

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

TRANSACT TECHNOLOGIES INC

CIK: **1017303** | IRS No.: **061456680** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-21121** | Film No.: **04970499**
SIC: **3577** Computer peripheral equipment, nec

Mailing Address
7 LASER LANE
WALLINGFORD CT 06492

Business Address
7 LASER LANE
WALLINGFORD CT 06492
2032691198

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: June 30, 2004

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 06-1456680

(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

7 LASER LANE, WALLINGFORD, CT 06492

(Address of principal executive offices)
(Zip Code)

(203) 269-1198

(Registrant's telephone number, including area code)

Not applicable

(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 is an accelerated filer (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.

<TABLE>	
<CAPTION>	
CLASS	OUTSTANDING JULY 30, 2004
-----	-----
<S> <C>	<C>
COMMON STOCK, \$.01 PAR VALUE	9,928,689

</TABLE>

TRANSACT TECHNOLOGIES INCORPORATED

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ITEM 1. FINANCIAL STATEMENTS

TRANSACT TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

<TABLE>		
<CAPTION>		
(In thousands)	JUNE 30,	December 31,
-----	2004	2003
	----	----
<S>	<C>	<C>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 5,011	\$ 498
Receivables, net	8,395	9,074
Inventories	8,682	8,061
Deferred tax assets	2,340	2,340
Other current assets	249	509
	-----	-----
Total current assets	24,677	20,482
	-----	-----
Fixed assets, net	3,245	3,607
Goodwill	1,469	1,469
Deferred tax assets	684	684
Other assets	105	119
	-----	-----
	5,503	5,879
	-----	-----
Total assets	\$ 30,180	\$ 26,361
	=====	=====

LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY:

Current liabilities:		
Current portion of term loan	\$ --	\$ 90
Accounts payable	3,370	3,288
Accrued liabilities	3,100	2,892
Accrued restructuring expenses	480	480
Accrued patent license fees	442	408
Deferred revenue, current portion	1,617	1,537
	-----	-----
Total current liabilities	9,009	8,695
	-----	-----
Long-term portion of term loan	--	330
Long-term portion of accrued restructuring	1,424	1,645
Long-term portion of accrued patent license fees	--	750
Other long-term liabilities	689	692
	-----	-----
	2,113	3,417
	-----	-----
Total liabilities	11,122	12,112
	-----	-----
Redeemable convertible preferred stock	--	3,902
	-----	-----
Shareholders' equity:		
Common stock	68	60
Additional paid-in capital	15,645	8,441
Retained earnings	4,461	1,769
Unamortized restricted stock compensation	(1,227)	(30)
Accumulated other comprehensive income	111	107
	-----	-----
Total shareholders' equity	19,058	10,347
	-----	-----
Total liabilities and shareholders' equity	\$ 30,180	\$ 26,361
	=====	=====

</TABLE>

See notes to condensed consolidated financial statements.

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TRANSACT TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

<TABLE>

<CAPTION>

(In thousands, except per share data)	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2004	2003	2004	2003
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 14,694	\$ 13,378	\$ 29,769	\$ 22,390
Cost of sales	9,077	9,166	18,734	15,737
	-----	-----	-----	-----
Gross profit	5,617	4,212	11,035	6,653
	-----	-----	-----	-----
Operating expenses:				
Engineering, design and product development	548	545	1,162	1,107
Selling and marketing	1,218	1,264	2,580	2,308
General and administrative	1,563	1,119	2,895	2,218
	-----	-----	-----	-----
	3,329	2,928	6,637	5,633
	-----	-----	-----	-----
Operating income	2,288	1,284	4,398	1,020
	-----	-----	-----	-----
Interest and other income (expense):				
Interest, net	(2)	(76)	(12)	(122)

Other, net	2	(26)	(1)	(26)
	-----	-----	-----	-----
	--	(102)	(13)	(148)
	-----	-----	-----	-----
Income before income taxes	2,288	1,182	4,385	872
Income tax provision	823	395	1,578	283
	-----	-----	-----	-----
Net income	\$ 1,465	\$ 787	\$ 2,807	\$ 589
	=====	=====	=====	=====
BASIC EARNINGS PER SHARE:				
Net income available to common shareholders ...	\$ 1,421	\$ 641	\$ 2,578	\$ 367
Shares used in per share calculation	9,620	8,606	9,292	8,559
Basic earnings per share - common stock	\$ 0.15	\$ 0.07	\$ 0.28	\$ 0.04
Basic earnings per share - preferred stock	--	0.02	0.02	0.03
DILUTED EARNINGS PER SHARE:				
Net income available to common shareholders ...	\$ 1,421	\$ 641	\$ 2,578	\$ 367
Shares used in per share calculation	10,447	9,070	10,133	8,845
Diluted earnings per share - common stock	\$ 0.14	\$ 0.07	\$ 0.25	\$ 0.04
Diluted earnings per share - preferred stock ..	--	0.02	0.02	0.03

</TABLE>

See notes to condensed consolidated financial statements.

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TRANSACT TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)

<TABLE>

<CAPTION>

(In thousands)	SIX MONTHS ENDED	
	JUNE 30,	
	2004	2003
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 2,807	\$ 589
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Non-cash compensation expense	142	39
Depreciation and amortization	822	867
Deferred income taxes	--	267
Gain on sale of equipment	--	(1)
Changes in operating assets and liabilities:		
Receivables	679	(4,739)
Inventories	(621)	(1,495)
Other current assets	260	14
Other assets	1	71
Accounts payable	82	345
Accrued liabilities and other liabilities	742	645
Accrued restructuring expenses	(221)	(492)
	-----	-----
Net cash provided by (used in) operating activities	4,693	(3,890)
	-----	-----
Cash flows from investing activities:		
Purchases of fixed assets	(447)	(872)
Proceeds from sale of fixed assets	--	331
	-----	-----
Net cash used in investing activities	(447)	(541)
	-----	-----
Cash flows from financing activities:		
Revolving bank loan borrowings, net	--	3,435
Term loan repayments	(420)	(50)
Proceeds from option and warrant exercises	826	552
Payment of cash dividends	(91)	(140)

Payment of expenses related to preferred stock conversion and registration of common stock	(52)	--
	-----	-----
Net cash provided by financing activities	263	3,797
	-----	-----
Effect of exchange rate changes	4	25
	-----	-----
Increase (decrease) in cash and cash equivalents	4,513	(609)
Cash and cash equivalents at beginning of period	498	902
	-----	-----
Cash and cash equivalents at end of period	\$ 5,011	\$ 293
	=====	=====

</TABLE>

See notes to condensed consolidated financial statements.

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TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. DESCRIPTION OF BUSINESS

TransAct Technologies Incorporated ("TransAct"), which has headquarters in Wallingford, CT and its primary operating facility in Ithaca, NY, operates in one industry segment, transaction-based printers and related products. TransAct designs, develops, manufactures and markets transaction-based printers under the Ithaca(R) and Magnetec(R) brand names. In addition, we market related consumables, spare parts and service. Our printers are used worldwide to provide transaction records such as receipts, tickets, coupons, register journals and other documents. We focus on two core markets: point-of-sale and banking ("POS") and gaming and lottery. We sell our products to original equipment manufacturers ("OEMs"), value-added resellers, selected distributors and directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, the Caribbean Islands and the South Pacific.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These accounting principles were applied on a basis consistent with those of the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly TransAct's financial position as of June 30, 2004, the results of our operations for the three and six months ended June 30, 2004 and 2003, and our cash flows for the six months ended June 30, 2004 and 2003. The December 31, 2003 condensed consolidated balance sheet has been derived from the audited financial statements at that date. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2003 included in our Annual Report on Form 10-K.

The financial position and results of operations of our foreign subsidiary are measured using local currency as the functional currency. Assets and liabilities of such subsidiary have been translated at end of period exchange rates, and related revenues and expenses have been translated at weighted average exchange rates. Transaction gains and losses are included in other income.

The results of operations for the three and six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year.

On March 4, 2004, we announced that our Board of Directors approved a three-for-two stock split of our common stock to be effected in the form of a 50 percent stock dividend. The additional shares were payable April

2, 2004 to shareholders of record at the close of business on March 17, 2004. As a result of the stock dividend, all shareholders of record received one additional share of common stock for every two shares of common stock held on the record date, and cash instead of any fractional shares. All amounts within the accompanying condensed consolidated financial statements and footnotes reflect the stock split on a retroactive basis.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

We have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for stock options. Since the exercise price of employee stock options granted by the Company equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. We have adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), as amended by Statement of Financial Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FAS 123" ("FAS 148").

During the three and six months ending June 30, 2004, we granted 3,000 and 78,000 shares of restricted stock, respectively, to key employees under the 1996 Stock Plan. Deferred compensation of \$98,000 and \$1,339,000 was recorded with respect to these grants in the three and six months ended June 30, 2004, respectively, and will be recognized into expense over the five-year vesting period.

The following table illustrates the effect on net income, compensation expense and net income per share as if the Black-Scholes fair value method pursuant to FAS 123 had been applied to our stock plans. For the 2003 periods presented, stock-based compensation expense determined under the fair value method has been adjusted to properly reflect related tax effects.

<TABLE>
<CAPTION>

	Three months ended June 30, -----		Six months ended June 30, -----	
	2004 ----	2003 ----	2004 ----	2003 ----
	<C>	<C>	<C>	<C>
<S>				
(In thousands, except per share data)				
Net income available to common shareholders:				
Net income available to common shareholders,				
as reported	\$ 1,421	\$ 641	\$ 2,578	\$ 367
Add: Stock-based compensation expense included				
in reported net income, net of tax	46	9	90	25
Deduct: Stock-based compensation expense				
determined under fair value based method				
for all awards, net of tax	(15)	(53)	(85)	(258)
	-----	-----	-----	-----
Pro forma net income available to common				
shareholders	\$ 1,452	\$ 597	\$ 2,583	\$ 134
	=====	=====	=====	=====
Net income per share:				
Basic:				
Common Stock:				
As reported	\$ 0.15	\$ 0.07	\$ 0.27	\$ 0.04
Pro forma	0.15	0.07	0.28	0.02
Preferred Stock:				
As reported	\$ --	\$ 0.02	\$ 0.02	\$ 0.03
Pro forma	--	0.02	0.02	0.03

Diluted:

Common Stock:

As reported	\$ 0.14	\$ 0.07	\$ 0.25	\$ 0.04
Pro forma	0.14	0.07	0.25	0.02

Preferred Stock:

As reported	\$ --	\$ 0.02	\$ 0.02	\$ 0.03
Pro forma	--	0.02	0.02	0.03

</TABLE>

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

2. ACCOUNTING FOR STOCK-BASED COMPENSATION (CONT)

During the three and six months ended June 30, 2004, we received cash proceeds of approximately \$390,000 and \$826,000, respectively, from the issuance of approximately 85,000 and 179,000 shares of common stock resulting from stock option and warrant exercises. We also recorded a related tax benefit that was credited to Additional Paid-In Capital of approximately \$670,000 and \$1,173,000 in the three and six months ended June 30, 2004, respectively, resulting from subsequent employee stock sales.

3. INVENTORIES

The components of inventories are:

<TABLE>

<CAPTION>

(In thousands)	June 30, 2004	December 31, 2003
-----	----	----
<S>	<C>	<C>
Raw materials and component parts ..	\$ 8,387	\$ 7,947
Finished goods	295	114
	-----	-----
	\$ 8,682	\$ 8,061
	=====	=====

</TABLE>

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, 2004 and 2003.

<TABLE>

<CAPTION>

(In thousands)	Three months ended June 30,		Six months ended June 30,	
-----	2004	2003	2004	2003
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Balance, beginning of period	\$ 527	\$ 625	\$ 495	\$ 644
Additions related to warranties issued ..	130	80	305	195
Warranty costs incurred	(141)	(104)	(284)	(238)
	-----	-----	-----	-----
Balance, end of period	\$ 516	\$ 601	\$ 516	\$ 601
	=====	=====	=====	=====

</TABLE>

Approximately \$145,000 and \$169,000 of the accrued product warranty liability are classified as other long-term liabilities at June 30, 2004 and December 31, 2003, respectively. The current portion of the accrued product warranty liability is included in accrued liabilities in the

accompanying balance sheet.

5. ACCRUED BUSINESS CONSOLIDATION AND RESTRUCTURING

In February 2001, we undertook a plan to consolidate all manufacturing and engineering into our existing Ithaca, NY facility and close our Wallingford, CT manufacturing facility (the "Consolidation"). As of December 31, 2001, substantially all Wallingford product lines were successfully transferred to Ithaca, NY. We continue to apply the consensus set forth in EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)" in recognizing the accrued restructuring expenses relating to the consolidation. The remaining accrued restructuring balance relates to lease and other occupancy costs related to our Wallingford facility

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TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

5. ACCRUED BUSINESS CONSOLIDATION AND RESTRUCTURING (CONTINUED)

The following table summarizes the activity recorded in accrued restructuring expenses during the three and six months ended June 30, 2004 and 2003.

<TABLE>
<CAPTION>

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Accrual balance, beginning of period ...	\$ 1,994	\$ 1,365	\$ 2,125	\$ 1,718
Business consolidation and restructuring expenses	--	--	--	--
Cash payments	(90)	(139)	(221)	(492)
Accrual balance, end of period	\$ 1,904	\$ 1,226	\$ 1,904	\$ 1,226

</TABLE>

At June 30, 2004 and December 31, 2003, approximately \$1,424,000 and \$1,645,000, respectively, of the restructuring accrual was classified within long-term liabilities. This represents the portion of non-cancelable lease and other costs expected to be paid beyond one year.

6. PATENT LICENSE FEES

During the second quarter of 2004, we signed a cross licensing agreement with Seiko Epson. Under the agreement, Seiko Epson received a license to three of our patents, and we received a license to eighteen of Seiko Epson's patents relating to printing applications for the point of sale and banking markets. In addition, we agreed to pay \$900,000 as a royalty for the usage of certain Seiko Epson technology prior to January 1, 2003. We had accrued for the \$900,000 royalty for past usage as of December 31, 2003. In accordance with the terms of the agreement, we will pay the royalty for past usage in full by the first quarter of 2005. Under the agreement, we continue to pay royalties on a quarterly basis related to the sales of licensed printers, which is reflected in cost of sales.

7. EARNINGS PER SHARE

Beginning this quarter, the Company applies the consensus set forth in EITF 03-06 "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share", which requires the two-class method of computing earnings per share when participating securities, such

as our redeemable preferred stock, are outstanding. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities based upon an allocation of earnings as if all of the earnings for the period had been distributed in accordance with participation rights on undistributed earnings. This guidance impacted the calculation of earnings per share for the three and six months ended June 30, 2004 and also requires retroactive restatement of earnings per share presented for the three and six months ended June 30, 2003.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

7. EARNINGS PER SHARE (CONT)

<TABLE>
<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
BASIC EARNINGS PER SHARE:				
Net income	\$ 1,465	\$ 787	\$ 2,807	\$ 589
Dividends and accretion charges on preferred stock	(21)	(89)	(111)	(179)
Earnings allocation to preferred shareholders	(23)	(57)	(118)	(43)
Net income available to common shareholders	\$ 1,421	\$ 641	\$ 2,578	\$ 367
Weighted average common shares outstanding	9,620	8,606	9,292	8,559
Basic earnings per share - common stock	\$ 0.15	\$ 0.07	\$ 0.28	\$ 0.04
Basic earnings per share - preferred stock	--	\$ 0.02	\$ 0.02	\$ 0.03
DILUTED EARNINGS PER SHARE:				
Net income available to common shareholders	\$ 1,421	\$ 641	\$ 2,578	\$ 367
Weighted average common shares outstanding	9,620	8,606	9,292	8,559
Dilutive effect of outstanding options and restricted stock as determined by the treasury stock method	827	464	841	286
Shares used in per share calculation	10,447	9,070	10,133	8,845
Diluted earnings per share - common stock	\$ 0.14	\$ 0.07	\$ 0.25	\$ 0.04
Diluted earnings per share - preferred stock	--	\$ 0.02	\$ 0.02	\$ 0.03

</TABLE>

For the three months and six months ended June 30, 2004 and 2003, earnings per share calculations assumed no conversion of the convertible mandatorily redeemable preferred stock (which was converted into 666,665 shares of common stock, partly on April 20 and the remainder on April 26, 2004), as the effect would have been anti-dilutive.

8. SIGNIFICANT TRANSACTIONS

In April 2004, all holders of our Series B Preferred Stock converted all their preferred shares into common stock. Under the conversion, a total of 666,665 new shares of common stock were issued. As a result, we paid approximately \$17,000 of cash dividends to the preferred shareholders through the date of the conversion, and no future dividend payments are required.

On June 18, 2004, we filed a registration statement on Form S-3 to register 666,665 shares of common stock for offer and sale from time to time by our former preferred shareholders. We will not receive any proceeds from sales of common stock by the selling shareholders. We also

recorded issuance costs of \$52,000 related to the conversion and registration as a decrease in Additional Paid-In Capital.

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 involve risks and uncertainties, including, but not limited to, customer acceptance and market share gains, both domestically and internationally, in the face of substantial competition from competitors that have broader lines of products and greater financial resources; introduction of new products into the marketplace by competitors; successful product development; dependence on significant customers; dependence on third parties for sales outside the United States including Australia, New Zealand, Europe and Latin America; economic and political conditions in the United States, Australia, New Zealand, Europe and Latin America; marketplace acceptance of new products; availability of third-party components at reasonable prices; and the absence of price wars or other significant pricing pressures affecting our products in the United States and abroad. 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 to reflect new, changing or unanticipated events or circumstances.

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, contingent liabilities and restructuring accruals. 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, 2003.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

NET SALES. Net sales by market for the current and prior year's quarter were as follows:

<TABLE>
<CAPTION>

(In thousands)	Three months ended		Three months ended		Change	
	June 30, 2004		June 30, 2003		\$	%
-----	-----	-----	-----	-----	-	-
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Point of sale and banking ..	\$ 6,275	42.7%	\$ 4,808	35.9%	\$ 1,467	30.5%
Gaming and lottery	8,419	57.3%	8,570	64.1%	(151)	(1.8%)
	-----	-----	-----	-----	-----	-----
	\$14,694	100.0%	\$13,378	100.0%	\$ 1,316	9.8%
	=====	=====	=====	=====	=====	=====
International *	\$ 1,375	9.4%	\$ 1,318	9.9%	\$ 57	4.3%
	=====	=====	=====	=====	=====	=====

</TABLE>

* 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 by product type for the current and prior year's quarter were as follows:

(In thousands)	Three months ended		Three months ended		Change	
	June 30, 2004		June 30, 2003		\$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Printers - POS and banking	\$ 4,623	31.5%	\$ 3,141	23.4%	\$ 1,482	47.2%
Printers - Gaming and lottery ..	7,674	52.2%	7,967	59.6%	(293)	(3.7%)
Subtotal - printers	12,297	83.7%	11,108	83.0%	1,189	10.7%
Services and consumables	2,397	16.3%	2,270	17.0%	127	5.6%
Total net sales	\$14,694	100.0%	\$13,378	100.0%	\$ 1,316	9.8%

Net sales for the second quarter of 2004 increased \$1,316,000, or 10%, from the same period last year due to significantly higher printer shipments (an increase of approximately \$1,482,000, or 47%) into our point of sale and banking ("POS") market, in part offset by slightly lower shipments (a decrease of approximately \$293,000, or 4%) into our gaming and lottery market. Sales of our services and consumables products, which include the repair of printers and the sale of spare parts and consumables (paper, ribbons and inkjet cartridges), also increased by \$127,000, or 6%, as our installed base of printers grows and we continue to aggressively pursue these sales. Overall, international sales increased by \$57,000, or 4%.

POINT OF SALE AND BANKING:

Sales of our POS products worldwide increased approximately \$1,467,000, or 31%.

(In thousands)	Three months ended		Three months ended		Change	
	June 30, 2004		June 30, 2003		\$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Domestic	\$5,275	84.1%	\$3,881	80.7%	\$1,394	35.9%
International ...	1,000	15.9%	927	19.3%	73	7.9%
	\$6,275	100.0%	\$4,808	100.0%	\$1,467	30.5%

Domestic POS revenue increased to \$5,275,000, representing a \$1,394,000, or 36%, increase from the second quarter of 2003, due largely to significantly higher sales of our POSjet(R) and Bankjet(R) lines of inkjet printers, and increasing sales of our recently launched iTherm(TM)280 thermal printer. Sales of our POSjet(R) line of inkjet printers increased by approximately 182% in the second quarter of 2004 compared to the second quarter of 2003. The increase is largely attributable to shipments of our Bankjet(R) line of inkjet printers to two major financial services companies to upgrade bank teller stations. In addition, we reported higher service, spare parts and consumables revenue in the second quarter of 2004 compared to the second quarter of 2003.

International POS product shipments increased by approximately \$73,000, or 8%, to \$1,000,000, due primarily to higher service, spare parts and consumables revenue.

We expect sales into the POS market for the third quarter of 2004 to be somewhat lower than those reported for the second quarter of 2004 and the third quarter of 2003, due primarily to the substantial completion of shipments of our Bankjet(R) line of inkjet printers to two major financial services companies to upgrade bank teller stations. Sales of our banking printers are project-oriented and will vary from quarter to quarter based on the number and size of projects, and the timing of installation of our printers. Based on shipments made through the second quarter, we have substantially met our annual expectation of sales of our banking printers for 2004. We are currently pursuing new opportunities for

sales of our Bankjet(R) lines of inkjet printers for shipment in 2005.

GAMING AND LOTTERY:

Sales of our gaming and lottery products decreased by \$151,000, or 2%, from the second quarter a year ago, primarily due to a shift in timing of orders for lottery printers from GTECH from the second quarter of 2004 to the fourth quarter of 2004 and the first quarter of 2005.

<TABLE>

<CAPTION>

(In thousands)	Three months ended		Three months ended		Change	
	June 30, 2004		June 30, 2003		\$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Domestic	\$8,044	95.5%	\$8,179	95.4%	\$ (135)	(1.7%)
International ...	375	4.5%	391	4.6%	(16)	(4.1%)
	-----	-----	-----	-----	-----	-----
	\$8,419	100.0%	\$8,570	100.0%	\$ (151)	(1.8%)
	=====	=====	=====	=====	=====	=====

</TABLE>

<TABLE>

<CAPTION>

(In thousands)	Three months ended		Three months ended		Change	
	June 30, 2004		June 30, 2003		\$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Gaming	\$ 6,520	77.4%	\$ 5,227	61.0%	\$ 1,293	24.7%
Lottery	1,899	22.6%	3,343	39.0%	(1,444)	(43.2%)
	-----	-----	-----	-----	-----	-----
	\$ 8,419	100.0%	\$ 8,570	100.0%	\$ (151)	(1.8%)
	=====	=====	=====	=====	=====	=====

</TABLE>

Sales of our gaming products, which include video lottery terminal ("VLT") printers and slot machine printers used in casinos and racetracks ("racinos"), and related spare parts and repairs, increased by approximately \$1,293,000, or 25%, to \$6,520,000. This increase resulted primarily from significantly increased installations of our casino printers, primarily for use in slot machines at casinos throughout North America that print receipts instead of issuing coins ("ticket-in, ticket-out" or "TITO"). Based on existing orders and sales opportunities for TITO printers, we expect sales of our casino printers to continue to increase during the remainder of 2004 compared to the comparable period in 2003, as more casinos are expected to convert to TITO slot machines. Also, due to state government budget shortfalls, many states have approved or are considering VLT initiatives as a means of raising revenue. As a result, we also expect sales of our VLT printers to increase during the remainder of 2004 compared to the comparable period in 2003.

Total sales to GTECH Corporation ("GTECH") (a worldwide lottery terminal provider and major customer), which included impact and thermal on-line lottery printers, and spare parts revenue, decreased by \$1,444,000 to approximately \$1,899,000, or 13% of net sales, in the second quarter of 2004, compared to \$3,343,000, or 25% of net sales, in the second quarter of 2003, primarily due to a shift in timing of orders for thermal lottery printers from GTECH from the second quarter of 2004 to the fourth quarter of 2004 and the first quarter of 2005.

In July 2002, we entered into a 5-year agreement with GTECH to provide a newly designed thermal on-line lottery printer. As of June 30, 2004, we have received orders from GTECH for approximately \$3.1 million of these thermal printers that we expect to ship over the remaining six months of 2004, although in higher volumes during the fourth quarter than in the third quarter, as GTECH shifted a significant portion of its forecast for thermal lottery printers from the second and third quarters of 2004 into the fourth quarter. Despite this shift by GTECH, we still anticipate receiving orders from GTECH for additional thermal on-line lottery printers for delivery in 2004.

We also received orders from GTECH for approximately \$2.0 million of our legacy impact on-line lottery printer for shipment during the second and third quarters of 2004. We shipped approximately \$700,000 of these orders during the second

quarter of 2004, and expect to ship the remaining \$1.3 million during the third quarter of 2004. We do not expect any further shipments of impact on-line lottery printers beyond 2004, as GTECH has substantially replaced our legacy impact on-line lottery printer with our newly designed thermal on-line lottery printer.

See the table below for an analysis of revenues from GTECH:

<TABLE>
<CAPTION>

(In thousands, except %)	Three months ended	
	June 30,	
	2004	2003
	-----	-----
<S>	<C>	<C>
Impact on-line lottery printers and spare parts	\$1,233	\$ 350
Thermal on-line lottery printers	666	2,993
	-----	-----
	\$1,899	\$3,343
	=====	=====
% of consolidated net sales	13%	25%

</TABLE>

International sales into the gaming and lottery market decreased \$16,000, to \$375,000 in the second quarter of 2004, in line with our expectations. Although we expect international sales into the gaming and lottery market to remain relatively flat in the third quarter of 2004 compared to the second quarter of 2004, we expect moderate growth in these sales during the fourth quarter of 2004, with more significant growth in 2005 as the result of our decision to expand the distribution and sales of our gaming printers outside of the United States (primarily in Europe and Australia).

GROSS PROFIT. Gross profit increased \$1,405,000, or 33%, and gross margin increased to 38.2% from 31.5%, due primarily to higher dollar volume of sales, a more favorable sales mix, and continued reductions in component costs in the second quarter of 2004 compared to the second quarter of 2003. We expect gross margin for the remainder of 2004 to be consistent with the gross margin reported for the first half of 2004.

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ENGINEERING AND PRODUCT DEVELOPMENT. Engineering, design and product development expenses primarily include salary and payroll related expenses for our engineering staff, depreciation and design expenses (including prototype printer expense, outside design and testing services and supplies). Such expenses increased by \$3,000, or less than 1%. Such expenses decreased as a percentage of net sales to 3.7% from 4.1%, due primarily to a higher volume of sales in the second quarter of 2004 compared to the second quarter of 2003. We expect engineering and product design development expenses for the third quarter of 2004 to be consistent with those reported in the second quarter of 2004.

SELLING AND MARKETING. 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 and other promotional marketing expenses. Selling and marketing expenses decreased by \$46,000, or 4%, due primarily to lower print advertising and other promotional marketing expenses (approximately \$40,000) and lower expenses at our UK facility due to a staff reduction (approximately \$70,000), offset by higher compensation related expenses, including additional sales staff and expenses associated with the opening of a new sales office in Las Vegas to support our growing gaming printer sales (approximately \$40,000) and recruitment expenses related to adding sales and marketing staff (approximately \$25,000). Selling and marketing expenses decreased as a percentage of net sales to 8.3% from 9.4%, due primarily to higher volume of sales in the second quarter of 2004 compared to the second quarter of 2003. We expect selling and marketing expenses to be slightly higher in the third quarter of 2004 compared to the second quarter of 2004, as we plan to add management level sales and marketing staff to more focus our efforts and continue to grow our sales in each of our markets.

GENERAL AND ADMINISTRATIVE. General and administrative expenses primarily include salaries and payroll related expenses for our executive, accounting, human resource and information technology staff, expenses for our corporate

headquarters, professional and legal expenses; and telecommunication expenses. General and administrative expenses increased by \$444,000, or 40%, due largely to higher professional expenses, including those related to compliance with the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), and additional finance staff related to our CFO transition plan. In addition, during the second quarter, we expensed approximately \$110,000 of costs we incurred in conducting due diligence related to our proposed acquisition of TPG, Inc. as the proposed transaction was terminated. General and administrative expenses increased as a percentage of net sales to 10.6% from 8.4% due primarily to the factors listed above, partly offset by a higher volume of sales in the second quarter of 2004 compared to the second quarter of 2003. We expect general and administrative expenses to continue to increase in the third and fourth quarters of 2004, largely due to professional fees related to compliance with Sarbanes-Oxley. We expect to incur approximately \$600,000 to \$700,000 of internal (new finance staff) and external expenses directly related to compliance with Sarbanes-Oxley for the full year of 2004.

OPERATING INCOME. During the second quarter of 2004 we reported operating income of \$2,288,000, or 15.6% of net sales, compared to \$1,284,000, or 9.6% of net sales in the second quarter of 2003. The substantial increase in our operating income and operating margin was due largely to higher gross profit on higher sales, partially offset by higher operating expenses in the second quarter of 2004 compared to that of 2003. Although our operating expenses increased by 14% while our sales increased by 10% in the second quarter of 2004 compared to the second quarter of 2003, we still significantly improved our operating margin by 63% to almost 16%. This improvement demonstrates the substantial operating leverage we have in our business that we expect to continue for the remainder of 2004.

INTEREST. Net interest expense decreased to \$2,000 from \$76,000 in the second quarter of 2003, as we repaid all outstanding revolving borrowings at December 31, 2003 and the remaining outstanding balance on our term loan in January 2004. We expect revolving borrowings to remain at zero as we continue to generate cash from operations through the remainder of 2004. During the remainder of 2004, we expect to report net interest income as we expect the interest earned on our cash balances to exceed our interest expense of approximately \$10,000 per quarter related to interest on unused borrowings under our revolving credit line. See "Liquidity and Capital Resources" below for more information.

INCOME TAXES. We recorded an income tax provision of \$823,000 and \$395,000 in the second quarter of 2004 and 2003, respectively, at an effective rate of 36.0% and 33.4%, respectively. The lower effective tax rate in the 2003 period reflects a favorable outcome of a state tax audit.

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NET INCOME. We reported net income during the second quarter of 2004 of \$1,465,000, or \$0.14 per diluted share (of preferred and common stock) compared to net income of \$787,000, or \$0.09 per diluted share (of preferred and common stock) for the second quarter of 2003. Earnings per share has been retroactively restated for adoption of EITF 03-06 "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share", which requires the two-class method of computing earnings per share. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities based upon an allocation of earnings as if all of the earnings for the period had been distributed in accordance with participation rights on undistributed earnings. Dividends paid in the second quarter of 2004 were approximately \$17,000, and there will be no preferred stock dividend payments beyond the second quarter of 2004, as the preferred stock was converted to common stock in April 2004. See "Subsequent Event" under "Notes to Condensed Consolidated Financial Statements."

SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

NET SALES. Net sales by market for the current and prior year's six month period are as follows:

<TABLE>
<CAPTION>

(In thousands)	Six months ended		Change	
	June 30, 2004	June 30, 2003	\$	%
<S>	<C>	<C>	<C>	<C>

Point of sale and banking	\$ 13,160	44.2%	\$ 9,139	40.8%	\$ 4,021	44.0%
Gaming and lottery	16,609	55.8%	13,251	59.2%	3,358	25.3%
	-----		-----		-----	
	\$ 29,769	100.0%	\$ 22,390	100.0%	\$ 7,379	33.0%
	=====		=====		=====	
International *	\$ 2,591	8.7%	\$ 2,384	10.6%	\$ 207	8.7%
	=====		=====		=====	

</TABLE>

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

Net sales by product type for the current and prior year's quarter were as follows:

<TABLE>

<CAPTION>

(In thousands)	Six months ended		Six months ended		Change	
	June 30, 2004		June 30, 2003		\$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Printers - POS and banking	\$ 9,629	32.3%	\$ 5,920	26.4%	\$3,709	62.7%
Printers - Gaming and lottery	15,292	51.4%	12,238	54.7%	3,054	25.0%
	-----		-----		-----	
Subtotal - printers	24,921	83.7%	18,158	81.1%	6,763	37.2%
Services and consumables	4,848	16.3%	4,232	18.9%	616	14.6%
	-----		-----		-----	
Total net sales	\$ 29,769	100.0%	\$ 22,390	100.0%	\$7,379	33.0%
	=====		=====		=====	

</TABLE>

Net sales for the first half of 2004 increased \$7,379,000, or 33%, from the prior year's first half due to significantly higher printer shipments (approximately \$6,763,000, or 37%) into both our gaming and lottery market and POS and banking market. Sales of our services and consumables products, which include the repair of printers and the sale of spare parts and consumables (paper, ribbons and inkjet cartridges), also increased by \$616,000, or 15%, as our installed base of printers grows and we continue to aggressively pursue these sales. Overall, international sales increased by \$207,000, or 9%, due primarily to higher international shipments of our gaming printers.

POINT OF SALE AND BANKING:

Sales of our POS products worldwide increased approximately \$4,021,000, or 44%.

<TABLE>

<CAPTION>

(In thousands)	Six months ended		Six months ended		Change	
	June 30, 2004		June 30, 2003		\$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Domestic	\$11,240	85.4%	\$ 7,150	78.2%	\$ 4,090	57.2%
International	1,920	14.6%	1,989	21.8%	(69)	(3.5%)
	-----		-----		-----	
	\$13,160	100.0%	\$ 9,139	100.0%	\$ 4,021	44.0%
	=====		=====		=====	

</TABLE>

Domestic POS printer sales increased to \$11,240,000, representing a \$4,090,000, or 57%, increase from the first half of 2003, due primarily to significantly higher sales of our POSjet(R) and Bankjet(R) lines of inkjet printers. Sales of our POSjet(R) line of inkjet printers increased by approximately 300% in the first half of 2004 compared to the first half of 2003. The increase is largely attributable to shipments of our Bankjet(R) line of inkjet printers to two major financial services companies to upgrade bank teller stations. In addition, we reported higher service, spare parts and consumables revenue in the first half of 2004 compared to the first half of 2003.

International POS product shipments decreased by approximately \$69,000, or 4%,

to \$1,920,000, due primarily to lower sales of our printers through our network of international distributors (primarily in Europe and Latin America), somewhat offset by higher service, spare parts and consumables revenue

We expect sales into the POS market for the third quarter of 2004 to be somewhat lower than those reported for the second quarter of 2004 and the third quarter of 2003, due primarily to the substantial completion of shipments of our Bankjet(R) line of inkjet printers to two major financial services companies to upgrade bank teller stations. Sales of our banking printers are project-oriented and will vary from quarter to quarter based on the number and size of projects, and the timing of installation of our printers. Based on shipments made through the second quarter, we have substantially met our annual expectation of sales of our banking printers for 2004. We are currently pursuing new opportunities for sales of our Bankjet(R) lines of inkjet printers for shipment in 2005.

GAMING AND LOTTERY:

Sales of our gaming and lottery printers increased by \$3,358,000, or 25%, from the first half of 2003, primarily due to significantly higher shipments of our slot machine printers, somewhat offset by lower printer shipments of on-line lottery printers to GTECH.

<TABLE>
<CAPTION>

(In thousands)	Six months ended		Six months ended		Change	
	June 30, 2004		June 30, 2003		\$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Domestic	\$ 15,938	96.0%	\$ 12,856	97.0%	\$ 3,082	24.0%
International	671	4.0%	395	3.0%	276	69.9%
	\$ 16,609	100.0%	\$ 13,251	100.0%	\$ 3,358	25.3%

</TABLE>

<TABLE>
<CAPTION>

(In thousands)	Six months ended		Six months ended		Change	
	June 30, 2004		June 30, 2003		\$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Gaming	\$ 13,170	79.3%	\$ 9,156	69.1%	\$ 4,014	43.8%
Lottery	3,439	20.7%	4,095	30.9%	(656)	(16.0%)
	\$ 16,609	100.0%	\$ 13,251	100.0%	\$ 3,358	25.3%

</TABLE>

Sales of our gaming products, which include VLT and slot machine printers, and related spare parts and repairs, increased by approximately \$4,014,000, or 44%. This increase resulted primarily from significantly increased installations of our casino printers, primarily for use in slot machines at casinos throughout North America that print receipts instead of issuing coins ("ticket-in, ticket-out" or "TITO"). Based on existing orders and sales opportunities for TITO printers, we expect sales of our casino printers to continue to increase during the remainder of 2004 compared to 2003, as more casinos are expected to convert to TITO slot machines. Also, due to state government budget shortfalls, many states have approved or are considering VLT initiatives as a means of raising revenue. As a result, we also expect sales of our VLT printers to increase during the remainder of 2004 compared to 2003.

Total sales to GTECH Corporation ("GTECH") (a worldwide lottery terminal provider and major customer), which included impact and thermal on-line lottery printers, and spare parts revenue, decreased by \$656,000 to approximately \$3,439,000, or 12% of net sales, in the first half of 2004, compared to \$4,095,000, or 18% of net sales, in the first half of 2003, primarily due to a shift in timing of orders for thermal lottery printers from GTECH from the second quarter of 2004 to the fourth quarter of 2004 and the first quarter of 2005.

In July 2002, we entered into a 5-year agreement with GTECH to provide a newly designed thermal on-line lottery printer. As of June 30, 2004, we have received orders from GTECH for approximately \$3.1 million of these thermal printers that

we expect to ship over the remaining six months of 2004, although in higher volumes during the fourth quarter than in the third quarter, as GTECH shifted a significant portion of its forecast for thermal lottery printers

from the second and third quarters of 2004 into the fourth quarter. Despite this shift by GTECH, we still anticipate receiving orders from GTECH for additional thermal on-line lottery printers for delivery in 2004.

We also received orders from GTECH for approximately \$2.0 million of our legacy impact on-line lottery printer for shipment during the second and third quarters of 2004. We shipped approximately \$700,000 of these orders during the second quarter of 2004, and expect to ship the remaining \$1.3 million during the third quarter of 2004. We do not expect any further shipments of impact on-line lottery printers beyond 2004, as GTECH has substantially replaced our legacy impact on-line lottery printer with our newly designed thermal on-line lottery printer.

See the table below for an analysis of revenues from GTECH.

<TABLE>
<CAPTION>

(In thousands, except %)	Six months ended	
	June 30,	
	2004	2003
<S>	<C>	<C>
Impact on-line lottery printers and spare parts	\$ 1,559	\$ 1,097
Thermal on-line lottery printers	1,880	2,998
	\$ 3,439	\$ 4,095
	=====	=====
% of consolidated net sales	12%	18%

</TABLE>

International sales into the gaming and lottery market increased \$276,000, or 70%, to \$671,000 in the first half of 2004. This increase is the result of our decision to expand the distribution and sales of our gaming printers outside of the United States (primarily in Europe and Australia). As such, we expect international sales of our gaming printers to steadily grow in 2004, with more significant growth in 2005.

GROSS PROFIT. Gross profit increased \$4,382,000, or 66%, and gross margin increased to 37.1% from 29.7%, due primarily to higher volume of sales, a more favorable sales mix, and continued reductions in component costs in the first half of 2004 compared to the first half of 2003. We expect gross margin for the remainder of 2004 to be consistent with the gross margin reported for the first half of 2004.

ENGINEERING AND PRODUCT DEVELOPMENT. Engineering, design and product development expenses increased by \$55,000, or 5%, due primarily to higher compensation and related expenses. Such expenses decreased as a percentage of net sales to 3.9% from 4.9%, due primarily to a higher volume of sales in the first half of 2004 compared to the first half of 2003. We expect engineering and product design development expenses for the second half of 2004 to be consistent with those reported in the first half of 2004.

SELLING AND MARKETING. Selling and marketing expenses increased by \$272,000, or 12%, due primarily to higher (1) sales commissions resulting from higher sales in the first half of 2004 compared to the first half of 2003 (approximately \$22,000), (2) compensation related expenses, including additional sales staff and expenses associated with the opening of a new sales office in Las Vegas to support our growing gaming printer sales (approximately \$225,000) and (3) recruitment expenses related to adding sales and marketing staff (approximately \$151,000). Such increases were partially offset by lower print advertising and other promotional marketing expenses (approximately \$40,000) and lower expenses at our UK facility due to a staff reduction (approximately \$70,000). Selling and marketing expenses decreased as a percentage of net sales to 8.7% from 10.3%, due primarily to higher volume of sales in the first half of 2004 compared to the first half of 2003. We expect selling and marketing expenses to be slightly higher in the third quarter of 2004 compared to the second quarter of 2004, as

we plan to add management level sales and marketing staff to more focus our efforts and continue to grow our sales in each of our markets.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased by \$677,000, or 31%, due largely to higher professional expenses, including those related to compliance with the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), and additional finance staff related to our CFO transition plan. In addition, during the second quarter, we expensed approximately \$110,000 of costs we incurred in conducting due diligence related to our proposed acquisition of TPG, Inc., as the proposed transaction was terminated. General and administrative expenses decreased as a percentage of net sales to 9.7% from 9.9% due primarily to the factors listed above, partly offset by a higher volume of sales in the second quarter of 2004 compared to the second quarter of 2003. We expect general and administrative expenses to continue to increase in the third and fourth quarters of 2004, largely due to professional fees related to compliance with Sarbanes-Oxley. We expect to incur approximately \$600,000 to \$700,000 of internal (new finance staff) and external expenses directly related to compliance with Sarbanes-Oxley for the full year of 2004.

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OPERATING INCOME. During the first half of 2004 we reported operating income of \$4,398,000, or 14.8% of net sales, compared to \$1,020,000, or 4.6% of net sales, in the first half of 2003. The significant increase in our operating income and operating margin was due largely to higher gross profit on higher sales, partially offset by higher operating expenses in the first half of 2004 compared to the same period of 2003. Although sales increased by 33% in the first half of 2004 compared to the first half of 2003, operating expenses only increased 18%, which provided substantial operating leverage that we expect to continue for the remainder of 2004.

INTEREST. Net interest expense decreased to \$12,000 from \$122,000 in the first half of 2003 as we repaid all outstanding revolving borrowings at December 31, 2003 and the remaining outstanding balance on our term loan in January 2004. We expect revolving borrowings to remain at zero as we continue to generate cash from operations through the remainder of 2004. During the remainder of 2004, we expect to report net interest income as we expect the interest earned on our cash balances to exceed our interest expense of approximately \$10,000 per quarter related to interest on unused borrowings under our revolving credit line. See "Liquidity and Capital Resources" below for more information.

INCOME TAXES. We recorded an income tax provision of \$1,578,000 and \$283,000 in the first half of 2004 and 2003, respectively, at an effective rate of 36.0% and 32.5%, respectively. The lower effective tax rate in the 2003 period reflects a favorable outcome of a state tax audit.

NET INCOME. We reported net income during the first half of 2004 of \$2,807,000, or \$0.27 per diluted share (of preferred and common stock) compared to net income of \$589,000, or \$0.07 per diluted share (of preferred and common stock) for the first half of 2003. Earnings per share has been retroactively restated for adoption of EITF 03-06 "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share", which requires the two-class method of computing earnings per share. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities based upon an allocation of earnings as if all of the earnings for the period had been distributed in accordance with participation rights on undistributed earnings. Dividends paid in the first half of 2004 were approximately \$86,000 and there will be no dividends beyond the first half of 2004, as the preferred stock was converted to common stock in April 2004. See "Subsequent Event" under "Notes to Condensed Consolidated Financial Statements."

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Overview: In the first half of 2004, we significantly improved our operating results, including cash flows, compared to 2003. We repaid our remaining outstanding debt in January 2004 and ended the quarter with approximately \$5.0 million in cash. Looking forward, we expect to generate approximately \$6 to \$8 million in cash from operations during 2004 and have between \$6 and \$8 million of cash on our balance sheet at the end of 2004. We also expect to earn interest income on our available cash balance throughout 2004.

Operating activities: The following significant factors affected our cash provided by operations of \$4,693,000 in the first half of 2004:

- We reported net income of \$2,807,000
- We recorded depreciation, amortization and non-cash compensation expense of \$964,000
- Accounts receivable decreased by \$679,000 due to timing of sales during the quarter
- Inventories increased by \$621,000, as we prepared for our expected higher sales volume in 2004
- Other current assets decreased by \$260,000 due primarily to receipts of federal and state tax refunds in the first quarter of 2004
- Accrued liabilities and other liabilities increased by \$742,000, primarily due to an increase in income taxes payable resulting from the tax provision recorded in the first half of 2004, largely offset by payments of patent license fees to Seiko Epson
- Accrued restructuring expenses decreased by \$221,000 due to payments made for lease obligation costs

During the second quarter of 2004, we signed a cross licensing agreement with Seiko Epson. Under the agreement, Seiko Epson received a license to three of our patents, and we received a license to eighteen of Seiko Epson's patents relating to printing applications for the point of sale and banking markets. In addition, we agreed to pay \$900,000 as a royalty for the usage of certain Seiko Epson technology prior to January 1, 2003. We had accrued for the \$900,000 royalty for past usage as of December 31, 2003. In accordance with the terms of the agreement, we paid \$525,000 of the royalty in the second quarter of 2004, and will pay the remaining \$375,000 in the first quarter

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of 2005. Under the agreement, we continue to pay royalties on a quarterly basis related to the sales of licensed printers, which is reflected in cost of sales.

As of June 30, 2004 and December 31, 2003, our restructuring accrual amounted to \$1,904,000 and \$2,125,000, respectively. We expect to pay approximately \$480,000 of these expenses per year from 2004 through 2007, and the remaining \$74,000 in 2008. These payments from 2004 through 2008 relate primarily to lease obligation costs for our Wallingford, CT facility.

Investing activities: Our capital expenditures were approximately \$447,000 and \$872,000 in the first half of 2004 and 2003, respectively. Expenditures in 2004 primarily included new product tooling and computer hardware and software. We expect capital expenditures for the full year 2004 to be approximately \$1,500,000, primarily for tooling for new products and enhanced versions of our existing products.

Financing activities: We generated approximately \$263,000 from financing activities during the first six months of 2004, largely due to proceeds from stock option exercises (approximately \$826,000), largely offset by the repayment of our term loan (approximately \$420,000) and payments of cash dividends on our preferred stock (approximately \$91,000).

WORKING CAPITAL

Our working capital increased to \$15,668,000 at June 30, 2004 from \$11,787,000 at December 31, 2003. The current ratio also increased to 2.74 to 1 at June 30, 2004 from 2.36 to 1 at December 31, 2003. The increase in both working capital and the current ratio was due largely to higher cash and cash equivalents (\$4,513,000) and higher inventories (\$621,000) somewhat offset by lower receivables (\$679,000) compared to December 31, 2003.

DEFERRED TAXES

As of June 30, 2004, we had a net deferred tax asset of approximately \$3,024,000. In order to utilize this deferred tax asset, we will need to generate approximately \$8.4 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 August 6, 2003, we entered into a \$12.5 million credit facility (the "Banknorth Credit Facility") with Banknorth N.A. The Banknorth Credit Facility provides for an \$11.5 million revolving credit line expiring on July 31, 2006, and a \$1 million equipment loan facility which may be drawn down through July 31, 2004. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate. Borrowings under the equipment loan bear a floating rate of interest at the prime rate plus 0.25%, which is included in interest expense. The Banknorth Credit Facility imposes certain quarterly financial covenants on the Company and restricts the payment of dividends on its common stock and the creation of other liens.

The borrowing base of the revolving credit line under Banknorth Credit Facility is based on the lesser of (a) \$11.5 million or (b) 85% of eligible accounts receivable plus (i) the lesser of (1) \$5,500,000 and (2) 45% of eligible raw material inventory plus 50% of eligible finished goods inventory, less (ii) a \$40,000 credit reserve. Concurrent with the signing of the Banknorth Credit Facility, we borrowed \$450,000 under the equipment loan facility.

As of June 30, 2004, we had no balances outstanding on the revolving credit line and term loan, respectively. Undrawn commitments under the Banknorth Credit Facility were approximately \$11,500,000 at June 30, 2004. However, our maximum additional available borrowings under the facility were limited to approximately \$8,100,000 at June 30, 2004 based on the borrowing base of our collateral. We were in compliance with all financial covenants of the Banknorth Credit Facility at June 30, 2004.

PREFERRED STOCK

In connection with our 7% Series B Cumulative Convertible Redeemable Preferred Stock (the "Preferred Stock"), we paid \$70,000 of cash dividends per quarter. We also recorded non-cash accretion of approximately \$20,000 per quarter related to preferred stock warrants and issuance costs. The preferred stock was convertible at any time by the holders at a conversion price of \$6.00 per common share. In April 2004, all holders of our Series B Preferred Stock converted all their preferred shares into common stock. Under the conversion, a total 666,665 new shares of common stock were issued. As a result, we paid approximately \$17,000 of cash dividends in the second quarter of 2004. No future dividend payments are required beyond the second quarter of 2004. The conversion will result in a cash savings of approximately \$280,000 annually, as we will no longer pay dividends previously required under the terms of the preferred stock. See Note 8 to the Condensed Consolidated Financial Statements.

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SHAREHOLDERS' EQUITY

Shareholders' equity increased by \$8,711,000 to \$19,058,000 at June 30, 2004 from \$10,347,000 at December 31, 2003. The increase was primarily due to the following for the six months ended June 30, 2004: (1) the conversion by our preferred shareholders of all shares of their preferred stock into common stock (\$3,922,000), (2) net income of \$2,807,000, less cash dividends on our preferred stock of \$91,000, (3) proceeds of approximately \$826,000 from the issuance of approximately 179,000 shares of common stock from stock option and warrant exercises, (4) an increase in additional paid in capital of approximately (\$1,173,000) resulting from the recording of a deferred tax asset from the sale of employee stock from stock option exercises, and (5) compensation expense related to restricted stock grants of \$142,000.

CONTRACTUAL OBLIGATIONS

We have experienced no material changes in our contractual obligations outside the ordinary course of business during the three or six months ended June 30, 2004.

RESOURCE SUFFICIENCY

We believe that our cash on hand and cash flows generated from operations and borrowings available under the Banknorth Credit Facility will provide sufficient

resources to meet our working capital needs, including costs associated with the Consolidation, to finance our capital expenditures and meet our liquidity requirements through at least December 31, 2005.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were adequate and designed to ensure that information required to be disclosed by the Company in this report is recorded, processed, summarized and reported in a timely manner, including that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses in internal controls, during the period covered by this report.

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PART II. OTHER INFORMATION

ITEM 5. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on May 26, 2004. 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 2007 Annual Meeting of Stockholders or until the Director's successor has been duly elected and qualified. Nominee was Graham Y. Tanaka. Votes cast were as follows (counting the votes of common stock and Series B Preferred Stock together as a single class):

<TABLE>
<CAPTION>

	For	Withheld
<S>	<C>	<C>
	Graham Y. Tanaka 9,008,321	178,655

</TABLE>

- (2) To ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2004. Votes cast were as follows (counting the votes of common stock and Series B Preferred Stock together as a single class): 9,147,331 shares for; 38,771 shares against; and 874 shares abstained.

The following directors continue to serve until the Annual Meeting of Stockholders in the year 2005 or until their successors have been duly elected and qualified: Bart C. Shuldman and Thomas R. Schwarz.

The following director continues to serve until the Annual Meeting of Stockholders in the year 2006 or until the director's successor has been duly elected and qualified: Charles A. Dill.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a. Exhibits filed herein

Exhibit 10.28 License Agreement between Seiko Epson Corporation and TransAct Technologies Incorporated dated May 17, 2004. (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the

filed copy.)

- 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

b. Reports on Form 8-K

- 1. A report on Form 8-K was furnished on May 3, 2004 to report under Items 7 and 12 a press release announcing the Company's financial results for the quarter ended March 31, 2004.

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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 12, 2004

/s/ Steven A. DeMartino

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

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EXHIBIT LIST

The following exhibits are filed herewith.

Exhibit

- 10.28 License Agreement between Seiko Epson Corporation and TransAct Technologies Incorporated dated May 17, 2004. (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of

LICENSE AGREEMENT

This License Agreement ("Agreement"), effective as of the 1st day of January, 2003 ("Effective Date"), is entered into by and between Seiko Epson Corporation, a corporation organized and existing under the laws of Japan, with its principal place of business at 3-5 Owa, 3-chome, Suwa-shi, Nagano-ken, 392-8502 Japan and TransAct Technologies Incorporated, a Delaware corporation with its principal place of business at 7 Laser Lane, Wallingford, Connecticut (the "Parties");

WHEREAS, TransAct (as defined herein) and EPSON (as defined herein) each desire to enter into a mutually beneficial cross-license relating to Licensed Products (as defined herein);

WHEREAS, TransAct wishes to obtain a license under the EPSON Licensed Patents (as defined herein), and EPSON is willing to grant such a license to TransAct, subject to the terms, conditions, representations and warranties set forth herein;

WHEREAS, EPSON wishes to obtain a license under the TransAct Licensed Patents (as defined herein), and TransAct is willing to grant such a license to EPSON, subject to the terms, conditions, representations and warranties set forth herein;

NOW, THEREFORE, in accordance with the foregoing recitals, and in consideration of the mutual agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

I. DEFINITIONS

1.01 Definitions. As used in this Agreement, the following defined terms shall have the meanings set forth below:

"EPSON" shall mean Seiko Epson Corporation and any parent, Subsidiary, Affiliate, predecessor or successor thereto.

"EPSON Licensed Patents" shall mean the U.S. Patents listed on Exhibit A hereto and all continuations, continuations-in-part, divisions, reissues and re-examinations based thereon and all corresponding foreign patents and patent applications that are counterpart to, claim priority from, or are the basis of priority of any of the foregoing.

"TransAct Licensed Products" shall mean **

** Confidential treatment requested.

"Epson Licensed Products" shall mean **

"TransAct" shall mean TransAct Technologies Incorporated and any parent, Subsidiary, Affiliate, predecessor or successor thereto.

"TransAct Licensed Patents" shall mean the U.S. Patents listed on Exhibit B hereto and all continuations, continuations-in-part, divisions, reissues and re-examinations based thereon and all corresponding foreign patents and patent applications that are counterpart to, claim priority from, or are the basis of a claim of priority in any of the foregoing.

"Subsidiary(ies)" and "Affiliate(s)" shall mean any corporation, company or other business entity which directly or indirectly through one or more intermediaries, is controlled by, is under common control with, or which controls EPSON or TransAct, respectively. For purposes of this definition, control means the direct or indirect beneficial ownership of more than fifty percent (50%) of the outstanding shares or stock or other ownership interest representing the right to vote in general meetings of shareholders or owners or for the election of directors or their equivalents regardless of the form thereof, on the date this Agreement is executed or thereafter. Such corporation, company or other business entity shall be deemed to be a Subsidiary or Affiliate for the purposes of this Agreement only so long as such ownership or control exists.

1.02 Use of Defined Terms. The definitions in this Paragraph shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation".

II. GRANT OF LICENSE

2.01 License Grant From TransAct to EPSON. TransAct grants to EPSON a paid-up world-wide, non-exclusive license under the TransAct Licensed Patents for the term of this Agreement to make, have made, import, use, offer to sell and sell Epson Licensed Products. **.

2.02 License Grant From EPSON to TransAct. EPSON grants to TransAct a world-wide, non-exclusive license under the EPSON Licensed Patents for the term of this Agreement to make, have made, import, use, offer to sell and sell Transact Licensed Products. This license shall be royalty-bearing as set forth in Paragraph V below.

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III. RELEASES

3.01 Release From TransAct. Based on the consideration provided in this Agreement, TransAct hereby releases and forever discharges EPSON, its Subsidiaries and Affiliates, and their respective directors, shareholders, officers, attorneys, agents, employees, distributors, customers and other downstream users of EPSON Licensed Products, with regard to TransAct Licensed

Patents, from every claim and cause of action of any kind whatsoever, whether or not now known, that TransAct ever had or on the Effective Date has against EPSON as to EPSON Licensed Products and TransAct Licensed Patents. After consultation with counsel, TransAct expressly waives the provisions of California Civil Code Section 1542, which reads as follows: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR." TransAct, being aware of the above code section, also waives any right or benefit to which it may be entitled under any other similar statute or common law principle to the extent permitted by law.

3.02 Release From EPSON. Based on the consideration provided in this Agreement, EPSON hereby releases and forever discharges TransAct, its Subsidiaries and Affiliates, and their respective directors, shareholders, officers, attorneys, agents, employees, distributors, customers and other downstream users of Transact Licensed Products, with regard to EPSON Licensed Patents, from every claim and cause of action of any kind whatsoever, whether or not now known, that EPSON ever had or on the Effective Date has against TransAct as to TransAct Licensed Products and EPSON Licensed Patents. After consultation with counsel, EPSON expressly waives the provisions of California Civil Code Section 1542, which reads as follows: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR." EPSON, being aware of the above code section, also waives any right or benefit to which it may be entitled under any other similar statute or common law principle to the extent permitted by law.

IV. OBLIGATION OF CONFIDENTIALITY

4.01 TransAct and EPSON each agree that, without the prior written consent of the other Party hereto or unless required by law, statute, rule, regulation (including the disclosure requirements of the SEC) or order of a Court or other tribunal or administrative agency of competent jurisdiction, regulation of a securities market (e.g., NASDAQ), it shall not disclose to any third party the terms of this Agreement or any confidential information regarding the other Party hereto or the business of such other Party which has been made available to it, except that the terms of this Agreement may be disclosed to outside auditors and outside legal counsel, provided that such outside auditors and legal counsel agree to maintain the contents of this Agreement in confidence to the extent required by this Paragraph. Any confidentiality

obligations imposed on the Parties under this Agreement shall survive the termination of this Agreement.

4.02 Notwithstanding any other provision of this Agreement, TransAct shall have the right to disclose to any third party the existence of this Agreement and EPSON's status as a licensee of TransAct's patents for consideration, as appropriate, in connection with enforcing any of TransAct's patents or to prospective licensees of TransAct's patents. TransAct may also publicly disclose that it has entered into a cross-license agreement with EPSON, but may not

publicly disclose the specific terms thereof.

4.03 Notwithstanding any other provision of this Agreement, EPSON shall have the right to disclose to any third party, the existence of this Agreement and TransAct's status as a licensee of EPSON's patents for a running royalty, as appropriate, in connection with enforcing any of EPSON's patents or to prospective licensees of EPSON's patents. EPSON may also publicly disclose that it has entered into a cross-license agreement with TransAct wherein TransAct pays a running royalty to EPSON, but may not publicly disclose the specific terms thereof.

V. PAYMENTS

5.01 Payments. In consideration for past sales, TransAct shall pay ** The obligations of TransAct to make the foregoing payments shall be absolute and unconditional. All payments shall be made by wire transfer to the following EPSON account:

**

5.02 Royalties. TransAct shall also pay EPSON royalties in the amount of ** for each TransAct Licensed Product, covered by any claim of any of the EPSON Licensed Patents, made, had made, imported, used or sold by any TransAct entity in the United States, or any other country where such EPSON Licensed Patent exists, beginning on the Effective Date and continuing for the life of the last to survive of the EPSON Licensed Patents. Without affecting the interpretation of the definition of TransAct Licensed Products in Paragraph 1.01 and the use of that definition in this Paragraph 5.02, the phrase "covered by

** Confidential treatment requested

any claim of any of the EPSON Licensed Patents" as used in the previous sentence shall be interpreted to include, but not be limited to: (1) "TransAct Licensed Products" wherein the product offered to a customer includes the option to utilize EPSON Licensed Patents ESC/POS Function and/or Command, if such utilization would result in infringement; (2) TransAct Licensed Products wherein software is supplied to the customer including EPSON Licensed Patents ESC/POS Function and/or Command, if such software would result in infringement; or (3) TransAct Licensed Products wherein the customer may select EPSON Licensed Patents ESC/POS Function and/or Command from a series of offered commands, if such selection would result in infringement. Such payments shall be due and payable upon the first invoicing or shipment by any TransAct entity. Each TransAct Licensed Product shall be considered "sold" under this Agreement when billed to the purchaser, or if not billed, then when shipped; or when paid for, if paid for by the purchaser before shipment. TransAct shall pay such royalties to EPSON on a quarterly basis, i.e. on each period ending March 31st, June 30th, September 30th and December 31st. Each payment shall be made within thirty (30) days of the end of each quarter. For calendar year 2003, all royalties shall be paid no later than thirty (30) days after the last Party executes this Agreement, and shall cover the period from January 1, 2003 to December 31, 2003. No royalties shall be due for TransAct's sale of printers to any third party

that is already obligated to pay EPSON royalties relating to the sale or use of TransAct Licensed Products. In the event of a return of a sold product for which a royalty has been paid or is due, and a substitute or replacement product is provided in exchange for the sold product (e.g., warranty return and exchange), no additional royalty shall be due for the substitute or replacement product provided in exchange. In addition, TransAct shall be entitled, with respect to any product sold for which royalties have been paid or are due, to a credit for such royalties in the event the product is returned to TransAct and no royalty-bearing product is provided in exchange for such returned product.

5.03 Non-refundability. All payments made under this Agreement are non-refundable, except to the extent of any adjustments for payment calculation errors or product returns.

VI. WARRANTIES AND REPRESENTATIONS

6.01 EPSON represents and warrants that it is the sole and exclusive owner of all right, title and interest (including all right of recovery for any and all past infringement thereof) in and to the EPSON Licensed Patents and has the right to grant the license and release granted herein. EPSON further represents and warrants that it is currently not aware of infringement of any EPSON patents (other than the EPSON Licensed Patents) by any of the TransAct Licensed Products, and that as a result it currently has no plans to sue TransAct for patent infringement with respect to the TransAct Licensed Products.

6.02 TransAct represents and warrants that it is the sole and exclusive owner of all right, title and interest (including all right of recovery for any and all past infringement thereof) in and to the TransAct Licensed Patents and has the right to grant the license and release granted herein.

6.03 Each Party acknowledges that it has been represented by counsel in connection with the negotiation, drafting and execution of this Agreement.

VII. LIMITATIONS

7.01 The license granted by EPSON to TransAct in Paragraph 2.02 is non-assignable and non-sublicenseable to any person or entity, unless prior written consent is provided by EPSON, with the exception that the rights shall be transferable in connection with a merger, consolidation or purchase of all or substantially all of the assets of the business to which this Agreement pertains. In such cases, however, the license shall not extend to other products or product lines of the merger or consolidation partner or the purchaser.

The license granted by TransAct to EPSON in Paragraph 2.01 is non-assignable and non-sublicenseable to any person or entity, unless prior written consent is provided by TransAct, with the exception that the rights shall be transferable in connection with a merger, consolidation or purchase of all or substantially all of the assets of the business to which this Agreement pertains. In such cases, however, the license shall not extend to other products or product lines of the merger or consolidation partner or the purchaser.

7.02 The releases and licenses granted to the receiving Party, as set forth above, are applicable only to products, equipment, devices, systems, processes and services manufactured, sold, offered for sale, exported, imported, received, purchased, produced, constructed, installed, used, developed or provided by or for the receiving Party, and are not intended as and are not the grant of a general release or license or any other rights under the Licensed Patents to any third party not expressly licensed or released under this Agreement. The Party granting the releases and licenses set forth above specifically retains all its rights under its Licensed Patents (including the right to bring suit for patent infringement) against any such third parties not expressly released or licensed under this Agreement.

7.03 In no event shall either Party or its Subsidiaries or Affiliates be liable to the other Party or its Subsidiaries or Affiliates or to any third party, for any indirect, special, incidental, or consequential losses or damages arising in any manner from this Agreement, including the performance or non-performance of obligations hereunder, whether a claim is brought in contract, tort or other legal theory.

7.04 Nothing contained in this Agreement shall be construed as:

(a) an agreement to prosecute actions or suits against third parties for infringement or conferring any rights to bring or prosecute actions or suits against third parties; or

(b) conferring the right to use in advertising or publicity any trademark, trade name, or any contraction, abbreviation thereof or adaptation thereof, of either Party;

(c) conferring by implication estoppel or otherwise any license or rights other than as specifically set forth herein;

(d) an admission by EPSON that any claims of the TransAct Licensed Patents are valid, enforceable or infringed by EPSON;

(e) an admission by TransAct that any claims of the EPSON Licensed Patents are valid, enforceable or infringed by TransAct; or

(f) an obligation on the part of either Party to furnish any technical information or know-how to the other Party.

7.05 Each Party represents and warrants that it is a corporation in good standing under the laws where it is incorporated; that it has the right and authority to enter into this Agreement on behalf of itself and its Subsidiaries and Affiliates; that it has obtained all corporate approvals necessary to enter into this Agreement on behalf of itself and its Subsidiaries and Affiliates; and that this Agreement is valid and binding and enforceable in accordance with its terms.

7.06 In case that a Party assigns or sells a part of or all of its Licensed Patents to a third party or a third person after execution of this

Agreement, the licenses granted under Paragraphs 2.01 or 2.02 will continue to be effective and enforced during the term defined in Paragraph 8.01, provided that the obligations under this Agreement continue to be fulfilled.

VIII. TERM

8.01 Except as provided in Paragraph 8.03, this Agreement and the license granted from EPSON to TransAct of Paragraph 2.02 shall continue for the remainder of the life of the last to expire of the EPSON Licensed Patents. Except as provided in Paragraph 8.03, the license granted from TransAct to EPSON of Paragraph 2.01 shall continue for the life of the last to expire of the TransAct Licensed Patents.

8.02 Effect of Expiration, Invalidation, etc. In the event that (i) all of the EPSON Licensed Patents expire, (ii) all of the claims of the EPSON Licensed Patents are canceled, invalidated or rendered unenforceable by any agency, tribunal or court of competent jurisdiction, or (iii) any agency, tribunal or court of competent jurisdiction determines that EPSON is not the owner of all right, title or interest in all of the EPSON Licensed Patents, TransAct may cease paying, and shall have no obligation to pay, royalties with respect to TransAct Licensed Products.

8.03 Termination. If a Party ("defaulting party") materially breaches this Agreement, the other Party ("non-defaulting party") may give defaulting party written notice of such material breach, and if, within sixty (60) days after such notice, defaulting party fails to remedy such material breach, then in addition to its other legal remedies, non-defaulting party shall have the right to terminate this Agreement, effective upon written notice to that effect. Termination by either Party under this Paragraph shall terminate the entire Agreement, including all licenses granted herein to each Party, except that the following provisions shall survive: (i) the release granted by TransAct under Paragraph 3.01, (ii) the release granted by EPSON under Paragraph 3.02, if payments are made within the time limits set forth in Paragraph 5.01, and (iii) any other provision for which survival of termination is expressly stated in this Agreement.

IX. REPORTS AND AUDIT

9.01 Royalty Report. TransAct shall provide royalty reports, concurrent with its royalty payments, to EPSON. Such royalty reports shall account for all TransAct Licensed Products, made or sold worldwide by all TransAct entities during the preceding quarter (or

quarters as to the initial report), and include information stating the number of units sold for each model number or other product designation, the total number of units sold and the amount of royalties paid to EPSON for the relevant quarter.

9.02 Audit. EPSON shall be entitled to an audit of TransAct's applicable financial records, at EPSON's expense, by an independent auditor designated by EPSON, not engaged on a contingency basis, and approved by TransAct (whose

approval shall not be unreasonably withheld), once every twelve months in order to verify the accuracy of the quarterly royalty reports provided by TransAct. In the event that royalties due for any time period are determined by the independent auditor to be at least 5% greater than the royalties paid for that time period, TransAct shall pay the difference plus prime-rate interest and shall reimburse EPSON for the costs of the audit within 15 days of receiving the report from the auditor.

9.03 Audit Procedures. Any such audit pursuant to Paragraph 9.02 shall be conducted after 30 days prior notice, during normal business hours and at the location(s) where TransAct's books and records are normally kept. Such audits and the results thereof shall be confidential (except for use, subject to reasonable protective orders to which the Parties shall stipulate, in connection with proceedings to compel a correcting payment as set forth in Paragraph 9.02). The auditor shall report to EPSON the amount, if any, of royalties that TransAct has underpaid and shall not disclose to EPSON underlying information beyond what is required by Paragraph 9.02. The auditor shall provide a copy of its report to TransAct concurrently with reporting to EPSON.

X. PATENT MARKING

10.01 TransAct shall mark as soon as practical but within ninety (90) days after the date on which this Agreement is executed by the last Party to sign the Agreement each TransAct Licensed Product manufactured or sold by TransAct after such date in accordance with the relevant law pertaining to patent marking.

10.02 EPSON shall mark as soon as practical but within ninety (90) days after the date on which this Agreement is executed by the last Party to sign the Agreement each EPSON Licensed Product manufactured or sold by EPSON after such date in accordance with the relevant law pertaining to patent marking.

XI. MISCELLANEOUS

11.01 Limitation of Liability. Notwithstanding anything else in this Agreement or otherwise, no Party will be liable to any other Party or any other person or entity with respect to any subject matter of this Agreement under any contract, negligence, strict liability or other legal or equitable theory for any (A) indirect, incidental, special or consequential damages or (B) lost profits or lost business, even if the remedies provided for in this Agreement fail of their essential purpose and even if any Party has been advised of the possibility of probability of such damages.

11.02 Force Majeure. If for some reasons of Force Majeure, as hereinafter defined, any Party fails to comply with its obligations hereunder, such failure shall not constitute breach of contract. For the purpose of this Article, Force Majeure shall mean acts of God; acts, regulations or laws of any government; war; civil commotion; destruction of production

facilities or materials; fire, earthquake or storm; labor disturbances; failure of public utilities or common carriers and any other causes beyond the reasonable control of any Party.

11.03 Assignment. This Agreement may not be assigned by TransAct or EPSON without the prior written consent of the other Party which consent shall not be unreasonably withheld; provided, however, that TransAct or EPSON may assign or transfer this Agreement in whole to any third party without prior consent, together with the sale of all or substantially all of the business of TransAct or EPSON to which its Licensed Products relate, and together with its Licensed Patents, respectively, to such third party, provided that all obligations as well as rights are transferred to and assumed by such third party. The sale includes mergers, consolidation partners or purchasers of all or substantially all of the business. This Agreement shall be binding upon and inure to the benefit of the Parties, their respective mergers, consolidation partners, purchasers, successors and assigns. Further, in such cases, however, the license of Paragraph 2.01 or 2.02 shall not extend to other products or product lines of the merged company, the acquirer, the consolidation partners, the purchasers, the successors or the assigns.

11.04 Notices. All notices, requests and other communications hereunder must be in writing in the English language and will be deemed to have been duly given only if delivered personally or by confirmed facsimile transmission or by confirmed mail (first class or air mail in the case of international correspondence, postage prepaid with return or delivery receipt) or by an internationally recognized common carrier's overnight courier (providing a return or delivery receipt) to the Parties at the following addresses or facsimile:

If to EPSON:

Seiko Epson Corporation
Director, Intellectual Property Division
3-5, Owa 3-chome, Suwa-shi
Nagano-ken, 392-8502 Japan
Facsimile: 81-266-58-3243

If to TransAct:

TransAct Technologies Incorporated
7 Laser Lane
Wallingford, CT 06492
USA
Facsimile: (203) 949-9048

All such notices, requests and other communications shall (i) if delivered personally to the address as provided in this Paragraph 11.04, be deemed given upon delivery, (ii) if delivered by confirmed facsimile transmission to the facsimile number provided in this Paragraph 11.04, be deemed given upon receipt, and (iii) if delivered by mail or overnight courier in the manner described above to the address provided in this Paragraph 11.04, be deemed given upon receipt. Any Party from time to time may change its address or facsimile number upon written notice to the other Party.

11.05 Governing Law. This Agreement shall be governed by and construed in accordance with the substantive and procedural law of the State of California.

11.06 Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof and supersedes any and all previous communications, representations, agreements or understandings, oral or written, between the Parties. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each Party hereto which specifically refers to this Agreement.

11.07 Waiver. No express or implied waiver by any of the Parties to this Agreement of any breach of any term, condition or obligation of this Agreement by any other Party shall be construed as a waiver of any subsequent or continuing breach of that term, condition or obligation or of any other term condition or obligation of this Agreement of the same or of a different nature. A waiver of any term, condition or obligation of this Agreement shall be effectively only if set forth in a writing duly executed by or on behalf of each Party hereto.

11.08 Severability: If any provision of this Agreement is held to be illegal, invalid or unenforceable under any applicable present or future law, and if the rights or obligations of any Party hereto under this Agreement will not be materially and adversely affected thereby, (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement, a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and consistent with the intent of the Parties when entering into this Agreement.

11.09 Agency. No Party shall be deemed to be the agent or joint venturer of the other, and no Party is authorized to take any action binding upon any other Party.

11.10 Counterparts and Headings. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but both together will constitute one and the same instrument. All headings in this Agreement are inserted for convenience of reference only and shall not affect the interpretation of this Agreement.

IN WITNESS WHEREOF, each of the Parties has caused this Agreement to be executed in duplicate originals by the duly authorized representative of each Party hereto on the respective dates entered below:

TransAct Technologies Incorporated
By: /s/ Bart C. Shuldman
Title: Chairman, President and CEO

Seiko Epson Corporation
By: /s/ Minoru Usui
Title: Director

Date: April 28, 2004

Date: May 17, 2004

EXHIBIT A

SEIKO EPSON U.S. PATENTS

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** Confidential treatment requested.

EXHIBIT B

TRANSACT U.S. PATENTS

**

** Confidential treatment requested.

CERTIFICATION

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)) 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) 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
 - c) 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 effect, 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 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 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: August 12, 2004

/s/ Bart C. Shuldman

Bart C. Shuldman
Chairman, President and Chief Executive Officer

CERTIFICATION

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)) 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) 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
 - c) 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 effect, 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 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 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: August 12, 2004

/s/ Steven A. DeMartino

Steven A. DeMartino
Executive Vice President, Secretary,
Treasurer and Chief Financial 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 June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bart C. Shuldman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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: August 12, 2004

/s/ Bart C. Shuldman

Bart C. Shuldman
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 June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven A. DeMartino, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: August 12, 2004

/s/ Steven A. DeMartino

Steven A. DeMartino
Chief Financial Officer