

TRANSACT TECHNOLOGIES INC

FORM 10-K (Annual Report)

Filed 3/16/2005 For Period Ending 12/31/2004

Address	7 LASER LANE WALLINGFORD, Connecticut 06492
Telephone	203-269-1198
CIK	0001017303
Industry	Computer Peripherals
Sector	Technology
Fiscal Year	12/31

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC. 20549

FORM 10-K

**FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES AND EXCHANGE ACT OF 1934**

(Mark One)

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

For the fiscal year ended December 31, 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
(State or other jurisdiction of
incorporation or organization)

06-1456680
(I.R.S. Employer Identification No.)

7 LASER LANE, WALLINGFORD, CT
(Address of principal executive offices)

06492
(Zip Code)

Registrant's telephone number, including area code 203-269-1198

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

NONE

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

COMMON STOCK, \$0.01 PAR VALUE
(Title of class)

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 X No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes X No

As of June 30, 2004 the aggregate market value of the registrant's issued and outstanding voting stock held by non-affiliates of the registrant was \$291,700,000.

As of February 25, 2005, the registrant had outstanding 10,071,766 shares of common stock, \$0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the Annual Meeting of Shareholders to be held on May 25, 2005 - Part III (Items 10-14).

PART I

ITEM 1. BUSINESS.

THE COMPANY

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

TransAct Technologies Incorporated ("TransAct" or the "Company") designs, develops, manufactures and markets transaction-based printers under the ithaca(R) brand name. 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: (1) point-of-sale ("POS") and banking and (2) gaming and lottery. We sell our products directly to original equipment manufacturers ("OEMs"), value-added resellers ("VARs"), 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. We have one primary operating facility located in Ithaca, New York, seven sales offices located in the United States (including our new global gaming and lottery headquarters and western region service center in Las Vegas, NV), and a European sales and service center in the United Kingdom. Our executive offices and eastern region service center are located at 7 Laser Lane, Wallingford, CT 06492, with a telephone number of (203) 269-1198.

FINANCIAL INFORMATION ABOUT SEGMENTS

We have assessed our operating and reportable segments and have determined that we operate in one reportable segment, the design, development, manufacture and marketing of transaction-based printers and printer-related products.

PRODUCTS AND SERVICES

Printers

TransAct designs, develops, assembles and markets a broad array of transaction-based printers utilizing inkjet, thermal and impact printing technology for applications requiring up to 60 character columns, primarily in the POS and banking, and gaming and lottery markets. Our printers are configurable and offer customers the ability to choose from a variety of features and functions. Options typically include interface configuration, paper cutting devices, paper handling capacities and cabinet color. In addition to our configurable printers, we manufacture custom printers for certain OEM customers. In collaboration with these customers, we provide engineering and manufacturing expertise for the design and development of specialized printers

POS and banking: Our POS and banking printers include hundreds of optional configurations that can be selected to meet particular customer needs. We believe that this is a significant competitive strength, as it allows us to satisfy a wide variety of printing applications that our customers request. In the POS market, we sell several models of printers utilizing inkjet, thermal and impact printing technology. Our printers are used primarily by retailers in the hospitality, restaurant (including fine dining, casual dining, and fast food) and specialty retail industries to print receipts for consumers, validate checks, or print on other inserted media. We also sell printers that are used by banks, credit unions and other financial institutions to print and/or validate receipts at bank teller stations.

Gaming and lottery: In the lottery portion of our gaming and lottery market, we supply lottery printers to GTECH, our largest customer and the world's largest provider of lottery terminals, with an approximately 70% market share. These printers are designed for high-volume, high-speed printing of lottery tickets for various lottery applications.

In the gaming portion of our gaming and lottery market, we sell several models of printers used in slot machines and video lottery terminals that print tickets instead of issuing coins at casinos and racetracks worldwide. These printers utilize thermal printing technology and can print tickets in monochrome or two-color (depending upon the model), and offer various other features such as jam resistant bezels and a dual port interface that will allow casinos to print two-color coupons/promotions. We also sell printers using impact printing technology for use mainly in video lottery terminals and other gaming devices.

Service

Through our recently-established TransAct Services Group, we proactively market the sale of consumable products (including inkjet cartridges, ribbons and paper), replacement parts and maintenance services for all of our products. Our maintenance services include the sale of extended warranties, multi-year maintenance contracts, 24-hour guaranteed replacement product service, and other repair services for our printer products. Within the United States, we provide repair services through our eastern region service center in Wallingford, CT and our western region service center in Las Vegas, NV. Internationally, we provide repair services through our European service center located in Doncaster, United Kingdom, and other partners strategically located around the world.

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

Product Warranty

Our printers generally carry up to a two-year limited warranty against defects in material and workmanship. Defective equipment may be returned to any of our service centers, or our manufacturing facility in Ithaca, NY, for repair or replacement during the applicable warranty period.

PRODUCTION, MANUFACTURING AND SOURCES AND AVAILABILITY OF RAW MATERIALS

We design our products to optimize product performance, quality, reliability and durability. These designs combine cost efficient materials, sourcing and assembly methods with high standards of workmanship. We final assemble our products in our Ithaca, NY facility largely on a configure-to-order basis using components that have been sourced from around the world. Our manufacturing engineers work closely with our new product engineers and vendors during the development of new products. As a result, this collaboration increases manufacturing efficiency by specifying materials and designing manufacturing processes in conjunction with new product design.

We procure component parts and subassemblies for use in the manufacture of our products. Critical component parts and subassemblies include inkjet, thermal and impact printheads, printing/cutting mechanisms, power supplies, motors, injection molded plastic parts, circuit boards and electronic components, which are obtained from domestic and foreign suppliers at competitive prices. We typically maintain several sources for our component parts and subassemblies to reduce the risk of parts shortages or unavailability. However, we could experience temporary disruption if certain suppliers ceased doing business with us, as described below.

Okidata Americas, Inc. ("Okidata"), is the sole supplier for a printer component kit consisting of a printhead, control board and carriage (the "Oki Kit"), that is used in all of our Ithaca(R) brand impact printers. The loss of the supply of Oki Kits would have a material adverse effect on TransAct. We have a supply agreement with Okidata to provide Oki Kits until June 8, 2005. Prices under this agreement are fixed, but may be changed by Okidata after providing 180 days written notice.

Hewlett-Packard Company ("HP") is the sole supplier of inkjet cartridges that are used in all of our inkjet printers. The loss of the supply of HP inkjet cartridges would have a material adverse effect on the sale of our inkjet printers. We have a supply agreement with HP to purchase inkjet cartridges until February 1, 2006 at fixed prices.

We believe our relations with Okidata and HP are in good standing and have received no indication that these supply agreements will not be renewed beyond the respective expiration dates of the current contracts. We cannot be certain, however, that these supply agreements will be renewed, or if renewed, that the terms will be as favorable as those under the current contracts.

PATENTS AND PROPRIETARY INFORMATION

We have significantly expanded our patent portfolio over the past five years, and expect to continue to do so in the future. We also believe our patent portfolio will provide additional opportunities to license our intellectual property in the future. We currently own ten patents, six of which we consider material. The earliest expiration date of these ten patents is in 2008, with the latest expiration date in 2021. Of the material patents, one patent covers methods and apparatus for allowing a two-color printer to print images using single pass technology by printing during both forward and reverse movement of the print mechanism; another patent relates to our proprietary void and reprint receipt printing method which is used in certain of our slot machine printers; two patents prevent ticket jams resulting from player interference in certain of our slot machine printers; and two other patents cover a method for converting a full color image into a two-color image, plus a background color. We also have sought patent protection for certain design features of 1) printers using inkjet technology, 2) POS printers using thermal technology, and 3) thermal printers for use in casino slot machines. We regard certain manufacturing processes and designs to be proprietary and attempt to protect them through employee and third-party nondisclosure agreements and similar means. It may be possible for unauthorized third parties to copy certain portions of our products or to reverse engineer or otherwise obtain and use, to our detriment, information that we regard as proprietary. Moreover, the laws of some foreign countries do not afford the same protection to our proprietary rights as do United States laws. There can be no assurance that legal protections relied upon by the Company to protect our proprietary position will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technologies.

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. In accordance with the terms of the agreement, we paid the \$900,000 royalty for past usage in full by January 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.

SEASONALITY

Retailers typically reduce purchases of new POS equipment in the fourth quarter, due to the increased volume of consumer transactions in that holiday period, and our sales of printers in the POS market historically have increased in the third quarter and decreased in the fourth quarter. Similarly, installations of lottery terminals are typically reduced in the fourth quarter resulting in decreased sales of lottery printers.

CERTAIN CUSTOMERS

We currently have one ongoing OEM purchase agreement ("GTECH Thermal Printer Agreement") with GTECH Corporation ("GTECH") that provides for the sale of thermal on-line lottery printers and spares parts, at fixed prices, through June 28, 2007. We also had a second purchase agreement ("GTECH Impact Printer Agreement") that provided for the sale of impact on-line lottery printers and spare parts through December 31, 2004. Because our new thermal on-line lottery printer is a replacement for our impact on-line printer, we do not expect any further shipments of impact on-line lottery printers beyond 2004. However, we do expect to continue to sell spare parts to GTECH for the significant remaining installed base of impact on-line lottery printers. Firm purchase orders for printers under the GTECH Thermal Printer Agreement may be placed annually by GTECH. Pursuant to the GTECH Thermal Printer Agreement, as of March 4, 2005, we have received orders for approximately \$2,000,000 of thermal printers for delivery in 2005. We expect to receive additional orders from GTECH for thermal printers during 2005. We also sell printers to GTECH for use in lottery terminals at grocery store check-out lanes ("in-lane lottery printers"). Sales of in-lane lottery printers are project-oriented, and, as such, we cannot predict if and when future sales may occur. Sales to GTECH accounted for approximately 16%, 19% and 27% of net sales in 2004, 2003 and 2002, respectively.

We also provide printers to Harrah's and WMS Gaming for use in casino slot machines throughout the United States. During 2004, sales to WMS Gaming accounted for approximately 14% of net sales. During 2003, sales to Harrah's accounted for approximately 12% of net sales.

BACKLOG

Excluding GTECH, our backlog of firm orders was approximately \$2,650,000 as of March 4, 2005, compared to \$2,144,000 as of March 5, 2004. Our backlog from GTECH was approximately \$600,000 as of March 4, 2005, compared to \$3,200,000 as of March 5, 2004. Based on customers' current delivery requirements, we expect to ship our entire current backlog during 2005.

COMPETITION

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

In the POS market, our major competitor is Epson America, Inc., which controls a dominant portion of the POS markets into which we sell. We also compete, to a much lesser extent, with Transaction Printer Group, Star Micronics America, Inc., Citizen -- CBM America Corporation, and Korean Printer Solutions. Certain competitors of ours have greater financial resources, lower costs attributable to higher volume production and sometimes offer lower prices than us.

In the lottery market (consisting principally of on-line lottery transaction printing), we hold a leading position, based largely on our long-term purchase agreements with GTECH, which controls approximately 70% of the worldwide on-line lottery market. We compete in this market based solely on our ability to provide specialized, custom-engineered products to GTECH.

In the gaming market (consisting principally of slot machine and video lottery terminal transaction printing), we and our major competitor, FutureLogic, Inc., comprise a substantial portion of the market. Certain of our products sold for gaming applications compete based upon our ability to provide highly specialized products, custom engineering and ongoing technical support.

Our strategy for competing in our markets is to continue to develop new products and product line extensions, to increase our geographic market penetration, to take advantage of strategic relationships, and to lower product costs by sourcing certain products overseas. We expect to particularly focus on

(1) promoting our line of slot machine printers into the gaming market including our newly launched Epic950(TM) thermal casino printer, (2) increasing sales of our new iTherm(R)280 thermal POS printer and family of printers utilizing Hewlett Packard's inkjet printing technology, including our BANKjet(R) line of inkjet printers used in bank teller applications and (3) expanding our consumables, spare parts and service business. Although we believe that our products, operations and relationships provide a competitive foundation, there can be no assurance that we will compete successfully in the future.

RESEARCH AND DEVELOPMENT ACTIVITIES

We spent approximately \$2,715,000, \$2,276,000 and \$2,025,000 in 2004, 2003 and 2002, respectively, on engineering, design and product development efforts in connection with specialized engineering and design to introduce new products and to customize existing products. During 2005, we expect to focus the majority of our research and development activities on the continuing development and enhancement of (1) our family of printers for the POS and banking market utilizing inkjet and thermal printing technology and, to a lesser extent, (2) our ticket-issuing printers for use in the casino market.

ENVIRONMENT

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

EMPLOYEES

As of February 25, 2005, TransAct Technologies and our subsidiaries employed 197 persons, of whom 160 were full-time and 37 were temporary employees. None of our employees is unionized, and we consider our relationships with our employees to be good.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

We have foreign operations primarily from TransAct Technologies Ltd., a wholly-owned subsidiary located in the United Kingdom, which had sales to its customers of \$1,000,000, \$1,068,000, and \$738,000, (primarily to Fujitsu for sales and service of printers used in the British Post Office) in 2004, 2003 and 2002, respectively. We had export sales from our domestic operations of approximately \$5,423,000, \$3,663,000 and \$3,968,000 in 2004, 2003 and 2002, respectively. Total international sales, which include sales from our foreign subsidiary and export sales from our domestic operations, were approximately \$6,423,000, \$4,731,000 and \$4,706,000 in 2004, 2003 and 2002, respectively.

ADDITIONAL INFORMATION

We make available free of charge through our internet website, WWW.TRANSACT-TECH.COM, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

We maintain a Code of Business Conduct that includes our code of ethics that is applicable to all employees, including our Chief Executive Officer, Chief Financial Officer and Controller. This Code, which requires continued observance of high ethical standards such as honesty, integrity and compliance with the law in the conduct of our business, is available for public access on our internet website.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instructions G(3) of Form 10-K, the following list is included as an unnumbered item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 25, 2005.

The following is a list of the names and ages of all executive officers of the registrant, indicating all positions and offices with the registrant held by each such person and each person's principal occupations and employment during at least the past five years.

Name	Age	Position
----	---	-----
Bart C. Shuldman	47	Chairman of the Board, President and Chief Executive Officer
Steven A. DeMartino	35	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Michael S. Kumpf	55	Executive Vice President - Engineering

BART C. SHULDMAN has been Chief Executive Officer, President and a Director of the Company since its formation in June 1996. Previously, Mr. Shuldman served as President of Magnetec and later the combined operations of Magnetec and Ithaca from August 1993 until June 1996. In February 2001, Mr. Shuldman was elected Chairman of the Board.

STEVEN A. DEMARTINO was named as TransAct's Executive Vice President, Chief Financial Officer, Treasurer and Secretary on June 1, 2004. Previously, Mr. DeMartino served as Senior Vice President, Finance and Information Technology from October 2001 to May 2004, Vice President and Corporate Controller from January 1998 to October 2001, and Corporate Controller from August 1996 to December 1997. Prior to joining TransAct, Mr. DeMartino was a self-employed financial consultant from May 1996 to August 1996. Prior thereto, Mr. DeMartino served as Controller of Copart, Inc. from September 1994 to May 1996. Mr. DeMartino is a certified public accountant.

MICHAEL S. KUMPF was appointed Executive Vice President of Engineering in March 2002. He served as Senior Vice President, Engineering from June 1996 to March 2002 and Vice President, Engineering of Ithaca from 1991 until June 1996.

ITEM 2. PROPERTIES.

Our operations are currently conducted at the facilities described below. In January 2005, we entered a five-year lease for a 13,700 square foot facility in Las Vegas, Nevada. The new facility will serve as our global gaming and lottery headquarters and will house our west coast POS and Banking sales unit. The facility will also serve as the our new western region service center and will provide service to our growing base of installed printers in the region.

In February 2001, we announced plans to establish a global engineering and manufacturing center at our Ithaca, NY facility. As part of this strategic decision, we consolidated all manufacturing and engineering from our Wallingford, CT facility into our existing Ithaca, NY facility. Our corporate headquarters and our eastern region service center are still located in the Wallingford, CT facility. Although we are actively seeking to sublease our Wallingford, CT facility, in 2003 we determined that because of the continuing regional decline in the commercial real estate market, it was unlikely that we would be able to sublease our facility. As such, we increased our restructuring accrual at December 31, 2003 to provide for the remaining non-cancelable lease payments and other related costs for this facility through the expiration of the lease (March 31, 2008). The restructuring accrual was further adjusted at December 31, 2004 based on the estimated facility costs through the end of the lease.

Location	Operations Conducted	Size (Approx. Sq. Ft.)	Owned or Leased	Lease Expiration Date
Wallingford, Connecticut	Executive offices and service center	49,000	Leased	March 31, 2008
Ithaca, New York	Manufacturing facility	74,000	Leased	June 30, 2007
Las Vegas, Nevada	Service center and gaming and lottery sales headquarters	13,600	Leased	January 31, 2010
Doncaster, United Kingdom	Sales office and service center	2,800	Leased	August 1, 2009
Georgia (2), Missouri, New York and Texas	Five regional sales offices	750	Leased	Various

We believe that our facilities generally are in good condition, adequately maintained and suitable for their present and currently contemplated uses.

ITEM 3. LEGAL PROCEEDINGS.

None.

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

No matters were submitted to a vote of security holders during the last quarter of the year covered by this report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the Nasdaq National Market under the symbol TACT. Prior to September 2004, our stock was traded on the Nasdaq SmallCap Market. In April 2004, we completed a three-for-two stock split of our common stock effected in the form of a stock dividend. All amounts in the table below reflect the stock split on a retroactive basis. As of February 25, 2005, there were 669 holders of record of the common stock. The high and low sales bid quotations of the common stock reported during each quarter of the years ended December 31, 2004 and 2003 were as follows:

	Year Ended December 31, 2004		Year Ended December 31, 2003	
	High	Low	High	Low
First Quarter	\$26.00	\$13.67	\$ 3.78	\$ 2.60
Second Quarter	34.00	19.13	9.26	3.37
Third Quarter	32.89	15.00	11.93	7.83
Fourth Quarter	29.28	19.30	18.27	10.55

No dividends on common stock have been declared except for a cash dividend paid in lieu of fractional shares resulting from our three-for-two stock split in April 2005, and we do not anticipate declaring dividends in the foreseeable future. Our credit agreement with Banknorth N.A. restricts the payment of cash dividends on our common stock for the term of the agreement.

ITEM 6. SELECTED FINANCIAL DATA (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The following is summarized from our audited financial statements of the past five years:

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Statement of Operations Data:					
Net sales	\$59,847	\$52,098	\$39,461	\$43,974	\$53,720
Gross profit	22,042	15,543	10,216	9,774	14,142
Operating expenses	13,591	12,855	11,200	17,060	14,296
Operating income (loss)	8,451	2,688	(984)	(7,286)	(154)
Net income (loss)	5,458	1,528	(692)	(4,922)	(344)
Net income (loss) available to common shareholders	5,236	1,087	(1,050)	(5,280)	(664)
Net income (loss) per share:					
Basic	0.55	0.13	(0.12)	(0.63)	(0.08)
Diluted	0.51	0.12	(0.12)	(0.63)	(0.08)
December 31,					
	2004	2003	2002	2001	2000
Balance Sheet Data:					
Total assets	\$34,099	\$26,361	\$22,030	\$25,791	\$27,619
Working capital	20,325	11,787	8,798	8,366	13,631
Long-term debt, excluding current portion	--	330	2,791	5,344	5,944
Redeemable convertible preferred stock	--	3,902	3,824	3,746	3,668
Shareholders' equity	23,715	10,347	6,545	7,315	12,191

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto.

FORWARD LOOKING STATEMENTS

Certain statements included in this report, including without limitation statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "project" or "continue" or the negative thereof or other similar words. 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 significant vendors; the ability to recruit and retain quality employees as we grow; 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.

OVERVIEW

The year 2004 was a successful year for TransAct, highlighted by the following achievements:

- Increased revenues by \$7,749,000, or 15% over 2003
- Increased operating income by \$5,763,000 over 2003
- Reported record net income of \$5,458,000 and diluted earnings per share of \$0.51
- Repaid all our outstanding bank debt
- Finished the year with \$8.6 million of cash and cash equivalents

We continue to focus on sales growth in our two core markets, point of sale ("POS") and banking and gaming and lottery, and in our newly created TransAct Services Group, to drive increased profitability. During 2004, our total net sales grew by 15% to approximately \$59,847,000. See the table below for a breakdown of our sales.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2004		December 31, 2003		\$	%
Printers - POS and banking	\$17,664	29.5%	\$14,027	26.9%	\$3,637	25.9%
Printers - Gaming and lottery	32,144	53.7%	29,528	56.7%	2,616	8.9%
Subtotal - printers	49,808	83.2%	43,555	83.6%	6,253	14.4%
Services and consumables	10,039	16.8%	8,543	16.4%	1,496	17.5%
Total net sales	\$59,847	100.0%	\$52,098	100.0%	\$7,749	14.9%

We experienced substantial growth in the POS and banking market in 2004, primarily in the U.S., despite continued overall economic weakness. We expect this upward trend to continue in the POS and banking market during 2005, although mostly in the second half of 2005. Our POS and banking printer sales increased by 26% to \$17,664,000 due primarily to growing sales of our POSjet(R) and Bankjet(R) lines of inkjet printers. During 2003, we announced wins from two major financial services companies for shipments of over 19,000 Bankjet(R) printers to upgrade bank teller applications, which we began to ship in 2003 and substantially completed shipping during 2004. Given our success in 2003 and 2004, and in light of the renewed focus we see banks placing on branch banking, we plan to more proactively seek opportunities with other banks and credit unions for upgrading bank teller systems, if and when they arise. In 2005, we also plan to add two new regional sales people, broaden our product portfolio with the planned launch of two new products, and increase our focus on selling through our distribution and reseller channels. With the global POS printer market of approximately \$800 million, we have many opportunities for market share gains, primarily through increasing and enhancing our product portfolio, increasing geographic coverage, and growing our customer base.

Our focus in the gaming and lottery market is two-fold. On the lottery side, we continue to hold a leading position based on our long-term purchase agreement with GTECH Corporation ("GTECH"), our largest customer and the world's largest provider of lottery terminals, with an approximate 70% market share. GTECH has been our customer since 1995, and we continue to maintain a good relationship with them. Currently, we fulfill substantially all of GTECH's printer requirements for lottery terminal installations and upgrades. During 2004, total sales to GTECH were approximately \$9,474,000, compared to \$9,766,000 in 2003, representing a decrease of approximately 3 percentage points of total revenue from 2003. Based on existing orders and expected future demand for our lottery printers based on input from GTECH, we expect overall sales to GTECH in 2005 to be modestly higher than the 2004 level. Our sales to GTECH each year are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs. Our sales to GTECH are not indicative of GTECH's overall business or revenue.

On the gaming side, our focus lies primarily in supplying printers for use in slot machines in casinos and racetracks. During 2004, we continued to benefit from the conversion of traditional coin-issuing slot machines to ticket-issuing slot machines by casinos and racetracks across the United States. As a result, sales of our gaming printers increased by 16%. We expect this trend to continue into 2005, as casinos continue to expand and convert their slot machines, and state governments gain approval for slot machines at racetracks. In addition, we expect to gain market share in the United States due to our relationship with IGT, the world's largest slot machine manufacturer, and the launch of our new Epic950(TM) thermal casino printer. Overall, the adoption and rollout of the ticket-in/ticket-out initiative continues, and we expect a substantial portion of the over 700,000 slot machines in North America to be fitted with a printer within the next two to three years. Beginning in 2005, we expect growth from gaming sales internationally as well, as markets such as Europe and Australia begin to adopt ticket printing for their slot machines. We also plan to broaden our sales coverage in the gaming and lottery market during 2005 to exploit the rollout of the ticket-in/ticket-out initiative with the addition of two new sales people.

Our services and consumables products, which include the repair of printers and the sale of spare parts and consumables (paper, ribbons and inkjet cartridges), offer a substantial growth opportunity and recurring revenue stream for TransAct. Our services and consumables products revenue has grown to \$10,039,000, 16.8% of net sales in 2004, an increase of over 17% from 2003. During 2005, we plan to more actively promote and dedicate increased resources to our services and consumables products in an effort to substantially increase the volume of sales. We have added four dedicated sales people, implemented a specialized software system, and improved our sales lead tracking and prospecting processes to enable us to better cross-sell our services and consumables products to our customers. We also have established (in early 2005) two new service centers - a western region service center in Las Vegas, NV and an eastern region service center in Wallingford, CT - to provide national service coverage to our customers. In addition, we believe that the increasing sales of our inkjet printers will lead to a growing installed base that will drive substantially higher inkjet cartridge sales in 2005 and beyond.

Operationally, gross margin and operating margin were significantly improved and reached record highs in 2004. However, we expect to strategically invest \$2.5 million in the growth elements of our business during 2005. We expect that this investment will accelerate our revenue growth and with our operating leverage, should lead to a doubling of revenue and a tripling of diluted earnings per share from 2004 to 2008. We anticipate that this investment will be made across three areas: an incremental \$1.2 million investment in sales and marketing; a \$400,000 incremental investment in engineering expenses for the development of new products, four of which we expect to launch in 2005; and a \$900,000 investment in operations expenses related to the opening and staffing of our new service center in Las Vegas and the hiring of additional services personnel in our Wallingford service center, as we broaden our reach and aggressively pursue the high margin opportunities of the TransAct Services business.

We reported both record net income and earnings per share (diluted) for 2004. We also generated sufficient cash during 2004 to repay all outstanding borrowings under our credit facility, and accumulated over \$8.6 million of cash on our balance sheet as of December 31, 2004.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America. These principles require the use of estimates, judgments and assumptions. Such estimates and judgments are based upon historical experience and certain assumptions that are believed to be reasonable in the particular circumstances. Those judgments affect both balance sheet items and income statement categories. Our estimates include those related to revenue recognition, allowance for doubtful accounts, inventory obsolescence, the valuation of deferred tax assets and liabilities, goodwill impairment, warranty obligations, restructuring accruals, contingent liabilities and foreign currency translation. We evaluate our assumptions on an ongoing basis by comparing actual results with our estimates. Actual results may differ from the original estimates. The following accounting policies are those that we believe to be most critical in the preparation of our financial statements.

REVENUE RECOGNITION - Our typical contracts include the sale of printers, which are sometimes accompanied by separately-priced extended warranty contracts. We also sell spare parts, consumables, and other repair services (sometimes pursuant to multi-year product maintenance contracts), which are not included in the original printer sale and are ordered by the customer as needed. We recognize revenue pursuant to the guidance within SAB 104, "Revenue Recognition". Specifically, revenue is recognized when evidence of an arrangement exists, delivery (based on shipping terms which are generally FOB shipping point) has occurred, the selling price is fixed and determinable, and collectibility is reasonably assured. We provide for an estimate of product returns and price protection based on historical experience at the time of revenue recognition.

Revenue related to extended warranty and product maintenance contracts is recognized pursuant to FASB Technical Bulletin 90-1 ("FTB 90-1"), "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts." Pursuant to FTB 90-1, revenue related to separately priced product maintenance contract is deferred and recognized over the term of the maintenance period. We record deferred revenue for amounts received from customers for maintenance contracts prior to the maintenance period.

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

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

ACCOUNTS RECEIVABLE - We have standardized credit granting and review policies and procedures for all customer accounts, including: credit reviews of all new customer accounts; ongoing credit evaluations of current customers; credit limits and payment terms based on available credit information; and adjustments to credit limits based upon payment history and the customer's current credit worthiness. We also provide an estimate of doubtful accounts based on historical experience and specific customer collection issues. Our allowance for doubtful accounts as of December 31, 2004 was \$175,000, or 1.9% of outstanding accounts receivable, which we feel is appropriate considering the overall quality of the accounts receivable. While credit losses have historically been within expectations and the reserves established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience. As of December 31, 2004, we had accounts receivable balances due from WMS Gaming, BlueStar (a POS distributor) and GTECH of 18%, 14% and 10%, respectively, of the total balance due, and no other customer accounts receivable balance exceeded 10%. As of December 31, 2003, we had an accounts receivable balance due from Harrah's of 31%, and no other customer accounts receivable balance exceeded 10%.

INVENTORY - Our inventories are valued at the lower of cost or market. We assess market value based on historical usage and estimates of future demand. Assumptions are reviewed at least quarterly and adjustments are made, as necessary, to reflect changed market conditions. Should circumstances change and we determine that additional inventory is subject to obsolescence, additional write-downs of inventory could result in a charge to income. As of December 31, 2004, our net inventory included a reserve of \$2,010,000, or 19.9% of gross inventory to write inventory down to lower of cost or market. Reserves remained at approximately the same level as in 2003.

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

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

As of December 31, 2004, we recorded a net deferred tax asset of approximately \$2,643,000 and a valuation allowance of \$193,000, primarily on a portion of our foreign tax credits. We will need to recognize approximately \$7.5 million in future taxable income in order to realize all of our deferred tax assets at December 31, 2004. Based on our projection of future taxable income, no additional valuation allowance is considered necessary. Should circumstances change and we determine that some or all of the deferred taxes would not be realized, a valuation allowance would be recorded, resulting in a charge to income in the period such determination is made.

GOODWILL - We test the impairment of goodwill each year, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment as of December 31, 2004. Factors considered that may trigger an impairment review are: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of acquired assets or the strategy for the overall business; significant negative industry or economic trends; and significant decline in market capitalization relative to net book value. Goodwill amounted to \$1,469,000 at December 31, 2004 and we have determined that no goodwill impairment has occurred.

RESTRUCTURING - In February 2001, we announced plans to establish a global engineering and manufacturing center at our Ithaca, NY facility. As part of this strategic decision, 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"). However, our Company headquarters and a service center remain in Wallingford, CT. Our technology shift to inkjet and thermal printing from dot matrix impact printing dramatically reduced the labor content in our printers, and therefore, lowered the required production capacity. As of December 31, 2001, we successfully transferred substantially all our Wallingford product lines to Ithaca, NY, with the exception of a service center that remains in Connecticut. The closing of the Wallingford manufacturing facility resulted in the termination of employment of approximately 70 production, administrative and management employees.

In connection with the Consolidation of manufacturing facilities in 2001, we recorded significant accruals. Through December 31, 2004, we have incurred approximately \$6.0 million of expenses associated with the Consolidation, including severance pay, stay bonuses, employee benefits, moving expenses, non-cancelable lease payments, and other costs, of which approximately (\$0.2 million), \$1.1 million and \$1.0 million were recognized in 2004, 2003 and 2002, respectively. Management has made reasonable estimates of such costs and expenses. However, if actual costs differ from the estimates, charges or credits to income could result in the period the adjustments are determined. We changed our estimate of the restructuring accrual related to the Wallingford, CT facility resulting in additional restructuring expense in 2002 and 2003, and a reversal of restructuring expense in 2004. We do not expect to incur any additional restructuring expenses related to the Consolidation. See the "Liquidity and Capital Resources" section for a discussion of the expected impact of the Consolidation on our future results of operations and cash flows.

WARRANTY - We generally warranty our products for up to 24 months and record the estimated cost of such product warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experience of product returns and the related estimated cost of labor and material to make the necessary repairs. If actual future product return rates or the actual costs of material and labor differ from the estimates, adjustments to the accrued warranty liability and related warranty expense would be made.

CONTINGENCIES - We record an estimated liability related to contingencies based on our estimates of the probable outcomes pursuant to FAS 5. On a quarterly basis, we assess the potential liability related to pending litigation, audits and other contingencies and confirm or revise estimates and reserves as appropriate.

ACCUMULATED OTHER COMPREHENSIVE INCOME - Stockholders' equity contains certain items classified as other comprehensive income, including foreign currency translation adjustments related to our non-U.S. subsidiary that has a designated functional currency other than the U.S. dollar. We are required to translate the subsidiary functional currency financial statements to U.S. dollars using a combination of historical, month-end and weighted average foreign exchange rates. This combination of rates creates the foreign currency translation adjustments component of other comprehensive income.

(A) RESULTS OF OPERATIONS

(I) YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

NET SALES. Net sales, which include printer sales and sales of spare parts, consumables and repair services, by market for the years ended December 31, 2004 and 2003 were as follows:

(In thousands)	Year ended		Year ended		Change	
	December 31, 2004		December 31, 2003		\$	%
Point of sale and banking	\$25,124	42.0%	\$20,745	39.8%	\$4,379	21.1%
Gaming and lottery	34,723	58.0%	31,353	60.2%	3,370	10.7%
	\$59,847	100.0%	\$52,098	100.0%	\$7,749	14.9%
International*	\$ 6,423	10.7%	\$ 4,731	9.1%	\$1,692	35.8%

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

Net sales for 2004 increased \$7,749,000, or 15%, from 2003 due to higher shipments into both our POS and banking and gaming and lottery market. Overall, international sales increased 36% due largely to increased sales of our casino printers into Europe and Australia.

Point of sale and banking: Sales of our POS products worldwide increased approximately \$4,379,000, or 21%, from 2003.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2004		December 31, 2003		\$	%
Domestic	\$21,010	83.6%	\$16,510	79.6%	\$4,500	27.3%
International	4,114	16.4%	4,235	20.4%	(121)	(2.9%)
	\$25,124	100.0%	\$20,745	100.0%	\$4,379	21.1%

Domestic POS revenue increased 27% due largely to significantly higher sales of our POSjet(R) and BANKjet(R) lines of inkjet printers, and increasing sales of our iTherm(R)280 thermal printer. Sales of inkjet printers increased by approximately 48% in 2004 compared to 2003, as we shipped our Bankjet(R) line of inkjet printers to two major financial services companies to upgrade bank teller stations. We completed almost all shipments related to the upgrade during 2004. In addition, we reported higher service, spare parts and consumables revenue in 2004 compared to 2003.

International POS and banking product revenue decreased by approximately 3% due primarily to sales of our thermal fiscal printer in Europe in 2003 that did not repeat in 2004. We discontinued our thermal fiscal printer in 2004 and do not expect any future shipments.

We expect sales into the POS market for the first quarter of 2005 to be consistent with those reported for the fourth quarter of 2004. However, we expect full year sales for 2005 to be modestly higher than those reported during 2004, with more significant growth in the second half of 2005. Gaming and lottery: Sales of our gaming and lottery products increased by \$3,370,000, or 11%, from 2003, primarily due to significantly stronger sales of our slot machine and video lottery terminal ("VLT") printers, somewhat offset by lower sales of lottery printers to GTECH.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2004		December 31, 2003		\$	%
Domestic	\$32,414	93.4%	\$30,857	98.4%	\$1,557	5.0%
International	2,309	6.6%	496	1.6%	1,813	365.5%
	\$34,723	100.0%	\$31,353	100.0%	\$3,370	10.7%

(In thousands)	Year ended		Year ended		Change	
	December 31, 2004		December 31, 2003		\$	%
Gaming	\$25,249	72.7%	\$21,587	68.9%	\$3,662	17.0%
Lottery	9,474	27.3%	9,766	31.1%	(292)	(3.0%)
	\$34,723	100.0%	\$31,353	100.0%	\$3,370	10.7%

Sales of our gaming products, which include video lottery terminal ("VLT") and slot machine printers used in casinos and racetracks ("racinos"), and related spare parts and repairs, increased 17% from 2003. This increase resulted primarily from increased installations of our casino printers, primarily for use in slot machines at casinos throughout North America, Europe and Australia that print receipts instead of issuing coins ("ticket-in, ticket-out" or "TITO") Although we expect the softness in domestic casino printer sales that we experienced in December 2004 to continue into the first half of 2005, we expect sales of our gaming products to increase in 2005 compared to 2004 as IGT integrates our new Epic 950(TM) printer and casinos and other venues in Europe and Australia accelerate the adoption of ticket printing in the second half of 2005.

Total sales to GTECH, which included impact and thermal on-line lottery printers, impact in-lane lottery printers (primarily found at checkout counters of certain grocery stores), and spare parts revenue, decreased by 3% to approximately \$9,474,000, or 16% of net sales, in 2004, compared to \$9,766,000, or 19% of net sales, in 2003.

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

(In thousands, except %)	Year ended	
	December 31, 2004	December 31, 2003
Impact on-line lottery printers and spare parts	\$3,466	\$1,596
Thermal on-line lottery printers	6,008	8,000
In-lane lottery printers	--	170
	\$9,474	\$9,766
% of consolidated net sales	16%	19%

In July 2002, we entered into a 5-year agreement with GTECH to provide a newly designed thermal on-line lottery printer. We shipped approximately \$6,008,000 and \$8,000,000 of these printers during 2004 and 2003, respectively. Based on existing orders and expected future demand based on input from GTECH, we expect overall sales to GTECH in 2005 to be modestly higher than the 2004 level. Our sales to GTECH each year are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs. Our sales to GTECH are not indicative of GTECH's overall business or revenue.

Sales to GTECH of impact on-line lottery printers and spare parts totaled approximately \$3,466,000 in 2004, compared to \$1,596,000 in 2003. Because our thermal on-line lottery printer is a replacement for our impact on-line lottery printer, we do not expect any further shipments of impact on-line lottery printers to GTECH beyond 2004. However, we do expect to

continue to sell spare parts to GTECH for the significant remaining installed base of impact on-line lottery printers. Shipments of in-lane lottery printers totaled approximately \$170,000 in 2003, and we made no shipments of such printers in 2004. Since sales of in-lane lottery printers are project-oriented, we cannot predict if and when future sales may occur.

International gaming and lottery product sales increased \$1,813,000 to \$2,309,000, from 2003. Such sales represented 7% and less than 2% of total sales into our gaming and lottery market during 2004 and 2003, respectively. We experienced growth in international gaming revenue in 2004 as markets in Europe and Australia begin to adopt and roll out ticket printing in slot machines. We expect more substantial growth in 2005, as we expect sales of our gaming printers related to the rollout of ticket printing to accelerate in Europe and Australia, especially in the second half of 2005.

GROSS PROFIT. Gross profit is measured as revenue less cost of goods sold. Cost of goods sold includes primarily the cost of all raw materials and component parts, direct labor, and the associated overhead. Gross profit increased by \$6,499,000, or 42%, to \$22,042,000, and gross margin increased to 36.8% from 29.8% due primarily to a more favorable sales mix of higher margin products and continued reductions in component and sub-component costs in 2004 compared to 2003. Both gross profit and gross margin for 2004 benefited from a substantial increase in the volume of sales (15%) and a more favorable sales mix, including increased sales of higher margin gaming and lottery printers in 2004 compared to 2003. Gross profit in 2003 was impacted by a charge of \$740,000, or 1.4% of net sales, related to a royalty payable to Seiko Epson for past usage of certain technology (see "Contingent Liabilities" in Liquidity and Capital Resources). Although we expect gross margin for the first quarter of 2005 to be substantially lower than the full year 2005 level due to the lower expected volume of sales in the quarter, we expect gross margin for 2005 to be at approximately the same level as that reported for 2004.

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 \$439,000, or 19%, to \$2,715,000, primarily due to (1) compensation related expenses (approximately \$100,000) and (2) expenses incurred in the fourth quarter of 2004 related to IGT's integration and attainment of jurisdictional approvals for our new Epic950(TM) thermal casino printer on all of IGT's slot platforms worldwide (the "IGT Integration") (approximately \$350,000). We expect to incur an additional \$150,000 in expenses in the first quarter of 2005 related to the IGT Integration. Engineering and product development expenses increased as a percentage of net sales to 4.5% from 4.4%, primarily due to expenses related to the IGT Integration, largely offset by a higher sales volume in 2004 compared to 2003. We expect engineering and product development expenses to increase in 2005 as we plan to add staff and utilize more contract engineering services to continue increasing product development to expand our families of inkjet printers for the POS market and ticket-issuing printers for the casino market.

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 increased by \$143,000, or 3%, to \$5,111,000, due primarily to higher recruitment, compensation and travel expenses related to additional sales and marketing staff, including expenses associated with the opening of our new gaming and lottery headquarters and western region service center in Las Vegas, to support our growing gaming printer sales (approximately \$700,000). Such increases were largely offset by lower (1) print advertising and other promotional marketing expense (approximately \$110,000), (2) sales commissions (approximately \$180,000), and (3) expenses at our UK facility (approximately \$270,000) due largely to a staff reduction. Selling and marketing expenses decreased as a percentage of net sales to 8.5% from 9.5%, due primarily to higher volume of sales in 2004 compared to 2003. We expect selling and marketing expenses to increase significantly in 2005, as we plan to increase and broaden our sales coverage in the POS and banking market and the gaming and lottery market with the addition of new sales staff and enhanced marketing programs, as well as establish our new TransAct Services business unit with a new dedicated sales force and two new service centers in Las Vegas, NV and Wallingford, CT. We believe this investment is necessary in 2005 to achieve our sales growth strategy for 2005 and beyond.

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 \$1,507,000, or 34%, due largely to higher professional expenses, including those related to compliance with the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), and additional finance staff (and associated recruiting fees) related to Sarbanes Oxley. We incurred approximately \$650,000 of external expenses directly related to compliance with Sarbanes-Oxley during 2004. In addition, during 2004 we expensed approximately \$110,000 of costs we incurred in conducting due diligence related to our proposed acquisition of TPG, Inc., as the proposed acquisition was terminated. We also incurred approximately \$95,000 of one-time listing fees related to our move back onto the Nasdaq National Market from the Nasdaq SmallCap Market. General and administrative expenses increased as a percentage of net sales to 10.0% from 8.6%, due primarily to the factors listed above, partially offset by a higher volume of sales in 2004 compared to 2003. We expect general and administrative expenses to increase slightly in 2005.

BUSINESS CONSOLIDATION AND RESTRUCTURING. We recorded a reversal of expense of \$225,000, and a charge of \$1,128,000 related to the Consolidation in 2004 and 2003, respectively. These amounts were substantially the result of revisions to our original estimate for non-cancelable lease payments included in the restructuring accrual. As of December 31, 2004, we have provided for the estimated remaining non-cancelable lease payments and other related costs for this facility through the expiration of the lease (March 31, 2008).

We do not expect to incur any further restructuring expenses related to the Consolidation. See "Consolidation Expenses" in Liquidity and Capital Resources.

OPERATING INCOME. During 2004, we reported operating income of \$8,451,000, or 14.1% of net sales, compared to \$2,688,000, or 5.2% of net sales, in 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 (primarily general and administrative expenses) in 2004 compared to 2003. Operating income for 2004 included a reversal of expense related to the Consolidation (\$225,000) and a charge related to the IGT Integration (\$350,000). Operating income for 2003 included a charge related to the Consolidation (\$1,128,000) and a royalty payable to Seiko-Epson for past usage of certain technology (\$740,000).

INTEREST. We recorded net interest income of \$4,000 in 2004 compared to net interest expense of \$210,000 in 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 do not expect to draw on our revolving borrowings as we expect to continue to generate cash from operations during 2005. During 2005, we expect to report increasing net interest income as our cash balance increases throughout the year. See "Liquidity and Capital Resources" below for more information.

WRITE-OFF OF DEFERRED FINANCING COSTS. In August 2003, we entered into a new credit facility with Banknorth N.A., which replaced an existing facility with LaSalle Business Credit, Inc. ("LaSalle"). We recorded a charge of approximately \$103,000 in the third quarter of 2003 related to the write-off of unamortized deferred financing costs from our prior credit facility with LaSalle. Our new credit facility with Banknorth contains more favorable terms than those contained in our prior facility with LaSalle.

OTHER EXPENSE. Other expense for 2004 and 2003 primarily included transaction exchange losses recorded by our UK subsidiary due to the strengthening of the British pound against the U.S. dollar.

INCOME TAXES. We recorded an income tax provision of \$2,979,000 and \$725,000 in 2004 and 2003, respectively, at an effective rate of 35.3% and 32.2%, respectively. The lower effective rate in 2003 reflects a favorable outcome of a state tax audit, benefits from certain tax credits, and utilization of state net operating loss carryforwards not previously anticipated. We expect to record income taxes at an effective rate of approximately 36.5% during 2005.

NET INCOME. We reported net income in 2004 of \$5,458,000, or \$0.51 per diluted share compared to net income of \$1,528,000, or \$0.12 per diluted share in 2003. Earnings per share have 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 2004 were approximately \$86,000, and there will be no dividends or allocation of earnings to preferred shareholders beyond 2004, as the preferred stock was converted to common stock in April 2004. All share and per share amounts reflect the April 2004 stock split on a retroactive basis. In December 2004, the FASB issued Accounting Standard No. 123 (revised 2004), "Share-Based Payment" ("FAS123R"), which requires the recognition of compensation expense for share-based compensation (including shares issued under employee stock purchase plans, stock options and restricted stock) over the period in which the share-based compensation vests. We expect the adoption of FAS 123R to have a material impact on our results of operations and earnings per share.

(II) YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

NET SALES. Net sales, which include printer sales and sales of spare parts, consumables and repair services, by market for the years ended December 31, 2003 and 2002 were as follows:

(In thousands)	Year ended		Year ended		Change	
	December 31, 2003		December 31, 2002		\$	%
Point of sale and banking	\$20,745	39.8%	\$18,475	46.8%	\$ 2,270	12%
Gaming and lottery	31,353	60.2%	20,986	53.2%	10,367	49%
	\$52,098	100.0%	\$39,461	100.0%	\$12,637	32%
International	\$ 4,731	9.1%	\$ 4,706	11.9%	\$ 25	1%

Net sales for 2003 increased \$12,637,000, or 32%, from 2002 largely due to significantly higher shipments into our gaming and lottery market, as well as increased shipments into our POS market. Overall, international sales remained relatively flat in 2003 compared to 2002.

Point of sale and banking: Sales of our POS products worldwide increased approximately \$2,270,000, or 12%, from 2002.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2003		December 31, 2002		\$	%
Domestic	\$16,510	79.6%	\$14,119	76.4%	\$2,391	17%
International	4,235	20.4%	4,356	23.6%	(121)	(3%)
	\$20,745	100.0%	\$18,475	100.0%	\$2,270	12%

Domestic POS revenue increased 17% due largely to significantly higher sales of our POSjet(R) and Bankjet(R) lines of inkjet printers. Sales of such inkjet printers increased by approximately 187% in 2003 compared to 2002. The overall increase in domestic POS revenue is largely attributable to (1) shipments of our Bankjet(R) line of inkjet printers to two major financial services companies to upgrade bank teller stations, (2) increased shipments of our POSjet(R) line of inkjet printers, including shipments to one of the world's largest casual dining restaurant chains for use in their food and beverage service operations, and (3) significantly higher service, spare parts and consumables (mostly replacement inkjet cartridges) revenue.

International POS revenue decreased 3% due primarily to lower sales of our thermal fiscal printers in Europe (approximately \$800,000). Lower thermal fiscal printer sales were largely offset by (1) higher sales of printers (approximately \$300,000) through our expanding network of international distributors and (2) higher service, spare parts and consumables revenue (approximately \$400,000), largely resulting from a service contract related to printers shipped for the British Post Office in prior years. Such service contract expires in the second quarter of 2005, and provides quarterly revenue of approximately \$250,000.

Gaming and lottery: Sales of our gaming and lottery products increased by \$10,367,000, or 49%, from 2002, primarily due to significantly stronger sales of our slot machine and video lottery terminal ("VLT") printers, somewhat offset by lower sales of lottery printers to GTECH.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2003		December 31, 2002		\$	%
Domestic	\$30,857	98.4%	\$20,636	98.3%	\$10,221	50%
International	496	1.6%	350	1.7%	146	42%
	\$31,353	100.0%	\$20,986	100.0%	\$10,367	49%

(In thousands)	Year ended		Year ended		Change	
	December 31, 2003		December 31, 2002		\$	%
Gaming	\$21,587	68.9%	\$10,277	49.0%	\$11,310	110%
Lottery	9,766	31.4%	10,709	51.0%	(943)	(9%)
	\$31,353	100.0%	\$20,986	100.0%	\$10,367	49%

Sales of our gaming products, which include video lottery terminal ("VLT") and slot machine printers used in casinos and racetracks ("racinos"), and related spare parts and repairs, more than doubled from 2002. 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").

Total sales to GTECH, which included impact and thermal on-line lottery printers, impact in-lane lottery printers (primarily found at checkout counters of certain grocery stores), and spare parts revenue, decreased by \$943,000 to approximately \$9,750,000, or 19% of net sales, in 2003, compared to \$10,700,000, or 27% of net sales, in 2002.

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

(In thousands, except %)	Year ended	
	December 31,	
	2003	2002
Impact on-line lottery printers and spare parts	\$1,596	\$10,032
Thermal on-line lottery printers	8,000	--
In-lane lottery printers	170	677
	\$9,766	\$10,709
% of consolidated net sales	19%	27%

Sales to GTECH of impact on-line lottery printers and spare parts totaled approximately \$1,596,000 in 2003, compared to \$10,032,000 in 2002. Shipments of in-lane lottery printers totaled approximately \$170,000 in 2003 compared to \$677,000 in 2002. Since sales of in-lane lottery printers are project-oriented, we cannot predict if and when future sales may occur. In July 2002, we entered into a 5-year agreement with GTECH to provide a newly designed thermal on-line lottery printer. During 2003, we shipped approximately \$8,000,000 of these printers. We made no shipments of thermal on-line lottery printers during 2002.

International gaming and lottery product sales increased slightly from 2002. Such sales represented less than 2% of total sales into this market during 2003 and 2002.

GROSS PROFIT. Gross profit increased by \$5,327,000, or 52%, to \$15,543,000, and gross margin increased to 29.8% from 25.9%. Both gross profit and gross margin for 2003 benefited from a substantial increase in the volume of sales (32%) and a more favorable sales mix, including increased sales of higher margin gaming and lottery printers in 2003 compared to 2002. Gross profit included a charge of \$740,000, or 1.4% of net sales, and \$160,000, or 0.4% of net sales, related to a royalty payment to Seiko-Epson for past usage of certain technology. (see "Contingent Liabilities" in Liquidity and Capital Resources) in 2003 and 2002, respectively.

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 \$251,000, or 12%, to \$2,276,000, primarily due to higher (1) compensation related expenses (approximately \$80,000) and (2) expenses (including travel) related largely to the development of our new thermal on-line lottery printer for GTECH and our iTherm(R)280 thermal POS printer (\$170,000). Engineering and product development expenses decreased as a percentage of net sales to 4.4% from 5.1%, primarily due to significantly higher sales volume in 2003 compared to 2002.

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 increased by \$941,000, or 23%, to \$4,968,000, due primarily to higher (1) sales commissions resulting from increased sales in 2003 compared to 2002 (approximately \$440,000), (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 \$250,000), (3) selling expenses at our UK facility due largely to the unfavorable impact of exchange rates in the period (approximately \$140,000) and (4) marketing expenses (approximately \$100,000). Selling and marketing expenses decreased as a percentage of net sales to 9.5% from 10.2%, due primarily to higher volume of sales in 2003 compared to 2002.

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 \$293,000, or 7%, to \$4,483,000. During 2003 we incurred higher legal expenses (approximately \$250,000) related to our growing patent portfolio and a royalty payable to Seiko-Epson for past usage of certain technology. In addition, incentive compensation increased by approximately \$130,000. These increases were somewhat offset by staff reductions resulting from the Consolidation (approximately \$80,000). General and administrative expenses decreased as a percentage of net sales to 8.6% from 10.6%, due primarily to higher volume of sales in 2003 compared to 2002.

BUSINESS CONSOLIDATION AND RESTRUCTURING. We incurred \$1,128,000 and \$958,000 of expenses related to the Consolidation in 2003 and 2002, respectively. These expenses were substantially the result of revisions to our original estimate for non-cancelable lease payments included in the restructuring accrual. During the third quarter of 2002, based on regional softness in demand in the commercial real estate market, we increased our restructuring accrual by \$900,000 to reflect the longer period of time then projected to sublease our Wallingford, CT facility. The accrual at December 31, 2002 reflected estimated sublease income after September 30, 2004. After expanded efforts during 2003, we determined that because of the continuing regional decline in the commercial real estate market in 2003, it was unlikely that we would be able to sublease our Wallingford, CT facility. As such, we increased our restructuring accrual, which represents the reversal of estimated sublease income, in the fourth quarter of 2003 by \$1,128,000 to provide for the remaining non-cancelable lease payments and other related costs for this facility through the expiration of the lease (March 31, 2008).

OPERATING INCOME (LOSS). During 2003, we reported operating income of \$2,688,000, or 5.2% of net sales, compared to an operating loss of \$984,000, or 2.5% of net sales, in 2002. The significant increase in our operating income was due largely to higher gross profit on higher sales, partially offset by higher operating expenses (primarily selling and marketing expenses) in 2003 compared to 2002. Operating income (loss) for 2003 and 2002 included charges related to the Consolidation (\$1,128,000 and \$958,000, respectively) and a royalty payable to Seiko-Epson for past usage of certain technology (\$740,000 and \$160,000, respectively).

INTEREST. We reported interest expense of \$219,000 in 2003 compared to \$217,000 in 2002. Interest income decreased by \$16,000 to \$9,000 in 2003. The decrease in interest income was largely attributable to a higher level of invested cash in 2002 resulting from the receipt of an advance payment of approximately \$5.8 million from a major customer in advance of printer shipments, the proceeds of which were used to repay outstanding revolving borrowings in 2002. At December 31, 2003, we had no outstanding revolving borrowings and \$420,000 outstanding under a term loan that we repaid during January 2004.

WRITE-OFF OF DEFERRED FINANCING COSTS. In August 2003, we entered into a new credit facility with Banknorth N.A., which replaced an existing facility with LaSalle Business Credit, Inc. ("LaSalle"). We recorded a charge of approximately \$103,000 in the third quarter of 2003 related to the write-off of unamortized deferred financing costs from our prior credit facility with LaSalle.

OTHER INCOME (EXPENSE). Other expense for 2003 primarily included transaction exchange loss recorded by our UK subsidiary. Other income for 2002 included a one-time gain of \$145,000 resulting from the receipt of 2,146 shares of common stock from our health insurance company, Anthem, Inc., upon its demutualization. We sold these shares during the third quarter of 2002. This gain was partially offset by approximately \$50,000 of transaction exchange loss recorded by our UK subsidiary during 2002, due to the strengthening of the British pound against the dollar.

INCOME TAXES. We recorded an income tax provision of \$725,000 at an effective rate of 32.2% in 2003, and an income tax benefit of \$390,000 at an effective rate of 36.0% in 2002. The lower effective rate in 2003 reflects a favorable outcome of a state tax audit, benefits from certain tax credits, and utilization of state net operating loss carryforwards not previously anticipated.

NET INCOME (LOSS). We reported net income in 2003 of \$1,528,000, or \$0.12 per diluted share. This compares to a net loss in 2002 of \$692,000, or \$0.12 per diluted share. Earnings per share have been retroactively restated for adoption of EITF 03-6 "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. All share and per share amounts reflect the April 2004 stock split on a retroactive basis.

(B) LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Overview: During 2004, we significantly improved our operating results. We reported record levels of gross margin, operating margin, and earnings per share. We also finished the year with no outstanding bank debt and \$8.6 million of cash and cash equivalents. Looking forward, we expect to generate approximately \$8 to \$9 million in cash from operations during 2005 and have between \$13 and \$14 million of cash on our balance sheet at the end of 2005. We also expect to earn increasing interest income on our available cash balance throughout 2005.

Operating activities: The following significant factors affected our cash provided by operations of \$8,344,000 in 2004:

- We reported net income of \$5,458,000.
- We recorded depreciation, amortization and non-cash compensation expense of \$1,925,000.
- Accounts payable increased by \$516,000 due to the timing of payments and increased inventory purchases resulting from a higher volume of sales.
- Accrued liabilities, including accrued patent license fees, increased by \$1,180,000, after recognition of a reduction in taxes payable of \$2,332,000 related to employee stock sales. The increase was due primarily to higher compensation related accruals and an increase in deferred revenue on extended warranty contracts and other customer prepayments.
- Accrued restructuring expenses decreased by \$671,000. (See "Consolidation Expenses" below).

Investing activities: Our capital expenditures were approximately \$1,178,000 and \$1,261,000 in 2004 and 2003, respectively. Expenditures in 2004 primarily included new product tooling, and to a lesser extent, computer hardware and software. We expect to significantly increase our capital expenditures in 2005 to approximately \$4,000,000, which is substantially higher than in recent years. During 2005, we expect to invest in three significant projects: (1) the purchase and implementation of Oracle software; (2) office renovations to our Ithaca, NY facility; and (3) office renovations to our new gaming and lottery headquarters and western region service center in Las Vegas, NV. We believe these projects will provide us with improved efficiency and will enable us to streamline and more cost effectively manage our business as it grows in size, number of locations and overall complexity. In addition to these projects, we also expect to continue our focus on product development and the purchase of tooling for new products and enhanced versions of our existing products.

Financing activities: We generated approximately \$902,000 from financing activities during 2004, largely due to proceeds from stock option, warrant and stock purchase plan exercises (approximately \$1,515,000), somewhat offset by the repayment of our term loan (approximately \$420,000), payments of cash dividends on our preferred stock and common stock (related to cash in lieu of partial shares resulting from our stock split) (approximately \$91,000) and payments of expenses (approximately \$102,000) related to conversion of the preferred stock into common stock and the subsequent registration of the resulting common stock.

WORKING CAPITAL

Our working capital increased to \$20,325,000 at December 31, 2004 from \$11,787,000 at December 31, 2003. The current ratio also increased to 3.32 to 1 at December 31, 2004 from 2.36 to 1 at December 31, 2003. The increase in both working capital and the current ratio was largely due to significantly higher cash balance (approximately \$8,130,000) from cash generated during the year. We also maintained flat accounts receivable and inventory balances on higher sales.

DEFERRED TAXES

As of December 31, 2004, we had a net deferred tax asset of approximately \$2,643,000. In order to utilize this deferred tax asset, we will need to generate approximately \$7.5 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.

CONTINGENT LIABILITIES

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 the \$900,000 royalty for past usage in full by January 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.

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, and are secured by a lien on all the assets of the company. 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.

On November 12, 2004, we amended our \$12.5 million Banknorth Credit Facility. Under the terms of the agreement, we renewed, through July 2005, our \$1.0 million equipment loan, which had expired on July 31, 2004. The amendment also revised certain other terms of the revolving credit facility.

The borrowing base of the revolving credit line under the 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.

As of December 31, 2004, we had no balances outstanding on the revolving credit line and term loan, respectively. Undrawn commitments under the Banknorth Credit Facility were approximately \$12,500,000 at December 31, 2004. However, our maximum additional available borrowings under the facility were limited to approximately \$9,700,000 at December 31, 2004 based on the borrowing base of our collateral. We were in compliance with all financial covenants of the Banknorth Credit Facility at December 31, 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. As a result of the conversion, a total 666,665 new shares of common stock were issued. 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.

SHAREHOLDERS' EQUITY

Shareholders' equity increased by \$13,368,000 to \$23,715,000 at December 31, 2004 from \$10,347,000 at December 31, 2003. The increase was primarily due to the following for the year ended December 31, 2004: (1) net income available to common shareholders of \$5,458,000, (2) the conversion of our preferred stock into common stock, net of costs of \$3,824,000 (3) proceeds of approximately \$1,379,000 from the issuance of approximately 322,000 shares of common stock from stock option exercises and purchase from our employee stock purchase plan, and (4) an increase in additional paid in capital of approximately \$2,332,000 resulting from the recording of a tax benefit from tax deductions arising from stock option exercises.

CONSOLIDATION EXPENSES

During 2001 through 2004, we incurred approximately \$5,957,000 of business consolidation, restructuring and related expenses as a result of the Consolidation. These expenses primarily included employee severance and termination related expenses, facility closure and consolidation expenses (including moving expenses, estimated non-cancelable lease payments and other costs) and accelerated depreciation and asset disposal losses on certain leasehold improvements and other fixed assets.

After expanded efforts to sub-lease our facility in 2003, we determined that, because of the continuing regional decline in the commercial real estate market during 2003, it was unlikely that we would be able to sublease our Wallingford, CT manufacturing facility, which has a lease term that expires in March 2008. As a result, during the fourth quarter of 2003, we increased our restructuring accrual by \$1,270,000 to provide for the remaining non-cancelable lease payments and related costs associated with the manufacturing facility. In 2004, we revised our estimate of the amount of remaining non-cancelable lease payments and related costs associated with the manufacturing facility, which resulted in the reversal of approximately \$225,000 of accrued restructuring expenses.

We paid approximately \$446,000, \$721,000 and \$2,242,000 of expenses related to the Consolidation in 2004, 2003 and 2002, respectively. We expect to pay approximately \$420,000 per year from 2005 through 2007, and the remaining \$200,000 in 2008. These payments from 2005 through 2008 relate primarily to lease and occupancy costs in our Wallingford, CT facility.

CONTRACTUAL OBLIGATIONS

TransAct's contractual obligations as of December 31, 2004 were as follows:

(In thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
-----	-----	-----	-----	-----	-----
Operating lease obligations	\$ 6,817	\$ 999	\$ 2,173	\$ 1,850	\$ 1,795
Purchase obligations	15,797	14,066	1,731	--	--

Purchase obligations are for purchases made in the normal course of business to meet operational requirements, primarily of raw material and component part inventory.

RESOURCE SUFFICIENCY

We believe that 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.

(C) IMPACT OF INFLATION

TransAct believes that its business has not been affected to a significant degree by inflationary trends because of the low rate of inflation during the past three years, nor does it believe it will be significantly affected by inflation during 2005.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

INTEREST RATE RISK

Our exposure to market risk for changes in interest rates relates primarily to the investment of our available cash and cash equivalents. In accordance with our investment policy, we strive to achieve above market rates of return in exchange for accepting a prudent amount of incremental risk, which includes the risk of interest rate movements. Risk tolerance is constrained by an overriding objective to preserve capital. An effective increase or decrease of 10% in interest rates would not have a material effect on our results of operations or cash flows.

FOREIGN CURRENCY EXCHANGE RISK

A substantial portion of our sales are denominated in U.S. dollars and, as a result, we have relatively little exposure to foreign currency exchange risk with respect to sales made. This exposure may change over time as business practices evolve and could have a material adverse impact on our financial results in the future. We do not use forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. The effect of an immediate 10% change in exchange rates would not have a material impact on our future results of operations or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

	Page Number -----
Report of Independent Registered Public Accounting Firm	24
TransAct Technologies Incorporated consolidated financial statements:	
Consolidated balance sheets as of December 31, 2004 and 2003	25
Consolidated statements of operations for the years ended December 31, 2004, 2003 and 2002	26
Consolidated statements of changes in shareholders' equity and comprehensive income (loss) for the years ended December 31, 2004, 2003 and 2002	27
Consolidated statements of cash flows for the years ended December 31, 2004, 2003 and 2002	28
Notes to consolidated financial statements	29

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of TransAct Technologies Incorporated:

We have completed an integrated audit of TransAct Technologies Incorporated's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of TransAct Technologies Incorporated and its subsidiaries (the "Company") at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*/s/ PricewaterhouseCoopers LLP
Hartford, Connecticut
March 15, 2005*

TRANSACTION TECHNOLOGIES INCORPORATED
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2004	December 31, 2003
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 8,628	\$ 498
Receivables, net	8,910	9,074
Inventories	8,074	8,061
Refundable income taxes	510	130
Deferred tax assets	2,370	2,340
Other current assets	586	379
	-----	-----
Total current assets	29,078	20,482
	-----	-----
Fixed assets, net	3,177	3,607
Goodwill	1,469	1,469
Deferred tax assets	274	684
Other assets	101	119
	-----	-----
	5,021	5,879
	-----	-----
Total assets	\$34,099	\$26,361
	=====	=====
 LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Current portion of term loan	\$ 0	\$ 90
Accounts payable	3,804	3,288
Accrued liabilities	3,395	2,892
Accrued restructuring expenses	420	480
Accrued patent license fees	417	408
Deferred revenue	717	1,537
	-----	-----
Total current liabilities	8,753	8,695
	-----	-----
Long-term portion of term loan	--	330
Accrued restructuring expenses	1,034	1,645
Accrued patent license fees	--	750
Accrued product warranty	153	169
Deferred revenue	444	523
	-----	-----
	1,631	3,417
	-----	-----
Total liabilities	10,384	12,112
	-----	-----
Commitments and contingencies (Note 11)		
Series B Redeemable convertible preferred stock, \$0.01 par value, 8,000 shares authorized, none and 4,000 shares issued and outstanding (liquidation preference of \$4,098 as of December 31, 2003)		
	--	3,902
	-----	-----
Shareholders' equity:		
Preferred stock, \$0.01 par value, 4,792,000 authorized, none issued and outstanding	--	--
Preferred stock, Series A, \$0.01 par value, 200,000 authorized, none issued and outstanding	--	--
Common stock, \$0.01 par value, 20,000,000 authorized, 10,037,766 and 8,952,650 shares issued and outstanding	100	60
Additional paid-in capital	17,401	8,441
Retained earnings	7,112	1,769
Unamortized restricted stock compensation	(1,067)	(30)
Accumulated other comprehensive income	169	107
	-----	-----
Total shareholders' equity	23,715	10,347
	-----	-----
Total liabilities, redeemable convertible preferred stock and shareholders' equity	\$34,099	\$26,361
	=====	=====

See accompanying notes to consolidated financial statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2004	2003	2002
Net sales	\$59,847	\$52,098	\$39,461
Cost of sales	37,805	36,555	29,245
Gross profit	22,042	15,543	10,216
Operating expenses:			
Engineering, design and product development	2,715	2,276	2,025
Selling and marketing	5,111	4,968	4,027
General and administrative	5,990	4,483	4,190
Business consolidation and restructuring	(225)	1,128	958
	13,591	12,855	11,200
Operating income (loss)	8,451	2,688	(984)
Other income (expense):			
Interest expense	(44)	(219)	(217)
Interest income	48	9	25
Write-off of deferred financing costs	--	(103)	--
Other, net	(18)	(122)	94
	(14)	(435)	(98)
Income (loss) before income taxes	8,437	2,253	(1,082)
Income tax provision (benefit)	2,979	725	(390)
Net income (loss)	5,458	1,528	(692)
Dividends and accretion charges on preferred stock	(111)	(358)	(358)
Earnings allocated to preferred shareholders	(111)	(83)	--
Net income (loss) available to common shareholders	\$ 5,236	\$ 1,087	\$(1,050)
Net income (loss) per common share:			
Basic	\$ 0.55	\$ 0.13	\$ (0.12)
Diluted	\$ 0.51	\$ 0.12	\$ (0.12)
Shares used in per share calculation:			
Basic	9,593	8,689	8,454
Diluted	10,231	9,335	8,454

See accompanying notes to consolidated financial statements.

with the 3:2 stock split	(202)	30	(30)	--	--	--	--		
Dividends paid on preferred stock	--	--	--	(91)	--	--	--	(91)	
Accretion of preferred stock discount and issuance costs									
Comprehensive income:									
Foreign currency translation adj.	--	--	--	(24)	--	--	--	(24)	
Net income	--	--	--	5,458	--	--	62	5,458	62
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 2004	10,037,766	\$100	\$17,401	\$7,112	\$(1,067)	\$ --	\$ 169	\$23,715	\$5,520
	=====	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

TRANSACT TECHNOLOGIES INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	\$ 5,458	\$ 1,528	\$ (692)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Non-cash compensation expense	291	67	184
Write-off of deferred bank financing costs	--	103	--
Depreciation and amortization	1,634	1,656	1,935
Deferred income taxes	380	162	968
Loss (gain) on sale of fixed assets	--	(1)	--
Changes in operating assets and liabilities:			
Receivables	164	(5,035)	8
Inventories	(13)	374	2,198
Refundable income taxes	(380)	98	(228)
Other current assets	(207)	(52)	(115)
Other assets	(8)	(8)	(63)
Accounts payable	516	305	80
Accrued liabilities, deferred revenue and other liabilities	1,920	1,212	528
Accrued patent license fees	(741)	998	160
Accrued restructuring expenses	(671)	407	(1,284)
Net cash provided by operating activities	8,343	1,814	3,679
Cash flows from investing activities:			
Purchases of fixed assets	(1,178)	(1,261)	(577)
Proceeds from sale of fixed assets	--	1	--
Repayment of loan receivable from officer	--	330	--
Net cash used in investing activities	(1,178)	(930)	(577)
Cash flows from financing activities:			
Revolving bank loan repayments, net	--	(2,541)	(2,453)
Term loan borrowings	--	450	--
Term loan repayments	(420)	(380)	(100)
Proceeds from option exercises, employee stock purchase plan, and common stock warrants	1,516	1,364	130
Payment of cash dividends	(91)	(280)	(280)
Payment of preferred stock conversion and registration expense	(102)	--	--
Net cash provided by (used in) financing activities	903	(1,387)	(2,703)
Effect of exchange rate changes	62	99	86
Increase (decrease) in cash and cash equivalents	8,130	(404)	485
Cash and cash equivalents, beginning of period	498	902	417
Cash and cash equivalents, end of period	\$ 8,628	\$ 498	\$ 902
Supplemental cash flow information:			
Interest paid	\$ 44	\$ 226	\$ 252
Income taxes paid (refunded), net	379	229	(975)
Non-cash financing activities:			
Conversion of preferred stock to common stock	\$ 3,926	\$ --	\$ --
Tax benefit related to employee stock sales	2,332	769	--
Accretion of preferred stock discount and issuance costs	24	78	78
Issuance of restricted stock	1,400	--	--

See accompanying notes to consolidated financial statements.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

TransAct Technologies Incorporated ("TransAct"), which has its 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 services. 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 ("OEM"), value-added resellers, selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, the Caribbean Islands and the South Pacific.

We design, develop, manufacture and market a broad array of transaction-based printers utilizing inkjet, thermal and impact printing technology for applications requiring up to 60 character columns in each of its vertical markets. Our printers are configurable, which offer customers the ability to choose from a variety of features and functions. Options typically include printed circuit board configuration, paper cutting devices, paper handling capacities and cabinetry color. In addition to our configurable printers, we manufacture custom printers for certain OEM customers. In collaboration with these customers, we provide engineering and manufacturing expertise for the design and development of specialized printers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STOCK SPLIT: 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, 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 share and per-share amounts within the accompanying financial statements and footnotes reflect the stock split.

PRINCIPLES OF CONSOLIDATION: The accompanying consolidated financial statements were prepared on a consolidated basis to include the accounts of TransAct and its wholly-owned subsidiaries. All intercompany accounts, transactions and unrealized profit were eliminated in consolidation.

USE OF ESTIMATES: The accompanying consolidated financial statements were prepared using estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SEGMENT REPORTING: We apply the provisions of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"). We view our operations and manage our business as one segment, the design, development, manufacture and sale of transaction-based printers. Factors used to identify TransAct's single operating segment include the organizational structure of the Company and the financial information available for evaluation by the chief operating decision-maker in making decisions about how to allocate resources and assess performance. We operate predominantly in one geographical area, the United States of America. See Note 19 for information regarding our international operations. We provide the following disclosures of revenues from products and services:

(In thousands)	Year ended December 31, 2004		Year ended December 31, 2003		Year ended December 31, 2002	
-----	-----	-----	-----	-----	-----	-----
Printers - POS	\$17,664	29.5%	\$14,027	26.9%	\$12,900	32.7%
Printers - Gaming and lottery	32,144	53.7%	29,528	56.7%	19,578	49.6%
	-----	-----	-----	-----	-----	-----
Subtotal - printers	49,808	83.2%	43,555	83.6%	32,478	82.3%
Services and consumables	10,039	16.8%	8,543	16.4%	6,983	17.7%
	-----	-----	-----	-----	-----	-----
Total net sales	\$59,847	100.0%	\$52,098	100.0%	\$39,461	100.0%
	=====	=====	=====	=====	=====	=====

CASH AND CASH EQUIVALENTS: We consider all highly liquid investments with a maturity date of three months or less at date of purchase to be cash equivalents.

INVENTORIES: Inventories are stated at the lower of cost (principally standard cost which approximates actual cost on a first-in, first-out basis) or market. We assess market value based on historical usage and estimates of future demand in the market.

FIXED ASSETS: Fixed assets are stated at cost. Depreciation is provided for primarily by the straight-line method over the estimated useful lives. The estimated useful life of tooling is five years; machinery and equipment is ten years; furniture and office equipment is five to ten years; and computer equipment is three years. Leasehold improvements are amortized over the shorter of the term of the lease or the useful life of the asset. Costs related to repairs and maintenance are expensed as incurred. Depreciation was \$1,608,000, \$1,579,000 and \$1,843,000 in 2004, 2003 and 2002, respectively

GOODWILL: We adopted the provisions of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("FAS 142") on January 1, 2002. Under FAS 142, goodwill is no longer amortized and will be tested for impairment at least annually at the reporting unit level.

FAS 142 requires that goodwill be tested annually for impairment, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We have performed an impairment test as of December 31, 2004 and determined that no impairment has occurred.

LONG-LIVED ASSETS: We evaluate our long-lived assets, which are comprised primarily of fixed assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future undiscounted net cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. We did not recognize any impairment loss for long-lived assets in 2004, 2003 or 2002.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION: Our typical contracts include the sale of printers, which are sometimes accompanied by separately-priced extended warranty contracts. We also sell spare parts, consumables, and other repair services (sometimes pursuant to multi-year product maintenance contracts) which are not included in the original printer sale and are ordered by the customer as needed. We recognize revenue pursuant to the guidance within SAB 104, "Revenue Recognition". Specifically, revenue is recognized when evidence of an arrangement exists, delivery (based on shipping terms which are generally FOB shipping point) has occurred, the selling price is fixed and determinable, and collectibility is reasonably assured. We provide for an estimate of product returns based on historical experience at the time of revenue recognition.

Revenue related to extended warranty and product maintenance contracts is recognized pursuant to FASB Technical Bulletin 90-1 ("FTB 90-1"), "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts." Pursuant to FTB 90-1, revenue related to separately priced product maintenance contract is deferred and recognized over the term of the maintenance period. We record deferred revenue for amounts received from customers for maintenance contracts prior to the maintenance period.

CONCENTRATION OF CREDIT RISK: Financial instruments that potentially expose TransAct to concentrations of credit risk are limited to accounts receivable. Sales to GTECH Corporation ("GTECH") (for lottery printers) accounted for approximately 16%, 19% and 27% of net sales during 2004, 2003 and 2002, respectively. Sales to WMS Gaming (for sales of gaming printers) accounted for approximately 14% of net sales during 2004, and sales to Harrah's (for casino slot machine printers) accounted for approximately 12% of net sales during 2003. As of December 31, 2004, we had accounts receivable balances due from WMS Gaming (for sales of gaming printers), BlueStar Distributing (for sales of POS printers) and from GTECH (for sales of lottery printers) that accounted for 18%, 14% and 10%, respectively, of the total accounts receivable. As of December 31, 2003, we had an accounts receivable balance due from Harrah's of 31%, of the total accounts receivable balance.

WARRANTY: We warrant our products for up to 27 months and record the estimated cost of such product warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experience of product returns and the related estimated cost of labor and material to make the necessary repairs.

The following table summarizes the activity recorded in the accrued product warranty liability during 2004, 2003 and 2002:

(In thousands)	Year ended December 31,		
-----	2004	2003	2002
Balance, beginning of year	\$ 495	\$ 644	\$ 710
Additions related to warranties issued	610	409	394
Warranty costs incurred	(508)	(558)	(460)
Balance, end of year	\$ 597	\$ 495	\$ 644
	=====	=====	=====

Approximately \$153,000 and \$169,000 of the accrued product warranty liability were classified as long-term at December 31, 2004 and 2003, respectively.

RESEARCH AND DEVELOPMENT EXPENSES: Research and development expenses include engineering, design and product development expenses incurred in connection with specialized engineering and design to introduce new products and to customize existing products, and are expensed as a component of operating expenses as incurred. We spent approximately \$2,715,000, \$2,276,000 and \$2,025,000 on research and development expenses in 2004, 2003 and 2002, respectively.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRUCTURING: In 2001, we undertook a plan to consolidate all manufacturing and engineering into our existing Ithaca, NY facility and close our Wallingford, CT facility. 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 restructuring expenses. See Note 8.

INCOME TAXES: The income tax amounts reflected in the accompanying financial statements are accounted for under the liability method in accordance with FAS 109 "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We assess the likelihood that net deferred tax assets will be realized from future taxable income, and to the extent that we believe that realization is not likely, we establish a valuation allowance.

FOREIGN CURRENCY TRANSLATION: The financial position and results of operations of our foreign subsidiary in the United Kingdom are measured using local currency as the functional currency. Assets and liabilities of such subsidiary have been translated into U.S. dollars at the year-end exchange rate, related revenues and expenses have been translated at the weighted average exchange rate for the year, and shareholders' equity has been translated at historical exchange rates. The resulting translation gains or losses are recorded in stockholders' equity as a cumulative translation adjustment, which is a component of accumulated other comprehensive income. Foreign currency transaction gains and losses are recognized in other income (expense) and have not been significant for all periods presented.

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 its 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"). See Note 13 for additional disclosures related to our stock-based compensation plans.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table illustrates the effect on net income (loss), compensation expense and income (loss) per share as if the Black-Scholes fair value method described in FAS 123, "Accounting for Stock-Based Compensation" had been applied to our stock plans.

(In thousands, except per share data)	Year Ended December 31,		
	2004	2003	2002
Net income (loss) available to common shareholders:			
Net income (loss) available to common shareholders, as reported	\$5,236	\$1,087	\$(1,050)
Add: Stock-based compensation expense included in reported net income (loss), net of tax	205	43	118
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of tax	(390)	(229)	(753)
Pro forma net income (loss) available to common shareholders	\$5,051	\$ 901	\$(1,685)
Net income (loss) per share:			
Basic:			
As reported	\$ 0.51	\$ 0.13	\$ (0.12)
Pro forma	0.49	0.10	(0.20)
Diluted:			
As reported	\$ 0.55	\$ 0.12	\$ (0.12)
Pro forma	0.53	0.10	(0.20)

FAIR VALUE OF FINANCIAL INSTRUMENTS: The carrying amount for cash and cash equivalents approximates fair value because of the short maturity of these instruments. The carrying amount of receivables, other current assets, other assets, accounts payable and accrued liabilities is a reasonable estimate of fair value because of the short nature of the transactions.

NET INCOME AND LOSS PER SHARE: We report net income or loss per share in accordance with Financial Standard No. 128, "Earnings per Share (EPS)" ("FAS 128"). Under FAS 128, basic EPS, which excludes dilution, is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Net income or loss available to common shareholders represents reported net income or loss less accretion of redeemable convertible preferred stock and allocation of preferred earnings. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted EPS includes in-the-money options and warrants using the treasury stock method, and also includes the assumed conversion of preferred stock using the if-converted method, but only if dilutive. During a loss period, the assumed exercise of in-the-money stock options and warrants and the conversion of convertible preferred stock has an anti-dilutive effect, and therefore, these instruments are excluded from the computation of dilutive EPS.

Beginning in the second quarter of 2004, the Company applied 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. EITF 03-6 became effective for reporting periods beginning after March 31, 2004. This guidance impacted the calculation of earnings per share for the year ended December 31, 2004 and also requires retroactive restatement of earnings per share presented for the year ended December 31, 2003. The guidance did not impact the year ended December 31, 2002, as the Company experienced a net loss in that year. Previously reported earning per share amounts for 2003 have been restated as follows:

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(In thousands, except per share amounts)	Year Ended December 31, 2003	
	As previously reported, split adjusted	Restated for EITF 03-6
Net income available to common shareholder	\$1,170	\$1,087
Net income per common share		
Basic	\$ 0.13	\$ 0.13
Diluted	\$ 0.13	\$ 0.12
Shares used in per share calculation		
Basic	8,689	8,689
Diluted	9,335	9,335

Net income available to common shareholders for 2003 using the two class method has been computed as follows:

Net income	\$1,528
Dividend and accretion chargers on preferred stock	(358)
Earnings allocation to preferred shareholders	(83)
Net income available to common shareholders	\$1,087

COMPREHENSIVE INCOME: Statement of Accounting Standard No. 130, "Reporting Comprehensive Income" ("FAS 130"), requires that items defined as comprehensive income or loss be separately classified in the financial statements and that the accumulated balance of other comprehensive income or loss be reported separately from accumulated deficit and additional paid-in-capital in the equity section of the balance sheet. We include the foreign currency translation adjustment related to our subsidiary in the United Kingdom within our calculation of comprehensive income.

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

INVENTORY COSTS: In November 2004, the FASB issued Accounting Standard No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4" ("FAS 151"). FAS 151 amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, FAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS 151 is effective for fiscal years beginning after June 15, 2005. We do not expect FAS 151 to have a material impact on our financial statements.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

SHARE-BASED PAYMENT: In December 2004, the FASB issued Accounting Standard No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"). FAS 123R supersedes APB Opinion No. 25, and requires the determination of the fair value (using an option pricing model) of share-based compensation, including shares issued under employee stock purchase plans, stock options and restricted stock, at the grant date and the recognition of compensation expense over the period in which the share-based compensation vests. FAS 123R allows for either prospective recognition of compensation expense, or retrospective recognition under which financial statements for prior periods are adjusted. We are required to adopt the provisions of FAS 123R effective July 1, 2005, at which time we will begin recognizing an expense for unvested share-based compensation that has been issued or will be issued after that date. We are currently evaluating the transition methods. We expect the adoption of FAS 123R to have a material impact on our results of operations and earnings per share.

TAX DEDUCTION ON QUALIFIED PRODUCTION ACTIVITIES: In December 2004, the FASB issued Staff Position No. FAS 109-1, Application of FASB Statement 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, which provides guidance regarding the deduction for income from qualified domestic production activities. The deduction will be phased in from 2005 through 2010. The deduction will be treated as a "special deduction" as described in FASB Statement 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return. We have not yet quantified the impact that this guidance will have on our financial statements.

FOREIGN EARNINGS REPATRIATION: In December 2004, the FASB issued FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), which provides guidance under FAS 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. The Jobs Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS 109. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret certain provisions in the Act. As such, we have not yet determined whether, and to what extent, we might repatriate foreign earnings that have not yet been remitted to the U.S.

4. RECEIVABLES

Receivables are net of the allowance for doubtful accounts. The reconciliation of the allowance for doubtful accounts is as follows:

	Year Ended December 31,		
	2004	2003	2002
(In thousands)	----	----	----
Balance at beginning of year	\$100	\$ 78	\$84
Doubtful accounts provision (reversal)	73	76	(2)
Accounts written off, net of recoveries	2	(54)	(4)
	----	----	----
Balance at end of year	\$175	\$100	\$78
	====	====	====

5. INVENTORIES

The components of inventories are:

	December 31,	
	2004	2003
(In thousands)	-----	-----
Raw materials and component parts	\$7,869	\$7,947
Finished goods	205	114
	-----	-----
	\$8,074	\$8,061
	=====	=====

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. FIXED ASSETS

The components of fixed assets are:

(In thousands)	December 31,	
	2004	2003
Tooling, machinery and equipment	\$ 12,627	\$ 11,843
Furniture, office and computer equipment	3,864	3,506
Leasehold improvements	522	486
	17,013	15,835
Less: accumulated depreciation and amortization	(13,836)	(12,228)
	\$ 3,177	\$ 3,607
	=====	=====

7. ACCRUED LIABILITIES

The components of accrued liabilities are:

(In thousands)	December 31,	
	2004	2003
Payroll and fringe benefits	\$1,334	\$1,087
Income taxes	735	560
Warranty - current portion	444	326
Rent and occupancy	336	331
Other	546	588
	\$3,395	\$2,892
	=====	=====

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ACCRUED BUSINESS CONSOLIDATION AND RESTRUCTURING EXPENSES

In February 2001, we announced plans to establish a global engineering and manufacturing center at our Ithaca, NY facility. As part of this strategic decision, 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 currently maintain our corporate headquarters and a service center in Wallingford. The closing of the Wallingford facility resulted in the termination of employment of approximately 70 production, administrative and management employees. 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.

During 2001, we recorded expenses of approximately \$4,096,000 related to costs associated with the Consolidation, including severance pay, stay bonuses, employee benefits, moving expenses, non-cancelable lease payments, accelerated depreciation and other costs.

During 2002, we incurred an additional \$958,000 of Consolidation expenses. Approximately \$900,000 of these expenses was the result of a revision to our estimate for non-cancelable lease payments included in the restructuring accrual. Based on regional softness in demand in the commercial real estate market, we increased our restructuring accrual by approximately \$900,000 to reflect the longer period of time than projected to sublease our Wallingford, CT facility. Based on this revised estimate, we had projected estimated sublease income beginning October 1, 2004.

After expanded efforts in 2003, we determined that because of the continuing regional decline in the commercial real estate market during 2003, it was unlikely that we would be able to sublease our Wallingford, CT manufacturing facility, which has a lease term that expires in March 2008. As a result, during the fourth quarter of 2003, we increased our restructuring accrual by \$1,270,000 to provide for the remaining non-cancelable lease payments and related costs associated with the manufacturing facility. This increase represented the reversal of estimated sublease income for the remainder of the lease term. In addition, we did not terminate several employees originally included in the Consolidation. As a result, we reversed the remaining \$142,000 of accrued restructuring expenses in 2003 related to employee severance and termination expenses, as we completed all required payments for such expenses by December 31, 2003.

In December 2004, we determined that certain functions would be relocated and/or expanded in our Wallingford, CT corporate offices. In order to achieve the benefit of these changes, we expanded our use of space in our current facility. Because of this increase in useful space in the Wallingford facility, and because we have experienced lower than expected operating and maintenance costs than previously estimated, we reversed \$225,000 of previously accrued reserve provided for the remaining non-cancelable lease payments and related costs.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ACCRUED BUSINESS CONSOLIDATION AND RESTRUCTURING EXPENSES (CONTINUED)

The following table summarizes the activity recorded in the restructuring accrual during 2004, 2003 and 2002.

(In thousands)	Year ended December 31,		
	2004	2003	2002
Accrual balance, beginning of year	\$2,125	\$1,718	\$ 3,002
Business consolidation and restructuring expenses:			
Employee severance and termination expenses(1)	--	(142)	75
Facility closure and consolidation expenses(2)	(225)	1,270	883
	(225)	1,128	958
Cash payments	(446)	(721)	(2,242)
Accrual balance, end of year	\$1,454	\$2,125	\$ 1,718

(1) Employee severance and termination related expenses are the estimated termination salaries, benefits, outplacement, counseling services and other related expenses expected to be paid to employees who are involuntarily terminated.

(2) Facility closure and consolidation expenses are the estimated costs to close the Wallingford, CT facility including lease termination expenses and other related expenses, in accordance with the restructuring plan. The Wallingford facility closure was substantially completed by December 31, 2001.

At December 31, 2004 and 2003, \$1,034,000 and \$1,645,000, respectively, of the restructuring accrual was classified as part of long-term liabilities. This represents the portion of non-cancelable lease termination costs and other costs expected to be paid beyond one year.

9. RETIREMENT SAVINGS PLAN

On April 1, 1997, we established the TransAct Technologies Retirement Savings Plan (the "401(k) Plan"), a defined contribution plan under Section 401(k) of the Internal Revenue Code. All full-time employees are eligible to participate in the 401(k) Plan at the beginning of the calendar quarter immediately following their date of hire. We match employees' contributions at a rate of 50% of employees' contributions up to the first 6% of the employees' compensation contributed to the 401(k) Plan. Our matching contributions were \$201,000, \$174,000 and \$158,000 in 2004, 2003 and 2002, respectively.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. 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 could have been 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%. Under certain circumstances, we may select a fixed interest rate for a specified period of time of up to 180 days on borrowings based on the current LIBOR rate plus 2.75% and 3.0% under the revolving credit facility and the equipment loan facility, respectively. In addition, we may select a fixed interest rate based on the five-year Federal Home Loan Bank of Boston rate plus 3.0% for borrowings under the equipment loan facility. We also pay a fee of 0.25% on unused borrowings under the revolving credit line. Borrowings under the Banknorth Credit Facility are secured by a lien on all the assets of the Company. The Banknorth Credit Facility imposes certain quarterly financial covenants on the Company and restricts the payment of dividends on our common stock and the creation of other liens. We were in compliance with all financial covenants of the Banknorth Credit Facility at December 31, 2004. In 2003, we recorded a charge of approximately \$103,000 in 2003 related to the write-off of unamortized deferred financing costs from the prior credit facility.

On November 12, 2004, we amended our \$12.5 million Banknorth Credit Facility. Under the terms of the agreement, we renewed, through July 2005, our \$1.0 million equipment loan, which had expired on July 31, 2004. The amendment also revised certain other terms of the revolving credit facility.

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) \$40,000 credit reserve.

Concurrent with the signing of the Banknorth Credit Facility, we borrowed \$450,000 under the equipment loan facility which was paid in full in 2004. We had \$420,000 of outstanding borrowings under the term loan at December 31, 2003 at an interest rate of 4.25%.

As of December 31, 2004, we had no outstanding borrowings on the revolving credit line or the term loan. Undrawn commitments under the Banknorth Credit Facility were approximately \$12,500,000 at December 31, 2004. However, our maximum additional available borrowings under the facility were limited to approximately \$9,700,000 at December 31, 2004 based on the borrowing base of our collateral.

11. COMMITMENTS AND CONTINGENCIES

At December 31, 2004, we were lessee on operating leases for equipment and real property. The terms of certain leases provide for escalating rent payments in later years of the lease as well as payment of minimum rent and real estate taxes. The Company records rent expense related to leases with escalating rent payments on a straight-line basis over the term of the lease. Rent expense was approximately \$1,098,000, \$1,096,000 and \$975,000 in 2004, 2003 and 2002, respectively. Minimum aggregate rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2004 are as follows: \$999,000 in 2005; 1,088,000 in 2006; \$1,085,000 in 2007; \$1,084,000 in 2008; \$766,000 in 2009; and \$1,795,000 thereafter. Such payments include those related to the lease of our Wallingford, CT manufacturing facility.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. 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 have paid the royalty for past usage in full in January 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.

13. STOCK INCENTIVE PLANS AND WARRANTS

STOCK INCENTIVE PLANS. We currently have three primary stock incentive plans: the 1996 Stock Plan which provides for the grant of awards to officers and other key employees of the Company, the 1996 Directors' Stock Plan which provides for non-discretionary awards to non-employee directors, and the 2001 Employee Stock Plan which provides for the grant of awards to key employees of the Company and other non-employees who may provide services to the Company. The plans generally provide for awards in the form of: (i) incentive stock options, (ii) non-qualified stock options, (iii) shares of restricted stock, (iv) restricted units, (v) stock appreciation rights or (vi) limited stock appreciation rights. However, the 2001 Employee Stock Plan does not provide for incentive stock option awards. Options granted under these plans are at prices equal to 100% of the fair market value of the common stock at the date of grant. Options granted have a ten-year term and generally vest over a three- to five-year period, unless automatically accelerated for certain defined events. At December 31, 2004, we have reserved 1,725,000, 360,000 and 225,000 shares of common stock for issuance under the 1996 Stock Plan, the 1996 Directors' Stock Plan, and the 2001 Employees Stock Plan, respectively.

EMPLOYEE STOCK PURCHASE PLAN: In May 2000, our shareholders approved the Employee Stock Purchase Plan (the "ESPP"), under which 75,000 shares of our common stock are available for issuance to employees beginning June 1, 2000. All full-time employees are eligible to participate in the ESPP at the beginning of each six-month period (the "Offering Period"), which begins on June 1 and December 1. Eligible employees may elect to withhold up to 5% of their salary to purchase shares of our common stock at a price equal to 85% of the fair market value of the stock on the first or last day of each Offering Period, whichever is lower. The ESPP will terminate at the earlier of May 31, 2005 or the date on which all 75,000 shares available for issuance under the ESPP have been sold. We sold 3,706, 3,130 and 7,274 shares of common stock under the ESPP during 2004, 2003 and 2002, respectively. At December 31, 2004, 43,985 shares remained available for sale.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK INCENTIVE PLANS AND WARRANTS (CONTINUED)

The 1996 Stock Plan, 1996 Directors' Stock Plan and 2001 Employee Stock Plan option activity is summarized below:

	Year Ended December 31,					
	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period:	1,123,533	\$ 6.74	1,418,079	\$4.20	1,114,104	\$4.63
Granted	52,750	26.81	102,000	5.84	550,125	3.65
Exercised	(321,947)	4.30	(357,906)	3.79	(39,150)	2.83
Canceled	(40,672)	5.74	(38,640)	3.81	(207,000)	5.31
Outstanding at end of period	813,664	\$ 5.96	1,123,533	\$4.49	1,418,079	\$4.20
Options exercisable at end of period	458,382	\$ 4.67	542,630	\$4.72	644,768	\$4.54

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding at December 31, 2004	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Exercisable at December 31, 2004	Weighted-Average Exercise Price
			(In years)		
\$ 2.00 - \$ 5.00	510,877	\$ 3.66	6.6	267,870	\$ 3.62
5.01 - 7.50	233,787	6.11	4.0	176,262	5.95
7.51 - 10.00	14,250	8.12	3.0	13,250	8.04
10.01 - 25.00	19,000	16.24	9.0	1,000	16.08
25.01 - 35.00	35,750	31.66	9.4	--	--
	813,664	5.96	6.0	458,382	4.67

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants made during the years ended December 31, 2004, 2003 and 2002.

	Year Ended December 31,		
	2004	2003	2002
Risk-free interest rate	3.6%	2.6%	4.5%
Dividend yield	0%	0%	0%
Expected volatility factor	81.5%	82.1%	83.3%
Expected option term	8.9 years	5.8 years	6.4 years
Weighted average fair value of options granted during period	\$20.64	\$6.09	\$4.12

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK INCENTIVE PLANS AND WARRANTS (CONTINUED)

RESTRICTED STOCK: Under the 1996 Stock Plan, we have granted shares of restricted common stock, for no consideration, to our officers, one outside director and certain key employees. The 1996 Stock Plan restricted stock activity is summarized below:

	Year Ended December 31,		
	2004	2003	2002
Outstanding shares at beginning of period	16,999	69,999	134,040
Granted	81,000	--	--
Vested	(15,499)	(53,000)	(63,141)
Canceled	(3,000)	--	(900)
Outstanding shares at end of period	79,500	16,999	69,999

We granted 81,000 shares of restricted stock during 2004 at weighted average grant price of \$17.28. No restricted stock was granted during 2003 or 2002. Of the 79,500 shares of restricted stock outstanding at December 31, 2004, 75,750 shares vest over a five-year period, 3,000 shares vest over a three-year period and 750 shares vest over a one-year period. Under certain conditions, vesting may be automatically accelerated. Upon issuance of the restricted stock, unearned compensation equivalent to the market value at the date of grant is charged to shareholders' equity and subsequently amortized as compensation expense over the vesting period. Compensation expense of \$291,000, \$67,000 and \$184,000 was recorded during 2004, 2003 and 2002, respectively.

WARRANTS: On April 7, 2000, in connection with the sale of the Preferred Stock, we issued to our investment advisors, McFarland Dewey & Co. ("McFarland"), warrants to purchase from the Company up to 15,000 shares of common stock at an exercise price of \$6.00 per share. These warrants were exercised March 9, 2004 and are no longer outstanding as of December 31, 2004.

14. STOCKHOLDER RIGHTS PLAN

In December 1997, the Board of Directors adopted a Stockholder Rights Plan declaring a distribution of one right (the "Rights") for each outstanding share of our common stock to shareholders of record at December 15, 1997. Initially, each of the Rights will entitle the registered holder to purchase from the Company one one-thousandth of a share of Series A Preferred Stock, \$0.01 par value, at a price of \$69 per one one-thousandth of a share. The Rights, however, will not become exercisable unless and until, among other things, any person or group of affiliated persons acquires beneficial ownership of 15 percent or more of the then outstanding shares of the Company's Common Stock. If a person, or group of persons, acquires 15 percent or more of the outstanding Common Stock of the Company (subject to certain conditions and exceptions more fully described in the Rights Agreement), each Right will entitle the holder (other than the person, or group of persons, who acquired 15 percent or more of the outstanding Common Stock) to purchase Preferred Stock of the Company having a market value equal to twice the exercise price of the Right. The Rights are redeemable, under certain circumstances, for \$0.0001 per Right and will expire, unless earlier redeemed, on December 2, 2007.

On February 16, 1999, we amended the Stockholder Rights Plan to remove the provision in the plan that stipulated that the plan may be modified or redeemed only by those members of the Board of Directors who are defined as continuing directors.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. INCOME TAXES

The components of the income tax provision (benefit) are as follows:

(In thousands)	Year Ended December 31,		
	2004	2003	2002
Current:			
Federal	\$2,077	\$1,121	\$(1,493)
State	216	94	25
Foreign	306	131	110
	2,599	1,346	(1,358)
Deferred:			
Federal	363	(554)	987
State	17	(67)	(19)
Foreign	--	--	--
	380	(621)	968
Total income tax provision (benefit)	\$2,979	\$ 725	\$ (390)

At December 31, 2004, we have \$3,434,000 of state net operating loss carryforwards that begin to expire in 2005, and \$946,000 of federal net operating loss carryforwards that expire in 2024. We also have approximately \$326,000 in federal research and development tax credit carryforwards that expire in 2020. We had foreign income before taxes of \$1,084,000, \$475,000 and \$386,000 in 2004, 2003 and 2002, respectively.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Our gross deferred tax assets and liabilities were comprised of the following:

(In thousands)	December 31,	
	2004	2003
Gross deferred tax assets:		
Net operating losses	\$ 423	\$ 96
Accrued restructuring expenses	605	854
Inventory reserves	742	720
Deferred revenue	429	761
Foreign tax and other credits	649	627
Accrued license fees	-	428
Other liabilities and reserves	636	443
	3,484	3,929
Valuation allowance	(193)	(331)
Net deferred tax assets	\$3,291	\$3,598
Gross deferred tax liabilities:		
Depreciation	\$ 540	\$ 511
Other	107	63
Net deferred tax liabilities	\$ 647	\$ 574

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. INCOME TAXES (CONTINUED)

Based on tax law changes, we carried our federal net operating losses back to prior years and received a tax refund of approximately \$1,061,000 in 2002, and received an additional refund of approximately \$104,000 in the first quarter of 2004. During 2004 and 2003, we recorded a valuation allowance of \$193,000 and \$331,000 on a portion of our foreign tax credits, research and development credits and certain state net operating loss carryforwards. We have determined that it is more likely than not that the remaining net deferred tax assets will be realized, and no additional valuation allowance is considered necessary as of December 31, 2004.

Differences between the U.S. statutory federal income tax rate and our effective income tax rate are analyzed below:

	Year Ended December 31,		
	2004	2003	2002
Federal statutory tax rate	34.0%	34.0%	(34.0)%
State income taxes, net of federal income taxes	1.0	1.2	(0.3)
Tax benefit from tax credits, net of valuation allowance	(0.8)	--	(10.6)
Foreign rate differential	(0.7)	--	9.5
Other	1.8	(3.0)	(0.6)
	-----	-----	-----
Effective tax rate	35.3%	32.2%	(36.0)%
	=====	=====	=====

16. EARNINGS PER SHARE

For the years ended December 31, 2004, 2003 and 2002, earnings per share were computed as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2004	2003	2002
Net income (loss)	\$ 5,458	\$1,528	\$ (692)
Dividends and accretion on preferred stock	(111)	(358)	(358)
Earnings allocation to preferred shareholders	(111)	(83)	--
	-----	-----	-----
Net income (loss) available to common shareholders	\$ 5,236	\$1,087	\$(1,050)
	=====	=====	=====
Shares:			
Basic: Weighted average common shares outstanding	9,593	8,690	8,454
Add: Dilutive effect of outstanding options and warrants as determined by the treasury stock method	638	645	--
	-----	-----	-----
Diluted: Weighted average common and common equivalent shares outstanding	10,231	9,335	8,454
	=====	=====	=====
Net income (loss) per common share:			
Basic	\$ 0.55	\$ 0.13	\$ (0.12)
Diluted	0.51	0.12	(0.12)

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. EARNINGS PER SHARE (CONTINUED)

For the years ended December 31, 2004 and December 31, 2003, potentially dilutive shares that were excluded from the earnings per share calculation, consisted of out-of-the-money stock options and warrants, and amounted to 35,750 and 2,000 shares, respectively. Due to our reported net loss in the year ended December 31, 2002, all potentially dilutive securities, including both in-the-money and out-of-the-money stock options and warrants that amounted to 597,000 shares were excluded from the earnings per share calculation, as the effect would have been antidilutive. In addition, for all periods presented, earnings per share calculations assumed no conversion of the convertible mandatorily redeemable preferred stock (which is convertible into 666,665 shares of common stock), as the effect would have been anti-dilutive.

17. LOAN TO OFFICER

On February 23, 1999, with the Board of Directors' approval, we provided a \$330,000 loan to an officer of the Company. The loan was payable on February 23, 2004, and was a full recourse obligation to the officer collateralized by 154,000 shares of our common stock, which included 50,000 shares of restricted stock. The principal amount of the loan was recorded as a deduction from shareholders' equity. In June 2003, the officer of the Company repaid the outstanding loan of \$330,000, plus accrued interest of \$113,000.

18. PREFERRED STOCK

On April 7, 2000 we sold 4,000 shares of 7% Series B Cumulative Convertible Redeemable Preferred Stock (the "Preferred Stock") in consideration of \$1,000 per share (the "Stated Value"), for a total of \$4,000,000, less issuance costs. The Preferred Stock was convertible at any time by the holders at a conversion price of \$6.00 per common share. In addition, we issued warrants pro-rata to the Preferred Stock holders to purchase an aggregate of 66,666 shares of our common stock at an exercise price of \$6.00 per common share, exercisable until April 7, 2005. The discount on the preferred stock related to the relative fair value of the warrants of \$175,000 was being accreted as a direct charge to retained earnings ratably over 60 months. The holders of the Preferred Stock were entitled to receive a cumulative annual dividend of \$70 per share, payable quarterly and had preference to any other dividends, if any, paid by the Company.

On July 8, 2003, the holders of the Preferred Stock exercised their 66,666 warrants to purchase common stock at \$6 per share. In lieu of cash consideration, we canceled 47,731 of their warrants in exchange for the issuance of 18,934 shares of common stock.

In April 2004, all shareholders 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. At the time of the conversion, dividends in the amount of approximately \$16,000 were paid to the preferred shareholders through the date of the conversion, and no future dividend payments are required. The Company recorded the costs of registering and issuing these shares as a deduction in Additional Paid-In Capital.

19. INTERNATIONAL OPERATIONS

We have foreign operations primarily from TransAct Technologies Ltd., a wholly-owned subsidiary, which had sales to its customers of approximately \$1,000,000, \$1,068,000 and \$738,000 in 2004, 2003 and 2002, respectively. We had sales from the United States to our customers outside of the United States of approximately \$5,423,000, \$3,663,000 and \$3,968,000 in 2004, 2003 and 2002, respectively. International sales do not include sales of printers made to domestic distributors or other domestic customers who in turn ship those printers to international destinations.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Our quarterly results of operations for 2004 and 2003 are as follows:

(In thousands, except per share amounts)	Quarter Ended			
	March 31	June 30	September 30	December 31
2004:				
Net sales	\$15,075	\$14,694	\$15,482	\$14,596
Gross profit	5,418	5,617	5,897	5,110
Net income	1,342	1,465	1,625	1,026
Net income available to common shareholders	1,165	1,421	1,625	1,026
Net income per share:				
Basic	0.13	0.15	0.16	0.10
Diluted	0.12	0.14	0.15	0.10
	March 31	June 30	September 30	December 31
2003:				
Net sales	\$9,012	\$13,378	\$15,048	\$14,660
Gross profit	2,441	4,212	4,819	4,071
Net income (loss)	(198)	787	1,140	(201)
Net income (loss) available to common shareholders	(288)	641	976	(290)
Net income (loss) per share:				
Basic	(0.03)	0.07	0.11	(0.03)
Diluted	(0.03)	0.07	0.10	(0.03)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications. Part II, Item 8 of this Form 10-K sets forth the report of PricewaterhouseCoopers LLP, our independent registered public accounting firm, regarding its audit of TransAct's internal control over financial reporting as of December 31, 2004 and of management's assessment of internal control over financial reporting as of December 31, 2004 set forth below in this section. This section should be read in conjunction with the certifications and the PricewaterhouseCoopers LLP report for a more complete understanding of the topics presented.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We conducted an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" (Disclosure Controls) as of the end of the period covered by this Form 10-K. The controls evaluation was conducted under the supervision and with the participation of management, including our CEO and CFO. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's (SEC's) rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis for purposes of providing the management report which is set forth below.

The evaluation of our Disclosure Controls included a review of the controls' objectives and design, the company's implementation of the controls and the effect of the controls on the information generated for use in this Form 10-K. In the course of the controls evaluation, we reviewed identified data errors, control problems or acts of fraud and sought to confirm that appropriate corrective actions, including process improvements, were being undertaken. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the Disclosure Controls can be reported in our periodic reports on Form 10-Q and Form 10-K. Many of the components of our Disclosure Controls are also evaluated on an ongoing basis by personnel in our finance organization. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this Form 10-K, our Disclosure Controls were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information relating to TransAct and our consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management assessed our internal control over financial reporting as of December 31, 2004. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2004 based on the COSO criteria identified above, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

The company's management, including the CEO and CFO, does not expect that our Disclosure Controls and procedures or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

All information in response to this item is incorporated by reference from the Proxy Statement sections entitled "Election of Directors" and "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION.

The information contained in "Executive Compensation" other than the "Compensation Committee Report on Executive Compensation" of the Proxy Statement is hereby incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information contained in "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement is hereby incorporated herein by reference.

Information regarding our equity compensation plans as of December 31, 2004 is as follows:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c)Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
1996 Stock Plan	588,899	\$3.75	208,649
1996 Non-Employee Director Plan	206,250	9.99	112,500
2000 Employee Stock Purchase Plan	--	--	39,733
	-----	-----	-----
Total	795,149	\$5.37	360,882
	=====	=====	=====
Equity compensation plans not approved by security holders:			
2001 Employee Stock Plan	98,015	5.94	41,859
	=====	=====	=====

The TransAct Technologies Incorporated 2001 Employee Stock Plan (the "2001 Employee Plan") was adopted by our Board of Directors, without approval of our security holders, effective February 26, 2001. Under the 2001 Employee Plan, we may issue non-qualified stock options, shares of restricted stock, restricted units to acquire shares of common stock, stock appreciation rights and limited stock appreciation rights to key employees of TransAct or any of our subsidiaries and to non-employees who provide services to TransAct or any of our subsidiaries. The 2001 Employee Plan is administered by our Compensation Committee, which has the authority to determine the vesting period and other similar restrictions and terms of awards, provided that the exercise price of options granted under the plan may not be less than the fair market value of the underlying shares on the date of grant. Awards may be issued under the 2001 Employee Plan with respect to up to 225,000 shares of common stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information contained in "Certain Relationships and Related Transactions" of the Proxy Statement is hereby incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information contained in "Independent Auditors' Fees" of the Proxy Statement is hereby incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

THE FOLLOWING FINANCIAL STATEMENTS AND EXHIBITS ARE FILED AS PART OF THIS

REPORT:

Financial statements

(i) See Item 8.

(ii) Financial statement schedules

All schedules are omitted since the required information is either (a) not present or not present in amounts sufficient to require submission of the schedule or (b) included in the financial statements or notes thereto.

(iii) List of exhibits

3.1(a)	Certificate of Incorporation of the Company, filed with the Secretary of State of Delaware on June 17, 1996.	(2)
3.1(b)	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Secretary of State of Delaware on June 4, 1997.	(4)
3.1(c)	Certificate of Designation, Series A Preferred Stock, filed with the Secretary of State of Delaware on December 2, 1997.	(5)
3.1(d)	Certificate of Designation, Series B Preferred Stock, filed with the Secretary of State of Delaware on April 6, 2000.	(8)
3.2	Amended and Restated By-laws of the Company.	(6)
4.1	Specimen Common Stock Certificate.	(2)
4.2	Amended and Restated Rights Agreement between TransAct and American Stock Transfer & Trust Company dated February 16, 1998.	(5)
10.1(x)	1996 Stock Plan, effective July 30, 1996.	(3)
10.2(x)	Non-Employee Directors' Stock Plan, effective August 22, 1996.	(3)
10.3(x)	2000 Employee Stock Purchase Plan.	(9)
10.4(x)	2001 Employee Stock Plan.	(10)
10.5(x)	Employment Agreement, dated July 31, 1996, by and between the Company and Bart C. Shuldman.	(2)
10.6(x)	Employment Agreement, dated July 31, 1996, by and between the Company and Richard L. Cote.	(2)
10.7(x)	Severance Agreement by and between TransAct and Michael S. Kumpf, dated September 4, 1996.	(3)
10.8(x)	Severance Agreement by and between TransAct and Steven A. DeMartino, dated January 1, 2004.	(1)
10.9	Lease Agreement by and between Bomax Properties and Ithaca, dated as of March 23, 1992.	(2)
10.10	Second Amendment to Lease Agreement by and between Bomax Properties and Ithaca, dated December 2, 1996.	(4)
10.11	Agreement regarding the Continuation and Renewal of Lease by and between Bomax Properties, LLC and TransAct, dated July 18, 2001.	(13)
10.12	Lease Agreement by and between Pyramid Construction Company and Magnetec, dated July 30, 1997.	(4)
10.13	Lease Agreement by and between Las Vegas Airport Properties LLC and TransAct Technologies Incorporated dated December 2, 2004.	(1)

- 10.14 OEM Purchase Agreement by and between GTECH Corporation, TransAct Technologies and Magnetec Corporation commencing July 14, 1999. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) (7)
- 10.15 OEM Purchase Agreement by and between GTECH Corporation and TransAct Technologies Incorporated commencing July 2, 2002. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) (12)
- 10.16 OEM Purchase Agreement by and between Okidata Americas, Inc. and TransAct, dated June 8, 2001. (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.) (11)
- 10.17 OEM Purchase Agreement between Oki Data Americas, Inc. ("Oki Data") and TransAct Technologies Incorporated dated as of June 8, 2003. (Pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) (13)
- 10.18 Revolving Credit, Equipment Loan and Security Agreement between TransAct Technologies Incorporated and Banknorth N.A. dated August 6, 2003. (13)
- 10.19 First Amendment to Revolving Credit, Equipment Loan and Security Agreement dated as of November 12, 2004 between TransAct Technologies Incorporated and Banknorth N.A. (15)
- 10.20 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.) (14)
- 10.21 Preferred Stock Purchase Agreement and Certificate of Designation dated as of March 20, 2000 between TransAct Technologies Incorporated and Advance Capital Partners, L.P. and affiliate 21.1 Subsidiaries of the Company. (1) 23.1 Consent of PricewaterhouseCoopers LLP. (1) 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the (1) Sarbanes-Oxley Act of 2002 (8)
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
- 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 (1)
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)

- (1) These exhibits are filed herewith.
- (2) These exhibits, which were previously filed with the Company's Registration Statement on Form S-1 (No. 333-06895), are incorporated by reference.
- (3) These exhibits, which were previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996 (Commission File No. 000-21121), are incorporated by reference.
- (4) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (Commission File No. 000-21121), are incorporated by reference.
- (5) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed February 18, 1999 (Commission File No. 000-21121), is incorporated by reference.
- (6) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission File No. 000-21121), are incorporated by reference.
- (7) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 25, 1999 (Commission File No. 000-21121), is incorporated by reference.
- (8) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended March 25, 2000, is incorporated by reference.
- (9) This exhibit, which was previously filed with the Company's Registration Statement on Form S-8 (No. 333-49540), is incorporated by reference.
- (10) This exhibit, which was previously filed with the Company's Annual Report on Form S-8 (No. 333-59570), is incorporated by reference.
- (11) This exhibit, which was previously filed with the Company's Annual Report on Form S-8 (No. 333-59570), is incorporated by reference.
- (12) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is incorporated by reference.
- (13) This exhibit, which was previously filed with the Company's Annual Report on Form 10-Q for the year ended June 30, 2003, is incorporated by reference.
- (14) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, is incorporated by reference.
- (15) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004, is incorporated by reference.
- (x) Management contract or compensatory plan or arrangement required to be filed pursuant to Item 14(c).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Bart C. Shuldman

Bart C. Shuldman
Chairman of the Board, President and
Chief Executive Officer
Date: March 16, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
/s/ Bart C. Shuldman ----- Bart C. Shuldman	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 16, 2005
/s/ Steven A. DeMartino ----- Steven A. DeMartino	Executive Vice President, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 16, 2005
/s/ Charles A. Dill ----- Charles A. Dill	Director	March 16, 2005
/s/ Thomas R. Schwarz ----- Thomas R. Schwarz	Director	March 16, 2005
/s/ Graham Y. Tanaka ----- Graham Y. Tanaka	Director	March 16, 2005

EXHIBIT LIST

The following exhibits are filed herewith.

Exhibit	

21.1	Subsidiaries of the Company
23.1	Consent of PricewaterhouseCoopers LLP
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 the Sarbanes-Oxley Act of 2002
10.8(x)	Severance Agreement by and between TransAct and Steven A. DeMartino, dated June 1, 2004.
10.13	Lease Agreement by and between Las Vegas Airport Properties LLC and TransAct Technologies Incorporated dated December 2, 2004.

Exhibit 10.8

SEVERANCE AGREEMENT

This Severance Agreement (the "Agreement") is entered into as of the 1st day of June, 2004, by and between Steven A. DeMartino, an individual with a residence address of 47 Agerola Road, Durham, CT 06422 (the "Executive"), and TransAct Technologies Incorporated, a Delaware corporation with a mailing address of 7 Laser Lane, Wallingford, Connecticut 06492 (the "Company"). As used in this Agreement, the "Company" shall also include all subsidiaries of the Company, as the context requires.

INTRODUCTION

1. The Company is in the business of designing, developing, manufacturing and marketing printers for point of sale, gaming and wagering, financial service and kiosk applications (the "Business").
2. The Company desires that the Executive continue to serve in his position with the Company and that the Company be able to rely upon his advice when requested as to the best interests of the Company, and its shareholders.
3. The Board of Directors of the Company believe Executive can best serve the Company without the distractions of personal uncertainties and risks that might be created in the event a change in control of the Company is proposed or his employment by the Company is terminated.

AGREEMENT

In consideration of the premises and mutual promises hereinbelow set forth, the parties hereby agree as follows:

1. Definitions. The following terms shall have the meanings indicated for the purposes of this Agreement:

(a) "Cause" shall mean: (i) the death or disability of the Executive (For purposes of this Agreement, "disability" shall mean the Executive's incapacity due to physical or mental illness which has caused the Executive to be absent from the fulltime performance of his duties with the Company for a period of six (6) consecutive months.) (ii) any action or inaction by the Executive that constitutes larceny, fraud, gross negligence, a willful or negligent misrepresentation to the directors or officers of the Company, their successors or assigns, a crime involving moral turpitude; or (iii) the refusal of the Executive to follow the reasonable and lawful written instructions of the President or the Board of Directors of the Company with respect to the services to be rendered and the manner of rendering such services by Executive, provided such refusal is material and repetitive and is not justified or excused either by the terms of this Agreement or by actions taken by the Company in violation of this Agreement, and with respect to the first two refusals Executive has been given reasonable written notice and explanation thereof

and reasonable opportunity to cure and no cure has been effected within a reasonable time after such notice.

(b) "Change in Control" will be deemed to have occurred if: (1) the Company effectuates a Takeover Transaction; or (2) any election of directors of the Company (whether by the directors then in office or by the stockholders at a meeting or by written consent) where a majority of the directors in office following such election are individuals who were not nominated by the members of the Board of Directors (or the Nominating Committee of the Board of Directors) immediately preceding such election; or (3) the Company effectuates a complete liquidation of the Company or a sale or disposition of all or substantially all of its assets. A "Change in Control" shall not be deemed to include, however, a merger or sale of stock, assets or business of the Company if the Executive immediately after such event owns, or in connection with such event immediately acquires (other than in the Executive's capacity as an equity holder of the Company or as a beneficiary of its employee stock ownership plan or profit sharing plan), any stock of the buyer or any affiliate thereof.

(c) A "Takeover Transaction" shall mean (i) a merger or consolidation of the Company with, or an acquisition of the Company of all or substantially all of its assets by, any other corporation, other than a merger, consolidation or acquisition in which the individuals who were members of the Board of Directors of the Company immediately prior to such transaction continue to constitute a majority of the Board of Directors of the surviving corporation (or, in the case of an acquisition involving a holding company, constitute a majority of the Board of Directors of the holding company) for a period of not less than twelve (12) months following the closing of such transaction, or (ii) when any person or entity or group of persons or entities (other than any trustee or other fiduciary holding securities under an employee benefit plan of the Company) either related or acting in concert becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Company representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Company.

(d) "Terminating Event" shall mean: (i) termination by the Company of the employment of the Executive for any reason other than retirement or for Cause occurring within twelve (12) months of a Change of Control; or (ii) resignation of the Executive from the employ of the Company, while the Executive is not receiving payments or benefits from the Company by reason of the Executive's disability, subsequent to any of the following events occurring within twelve (12) months of a Change of Control: (A) a significant reduction in the nature or scope of the Executive's responsibilities, authorities, powers, functions or duties from the responsibilities, authorities, powers, functions or duties exercised by the Executive immediately prior to the Change in Control; (B) a decrease in the salary payable by the Company to the Executive from the salary payable to the Executive immediately prior to the Change in Control except for across-the-board salary reductions similarly affecting all management personnel of the Company; or (C) the relocation of the Company's facility at which the Executive is currently employed by more than 50 miles from its current location (unless such new location is closer than such facility

to the Executive's then residence) provided, however, that a Terminating Event shall not be deemed to have occurred solely as a result of the Executive being an employee of any direct or indirect successor to the business or assets of the Company, rather than continuing as an employee of the Company, following a Change in Control; or (D) elimination or reduction of the Executive's participating in the Company's Executive Incentive Compensation Plan.

2. Severance.

(a) Without Cause. If the Company terminates the employment of the Executive without Cause, other than as a result of a Terminating Event, then commencing on the date of such termination and for a period of one (1) year thereafter, the Company shall provide Executive with a severance package which shall consist of the following: (i) payment on the first business day of each month of an amount equal to one-twelfth of the Executive's then current annual base salary; (ii) payment on the first business day of each month of an amount equal to one-twelfth of the Executive's annual target bonus amount under the TransAct Executive Incentive Compensation Plan, pro rated for the portion of the fiscal year occurring prior to the termination; and (iii) continuation of all benefits under Section 4.

(b) With A Terminating Event. If the Company terminates the employment of the Executive as a result of a Terminating Event, then commencing on the date of such termination and for a period equal to two (2) years thereafter, the Company shall provide Executive with a severance package which shall consist of the following: (i) payment on the first business day of each month an amount equal to one-twelfth of the Executive's then current annual base salary; (ii) payment on the first business day of each month an amount equal to one-twelfth of the Executive's annual target bonus amount under the Company's Executive Incentive Compensation Plan; and (iii) continuation of all benefits under

Section 4. In addition, if the Company terminates the employment of the Executive as a result of a Terminating Event, then the Company shall cause the immediate vesting of all options granted by the Company to the Executive under the Company's stock plans. At any time when the Company is obligated to make monthly payments under Section 2(b), the Company shall, ten (10) days after receipt of a written request from the Executive, pay the Executive an amount equal to the balance of the amounts payable under Section 2(b)(i)-(ii), provided that the obligation of the Company to continue to provide benefits pursuant to

Section 2(b)(iii) or to make monthly payments under 2(b)(i)-(ii) shall cease upon the payment of such amount.

(c) General Release. As a condition precedent to receiving any severance payment, the Executive shall execute a general release of any and all claims which Executive or his heirs, executors, agents or assigns might have against the company, its subsidiaries, affiliates, successors, assigns and their past, present and future employees, officers, directors, agents and attorneys.

(d) Withholding. All payments made by the Company under this Agreement shall be net of any tax or other amounts required to be withheld by the Employer under applicable law.

3. Non-competition. During Executive's employment with the Company and the term of this Agreement and (a) in the case of termination other than as a result of a Terminating Event, for six (6) months following the termination of Executive's employment with the Company or (b) in the case of termination as a result of a Terminating Event, for one (1) year following the termination of Executive's employment with the Company, Executive will not directly or indirectly whether as a partner, consultant, agent, employee, co-venturer, greater than two percent owner or otherwise or through any other person (as hereafter defined): (a) be engaged in any business or activity which is competitive with the Business of the Company in any part of the world in which the Company is at the time of the Executive's termination engaged in selling their products directly or indirectly; or (b) attempt to recruit any employee of the Company, assist in their hiring by any other person, or encourage any employee to terminate his or her employment with the Company; or (c) encourage any customer of the Company to conduct with any other person any business or activity which such customer conducts or could conduct with the Company. For purpose of this Section 3, the term "Company" shall include any person controlling, under common control with or controlled by, the Company.

For purposes of this Section 3, the term "Person" shall mean an individual or corporation, association or partnership in estate or trust or any other entity or organization.

The Executive recognizes and agrees that because a violation by him of this Section 3 will cause irreparable harm to the Company that would be difficult to quantify and for which money damages would be inadequate, the Company shall have the right to injunctive relief to prevent or restrain any such violation, without the necessity of posting a bond.

Executive expressly agrees that the character, duration and scope of this covenant not to compete are reasonable in light of the circumstances as they exist at the date upon which this Agreement has been executed. However, should a determination nonetheless be made by a court of competent jurisdiction at a later date that the character, duration or geographical scope of this covenant not to compete is unreasonable in light of the circumstances as they then exist, then it is the intention of both Executive and the Company that this covenant not to compete shall be construed by the court in such a manner as to impose only those restrictions on the conduct of Executive which are reasonable in light of the circumstances as they then exist and necessary to provide the Company the intended benefit of this covenant to compete.

4. Confidentiality Covenants. Executive understands that the Company may impart to him confidential business information including, without limitation, designs, financial information, personnel information, strategic plans, product development information and the like (collectively "Confidential Information"). Executive hereby acknowledges Company's exclusive ownership of such Confidential Information.

Executive agrees as follows: (1) only to use the Confidential Information to provide services to the Company; (2) only to communicate the Confidential Information to fellow employees, agents and representatives of the Company on a need-to-know basis; and (3) not to otherwise disclose or use any Confidential Information. Upon demand by the Company or upon termination of Executive's employment, Executive will deliver to the Company all manuals, photographs, recordings, and any other instrument or device by which, through which, or on which Confidential Information has been recorded and/or preserved, which are in Executive's possession, custody or control. Executive acknowledges that for purposes of this Section 4 the term "Company" means any person or entity now or hereafter during the term of this Agreement which controls, is under common control with, or is controlled by, the Company.

The Executive recognizes and agrees that because a violation by him of this Section 4 will cause irreparable harm to the Company that would be difficult to quantify and for which money damages would be inadequate, the Company shall have the right to injunctive relief to prevent or restrain any such violation, without the necessity of posting a bond.

5. Governing Law/Jurisdiction. This Agreement shall be governed by and interpreted and governed in accordance with the laws of the State of Connecticut. The parties agree that this Agreement was made and entered into in Connecticut and each party hereby consents to the jurisdiction of a competent court in Connecticut to hear any dispute arising out of this Agreement.

6. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and thereof and supercedes any and all previous agreements, written and oral, regarding the subject matter hereof between the parties hereto including, without limitation, the Severance Agreement between Executive and the Company dated as of January 21, 1998. This Agreement shall not be changed, altered, modified or amended, except by a written agreement signed by both parties hereto.

7. Notices. All notices, requests, demands and other communications required or permitted to be given or made under this Agreement shall be in writing and shall be deemed to have been given if delivered by hand, sent by generally recognized overnight courier service, telex or telecopy, or certified mail, return receipt requested.

(a) to the Company at:
7 Laser Lane
Wallingford, Connecticut 06492 Attn: President

(b) to the Executive at:
47 Agerola Road
Durham, CT 06422

Any such notice or other communication will be considered to have been given (i) on the date of delivery in person, (ii) on the third day after mailing by certified mail, provided that receipt of delivery is confirmed in writing, (iii) on the first business day following delivery to a commercial overnight courier or (iv) on the date of facsimile transmission (telecopy) provided that the giver of the notice obtains telephone confirmation of receipt.

Either party may, by notice given to the other party in accordance with this section, designate another address or person for receipt of notices hereunder.

8. Severability. If any term or provision of this Agreement, or the application thereof to any person or under any circumstance, shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such terms to the persons or under circumstances other than those as to which it is invalid or unenforceable, shall be considered severable and shall not be affected thereby, and each term of this Agreement shall be valid and enforceable to the fullest extent permitted by law. The invalid or unenforceable provisions shall, to the extent permitted by law, be deemed amended and given such interpretation as to achieve the economic intent of this Agreement.

9. Waiver. The failure of any party to insist in any one instance or more upon strict performance of any of the terms and conditions hereof, or to exercise any right or privilege herein conferred, shall not be construed as a waiver of such terms, conditions, rights or privileges, but same shall continue to remain in full force and effect. Any waiver by any party of any violation of, breach of or default under any provision of this Agreement by the other party shall not be construed as, or constitute, a continuing waiver of such provision, or waiver of any other violation of, breach of or default under any other provision of this Agreement.

10. Successors and Assigns. This Agreement shall be binding upon the Company and any successors and assigns of the Company.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

TRANSACT TECHNOLOGIES INCORPORATED

By: /s/ Bart C. Shuldman

Title: Chairman, President and CEO

EXECUTIVE:

/s/ Steven A. DeMartino

Steven A. DeMartino

Exhibit 10.13

INDUSTRIAL REAL ESTATE LEASE

between

**LAS VEGAS AIRPORT PROPERTIES LLC
AS LANDLORD**

and

**TRANSACT TECHNOLOGIES INC.
AS TENANT**

DATED AS OF DECEMBER 2, 2004

Page 1

INDUSTRIAL REAL ESTATE LEASE

TABLE OF CONTENTS

	PAGE #

ARTICLE 1 BASIC TERMS.....	6
SECTION 1.01 DEFINITIONS.....	6
SECTION 1.02 BASE RENT.....	10
SECTION 1.03 RIDERS.....	10
SECTION 1.04 PARKING.....	11
ARTICLE 2 LEASE TERM AND COMMON BUILDING AREAS.....	11
SECTION 2.01 LEASE OF PROPERTY FOR LEASE TERM.....	11
SECTION 2.02 DELIVERY OF POSSESSION.....	11
SECTION 2.03 HOLDING OVER.....	12
SECTION 2.04 COMMON BUILDING AREAS.....	12
SECTION 2.05 LANDLORD'S RIGHTS IN COMMON BUILDING AREAS.....	13
ARTICLE 3 BASE RENT.....	13
SECTION 3.01 TIME AND MANNER OF PAYMENT.....	13
SECTION 3.02 BASE RENT INCREASES.....	14
ARTICLE 4 OTHER CHARGES PAYABLE BY TENANT.....	14
SECTION 4.01 ADDITIONAL RENT.....	14
SECTION 4.02 OPERATING COSTS.....	14
SECTION 4.03 PERSONAL PROPERTY TAXES.....	15
SECTION 4.04 UTILITIES.....	16
SECTION 4.05 INSURANCE.....	16
SECTION 4.06 WAIVER OF SUBROGATION.....	18
SECTION 4.07 LATE CHARGES.....	18
SECTION 4.08 INTEREST ON PAST DUE OBLIGATIONS.....	18
SECTION 4.09 RETURN OF CHECK.....	18
SECTION 4.10 SECURITY DEPOSIT; INCREASES.....	19
SECTION 4.11 TERMINATION; ADVANCE PAYMENTS.....	19
ARTICLE 5 USE OF PROPERTY.....	19
SECTION 5.01 PERMITTED USES.....	19
SECTION 5.02 MANNER OF USE.....	19
SECTION 5.03 HAZARDOUS SUBSTANCES.....	20
SECTION 5.04 SIGNS AND AUCTIONS.....	23
SECTION 5.05 INDEMNITY.....	23
SECTION 5.06 LANDLORD'S ACCESS.....	24
SECTION 5.07 INTENTIONALLY OMITTED.....	24

ARTICLE 6 CONDITION OF PROPERTY; MAINTENANCE, REPAIRS AND ALTERATIONS.....	24
SECTION 6.01 EXISTING CONDITIONS.....	24
SECTION 6.02 EXEMPTION OF LANDLORD FROM LIABILITY.....	24
SECTION 6.03 LANDLORD'S OBLIGATIONS.....	25
SECTION 6.04 TENANT'S OBLIGATIONS.....	26
SECTION 6.05 ALTERATIONS, ADDITIONS, AND IMPROVEMENTS.....	27
SECTION 6.06 CONDITION UPON TERMINATION.....	28
ARTICLE 7 DAMAGE OR DESTRUCTION.....	28
SECTION 7.01 PROPERTY DAMAGE.....	28
SECTION 7.02 REDUCTION OF RENT.....	29
SECTION 7.03 WAIVER.....	30
ARTICLE 8 CONDEMNATION.....	30
SECTION 8.01 CONDEMNATION.....	30
ARTICLE 9 ASSIGNMENT AND SUBLETTING.....	30
SECTION 9.01 LANDLORD'S CONSENT REQUIRED.....	30
SECTION 9.02 LANDLORD'S ELECTION.....	31
SECTION 9.03 NO RELEASE OF TENANT.....	32
SECTION 9.04 NO MERGER.....	32
ARTICLE 10 DEFAULTS; REMEDIES.....	32
SECTION 10.01 COVENANTS AND CONDITIONS.....	32
SECTION 10.02 DEFAULTS.....	32
SECTION 10.03 REMEDIES.....	33
SECTION 10.04 CUMULATIVE REMEDIES.....	35
ARTICLE 11 PROTECTION OF LENDERS.....	35
SECTION 11.01 SUBORDINATION.....	35
SECTION 11.02 ATTORNMEN.....	35
SECTION 11.03 SIGNING OF DOCUMENTS.....	36
SECTION 11.04 ESTOPPEL CERTIFICATES.....	36
SECTION 11.05 TENANT'S FINANCIAL CONDITION.....	36
ARTICLE 12 LEGAL COSTS.....	37
SECTION 12.01 LEGAL PROCEEDINGS.....	37
SECTION 12.02 LANDLORD'S CONSENT.....	37
ARTICLE 13 MISCELLANEOUS PROVISIONS.....	37
SECTION 13.01 NON-DISCRIMINATION.....	37
SECTION 13.02 LANDLORD'S LIABILITY.....	37

SECTION 13.03	SEVERABILITY.....	38
SECTION 13.04	INTERPRETATION.....	38
SECTION 13.05	INCORPORATION OF PRIOR AGREEMENTS; MODIFICATIONS....	38
SECTION 13.06	NOTICES.....	38
SECTION 13.07	WAIVERS.....	39
SECTION 13.08	NO RECORDATION.....	39
SECTION 13.09	BINDING EFFECT; CHOICE OF LAW.....	39
SECTION 13.10	CORPORATE AUTHORITY; PARTNERSHIP AUTHORITY.....	39
SECTION 13.11	JOINT AND SEVERAL LIABILITY.....	40
SECTION 13.12	FORCE MAJEURE.....	40
SECTION 13.13	EXECUTION OF LEASE.....	40
SECTION 13.14	BROKERS AND LEASING AGENTS.....	40
SECTION 13.15	RULES AND REGULATIONS.....	40
SECTION 13.16	INTENTIONALLY OMITTED.....	41
SECTION 13.17	WAIVER OF JURY TRIAL.....	41
SECTION 13.18	REAL ESTATE BROKERAGE DISCLOSURES.....	41
SECTION 13.19	MOLD ADDENDUM.....	41
SECTION 13.20	LANDLORD REPRESENTATIONS.....	41

LIST OF EXHIBITS/RIDERS

Exhibit/Rider Designation	Description	Lease Section Reference
"A"	Depiction of Premises.....	1.01(p)
"A-1"	Depiction of Warehouse Space.....	2.02(c)
"B"	Legal Description of Site.....	1.01(b)
"C"	Rules and Regulations.....	13.15
"D"	Estoppel Certificate.....	11.04
"E"	Commencement Memorandum.....	1.01(c)
"F"	Duties Owed by a Nevada Real Estate Licensee.....	13.18
"G"	Confirmation Regarding Real Estate Relationship....	13.18
"H"	Mold Addendum.....	13.19
Rider No. 1	- Work Letter.....	1.03
Rider No. 2	- Option to Renew Lease.....	1.03
Rider No. 3	- Intentionally Omitted.....	1.03
Rider No. 4	- Right of First Offer to Lease.....	1.03

INDUSTRIAL REAL ESTATE LEASE

THIS INDUSTRIAL REAL ESTATE LEASE (this "Lease") is made as of the 2nd day of December, 2004, by and between LAS VEGAS AIRPORT PROPERTIES LLC, a Delaware limited liability company ("Landlord") and TRANSACT TECHNOLOGIES INC., a Delaware corporation ("Tenant").

ARTICLE 1 BASIC TERMS

SECTION 1.01 DEFINITIONS.

For purposes of this Lease, the following terms shall have the following meanings:

(a) Allowance: Sixty Eight Thousand Three Hundred Ten and 00/100 Dollars (\$68,310.00).

(b) Building: That certain parcel of real estate located within the Hughes Airport Center as described on Exhibit "B" attached hereto and incorporated herein by this reference and the building and other improvements located thereon, all of which is commonly known as 6700 Paradise Road, Las Vegas, Nevada, 89119.

(c) Commencement Date: The earlier of the date (i) the Work (as defined in Rider No. 1 attached hereto) is substantially completed in accordance with Section 2.02(b) below, or (ii) January 1, 2005, except as delayed pursuant to Section 2.02 of this Lease. At such time as the Commencement Date shall have been established, Landlord and Tenant shall execute Exhibit E attached hereto and incorporated herein by reference as a confirmation of said date.

(d) Common Building Areas: All areas and facilities outside the Premises and within the exterior property boundary line of the Building and interior utility raceways within the Premises that are provided and designated by the Landlord from time to time for the general non-exclusive use of Landlord, Tenant and other tenants of the Building and their respective employees, suppliers, shippers, customers, contractors and invitees, including, without limitation, trash areas, roadways, sidewalks, walkways, landscaped areas, irrigation systems, lighting facilities, fences, gates, elevators, roof, common entrances, common areas within the Building, common pipes, conduits, wires and appurtenant equipment serving the Premises, exterior signs, Tenant directories, fire detection systems, sprinkler systems, security systems, and the parking facilities for the Building. Landlord has the right to change the Common Building Areas and to take other actions respecting these areas in accordance with Section 2.05 below.

(e) Declaration: (i) that certain Declaration of Restrictions and Grant of Easements dated November 1, 1985 and filed for record with the County Recorder of Clark County, Nevada ("County Recorder") as Document No. 2175093, as supplemented and amended from time to time, and (ii) that certain Declaration of Restrictions and Grant of Easements for Hughes Airport Center 6700 Paradise and 1111, 1151 and 1181 Grier Drive Association dated May 18, 2004 and filed for record with the County Recorder in Book 20040603, Instrument No. 0002453, as supplemented and amended from time to time. The Declaration is

filed on the Building and a larger real estate development, of which the Building is a part, known as Hughes Airport Center.

(f) Initial Security Deposit: Ten Thousand Six Hundred Fifty Six and 36/100 Dollars (\$10,656.36).

(g) Laws: All applicable statutes, regulations, requirements, ordinances and orders promulgated by any federal, state, local or regional governmental authority whether prior to or following the Commencement Date of this Lease.

(h) Landlord's Addresses: Mailing Address: LAS VEGAS AIRPORT PROPERTIES LLC, c/o Stoltz Management of Delaware, Inc., 250 Pilot Road, Suite 220, Las Vegas, Nevada 89119. Office Address: LAS VEGAS AIRPORT PROPERTIES LLC, c/o Stoltz Management of Delaware, Inc., 725 Conshohocken State Road, Bala Cynwyd, Pennsylvania 19004.

With a copy to: Lehman Brothers Bank, FSB, 1000 West Street
Suite 200
Wilmington, DE 19801 Attention: General Counsel

(i) Landlord's Broker: Stoltz Realty of Delaware, Inc.

(j) Lease Interest Rate: The lesser of (i) two percentage points (2%) over that fluctuating rate of interest announced from time to time by the Bank of America National Trust and Savings Association as its prime or reference commercial lending rate of interest (or in the event such bank is no longer announcing such rate, by such other federally regulated banking institution of comparable stature as Landlord shall determine), or (ii) the maximum interest rate permitted by law.

(k) Lease Term: Five (5) years beginning on the Commencement Date and continuing until sixty (60) months after the first day of the first full month following the Commencement Date, unless extended pursuant to Rider No. 2 - Option to Renew Lease attached to this Lease and incorporated herein by this reference.

(l) Leased Premises Address: 6700 Paradise Road, Suite D, Las Vegas, Nevada 89119.

(m) Mortgagee: The mortgagee under a mortgage or beneficiary under a deed of trust holding a lien encumbering the Building or any holder of a ground leasehold interest in the Building or any part thereof. For purposes of this Lease, Lehman Brothers Bank, FSB shall be referred to as the "First Mortgagee."

(n) Operating Costs: All costs of any kind paid or incurred by Landlord because of or in connection with the ownership, management, maintenance, repair, replacement, restoration or operation of the Building (including all Common Building Areas), including by way of illustration but not limitation, all of the following: (i) all amounts charged to the Building pursuant to the Declaration; (ii) Real Property

Taxes; (iii) all costs, charges and surcharges for utilities, water, sewage, janitorial, waste disposal and refuse removal and all other utilities and services provided to the Building which are not separately metered or billed directly to tenants of the Building; (iv) insurance costs for which Landlord is responsible under this Lease or which Landlord or any Mortgagee deems necessary or prudent; (v) any costs levied, assessed or imposed pursuant to any applicable Laws; (vi) the cost (amortized over such period as Landlord reasonably determines together with interest at the Lease Interest Rate on the unamortized balance) of any capital improvements to the Building or equipment replacements made by Landlord after the Commencement Date that are intended to reduce other Operating Costs or are required by any Laws or are necessary in order to operate the Building at the same quality level as prior to such replacement; (vii) costs and expenses of operation, repair and maintenance of all structural and mechanical portions and components of the Building including, without limitation, plumbing, communication, heating, ventilating and air-conditioning ("HVAC"), elevator, and electrical and other common Building systems; (viii) utilities surcharges or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations or interpretations thereof, promulgated by any federal, state, regional, municipal or local government authority in connection with the use or occupancy of the Building (including, without limitation, energy conservation charges or surcharges); (ix) all costs incurred in the management and operation of the Building including, without limitation, gardening and landscaping, maintenance of all parking areas, maintenance of signs, resurfacing and repaving, painting, lighting, cleaning, and provision of Building security; (x) all personal property taxes levied on or attributable to personal property used in connection with the Building; (xi) depreciation on personal property owned by Landlord which is utilized in the operation or maintenance of the Building; (xii) rental or lease payments paid by Landlord for rented or leased personal property used in the operation or maintenance of the Building; (xiii) management fees in an amount not to exceed four percent (4%) of Landlord's gross revenues in respect of the Building, wages, salaries and other labor costs incurred in the management and operation of the Building; (xiv) fees for required licenses and permits; (xv) reasonable legal, accounting and other professional fees which are directly related to the reasonable administration of the Building; (xvi) reasonable and appropriate reserves for repair and replacement; (xvii) wages, salaries and other labor costs incurred in the management and operation of the Building; (xviii) any other expenses which would reasonably or customarily be included in the cost of managing, operating, maintaining and repairing buildings similar to the Building. At Landlord's sole discretion, Landlord shall have the right to amortize any of the costs of repair or maintenance of the Building over such period as Landlord reasonably determines together with interest at the Lease Interest Rate on the unamortized balance, in lieu of including the entire amount of such costs in Operating Costs in the year such costs are incurred. If the Building is not fully occupied during any portion of the Lease Term, (a) Landlord shall make an appropriate adjustment to Operating Costs for such period employing sound accounting and management principles, to determine the amount of Operating Costs that would have been incurred had the Building been fully occupied during such period and (b) such adjusted amount of Operating Costs shall be the amount utilized for purposes of Section 4.02 below. Except as otherwise provided in this Lease, Operating Costs shall not include all or any portion of the following (1) Depreciation of the Building or equipment therein; (2) Principal, interest, loan fees and penalties relating to land on which the Building is located and all expenditures relating to any ground lease payment or obligations; (3) Leasehold improvements including redecorating made for tenants of the Building; (4) Refinancing costs; (5) Any expenses for repairs or maintenance which are actually paid by warranties and service contracts; (6) The cost of any item to the extent that such cost is reimbursed or reimbursable by an insurance company, a condemnor, a tenant, or any other party; (7) The cost of any repairs caused by Landlord's negligence, or the negligence of Landlord's agents, employees or invitees; (8) Legal fees incurred in enforcing leases or in leasing the Building; (9) Costs incurred by the Landlord in connection with its lease negotiations with prospective tenants, and all other costs associated with the Landlord's leases with third-

party tenants, including all brokerage commissions and advertising expenses;

(10) Expenses incurred by the Landlord in connection with services or equipment supplied to a third-party tenant for its specific use or to the extent its use is disproportionate to the other tenants in the Building; (11) Remuneration paid to third parties in connection with commercial enterprises operated by Landlord other than the operation and management of the Hughes Airport Center, if any;

(12) The Landlord's everyday corporate overhead; (13) All costs incurred by the Landlord in connection with any dispute relating to Landlord's title to and ownership of the Building; (14) All utility costs for which a tenant directly contracts with local utility companies; (15) Costs of complying with all environmental laws and regulations in effect as of the date this Lease is executed, except for costs resulting from Tenant's particular use of the Premises; (16) Costs incurred by Landlord resulting from the violation of environmental laws by other tenants in the Building; (17) All penalties and costs incurred by Landlord due to Landlord's or any third-party tenant's negligence; (18) Any costs representing an amount paid to an entity related to Landlord which is in excess of the amount which would have been paid in the absence of such relationship; or (19) costs incurred by Landlord with respect to structural repairs and replacements of the Building.

(o) Permitted Uses: General office, warehouse, repair center and other compatible uses.

(p) Premises: The office/warehouse space in the approximate location within the Building as indicated on Exhibit "A" attached hereto and incorporated herein by this reference.

(q) Real Property Taxes: Any form of tax, assessment, license fee, license tax, business license fee, commercial rental tax, levy, charge, penalty, tax or similar imposition, imposed by any authority having the direct power to tax (including any city, county, state or federal government, or any school, agricultural, lighting, drainage, transportation, air pollution, environmental or other improvement or special assessment district) as against any legal or equitable interest of Landlord in the Building and/or the Premises, including, but not limited to, the following:

(i) any tax on a landlord's "right" to rent or "right" to other income from the Premises or against Landlord's business of leasing the Premises;

(ii) any assessment, tax, fee, levy or charge in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of Real Property Taxes (it is the intention of Tenant and Landlord that all such new and increased assessments, taxes, fees, levies and charges be included within the definition of "Real Property Taxes" for the purposes of this Lease);

(iii) any assessment, tax, fee, levy or charge allocable to or measured by the area of the Premises or the rent payable hereunder, including, without limitation, any gross income tax or excise tax levied by the state, county, city or federal government, or any political subdivision thereof, with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operating, management and maintenance, alteration, repair, use or occupancy of the Building, or any portion thereof;

(iv) any assessment, tax, fee, levy or charge upon this transaction creating or transferring an interest or an estate in the Premises;

(v) any assessment, tax, fee, levy or charge based upon the number of people employed, working at, or using the Premises or the Building, or utilizing public or private transportation to commute to the Premises or the Building; and

(vi) reasonable legal and other professional fees, costs and disbursements incurred in connection with proceedings to contest, determine or reduce Real Property Taxes.

Real Property Taxes shall not include federal or state income, franchise, inheritance, transfer, gift, gross receipts or estate taxes of Landlord or of any of the parties which comprise Landlord.

(r) Rentable Square Feet in the Building: Fifty three thousand one hundred fifteen (53,115) rentable square feet. The Building is stipulated for all purposes to contain said Rentable Square Feet in the Building.

(s) Tenant's Address: 3960 Howard Hughes Parkway, Suite 500, Las Vegas, Nevada 89109.

(t) Tenant's Broker: None.

(u) Tenant's Guarantor: None.

(v) Tenant's Rentable Square Feet: approximately thirteen thousand six hundred sixty-two (13,662) rentable square feet, subject to adjustment based upon the Final Plans (as defined in Rider No. 1). The Premises are stipulated for all purposes to contain said Tenant's Rentable Square Feet, as adjusted based on the Final Plans.

(w) Tenant's Share: Twenty-five and seventy-two hundredths percent (25.72%), subject to adjustment based upon any change in Tenant's Rentable Square Feet as shown on the Final Plans (as defined in Rider No 1).

SECTION 1.02 BASE RENT.

The "Base Rent" shall be seventy eight cents (\$0.78) per month for each square foot of Tenant's Rentable Square Feet, which is equal to Ten Thousand Six Hundred Fifty Six and 36/100 Dollars (\$10,656.36) per month as adjusted pursuant to Section 3.02 below. The Base Rent shall be adjusted in accordance with Tenant's Rentable Square Feet as shown on the Final Plans (as defined in Rider No. 1).

SECTION 1.03 RIDERS.

The following Riders are attached to and made a part of this Lease: RIDER NO. 1 - TENANT WORK LETTER; RIDER NO. 2 - OPTION TO RENEW LEASE; RIDER NO. 3 - INTENTIONALLY OMITTED; RIDER NO. 4 - RIGHT OF FIRST OFFER TO LEASE.

SECTION 1.04 PARKING.

Tenant shall be entitled to use up to thirty-five (35) unreserved uncovered parking spaces on the parking area of the Building. Tenant hereby acknowledges and agrees that the foregoing parking spaces are the total number of parking spaces available for use by Tenant, Tenant's agents, employees, contractors, invitees, successors or others using the Premises with Tenant's express or implied permission.

ARTICLE 2 LEASE TERM AND COMMON BUILDING AREAS

SECTION 2.01 LEASE OF PROPERTY FOR LEASE TERM.

Landlord hereby leases the Premises to Tenant and Tenant leases the Premises from Landlord for the Lease Term. The Lease Term is for the period stated in Section 1.01(k) above and shall begin and end on the dates specified in Section 1.01(k) above. The "Commencement Date" shall be the date specified in Section 1.01(c) above for the beginning of the Lease Term.

SECTION 2.02 DELIVERY OF POSSESSION.

(a) Landlord will be deemed to have delivered possession of the Premises to Tenant on the Commencement Date, as it may be adjusted pursuant to this Section 2.02 or Rider No. 1 of this Lease. Landlord will construct or install in the Premises the Work (as that term is defined in Rider No. 1) to be constructed or installed by Landlord according to Rider No. 1. Tenant acknowledges that neither Landlord nor its agents or employees have made any representations or warranties as to the suitability or fitness of the Premises for the conduct of Tenant's business or for any other purpose, nor has Landlord or its agents or employees agreed to undertake any alterations or construct any tenant improvements to the Premises except as expressly provided in this Lease and Rider No. 1. Subject to Rider No. 1 of this Lease, if Landlord fails to deliver possession of the Premises to Tenant on or before the fixed date component of the Commencement Date, then as Tenant's sole remedy for the delay in Tenant's occupancy of the Premises, the fixed date component of the Commencement Date shall be extended by the length in delay of delivery of the Premises to Tenant. Notwithstanding the foregoing, in the event Landlord fails to deliver possession of the Premises on or within sixty (60) days following the fixed date component of the Commencement Date, Tenant shall thereafter have the right, upon written notice to Landlord ("Tenant Termination Notice") to terminate this Lease effective on the date thirty (30) days following receipt by Landlord of the Tenant Termination Notice. Notwithstanding the foregoing, Landlord may vitiate such termination if Landlord delivers the Premises to Tenant within thirty (30) days following its receipt of the Tenant Termination Notice.

(b) Notwithstanding any provision to the contrary contained in Section 2.02(a), if the Premises are not substantially completed by the fixed date specified in Section 1.01(c)(ii) due to Force Majeure Delays, then as Tenant's sole remedy for the delay in Tenant's occupancy of the Premises, the fixed date component of the definition of the Commencement Date shall be delayed for the period of delay in substantial completion of the Premises resulting therefrom. The Premises shall be deemed "substantially completed" when (i) Landlord has provided reasonable access to the Premises to Tenant, (ii) Landlord has completed the Work (as defined in Rider No. 1) other than details of construction which do not unreasonably interfere with Tenant's use of the Premises, and (iii) Landlord has obtained a permanent or temporary certificate of occupancy for the Premises (or its equivalent). For purposes of this Section 2.02, "Force

Majeure Delays" shall mean and refer to a period of delay or delays encountered by Landlord affecting the Work because of fire, earthquake or other acts of God; acts of the public enemy; riot; insurrection; public unrest; governmental regulations of the sales of materials or supplies or the transportation thereof; strikes or boycotts; shortages of material or labor or any cause beyond the reasonable control of Landlord, excluding the issuance of governmental permits or approvals affecting the Work.

(c) Notwithstanding any provision to the contrary contained in Section 1.01(c) or this Section 2.02, in the event the Work (as defined in Rider No. 1) is not substantially completed by January 1, 2005, and provided Tenant is not otherwise in default of this Lease, Tenant shall have the right to occupy the warehouse portion of the Premises as such area is depicted on Exhibit A-1 attached hereto and incorporated herein (the "Warehouse Space"), commencing on January 1, 2005 and ending on the Commencement Date (the "Early Occupancy Period"). Tenant's occupancy of the Warehouse Space during the Early Occupancy Period shall not unreasonably interfere with Landlord's completion of the Work and such occupancy shall be at Tenant's sole risk and subject to all of the provisions of this Lease, including, without limitation, all insurance and indemnity requirements; provided, however, during the Early Occupancy Period, Tenant shall pay monthly Base Rent of seventy eight cents (\$0.78) for each square foot contained in the Warehouse Space only. During the Early Occupancy Period, Tenant's Additional Rent obligations shall be equitably adjusted to reflect the fact that Tenant's occupancy will be limited to the Warehouse Space. Tenant shall promptly deliver to Landlord, on or before Tenant's early occupancy of the Warehouse Space, original certificates evidencing the existence and amounts of such insurance required to be carried by Tenant in Article 4 for the Warehouse Space. Early occupancy of the Warehouse Space shall not advance the expiration date of this Lease.

SECTION 2.03 HOLDING OVER.

Tenant shall vacate the Premises upon the expiration or earlier termination of this Lease. Tenant shall reimburse Landlord for and indemnify and hold Landlord harmless against all damages, claims, losses, penalties, charges, and expenses (including reasonable attorney's fees) incurred by Landlord resulting from any delay by Tenant in vacating the Premises. If Tenant does not vacate the Premises upon the expiration or earlier termination of this Lease, Tenant's occupancy of the Premises shall be a tenancy at sufferance, subject to all of the terms of this Lease applicable to a tenancy at sufferance, except that the Base Rent then in effect shall be equal to one hundred fifty percent (150%) of the Base Rent in effect immediately prior to the expiration or earlier termination of this Lease. Nothing contained in this Section 2.03 shall be construed as consent by Landlord to any holding over of the Premises by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord upon the expiration or earlier termination of this Lease.

SECTION 2.04 COMMON BUILDING AREAS.

Tenant shall have the nonexclusive right to the use in common with other tenants in the Building, subject to the Rules and Regulations referred to in Section 13.15 below, the Common Building Areas appurtenant to the Premises, as they may change from time to time.

SECTION 2.05 LANDLORD'S RIGHTS IN COMMON BUILDING AREAS.

Landlord hereby reserves the right from time to time to do the following provided it is done without unreasonable interference with Tenant's use of the Premises:

- (a) To install, use, maintain, repair and replace pipes, ducts, conduits, wires and appurtenant meters and equipment for service to other parts of the Building above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas, and to relocate any pipes, ducts, conduits, wires and appurtenant meters and equipment included in the Premises which are located in the Premises or located elsewhere outside the Premises, and to expand the Building. For any work to be performed in the Premises, Landlord shall provide commercially reasonable prior notice to Tenant of the same;
- (b) To make changes to the Common Building Areas, including, without limitation, changes in the location, size, shape and number of driveways, parking spaces, entrances, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, and walkways and the parking facilities for the Building;
- (c) To close temporarily any of the Common Building Areas for maintenance purposes or to prevent prescriptive easements so long as access to the Premises remains available;
- (d) To designate other land outside the boundaries of the Building and/or the Hughes Airport Center to be a part of the Common Building Areas;
- (e) To add additional buildings and improvements to the Common Building Areas, including, without limitation, the construction of buildings, parking structures or surface parking areas;
- (f) To use the Common Building Areas while engaged in making additional improvements, repairs or alterations to the Building or to the Hughes Airport Center, or any portion thereof provided, however, that such use of the Common Building Areas shall be reasonable, including without limitation, the duration and extent of such use; and
- (g) To do and perform such other acts and make such other changes in, to or with respect to the Common Building Areas and the Building as Landlord may, in the exercise of sound business judgment, deem to be appropriate.

ARTICLE 3 BASE RENT

SECTION 3.01 TIME AND MANNER OF PAYMENT.

Base Rent is due on or before the first (1st) day of each month without offset, deduction or prior demand. The Base Rent shall be abated for the first six (6) full months of the Lease Term. Upon execution of this Lease, Tenant shall pay Landlord the Base Rent in the amount stated in Section 1.02 above for the seventh (7th) full month of the Lease Term. The Base Rent for the first month of the Lease Term shall be prorated on the basis of the actual number of days in such month, if such month is a fractional month, and the Lease Term shall nevertheless commence on the Commencement Date and continue until sixty (60) months

after the first day of the first full month following the Commencement Date. If such month is a fractional month, the Base Rent for such fractional month shall be due and payable on the Commencement Date. Thereafter, on the first day of the eighth (8th) month of the Lease Term (or, if the first full month of the Lease Term is the second month, then the ninth (9th) month of the Lease Term) and each month thereafter, Tenant shall pay Landlord the Base Rent, in advance, without offset, deduction or prior demand. The Base Rent shall be payable at such of Landlord's Addresses as may be designated by Landlord in writing or at such other place as Landlord may designate in writing. It is understood and agreed by Tenant that Landlord's acceptance of any payment for sums due under this Lease which payment represents less than all sums due and owing from Tenant to Landlord shall, in addition to reserving any and all of Landlord's rights under this Lease, be credited to Tenant's account in the order and manner deemed appropriate solely at the discretion of Landlord.

SECTION 3.02 BASE RENT INCREASES.

The Base Rent shall be increased on the first day of the thirteenth (13th) month of the Lease Term and on each annual anniversary thereof during the Lease Term (the "Adjustment Month") by an amount equal to three percent (3%) of the Base Rent in effect immediately prior to a respective Adjustment Month. Landlord shall notify Tenant of each increase by delivering a written statement setting forth the new amount of the Base Rent. Tenant shall pay the new Base Rent from its effective date until the next periodic increase.

ARTICLE 4 OTHER CHARGES PAYABLE BY TENANT

SECTION 4.01 ADDITIONAL RENT.

All charges payable by Tenant hereunder other than Base Rent are called "Additional Rent." Unless this Lease provides otherwise, all Additional Rent shall be paid with the next monthly installment of Base Rent and under the same terms and conditions as the Base Rent. Notwithstanding that the Base Rent shall be abated for the first six (6) full months of the Lease Term, there shall be no abatement of Additional Rent whatsoever. The term "Rent" shall mean Base Rent and Additional Rent. Tenant shall pay Landlord all Rent without offset, deduction or prior demand.

SECTION 4.02 OPERATING COSTS.

(a) During the Lease Term, Tenant shall pay as Additional Rent Tenant's Share of the Operating Costs. The inclusion of the improvements, facilities and services described in the definition of Operating Costs set forth in Section 1.01(n) above, shall not be deemed to impose an obligation upon Landlord to make available said improvements or facilities or to provide any of said services unless Landlord has agreed elsewhere in this Lease to provide the specific improvement, facility or service.

(b) Tenant shall pay Tenant's Share of Operating Costs, in advance, in monthly installments with the Base Rent based on Landlord's good faith estimate of the Operating Costs. Landlord may adjust such estimates from time to time as Landlord determines, which adjustment will be effective as of the next payment date for Base Rent after notice of such adjustment to Tenant. After the end of each calendar year, Landlord shall deliver to Tenant a statement, in reasonable detail, of the Operating Costs as finally determined by Landlord for the preceding calendar year and Tenant's Share of such Operating Costs. Upon

Tenant's receipt of such statement, there shall be an adjustment between Landlord and Tenant, with payment to Landlord within thirty (30) days of Tenant's receipt of such statement or credit given to Tenant, as the case may be, to reflect the finally determined Operating Costs. Landlord's failure to provide such statement(s) shall in no way excuse Tenant from its obligation to pay Additional Rent and shall not constitute a waiver of Landlord's right to bill and collect such Additional Rent from Tenant in accordance with the terms of the Lease.

(c) Landlord shall have the right, from time to time, to equitably allocate some or all of the Operating Costs for the Building among different portions or occupants of the Building (the "Cost Pools"), in Landlord's discretion. Such Cost Pools may include, but shall not be limited to, the office space tenants of the Building as a whole, and the industrial space tenants of the Building as a whole. The Operating Costs within each such Cost Pool shall be allocated and charged to the tenants within such Cost Pool in an equitable manner.

(d) In the event of any dispute as to the amount of Tenant's Share of Operating Costs as set forth in the Operating Costs statement, Tenant shall have the right, once, and only once, a year after no less than thirty (30) days prior written notice and at reasonable times, to inspect and photocopy Landlord's Operating Costs records for the previous calendar year only at Landlord's Office Address specified in Section 1.01(h). If, after such inspection and photocopy, Tenant continues to dispute the amount of Tenant's Share of Operating Costs as set forth in the Operating Costs statement, Tenant shall be entitled to retain an independent, certified public accountant to audit Landlord's Operating Costs records for the previous calendar year only to determine the proper amount of Tenant's Share of Operating Costs. Landlord shall be entitled to review the results of such audit promptly after completion of same. If such audit proves that Landlord has overcharged Tenant, then within fifteen (15) days after the results of the audit are made available to Landlord, Landlord shall credit Tenant the amount of such overcharge toward the payments of Base Rent and Additional Rent next coming due under this Lease. If such audit proves that Landlord has undercharged Tenant, then within fifteen (15) days after the results of the audit are made available to Tenant, Tenant shall pay to Landlord the amount of any such undercharge. Tenant agrees to pay the cost of such audit, provided that Landlord shall reimburse Tenant the amount of such cost if the audit proves that Landlord's determination of Tenant's Share of Operating Costs (as set forth in the Operating Costs statement) was in error by more than six percent (6%). Landlord shall be required to maintain records of all Operating Costs for three (3) years following the issuance of the Operating Costs statement for such Operating Costs. The payment by Tenant of any amounts pursuant to this Section shall not preclude Tenant from questioning the correctness of any Operating Costs statement.

SECTION 4.03 PERSONAL PROPERTY TAXES.

(a) Tenant shall pay all taxes charged against trade fixtures, utility installations, furnishings, equipment or any other personal property belonging to Tenant. Tenant shall use its best efforts to have its personal property taxed separately from the Premises.

(b) If any of Tenant's personal property is taxed with the Premises, Tenant shall pay Landlord the taxes for the personal property within fifteen (15) days after Tenant receives a written statement from Landlord for such personal property taxes.

SECTION 4.04 UTILITIES.

(a) The parties acknowledge that this Lease is intended to be a fully net lease and that, except as expressly provided in this Lease, Tenant shall be responsible for all non-capital repairs required to the Premises and for the provision of all utilities at the Premises, including but not limited to water, sewage, trash removal, waste disposal, janitorial, electricity, telephone, security, and cleaning of the Premises, together with any taxes thereon. The costs of installing or otherwise bringing any meters or utilities to the Premises shall constitute a cost of Work pursuant to Rider No. 1, or if no Rider No. 1 is attached to this Lease, then such costs shall be paid directly by Tenant. Tenant shall contract with and pay, directly to the appropriate supplier, the cost of all utilities and services supplied to the Premises. All such contracts and suppliers will be subject to Landlord's prior, reasonable approval. If any such utilities or services are not able to be separately metered or separately billed to the Premises, Tenant shall pay to Landlord a reasonable proportion to be determined by Landlord of all such charges jointly metered or billed with other premises in the Building to Landlord, together with a reasonable administrative fee not to exceed ten percent (10%) of such jointly metered or billed charges, immediately upon receipt of Landlord's bill therefor. Notwithstanding the foregoing, Landlord may elect from time to time and at any time during the term of this Lease to contract directly with any supplier of utilities or services to the Premises and to bill Tenant for such costs, which bill may include a reasonable administrative fee to Landlord not to exceed ten percent (10%) of such costs.

(b) Landlord has advised Tenant that presently Nevada Power Company (the "Electric Service Provider") is the utility company selected by Landlord to provide electric service for the Building. Notwithstanding the foregoing, if permitted by law, Landlord shall have the right at any time and from time to time during the term of the Lease to either contract for service from a different company or companies providing electric service (each such company shall hereafter be referred to as "Alternate Service Provider") or to continue to contract for service from the Electric Service Provider. Tenant shall cooperate with Landlord, the Electric Service Provider, and any Alternate Service Provider at all times and, as reasonably necessary, shall allow Landlord, the Electric Service Provider, and any Alternate Service Provider reasonable access to the electric feeder lines, risers, wiring and any other machinery within the Premises.

Should Landlord elect to supply the electricity used or consumed in the Premises, Tenant agrees to purchase and pay for the same as Additional Rent at the applicable rates filed by Landlord with the proper regulatory authority. Landlord shall in no way be liable or responsible for any loss, damage, or expense that Tenant may sustain or incur by reason of any change, failure, interference, disruption, or defect in the supply or character of the electric energy furnished to the Premises or if the quantity or character of the electric energy supplied by the Electric Service Provider or any Alternative Service Provider is no longer available or suitable for Tenant's requirements unless due to the gross negligence or intentional acts of Landlord, its servants, agents or employees. Notwithstanding any provision to the contrary contained herein, in any event, no such change, failure, defect, unavailability, or unsuitability shall constitute eviction, in whole or in part, or entitle Tenant to any abatement or diminution of Rent, or relieve Tenant from any of its obligations under this Lease.

SECTION 4.05 INSURANCE.

(a) Landlord shall maintain property insurance on the Building Shell and appurtenant structures in an amount equal to one hundred percent (100%) of the full value thereof. The cost of such insurance shall be included within the definition of Operating Costs hereunder. Payments for losses

thereunder shall be made solely to Landlord or the Mortgagees as their respective interests shall appear. In addition, Tenant shall obtain and keep in force at all times during the Lease Term, a policy or policies of insurance covering loss or damage to all of the improvements, betterments, personal property, utility installations, trade fixtures, furnishings, income and business contents located within the Premises other than the Building Shell (including all Work constructed in accordance with Rider No. 1) in the amount of one hundred percent (100%) of the full replacement value thereof as reasonably ascertained by the Tenant's insurance carrier against risks of direct physical loss or damage, normally covered in an "all risk" policy (including the perils of flood and surface waters), as such term is used in the insurance industry; provided, however, that Tenant shall have no obligation to insure against earthquake. As used in this Lease, the term "Building Shell" means the Building completed with the following improvements: (a) roof, foundation and exterior walls and interior load bearing walls (not including drywall); (b) unfinished floors throughout the Premises, broom clean; (c) building standard power and lighting power provided to the Building at a point to be determined by Landlord in its sole discretion; (d) core walls to the extent called for in Landlord's final plans and specifications for the construction of the Building; and (e) mechanical, plumbing, life safety, and HVAC systems provided to the Building at a point to be determined by Landlord in its sole discretion. The proceeds of such insurance shall be used for the repair or replacement of the property so insured. Upon termination of this Lease following a casualty as set forth herein, if the Premises have also been damaged, and if Landlord terminates this Lease, Tenant will promptly pay to Landlord all of its insurance proceeds, if any, relating to any and all Work constructed pursuant to Rider No. 1 to this Lease and any alterations made thereto (but not to Tenant's trade fixtures, equipment, furniture or other personal property of Tenant) in the Premises.

(b) Tenant shall, at Tenant's expense, maintain a policy of Commercial General Liability insurance insuring Tenant and as additional insureds, Landlord and any Mortgagees, against liability arising out of the ownership, use, occupancy or maintenance of the Premises. Such insurance shall be on an occurrence basis providing single-limit coverage in an amount not less than Two Million Dollars (\$2,000,000) per occurrence. The initial amount of such insurance shall be subject to periodic increase upon reasonable demand by Landlord based upon inflation, increased liability awards, recommendation of professional insurance advisers, and other relevant factors. However, the limits of such insurance shall not limit Tenant's liability nor relieve Tenant of any obligation hereunder. Such policy shall contain the following provision: "Such insurance as afforded by this policy for the benefit of Landlord shall be primary as respects any claims, losses or liabilities arising out of the use of the Premises by the Tenant or by Tenant's operation and any insurance carried by the Landlord shall be excess and noncontributing." The policy shall insure Tenant's performance of the indemnity provisions of Section 5.05.

(c) Tenant shall, from time to time, at Tenant's sole expense, obtain and maintain other types of insurance as Mortgagees of Landlord may reasonably require in form, in amounts and for insurance risks against which a prudent tenant would protect itself.

(d) Insurance required to be maintained by Tenant hereunder shall be in companies holding a "General Policyholders' Rating" of "A" or better and a "financial rating" of 10 or better, as set forth in the most current issue of "Best's Insurance Guide," or such comparable ratings as Landlord shall approve, in its sole discretion. Tenant shall promptly deliver to Landlord, on or before the Commencement Date, original certificates evidencing the existence and amounts of such insurance required to be carried by Tenant in this Article 4. No such policy shall be cancelable or subject to reduction of coverage except after thirty (30) days prior written notice to Landlord. Tenant shall, within thirty (30) days prior to the expiration,

cancellation or reduction of such policies, furnish Landlord with renewals or "binders" thereof. Tenant shall not do or permit to be done anything which shall invalidate the insurance policies required under this Lease.

SECTION 4.06 WAIVER OF SUBROGATION.

Tenant and/or Landlord shall obtain from the issuers of the "all risk" insurance policies referred to in this Article Four a mutual waiver of subrogation provision in said policies and Tenant and Landlord each hereby release and relieve the other, and waive any and all rights of recovery against the other, or against the employees, officers, agents and representatives of the other, for loss or damage arising out of or incident to the perils required to be insured against under this Article 4 which perils occur in, on or about the Premises, whether due to the negligence of Landlord or Tenant or their agents, employees, contractors or invitees.

SECTION 4.07 LATE CHARGES.

Tenant acknowledges that Tenant's failure to pay Base Rent or Additional Rent promptly may cause Landlord to incur unanticipated costs. The exact amount of such costs are impractical or extremely difficult to ascertain. Such costs may include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by any ground lease, mortgage or trust deed encumbering the Premises. Therefore, if Landlord does not receive any Rent payment within ten (10) days after it becomes due, Tenant shall pay Landlord a late charge equal to ten percent (10%) of the overdue amount. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of such late payment. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Rent, the Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding Section 3.01 above.

SECTION 4.08 INTEREST ON PAST DUE OBLIGATIONS.

Any amount owed by Tenant to Landlord which is not paid when due shall bear interest at the rate of (i) fifteen percent (15%) per annum, or (ii) the Prime Rate plus five (5) percentage points per annum, whichever is greater, from the due date of such amount. However, interest shall not be payable on late charges to be paid by Tenant under this Lease. The payment of interest on such amounts shall not excuse or cure any default by Tenant under this Lease. If the interest rate specified in this Lease is higher than the rate permitted by law, the interest rate is hereby decreased to the maximum legal interest rate permitted by law.

SECTION 4.09 RETURN OF CHECK.

If Base Rent or Additional Rent is paid by check and the check is returned to Landlord for any reason whatsoever without payment, Tenant shall be assessed a late charge and interest on past due amount pursuant to Sections 4.07 and 4.08 as well as a Twenty-Five Dollar (\$25) fee. If payment is returned for insufficient funds, Landlord has the right to demand that such payment be in the form of a cashiers or certified check. If Tenant has two (2) or more insufficient funds payments in a twelve (12) month period, Tenant shall, at Landlord's option, make all subsequent payments in the form of a cashiers or certified check.

SECTION 4.10 SECURITY DEPOSIT; INCREASES.

Upon the execution of this Lease, Tenant shall deposit with Landlord a cash security deposit (the "Security Deposit") in the amount of the Initial Security Deposit set forth in Section 1.01(f) above. In no event may Tenant apply the Security Deposit to pay any Rent due under this Lease. Landlord may apply all or part of the Security Deposit to any unpaid Rent or other charges due from Tenant or to cure any other defaults of Tenant. If Landlord uses any part of the Security Deposit, Tenant shall restore the Security Deposit to its full amount within ten (10) business days after Landlord's written request. Tenant's failure to do so shall be a material default under this Lease. If Tenant is in default under the Lease more than two (2) times in any twelve (12) month period, irrespective of whether or not such default is cured, without limiting Landlord's other rights and remedies provided for in the Lease or at law or in equity, the Security Deposit shall automatically be increased by an amount equal to the greater of: (i) three (3) times the Security Deposit (adjusted as provided in this Section); or (ii) three (3) months of the then current Base Rent, which shall be paid to Landlord forthwith on demand. The increase in the Security Deposit shall be paid to Landlord forthwith on demand. Tenant's failure to do so shall be a material default under this Lease. No interest shall be paid on the Security Deposit. Landlord shall not be required to keep the Security Deposit separate from its other accounts and no trust relationship is created with respect to the Security Deposit. Each time the Base Rent is increased, Tenant shall if requested by Landlord, on or before the date that the first increased Base Rent payment is due, deposit additional funds with Landlord sufficient to increase the Security Deposit to an amount which bears the same relationship to the adjusted Base Rent as the Initial Security Deposit bore to the initial Base Rent. Notwithstanding anything in the Lease to the contrary, no purchaser of Landlord's interest in the Building or holder of any mortgage, deed of trust, ground lease or other lien on the Building shall be liable for the return of any Security Deposit unless and until such Security Deposit is actually transferred by Landlord to such party.

SECTION 4.11 TERMINATION; ADVANCE PAYMENTS.

Upon expiration of this Lease or other termination of this Lease, and after Tenant has vacated the Premises in the manner required by this Lease, an equitable adjustment shall be made concerning advance rent and other advance payments made by Tenant to Landlord, and Landlord shall, within sixty (60) days, refund any unused portion of the Security Deposit to Tenant, or, at Landlord's option, to Tenant's assignee or sublessee.

ARTICLE 5 USE OF PROPERTY

SECTION 5.01 PERMITTED USES.

Tenant may use the Premises only for the Permitted Uses set forth in Section 1.01(o) above.

SECTION 5.02 MANNER OF USE

Tenant shall not cause or permit the Premises to be used in any way (i) which constitutes (or would constitute) a violation of any Laws, occupancy certificate, the requirements of any board of fire underwriters or similar body, as any of the same now or in the future may exist, or (ii) which annoys or interferes with the rights of tenants or users of the Building, or (iii) which constitutes a nuisance or waste, or (iv) which is

prohibited by the Declaration. Tenant, at its sole cost and expense, shall comply with all Laws now in force or which may hereafter be in force regulating the use, occupancy or alterations by Tenant of the Premises. Landlord makes no representation or warranty as to the suitability of the Premises for Tenant's intended use or whether such use complies with all such Laws.

SECTION 5.03 HAZARDOUS SUBSTANCES.

(A) REPORTABLE USES REQUIRE CONSENT.

The term "Hazardous Substance" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Landlord to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products or by-products thereof. Tenant shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Landlord and compliance in a timely manner (at Tenant's sole cost and expense) with all Applicable Requirements (as defined in Section 5.03 (d)). "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and (iii) the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Requirements require that a notice be given to persons entering or occupying the Premises or neighboring properties. In addition, Landlord may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Tenant upon Tenant's giving Landlord such additional assurances as Landlord, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefor, including but not limited to the installation (and, at Landlord's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit.

(B) DUTY TO INFORM LANDLORD.

Tenant shall obtain Landlord's written consent, which consent shall be granted or withheld in Landlord's sole discretion, to the manufacturing, processing, distribution, using, producing, treating, storing (above or below ground level), disposing of, or allowing to be present, of any other Hazardous Substance in or about the Premises except for those previously approved in writing by Landlord. In connection with each such consent requested by Tenant, Tenant shall submit to Landlord a description, including the composition, quantity and all other information requested by Landlord concerning the proposed presence of any Hazardous Substance. Landlord's consent to the presence of any Hazardous Substance may be deemed given only by inclusion of a description of the composition and quantity of the proposed Hazardous Substance on Landlord's written consent to the request. Landlord's consent to the presence of any Hazardous Substance at any time during the Lease Term or renewal thereof shall not waive the requirement of obtaining Landlord's consent to the subsequent presence of any other, or increased quantities of, any Hazardous Substance in or

about the Premises. If Tenant knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises or the Building, other than as previously consented to by Landlord, Tenant shall immediately give Landlord written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to, such Hazardous Substance including but not limited to all such documents as may be involved in any Reportable Use involving the Premises. Tenant shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

If any Hazardous Substance is present in or about the Premises, Landlord shall have the right upon reasonable notice to Tenant to engage a consultant to inspect the Premises and to review Tenant's use of Hazardous Substances and all of Tenant's practices with respect to such Hazardous Substances. Tenant shall cooperate in all respects with such inspections and reviews. All costs of such consultants shall be reimbursed to Landlord within fifteen (15) days of written demand by Landlord.

(C) INDEMNIFICATION.

Tenant shall indemnify, protect, defend and hold Landlord, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Tenant or by anyone under Tenant's control. Tenant's obligations under this Section 5.03 (c) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Tenant, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Landlord and Tenant shall release Tenant from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Landlord in writing at the time of such agreement. Tenant's indemnity obligations provided in this Section 5.03(c) shall include, without in any way limiting the foregoing:

- (i) All costs, expenses and attorneys' fees incurred or sustained by any party in making any investigation on account of any claim, demand, loss, liability, cost, charge, suit, order, judgment or adjudication, in prosecuting or defending any action brought in connection therewith, in obtaining or seeking to obtain a release therefrom and in enforcing any of the agreements herein contained;
- (ii) Liability for clean-up costs, fines, damages or penalties incurred pursuant to the provisions of any Applicable Requirements;
- (iii) Liability for costs and expenses of abatement, correction or clean-up, fines, damages, response costs or penalties which arise from the provisions of any Applicable Requirements; and
- (iv) Liability for personal injury or Premises damage arising under any statutory or common-law tort theory, including, without limitation, damages assessed for the maintenance of a public or private nuisance, or for the carrying on of an abnormally dangerous activity, and response costs.

(D) TENANT'S COMPLIANCE WITH REQUIREMENTS.

Tenant shall, at Tenant's sole cost and expense, fully, diligently and in a timely manner, comply with all "Applicable Requirements," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Landlord's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Tenant shall, within ten (10) business days after receipt of Landlord's written request, provide Landlord with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Tenant's compliance with any Applicable Requirements specified by Landlord, and shall within one (1) business day following receipt, notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Requirements. Upon written request by Landlord, and within twenty (20) business days of receipt of such request, Tenant shall provide Landlord annually on each anniversary date of the Commencement Date a written certification, certifying that:

(i) Tenant's business has been conducted in full compliance with the Applicable Requirements;

(ii) All Hazardous Substances (if any) related to Tenant's business have been disclosed to Landlord or in said certificate;

(iii) The method and frequency of off-site disposal of Hazardous Substances from the Premises, as described in the certificate, comply with the Applicable Requirements.

(E) INSPECTION; COMPLIANCE WITH LAW.

Landlord, Landlord's agents, employees, contractors and designated representatives, and any Mortgagees, shall have the right to enter the Premises at any time in the case of an emergency, and otherwise, with prior notice to Tenant, at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Tenant with this Lease and all Applicable Requirements, and Landlord shall be entitled to employ experts and/or consultants in connection therewith to advise Landlord with respect to Tenant's activities, including but not limited to Tenant's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a default of this Lease by Tenant or a violation of Applicable Requirements or a contamination, caused or contributed to by Tenant, is found to exist or to be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Tenant shall upon request reimburse Landlord or Landlord's Mortgagee, as the case may be, for the costs and expenses of such inspections.

SECTION 5.04 SIGNS AND AUCTIONS.

Tenant shall not place any signs on the Premises without Landlord's prior written consent. At Tenant's sole cost, Tenant shall have the right to signage on Tenant's suite entrance door and on the Building above Tenant's entrance door subject to Landlord's prior written approval of such signage which may be withheld in Landlord's sole discretion. Tenant shall not conduct or permit any auctions or sheriff's sales at the Premises.

SECTION 5.05 INDEMNITY.

Tenant shall indemnify and hold harmless Landlord and all agents, servants and employees of Landlord from and against all claims, losses, damages, liabilities, expenses (including reasonable attorneys' fees), penalties and charges (collectively, "Claims") arising from or in connection with (i) Tenant's use of the Premises during the Lease Term, or (ii) the conduct of Tenant's business, or (iii) any activity, work or things done, permitted or suffered by Tenant in or about the Premises during the Lease Term. Tenant shall further indemnify and hold harmless Landlord from and against any and all claims, loss, damage, liability, expense (including reasonable attorneys' fees), penalty or charge arising from any default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from any negligence of Tenant, or any of Tenant's agents, contractors, or employees, and from and against all costs, attorneys' fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon. If any action or proceeding be brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, shall defend the same at Tenant's expense by legal counsel reasonably satisfactory to Landlord. Tenant, as a material part of its consideration to Landlord, hereby assumes all risk of damage to property or injury to persons in or upon the Premises arising from any cause and Tenant hereby waives all claims in respect thereof against Landlord. Notwithstanding the foregoing, Tenant shall not be required to assume the risk with respect to or defend, save harmless or indemnify Landlord from any Claims resulting from the gross negligence or willful misconduct of Landlord or its agents, contractors or employees, and Landlord hereby so defends, indemnifies and holds Tenant harmless from any such Claims. In addition, because Landlord is required to maintain insurance on the Building Shell and Tenant compensates Landlord for such insurance as part of Operating Costs and because of the existence of waivers of subrogation set forth in Section 4.06 of this Lease, Landlord hereby indemnifies and holds Tenant harmless from any Claims to any property or injury to persons outside of the Premises to the extent such Claim is, or if Landlord has failed to properly maintain such insurance, should have been, covered by such insurance, even if resulting from the negligent acts or omissions of Tenant or those of its agents, contractors or employees. Notwithstanding the foregoing, Landlord shall not be required to defend, save harmless or indemnify Tenant from any liability for injury, loss, accident or damage to any person or property resulting from Tenant's gross negligence or willful misconduct, or those of Tenant's officers, agents, contractors or employees. Similarly, since Tenant must carry insurance pursuant to Section 4.05(a) to cover its personal property and any tenant improvements within the Premises, Tenant hereby indemnifies and holds Landlord harmless from any Claim to any property within the Premises to the extent such Claim is, or if Tenant has failed to properly maintain such insurance, should have been, covered by such insurance, even if resulting from the negligent acts or omissions (but, not the gross negligence or willful misconduct) of Landlord or those of its agents, contractors or employees. The provisions of this Section 5.05 shall survive the expiration or sooner termination of this Lease with respect to any Claims occurring prior to such expiration or termination. The foregoing indemnity requirements are not intended to nor shall they relieve any insurance carrier of

its obligations under policies required to be carried pursuant to the provisions of this Lease to the extent that such policies cover the results of negligent acts or omissions of Landlord or Tenant or their officers, agents, contractors or employees, or the failure of either party to perform any of its obligations under this Lease.

SECTION 5.06 LANDLORD'S ACCESS.

Landlord or its agents, employees or contractors may enter the Premises during regular business hours after twenty-four (24) hours prior written notice to Tenant (except, in the case of emergency no such notice will be required) to examine the Premises, to show the Premises to potential buyers, investors, tenants or other parties, for the purpose of making tests, inspections, repairs, alterations, improvements or additions as Landlord deems desirable or for any other purpose Landlord deems necessary. The above shall not obligate Landlord to make any repairs except as otherwise expressly provided in this Lease. Landlord may place customary "For Sale" or "For Lease" signs on the Premises. The exterior walls and roof of, the floor above, and the area beneath the Premises are not demised under this Lease and Landlord reserves the right to use the same. Landlord may install, maintain and use pipes, utility lines, ducts, conducts, flues, lines, wires, drains, sprinkler main and valves, access panels and structural elements serving the Premises or other parts of the Hughes Airport Center within or through the Premises. Landlord shall use reasonable efforts to locate new facilities and elements above the finished ceiling, within walls, below the floor, in Tenant's storage area and in other locations that will minimize to the extent practicable the disruption of Tenant's business. Landlord may change, add to or subtract from the Common Areas or any building in the Hughes Airport Center, construct other buildings and improvements, use portions of the Common Areas for promotions, exhibits, shows, the placement of carts and kiosks or such other uses as Landlord deems appropriate, and do such other acts to the Common Building Areas as Landlord believes reasonably necessary. In exercising the rights reserved in this Section, Landlord shall use reasonable efforts to minimize disruption of Tenant's business.

SECTION 5.07 INTENTIONALLY OMITTED.

ARTICLE 6 CONDITION OF PROPERTY; MAINTENANCE, REPAIRS AND ALTERATIONS

SECTION 6.01 EXISTING CONDITIONS.

Except as may be set forth in Rider No. 1, Tenant accepts the Premises in its condition "AS IS" as of the date of execution of this Lease, subject to all recorded matters and Laws. Tenant acknowledges that neither Landlord nor any employee or agent of Landlord has made any representation as to the condition of the Premises or the suitability of the Premises for Tenant's intended use.

SECTION 6.02 EXEMPTION OF LANDLORD FROM LIABILITY.

Landlord, its officers, managers, directors, shareholders, members, agents, servants and employees shall not be liable for and Tenant shall indemnify and hold Landlord and its officers, managers, directors, shareholders, members, agents, servants and employees harmless from and against all claims, losses, damages, expenses, penalties and charges arising from or in connection with any damage or injury to the person, business (or any loss of income therefrom), goods, wares, merchandise or other property of Tenant,

Tenant's employees, invitees, customers, or any other person in or about the Premises, or any other person claiming under Tenant whether such damage or injury is caused by or results from: (a) fire, steam, electricity, water, gas or rain; (b) the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures or any other cause; (c) the failure, delay or diminution in the quality or quantity of any utilities or services supplied to the Premises or the Building, (d) inconvenience or annoyance arising from the necessity of repairing any portion of the Building or the Premises; (e) the interruption for any reason in the use of the Premises; (f) the termination of this Lease by reason of the destruction of the Premises; or (g) any conditions arising in or about the Premises, or from other sources or places, nor shall any of the same be construed as an eviction of Tenant, nor, unless otherwise permitted under this Lease, work an abatement of Rent, nor relieve Tenant from any obligation under this Lease. Without limiting the foregoing, Landlord, its officers, managers, directors, shareholders, members, agents, servants and employees shall not be liable for and Tenant shall indemnify and hold Landlord and its officers, managers, directors, shareholders, members, agents, servants and employees harmless from and against all claims, losses, damages, expenses, penalties and charges arising from or in connection with the following: (i) any defect or shortcoming in or failure of plumbing, heating or air conditioning or ventilation systems, elevators, electric wiring or installation thereof, water pipes, stairs, railings or walks; (ii) any equipment or appurtenances becoming out of repair; (iii) the bursting, leaking or running of any tubing, radiant panel, fire sprinkler system, electric fixture, valve, fitting, tank, washstand, water closet, waste pipe, drain or other pipe or tank or any other water and/or moisture related release and/or condition and all consequences and/or conditions relating from same, upon or about the Premises or the Building; (iv) the backing up of any sewer pipe or downspout; (v) the escape of steam, hot or cold water; (vi) water, snow or ice being upon or coming through the roof of the Building or any other place upon or near the Premises; (vii) the failing of any fixture, brick, plaster or stucco; (viii) broken glass; (ix) any act or omission of cotenants or other occupants of the Building; (x) the exercise of any rights by Landlord under this Lease; or (xi) any act or omission of parties other than Landlord, its employees, agents, officers, directors, managers, shareholders, members and servants nor shall any of the foregoing be construed as an eviction of Tenant, nor, unless otherwise permitted under this Lease, work an abatement of Rent, nor relieve Tenant from any obligation under this Lease. Landlord shall not be liable for any such damage or injury even though the cause of or the means of repairing such damage or injury are not accessible to Tenant. The provisions of this Section 6.02 shall not, however, exempt Landlord from liability for Landlord's gross negligence or willful misconduct. In addition to any limitation of Landlord's liability contained in the Lease, Tenant hereby agrees that any claim for damages against Landlord shall be subject and subordinate to the interest of any Mortgagee in the Building. Tenant shall have no rights whatsoever to offset or deduct against any Rent or any other sums due Landlord under the Lease for any reason whatsoever, including Landlord's default, nor shall Tenant have any rights at any time to cure any defaults of the Landlord under this Lease.

SECTION 6.03 LANDLORD'S OBLIGATIONS.

Landlord shall keep the following in good order, condition and repair: the foundations, exterior structural walls, interior load bearing walls and structural roof of the Building and the Common Building Areas. Landlord shall not be obligated to maintain or repair windows, doors, plate glass or the interior surfaces of exterior walls. Landlord shall have no obligation to make repairs under this Section 6.03 until a reasonable time after Landlord receives written notice from Tenant of the need of such repairs. Tenant expressly waives the benefit of any law, including case law, statute, rule or regulation in effect now or in the future which might give Tenant the right to make repairs at Landlord's expense or to terminate this Lease due to Landlord's failure to keep the Premises in good order, condition and repair. Tenant shall have no rights

whatsoever to offset or deduct against any Rent or any other sums due Landlord under this Lease for any reason whatsoever, including Landlord's default.

SECTION 6.04 TENANT'S OBLIGATIONS.

(a) Tenant shall, at Tenant's sole cost and expense, keep all portions of the Premises in good order, condition and repair, including, without limitation, all components of the electrical, mechanical, plumbing, heating, air conditioning and ventilation systems which serve the Premises and all other items not expressly set forth as the responsibility of Landlord in Section 6.03 above. If any portion of the Premises or any system or equipment in the Premises which Tenant is obligated to repair cannot be fully repaired, Tenant shall promptly replace such portion of or system or equipment in the Premises, regardless of whether the benefit of such replacement extends beyond the Lease Term.

(b) Either Landlord or Tenant, at Landlord's option and, in either case, at Tenant's sole expense, shall enter into a preventative maintenance contract ("Maintenance Contract") with a licensed heating and air conditioning contractor providing for the regular inspection and maintenance of the heating, air conditioning and ventilation system utilized solely for the Premises at commercially reasonable rates for the community in which the Premises are located. In the event Landlord requests Tenant to obtain the Maintenance Contract, Tenant shall provide Landlord with a copy of such Maintenance Contract within fifteen (15) days of such request. Landlord shall have the right to approve the contractor and the Maintenance Contract prior to Tenant's execution thereof, which approval shall not be unreasonably withheld, conditioned or delayed. Such Maintenance Contract cannot be canceled without providing Landlord with thirty (30) days prior written notice. In the event either Landlord elects to obtain the Maintenance Contract or if Tenant fails to provide Landlord with a copy of the Maintenance Contract within fifteen (15) days of Landlord's request to Tenant to procure such Maintenance Contract, Landlord shall obtain the Maintenance Contract for Tenant's benefit and Tenant shall be obligated to pay Landlord, as Additional Rent, monthly, without demand, one-twelfth (1/12th) of the annual cost of the Maintenance Contract. Regardless if Landlord or Tenant obtains the Maintenance Contract, Landlord shall have the right, at reasonable times and with prior notice, to enter Tenant's Premises to inspect the air conditioning, heating and ventilation system utilized for Tenant's Premises. Tenant shall comply with all laws and government regulations relating to the maintenance of records of Tenant's use and handling of freon in the heating, air conditioning and ventilation system utilized for the Premises. Within fifteen

(15) days of Landlord's request, Tenant shall provide copies of all such records to Landlord.

(c) Tenant, at Tenant's sole expense, shall enter into a sewer and trash removal contract ("Trash Removal Contract") with a contractor providing for regular sewer and trash removal services for the Premises. Landlord shall have the right to approve the contractor and the Trash Removal Contract prior to Tenant's execution thereof, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant shall provide Landlord with a copy of such Trash Removal Contract at least ten (10) days prior to the Commencement Date and such Trash Removal Contract cannot be canceled by Tenant without providing Landlord with thirty (30) days prior written notice. If Tenant fails to obtain a Trash Removal Contract or if Tenant fails to provide Landlord with a copy of the Trash Removal Contract ten (10) days prior to the Commencement Date, Landlord shall obtain the Trash Removal Contract for Tenant's benefit, at commercially reasonable rates for the community in which the Premises are located, and Tenant shall be obligated to pay Landlord, as Additional Rent, monthly, without demand, one-twelfth (1/12th) of the annual cost of the Trash Removal Contract. Regardless if Landlord or Tenant obtains the Trash Removal Contract,

Landlord shall have the right to enter Tenant's Premises at reasonable times, with prior notice, to inspect the services provided thereunder.

(d) If Tenant fails to maintain or repair the Premises as required by this Section 6.04, Landlord may, upon ten (10) days prior notice to Tenant (except that no notice shall be required in the case of an emergency), enter the Premises and perform such maintenance or repair on behalf of Tenant. In such case, Tenant shall reimburse Landlord for all actual costs incurred in performing such maintenance or repair, including ten percent (10%) of such costs for Landlord's supervision, immediately upon demand.

SECTION 6.05 ALTERATIONS, ADDITIONS, AND IMPROVEMENTS.

(a) Tenant shall not make any alterations, additions, or improvements to the Premises without Landlord's prior written consent, which may be withheld in Landlord's sole discretion, including, without limitation, any alterations, additions, or improvements to the exterior of the Premises or the Building (including signage). Tenant shall deliver to Landlord, for Landlord's approval prior to any construction, a complete set of plans and specifications for the proposed alterations, additions or improvements, copies of contracts with general contractors, evidence of contractor's insurance and bonds, and all necessary permits for such construction. Landlord may require Tenant to provide demolition and/or lien and completion bonds in form and amount satisfactory to Landlord. Tenant shall promptly remove any alterations, additions, or improvements constructed in violation of this Section 6.05(a) upon Landlord's written request. All alterations, additions, and improvements will be accomplished in a good and workmanlike manner, in conformity with all applicable Laws, and by a contractor approved by Landlord. Landlord's approval of the plans, specifications and working drawings for Tenant's alterations shall create no responsibility or liability on the part of Landlord for their completeness, design, sufficiency, or compliance with all laws, rules and regulations of governmental agencies or authorities. Upon completion of any such work, Tenant shall provide Landlord with "as built" plans, copies of all construction contracts, and proof of payment for all labor and materials.

(b) Tenant shall pay when due all claims for labor and material furnished to the Premises. Tenant shall give Landlord at least ten (10) days prior written notice of the commencement of any work on the Premises. Landlord may elect to record and post notices of non-responsibility on the Premises. Tenant will not permit to be created or to remain undischarged any lien, encumbrance or other charge (arising out of any work done or materials or supplies furnished by any contractor, subcontractor, mechanic, laborer or materialman or any mortgage, conditional sale, security agreement or chattel mortgage, or otherwise by or for Tenant) which might be or become a lien or encumbrance or other charge (collectively a "Charge") against or upon the Premises, the Building or any part thereof. If any claim or lien or notice of claim or lien on account of an alleged debt of Tenant or any notice of contract or Charge by a person engaged by Tenant or Tenant's contractor to work on the Premises shall be filed against or upon the Premises, the Building or any part thereof, Tenant shall within twenty (20) business days after demand from Landlord cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise. If Tenant shall fail to cause such claim or lien or notice of claim or lien or other Charge to be discharged within the period aforesaid, then, in addition to any other right or remedy it may have, Landlord may, but shall not be obligated to, discharge the same by payment, deposit or by bonding proceedings, and in any such event Landlord shall be entitled, if Landlord so elects, to compel the prosecution of an action for the foreclosure of the same by the claimant and to pay the amount of any judgment in favor of the claimant with interest, costs and allowances. Any amount so paid by Landlord and all interest, costs and expenses, including reasonable

attorneys' fees, incurred by Landlord in connection therewith shall constitute additional rent payable by Tenant under the Lease and shall be paid by Tenant to Landlord on demand. No work which Landlord permits Tenant to do shall be deemed to be for the immediate use and benefit of Landlord and no mechanics' or other claim, lien or other Charge shall be allowed against the estate, rights, title or interests of Landlord by reason of any consent given by Landlord to Tenant to do work in or about the Premises or provide materials therefor. Prior to commencement of any work or the delivery of any material to the Premises by any contractor, subcontractor or materialman (herein collectively called "Contractor"), Tenant shall deliver to the Landlord a signed and acknowledged waiver (or release) of liens from each such Contractor in a form approved by Landlord, and, to the extent permitted by law, Tenant shall at Tenant's expense cause a duly executed and notarized counterpart of any such waiver or release to be recorded in the Office of the Clark County Recorder.

SECTION 6.06 CONDITION UPON TERMINATION.

Upon the termination of this Lease, Tenant shall surrender the Premises to Landlord, broom clean and in the same condition as received except for ordinary wear and tear which Tenant was not otherwise obligated to remedy under any provision of this Lease. In addition, (i) Landlord may require Tenant to remove any telecom and data cabling, or similar installations, (whether or not made with Landlord's consent) by written notice to Tenant within ten (10) business days after the termination of this Lease, and (ii) if at the time Landlord approves any alterations, additions or improvements Landlord notifies Tenant of its obligation to remove such alterations, additions or improvements upon the termination of the Lease Term then Tenant shall remove such alterations, additions or improvements (whether or not made with Landlord's consent) within thirty (30) days after the termination of this Lease and to restore the Premises to its prior condition, all at Tenant's expense. All alterations, additions and improvements which Landlord has not required Tenant to remove shall become Landlord's property and shall be surrendered to Landlord upon the termination of the Lease, except that Tenant may remove any of Tenant's machinery or equipment which can be removed without material damage to the Premises. Tenant shall repair, at Tenant's expense, any damage to the Premises caused by the removal of any such machinery or equipment. In no event, however, shall Tenant remove any of the following materials or equipment without Landlord's prior written consent: any power wiring or power panels; lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; carpets or other floor coverings; heaters, air conditioners or any other heating or air conditioning equipment; fencing or security gates; or other similar building operating equipment and decorations.

ARTICLE 7 DAMAGE OR DESTRUCTION

SECTION 7.01 PROPERTY DAMAGE.

(a) If the Premises or any part thereof shall be damaged by fire or other peril, Tenant shall give prompt written notice thereof to Landlord. In case the Building shall be so damaged that substantial alteration, repair or reconstruction of any portion of the Building shall, in Landlord's sole opinion, be required (whether or not the Premises shall have been damaged by such peril) or in the event any Mortgagee shall require that the insurance proceeds payable as a result of a peril be applied to the payment of the mortgage debt or in the event of any material uninsured loss to the Building, Landlord may, at its option, terminate this Lease by notifying Tenant in writing of such termination within ninety (90) days after the date of such casualty. If Landlord does not thus elect to terminate this Lease, Landlord shall, as Landlord's sole

obligation, commence and proceed with reasonable diligence to restore the Building Shell to substantially the same condition in which it was immediately prior to the occurrence of the peril to the extent of the insurance proceeds available to Landlord. When the Building Shell has been restored by Landlord, Landlord shall complete the restoration of the Premises, including the reconstruction of all improvements in order to complete the Premises and restore the Premises to the same condition and build-out as prior to the casualty, including all improvements constructed pursuant to Rider No. 1. However, in no event shall Landlord's costs to complete the restoration exceed the insurance proceeds. If Tenant is responsible for such restoration of the Premises, any plans and specifications for such restoration and reconstruction and the contractor retained by Tenant for such restoration and reconstruction shall be subject to the approval of Landlord. Any shortfall between the amount of insurance proceeds and the actual costs of such reconstruction shall be deposited by Tenant prior to the commencement of such reconstruction and, if additional costs occur, immediately upon demand therefor. All insurance proceeds payable pursuant to policies maintained by Tenant pursuant to Section 4.05 shall be applied by Tenant to such reconstruction. Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting in any way from such damage or the repair thereof, except as set forth in Section 7.02 below. Notwithstanding anything in the Lease to the contrary, Tenant's rights to any insurance proceeds as described in this Section 7.01 shall be subject and subordinate to the rights of First Mortgagee.

(b) Notwithstanding any provision to the contrary contained in this

Section 7.01, if the Building shall be so damaged that substantial alteration, repair or reconstruction of any portion of the Building shall, in Landlord's sole opinion, be required during the last twelve (12) months of the Lease Term and Tenant has not elected to extend the Lease pursuant to Rider No. 2-Option to Renew Lease, Landlord or Tenant may elect to terminate this Lease as of the date the damage occurred, regardless of the availability of the insurance proceeds. In such event, Landlord shall not be obligated to repair or restore the Building Shell, Tenant shall have no right to continue this Lease and all insurance proceeds payable pursuant to policies maintained by Tenant pursuant to Section 4.05 shall be assigned to Landlord (or such other party as may be designated by Landlord), except to the extent such proceeds are attributable to Tenant's income and business contents, trade fixtures, furniture, equipment and personal property. Landlord or Tenant shall notify the other of its election within sixty

(60) days after receipt of notice of the occurrence of the damage.

SECTION 7.02 REDUCTION OF RENT.

If the Premises is destroyed or damaged and Landlord or Tenant repairs or restores the Premises pursuant to the provisions of this Article Seven, any Rent payable during the period commencing as of the date of the casualty and continuing for the period of time, as determined by Landlord, required for Tenant and Landlord to complete the repairs described in this Article Seven, due to such damage, repair and/or restoration shall be reduced according to the degree, if any, to which Tenant's use of the Premises is impaired as of the date of the casualty as reasonably determined by Landlord. If any casualty is the result of the fault or negligence of Tenant or any of Tenant's agents, employees or invitees, the Rent hereunder shall not be diminished during the repair of such damage. Except for such possible reduction in Rent, Tenant shall not be entitled to any abatement, compensation, reduction, or reimbursement from Landlord as a result of any damage, destruction, repair, or restoration of or to the Premises. In the event this Lease is terminated pursuant to this Article Seven, such termination shall be effective as of the date of the casualty.

SECTION 7.03 WAIVER.

Tenant waives the protection of any statute, code or judicial decision which grants a tenant the right to terminate a lease in the event of the substantial destruction of the leased property. Tenant agrees that the provisions of this Article Seven above shall govern the rights and obligations of Landlord and Tenant in the event of any casualty to the Premises.

**ARTICLE 8
CONDEMNATION**

SECTION 8.01 CONDEMNATION.

If the whole or substantially the whole of the Building or the Premises shall be taken for any public or quasi-public use, by right of eminent domain or otherwise or shall be sold in lieu of condemnation, then this Lease shall terminate as of the date when physical possession of the Building or the Premises is taken by the condemning authority. If less than the whole or substantially the whole of the Building or the Premises is thus taken or sold, Landlord (whether or not the Premises are affected thereby) may terminate this Lease by giving written notice thereof to Tenant; in which event this Lease shall terminate as of the date when physical possession of such portion of the Building or Premises is taken by the condemning authority. If the Lease is not so terminated upon any such taking or sale, the Rent payable hereunder shall be diminished by an equitable amount, and Landlord shall, to the extent Landlord reasonably deems feasible, restore the Building and the Premises to substantially their former condition, but such work shall not exceed the scope of the work done by Landlord in originally constructing the Building and installing improvements in the Premises, nor shall Landlord in any event be required to spend for such work an amount in excess of the amount received by Landlord as compensation for such taking. All amounts awarded upon a taking of any part or all of the Building or the Premises shall belong to Landlord, and Tenant shall not be entitled to and expressly waives all claims to any such compensation. Tenant reserves the right to claim and receive any relocation benefits from the condemning authority provided such benefits shall not reduce nor diminish any amounts awarded to Landlord.

**ARTICLE 9
ASSIGNMENT AND SUBLETTING**

SECTION 9.01 LANDLORD'S CONSENT REQUIRED.

No portion of the Premises or of Tenant's interest in this Lease may be acquired by any other person or entity, whether by assignment, mortgage, sublease, license, transfer, operation of law, or act of Tenant, without Landlord's prior written consent. Any attempted transfer without consent shall be void and shall constitute a non-curable breach of this Lease. If Tenant is a partnership or limited liability company, any cumulative transfer of more than twenty percent (20%) of the partnership interests or membership interest shall require Landlord's consent. If Tenant is a corporation, any change in a controlling interest of the voting stock of the corporation shall require Landlord's consent.

Notwithstanding anything to the contrary contained in this

Section 9, an assignment or subletting of all or a portion of the Premises to an "Affiliate" of Tenant shall not be deemed a transfer under this Article 9, provided that (a) Tenant notifies Landlord of any such assignment or sublease within fifteen (15) days after its effective date and promptly supplies Landlord with any documents or information reasonably requested by Landlord regarding such assignment or sublease

or such "Affiliate," and (b) such assignment or sublease is not a subterfuge by Tenant to avoid its obligations under this Lease. The term "Affiliate" shall mean an entity which is controlled by, controls, or is under common control with Tenant. The term "control" or "controlled" as used in this Article 9 shall mean the ownership, directly or indirectly, of more than fifty percent (50%) of the voting securities of, or more than fifty percent (50%) of the voting interest in, any entity. In no event shall a transfer, assignment or subletting of all or a portion of the Premises to an Affiliate release Tenant from the payment and performance of its obligations in the Lease, but rather Tenant and its assignee shall be jointly and severally primarily liable for such payment and performance.

SECTION 9.02 LANDLORD'S ELECTION.

(a) Tenant's request for consent to any transfer described in Section 9.01 above shall be accompanied by a written statement setting forth the details of the proposed transfer, including the name, business and financial condition of the prospective transferee, financial details of the proposed transfer (e.g., the term of and rent and security deposit payable under any assignment or sublease), and any other information Landlord deems relevant. Landlord shall have the right in Landlord's sole discretion (a) to withhold consent; (b) to grant consent; or (c) to exercise its rights pursuant to Section 9.02 (b). If Landlord consents to any assignment or sublease and Tenant receives rent or other consideration, either initially or over the term of the assignment or sublease, in excess of the Rent called for hereunder, or, in case of the sublease of a portion of the Premises, in excess of such Rent fairly allocable to such portion ("Profits"), then Tenant shall pay Landlord, as Additional Rent hereunder, promptly after its receipt, one hundred percent (100%) of such Profits. Notwithstanding anything contained to the contrary in the provisions of the Lease relating to an assignment or subletting by Tenant, neither Tenant nor any other person having an interest in the possession, use, occupancy or utilization of the Premises shall enter into any lease, sublease, license, concession or other agreement for use, occupancy or utilization of space in the Premises which provides for rental or other payment for such use, occupancy or utilization based, in whole or in part, on the net income or profits derived by any person from the portion of the Premises leased, used, occupied, or utilized (other than an amount based on a fixed percentage or percentages of receipts or sales), and any such purported lease, sublease, license, concession or other agreement shall be absolutely void and ineffective as a conveyance of any right or interest in the possession, use, occupancy or utilization of any part of the Premises.

(b) In the event that Tenant requests (the "Request Notice") that Landlord consent to any transfer described in Section 9.01 of all or any part of the Premises, in lieu of approving or disapproving such transfer, Landlord shall have the right and option (the "Recapture Option"), exercisable by Landlord giving Tenant written notice within thirty (30) days after Landlord's receipt of the Request Notice, of terminating the Lease with respect to the Premises, or any part thereof, which is the subject of the Request Notice. If Landlord elects to exercise such Recapture Option as to the entire Premises, the Lease shall terminate effective on the thirtieth (30th) day after the date of Landlord's written notice of Landlord's exercise thereof, whereupon the Rent shall be adjusted as of the date of such termination and the parties shall be released thereby without further obligation to the other party coincident with the surrender of possession of the Premises to the Landlord, except for items which have theretofore accrued and are then unpaid and except for obligations of Tenant which survive the expiration or termination of this Lease. If Landlord elects to exercise such Recapture Option as to only part of the Premises, the Lease shall terminate only as to such portion effective on the thirtieth (30th) day after the date of Landlord's written notice of Landlord's exercise thereof, whereupon the Rent payable under the Lease shall be reduced in the proportion that the Tenant's Rentable Square Feet of the released portion of the Premises bears to the total Tenant's Rentable Square Feet

of the Premises immediately prior to the exercise of the Recapture Option. As a result of the exercise of the Recapture Option as to only part of the Premises, Landlord, its successors and assigns, shall also be granted by Tenant, without charge, such rights of access to the remainder of the Premises as were to be given to the proposed transferee and as is reasonable and necessary to permit occupancy of the recaptured portion of the Premises. The Recapture Option shall not be exhausted by any one exercise thereof by Landlord but shall be exercisable from time to time and as often as there is any transfer described in

Section 9.01. The Recapture Option may be exercised by any assignee of Landlord's right, title and interest in the Lease or any other person which at the time of the Request Notice is Landlord under the Lease. If after receipt of the Request Notice, Landlord requests additional or further information which Landlord reasonably requires to consider any transfer described in Section 9.01, Tenant shall deliver such information to Landlord upon Landlord's request therefor and the period for Landlord to exercise the Recapture Option shall be extended by the number of days between Landlord's request for and Landlord's receipt of such additional or further information.

SECTION 9.03 NO RELEASE OF TENANT.

No transfer consented to by Landlord, shall release Tenant or change Tenant's primary liability to pay the rent and to perform all other obligations of Tenant under this Lease. Upon the occurrence of any default under this Lease, Landlord may proceed directly against Tenant without the necessity of exhausting any remedies against any subtenant or assignee. Upon termination of this Lease, any permitted subtenant shall, at Landlord's option, attorn to Landlord and shall pay all Rent directly to Landlord. Landlord's acceptance of Rent from any other person shall not constitute a waiver of any provision of this Article Nine. Consent to one transfer shall not constitute a consent to any subsequent transfer. Landlord may consent to subsequent assignments or modifications of this Lease by Tenant's transferee, without notifying Tenant or obtaining its consent. Such action shall not relieve Tenant of its liability under this Lease.

SECTION 9.04 NO MERGER.

No merger shall result from Tenant's sublease of the Premises under this Article Nine, Tenant's surrender of this Lease or the termination of this Lease in any other manner. In any such event, Landlord may terminate any or all subtenancies or succeed to the interest of Tenant as sublandlord thereunder.

ARTICLE 10 DEFAULTS; REMEDIES

SECTION 10.01 COVENANTS AND CONDITIONS.

Tenant's performance of each of Tenant's obligations under this Lease is a condition as well as a covenant. Tenant's right to continue in possession of the Premises is conditioned upon such performance. Time is of the essence in the performance of all covenants and conditions.

SECTION 10.02 DEFAULTS.

Landlord and Tenant agree that, unless applicable Laws otherwise provide, the terms of this Lease shall govern any default of Tenant hereunder and any landlord - tenant Laws shall not apply unless and until

applicable Laws should subject this Lease to such landlord - tenant Laws. Tenant shall be in material default under this Lease:

- (a) If Tenant abandons, vacates or fails to operate the Premises for thirty (30) consecutive days;
- (b) If Tenant fails to pay Rent or any other charge required to be paid by Tenant, as and when due;
- (c) If Tenant fails to perform any of Tenant's nonmonetary obligations under this Lease for a period of ten (10) days after written notice from Landlord; provided that if more than ten (10) days are required to complete such performance, Tenant shall not be in default if Tenant commences such performance within such ten (10) day period and thereafter diligently pursues its completion;
- (d) (i) If Tenant makes a general assignment or general arrangement for the benefit of creditors; (ii) if a petition for adjudication of bankruptcy or for reorganization or rearrangement is filed by or against Tenant and is not dismissed within thirty (30) days; (iii) if a trustee or receiver is appointed to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease and possession is not restored to Tenant within thirty (30) days; or (iv) if substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease is subjected to attachment, execution or other judicial seizure which is not discharged within thirty (30) days. If a court of competent jurisdiction determines that any of the acts described in this Section (d) is not a default under this Lease, and a trustee is appointed to take possession (or if Tenant remains a debtor in possession) and such trustee or Tenant transfers Tenant's interest hereunder, then Landlord shall receive, as Additional Rent, the difference between the rent (or any other consideration) paid in connection with such assignment or sublease and the rent payable by Tenant hereunder;
- (e) Any representation or warranty made by Tenant or by a subtenant or assignee in connection with this Lease shall have been materially false or misleading as of the date such representation or warranty was made; or
- (f) If Tenant fails to take substantial occupancy of the Premises within a reasonable time after the Commencement Date.

In the event Tenant is in default of the Lease beyond any applicable notice and cure periods, Tenant hereby waives any and all defenses which Tenant may have at law or in equity, it being understood and agreed by Tenant that any such default beyond any applicable notice and cure periods shall preclude Tenant's right to assert such defenses, such defenses therefore being waived.

SECTION 10.03 REMEDIES.

On the occurrence of any default by Tenant, Landlord may, at any time thereafter, with or without notice or demand and without limiting Landlord in the exercise of any right or remedy which Landlord may have:

(a) Terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord, or, if permitted by applicable Law, Landlord shall have the right to effect a lock out of Tenant from the Premises, in which event Tenant hereby releases Landlord from any and all damages including but not limited to damages related to interruption of Tenant's business. In such event, Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including without limitation (i) the worth at the time of the award of the unpaid Base Rent, Additional Rent and other charges which had been earned at the time of the termination; (ii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which would have been earned after termination until the time of the award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; (iii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which would have been paid for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, any costs or expenses incurred by Landlord in maintaining or preserving the Premises after such default, the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation or alteration of the Premises, Landlord's reasonable attorneys' fees incurred in connection therewith, and any real estate commission paid or payable. As used in subparts

(i) and (ii) above, the "worth at the time of the award" is computed by allowing interest on unpaid amounts at the rate of fifteen percent, or such lesser amount as may then be the maximum lawful rate, accruing the date such payments are due until paid. As used in subpart (iii) above, the "worth at the time of the award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%);

(b) Maintain Tenant's right to possession, in which case this Lease shall continue in effect whether or not Tenant shall have abandoned the Premises. In such event, Landlord shall be entitled to enforce all of Landlord's rights and remedies under this Lease, including the right to recover Rent as it becomes due hereunder. Landlord's election to maintain Tenant's right to possession shall not prejudice Landlord's right, at any time thereafter to terminate Tenant's right to possession and proceed in accordance with Section 10.03(a) above;

(c) Intentionally omitted; or

(d) Pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the State of Nevada.

(e) THE PARTIES AGREE THAT IN THE EVENT OF A DEFAULT OF THIS LEASE BY TENANT, DAMAGES INCURRED BY LANDLORD WOULD BE SUBSTANTIAL AND DIFFICULT TO ASCERTAIN AND THAT LANDLORD MAY ELECT AS ITS SOLE REMEDY THE RECEIPT OF MONIES IN THE AMOUNT EQUAL TO THE REMAINING OUTSTANDING BALANCE OF THE LEASE TERM AND ATTORNEYS' FEES AND RELATED COSTS AND EXPENSES TO BE PAID BY TENANT.

SECTION 10.04 CUMULATIVE REMEDIES.

Landlord's exercise of any right or remedy shall not prevent it from exercising any other right or remedy.

**ARTICLE 11
PROTECTION OF LENDERS**

SECTION 11.01 SUBORDINATION.

Landlord shall have the right to subordinate this Lease to any ground lease, deed of trust or mortgage encumbering the Premises, any advances made on the security thereof and any renewals, modifications, consolidations, replacements or extensions thereof, whenever made or recorded. However, Tenant's right to quiet possession of the Premises during the Lease Term shall not be disturbed if Tenant pays the rent and performs all of Tenant's obligations under this Lease and is not otherwise in default. If any Mortgagee elects to have this Lease prior to the lien of its ground lease, deed of trust or mortgage and gives written notice thereof to Tenant, this Lease shall be deemed prior to such ground lease, deed of trust or mortgage whether this Lease is dated prior or subsequent to the date of said ground lease, deed of trust or mortgage or the date of recording thereof. If in connection with obtaining construction, interim or permanent financing for the Building, the lender shall request modifications to this Lease as a condition to such financing, Tenant will not withhold or delay its consent thereto, provided that such modifications do not increase the obligations of Tenant hereunder and do not otherwise materially adversely affect Tenant's rights hereunder. In the event that Tenant should fail to execute any instrument described in this Article Eleven promptly as requested, Tenant hereby irrevocably constitutes Landlord as its attorney-in-fact to execute such instrument in Tenant's name, place and stead, it being agreed that such power is one coupled with an interest. Notwithstanding anything in the Lease to the contrary, the prior written consent of the First Mortgagee shall be required as a condition precedent to the subordination of the Lease to any junior/secondary mortgage or deed of trust. If requested by Tenant, Landlord shall use commercially reasonable efforts to obtain a subordination, non-disturbance and attornment agreement from Mortgagee in such form as approved by Mortgagee. If a monetary fee is a precondition of any Mortgagee for the review of any changes to or to obtain any Mortgagee approved subordination, non-disturbance and attornment agreement, Tenant shall pay this fee to Landlord prior to such Mortgagee undertaking the review of the said document and in no event later than fifteen (15) days after the request by the Tenant for such subordination, non-disturbance and attornment agreement, such fees are payable to Landlord regardless of whether such changes are approved by the Mortgagee. If the required fees are not paid in full by the Tenant, Landlord has no obligation to proceed to obtain the subordination, non-disturbance and attornment agreement.

SECTION 11.02 ATTORNMENT.

If Landlord's interest in the Premises is acquired by any ground lessor, beneficiary under a deed of trust, mortgagee, or purchaser at a foreclosure sale, Tenant shall attorn to the transferee of or successor to Landlord's interest in the Premises and recognize such transferee or successor as Landlord under this Lease. Tenant waives the protection of any statute or rule of law which gives or purports to give Tenant any right to terminate this Lease or surrender possession of the Premises upon the transfer of Landlord's interest.

SECTION 11.03 SIGNING OF DOCUMENTS.

Tenant shall sign and deliver any instruments or documents necessary or appropriate to evidence any such attornment or subordination or agreement to do so. Such subordination and attornment documents may contain such provisions as are customarily required by any ground lessor, beneficiary under a deed of trust or mortgagee. If Tenant fails to do so within ten (10) days after written request, Tenant hereby makes, constitutes and irrevocably appoints Landlord, or any transferee or successor of Landlord, the attorney-in-fact of Tenant to execute and deliver any such instrument or document.

SECTION 11.04 ESTOPPEL CERTIFICATES.

(a) Upon Landlord's written request, Tenant shall execute, acknowledge and deliver to Landlord a written statement substantially in the form attached hereto as Exhibit "D" certifying: (i) that none of the terms or provisions of this Lease have been changed (or if they have been changed, stating how they have been changed); (ii) that this Lease has not been canceled or terminated; (iii) the last date of payment of the Base Rent and other charges and the time period covered by such payment; (iv) that Landlord is not in default under this Lease (or, if Landlord is claimed to be in default, stating why); (v) that the Work (as defined in Rider No. 1) has been substantially completed by Landlord, if Landlord was responsible for the construction of the Work, or stating any items of such Work which are not substantially completed; (vi) that Tenant has occupied the Premises; and (vii) such other matters as may be reasonably required by Landlord or the holder of a mortgage, deed of trust or lien to which the Premises is or becomes subject. Tenant shall deliver such statement to Landlord within ten (10) business days after Landlord's request. Any such statement by Tenant may be given by Landlord to any prospective purchaser or encumbrancer of the Premises. Such purchaser or encumbrancer may rely conclusively upon such statement as true and correct.

(b) If Tenant does not deliver such statement to Landlord within such ten (10) business day period, Landlord, and any prospective purchaser or encumbrancer, may conclusively presume and rely upon the following facts: (i) that the terms and provisions of this Lease have not been changed except as otherwise represented by Landlord; (ii) that this Lease has not been canceled or terminated except as otherwise represented by Landlord; (iii) that not more than one month's Base Rent or other charges have been paid in advance; and (iv) that Landlord is not in default under the Lease. In such event, Tenant shall be estopped from denying the truth of such facts. The failure of Tenant to provide such written statement shall constitute a material default under this Lease and Tenant shall be liable for all of Landlord's actual and consequential damages resulting from such failure.

SECTION 11.05 TENANT'S FINANCIAL CONDITION.

Within ten (10) business days after written request from Landlord, but no more frequently than annually, Tenant shall deliver to Landlord such financial statements as are required by Landlord to verify the net worth of Tenant, or any assignee, subtenant, or guarantor of Tenant. In addition, Tenant shall deliver to any lender designated by Landlord any financial statements required by such lender to facilitate the financing or refinancing of the Premises. Tenant represents and warrants to Landlord that each such financial statement is a true and accurate statement as of the date of such statement. All financial statements shall be confidential and shall be used only for the purposes set forth herein.

**ARTICLE 12
LEGAL COSTS**

SECTION 12.01 LEGAL PROCEEDINGS.

Tenant shall reimburse Landlord, upon demand, for any costs or expenses incurred by Landlord in connection with any breach or default of Tenant under this Lease, whether or not suit is commenced or judgment entered. Such costs shall include reasonable legal fees and costs incurred for the negotiation of a settlement, enforcement of rights or otherwise. Furthermore, if any action for breach of or to enforce the provisions of this Lease is commenced, the court in such action shall award to the party in whose favor a judgment is entered, a reasonable sum as attorneys' fees and costs. Such attorneys' fees and costs shall be paid by the losing party in such action and Tenant shall also indemnify Landlord against and hold Landlord harmless from all costs, expenses, demands and liability incurred by Landlord if Landlord becomes or is made a party to any claim or action (a) instituted by Tenant, or by any third party against Tenant, or by or against any person holding any interest under or using the Premises by license of or agreement with Tenant; (b) for foreclosure of any lien for labor or material furnished to or for Tenant or such other person; (c) otherwise arising out of or resulting from any act or transaction of Tenant or such other person; or (d) necessary to protect Landlord's interest under this Lease in a bankruptcy proceeding, or other proceeding under Title 11 of the United States Code, as amended. Tenant shall defend Landlord against any such claim or action at Tenant's expense with counsel reasonably acceptable to Landlord or, at Landlord's election, Tenant shall reimburse Landlord for any legal fees or costs incurred by Landlord in any such claim or action.

SECTION 12.02 LANDLORD'S CONSENT.

Tenant shall pay Landlord a fee of One Thousand and 00/100 Dollars (\$1,000.00) in connection with Tenant's request for Landlord's consent under Article Nine (Assignment and Subletting), or in connection with any other act which Tenant proposes to do and which requires Landlord's consent or waiver. In the event any such request requires costs or fees in excess of such amount, Tenant shall reimburse Landlord for Landlord's costs in excess of One Thousand and 00/100 Dollars (\$1,000.00).

**ARTICLE 13
MISCELLANEOUS PROVISIONS**

SECTION 13.01 NON-DISCRIMINATION.

Tenant promises, and it is a condition to the continuance of this Lease, that there will be no discrimination against, or segregation of, any person or group of persons on the basis of race, color, sex, creed, national origin or ancestry in the leasing, subleasing, transferring, occupancy, tenure or use of the Premises or any portion thereof.

SECTION 13.02 LANDLORD'S LIABILITY.

As used in this Lease, the term "Landlord" means only the current owner or owners of the fee title to the Premises or the leasehold estate under a ground lease of the Premises at the time in question. Each Landlord is obligated to perform the obligations of Landlord under this Lease only during the time such Landlord owns such interest or title. Any Landlord who transfers its title or interest is relieved of all liability

with respect to the obligations of Landlord under this Lease to be performed on or after the date of transfer. However, each Landlord shall deliver to its transferee all funds previously paid by Tenant if such funds have not yet been applied under the terms of this Lease. Notwithstanding anything to the contrary contained in the Lease, Tenant agrees that it shall look solely to the estate and the property of Landlord in the land and Building of which the Premises are a part (subject to the prior rights of any Mortgagee in the building) for the collection of any judgment (or other judicial process) requiring the payment of money by Landlord or its officers, directors, managers, shareholders, members, employees, contractors, servants and/or agents in the event of any default or breach by Landlord or its officers, directors, managers, shareholders, members, employees, contractors, servants and/or agents with respect to any of the terms, covenants, and conditions of this Lease to be observed or performed by Landlord or any other liability of Landlord or its officers, directors, managers, shareholders, members, employees, contractors, servants and/or agents in connection, directly or indirectly, with this Lease, and no other assets of Landlord or its officers, directors, managers, shareholders, members, employees, contractors, servants and/or agents shall be subject to levy, execution or other procedures for the satisfaction of Tenant's remedies. Notwithstanding any provision to the contrary contained in this Lease, Tenant's exclusive remedies to enforce Landlord's obligations shall be by consent of Landlord or by order of competent jurisdiction and shall not include self-help measures.

SECTION 13.03 SEVERABILITY.

A determination by a court of competent jurisdiction that any provision of this Lease or any part thereof is illegal or unenforceable shall not cancel or invalidate the remainder of such provision or this Lease, which shall remain in full force and effect.

SECTION 13.04 INTERPRETATION.

The captions of the Articles and Sections of this Lease are to assist the parties in reading this Lease and are not a part of the terms or provisions of this Lease. Whenever required by the context of this Lease, the singular shall include the plural and the plural shall include the singular. The masculine, feminine and neuter genders shall each include the other. In any provision relating to the conduct, acts or omissions of Tenant, the term "Tenant" shall include Tenant's agents, employees, contractors, invitees, successors or others using the Premises with Tenant's expressed or implied permission.

SECTION 13.05 INCORPORATION OF PRIOR AGREEMENTS; MODIFICATIONS.

This Lease is the only agreement between the parties pertaining to the lease of the Premises and no other agreements are effective. All amendments to this Lease shall be in writing and signed by all parties. Any other attempted amendment shall be void.

SECTION 13.06 NOTICES.

All notices required or permitted under this Lease shall be in writing and shall be personally delivered or sent by certified mail, return receipt requested, postage prepaid. Notices to Tenant shall be delivered to Tenant's Address specified in Section 1.01(s) above, except that upon Tenant's taking possession of the Premises, the Premises shall be Tenant's address for notice purposes. Notices to Landlord shall be delivered to Landlord's Mailing Address specified in Section 1.01(h) above. Notices deposited in the mail in the manner hereinabove described shall be effective from and after the expiration of three (3) calendar days

after it is so deposited. All other notices shall be effective upon delivery or attempted delivery in accordance with this Section 13.06. Either party may change its notice address upon written notice to the other party.

SECTION 13.07 WAIVERS.

All waivers must be in writing and signed by the waiving party. Landlord's failure to enforce any provision of this Lease or its acceptance of rent shall not be a waiver and shall not prevent Landlord from enforcing that provision or any other provision of this Lease in the future. No statement on a payment check from Tenant or in a letter accompanying a payment check shall be binding on Landlord, and Landlord may, with or without notice to Tenant, negotiate such check without being bound to the conditions of such statement.

SECTION 13.08 NO RECORDATION.

Tenant shall not record this Lease without prior written consent from Landlord. However, either Landlord or Tenant may require that a "short form" memorandum of this Lease executed by both parties be recorded; provided that, in such event, Tenant hereby covenants and agrees that, upon the expiration or earlier termination of the Lease Term, Tenant will execute and deliver a quitclaim deed to Landlord in form reasonably satisfactory to Landlord, in favor of Landlord, or Landlord's successor in interest releasing and conveying any and all right, title, or interest of Tenant in the Premises, the Building, and the Hughes Airport Center.

SECTION 13.09 BINDING EFFECT; CHOICE OF LAW.

This Lease binds any party who legally acquires any rights or interest in this Lease from Landlord or Tenant. However, Landlord shall have no obligation to Tenant's successor unless the rights or interests of Tenant's successor are acquired in accordance with the terms of this Lease. This Lease shall be governed by and construed in accordance with the laws of the State of Nevada.

SECTION 13.10 CORPORATE AUTHORITY; PARTNERSHIP AUTHORITY.

If Tenant is a corporation, each person signing this Lease on behalf of Tenant represents and warrants that he has full authority to do so and that this Lease binds the corporation. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a certified copy of a resolution of Tenant's Board of Directors authorizing the execution of this Lease or other evidence of such authority reasonably acceptable to Landlord. If Tenant is a partnership or limited liability company, each person signing this Lease for Tenant represents and warrants that he is a general or limited partner of the partnership or member or manager of the limited liability company, that he has full authority to sign for the partnership or limited liability company and that this Lease binds the partnership or limited liability company and, in the case of a partnership, all general partners or limited partners of the partnership, and in the case of any limited liability company, all members of the limited liability company. Tenant shall give written notice to Landlord of any general partner's or member's withdrawal or addition. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a copy of Tenant's recorded statement of partnership, certificate of limited partnership or articles of organization. In the event Tenant is other than an individual, concurrently with Tenant's execution of this Lease, Tenant shall provide to Landlord a certificate of good standing or its equivalent that confirms that Tenant is duly qualified to do business in the state in which the Premises is located.

SECTION 13.11 JOINT AND SEVERAL LIABILITY.

All parties signing this Lease as Tenant shall be jointly and severally liable for all obligations of Tenant.

SECTION 13.12 FORCE MAJEURE.

If Landlord cannot perform any of its obligations due to events beyond Landlord's control, the time provided for performing such obligations shall be extended by a period of time equal to the duration of such events. Events beyond Landlord's control include, but are not limited to, acts of God, war, civil commotion, labor disputes, strikes, fire, flood or other casualty, shortages of labor or material, governmental regulation or restriction and weather conditions.

SECTION 13.13 EXECUTION OF LEASE.

This Lease may be executed in counterparts, and, when all counterpart documents are executed, the counterparts shall constitute a single binding instrument. The delivery of this Lease by Landlord to Tenant shall not be deemed to be an offer and shall not be binding upon either party until executed and delivered by both parties.

SECTION 13.14 BROKERS AND LEASING AGENTS.

Landlord represents and warrants to Tenant, and Tenant represents and warrants to Landlord, that no broker, leasing agent or finder has been engaged by it other than Landlord's Broker (if any) specified in Section 1.01(i) and Tenant's Broker (if any) specified in Section 1.01(t) in connection with any of the transactions contemplated by this Lease, or to its knowledge is in any way connected with any of such transactions. Subject to the terms and conditions of a written commission agreement ("Commission Agreement") entered into between Landlord and Tenant's Broker (if any), Landlord shall be responsible for the payment of a commission to Tenant's Broker in accordance with the Commission Agreement. In the event of any claims for brokers' or finders' fees or commissions in connection with the negotiation, execution or consummation of this Lease other than by Landlord's Broker (if any) or Tenant's Broker (if any), Tenant shall indemnify, save harmless and defend Landlord from and against such claims if they shall be based upon any statement or representation or agreement made by Tenant, and Landlord shall indemnify, save harmless and defend Tenant if such claims shall be based upon any statement, representation or agreement made by Landlord.

SECTION 13.15 RULES AND REGULATIONS.

Tenant shall faithfully observe and comply with the "Rules and Regulations," a copy of which is Exhibit "C" attached hereto and incorporated herein by this reference and all reasonable modifications thereof and additions thereto from time to time put into effect by Landlord. Landlord shall not be responsible to Tenant for the violation or non-performance by any other tenant or occupant of the Building of any of said Rules and Regulations. Tenant shall be responsible for the observance of all the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.

SECTION 13.16 INTENTIONALLY OMITTED.

SECTION 13.17 WAIVER OF JURY TRIAL.

To the extent such waiver is permitted by law, the parties hereto waive trial by jury in any action or proceeding brought in connection with this Lease.

SECTION 13.18 REAL ESTATE BROKERAGE DISCLOSURES.

Concurrently with the execution of this Lease, Landlord and Tenant shall execute the Duties Owned by a Nevada Real Estate Licensee form attached hereto as Exhibit "F," and the Confirmation Regarding Real Estate Relationship form attached hereto as Exhibit "G," and, if applicable, Landlord shall cause Landlord's Broker, and Tenant shall cause Tenant's Broker to execute the Confirmation Regarding Real Estate Relationship form attached hereto as Exhibit "G."

SECTION 13.19 MOLD ADDENDUM.

Concurrently with the execution of this Lease, Tenant shall execute the Acknowledgement of Mold Addendum attached hereto as Exhibit "H."

SECTION 13.20 LANDLORD REPRESENTATIONS.

Landlord represents and warrants that at the time of execution of this Lease:

1. Landlord has fee simple title to the Building and the Common Building Areas.
2. The Premises are served by gas, electric, water and sewage.
3. Landlord has full authority to enter into the Lease, and no other person, firm or corporation need join in the execution of the Lease to make the Landlord's execution complete or appropriate.
4. As of the Commencement Date, the Premises and the improvements thereon will be in compliance with all laws, ordinances and regulations, including all applicable building codes and Title III of the Americans with Disabilities Act of 1990, as amended.
5. To the best of Landlord's actual knowledge, without the duty to investigate, there are no Hazardous Substances the quantity or quality or use of which would constitute a Reportable Use relating to the Building.

(SIGNATURES ON THE FOLLOWING PAGE)

IN WITNESS WHEREOF, Landlord and Tenant have signed this Lease in the State of Nevada on the day and year first above written and have initialed or signed all Riders which are attached to or incorporated by reference in this Lease.

LANDLORD:

LAS VEGAS AIRPORT PROPERTIES LLC,
a Delaware limited liability company

By: STOLTZ MANAGEMENT OF DELAWARE,
INC., its Agent

TENANT:

TRANSACT TECHNOLOGIES INC., a Delaware
corporation

By: /s/ Stephen Lewis

Stephen Lewis, Vice President

By: /s/ Steven A. DeMartino

Print Name: Steven A. DeMartino
Print Title: Executive VP and CFO

EXHIBIT "A"

[Depiction of Premises]

EXHIBIT "A-1"

[Depiction of Warehouse Space]

EXHIBIT "B"

[Legal Description of Site]

Being a portion of HUGHES AIRPORT CENTER UNIT NO. 2, as shown on plat thereof of file in the Clark County Recorder's Office, Clark County, Nevada, as Page 68 of Book 35 of Plats, lying within the North Half (N 1/2) of Section 3, Township 22 South, Range 61 East, M.D.M. described as follows:

COMMENCING at the Northeast corner of said Section 3; thence South 00(Degree)24'14" East along the East line thereof, 2,010.32 feet to the Southeast corner of said Unit No. 2, said point being on the Northerly line of the Union Pacific Railroad right-of-way (100.00 feet in width); thence North 73(Degree)29'08" West along said right-of-way line, 1,035.18 feet to the TRUE POINT OF BEGINNING; thence continuing North 73(Degree)29'08" West along said line, 318.72 feet to a point on the East line of Paradise Road (80.00 feet in width); thence North 00 (Degree)07'28" West along said line, 416.97 feet to a point on a tangent curve, concave to the Southeast, having a radius of 30.00 feet; thence along said curve to the right through a central angle of 90(Degree)00'00" an arc distance of 47.12 feet; thence North 89(Degree)52'32" East, 264.90 feet to a point on a tangent curve, concave to the South, having a radius of 270.00 feet; thence along said curve to the right, through a central angle of 10(Degree)46'30", an arc distance of 50.78 feet; thence South 00(Degree)27'28" East, 116.61 feet; thence South 89(Degree) 52'32" West, 40.00 feet; thence South 00(Degree)27'28" East, 416.86 feet to the TRUE POINT OF BEGINNING.

Continuing 3.5586 acres, more or less.

The above described parcel is subject to a railroad drill line easement over and across the Southerly 20.00 feet.

EXHIBIT "C"

RULES AND REGULATIONS

I. EXTERIOR

(a) Signage

(i) Approval: No sign, placard, picture, advertisement, name, or notice shall be installed or displayed and visible from any part of the outside of the Building without the prior written consent of Landlord. Landlord shall have the right to remove, at Tenant's expense and without notice, any sign installed or displayed in violation of this rule. All approved signs or lettering on doors, windows, and walls shall be printed, painted, affixed, or inscribed at the expense of the Tenant, using materials, style and a format approved by Landlord.

(ii) Common Areas: Tenant shall not do any painting or marking on the exterior of the Building or the Building Common Areas, including without limitation, marking of parking spaces.

(iii) Limitations: All signs must be consistent with the signage and graphics program adopted by the Architectural Control Committee. No sign or other contrivance shall be permitted which rotates, gyrates, blinks, or moves in any fashion. No sign shall extend above the top of a building or be placed on the roof of any building. Signs attached to a building shall be flushed mounted. No signs shall be painted on a building. A sign is deemed to be the use of any words, numerals, figures, devices, designs, trademarks, or other symbol in order to communicate.

(b) Window Coverings: Window coverings must be approved by Landlord, whose approval shall not be unreasonably withheld. No awning shall be permitted on any part of the Premises. Tenant shall not place anything against or near glass partitions, doors, or windows that may be visible from outside the Premises.

(c) Roof Access: No tenant, employee, invitee, contractor, or agent of any tenant, or any other person, shall go upon the roof of the Building, without the approval of Landlord.

(d) Common Areas

(i) Obstruction: Tenant shall not obstruct any sidewalks, hallways, passages, exits, entrances, elevators, escalators, or stairways of the Building.

(ii) Access: The halls, passages, exits, entrances, elevators, and/or escalators are not for the general public, and Landlord shall in all cases retain the right to control and prevent access thereto of all persons whose presence in the judgment of the Landlord would be prejudicial to the safety, character, reputation, and interests of the Building and its tenants; provided that nothing herein contained shall be construed to prevent such access to persons with whom any tenant normally deals in the ordinary course of its business, unless such persons are engaged in illegal activities.

(e) Exterior Communication Equipment: Unless approved by Landlord, Tenant shall not install any radio or television antenna, microwave dish, loudspeaker, or other device on the roof or exterior walls of the Building. Tenant shall not interfere with radio or television broadcasting or reception from or in the Building or elsewhere.

(f) Trash Areas

(i) Storage: Tenant shall store all its trash and garbage within its trash box, within its designated trash area. Tenant shall not place in any trash box or receptacle any material that cannot be disposed of in ordinary and customary manner of trash and garbage disposal. All garbage and refuse disposal shall be made in accordance with directions issued from time to time by Landlord.

(ii) Containment: Tenant shall dispose of refuse in a manner that prevents littering and dispersing of refuse by wind.

(iii) Timely Disposal: All refuse shall be disposed of in a timely manner.

(iv) Latching: Tenant shall latch all trash area doors at all times.

(v) Visibility and Sanitation: Tenant shall keep trash, garbage, or other waste in sanitary containers. Tenant shall keep all equipment for the storage or disposal of such materials in a clean and sanitary condition and shall ensure that such equipment is enclosed so as not to be visible from any public street or from any other part of the office/ industrial center in which the Premises are located (the "Center"). Tenant shall arrange for the regular removal of all such waste at such Tenant's sole cost and expense.

(g) Outside Storage: Tenant shall maintain exterior loading docks and bay areas in a neat and clean manner. Permanent outside storage of pallets, packing crates, barrels, etc. is prohibited. Tenant shall dispose of refuse in a manner that prevents littering and dispersing of refuse by wind.

(h) Outside Activity

(i) Vehicles: Washing, waxing, cleaning, or servicing of any vehicle by anyone is prohibited.

(ii) Operations: Except for loading, unloading and parking, all operations and business activities shall be carried on within fully enclosed buildings and no outside operations shall be permitted. No equipment, machinery, material, junk, debris, or similar matter shall be placed, stored, or kept outside of any building in the Center.

II. INTERIOR

(a) Communications: If Tenant requires telegraphic, telephonic, or similar services, it shall first obtain, and comply with, Landlord's instructions in their installation.

(b) Physical Security: Tenant assumes any and all responsibility for protecting its Premises from theft, robbery, and pilferage, which includes keeping doors locked during non-business hours or as required by law, and other means of entry to the Premises closed.

(c) Temperature Control: Without the consent of Landlord, Tenant shall not use any method of heating, including but not limited to space heaters, or air-conditioning other than that supplied by Landlord.

(d) Utility Conservation: Tenant shall not waste electricity, water, or air-conditioning and agrees to cooperate fully with Landlord to assure the most effective operation of the Building's heating and air-conditioning and to comply with any governmental energy-saving rules, laws, or regulations of which Tenant has actual notice, and shall refrain from attempting to adjust controls other than room thermostats installed for Tenant's use.

(e) Plumbing Fixtures: The toilet rooms, toilet urinals, wash bowls, and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein.

(f) Alterations: Tenant shall not cut or bore holes for wires without Landlord's approval. Tenant shall not affix any floor coverings to the floor of the Premises in any manner except as approved by Landlord.

(g) Hazardous Materials: Tenant shall comply with all applicable regulations, laws, and standards, including, but not limited, to OSHA rules and regulations, if the Premises contain any flammable or combustible fluid or material other than those limited quantities necessary for the operation or maintenance of office equipment.

(h) Use of Space: The Premises shall not be used for the storage of merchandise held for sale to the general public except to the extent incidental to Tenant's use of the Premises, or for lodging, nor shall the Premises be used for any improper, immoral, or objectionable purpose.

III. PARKING

(a) Traffic Rules and Speed Limit: All directional signs and arrows must be observed. The speed limit shall be 5 miles per hour.

(b) Parking: Parking is prohibited: (a) in areas not striped for parking, (b) in aisles, (c) where "no parking" signs are posted, (d) on ramps, (e) in cross hatched areas, and (f) in such other areas as may be designated by Landlord as reserved for the exclusive use of others. Tenant shall acquaint all persons to whom Tenant assigns parking spaces of these Rules and Regulations.

(c) Enforcement: Landlord reserves the right to modify and/or adopt such other reasonable and nondiscriminatory rules and regulations for the parking areas as it deems necessary for the operation of the parking areas. Landlord may refuse to permit any person who violates the within rules to park in the parking areas, and any violation of the rules shall subject the car to removal without notice.

(d) Designated Areas: Tenant shall not park its vehicles in any parking areas designated for parking by visitors to the Building. Tenant shall not park any vehicles in the Building parking areas other than automobiles, motorcycles, motor driven or non-motor driven bicycles, or four-wheeled trucks. Landlord may, in its sole discretion, designate separate areas for bicycles and motorcycles.

(e) Tenant and Tenant's invitees and guests shall not use more than the parking spaces allocated to Tenant pursuant to Section 1.04 of this Lease. In the event Tenant uses more than the number of spaces allocated to Tenant, Landlord shall have the right to charge Tenant as Additional Rent the sum of twenty-five dollars (\$25) per day for each additional space utilized by Tenant or Tenant's guests and invitees. Such amount shall be paid to Landlord immediately upon written demand by Landlord.

IV. LOCKS & KEYS

(a) General: Landlord will furnish Tenant, free of charge, with two keys to each door lock in the Premises provided, however, that Landlord shall not be entitled to possess keys to any safes, files, vaults, safe deposit boxes, or keys to the Premises. Without Landlord's consent, Tenant shall not make or have made additional keys not furnished by Landlord. Unless Landlord otherwise agrees, Tenant shall not alter any lock or install a new additional lock or bolt on any door in its Premises.

(b) Return of Keys: Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys of all doors to Premises, and in the event of loss of any keys shall pay Landlord therefor.

V. GENERAL

(a) Nuisance

(i) General: Tenant shall not use or permit to be used in the Premises any foul or noxious gas or substance, or permit or allow the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors or vibrations, nor shall Tenant bring into or keep in or about the Premises any birds or animals.

(ii) Intoxication: Landlord reserves the right to exclude or expel from the Center any person who, in Landlord's judgment, is intoxicated or under the influence of liquor or drugs or who is in violation of any of the Rules and Regulations of the Center.

(b) Solicitation

(i) General: Canvassing, soliciting, and peddling in the Center are prohibited. Unless otherwise approved by Landlord, Tenant shall not sell, or permit the sale of newspapers, magazines, periodicals, theater tickets, or any other goods or merchandise to the general public in or on the Premises. Tenants shall not make any room-to-room solicitation of business from other tenants in the Building or in the Center. Tenant shall not use the Premises for any business or activity other than that specifically provided for in Tenant's lease.

(ii) Flyers: No distribution, leafletting, broadcasting, posting, or other dissemination of handbills, streamers, circulars, flyers, or other promotional or advertising materials whatsoever shall be permitted at any time in the Development.

(c) Food Preparation

(i) General Prohibition: No cooking shall be done or permitted by any tenant (except as permitted in these Rules and Regulations).

(ii) Coffee and Microwave: Use by Tenant of equipment for brewing coffee, tea, hot chocolate, and similar beverages shall be permitted, and the use of a microwave shall be permitted, provided that such equipment and use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, and regulations.

(d) Use of Center Name: Without the written consent of Landlord, Tenant shall not use the name of the Building or Center in connection with or in promoting or advertising the business of Tenant except as Tenant's address.

(e) Fire: Tenant shall comply with all safety, fire protection, and evacuation procedures and regulations established by Landlord or any governmental agency. Landlord has the right to evacuate the Center in the event Landlord determines that a potential or actual emergency or other potentially dangerous condition exists.

(f) Tenant Security: Tenant assumes any and all responsibility for protecting its Premises from theft, robbery, and pilferage, which includes keeping doors locked during non-business hours or as required by law, and other means of entry to the Premises closed.

(g) Reporting of Repair Needs: Tenant shall comply with the system reasonably established by Landlord from time to time for Tenant to report cleaning, maintenance, and repair, or other work that is required under the Lease.

(h) Address: Landlord reserves the right, exercisable without liability to Tenant, to change the name and street address of the Building.

(i) Tenant/Landlord Rights

(i) Waive/Reinstate: Landlord may waive any one or more of these Rules and Regulations for the benefit of Tenant or any other tenant, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of Tenant or any other tenant, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Building.

(ii) New Rules: Landlord reserves the right to make such other and reasonable Rules and Regulations as, in its judgment may from time to time be needed for safety and security, for care and cleanliness of the Building and for the preservation of good order therein. Tenant agrees to abide by all such Rules and Regulations hereinabove stated and any additional Rules and Regulations that are adopted.

(iii) Observance of Rules: Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees and agents.

(j) Tenant's employees: Tenant shall provide to Landlord on each anniversary of the Commencement Date or at any time within fifteen (15) days of Landlord's written request an accurate list of all of Tenant's employees working at the Premises.

EXHIBIT "D"

ESTOPPEL CERTIFICATE

STATEMENT OF TENANT IN RE: LEASE

Date: _____

Re: 6700 Paradise Road
Suite #D
Las Vegas, NV 89119

Gentlemen:

It is our understanding that you have committed to place a mortgage upon the subject premises and as a condition precedent thereof have required this certification of the undersigned.

The undersigned, as Tenant, under that certain lease dated _____, made with LAS VEGAS AIRPORT PROPERTIES LLC, as Landlord, hereby ratifies the said lease and certifies that:

1. the undersigned has entered into occupancy of the premises described in said lease on _____; and
2. the undersigned is presently open and conducting business with the public in the premises; and
3. the operation and use of the premises do not involve the generation, treatment, storage, disposal or release of a hazardous substance or a solid waste into the environment and that the premises are being operated in accordance with all Applicable Requirements, zoning ordinances and building codes; and
4. the minimum rental in the monthly amount of \$ _____ was payable from the date of occupancy; and
5. that said lease is in full force and effect and has not been assigned, modified, supplemented or amended in any way except by _____, and neither party thereto is in default thereunder; and

6. that the same represents the entire agreement between the parties as to this leasing; and
7. that the term of said lease expires on _____; and
8. that all conditions under said lease to be performed by the Landlord have been satisfied, including, but without limitation, all co-tenancy requirements thereunder; and
9. all required contributions by Landlord to Tenant on account of Tenant's improvements have been received; and
10. on this date there are no existing defenses or offsets which the undersigned has against the enforcement of said lease by the Landlord; and
11. that no rental has been paid in advance and a security in the amount of \$_____ (or no security) has been deposited with Landlord; and
12. that Tenant's floor area is _____ square feet; and
13. that Tenant is in financial condition that will enable Tenant to comply with the Lease; and
14. that rental for _____, 200_ has been paid.

Any capitalized but undefined terms contained herein shall have the same meaning as set forth in the lease.

Very truly yours,

Transact Technologies Inc.

By:

Its:

EXHIBIT "E"

COMMENCEMENT MEMORANDUM

TRANSACT TECHNOLOGIES INC.

6700 Paradise Road
Suite D
Las Vegas, Nevada 89119

Re: 6700 Paradise Road
Suite D
Las Vegas, Nevada 89119

Dear _____:

With reference to that certain lease (the "Lease"), dated _____, 2004, between LAS VEGAS AIRPORT PROPERTIES LLC, a Delaware limited liability company ("Landlord"), and TRANSACT TECHNOLOGIES INC., a Delaware corporation ("Tenant"), you are hereby notified of the following. All capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Lease.

1. The Commencement Date of the Lease was _____, and the Lease will expire at midnight _____, 200_, if not extended or renewed or terminated earlier pursuant to the Lease.
2. The Premises consist of _____ (_____) square feet of Rentable Square Feet.
3. The prorated amount of Base Rent and Additional Rent for Operating Costs for the partial month of _____ is \$ _____ and \$ _____, respectively.
4. The amount of Base Rent and Additional Rent for Operating Costs for the first full month is \$ _____ and \$ _____, respectively.
5. Pursuant to Paragraph/Article/Section/Subsection/Exhibit _____ of the Lease, you have the right to renew the term of the Lease for one (1) additional term of _____ (____) years. The Second Lease Term shall commence on _____, 200_, provided Tenant gives Landlord written notice on or before _____, 200_ in accordance with the terms of the Lease.

Very truly yours,

By: STOLTZ MANAGEMENT OF
DELAWARE, INC., its Agent

Acknowledged and agreed to by

By: _____

Print Name: _____

Print Title: _____

By: _____

EXHIBIT "F"

DUTIES OWED BY A NEVADA REAL ESTATE LICENSEE

This form does not constitute a contract for services.

In Nevada, a real estate licensee can (1) act for only one party to a real estate transaction, (2) act for more than one party to a real estate transaction with written consent of each party, or (3) if licensed as a broker, assign different licensees affiliated with the broker's company to separate parties to a real estate transaction. A licensee, acting as an agent, must act in one of these capacities in every real estate transaction. **IF THIS FORM IS USED FOR A LEASE, THE TERM SELLER SHALL MEAN LANDLORD/LESSOR AND THE TERM BUYER SHALL MEAN TENANT/LESSEE.**

LICENSEE: The licensee in the real estate transaction is KIRT H. KLAHOLZ ("Licensee") whose license number is 45856. The licensee is acting for the Landlord/Lessor.

BROKER: The broker in the real estate transaction is PHILA M. BRESNAHAN ("Broker"), and the company is STOLTZ REALTY OF DELAWARE INC., ("Company").

A NEVADA REAL ESTATE LICENSEE IN A REAL ESTATE TRANSACTION SHALL:

1. Disclose to each party to the real estate transaction as soon as is practicable:
 - a) Any material and relevant facts, data or information which Licensee knows, or which by the exercise of reasonable care and diligence licensee should have known, relating to the property which is the subject of the real estate transaction.
 - b) Each source from which Licensee will receive compensation as a result of the transaction.
 - c) That Licensee is a principal to the transaction or has an interest in a principal to the transaction.
 - d) Any changes in Licensee's relationship to a party to the real estate transaction.

Disclose, if applicable, that Licensee is acting for more than one party to the transaction. Upon making such a disclosure the Licensee must obtain the written consent of each party to the transaction for whom Licensee is acting before Licensee may continue to act in Licensee's capacity as an agent. Exercise reasonable skill and care with respect to all parties to the real estate transaction. Provide this form to each party to the real estate transaction.

2. Not disclose, except to the Broker, confidential information relating to a client.
3. Exercise reasonable skill and care to carry out the terms of the brokerage agreement and to carry out Licensee's duties pursuant to the terms of the brokerage agreement.
4. Not disclose confidential information relating to a client for 1 year after the revocation or termination of the brokerage agreement, unless Licensee is required to do so by order of the court. Confidential information includes, but is not limited to the client's motivation to purchase, sell or trade and other information of a personal nature.
5. Promote the interest of his client by:

- a) Seeking a sale, lease or property at the price and terms stated in the brokerage agreement or at a price acceptable to the client.
 - b) Presenting all offers made to or by the client as soon as is practicable.
 - c) Disclosing material facts of which the licensee has knowledge concerning the transaction.
 - d) Advising the client to obtain advice from an expert relating to matters which are beyond the expertise of the licensee.
 - e) Accounting for all money and property Licensee receives (in which the client may have an interest) as soon as is practicable.
6. Not deal with any party to a real estate transaction in a manner which is deceitful, fraudulent or dishonest.
7. Abide by all duties, responsibilities and obligations required of Licensee in chapters 119, 119A, 119B, 645, 645A. and 645C of the NRS.

I/WE ACKNOWLEDGE RECEIPT OF COPY OF THIS LIST OF LICENSEE DUTIES, AND HAVE READ AND UNDERSTAND THIS DISCLOSURE.

Landlord:	Tenant:
-----	-----
LAS VEGAS AIRPORT PROPERTIES LLC, a Delaware limited liability company	TRANSACT TECHNOLOGIES INC., a Delaware corporation
By Stoltz Management of Delaware, Inc., its Agent	By: -----
By: -----	Its: -----
Stephen Lewis, Vice President	Print Name: -----
Date: -----	Date: -----

EXHIBIT "G"

CONFIRMATION REGARDING REAL ESTATE AGENT RELATIONSHIP

This form does not constitute a contract for services

PROPERTY ADDRESS: 6700 PARADISE ROAD, SUITE D, LAS VEGAS, NEVADA 89119

In the event any party to the real estate transaction is also represented by another licensee who is affiliated with the same Company, the Broker may assign a licensee to act for each party, respectively. As set forth within the Duties Owed form, no confidential information will be disclosed. This is NOT such a transaction.

I/WE CONFIRM THE DUTIES OF A REAL ESTATE LICENSEE OF WHICH HAS BEEN PRESENTED AND EXPLAINED TO ME/US.

MY/OUR REPRESENTATIVE'S RELATIONSHIP IS:

STOLTZ REALTY OF DELAWARE INC., IS THE AGENT OF THE LANDLORD/LESSOR - EXCLUSIVELY, and

KIRT H. KLAHOLZ is the AGENT OF THE LANDLORD/LESSOR EXCLUSIVELY.

- 1) IF LICENSEE IS ACTING FOR MORE THAN ONE PARTY IN THIS TRANSACTION, you will be provided a Consent to Act form for your review, consideration and approval or rejection. A licensee can legally represent both the Landlord/Lessor and Tenant/Lessee in a transaction, but ONLY with the knowledge and written consent of BOTH the Landlord/Lessor and Tenant/Lessee.
- 2) A licensee who is acting for the Landlord/Lessor exclusively, is not representing the Tenant/Lessee and has no duty to advocate or negotiate for the Tenant/Lessee.
- 3) A licensee who is acting for the Tenant/Lessee exclusively, is not representing the Landlord/Lessor and has no duty to advocate or negotiate for the Landlord/Lessor.

Stoltz Realty of Delaware, Inc.
Landlord's Agent Company

By: KIRT H. KLAHOLZ
Licensed Real Estate Agent

-----	-----
Date	Time
Landlord:	Tenant:
-----	-----
LAS VEGAS AIRPORT PROPERTIES LLC, a Delaware limited liability company	TRANSACT TECHNOLOGIES INC., a Delaware corporation
By Stoltz Management of Delaware, Inc., its Agent	By: -----
By: -----	Its: -----
Stephen Lewis, Vice President	Print Name: -----
Date: -----	Date: -----

EXHIBIT "H"
MOLD AND MILDEW ADDENDUM

This Mold and Mildew Addendum ("Addendum") date this _____ day of _____, 2004, is hereby incorporated by reference into the Industrial Real Estate Lease of even date herewith (the "Lease") by and between LAS VEGAS AIRPORT PROPERTIES LLC, a Delaware limited liability company ("Landlord") and TRANSACT TECHNOLOGIES INC., a Delaware corporation ("Tenant") for space at 6700 Paradise Road, Suite D, Las Vegas, Nevada 89119 (the "Premises") and is made a part thereof as is fully set forth therein.

PURPOSE OF ADDENDUM

It is the goal of this Addendum to provide sufficient information and instructions to enable the parties to protect the quality of the environment of the Premises from the affect of mildew in its various forms. It is also the goal of this Addendum to clearly set forth the responsibilities of each of the parties to the Lease.

INFORMATION ON MOLD

Mold is found everywhere in the environment, both indoors and outdoors. In fact, mold is a significant portion of the earth's bio-mass. Without mold, dead organic material would rapidly accumulate in the environment. If that were to occur, life as we know it would be impossible to sustain. Therefore, mold is both natural and an essential part of the earth's biology.

Mold is especially effective in digesting cellulose materials such as wood, leaves, grass, drywall, paper and dust. Part of what mold does is to break these complex materials down to simpler substances that can be easily recycled back into the eco-system.

Once mold has completed the process of eating by breaking down the complex materials into digestible substances, its next purpose is to reproduce. As part of the reproductive cycle, mold produces tiny airborne reproductives that are called "spores". Mold spores are literally everywhere in our environment. They are found in the air throughout the year. The number of spores in the environment swell in the warm, humid months of summer. It is physically impossible to remove mold spores from the air without special filtration equipment.

Experts are not in agreement as to the cause, but it appears that more people are now developing sensitivities to airborne pollens, mold spores, dust and animal dander than has been historically been seen. Some people are affected by mold spores in relatively benign ways such as watery eyes or a runny nose. Other people can become seriously ill from exposure to mold, its spores and/or toxins. Mold is unlike other environmentally dangerous substances such as lead that can be objectively measured to determine dangerous levels. Molds' impact varies tremendously from person to person. If you listen to the daily weather reports, mold and pollens are often noted, as measured by so many parts per volume of air. The higher the number of mold spores, the greater the number of people that may be affected.

Why is mold such a complex health issue when it is a naturally occurring life form which is found almost everywhere? Mold produces not only spores but also produces a by-product which are generically

described as "toxins". Each form of mold competes for food and survival with other life forms such as bacteria and other molds. In an effort to defend itself from its enemies, mold produces toxins that kill bacteria and other forms of mold. We are all familiar with penicillin, a mold toxin, and its ability to kill bacteria. Unfortunately, mold toxins can cause medical problems, even death for those people sensitive to mold by-products.

Mold must eat to survive. We now know that various forms of mold can digest drywall, paper, hair, dust and soap scum. Just about anything organic in your Premises can be directed by mold. Two critical must be present for mold to grow. The most important factor other than food to the growth of mold is water. Without water, either in the form of liquid or humidity in the air, mold cannot live and grow. Mold growth rate when food and water are abundant increases when the ambient temperature rises. Hot and humid weather is ideal for mold growth.

We now know something about "molds" life processes and its function in the environment. We also know that mold must have food, water and warm temperatures to survive. With this knowledge we can take the necessary steps to keep mold where it belongs; outside your premises.

EFFECTIVELY PREVENTING MOLD

The most effective way to prevent mold is to focus on what it needs to survive and thrive. Water is the most important factor for mold growth inside buildings. If you can effectively remove sources of water then mold growth will be prevented. As a Tenant, you must be especially alert and on guard whenever there is a water leak. Plumbing leaks, roof leaks, foundation leaks or any other source of water that penetrates into the Premises **MUST** be reported, **IN WRITING**, to the Landlord. You are obligated to report, in writing, as soon as possible, any defective condition in the Premises that comes to your attention and that you believe is the duty of the Landlord to repair. Failure to make such a report in writing is a break of the Lease and this Addendum. A prompt report in writing will give the Landlord the opportunity to repair the water penetration promptly and thereby prevent the growth of mold.

Humidity is another source of water. Mold will like off the humidity in the air when it condenses on any cold surface. When the humidity level in the air reaches 60% and temperatures are above 80 degrees Fahrenheit, mold activity will increase. At relative humidity of 90% and temperatures about 90 degrees Fahrenheit mold growth and resulting reproduction will dramatically increase.

When relative humidity is 60% or higher and temperatures are 80 degrees Fahrenheit or higher, Tenant is required by the terms of this Addendum and the Lease to use its air conditioner to remove excessive humidity and thereby thwart mold growth, whenever the outside temperature is 90 degrees Fahrenheit and the outside relative humidity is 80% or higher. Ideally, you should keep humidity levels within the Premises at less than 60%. In the event there is a bathroom(s) within the Premises, regular mopping and/or vacuuming is required as well as removing any standing water on the Premises.

It is also important that you keep your Premises clean to deny mold potential food sources. It is your responsibility to remove standing water whenever you see it standing on the windowsills, frames or walls. You must remove the water and make sure that you let things properly dry out.

If you become aware of any excessive mold growth, especially on walls and ceilings, you must immediately notify the Landlord in writing so that it can examine the growth, determine the cause of the growth and effect proper repairs. Again, Tenant is required by this Addendum and the Lease to give Landlord this notice as soon as it is possible.

ACKNOWLEDGEMENT

The Tenant acknowledges by signing this Addendum that they have read and understand this Addendum. The Tenant acknowledges that it is necessary to make use of appropriate climate controls to keep humidity below 60%. Tenant further acknowledges that they have a duty to keep the Premises clean and take measures to retard and prevent mold from accumulating in the Premises. Tenant agrees to remove visible moisture accumulations on windows, walls and other surfaces. Tenant agrees not to block or cover any heating ventilation or air conditioning ducts in the Premises and to take measures to retard and prevent mold from accumulating in and on the surfaces of moisture in the Premises. Tenant also agrees to immediately report to Landlord (i) any evidence of a water leak or excessive moisture in the Premises; (ii) any evidence of mold or mildew-like growth that cannot be removed by simply applying a common household cleaner and wiping the area; (iii) any failure or malfunction in the heating, ventilation or air-conditioning system in the Premises; and (iv) any inoperable doors or windows. Tenant further agrees that Tenant shall be responsible for damage to the Premises as well as injury to employees and occupants resulting from Tenant's failure to comply with the terms of this Addendum.

A default under the terms of this Addendum shall be deemed a material default under the terms of the Lease, and Landlord shall be entitled to exercise all rights and remedies at law. Except as specifically stated herein, all other terms and conditions of the Lease shall remain unchanged. In the event of any conflict between the terms of this Addendum and the terms of the Lease, the terms of the Addendum shall control. Any term that is capitalized but not defined in this Addendum that is capitalized and defined in the Lease shall have the same meaning for purposes of this Addendum as it has for the purpose of the Lease.

TENANT:

TRANSACT TECHNOLOGIES INC., a
Delaware corporation

By:

Its:

Print Name:

RIDER NO. 1 - WORK LETTER

THIS RIDER NO. 1 is attached to and made part of that certain lease dated _____, 2004 between LAS VEGAS AIRPORT PROPERTIES LLC, a Delaware limited liability company, as Landlord, and TRANSACT TECHNOLOGIES INC., a Delaware corporation, as Tenant (the "Lease"). The terms used in this Rider shall have the same definitions as set forth in the Lease. The provisions of this Rider shall prevail over any inconsistent or conflicting provision of the Lease.

R-1. Description of Improvements. Subject to Paragraph R-6 of this Work Letter, Landlord shall, at Landlord's expense, construct certain improvements on or about the Premises (the "Work") in accordance with those plans and specifications attached hereto as Schedule 1 and incorporated herein by this reference. Tenant hereby approves the plans and specifications attached as Schedule 1.

R-2. Preliminary Plans. If the plans and specifications referenced in Schedule 1 are final plans and specifications, such final plans and specifications are hereinafter referred to as the "Final Plans," and the remainder of this Paragraph shall be inoperative. If the plans and specifications referenced in Schedule 1 are preliminary plans, Landlord shall prepare final working drawings and outlined specifications for the Work and submit such plans and specifications to Tenant for its approval as soon as reasonably possible after execution of the Lease. Tenant shall approve or disapprove such drawings and specifications within ten (10) business days after receipt from Landlord. Tenant shall have the right to disapprove such drawings and specifications only if they materially differ from the plans and specifications attached hereto. If Tenant disapproves such drawings and specifications, Landlord and Tenant shall promptly meet in an attempt to resolve any dispute regarding such drawings and specifications. If the parties are unable to agree upon the final working drawings and specifications for the Work within ten (10) business days, Landlord may terminate this Lease upon ten (10) days prior written notice to Tenant, in which case neither Landlord nor Tenant shall have further liability to the other. Final working drawings and specifications prepared in accordance with this Paragraph R-2 and approved by Landlord and Tenant are hereinafter referred to as the "Final Plans."

R-3. Completion of Work and Commencement Date. Landlord and Tenant agree that the Commencement Date shall be the earlier of the dates set forth in Section 1.01(c) of the Lease, subject to Section 2.02 of the Lease. The Work shall be deemed "substantially completed" in accordance with the definition set forth in Section 2.02(b) of the Lease.

R-4. Changes. Landlord's obligation to prepare the Premises for Tenant's occupancy is limited to the completion of the Work set forth in the plans and specifications attached hereto as Schedule 1 or in the Final Plans. Landlord shall not be required to furnish, construct or install any items not shown thereon. If Tenant, however, requests in writing any change, addition or alteration ("Changes") in such plans and specifications or in the construction of the Work, and, if Landlord approves the proposed Changes, Landlord shall notify Tenant of the cost to perform the Changes and Tenant shall pay to Landlord such cost to perform such Changes plus an amount equal to twenty percent (20%) of such cost before Landlord shall perform the Changes. Any delay caused by Tenant's request for any Changes or from the construction of any Changes shall not, in any event, delay the Commencement Date, which shall occur on the date it would have occurred but for such Changes. The Work shall be the property of Landlord and shall remain upon and be surrendered with the Property upon the expiration of the Lease Term.

R-5. Cost of Work. As used herein, cost of the Work shall mean all the costs and charges incurred by Landlord to construct the Work, including, without limitation, (i) the actual contractor costs and charges for material and labor, contractor's profit, overhead and general conditions incurred by Landlord in having the Work constructed in accordance with the Final Plans, (ii) Governmental agency plan check, permit and other fees (including, without limitation, Title 24 fees) and sales and use taxes, (iii) testing and inspection costs, (iv) any paint touch-up or repair work necessary due to Tenant's move into the Premises, (v) architectural and engineering fees, (vi) costs of supervising the Work and (vii) all other costs expended or to be expended by Landlord in the construction of the Work including those reasonable costs incurred by Landlord for construction of elements of the Work in the Premises, which construction was performed by Landlord prior to the execution of this Lease by Landlord and Tenant and which construction has been performed for the benefit of tenants and is customarily performed by Landlord prior to the execution of leases for such space in the Building for reasons of economics. Examples of such construction would include the extension of mechanical (including heating, ventilating and air conditioning systems) and electrical distribution systems outside of the core area of the Building, wall construction, column enclosures, and painting outside of the core of the Building, ceiling hangar wires and window treatment.

R-6. Allowance for Cost of Work. In the event the cost of the Work being constructed pursuant to the Final Plans exceeds Sixty Eight Thousand Three Hundred Ten and 00/100 Dollars (\$68,310.00) ("Allowance"), Tenant shall pay to Landlord the cost of the Work in excess of the Allowance (the "Excess Cost") as provided herein. The Excess Cost shall be paid to Landlord in cash prior to the commencement of construction of the Work unless otherwise agreed by the parties. In the event the total cost of the Work is less than the Allowance, such remaining balance of the Allowance shall revert to Landlord and Tenant shall have no right to (i) receive the remaining balance of the Allowance, or (ii) receive a reduction of rent or rent credit in any manner or form, or (iii) use the remaining balance of the Allowance for additional tenant improvements. Any delay caused by Tenant's failure to timely pay an Excess Cost or any cost Tenant is responsible for paying resulting from Changes shall not, in any event, delay the Commencement Date, which shall occur on the date it would have occurred but for such delay.

R-7. Tenant's Representative. Tenant has designated Jon Berkley as its sole representative with respect to the matters set forth in this Rider, who, until further notice to Landlord, shall have full authority and responsibility to act on behalf of the Tenant as required in this Rider.

R-8. Landlord's Representative. Landlord has designated Kirt Klaholz as its sole representative with respect to the matters set forth in this Rider, who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Rider.

R-9. Other Delays. Any delay in the construction of the Work caused by (i) Tenant's request for materials, finishes or installations other than the standard materials, finishes, or installations provided by Landlord from time to time in its sole discretion, or (ii) any other delay requested or caused by Tenant shall not, in any event, delay the Commencement Date, which shall occur on the date it would have occurred but for the matters set forth in (i) and (ii) above.

Landlord's initials _____ Tenant's initials _____

**SCHEDULE I
TO
WORK LETTER
PRELIMINARY PLANS**

The Preliminary Plans are those preliminary space plans prepared by _____, dated _____ 2004, and approved by Tenant on _____, 2004.

RIDER NO. 2 - OPTION TO RENEW LEASE

THIS RIDER NO. 2 is attached to and made a part of that certain lease dated _____, 2004, between LAS VEGAS AIRPORT PROPERTIES LLC, a Delaware limited liability company, as Landlord, and TRANSACT TECHNOLOGIES INC., a Delaware corporation, as Tenant (the "Lease"). The terms used in this Rider shall have the same definitions as set forth in the Lease. The provisions of this Rider shall prevail over any inconsistent or conflicting provisions of the Lease.

R-1. Option. Provided that Tenant is not in default of this Lease at the time of the exercise of the Option to Renew Lease (as defined below) or at the expiration of the initial term of this Lease, and further provided that Tenant has not assigned the Lease or sublet greater than twenty-five percent (25%) of the Premises, the Tenant shall have one and only one option to renew and extend this Lease (the "Option to Renew Lease") for one term of five (5) years (the "Renewal Term"), upon written notice to the Landlord delivered not less than nine (9) months before the expiration of the initial Lease Term. Upon the delivery of such notice by Tenant and subject to the conditions set forth in the preceding sentence, this Lease shall be extended without the necessity of the execution of any further instrument or document; provided, however, that each party agrees to execute and deliver such further instruments or documents as the other party may reasonably request to memorialize or acknowledge the exercise of the Option to Renew Lease. The Renewal Term shall commence upon the expiration of the initial term of this Lease, shall expire upon the anniversary of such date five (5) years thereafter, and be upon the same terms, covenants and conditions as provided in this Lease for the initial Lease Term, except that the Base Rent shall be ninety-five percent (95%) of the then prevailing fair market rental rate as of the commencement of the Renewal Term, with increases during the Renewal Term as provided in Section 3.02 of the Lease. Tenant shall only be able to exercise the Option to Renew Lease as to all of the Premises.

R-2. Intentionally Omitted.

R-3. Rent. The prevailing fair market rental rate shall be the then going rate for comparable space at Hughes Airport Center. Landlord shall notify Tenant of Landlord's good faith determination of prevailing fair market rental no later than ten (10) business days after Tenant's exercise of the Option to Renew Lease. No later than ten (10) business days after Landlord notifies Tenant of the prevailing fair market rental, Tenant shall notify Landlord whether Tenant accepts Landlord's determination. If Tenant does not agree, Tenant may, within ten (10) business days of Landlord's notice, rescind its exercise of the Option to Renew and the Lease shall terminate on expiration of the initial Lease Term. If the Tenant does not so notify Landlord, Tenant and Landlord shall proceed pursuant to paragraph R-4 hereof.

R-4. Objection to Landlord's Determination. In the event Tenant timely objects to the fair market rental rate submitted by Landlord, Landlord and Tenant shall attempt in good faith to agree upon such fair market rental rate using their best good faith efforts. If Landlord and Tenant fail to reach agreement on such fair market rental rate within fifteen (15) days following Tenant's notice that Tenant does not accept Landlord's determination of the prevailing fair market rental rate, then each party shall submit a new determination of prevailing fair market rental rate to appraisal in accordance with Paragraph R-5 below.

R-5. Appraisal. Landlord and Tenant shall each appoint one (1) independent appraiser who shall by profession be a real estate broker who shall have been active over the five (5) year period ending on the date of such appointment in the leasing of commercial properties in the Las Vegas area. The determination of the appraisers shall be limited to solely the issue of whether Landlord's or Tenant's submitted fair market rental rate for the Premises is the closest to the actual fair market rental rate for the Premises as determined by the appraisers, taking into account the requirements of Paragraph R-3 above and this Paragraph R-5 regarding the same. Such decision shall be based upon the projected prevailing fair market rental rate as of the commencement date of the Renewal Term. Each such appraiser shall be appointed within the fifteen (15) day period after Tenant's notice that Tenant does not accept Landlord's determination.

(i) The two (2) appraisers so appointed shall within fifteen (15) days of the date of appointment of the last appointed appraiser agree upon and appoint a third appraiser who shall be qualified under the same criteria set forth hereinabove for qualifications of the initial two (2) appraisers.

(ii) The three (3) appraisers shall within thirty (30) days of the appointment of the third appraiser reach a decision as to whether the parties shall use Landlord's or Tenant's submitted fair market rental rate, and shall notify Landlord and Tenant thereof.

(iii) The decision of the majority of the three (3) appraisers shall be binding upon Landlord and Tenant. If either Landlord or Tenant fails to appoint an appraiser within the time period specified in Paragraph R-5 hereinabove, the appraiser appointed by one of them shall reach a decision based upon the same procedures as set forth above (i.e., by selecting either Landlord's or Tenant's submitted fair market rental rate), and shall notify Landlord and Tenant thereof, and such appraiser's decision shall be binding upon Landlord and Tenant.

(iv) If the two (2) appraisers fail to agree upon and appoint a third appraiser, both appraisers shall be dismissed and the matter to be decided shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association, but based up on the same procedures as set forth above (i.e., by selecting either Landlord's or Tenant's submitted fair market rental rate).

(v) The cost of the appraisal (or arbitration if required pursuant to Paragraph R-5(iv)) shall be paid by the party whose submitted fair market rental rate is not accepted.

R-6. Notwithstanding the fair market rental rate for the Premises, in no event shall the Base Rent as of the commencement of the Renewal Term be less than the Base Rent payable by Tenant during the last month of the initial Term of the Lease. The Base Rent shall be increased during the Renewal Term as provided in Section 3.02 of the Lease.

Landlord's initials _____ Tenant's initials _____

RIDER NO. 3 - INTENTIONALLY OMITTED

RIDER NO. 4 - RIGHT OF FIRST OFFER TO LEASE

THIS RIDER NO. 4 is attached to and made a part of that certain lease dated _____, 2004, by and between LAS VEGAS AIRPORT PROPERTIES LLC, a Delaware limited liability company, as Landlord, and TRANSACT TECHNOLOGIES INC., a Delaware corporation, as Tenant (the "Lease"). The terms used in this Rider shall have the same definitions as set forth in the Lease. The provisions of this Rider shall prevail over any inconsistent or conflicting provisions of the Lease.

R-1. Right of First Offer to Lease. During the initial Lease Term, Tenant shall have a right of first offer to Lease for contiguous rentable space adjacent to the Premises and located on same floor as the Premises (the "First Offer Space"). Notwithstanding the foregoing (i) such first offer right of Tenant shall commence only following the expiration or earlier termination of any existing lease pertaining to each such particular First Offer Space, and the first lease pertaining to each such First Offer Space entered into by Landlord after the date of this Lease (collectively, the "Superior Leases"), including any renewal of such existing or future lease, whether or not such renewal is pursuant to an express written provision in such lease, and regardless of whether any such renewal is consummated pursuant to a lease amendment or a new lease, and (ii) such first offer right shall be subordinate and secondary to all rights of expansion, first refusal, first offer or similar rights granted to the tenants of the Superior Leases (the rights described in items (i) and (ii), above to be known collectively as "Superior Rights"). Tenant's right of first offer shall be on the terms and conditions set forth in this Rider No. 4. Tenant's right of first offer shall only be in effect during the initial Lease Term. Tenant shall have no Right of First Offer to Lease during any Renewal Term.

R-2. Procedure. Landlord shall notify Tenant from time to time when Landlord determines that Landlord shall commence the marketing of any First Offer Space because such space shall become available for lease to third parties, where no holder of a Superior Right desires to lease such space. Landlord shall notify Tenant of the availability of and offer to lease to Tenant First Offer Space by delivery to Tenant of a notice (the "First Offer Space Option Notice"), which shall (i) describe the specific First Offer Space, (ii) an initial determination of the amount of the Rent proposed by Landlord for such First Offer Space, (iii) disclose the then existing state of improvements and condition of such space, (iv) set forth the approximate date Tenant would be entitled to take possession of such space. Tenant shall have thirty (30) days from receipt of the First Offer Space Option Notice to accept or reject the offer for all of such First Offer Space on, and only on, the terms contained in the First Offer Space Option Notice. Tenant may exercise its right only as to all of any First Offer Space offered to Tenant. Any attempt to exercise its offer to less than all of any First Offer Space offered to Tenant shall be null and void. If Tenant accepts the offer, such space shall become part of the Premises and Tenant shall be bound with respect to such space by the terms and conditions of this Lease. If Tenant does not notify Landlord within such thirty (30) days of Tenant's acceptance of the offer for all of such space, then Landlord shall thereafter have the right to lease such space not taken by Tenant to other persons on such terms and conditions as Landlord may elect.

R-3. Delivery of Possession. If Tenant timely exercises Tenant's right to lease the First Offer Space as set forth herein, Landlord and Tenant shall execute an amendment adding such First Offer Space to this Lease upon the same non-economic terms and conditions as applicable to the initial Premises, and the economic terms and conditions as provided in this Rider No. 4. Thereafter, the total Base Rent payable under this Lease shall be the sum of the Base Rent for all First Offer Space added to the Premises plus the Base Rent already payable under the Lease. Tenant shall commence payment of Base Rent for the

First Offer Space and the Lease Term of the First Offer Space shall commence upon the date of delivery of such space to Tenant. The Lease Term for the First Offer Space shall expire coterminously with Tenant's lease of the initial Premises.

R-4. Tenant shall have the right, upon notice to Landlord, to meet from time to time with representatives of Landlord who are knowledgeable as to the status of the leasing of First Offer Space to discuss the status of the leasing of First Offer Space.

R-5. Tenant shall accept all First Offer Space in its then "as-is" condition as disclosed in the First Offer Space Option Notice and Landlord shall not be required to perform any work or furnish any materials in order to prepare such First Offer Space for Tenant's occupancy. Tenant shall be entitled to construct improvements in the First Offer Space in accordance with the provisions of Section 6.05 of the Lease.

R-6. Termination of Right of First Offer to Lease. The rights set forth in this Rider No. 4, and Landlord's obligations with respect thereto, shall be personal to the original Tenant and any assignee to which the original Tenant's entire interest in this Lease has been assigned pursuant to the Lease and may only be exercised by the original Tenant or such assignee (but not any subtenant or other person or entity). The right of first offer granted herein shall terminate as to a particular First Offer Space upon the failure by Tenant to exercise its right of first offer with respect to such First Offer Space as offered by Landlord. Tenant shall not have the right to lease First Offer Space if, as of the date of the attempted exercise of any right of first offer by Tenant, or, at Landlord's option, as of the scheduled date of delivery of such First Offer Space to Tenant, Tenant is in default under this Lease after any applicable notice and cure periods.

Landlord's initials _____ Tenant's initials _____

Exhibit 21.1

**TRANSACT TECHNOLOGIES INCORPORATED
SUBSIDIARIES OF TRANSACT TECHNOLOGIES INCORPORATED**

Name -----	Jurisdiction of Incorporation -----	Owner -----	Percentage Owned -----
TransAct.com, Inc.	Delaware	TransAct Technologies Incorporated	100%
TransAct Technologies Limited	United Kingdom	TransAct Technologies Incorporated	100%

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (333-32703, 333-32705, 333-49532, 333-49530, 333-49540, 333-49570 and 333-62269) and S-3 (333-116656) of TransAct Technologies Incorporated of our report dated March 15, 2005 relating to financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

*/s/ PricewaterhouseCoopers LLP
Hartford, CT
March 15, 2005*

Exhibit 31.1

CERTIFICATION

I, Bart C. Shuldman, certify that:

1. I have reviewed this annual report on Form 10-K of TransAct Technologies Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: March 16, 2005

/s/ Bart C. Shuldman

Bart C. Shuldman

Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Steven A. DeMartino, certify that:

1. I have reviewed this annual report on Form 10-K of TransAct Technologies Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: March 16, 2005

/s/ Steven A. DeMartino

*Steven A. DeMartino
Executive Vice President,
Chief Financial Officer,*

Treasurer and Secretary

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

In connection with the Annual Report of TransAct Technologies Incorporated (the "Company") on Form 10-K for the period ending December 31, 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: March 16, 2005

/s/ Bart C. Shuldman

Bart C. Shuldman

Chief Executive Officer

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

In connection with the Annual Report of TransAct Technologies Incorporated (the "Company") on Form 10-K for the period ending December 31, 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: March 16, 2005

/s/ Steven A. DeMartino

Steven A. DeMartino

Chief Financial Officer

End of Filing

Powered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.