing expenses increased as a percentage of net sales due primarily to a lower volume of sales in the second quarter of 2009 compared to the second quarter of 2008.

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

|                    | June 30, |         | Percent | Percent of         |                    | Percent of         |                    |
|--------------------|----------|---------|---------|--------------------|--------------------|--------------------|--------------------|
|                    | 2009     | 2008    | Change  | Total Sales - 2009 | Total Sales - 2008 | Total Sales - 2009 | Total Sales - 2008 |
| Three months ended | \$1,693  | \$1,722 | (1.7 %) | 11.9 %             | 10.6 %             |                    |                    |

General and administrative expenses primarily include salaries and payroll related expenses for our executives, accounting, human resource, business development and information technology staff, expenses for our corporate headquarters, professional and legal expenses, telecommunication expenses, and other expenses related to being a publicly-traded company. General and administrative expenses decreased by 2%, due primarily to approximately \$148,000 of lower employee compensation related expenses, partially offset by \$43,000 in increased legal expenses related to general corporate matters, as well as \$45,000 in increased depreciation on software purchased in the second quarter of 2009. In addition, general and administrative expenses for the second quarter of 2009 included additional severance charges of approximately \$24,000 related to an employee termination. General and administrative expenses increased as a percentage of net sales due primarily to a lower volume of sales in the second quarter of 2009 as compared to the second quarter of 2008.

Legal Fees associated with lawsuit. During the second quarter of 2009, we did not incur any legal fees related to the settled lawsuit with FutureLogic, Inc. compared to \$1,132,000 of fees incurred in the second quarter of 2008. We settled our litigation with FutureLogic, Inc. in May 2008 and as a result of this settlement, we do not expect to incur any additional legal fees related to the lawsuit.

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

|                    | June 30, |       | Percent | Percent of         |                    | Percent of         |                    |
|--------------------|----------|-------|---------|--------------------|--------------------|--------------------|--------------------|
|                    | 2009     | 2008  | Change  | Total Sales - 2009 | Total Sales - 2008 | Total Sales - 2009 | Total Sales - 2008 |
| Three months ended | \$1,042  | \$399 | 161.2 % | 7.3 %              | 2.4 %              |                    |                    |

During the second quarter of 2009, we reported operating income of \$1,042,000, or 7.3% of net sales, compared to operating income of \$399,000, or 2.4% of net sales in the second quarter of 2008. The increase in our operating income and operating margin was primarily due to lower operating expenses (primarily the absence of legal expense related to the FutureLogic lawsuit), partially offset by lower gross profit resulting from a 13% decline in sales in the

second quarter of 2009 as compared to the second quarter of 2008.

**Interest.** We recorded net interest expense of \$18,000 in the second quarter of 2009 compared to \$7,000 in the second quarter of 2008. The increase in our net interest expense was largely due to a lack of interest income from a lower average cash balance in the second quarter of 2009 compared to the second quarter of 2008, coupled with a lower overall rate of return on our invested cash balance due to the decreasing interest rate environment. See “Liquidity and Capital Resources” below for more information.

**Other Expense.** We recorded other expense of \$50,000 in the second quarter of 2009 compared to \$8,000 in the second quarter of 2008. The increase was primarily due to foreign currency exchange losses recorded by our UK subsidiary resulting from a 16% weakening of the U.S. dollar against the British pound during the second quarter of 2009, as compared to no change between the exchange rates of the U.S. dollar and the British pound in the second quarter of 2008.

**Income Taxes.** We recorded an income tax provision for the second quarter of 2009 of \$325,000 at an effective tax rate of 33.4%, compared to an income tax provision during the second quarter of 2008 of \$94,000 at an effective tax rate of 24.5%. The lower effective tax rate for the second quarter of 2008 was largely due to a change in estimated income for the year when we settled our FutureLogic lawsuit. We expect our annual effective tax rate for 2009 to be between 33% and 34%.

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Net Income. We reported net income during the second quarter of 2009 of \$649,000, or \$0.07 per diluted share, compared to net income of \$290,000, or \$0.03 per diluted share, for the second quarter of 2008.

Six months ended June 30, 2009 compared to six months ended June 30, 2008

Net Sales. Net sales, which include printer sales and sales of spare parts, consumables and repair services, by market for the six months ended June 30, 2009 and 2008 were as follows:

| (In thousands)            | Six months ended |       |   | Six months ended |       |   | Change    |        |   |
|---------------------------|------------------|-------|---|------------------|-------|---|-----------|--------|---|
|                           | June 30, 2009    |       |   | June 30, 2008    |       |   | \$        | %      |   |
| Banking and point-of-sale | \$7,958          | 30.1  | % | \$5,746          | 18.8  | % | \$2,212   | 38.5   | % |
| Casino and gaming         | 8,316            | 31.5  | % | 10,277           | 33.6  | % | (1,961)   | (19.1) | % |
| Lottery                   | 3,066            | 11.6  | % | 8,396            | 27.4  | % | (5,330)   | (63.5) | % |
| TransAct Services Group   | 7,098            | 26.8  | % | 6,185            | 20.2  | % | 913       | 14.8   | % |
|                           | \$26,438         | 100.0 | % | \$30,604         | 100.0 | % | \$(4,166) | (13.6) | % |
| International *           | \$5,841          | 22.1  | % | \$4,753          | 15.5  | % | \$1,088   | 22.9   | % |

\* 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 half of 2009 decreased \$4,166,000, or 14%, from the same period last year due primarily to lower printer shipments in our lottery (a decrease of \$5,330,000, or 64%) and casino and gaming (a decrease of \$1,961,000, or 19%) markets, partially offset by a \$2,212,000, or 39%, increase from our banking and point-of-sale market as well as a \$913,000, or 15%, increase from TSG. Printer sales volume decreased by 28% while the average selling price of our printers increased by approximately 9% (due primarily to an increase in sales of banking printers with higher average selling prices) from the first half of 2008 to the first half of 2009. Overall, international sales increased by \$1,088,000, or 23%, largely due to higher international shipments of our casino and gaming printers.

#### Banking and point-of-sale:

Sales of our banking and POS printers worldwide increased approximately \$2,212,000, or 39%.

| (In thousands) | Six months ended |       |   | Six months ended |       |   | Change  |      |   |
|----------------|------------------|-------|---|------------------|-------|---|---------|------|---|
|                | June 30, 2009    |       |   | June 30, 2008    |       |   | \$      | %    |   |
| Domestic       | \$7,333          | 92.1  | % | \$5,260          | 91.5  | % | \$2,073 | 39.4 | % |
| International  | 625              | 7.9   | % | 486              | 8.5   | % | 139     | 28.6 | % |
|                | \$7,958          | 100.0 | % | \$5,746          | 100.0 | % | \$2,212 | 38.5 | % |

Domestic banking and POS revenue increased to \$7,333,000, representing a \$2,073,000, or 39%, increase from the first half of 2008 primarily driven by higher sales of our banking printers. Sales of our banking printers increased by more than 300% in the first half of 2009 compared to the first half of 2008 as we began to ship against the \$4.9 million order we received from a large banking customer in February 2009. We expect to finish the shipment for this order in the second half of 2009. Sales of our POS printers declined by approximately 13% largely due to the general economic slowdown that we believe is currently impacting, and will continue to adversely impact for the remainder of 2009, the capital spending of a number of our retail and hospitality customers. Contributing to the decline in sales of our POS printers, sales of our legacy line of POS impact printers decreased by approximately 52%. We expect sales of our legacy impact printers for the remainder of 2009 to continue to be lower than those reported for the comparable 2008 period, as these printers continue to be replaced by our newer thermal and inkjet printers. Despite these declines, sales of our two new printer products for McDonalds, the Ithaca 8000® (for McDonald's grill initiative) and



Ithaca 8040® (for McDonald's combined beverage initiative), almost quadrupled during the first half of 2009 compared to the first half of 2008. We expect sales of these printer products to continue to remain consistent in the third and fourth quarters of 2009 as compared to the second quarter of 2009, as McDonalds continues the current pace of its rollout of printers used in its new combined beverage initiative.

International banking and POS printer shipments increased \$139,000, or 29%, to \$625,000, due primarily to higher POS printer sales to our international distributors in Latin America.

Casino and gaming:

Sales of our casino and gaming products decreased by \$1,961,000, or 19%, from the first half of 2008.

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| (In thousands) | Six months ended |       |   | Six months ended |       |   | Change    |        |   |
|----------------|------------------|-------|---|------------------|-------|---|-----------|--------|---|
|                | June 30, 2009    |       |   | June 30, 2008    |       |   | \$        | %      |   |
| Domestic       | \$3,718          | 44.7  | % | \$6,554          | 63.8  | % | \$(2,836) | (43.3) | % |
| International  | 4,598            | 55.3  | % | 3,723            | 36.2  | % | 875       | 23.5   | % |
|                | \$8,316          | 100.0 | % | \$10,277         | 100.0 | % | \$(1,961) | (19.1) | % |

Domestic sales of our casino and gaming printers decreased by \$2,836,000, or 43%, due largely to a decrease in sales of our thermal casino printers, which have been impacted by the downturn in the domestic casino market. We expect the domestic casino and gaming market to continue to be weak for the remainder of 2009 as we believe the current uncertain economic environment is negatively impacting the casino industry's level of capital expenditures. In light of these negative market conditions, our future sales to the domestic casino and gaming market could be unpredictable and adversely affected.

International casino and gaming printer sales increased \$875,000, or 24%, to \$4,598,000 in the first half of 2009. This increase was led by a 322% increase in casino printer sales due to the timing of orders to our Australian distributor in 2008 and a 110% increase in sales of our new line of off-premise gaming printers largely due to continued growing sales to our existing European distributor and a new customer in Australia. These increases were partially offset by a 47% decline in casino printer sales to our European distributor.

**Lottery:**

Sales of our lottery products decreased by \$5,330,000, or 64%, from the first half of 2008, due to lower sales of lottery printers to GTECH, both domestically and internationally.

| (In thousands) | Six months ended |       |   | Six months ended |       |   | Change    |        |   |
|----------------|------------------|-------|---|------------------|-------|---|-----------|--------|---|
|                | June 30, 2009    |       |   | June 30, 2008    |       |   | \$        | %      |   |
| Domestic       | \$2,737          | 89.3  | % | \$8,055          | 95.9  | % | \$(5,318) | (66.0) | % |
| International  | 329              | 10.7  | % | 341              | 4.1   | % | (12)      | (3.5)  | % |
|                | \$3,066          | 100.0 | % | \$8,396          | 100.0 | % | \$(5,330) | (63.5) | % |

Domestic and international printer sales to GTECH, which include thermal on-line and other lottery printers, decreased \$5,330,000, or 64%, in the first half of 2009 compared to the first half of 2008, due to the timing of orders, with domestic sales decreasing approximately \$5,318,000 and international sales decreasing \$12,000. Our quarterly 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 year over year. Our sales to GTECH are not indicative of GTECH's overall business or revenue. We expect as we ship a \$3.6 million order we received from GTECH in April 2009, as well as other orders in our backlog combined with anticipated new future orders, sales to GTECH will increase for the rest of 2009 as compared to the first half of 2009.

**TransAct Services Group:**

Sales from TSG increased by \$913,000, or 15%.

| (In thousands) | Six months ended |       |   | Six months ended |       |   | Change |      |   |
|----------------|------------------|-------|---|------------------|-------|---|--------|------|---|
|                | June 30, 2009    |       |   | June 30, 2008    |       |   | \$     | %    |   |
| Domestic       | \$6,809          | 95.9  | % | \$5,982          | 96.7  | % | \$827  | 13.8 | % |
| International  | 289              | 4.1   | % | 203              | 3.3   | % | 86     | 42.4 | % |
|                | \$7,098          | 100.0 | % | \$6,185          | 100.0 | % | \$913  | 14.8 | % |

Domestic revenue from TSG increased by approximately \$827,000, or 14%, largely due to an increase of approximately 37% of consumable products compared to the same period in 2008, including higher sales of inkjet

cartridges, as well as growing sales of paper and other consumable products through our new e-commerce website, TransActSupplies.com. The increase was partially offset by a 15% decrease in sales of replacement parts for certain legacy printers, as the installed base of these legacy printers in the market continues to decline.

Internationally, TSG revenue increased \$86,000, or 42%, to \$289,000, due primarily to a \$54,000 increase in sales of accessories and a \$34,000 increase in sales of maintenance services.

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

|                  | June 30,<br>2009 | June 30,<br>2008 | Percent<br>Change | Percent of<br>Total Sales - 2009 | Percent of<br>Total Sales - 2008 |
|------------------|------------------|------------------|-------------------|----------------------------------|----------------------------------|
| Six months ended | \$8,982          | \$10,239         | (12.3 %)          | 34.0 %                           | 33.5 %                           |

Gross profit decreased \$1,257,000, or 12%, to \$8,982,000 from \$10,239,000, due primarily to a 14% decrease in sales from the first half of 2009 compared to the first half of 2008. Despite a 14% decrease in sales, gross margin increased to 34.0% from 33.5%, due primarily to our cost reduction initiatives along with lower component part and labor costs resulting from our continued focus to increasingly move production

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of our products to a lower cost contract manufacturer in Asia as well as approximately \$236,000 of lower product warranty expense resulting from improved repair history and a 28% decline in printer shipments in the first half of 2009 compared to the first half of 2008. Gross profit for the first half of 2009 was also favorably impacted by approximately \$450,000 of lower average per unit costs of certain manufacturing overhead expenses due to the transition of more of our production to Asia compared to \$130,000 in the first half of 2008.

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

|                  | June 30, |         | Percent | Percent of         | Percent of         |
|------------------|----------|---------|---------|--------------------|--------------------|
|                  | 2009     | 2008    | Change  | Total Sales - 2009 | Total Sales - 2008 |
| Six months ended | \$1,360  | \$1,406 | (3.3 %) | 5.2 %              | 4.6 %              |

Engineering, design and product development expenses decreased by \$46,000, or 3%, to \$1,360,000. Approximately half of the decrease was due to lower employee compensation related expenses and a quarter of the decrease was due to lower outside testing and pre-production expenses related to new product development. Engineering and product development expenses increased as a percentage of net sales due primarily to a lower volume of sales in the first half of 2009 compared to the first half of 2008.

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

|                  | June 30, |         | Percent | Percent of         | Percent of         |
|------------------|----------|---------|---------|--------------------|--------------------|
|                  | 2009     | 2008    | Change  | Total Sales - 2009 | Total Sales - 2008 |
| Six months ended | \$2,853  | \$2,967 | (3.8 %) | 10.8 %             | 9.7 %              |

Selling and marketing expenses for the first half of 2009 decreased by \$114,000, or 4%, due primarily to approximately \$40,000 of lower sales commissions resulting from a 14% decrease in sales, approximately \$54,000 of lower travel related expenses, approximately \$51,000 in reduced promotional marketing expenses, and a reduction of approximately \$22,000 in consulting and professional fees due to the cost control initiatives that were put in place for 2009. These decreases were partially offset by an increase of approximately \$52,000 in employee compensation related expenses.

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

|                  | June 30, |         | Percent | Percent of         | Percent of         |
|------------------|----------|---------|---------|--------------------|--------------------|
|                  | 2009     | 2008    | Change  | Total Sales - 2009 | Total Sales - 2008 |
| Six months ended | \$3,548  | \$3,497 | 1.5 %   | 13.4 %             | 11.4 %             |

General and administrative expenses increased by \$51,000, or 2%, due primarily to approximately \$66,000 in increased legal expenses related to general corporate matters, increased employee compensation related expenses associated with the full six month affect of the hiring of our new Vice President of Business Development in May 2008, and \$45,000 in increased depreciation on software purchased in the second quarter of 2009. In addition, general and administrative expenses for the first half of 2009 included a severance charge of approximately \$146,000 related to the termination of approximately 13 employees. These increases were largely offset by a reduction of approximately \$274,000 in employee compensation related expenses for all other general and administrative departments and lower professional fee expenses of approximately \$39,000. General and administrative expenses increased as a percentage of net sales due primarily to a lower volume of sales as well as higher expenses in the first half of 2009 as compared to the first half of 2008.

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

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

|                  | June 30, |          | Percent | Percent of         |                    | Percent of         |                    |
|------------------|----------|----------|---------|--------------------|--------------------|--------------------|--------------------|
|                  | 2009     | 2008     | Change  | Total Sales - 2009 | Total Sales - 2008 | Total Sales - 2009 | Total Sales - 2008 |
| Six months ended | \$1,221  | \$(660 ) | 285.0 % | 4.6 %              | (2.2 %)            |                    |                    |

During the first half of 2009, we reported operating income of \$1,221,000, or 4.6% of net sales, compared to an operating loss of \$660,000, or (2.2%) of net sales in the first half of 2008. The increase in our operating income and operating margin was due to lower operating expenses (including the absence of legal expense related to the FutureLogic lawsuit), partially offset by lower gross profit resulting from a 14% decline in sales in the first half of 2009 compared to the first half of 2008.

Interest. We recorded net interest expense of \$33,000 in the first half of 2009 compared to \$3,000 in the first half of 2008. The increase was largely due to a lack of interest income from a lower average cash balance in the first half of 2009 compared to the first half of 2008, coupled

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with a lower overall rate of return on our invested cash balance due to the decreasing interest rate environment. See “Liquidity and Capital Resources” below for more information.

**Other Expense.** We recorded other expense of \$30,000 in the first half of 2009 compared to \$6,000 in the first half of 2008. The decrease was primarily due to foreign currency exchange losses recorded by our UK subsidiary resulting from a 14% weakening of the U.S. dollar against the British pound during the first half of 2009, as compared near breakeven in the first half of 2008.

**Income Taxes.** We recorded an income tax provision for the first half of 2009 of \$388,000 at an effective tax rate of 33.5% compared to an income tax benefit for the first half of 2008 of \$267,000 at an effective tax rate of 39.9%. We expect our annual effective tax rate for 2009 to be between 33% and 34%.

**Net Income (Loss).** We reported net income during the first half of 2009 of \$770,000, or \$0.08 per diluted share, compared to a net loss of \$402,000, or (\$0.04) per diluted share, for the first half of 2008.

### Liquidity and Capital Resources

#### Cash Flow

In the first six months of 2009, our cash flows reflected the results of lower sales volume, decreased capital spending and increased inventory investment. Our cash balance decreased \$66,000 from December 31, 2008 and we ended the first half of 2009 with approximately \$1,934,000 in cash and cash equivalents and no debt outstanding.

**Operating activities:** The following significant factors affected our cash provided by operations of \$213,000 in the first six months of 2009 as compared to our cash provided by operations of \$428,000 in the first six months of 2008:

During the first six months of 2009:

- We reported a net income of \$770,000.
- We recorded depreciation, amortization, and non-cash compensation expense of \$1,251,000.
- Inventories increased \$501,000 due primarily to the decision in the first quarter of 2009 to maintain higher stocking levels of inventory as a cautionary measure to minimize any potential disruption to our customers as we continue to transition more of our printer production to Asia. Inventories decreased by approximately \$1,661,000 in the second quarter of 2009 from the first quarter of 2009, and we expect our inventories to decline further in the third quarter of 2009, as we near completion of the transition of our production to Asia.
- Accounts payable decreased \$957,000 due to the timing of payments and a reduction in inventory purchases as we deplete our current inventory in stock.
- Accrued liabilities and other liabilities decreased \$556,000 due primarily to lower payroll and fringe benefit related accruals based on the payment of 2008 annual bonuses in March 2009.

During the first six months of 2008:

- We reported a net loss of \$402,000.
- We recorded depreciation, amortization, and non-cash compensation expense of \$1,368,000.
- Accounts receivable increased by \$2,252,000 due to higher sales in the second quarter of 2008 compared to the fourth quarter of 2007.
- Inventories decreased by \$1,416,000 due to improved inventory management as well as increased sales volume in the first half of 2008.
- Accounts payable increased by \$727,000 due to higher inventory purchases related to higher sales volume during the first half of 2008.
- Accrued liabilities and other liabilities decreased by \$156,000 due primarily to decreased accrued legal fees primarily related to our lawsuit with FutureLogic, Inc. during the first half of 2008.

Investing activities: Our capital expenditures were approximately \$333,000 and \$521,000 in the first six months of 2009 and 2008, respectively. Expenditures in 2009 included approximately \$121,000 for the purchase of new product tooling, approximately \$137,000 for the purchase of computer, networking equipment, and software, and approximately \$54,000 for the purchase of manufacturing equipment, and the remaining amount primarily for the purchase of engineering equipment. Expenditures in 2008 included approximately \$300,000 for the purchase of new product tooling, approximately \$120,000 for the purchase of computer, networking equipment, and software, and approximately \$80,000 for the purchase of manufacturing equipment, and the remaining amount primarily for the purchase of engineering equipment and leasehold improvements. Capital expenditures for 2009 are expected to be approximately \$800,000 to \$1,000,000, primarily for new product tooling and tooling enhancements to our existing products.

Financing activities: We generated approximately \$46,000 of cash from financing activities during the first half of 2009 from proceeds from stock option exercises. During the first half of 2008, we generated approximately \$63,000 from financing activities from proceeds from stock option exercises.

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## Working Capital

Our working capital increased to \$17,203,000 at June 30, 2009 from \$15,051,000 at December 31, 2008. Our current ratio increased to 3.6 to 1 at June 30, 2009 compared to 2.9 to 1 at December 31, 2008. The increase in both our working capital and current ratio was largely due to higher inventory balances, resulting from higher stocking levels as we continue our transition to more Asian production of our printers, as well as lower accounts payable resulting from decreased purchases of inventory and lower accrued liabilities balances primarily due to lower payroll and fringe benefit related accruals.

## Deferred Taxes

As of June 30, 2009, we had a net deferred tax asset of approximately \$3,430,000. In order to utilize this deferred tax asset, we will need to generate approximately \$9.7 million of taxable income in future years. Based on future projections of taxable income, we have determined that it is more likely than not that the existing net deferred tax asset will be realized.

## Credit Facility and Borrowings

On November 28, 2006, we signed a five-year \$20 million credit facility (the "TD Banknorth Credit Facility") with TD Banknorth, N.A. ("TD Banknorth"). The credit facility provides for a \$20 million revolving credit line expiring on November 28, 2011. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate minus one percent and are collateralized by a lien on all of our assets. We also pay a fee of 0.25% on unused borrowings under the revolving credit line. The total deferred financing costs relating to expenses incurred to complete the TD Banknorth Credit Facility was \$94,000. The TD Banknorth Credit Facility imposes certain quarterly financial covenants on us and restricts, among other things, our ability to incur additional indebtedness, the payment of dividends on our common stock and the creation of other liens. We were in compliance with all financial covenants of the TD Banknorth Credit Facility at June 30, 2009. The following table lists the financial covenants and the performance measurements at June 30, 2009:

| Financial Covenant                 | Requirement/Restriction     | Calculation at June 30, 2009 |
|------------------------------------|-----------------------------|------------------------------|
| Operating cash flow / Debt service | Total Minimum of 1.25 times | 91.0 times                   |
| Funded Debt / EBITDA               | Maximum of 3.25 times       | 0 times                      |

As of June 30, 2009, we had no balances outstanding on the revolving credit line. Undrawn commitments under the TD Banknorth Credit facility were \$20,000,000 at June 30, 2009.

## Stock Repurchase Program

On March 25, 2005 our Board of Directors approved a stock repurchase program (the "Stock Repurchase Program"). Under the Stock Repurchase Program, we were authorized to repurchase up to \$10 million of our outstanding shares of common stock from time to time in the open market over a three year period, depending on market conditions, share price and other factors.

On November 1, 2007, our Board of Directors approved an increase in our stock repurchase authorization under the Stock Repurchase Program to \$15 million from \$10 million. In addition, the Board approved a two-year extension of the Stock Repurchase Program to March 31, 2010. During the three and six months ended June 30, 2009, we made no repurchases of common stock. As of June 30, 2009, we have repurchased a total of 1,164,100 shares of common stock for approximately \$8,538,000, at an average price of \$7.33 per share, since the inception of the Stock Repurchase Program.

## 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 2008 Form 10-K. There have been no material changes in our contractual obligations outside the ordinary course of business since December 31, 2008. We have no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

#### Resource Sufficiency

We believe that our cash on hand, cash flows generated from operations and borrowings available under the TD Banknorth Credit Facility will provide sufficient resources to meet our working capital needs, finance our capital expenditures, fund our Stock Repurchase Program, and meet our liquidity requirements through at least the next twelve months.

#### 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 2008 Form 10-K. There has been no material changes in our exposure to market risk during the three months ended June 30, 2009.

#### 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

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that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2009. There has been no change in the Company's internal control over financial reporting during the quarter ended June 30, 2009, 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

None.

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, 2008. 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

On March 25, 2005 our Board of Directors approved a stock repurchase program (the "Stock Repurchase Program"). Under the Stock Repurchase Program, management was authorized to repurchase up to \$10 million of our outstanding shares of common stock from time to time in the open market over a three year period, depending on market conditions, share price and other factors.

On November 1, 2007, our Board of Directors approved an increase in our stock repurchase authorization under the Stock Repurchase Program to \$15 million from \$10 million. In addition, the Board approved a two-year extension of the Stock Repurchase Program to March 31, 2010.

For the three and six months ended June 30, 2009, we made no repurchases of common stock. As of June 30, 2009, we have repurchased a total of 1,164,100 shares of common stock for approximately \$8,538,000, at an average price of \$7.33 per share since the inception of the Stock Repurchase Program. As of June 30, 2009, approximately \$6,462,000 remains available to purchase common stock pursuant to the stock repurchase program.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on May 28, 2009. Matters voted upon at the meeting and the number of votes cast for, against, withheld or abstentions are as follows:

(1) To consider and act upon a proposal to elect one Director to serve until the 2012 Annual Meeting of Stockholders or until the Director's successor has been duly elected and qualified. Nominee was Charles A. Dill. Votes cast were as follows: 7,803,699 shares for; and 827,896 shares withheld.

(2) To ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2009. Votes cast were as follows: 8,473,425 shares for; 131,770 shares against; and 26,400 shares abstained.

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.

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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)

August 10, 2009

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

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EXHIBIT LIST

The following exhibits are filed herewith.

Exhibit

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

